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ECONOMIC IMPLICATIONS OF ENLARGEMENT, II

MEETING COPENHAGEN EU MEMBERSHIP CRITERIA BY HUNGARY: FUNCTIONING MARKET ECONOMY AND CAPACITY TO COPE WITH COMPETITIVE PRESSURES WITHIN THE EU

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1. Frameworks of membership

Hungary signed an association agreement with the EC on December 16 of 1991 together with Poland and CSFR, which forsaw free trade in non-agricultural goods till 2000. Since that, Europe Agreements have been concluded with Romania, Bulgaria, Slovenia, Estonia, Lituania and Latvia. Czech and Slovak republic devorced in 1992. Although the Europe Agreements made hesitant committments for future membership of these countries in the EU, the Copenhagen decisions of June 1993 opened the road to accession of all Europe Agreement countries. First, Hungary submitted its application for full membership in the EU on April 1, and all the other Central and East European associates have followed the suit till June of 1996.

It is expected that the accession negotiations may start around early 1998 with all of the CEEcs candidates (parallel with Cyprus). If we assume that the negotioations at least for the first group of candidates may last for 2-4 years, than they can be full members around 2000-2002. Hungary hopes to be in the first round.

Hungary, like the other CEEcs face the complex task of preparation and adjustment for full membership, which is closely related and dependent on the transformation and stabilization of economies. The successful marketization and privatization as main directions of transformation assume certain stability, but long term consolidation can be achieved only by the same transformation. Both stabilization and transformation are preconditions from points of view of full preparation for membership in the EU. On the long run, the EU is considered as modernization "anchor" for Hungary.

Proper prepartion and adjustment to full membership by the CEE candidates are interests of both parts. In this respect, it had of particular importance that the EU set certain criteria for that membership (in Copenhagen in 1993), which should be met, if CEEcs want to join and enjoy all the benefit of the full membership. These are:

Stability of institutions, guaranteeing democracy (rule of law, human rights, respect and protection of minorities);

Functioning market economy;

Capacity to cope with competitive pressure and market forces within the Union;

Ability to take the obligations of membership, including adherence to the aims of political, economic and monetary union;

Union's capacity to absorb new members.

Consequently, the CEE candidates have to achieve a certain advanced stage of their transformation and structural adjustment, when they join. They have to accept the prospects of EMU, but they should not be prepared to join it at the time, when they enter the Union. For adjustment to the requirements of the single market and the EMU, the new members may enjoy a relatively long transition period (up to 10 years). That implies the preparation for meeting the Maastricht **convergence criteria.** [1]

In fact, these criteria are set **for a single currency with low or non-inflation** and it seems, that they will be met only by the "core countries". Hungary and the other CEE candidates, therefore, should not fulfill the Maastricht convergence criteria on the short run, but of course they **should orientate their stabilization policies** accordingly already for the near future.

No doubt, that the adhesion process of CEEcs to the EU would be gradual and will take different periods, particularly as far as the EMU is concerned. In relation to the EMU, the CEE

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[1] 1. Price stability measured with consumer price index. The annual inflation rates of member countries must not diverge more than 1,5% from the average of the three best performing countries.

2. Stable monetary positions. The budgetary deficits have to be kept under 3% of GDP and the national debt under 60% of GDP.

3. Convergence of interest rates. The long-term nominal interest rates should not diverge from the average of the three best performing countries with more than 2%.

4. Stable national currencies. No devaluation against the national currency of any other member country.

candidates may not only follow the same **stages** as the original member countries, but they have to solve paralelly the complicated tasks of the preparation and the adjustments. The meeting of the two basic economic criteria of Copenhagen, namely "functioning market economy" and "coping with competitive pressure", are, in fact, in many respects preconditions of entering into the "first phase" of EMU. It is obvious that completion of marketization process is precondition of joining the single market and broad reconstruction of economy is needed for creation the necessary competitive strength for balance of payments stability and full liberalization of capital flows. In this respect, the Maastricht convergence criteria should be met only at the last stage (equivalent to the "third stage" of EMU) of this accession.

It is clear, however, that a certain minimum of fulfillment of these crieria should be achieved already by the time of entering the EU and then the total preparation and adjustment process should be completed during the transition period. The sequencing of pre-accession and transition period would be different from one candidate country to the other. For Hungary, such timetable does not exist yet and still it would be difficult to plan it, because of too many uncertain factors. But if the full membership can be realized till early 2000s, then under normal conditions it can not be excluded that Hungary can join the EMU before 2010. Of course, all of this depends, what happens in the world economy, how the EU and the EMU itself progress and how rapidly and successfully can Hungary complete its transformation and stabilization?

2. Is Hungary a "functioning market economy"?

The early reform processes in CEEcs in the 1950s and 1960s can be considered as starting points of the transformation toward market economies. In Hungary, the marketization started already by the New Economic Mechanism in 1968, but similar reforms in other countries either failed (in Czechoslovakia in 1964-68) or started only in the 1980s (except Poland, where there were several reform attempts already from the 1950s).

The Hungarian reforms can be considered as certain progress toward marketization through increased autonomy of companies, gradual liberalization of prices (up to 50-60%), introduction of profit motive, application of modern management methods, and

limited possibilities of enterpreneurship. Although the general performance features somewhat improved in the reform models (improved efficiency and supply), the main anomalies of the centrally planned economy prevailed: low efficiency, shortages, sluggish innovation and slow technological progress, waste and dislocation of resources, stagnation, bad quality, neglect of consumer, unreliability of supply (components), low working discipline and business moral, distortions of distribution and poor social services (contrary to propaganda lack of social justice), militarization of economy etc.

Inspite of the reforms (marketizations), the economies remained basically monopolized and "soft constrained". The soft demand constraint remained due to surviving shortages. The soft budget constraint did not change also, due to prevailing politicization of the system, and as a result of the bargaining for regulators and lobbying for subsidies, the management was always able to securely bailing out the company, when in trouble. The soft credit constraint was also characteristic, due to politicization above, and the broad interweaving between banks (particularly in commercial banks) and company management.

It was not by chance that it was a growing conviction among the Hungarian reformers up to the 1980s, that the system is "unreformable", and fundamental changes would be needed. The breakthroughs toward real marketization models, which in Hungary were implemented already after 1986-87, had the following main directions:

1. Recognition of the fact, that the efficient operation of economy assumes full and complex restoration of market, and corresponding legislation is needed (company laws, two-tier banking, liberalization of foreign investments, market conform taxation etc.).

2. The role of competition was recognized as a basic and important market coordination mechanism, and the necessity of break up monopolistic market structure was accepted. One of the main defficiencies of reform marketization was that it created monopolistic market structures, while the "free concurrence" was rejected on ideological ground. In a small country, from points of view of creating real competitive conditions, the broad opening through import liberalization was essential.

3. It was recognized, that there is no successfull marketization without privatization (failures of "reforms of

reform"). In Hungary, until 1988, the concept of "socialist market economy" was based on the dominance of public ownership and the private sector was only tolerated and discriminated. First, in 1987-88, the notion of "sector neutral" regulation was introduced, and then from 1988, the need of privatization was accepted even by the Party leadership.

4. Paralelly with democratization, a complex deregulation process started, with market-conform role of the state intervention (reform of monetary, fiscal and social policies).

The process of **transformation accelerated after 1989** and for early 1990s, the **basic structures and institutions of a market economy have been created.** The process started somewhat later in the other CEEcs, but most of them were catching up very rapidly, while some others are a little more behind. In summary, it can be stated, that by the mid-1990s, in general, **the CEEcs are no less marketized**, than any other country with similar level of development (NICs, Latin-American or even South European countries with similar per capita GDP). The market structures, however, have to be consolidated and further expanded (number of banks or companies on stock exchange).

Some suggest, that marketization can be measured in terms of proportion of liberalized prices in GDP. As far as it have reached about 90% in all countries, the process has well progressed. "After only three years, Poland and Hungary are closer to being market economies than centrally planned ones." [2]

As result of import liberalization, the four Central European countries are no longer shortage-economies since 1990. In others the shortages prevailed longer, but have been gradually disappearing. By the company laws of 1988, the company autonomies were fully restored.

Due to **privatization** in a broad sense, the private sector in Hungary has been rapidly expanding during the last few years and it seems that in terms of its role in GDP, **it has reached already "the critical mass"**, which is necessary to make to process irreversible. The transformation or "commercialization" of state enterprises into joint stock companies started already

[2] (Black marketeering had certain advantages: "a whole generation of Poles learnt about market forces".) The Economist, March 13, 1993.)

in 1988 and they have been commercialized by the end of 1993. The contribution of private sector to the GDP increased from 24% to 68% between 1990 and 1996, and in terms of enterpreneurial sector from 29% to 80%.

The final stage of privatization started in 1995, which should be finished by 1997, until the EU membership negotiations may start. The general share of state property will be around 20-25%, corresponding roughly to the proportions of developed industrial countries. Full state ownership remains mostly in relations of treasury property and 25% and 50% shares are maintained only in some strategic companies (in energy, transport and telecommunication). Hungary, by choosing market-type of privatization forms, have progressed more rapidly toward creating real ownership relations, and restructuring its company and production structures than those countries prefering forms of "nominal" (coupon) privatization.

The transformation, however, in many respects, has not yet been completed. There are main fields, where **the process is still lagging:**

1. Creation of really **competitive market structures** and behaviours. In Hungary, the reform after 1968, although, accepted the prices as coordination mechanisms, but the competition remained "regulated" or "simulated". The breaking up of large "trusts" started already at the mid-1980s and a deregulation program was launched in 1988. Due to import liberalization and decentralizations, now it is almost complete, but in certain sectors the dominance of large firms still remained. The reflexes of monopolistic attitudes and negligance of consumers privail in spite of sometimes existing competition. Sometimes, the foreign investors try to exploit their monopolistc position and put pressures on the government for protectionist measures. Legislations on competition have been introduced, but their functioning is not yet perfect (for example, in terms of consumer protection). The oversized black economy creates degeneration of market relations.

2. Introduction of **market conform state regulation**. Several steps were taken for reduction of state interference (subsidies cut from 13% in 1989 to 7% in 1991, and to 1% in 1996). Budgetary redistribution, however, is still very high and there are indirect forms of subsidization (debt-consolidation or occasional releifs in terms of taxes and social security contribution). In Hungary, the budgetary redistribution in GDP increased from 35-45% in the early 1950s over 60% in the 1980s.

It was 64% in 1989, and after some fall, it remained still around 60% in 1993. It fell bellow 50% only up to 1996. The corresponding proportions are around 40-45% Western Europe, and even bellow that in some countries of similar level of development. In the Czech Republic, the public expenditures made up 62% per cent of GDP before revolutionary changes. The figure was 46 per cent in 1993 and 44 per cent was planned in the 1995 budget. [3]

Similar tax system to the West was introduced in Hungary, in 1988 (VAT, progressive income tax and company taxes). The tax discipline is, however, low and the tax avoidance is about 5% of GDP (like in Italy, but it is only 2% in France.)

3. The marketization of **public goods and services** sectors seems to be difficult and complex. Part of the publicly owned houses have been sold to the renters, but the full privatization and reform of housing, education and social security is far from complete. In Hungary, the health system was reformed, but it was not really marketized, rather fiscally somewhat "rationalized". The serious work on reform of the state household started in 1995. The joining of the EU requires basic restructuring of the national budget, which is only at the beginning.

4. The creation of modern and advcance **factor markets** need longer time. Modernization and privatization of **banking sector** started only after 1995 on a greater scale. The two-tier banking system was introduced in Hungary in 1987, which meant the separation of macromanagement and the financial business activities. New banking law was passed in 1991. The mostly state owned banks until recently were in monopolistic position, and the technical and infrastructural conditions remained poor (communication background, on-line informations, spread of credit cards etc. are in rudimentary state). In Hungary, 35 banks have about 500 branches in the country. This means 5 bank branches on 100.000 population, while the same number in Belgium is 40. Due to privatization and increasing foreign competition, the modernization of Hungarian banking seems to acclerate (spread of bank cards, bigger offer of financial services, improving infrasturctures etc.).

Gradual marketization in field of **capital markets** started relatively early in Hungary. The securities market opened in

[3] Central European Business Weekly, October 14 - 20, 1994.

1983 in Hungary and the secondary market of securities started to operate in 1985. The short-term interest rates have been influenced by the sale of treasury bond by the National Bank since December of 1988. Stock exchange was reopened in June of 1990. In Hungary, now all of the forms of financial services are available, there is a young generation of experts on stock exchange and financial markets (trained on the basis of Anglo-Saxon practice). The stock exchanges have been opened in most of the countries of the region. Although, the turn over of the Hungarian stock exchange is still marginal in international terms, in 1996, the Hungarian stock exchange was one of the most rapidly and successfully expanding in the world.

Formerly, **the labour market mechanisms** were distorted for several reasons. Now, due to transformation, there is no guaranteed job security by law, and the unemployement increasingly create market conditions. The labour mobility, however, is hindered by housing shortage, difficulties of retraining and excessive taxation.

5. Relatively rapid progress has been made toward **convertibility**. Declared, full and real convertibility was introduced in Hungary from January 1 of 1996 similarly to the other CEEcs. The Hungarian convertibility goes beyond the IMF conditions (liberalization on courrent acount) and is meeting the OECD criteria in terms of partial liberalization of capital account. Full capital liberalization can be completed during the transition period after joining.

6. Gradual creation of **modern market infrastructures** (communication, credit cards, computerized bank transfers etc.).

7. The transformation assume further **legal consolidation**. This means extension and improvement of property and contractual rights, the bancrupcy and competition legislation, the modernization of court regisration of firms, regulation of state monopolies and protection of consumer rights.

8. The role of **"second economy"** is still very high. The GKI Gazdaságkutató Rt. (Economic Research Institite) estimates its share around 30% of GDP, but the "black market" turn over in the retail and restaurant business is between 1/3-1/2 of the whole, in Hungary. [4]

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[4] Világgazdaság, November 14, 1992.

In summary, **the criteria of "functioning market economy" in Hungary could be met** up to the membership negotiations in general and could be fully completed during the transtion period. Hungary managed to keep its good position in terms of creation real market conditions and among others this is the main reasons that the country could attract about $16bn foreign direct investments till early 1997, more than half of the whole Central European region.

3. "Meeting of competitive pressures"

Hungary is a medium developed country with about $6.000 per capita GDP. According to OECD calculations on purchasing power parity in 1993, the per capita GDP in Slovenia was above $9.000, in Czech Republic around $8.400 and in Poland somewhat bellow $5.000. Slovakia was about the same level as Hungary. If we take the large second economy into account, according to the Hungarian National Bank, the per capita GDP may reach $8.000. The five CEFTA countries with their 5-9.000 per capita incomes and with their 65 million population represent almost the same group as the EU Mediterranean members both in terms of their levels of development and their population. There are structural weaknesses on both sides. In terms of "meeting competitive pressures", therefore, the Mediterranean experiences could be well utilized.

The radical opening of Hungarian economy (elimination of bureaucratic control of foreign trade and reduction in tariffs combined by drastic cuts in subsidies and revaluation policies concerning the exchange rate of Hungarian forint till 1993) in the years of 1989-93 created **new competitive environments** for the Hungarian economy, never experienced before. As result of Europe Agreements and other liberalization committments (CEFTA, free trade with EFTA and some bilateral trade agreements), Hungary
is now conducting about 75% of its foreign trade under free trade frameworks, and under the above agreements, the eliminations of trade barriers will be completed till 2000. The same apllies to the other countries signing Europe Agreements.

It is often argued that concerning **competitive positions** of CEE region, the qualitatively **new circumstances have been already created by the associations** and in addition, no basic changes can be expected from full membership. It is only partly true

and no doubt that inclusion into the single market create new situation, particularly in terms of services and factor markets. The full membership seems to offer advantages in terms of agricultural trade.

The structural weaknesses of CEE economies are obvious and they are reflected by cumulation of trade deficits since the association agreements have been signed. The Visegrad countries had a minor surplus in their trade with the EU in 1990. Till 1995, they accumulated an about $10bn trade deficit with their EU partners. The same applied to Hungary. Hungary had $406 million trade surplus with the EC in 1990, which turned to $1434 million deficit in 1995. It was somewhat reduced to $1132 million in 1996, but it seems that the deficit may satbilize around a minimum $1 billion per year.

In terms of competitiveness, the Hungarian economy shows growingly **a dualistic structure**. On the one hand, many newly established domestic private firms are particularly in weak position, they have to cope in many respect with **infant industry syndroms** (building new capacities, looking for new markets, consolidation of their management and partnership relations etc.). On the other hand, the **heavily investing transnationals** in CEcs countries are in much better position and they now give about 70% of the Hungarian industrial export. In fact, they represent rather a competitive "threat" for the EU partners.

The relatively low wages are the major sources for comparative costs advantages of CEEcs. Although, Hungary has the one of the highest wages in CE, its wage level is only about 1/7 to 1/10 of that of Germany. In recent years, Hungary was able to improve its comparative wage costs and this was important factor from points of view of attraction foreign investors. With some fluctuation, the real wages fell by about 17% between 1990 and 1995, while since 1993, the country produced double digit increase in its industrial productivity. The industrial productivity in Hungary increased by almost 30% between 1993 and 1995, and it was the highest growth in this respect in the CE region. The process continued in 1996, according to estimates, the Hungarian industrial productivity grew by 8% in 1996.

From points of view of competitiveness, the level of development of **infrastrutures and the legislative frameworks** play important role. The weaknesses of the region lay in these contexts and the low wages often do not compensate the

disadvantages. In Hungary, one can clearly see that there is fairly close corelation between the foreign investments and the level of infrastructures, both in physical or financial terms. Investments concentrate close to the highways and availability of financial and other services play important role. The stabillity and transparency of legislation, combined with political stability are crucial motivating factors.

The future effects of full membership, therefore, greatly depend on the success of consolidation of the domestic sectors and the attraction of foreign investors, which may growingly shift their production base toward East as conditions change. Under these circumstances, the CEE economies can not only meet the competitive pressures, but can improve the competitive environment of the whole EU market. That would be benefitial for the both sides and may increase competitiveness of the whole EU on the global markets.

4. Stabilization of the Hungarian economy and prospects of meeting of "convergence criteria"

In all countries of CEE, there was **a recession** from the end of the 1980s (called "transformation recession" by prof. Kornai), which accelerated to double digit fall in real GDP in many countries after 1990-91. The proportions of the recession matched the fall in production during the 1929-33 Great Depression and in some countries and in some respects, the losses of the Second World War. Till end of 1994, the cumulative decrease in the GDP of Visegrad countries had been about 20% (in Hungary 20-21%, in Poland 18-19% and in CSFR 20-21%) and the fall of GDP reached 30-40% or more in other countries. During the 1929-33 Great Depression, the Hungarian GDP fell by about 10%.

After 1994, the **recovery** was fairly strong in other Visegrad countries (with about 4-5% annual growth), while in Hungary due to restrictive economic policy measures in March of 1995, after short recovery in 1994 (2,9%), the stagnation continued in 1995 (by 1,5%) and 1996 (by less than 2%).

According to Hungarian GKI Gazdaságkutató Rt. prognozes, the GDP growth may gradually accelerate after 1997 and on average, Hungary can produce about 3,5% real growth during 1996 and

2000.[5] This will remain behind the growth performance of other Visegrad countries, but somewhat above the growth rates produced by the EU countries. The growth, however, may accelerate to 4-5% after 1998 and reach the 1989 level around 2000. In a less favourable scenario, the acceleration may be postponed by 1-2 years.

In terms of "real convergence", it was an unwelcome development that the CEEcs had to pay by **high unemployment** for their transformation. The unemployment is a reletively new phenomenon in the region (except Yugoslavia, which has a registered unemployment since the 1960s, but kept it down by letting peoples to work abroad). Formerly, the phenomenon of "overemployment" was characteristic for all of the countries ("internal" unemployment, relatively high activity rate, high proportion of "white collars" due to bureaucratic structures, low and waistful utilization of labour resources etc.) The unemployment has been rapidly accelerating after 1990, it passed the 15-17% level in many countries (except the Czech Republic). There are big regional differences, and the rigidity of the labour markets is aggravating the situation. In Hungary, the unemployment peaked by somewhat more than 12% in 1992-93 and it remained above 10% in 1996. This roughly corresponds to the EU average, but still high enough to be one of the constraining factors of the future full EU membership of the country.

One of the most painful and important phenomenon of the transformation crisis was **inflation**, and the performance of countries in this respect was the most diverging. Before 1990, the inflation was experienced only in the reforming economies (Yugoslavia, Poland and Hungary), while the others could maintain a non-inflationary development (if we don't take into account the "hidden" inflation and the shortages).

In Hungary, the inflation emerged already in the 1980s, but it has been kept on a modest level and practically under control all the time (bellow 10%). The "peak" year of inflation was in 1991 (35%) and its rate has been brought down to 19% till 1994.

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[5] The Strategic Possibilities of Hungarian Economy in 1996-2000, with particular attention to Fulfillment of Maastricht Convergence Criteria. Budapest, July 1996. Study prepared under PHARE-EURO-GTAF for Hungarian Finance Ministry. GKI Gazdaságkutató Rt.

In 1995, the inflation grew again by 28% and for 1996 it slowed down to 23%. For 1997, about 17% inflation is planned.

After 1993-94, **the other CEcs seem coping successfully with their inflation**. The Czech Republic and Slovakia brought their inflation (peaking in 1991 by 58%) down bellow to 10% (9,1 and 9,9%) in 1995 and Poland the 586% inlation of the year of "shock therapy" in 1990 has been gradually reduced to 17% in 1996. The Slovenian inflation for 1996 was also around 10%. All of the other East European countries suffered three or four digit inflations, and they seem to curb it in some year delay. **The inflation (and the related interest rates) are those criteria, where the CEEcs and particularly Hungary, are far from the requirements set in Maastricht** and it will take many years to meet them.

The Visegrad countries prusued **real revaluation policies** of their currencies after 1991, which was one important tool of bringing down their inflation. The Czech krone has been fixed since 1991, which lead to about 70% revaluation of the currency. The Poles pursued a policy of crawling peg, but with moderate revaluation of the zloty most of the time. The Hungarian forint was also revalued till 1993. According to the calculations of HNB in 1993, the real exchange rate was about 35% above the 1990 level and it did not change till 1995. As it negatively effected export, after 1993 the real revaluation was given up and drastically changed in March 1995. The forint was devalued by 9% and Hungary turned from the former adjustable peg (occasional nominal devaluations) policy to crawling peg with 1,8% automatic monthly devaluations. To early 1996, the monthly devaluation rate is cut back to 1,1%, but further cuts would be needed to really curb inflation. Many experts feel, that the devaluation policy, although helped export, it was one of the main factors of fuelling inflation.

The gradual stabilization (and then fixing) of exchange rates is necessary to meet Maastricht criteria. Hungary can fullfil it on the long run, but the joining of the ERM would be desirable in the near future (probably not later than entering the EU). The 15% fluctuation margin would be totally satisfactory, but at least about 6% would be needed, particularly in the first years.

Due to drastic cuts in subsidies and tax reforms in 1989-90, transitorily there have been great improvements in **budgetary balances** in most of the countries. The budget of Hungary was in balance in 1990. The growing recession, however, has lead to

rapid shrinkage of budgetary revenues (taxes), and the deficits re-emerged on a much greater scale than before. In Hungary, the increase in the budgetary deficits seems to be not only one of the main indicators of crisis, but also a constraining factor of long-term growth and recovery. The need for restrictive measures and the danger of "stop-go cycle" emerged in these contexts.

Hungary's budgetary surplus turned to a deficit of 5% of GDP already in 1991. The originally planned (and approved by the IMF) deficits have been overpassed and corrective new budgets had to be approved by the parlament each year. In the coming years, the deficits were slowly crawling upwards and the budget deficit was already around 7,9% of GDP in 1994. And early 1995, it seemed to accelerate to 10%. This lead to drastic measures (9% devaluation, 8% import surcharge and cuts in social and government expenditures), annouced on March 12 of 1995, forseeing about 175bn forint saving in the Hungarian budget. The budget deficit of Hungary was cut back to 5% for the whole 1995 and bellow 4% of GDP in 1996.

In terms of public debt and budget balance, most of the CEEcs are already meeting or are nearly meeting the Maastricht requirments. Hungary and Bulgaria are exceptions in this respect. The bad Hungarian performance, however, is not totally unprecedented compared with some EU member both in terms of increase and magnitude.

The referred study of GKI Gazdaságkutató Rt. forsees a budget deficit of 3-3,5% in Hungarian GDP in 2000, and the total public debt is prognozed around 70-74% in that year. [6]

So far it seems that it would be much easier to achieve the Maastricht criteria in terms of debt and deficit financing, than the inflation and the closely related interest rates. Although, it is not easy to make reliable forcasts, when there are so many uncertain factors, but **it is not irrealistic at all, that many of the CEEcs will be able to meet all of them not very long after joining in early 2000s**. And this may apply to Hungary, which seems to be among the worst performing from the Visegrad countries. Although, the creation of EMU has some negative effects on Hungary (slower growth and higher unemployment), to meet those criteria and join EMU are the best interest of Hungary.

[6] op. cit.

Per capita incomes (GDP) in CEE in 1990s

	IMF $ in 1992	EBRD* $ 1992	OECD* $1993
Slovenia**	6330	6540	9210
Czech Republik	2400	7160	8422
Hungary	3040	5740	5962
Slovakia	1920	5620	5766
Poland	1960	4880	4669
Bulgaria	1330	5130	4193
Romania	1090	2750	3643
Croatia			3827
Estonia	2760	5250	3803
Latvia	1930	4690	3070
Lithuania	1310	3710	3681
Russian Federation	2510	6220	4950***
Ukraine	1820	5010	3310
Former GDR			9341****
China	370		
Developed market economies*****		18085	
EU (Twelve)		15146	
Japan		26913	
USA		20034	24301

Per capita incomes (GDP) in dollars in 1993: (Eustat)

EU average	19042	
Denmark	25271	
Spain	13508	
Irland	12338	
Portugal	6991	
Greece	6873	
Austria	20963	19115
Finnland	24845	
Sweden	27498	

* Purchasing power parity-based
** For 1992. The Sloven per capita GDP was 3 times higher than that of Serbia and 5 times that of Kosovo, the poorest region. *** CIS, **** 1988., ***** UN datas for 1992.
World Economic Survey. UN. 1993. p. 209.
The World Bank. Annual Report. 1994. p. 101.
EBRD datas quoted by Financial Times, November 11,1994.

State of fulfillment of convergence criteria[7]

Count.	Year	Infl. in %.	Budget deficit (GDP %)	Public debt in GDP %	Interests (nominal)
		Developed EU (Possible "core" countries)			
Germany	1990	2,7	2,0	43,6	
	1991	3,9	3,6	45,0	
	1992	4,0	3,4	-	
	1993	3,9	3,5	48,2	
	1994	2,7	2,6	50,2	
	1995	1,8*	2,9*	58,8*	6,6*
France	1990	3,2	1,4	46,7	
	1991	3,2	1,9	48,5	
	1992	2,6	3,2	50,1	
	1993	2,2	6,1	45,3	
	1994	1,8	6,0	48,4	
	1995	1,9*	5,0	51,5*	7,4*
Neth.	1990	3,2	4,9	78,8	
	1991	3,3	2,5	78,3	
	1992	3,1	3,5	79,8	
	1993	2,1	3,2	81,3	
	1994	2,4	3,2	78,0	
	1995	1,6*	3,1	78,4	6,6*
Belgium	1990	3,1	5,7	128,3	
	1991	2,9	6,6	130,1	
	1992	2,5	6,7	132,2	
	1993	3,1	6,7	137,5	
	1994	3,0	5,3	135,0	
	1995	1,5*	4,5	134,4	7,0*
Luxemb.	1990	3,6	5,0	6,9	
	1991	2,9	0,8	6,1	
	1992	3,4	0,4	6,8	
	1993	4,4	-1,8	6,3	
	1994	2,6	-2,2	5,9	
	1995	1,9*	-0,4*	6,4*	6,1*

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[7] Commission of the European Communities.
Figyelõ, 1993. április 22.
Financial Times, 1994. május 12.

Countries, which may remain out of the "core"

Denmark	1990	2,1	1,4	66,7	
	1991	2,4	2,0	72,2	
	1992	2,1	2,3	74,0	
	1993	1,3	4,5	80,3	
	1994	1,0	3,8	75,6	
	1995	2,0*	2,0*	73,6	7,8*
Írland	1990	1,7	2,5	101,6	
	1991	3,2	2,1	100,9	
	1992	2,9	2,5	99,0	
	1993	1,7	2,4	97,4	
	1994	2,7	2,1	91,1	
	1995	2,5*	2,7*	85,9	8,0*
UK.	1990	5,3	1,3	39,8	
	1991	7,2	2,8	41,1	
	1992	5,1	6,1	45,9	
	1993	3,4	7,8	48,6	
	1994	2,4	6,8	50,1	
	1995	2,9*	5,1	52,5*	7,9*
Italy	1990	-5,6	10,9	97,8	
	1991	6,8	10,2	101,3	
	1992	5,3	10,5	106,8	
	1993	5,1	9,6	119,4	
	1994	4,8	9,0	125,4	
	1995	5,6	7,4	124,9	11,6
Austria	1993	3,5	4,1	63,0	
	1994	3,0	4,4	65,2	
	1995	2,4*	5,5	68,0	6,9*
Sweden	1993	5,8	13,4	76,2	
	1994	3,6	10,4	79,7	
	1995	2,8*	7,0	81,4	9,7*
Finnl.	1993	4,2	8,0	57,3	
	1994	1,3	5,8	59,8	
	1995	1,2*	5,4	63,2	8,0*
		Less developed countries of the EU			
Portug.	1990	12,6	5,5	68,4	
	1991	11,9	6,4	68,5	
	1992	9,1	5,6	66,2	
	1993	7,1	7,1	67,2	
	1994	5,5	5,8	69,4	
	1995	4,2	5,4	70,5	11,2
Spain	1990	6,4	4,0	44,5	
	1991	6,3	4,9	45,6	
	1992	6,0	4,6	47,4	
	1993	5,6	7,5	60,4	10,8
	1994	5,1	6,6	63,0	
	1995	4,9	5,9	64,8	
Greece	1990	20,1	18,8	96,3	
	1991	18,4	15,4	102,0	
	1992	16,0	13,4	106,7	
	1993	13,6	12,1	114,5	
	1994	10,8	11,4	113,0	
	1995	9,2	9,3	114,4	16,3
Average of the 3	1995	6,3	7,9	124,6	14,0

		Central European countries (CEFTA)			
Czech.R.	1992	11,1	0,0	-	8,1
	1993	21,8	0,6	21,1	
	1994	14,0	1,0	19,9	
	1995	9,0	0,6	17,9	7,0*
	1996	8,2	0,0*	15,8*	
Hungary	1990	28,3	0,0	60,4	
	1991	35,0	5,0	72,0	27,7
	1992	23,0	6,5	69,1	
	1993	22,5	5,8	87,5	
	1994	18,8	8,1	86,4	
	1995	28,2	6,5	89,2	31,6
	1996	23,0	3,3	84,3	29,6
Poland	1992	43,0	6,0		38,0
	1993	34,5	5,5		
	1994	28,0	4,0	39,1*	
	1995	22,0	3,3		26,0
	1996	19,0	-		
Slov.R.	1992	10,0	3,1		6,6
	1993	26,2	6,2		
	1994	12,0	7,5	34,4*	
	1995	7,0	3,0*		12,0
	1996	6,0	-		
Slovenia	1992	208	0,2		
	1993	25,0	0,5		
	1994	18,0	1,0*	14,7*	
	1995	9,0	-		
	1996	10,0			
			Baltic countries		
Eston.	1992	1076	1,5		
	1993	37,0	2,0		
	1994	42,0	2,0	6,2*	
	1995	27,0	1,0*		
	1996	24,0	-		
Latvia	1992	951	1,6		
	1993	35,0	3,5		
	1994	26,0	4,0	9,0*	
	1995	23,0	2,2*		
	1996	19,0	-		
Lithu.	1992	1021	0,0		
	1993	188	4,0		
	1994	44,0	4,0	7,2*	
	1995	36,0	-		
	1996	26,0	-		
			Other candidates		
Bulgaria	1992	80,0	10,6		
	1993	65,0	16,0		
	1994	122,0	13,0	82,0	
	1995	33,0	9,0		
	1996	165,0	-		
Romania	1992	210,0	4,3		
	1993	258,0	2,1		
	1994	66,0	4,2	16,0*	
	1995	28,0	3,3		
	1996	60,0	-		
Malta	1996	3,0*	3,1	36,0*	

In terms of nominal interest rates, the average of the 3 best performing countries was 8,4% in 1995.

* Maastricht criteria fulfilled.