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THE ECONOMIC DEVELOPMENT IN THE CEE COUNTRIES SINCE EASTERN OPENING

After the political upheaval in 1989, all Central and Eastern European countries have suffered a deep "transformation recession". The real gross domestic product shrank between 1990 and 1992 by approximately one fifth in the CEE states. The reasons for that production drop were the changes within the economic system, the consequences of economic disintegration following the dissolution of the CMEA, the adjustments necessary within the production structure, and partially also country-specific problems.

Summary of a more detailed analysis published in the 11/1998 issue of the WIFO-Monatsberichte.

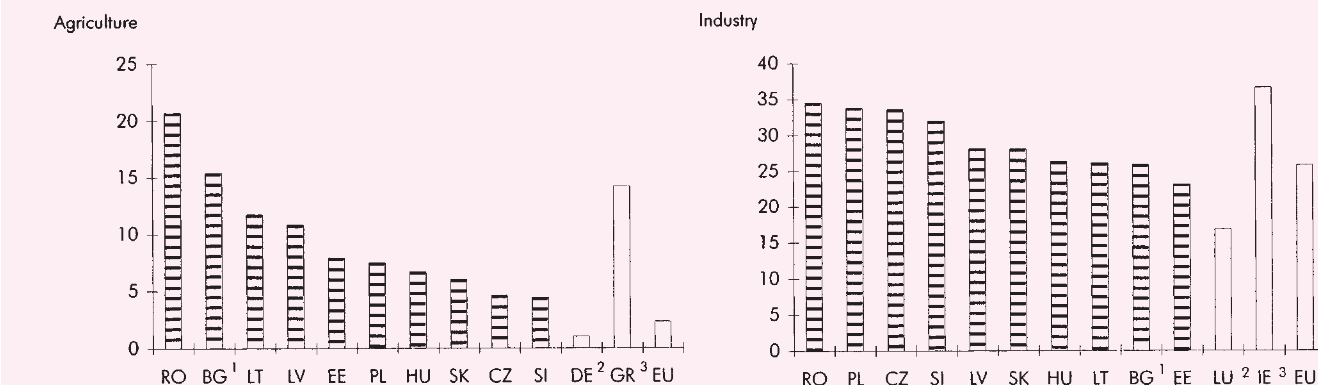
The 5 CEE countries (Czech Republic, Slovakia, Hungary, Slovenia and Poland) have mastered a great number of the institutional and organisational tasks, but also parts of the structural tasks, in transition from a planned to a market economy. Reforming the system has created the pre-conditions for economic growth. The upswing in 1993 was made difficult because of the setback in western Europe's economic activity. In 1994, all reform states were on a growth course that they were able to hold in the following years.

The negative effects of the Asian and Russian crises on the CEE countries appear to be limited. Against the backdrop of an average economic situation in western Europe, eastern Europe is expected to see its economy grow by around 4½ percent in the years to come. In 2000, economic performance in the CEE countries will be up some 15 percent from 1989 based on current growth estimates; broken down by individual states this means: an increase (versus 1989) of almost 30 percent for Poland, of around 10 percent for Slovenia and of around 5 percent for Slovakia, Hungary and the Czech Republic.

Approximate long-term projections concerning the economic growth of a country are possible on the basis of its initial economic development, investment ratio and educational level. In light of this, the EBRD has estimated the growth margin for eastern European countries over the next 25 years. For the 5 CEE countries the estimates show growth rates of between 4½ and 6½ percent p.a. Such an optimistic outlook for these transitional societies is based on the fact that they have better op-

Figure 1: Gross value added 1997

As a percentage of total gross value added



Source: Eurostat. – [1] 1996. – [2] Lowest value in EU 15. – [3] Highest value in EU 15.

tions to use existing resources than had post-war western Europe or Japan. Caution, however, is advisable in view of the great significance of institutional factors for long-term economic growth, an area where the CEECs still have major deficits.

After the political upheaval in 1989, all the countries in eastern Europe tried to re-orient their economic relations from east to west. The opening up of the markets towards the west and the ensuing keener competition were important ingredients for the changeover from planned to market economies. The countries in eastern Europe were also forced to turn rapidly westward because of the dissolution of the eastern European integration community, i.e., the Council for Mutual Economic Assistance (CMEA), and the decay of their most important markets in the Soviet Union and East Germany.

Table: Stimulation of growth in the eastern European countries following their EU accession

Simulation based on a general equilibrium model

	Integration effects		EU budget: payments, net
	Conservative estimate[1]	Extended estimate[2]	
	Billion ECU (1992 prices)		
Eastern countries			
5 CEECs	2.0	24.1	20.0
7 CEECs[3]	2.5	30.1	–
EU 15	9.8	11.2	–20.0
	Deviation from GDP growth in percentage points		
Eastern countries			
5 CEECs	+ 1.5	+18.8	+15.6
7 CEECs3	+ 1.5	+18.8	–
EU 15	+ 0.2	+ 0.2	–

Source: Baldwin, R.E., Francois, J.F., Portes, R., „The Costs and Benefits of Eastern Enlargement: The Impact on the EU and Central Europe", Economic Policy, 1997, (24), pp. 127-170. – [1] Reduction of real trade costs by 10 percent (elimination of all customs duties between the EU and the CEECs, adoption of the Common Customs Tariff of the EU, participation in the single market). – [2] Reduction of the risk premium for investments in the eastern countries to the level of Portugal, increase in capital stock by 68 percent. – [3] Poland, Czech Republic, Slovakia, Hungary, Slovenia, Bulgaria, Romania.

Initially, the EU was very reticent about the attempts of eastern European states to become members. It was only at the European Council meeting in Copenhagen in 1993 that the door for eastern Europe's accession was unlocked. The European Commission recommended in its published opinion (avis) to take up negotiations with five countries (Hungary, Poland, Czech Republic, Slovenia, Estonia). The other five candidate countries (Slovakia, Bulgaria, Romania, Latvia, Lithuania) were to receive intensive assistance in their preparations for accession.

In a document issued in June 1997 (Agenda 2000), the Commission also submitted proposals on how to reform the EU (especially regarding its agricultural and structural policies) and finance eastern enlargement. Accession negotiations started in March 1998 and under favourable conditions could be completed by 2003, whereupon accession requires ratification by parliament of all member countries and the European Parliament.