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Institute of World Economics,
Centre for Economic and Regional Studies
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Visegrad Fund

PROSPECTS
of the Visegrad cooperation

Identifying converging and diverging factors

Edited by Gábor Túry

Budapest, 2015

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Foreword

When this research project was launched in the second half of 2012 the world economy faced an uncertain future after the crisis. The financial and economic crisis set back the growth of the world's most developed countries – among others those in the European Union – and highlighted existing structural problems. At the same time emerging markets such China, India and Brazil enjoyed the benefits of their economic growth. In a globally integrated world economy where economies and societies are intensely shaped by transformative forces, including economic, environmental, geopolitical, societal and technological seismic shifts, no country can decouple itself from global processes, be that development or decline. Global issues are determinative for Central European Visegrad countries Poland, the Czech Republic, Slovakia and Hungary. This means that the historical and geographical background of these countries are of special importance. The location of Central Europe, at the intersection of the western and eastern interests, and the western orientation and process of catching up to Europe's developed core area, determine the system of reference. Europe is facing new challenges not only internally but externally as well. There are several old and new issues which at the beginning of the research had not escalated, but which will influence the future development of the EU. These include among others the new chapter of transatlantic relations with the US, especially free trade issues, increasing economic and the rising political influence of China and Russia, security policy issues of the Middle East and North Africa, as well as the national policies regarding refugees and emigrants.

This book presents the results of research supported by the International Visegrad Fund in an attempt to summarize those political, social and economic challenges that can influence the future of Visegrad cooperation. We focus on internal as well as external effects and issues. The research was implemented under the direction of the Institute for World Economics of the Centre for Economic and Regional Studies of the Hungarian Academy of Sciences. The other three partners are the *Warsaw School of Economics* from Poland, the *EUROPEUM Institute for European Policy* from the Czech Republic and the *Institute of Economic Research of the Slovak Academy of Sciences* from Slovakia. In the discussion of the topic we also involved other researchers from the Finnish Institute of International Affairs and the Polish Institute of International Affairs.

This summary edition of the research consists of the studies prepared in the framework of the project *"Prospects of the Visegrad cooperation in changing economic, political and social Conditions"*. During the implementation of the project we kept in mind that one of the added values of the project should be deeper knowledge relevant to each country covered. Therefore, at first, Krisztina Vida summarized *the actual challenges facing the European Union by* highlighting the latest governance trends and possible future scenarios of the EU. She also discussed the positions of the Visegrad countries vis-à-vis the latest governance developments and recommended some principles to follow when jointly shaping the future structure of the Union. In the following parts of the volume *Polish, Czech and Slovak reflections* and standpoints were expounded – by Elżbieta Kawecka-Wyrzykowska, Vladimír Bartovič and Boris Hošoff respectively – regarding EU governance and the *future of the V4 cooperation. Increasing Russian influence in the Central European region* was analysed by András Rácz. We placed a special focus on the *similarities and differences among external policies of the V4 members.* In the economic section Krisztina Vida evaluated the main aspects of real and nominal convergence of the V4 in the first decade of EU membership. Her SWOT analysis helps to identify the factors that strengthen *or weaken cooperation.* Competitiveness and world economic integration has a key role in the economic catching up process. Gábor Túry analysed the main *trends regarding international competitiveness of the Visegrad countries with a special focus on their export structure,* especially integration into global value chains. Last but not least *social trends* of the V4 members were analyzed by Elżbieta Kawecka-Wyrzykowska (Poland), Vladimír Bartovič (Czech

Republic), Boris Hošoff (Slovakia) and Annamária Artner (Hungary). Beside analysing the *main trends, the authors focused on main challenges and possibilities in order to create successful social inclusion* in the V4 countries.

At the end of this book Judit Kiss *formulated the main converging and diverging forces that determine the future of Visegrad cooperation,* highlighting political, economic and social differences and similarities. At the end of the summary recommendations to the decision makers are formulated in order to deepen Visegrad cooperation and draw attention to possible threats and challenges.

Gábor Túry
editor

Budapest, July 2015

EU governance trends – dilemmas and recommendations for the Visegrad countries

Krisztina Vida[1]

Introduction

The institutional structure of European integration has been going through important changes since its inception. This process has been accompanied by recurrent and competing proposals on its ideal model. This study attempts to briefly outline the past, recent and current trends and challenges of EU governance, and – on the basis of those developments – offers some scenarios that can be expected in the near future. In the light of the governance trends and potential scenarios, it finally formulates some modest recommendations for the high-level policy-makers of the Visegrad countries. The aim of those recommendations is to contribute to an eventual joint position of the four countries while shaping the future of the European Union.

EU governance: past and recent trends and challenges

Governance issues have been on the agenda of European integration from the outset. In 1949, when the Council of Europe was founded, the battle between the federalists and the intergovernmentalists ended with the victory of the latter group. Two years later, when the European Coal and Steel Community Treaty was signed, the same

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dilemma was circumvented: not a top-down federation but a special kind of supranational integration was launched. The new type of governance – being more than intergovernmental but less than federal – was however meant to lead in the longer run to a kind of a bottom-up European federation. Ever since the 1950s (with the birth of all three founding Treaties) we usually speak about a sui generis Community or now Union – meaning a special alliance of states where an increasing part of national sovereignty is being transferred to the supranational level where it is pooled and exercised in common via the institutions. This sui generis system has been characterised by an important evolution of the institutional balance among the European Commission, the Council and the European Parliament, accompanied by an equally spectacular evolution of Community law and federal type competences of the European Court of Justice.[2]

In the integration process, the Maastricht Treaty of 1992 represented a quantum leap as the EC/EU became responsible, in one way or another, for many areas well beyond market integration and acquired responsibilities similar to a federal state. These ambitious changes (i.e. economic and monetary union, internal security issues, foreign policy, etc.) however have not been accompanied by a thorough institutional reform resembling a kind of a federal model. On the contrary, from the point of view of governance, a certain fragmentation could be witnessed due to both the new pillar structure and the opt-outs by some member states. While in the field of monetary integration a truly federal structure was to be introduced, in the area of economic and social integration the Community method was preserved, but in internal security and foreign policy issues an intergovernmental approach prevailed. At the same time, from the Maastricht Treaty onwards, the variable geometry of integration became a reality with some member countries not participating in some policy areas. From the early 1990s onwards – through the Amsterdam and Nice Treaties – up until the entry into force of the Lisbon Treaty in 2009, governance modes became increasingly complex, going well beyond the simple categorisation of Community versus intergovernmental

[2] See among others: Josselin–Marciano (2006)

methods.[3] Beyond the lack of transparency another challenge was the upcoming historical enlargement as well as the fact that not all the member states were willing and/or able to participate in all projects of European integration.

As a response to these challenges, since the first half of the 1990s, innovative ideas on a two-tier EU and the re-emergence of federalism came to the fore. One of the best known ideas was the Schäuble-Lahmers initiative in 1994 about the future structure of European integration. In this paper[4] the authors – as representatives of the German Christian Democratic party alliance (CDU/CSU) – argued for the establishment of a so-called "hard core", composed of (initially five) countries introducing the single currency. The hard core should however remain open towards those member countries which would be able to join later. At the same time, the initiative also emphasised the importance of subsidiarity including an eventual repatriation of competences from European to national levels. Actually, they promoted the idea of an EU organised into a federal model, based on a constitution-like document. Another important milestone in the common thinking about the future of the EU was the rather similar model presented by then foreign minister of Germany, Joschka Fischer in 2000, in a speech at the Humboldt University.[5] This concept urged the willing and able member states to re-establish the EU on a federal basis with new structures. This "avant-garde" group or "centre of gravity" would be open to the rest of the member countries and would exercise a pulling effect on them. These proposals paralleled with European Commission President Jacques Delors'[6] concept on a federation of nation states. In his various speeches/interviews in the 1990s, Mr. Delors referred to federalism as a method of organising competences between the EU and the member states and not as an attempt to build up the United States of Europe. *"A federal structure is the only kind of structure that could boost our clout with the rest of the world, yet without weakening either the nation state or*

[3] See on this topic among many others: Missiroli (2011)
[4] Schäuble–Lahmers (1994)
[5] Fischer (2000)
[6] Mr. Delors was head of the European Commission between 1985-1995.

member countries' domestic democracy. It clearly sets out who is responsible for doing what."[7] Delors also recognised the necessity of differentiation within an ever widening Union and at one point he even proposed the idea of a "Treaty in the Treaty"[8] (to be concluded by those committed to federalism).

While the recurrent ideas on federalism as a method did inspire the Lisbon Treaty, the two-tier model has been asserting itself in the past few years in response to the crisis. The Lisbon Treaty (namely the Treaty on the European Union, TEU, and the Treaty on the Functioning of the European Union, TFEU) actually preserved the initial sui generis nature of the EU where different policy areas are being governed with different intensity/methods at the EU level. In fact, most of the policies were grouped into exclusive, shared or complementary competences which can be carried out via the so-called Community method. At the same time, some areas that did not fit into these categories, are being managed either via coordination (economic and employment policies) or via intergovernmental decision-making (foreign affairs, security and defence policy). The Lisbon Treaty did not bring substantial deepening about, and it also preserved the existing institutional structure with several innovations however (e.g. permanent President of the European Council, High Representative-Vice President, ordinary legislative procedure as a rule, reforms in the size of the Commission and the voting mechanism in the Council).

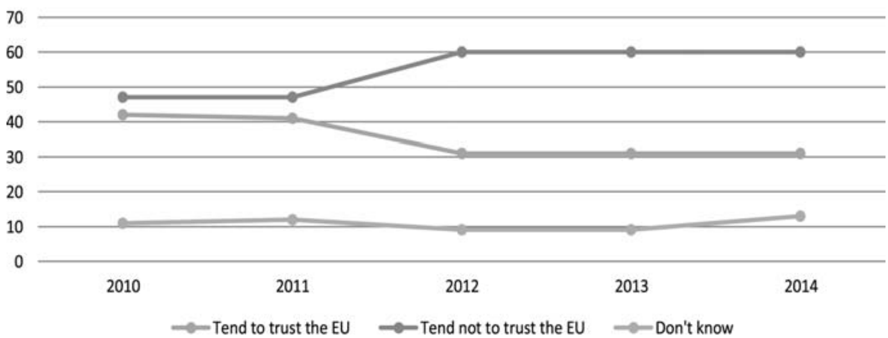
While – along the lines of the Constitutional Treaty – the Lisbon Treaty did not (want to) create a federal Europe, it reinforced its federative nature to some extent (e.g. delimitation of competences, the "bicameral" system thanks to the ordinary legislative procedure, the position of the "foreign minister", or the declaration on the primacy of EU law). On the other hand, it continues to guarantee the Treaty-based framework for differentiation enacted by the Amsterdam Treaty (Art. 20 of TEU on enhanced cooperation) while it also intro-

7 Jacques Delors is cited by Ricard-Nihoul (2012), p. 2.

8 Joannin (2008)

duced the possibility of repatriation of competences (Art. 48 of TEU on ordinary revision procedure) as well as that of leaving the Union (Art. 50 of TEU) – features not typical for federations. Despite the lack of a fully-fledged federal structure (let alone transforming the EU into a state), the Constitutional Treaty failed in two referenda and the Lisbon Treaty in one – pointing to alarming legitimacy challenges. This fact combined with growing Euroscepticism (see Figure 1) must be an important lesson for those who would like to push for "more Europe" in terms of both competences and institutional restructuring, even if in the name of more transparency, democracy and efficiency.

Figure 1. Trust in the EU average



Source: Eurobarometer (spring waves, 2010-2014)

At the time of the entry into force of the Lisbon Treaty, the most serious financial and economic crisis ever hit the European Union. The crisis has actually been exercising two parallel impacts on European integration: a *centripetal* one (pushing for deeper cooperation in some key areas than ever before) and a *centrifugal* one (UK's reservations about membership, strengthening Euroscepticism among EU citizens and the rise of Eurosceptic parties). The reason is simple: as mentioned, since the Maastricht Treaty, but more intensively since the crisis, the EU increasingly behaves like a state while it still suffers from legitimacy gaps. Thus, even if the EU is not and will never become a state, due to its mounting functions – recently including the politically so sensitive area of national fiscal policies – it has to close the legitimacy gap. As this tension is being felt for a long time by analysts[9] and recently also by EU leaders, the issue of a more democratic political union is being discussed more intensely than ever before. The debate is once again about the future structures and governance of the Union which – beyond the usual issues of legitimacy and efficiency – should also be able to respond to both the mentioned centripetal and the centrifugal pressures.

The past few years in terms of governance: stability by complexity?

Since the outbreak of the crisis, the EU has been using mixed methods and instruments to tackle it and there has been a boom of new institutions, legislation and financial tools proposed/created. Here the centripetal and centrifugal forces became visible. On the one hand, all the member states were united in some initiatives to tackle the crisis and work together (e.g. European Semester, Europe 2020 Strategy, Six-pack, Two-pack, Deposit Guarantee Scheme), on the other hand, there were initiatives not supported by all members (Euro Plus Pact, Fiscal Compact) and again others not involving everybody (e.g. European Stability Mechanism Treaty, Single Surveillance Mechanism). Table 1 shows the main building blocks of the EU's response to the crisis in terms of governance. It also shows the great variety of instruments and implementation methods used. (Table 1)

As it can be seen, those measures are completing the incomplete edifice of EMU set by the Maastricht Treaty and the Stability and Growth Pact, and they also represent substantial guarantees to prevent from similar (primarily financial and fiscal) crises in the future. There is however an obvious mixture of the Community method and the so-called Union method – promoted by the leaders of Germany and France – in terms of both preparation of proposals (see the rivalry between the European Commission and the Van Rompuy Task Force) and the end result.[10] This mixed approach and the patchwork

[9] For example by Hix (2008) or Sarduski (2013)
[10] Highlighted among others by Chang (2013)

Table 1. Main measures taken by the EU since 2010 to tackle the crisis and contribute to stabilisation

Name of measure or new institution	Legal basis	Aim	Method of implementation	Number of members
Europe 2020 Strategy	European Council Conclusions (no Treaty-provision)	Gradual compliance with the five headline targets across the EU in terms of average levels	Coordination: EU-level benchmarking, national target setting and implementation	28
European Semester	Art. 121 and 148 of TFEU	Strict coordination of national economic and fiscal policies according to a fixed calendar	Coordination at EU level, weak role of EP	28
Six-pack Two-pack	Art. 121, 126, 136 of TFEU	Ensuring public finance stability via a complex set of preventive and corrective rules concerning both public budgets and debts	Community method with specific features (incl. use of scoreboard, reversed QMV* on sanctions)	28 (but sanctions only for 19)
Deposit Guarantee Scheme	Art. 57(2) of TFEU	Guaranteed deposits up to 100,000 euros in case of failing banks, fast re-payment for depositors	Community method: transposition into national law	28
Capital Requirement Directive IV package	Art. 53(1) of TFEU	Capital adequacy requirements and prudential rules for banks, bonus cap	Community method: transposition into national law	28
Treaty on the Stability, Coordination and Governance of EMU (TSCG or Fiscal Compact)	TSCG – a new intergovernmental treaty (with aim to become part of EU law)	Balanced budget rule: structural budgets to have a 0.5% deficit (guaranteed by a national legal basis) if not: CJ** decision, sanctions; Public debts: reduction benchmark	Semi-intergovernmental cooperation involving several EU institutions and binding rules	25

Source: own compilation based on European Commission, DG ECFIN website
*QMV: qualified majority voting in the Council, ** CJ: Court of Justice

Table 1. Main measures taken by the EU since 2010 to tackle the crisis and contribute to stabilisation

Name of measure or new institution	Legal basis	Aim	Method of implementation	Number of members
Euro Plus Pact	Euro Plus Pact a new intergovernmental agreement	Stronger coordination of labour market, pensions, health care, social security and direct taxation policies	Intergovernmental cooperation involving euro area + other member states	23
European Financial Stability Mechanism/Facility (EFSM, EFSF)	Art. 122.2. of TFEU	Temporary mechanisms for financial assistance with total lending capacity of €500 bn., collecting money via bonds, lending to EU members	Semi-intergovernmental decision-making	EFSM: 27 EFSF: 17
European Stability Mechanism (ESM)	ESM Treaty and amended Art. 136 of TFEU	Permanent mechanism replacing the EFSM and EFSF with a lending capacity of €500 bn., financing primarily governments and banks in euro area	Semi-intergovernmental with Commission, ECB and CJ** involved, but no role of EP	19
European Systemic Risk Board (ESRB), EBA, ESMA, EIOPA***	Art. 114 of TFEU	Macro-prudential and micro-prudential supervision of financial services across the EU to prevent malfunctions	Monitoring, supervision, recommendations	28
Single Supervisory Mechanism (SSM) and Single Resolution Mechanism (SRM)	Art. 127.6. of TFEU Art. 114 of TFEU	To have a "strict and impartial supervisory oversight, thus contributing to breaking the link between sovereigns and banks and diminishing the probability of future systemic banking crisis"[11]	Bank supervision and control by ECB, uniform bank resolution rules, direct recapitalisation (bail-in) of banks in trouble	19+ (voluntary joining of non-euro members is possible)

Source: own compilation based on European Commission, DG ECFIN website
***European Banking Authority, European Securities and Markets Authority, European Insurance and Occupational Pensions Authority

nature of the above mentioned measures and instruments is however very detrimental to transparency and accountability. It also makes the whole machinery of economic and fiscal policy governance extremely complex and bureaucratic.[12] Of course, the constant dialogue between especially the euro area member governments and the EU institutions can in the long run lead to enhanced stability of EMU, but transparency, legitimacy and accountability still remain an issue in the coming years. All the more, that there are no clear lines between national policy discretion and the depth of EU-level influence on the highly sensitive budgetary strategies of member states; which can result in conflicts and spark a more vivid debate on national sovereignty.[13] Another obvious consequence of these developments is the unfolding model of an institutionalised two-tier EU strengthening the dividing lines between euro-ins and euro-outs. Whether the inner circle will move towards more federalism, remains to be seen.

Scenarios of future EU structures based on recent trends and proposed reforms

Since autumn 2012, several important speeches and proposals must be mentioned when scrutinising the ideas and initiatives on future European structures and governance. In a chronological order the first one was the speech on the state of the Union by the then Commission President Barroso in September 2012.[14] In this speech Mr. Barroso urged for an upgraded economic integration (based on the single market), for a stronger economic and monetary union and finally for a political union. In his view, while most aspects of the first two dimensions can be done in the present Treaty framework, for the

[11] Van Rompuy–Barroso–Juncker–Draghi (2012) p. 5.
[12] It is enough to mention the Annual Growth Surveys, the National Reform Programmes, the Stability/Convergence Programmes, the Commission Staff Working Documents, the Country-Specific Recommendations, the Alert Mechanism Reports, the In-Depth Reviews, etc.
[13] Recently in an interview Jacques Delors criticised the European Commission for asking the French government in its Country Specific Recommendation to reform the notary system: an issue out of EU competence and irrelevant in fighting the crisis. As he put it: *"The high officials (of the Commission) should not come too often to give lessons to the governments."* Reconstruire la grande Europe, Tribune, 19/06/2013, p. 5. http://www.notre-europe.eu/media/reconstruiregrandeeurope-delors-ne-ijd-juin13.pdf?pdf=ok
[14] José Manuel Barroso: State of the Union 2012 Address, http://europa.eu/rapid/ press-release_SPEECH-12-596_en.htm

indispensible political union there is a need to create the European federation of nation states. This however – as he underscored – should not mean a superstate. It should rather be: *“A democratic federation of nation states that can tackle our common problems, through the sharing of sovereignty in a way that each country and each citizen are better equipped to control their own destiny. This is about the Union with the Member States, not against the Member States. In the age of globalisation pooled sovereignty means more power, not less.”* To build the federation of nation states, Barroso pleaded for a new Treaty – i.e. not an amended Lisbon Treaty but a new one. He emphasised that we have to be careful about this, and that such a process has to be well prepared.

In fact, in this respect a key prerequisite would be a German-French accord but – despite championing for “more Europe” – so far neither of the two parties seems to favour explicitly a European Federation of Nation States. On the German side it is important to highlight the legal difficulties. In 2009, the German Constitutional Court has ruled that the Lisbon Treaty should be seen as the upper limit of European integration, and further deepening would not be compatible with the German Basic Law. For a deeper integration, let alone a European Federation, Germany would need a new constitution which can be problematic.[15] Moreover, in her speech in Bruges in 2010, German Chancellor Angela Merkel advocated the Union method (instead of the Community or the federal approach)[16]. On the French side, there are also reservations vis-à-vis the federal concept. France under President Nicolas Sarkozy has been supportive of German ideas on reinforcing cooperation at the European level to fight the crisis. Beyond strengthened economic and fiscal policies and a banking union President Hollande would also be in favour of more Europe in terms of solidarity, employment and social policy, a bigger common budget, stronger defence cooperation, etc. – but certainly not in the form of a European federation. He would rather support a differentiated Europe based on a kind of variable geometry involving different

[15] http://www.bundesverfassungsgericht.de/pressemitteilungen/bvg09-072en.html
[16] http://www.bruessel.diplo.de/contentblob/2959854/Daten

willing and able countries into different policy areas. In his view, greater democracy in the EU should be ensured via the strong role of the European Parliament.[17]

Towards the end of 2012, further moves in the direction of substantial deepening have been proposed by EU leaders; one by the European Commission[18] and the other one by the then European Council President Herman Van Rompuy.[19] Taking an ambitious stance, both papers called for substantial further deepening in the direction of financial, budgetary and economic integration accompanied by more political accountability. A highly important common element in both papers was the contractual arrangement to be concluded between euro area member states and EU institutions about longer term structural reforms, and "in exchange" a certain financial support (Convergence and Competitiveness Instrument) would be available to back those reforms in the given member states.[20] The financial background of this would actually be a new budget, parallel to the existing one. In terms of political union implying more democracy and accountability, the Van Rompuy proposal suggested to accompany *"further integration of policy-making and a greater pooling of competences at the European level" with a "commensurate involvement of the European Parliament in the integrated frameworks for a genuine EMU."*[21] The paper added the importance of fostering cooperation between national parliaments and the EP – without specifying its mechanisms. The Commission proposal went much more into details. Among others it also foresaw a stronger role of the EP in the whole process of fiscal and economic policy coordination. Furthermore, it proposed that members of the Commission take part in debates of national parliaments about the Country Specific Recommendations, on their request. By looking more thoroughly into those drafts, they point to a more explicit split between euro area ins and outs within the Commission, the Council and the EP.

[17] Video of François Hollande's speech (in French) before the EP on 5 February 2013: http://www.youtube.com/watch?v=F6vsOoAALRY
[18] European Commission (2012)
[19] Van Rompuy–Barroso–Juncker–Draghi (2012)
[20] A comprehensive critical comparison and analysis of these two instruments can be read in Vanden Bosch (2013)
[21] European Commission (2012), p. 16.

The next milestone was the speech given by British Prime Minister David Cameron in January 2013.[22] In this speech, Mr. Cameron highlighted the need to reform the EU, namely by making it more flexible, more adaptable, more accountable while also less bureaucratic and able to make decisions faster. In his view, the repatriation of certain competences to national levels should be feasible as *"we cannot harmonise everything"*. Since there is no European *demos*, the democratic legitimacy of the EU should be strengthened via the national parliaments. With a view to achieving such changes Mr. Cameron would prefer to have a new Treaty, or in the absence of overall negotiations on a new Treaty framework, he would push for a bilateral negotiation process between the UK and the rest of the EU. In his view: *"At some stage in the next few years the EU will need to agree on treaty change to make the changes needed for the long-term future of the euro and to entrench the diverse, competitive, democratically accountable Europe that we seek. I believe the best way to do this will be in a new treaty so I add my voice to those who are already calling for this. My strong preference is to enact these changes for the entire EU, not just for Britain. But if there is no appetite for a new treaty for us all then of course Britain should be ready to address the changes we need in a negotiation with our European partners."* By autumn 2014, the British balance of competence review was done[23] to serve as the concrete basis for future British EU policy/negotiations, and in January 2015, the Prime Minister reiterated his push for a revised EU-UK relationship embedded in a new EU Treaty.[24] In any case, the British citizens will be asked about staying in or leaving the EU, which would take place in the near future (before the end of 2017 the latest), in case of an electoral victory of the Conservative Party in May 2015.

While the Brits are keen on Treaty change or a new Treaty, the Dutch seem to be against it. At the same time, the Dutch government

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[22] Video of David Cameron's speech:http://www.youtube.com/watch?v=8Ls60Wbq_dk
Full text: http://www.guardian.co.uk/politics/2013/jan/23/david-cameron-eu-speech-referendum

[23] Review of the balance of competences: https://www.gov.uk/review-of-the-balance-of-competences

[24] BBC: David Cameron: I can fix EU 'problem' http://www.bbc.com/news/uk-politics-30701604

also carried out a so-called subsidiarity review, in which they actually listed those concrete areas (54 points) where the EU should and where it should not act.[25] But according to the Netherlands, these important corrections can be done without any Treaty change. Some other countries (e.g. Germany, Austria, Finland[26]) have also been active in re-thinking the EU's responsibilities recently, but these moves are rather shedding light on the key importance of subsidiarity (and its actual practice by the EU institutions, as well as by the national parliaments) than insisting on lengthy and "risky" Treaty change.

At the EU level – due among others to the lengthy negotiations on the multiannual financial framework, the stubbornly high youth unemployment, severe external policy challenges, or the renewal of the membership of main EU institutions – the building up of the missing pillars of the genuine EMU (with special regard to the banking union) slowed down in 2013-2014. At the same time, governance issues did not disappear from the agenda. For example, finance minister of Germany, Mr. Wolfgang Schäuble reinstated his idea of a necessary hard core at a conference in Brussels in 2014, and openly proposed the setting up of separate euro area institutions.[27] In his turn, Mr. Joschka Fischer published a book in which he urges for a United States of Europe, modelled on the Swiss federal system.[28]

The new European Commission, taking office in November 2014, is using a less ambitious and more pragmatic language when treating governance issues (avoiding any hints to federalism, two-tier structure, or Treaty change). The Commission's work programme for 2015, entitled "A new start",[29] stresses in connection with EMU governance the following. *"The architecture of the Economic Monetary Union needs further strengthening so that the euro can maintain cit-*

[25] Government of the Netherlands (2013)
[26] Győri (2014), p. 48.
[27] Conference report entitled "20 ans après le "noyau dur européen" – où en sommes-nous? Où allons-nous?" ("20 years after the "hard core" – where are we now, where are we going?"), Jacques Delors Institut, Berlin, 30/09/2014 – http://www.notre-europe.eu/media/noyaudur-koenig-jdi-b-sept14.pdf?pdf=ok
[28] Fischer (2014)
[29] European Commission (2014)

izens' confidence, continue to weather market turbulence and create the conditions for sustainable jobs and growth. Following its review of the economic governance rules and actions to simplify and streamline the European Semester process, the Commission is working on deepening the Economic and Monetary Union, developing proposals on further steps towards pooled sovereignty in economic governance. This effort will be accompanied by actions to reinvigorate social dialogue at all levels."[30] By the same token, the new Commission seems to feel the decline of citizens' confidence in the EU. As a result, it is committed to tackle this challenge with a pragmatic approach, by enhancing better regulation, by focusing exclusively on what matter to citizens (with emphasis on growth and jobs) and by eliminating rules that are outdated, or withdrawing proposals that are unnecessary or would only increase red tape.[31]

Based on the above mentioned ideas and proposals, and also based on current realities and citizens' attitudes, we can broadly project the following scenarios for governance developments in the near future. (Table 2)

Some recommendations to the high-level policy-makers of the Visegrad countries

It seems to be quite a challenge to formulate recommendations to the Visegrad (V4) countries on EU strategy as, apart from some shared positions (e.g. in the field of cohesion policy financing, interconnection of transport and energy networks, enlargement and Eastern Partnership[32]) these countries have different attitudes and also occupy different positions in the Union.[33]

Poland – which weathered the crisis well, without any recession – has been supportive of all anti-crisis measures taken by the EU since 2010 while favouring a strengthened economic governance. Its main preoccupation has been to avoid any "second-class" membership

[30] Ibid. p. 8.
[31] Ibid. pp. 2-3.
[32] See more on this topic in Vida (2012)
[33] See more on the cases of Poland, the Czech Republic and Slovakia in this volume.

Table 2. Possible scenarios for future EU structures proposed by the author

Name of scenario	Content of scenario	Treaty change or new Treaty needed	Strength of scenario	Weakness of scenario
European federation of nation states	Federation would be accepted as a method of EU governance, revised institutional set up, clearer delimitation of competences, more subsidiarity	Yes	More transparent and efficient decision-making, better representation of the EU in the world	No European demos; different national interpretations and little chance for consensus; federation would be incomplete without a genuine fiscal federalism
Two-tier EU	The two-tier model for the euro area would be further institutionalised within the EU institutions and also within the financing system	Yes	More efficient functioning of EMU within the Union with stricter rules and greater chances for fiscal stability	Fragmented EU, institutional and budgetary dividing lines between ins and outs, detrimental to EU integrity and image to the outside world
Streamlined and flexible EU	Revised exercise of competences (in some areas more actions, in others less), enhanced differentiation, more subsidiarity	Not necessarily	Reconciliation of centripetal and centrifugal forces, less bureaucracy, could lead to a more viable integration	Could lead to the erosion of integration
Preserved status quo	The current system would be preserved with mixed modes of governance, no new measures outside the TFEU/TEU framework, more subsidiarity	No	Greater use of existing tools and mechanisms, no split among member states over the future EU structures, improving governance output	Lack of transparency, issues of efficiency and accountability would still be pending

status, therefore the country acceded to all new institutions and instruments. In parallel, Warsaw is committed to abide by the rules on fiscal discipline and to show a sustainable nominal convergence. At the same time – even if it would guarantee a “first class” membership – for internal political reasons it remains highly difficult for Poland to join the euro in the near future.

In its turn, the Czech Republic has been more sceptical about the methods and new instruments of crisis management, especially under the centre-right government. This attitude, accompanied by the outright eurosceptic approach of the former President of the Czech Republic Mr. Václav Klaus, resulted in the country’s abstention from both the TSCG and the Euro Plus Pact. The new coalition government however – led by the social democrats – changed this course, and the current government is prepared to join the Fiscal Compact. Once backed by the parliament, it will certainly be endorsed by the new, pro-EU President, Mr. Miloš Zeman too.

Hungary occupied a place between these two behaviours. The Hungarian government was fully in favour of the Six-pack, whose negotiations (among the member states and then between the Council and the EP) coincided with the Hungarian presidency which has been very successful in bringing the process to an end soon after (under the Polish presidency). Hungary has also been committed to all reforms taken in the framework of the existing Treaties and institutions. At the same time, Budapest has been more cautious vis-à-vis initiatives taken by Germany and France (without prior consultations with the other member states) leading to new structures outside the Treaty framework. In fact, Hungary did not join the Euro Plus Pact as it did not support its objective to harmonise the corporate tax bases of the member countries. On a voluntary basis however, Budapest is willing to cooperate on all other aspects of the Pact, including employment issues, sustainability of public finances or reinforcing the stability of the financial sector. With a view to avoiding a reinforced outsider status and also showing its commitment to sound public finances, Hungary actually signed the TSCG (but most of its provisions will be binding on Hungary only upon its accession to the euro area).

Finally, being a euro-member since 2009, Slovakia did not and will not have any choice but to join all new structures and instruments of a "genuine economic and monetary union". At the same time, this did not happen without conflicts: adhesion to the ESM Treaty, and thereby accepting Slovakia's contribution to the new monetary fund, led to an internal political stalemate and the resignation of the centre-right government led by Ms. Yveta Radicová in 2011.

Table 3. Membership in crisis management instruments by the V4

Name of instrument	Membership by V4
Europe 2020 Strategy	V4
European Semester	V4
Six-pack, Two-pack	V4
Fiscal Compact (TSCG)	HU, PL, SK
Euro Plus Pact	PL, SK
European Stability Mechanism	SK
ESRB, EBA, ESMA, EIOPA	V4
Single Supervisory/Resolution Mechanism	SK+*

*Voluntary joining to the SSM and SRM is possible for non-euro member states too

Despite the mentioned different attitudes and non-homogenous status of the Visegrad countries vis-à-vis those key institutions and instruments, some proposals can still be formulated that could serve as a basis for V4 cooperation in shaping the future of European integration. A common denominator could be the recognition of the EU's already mentioned legitimacy gap and the necessity to do something about it. To close this gap, the EU should make efforts in two dimensions in the near future: it should try to strengthen both its **input** and **output legitimacy**.[34] When considering the future structures and functioning of the EU and formulating the position of the V4 countries on it, these two dimensions should serve as a compass for them.

[34] The concept – widely used in EU studies – was introduced by Fritz Scharpf. Its importance was recently emphasised among others by Schmidt (2013) or Karaman (2013).

On the one hand, there is a need to reinforce the input legitimacy of the Union by strengthening its democratic aspects. In concrete terms it would primarily mean to foster the emergence of a European demos. This could be done, among others, via the creation of a genuine European media supplying EU-related news and offering platforms for debates without taboos and double standards in all EU languages. Also, the EP-elections could and should have been "Europeanized" further. In fact, establishing a clearer link between EP elections and the would-be President of the European Commission by naming the top-candidates, as well as presenting the programmes (manifestos) of the given political group were positive steps in this direction in 2014. The establishment of a European electoral law and of trans-European party lists[35] and the discussion of relevant and topical EU-related issues as well as the confrontation of the different party strategies thereof would be desirable during the electoral campaigns. A clearer link between the elected MEPs and their constituencies should be organised, so that the 751 MEPs could become more accountable to their electorate. To this end new forms of regular personal and virtual encounters should be arranged. Furthermore, the national parliaments should get more intensively involved into European affairs especially via the subsidiarity control mechanism (which was so far used only twice[36] since the entry into force of the Lisbon Treaty). Finally, the more frequent use of the European Citizens' Initiative would also belong to the appropriate tools to bring the EU closer to its citizens in terms of input legitimacy.

On the other hand, it would be equally important to **reinforce the output legitimacy** of the Union. This would primarily mean a reinforced use of subsidiarity, advocated recently also by the Commission's First Vice-President Frans Timmermans, who is actually responsible (among others) for subsidiarity and better regulation. With the help of subsidiarity taken seriously, the EU should focus on

[35] Idea promoted among others by Habermas (2014)
[36] European Commission: http://ec.europa.eu/dgs/secretariat_general/relations/relations_other/npo/subsidiarity_en.htm#procedure

policy areas which really matter for citizens[37] and/or where it can really be more efficient and effective compared to the national, regional or local levels by bringing about an obvious added value. To such issues of a cross-border dimension belong for example the strict surveillance of the financial sector, establishing trans-European infrastructure networks, deepening energy policy, fighting climate change, promoting student exchange programmes, or tackling immigration from outside the EU, etc.[38] Actions by the EU should reflect citizens' expectations tested also via Eurobarometer surveys or channelled in via the members of the European Parliament who would base their suggestions on consultations with their electorates. It would also be important to inform the public on a regular basis about what the EU could achieve vis-à-vis the above mentioned and other challenges that preoccupy the ordinary citizens.

Regarding the unsuccessful/problematic ratification processes of the recent past (Nice Treaty, Constitutional Treaty, Lisbon Treaty) and also keeping citizens' scepticism in mind, coupled with an ever lowering participation in European Parliament elections,[39] it could probably be a good strategy for the V4 countries **to push for more input and output legitimacy before any Treaty change is put on the agenda.**[40] The V4 group, together with other allies could perhaps draw up concrete proposals in both dimensions, first in the framework of the current primary law. Any Treaty change – or eventually a new Treaty – could then be supported with a view to reinforcing those

[37] Among others Simon Hix (Hix, 2008) draws attention to the fact that, based on Eurobarometer surveys, there is often a discrepancy between what the EU is doing at the supranational level (e.g. agricultural policy, trade liberalisation) and what really matters for its citizens (e.g. immigration, education, health care, taxation).

[38] On every day level a positive example would be the lowering of the prices of mobile phone conversations across the Union, while a negative one would be the failed proposal on how to serve olive oil in restaurants. In a more general dimension, of course a more successful crisis management in Greece would have strengthened the EU's output legitimacy while its deadlock magnifies the lack of it.

[39] Turnout at EP elections has been steadily declining from nearly 62% in 1979 to 42.5% in 2014. http://www.europarl.europa.eu/aboutparliament/en/000cdcd9d4/Turnout-%281979-2009%29.html
http://www.europarl.europa.eu/elections2014-results/en/election-results-2014.html

[40] Treaty change may be triggered by pressure from the UK or by other events (e.g. potential Greek exit from the euro area) which would also be a good opportunity for inserting into the Treaty those instruments which are currently outside of it (with special regard to the TSCG).

initiatives which seem to bring about a tangible improvement of the EU's performance. In case the Union's input and output legitimacy are not reinforced in the near future, a deeper Euroscepticism can be expected among EU citizens. Therefore, when reshaping the European Union to enhance its legitimacy, voices from Eurosceptic or simply more critical countries/parties should also be heard and the V4 leaders as well as EU leaders should be more open-minded towards their arguments too.

To sum up, the following aspects might serve as a basis for elaborating future recommendations to the leaders of Poland, the Czech Republic, Slovakia and Hungary, in case this group would be determined to shape the upcoming developments of European integration.

- To stand against ad hoc intergovernmental solutions in strategic decision-making and to be careful about the so-called Union method;
- To stick to the Lisbon Treaty framework;
- To stick to the integrity of the institutions and the acquis;
- To support initiatives for increased input and output legitimacy first within the Treaty framework;
- To elaborate joint proposals for reinforcing the EU's input and output legitimacy;
- To build up a dialogue with those who are more sceptical/critical;
- To support any Treaty change (or a new Treaty) only
  - after some improvements of input and output legitimacy are tangible,
  - if it does not deepen an institutionalised two-tier model;
- To discuss regularly and harmonise interests/strategies vis-à-vis the potential scenarios of future EU structures;
- To play a catalyst role in these discussions by creating a wider alliance network.

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Poland's position on EU governance trends

Elżbieta Kawecka-Wyrzykowska[1]

Introduction

The financial and economic crisis revealed weak enforcement of the Maastricht convergence criteria.[2] The original rules of the Economic and Monetary Union (EMU), as specified in the Maastricht Treaty of 1992 and later elaborated in the Stability and Growth Pact (SGP) of 1997, were adopted under the assumption that governments would conduct responsible economic policies. Surveillance and the risk of fines were expected to be sufficient to force countries to ensure fiscal discipline. Practice has shown that this idealised approach has not been working. The financial crisis that started in Fall 2008, followed by a sovereign debt crisis and deep recession in many countries in subsequent years, has revealed major macroeconomic imbalances, including huge budgetary deficits and public debts in the EU

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2 The weak governance was admitted by the European Commission in one of its recent Communications: "The SGP was insufficiently observed by the member states and lacked robust mechanisms to ensure sustainable public finances. The enforcement of the preventive arm of the SGP, which requires that member states maintain a strong underlying budgetary position, was too weak and member states did not use periods of steady growth to pursue ambitious fiscal policies. At the same time, the debt criterion of the treaty was not rendered operational in practice in the corrective arm of the SGP" (Communication from the Commission 2012, p. 2). The crisis also confirmed that the monetary union of the EU was sub-optimal from the theoretical point of view and did not meet all criteria necessary to conduct a single monetary policy properly addressing the needs of all parts (member states) of the single currency area. In particular, the conditions of flexibility of the labour market (via reduction of real salaries in case of worsened competitiveness or via increased outflow of unemployed workers) and use of fiscal transfers to address problems have not been met (Mundell 1961, pp. 509-517.). Last but not least, the crisis revealed that a number of member states conducted irresponsible economic policy, spending much more money from their budgets than revenues allowed.

economies. In response to the sharp deterioration of fiscal positions and sovereign debt crisis in the majority of member states, EU leaders have been strengthening the EU economic governance framework, in particular for eurozone member states. They have undertaken a number of steps to enhance economic governance.[3]

Among the most important institutional measures is the implementation of a concept of European Semesters and of the Euro-Plus Pact, a reinforcement of the Stability and Growth Pact (SGP) with the so-called Six-Pack and Two-Pack, as well as the entering into force of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union – TSCG (the fiscal part of the TSCG, or sometimes even the whole Treaty is referred to as the "Fiscal Compact"). The assumption was that the entry into force of all abovementioned laws would improve economic and budgetary discipline and its surveillance and ensure longer-term fiscal sustainability.

Since the very beginning, the Polish government has supported all initiatives serving enforced fiscal stability. In general, the position has been that there is *"a need to deepen integration and complete the EMU, with current changes in the institutional framework of the EU being a step in this direction."*[4] The assumption has been that the prerequisite for exiting the crisis is credible, timely and growth-friendly fiscal consolidation.

The thesis of this paper is that Poland has contributed to overcoming the crisis through responsive domestic economic policy and through active support for the adoption of stronger measures of eco-

[3] Kawecka-Wyrzykowska (2013b)

[4] Speech of Mr. J. Dominik, Government Plenipotentiary for the Euro Adoption in Poland at the Conference, see: http://www.mf.gov.pl/en/ministry-of-finance/poland-in-eu/euro-in-poland/events/-/asset_publisher/5djV/content/conference%3A-economic-governance-in-the-eu-euro-area-%E2%80%93-what-lessons-for-poland-warsaw-5-july-2012;jsessionid=C3D93FEE86330979CCDA96B364B22AAF?redirect=http%3A%2F%2Fwww.mf.gov.pl%2Fen%2Fministry-of-finance%2Fpoland-in-eu%2Feuro-in-poland%2Fevents%3Bjsessionid%3D382C96641E3FF3B8D1ED56C58CF2E4A7%3Fp_p_id%3D101_INSTANCE_5djV%26p_p_lifecycle%3D0%26p_p_state%3Dnormal%26p_p_mode%3Dview%26p_p_col_id%3Dcolumn-2%26p_p_col_pos%3D1%26p_p_col_count%3D2

nomic governance at the EU level. This role was particularly visible during the Polish Presidency in the Council of the EU in the second half of 2011.

Implementation of European Semesters in Poland

Basing on the European Council conclusions of June 17, 2010, a new approach towards economic surveillance and a new policy-making timetable were agreed and introduced.[5] EU leaders realised that financial support offered earlier to countries in need (Greece, Portugal and others) is important but not sufficient. Also, macroeconomic ex-ante policy adjustments were necessary to reduce public finance tensions and ensure long-term stability. As a result, the different strands of economic policy coordination have been integrated in a new surveillance cycle, the so-called European Semesters.[6]

The European Semester represents a new approach toward economic surveillance, including a new policy-making timetable. First put into practice during the first half of 2011, it ensures that EU-level economic policies are analysed and assessed together and are suitably covered by economic surveillance. It applies to all elements of surveillance, including fiscal, macroeconomic and structural policies. This new instrument has brought together the previous processes of the Stability and Growth Pact and the Broad Economic Guidelines, including the simultaneous submission of the Stability (or Convergence) Programmes and the National Reform Programmes.[7] The aim is to ensure that all policies are analysed and assessed together and that policy areas which previously were not systematically covered by economic surveillance – such as macroeconomic imbalance and financial sector issues – are included. Since January 1, 2011, EU-level discussions on fiscal policy, macroeconomic imbalances, financial sector issues, and growth-enhancing structural reforms have

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5 COM(2010) 367

6 http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/priorities/economic-governance/index_en.htm.

7 In the past EU institutions discussed economic policies in the spring and examined fiscal policies and developments separately in the autumn.

been taking place before governments draw up their draft national budgets and submit them for national parliamentary debate in the second half of the year (the “national semesters”). This “upstream” policy coordination should make the implementation of policy guidance more effective and help embed the EU dimension in national policy-making. Thus, the intention is to agree upon coordinated actions by EU members before national decisions are taken. The most important element of the whole process sees the Commission assess the plans of the member states and make a series of country-specific recommendations to each of them. These policy recommendations are discussed between member states’ ministers in June, endorsed by EU leaders in July, and incorporated by governments into their national budgets and other reform plans during the National Semester. Then Commission monitors the implementation of policies which member states have agreed.[8]

For every country, including Poland, the Semester provides a good opportunity to revise the country’s economic policy. Altogether, the process contributes to a more stable and pro-development policy.[9]

Polish experience has shown that implementation of the European Semester is a method for fostering coordination of domestic policies and speeding up actions to discipline budgetary balance. It is worth adding, however, that the whole process has become extremely bureaucratic and complex, involving the preparation of a huge number of documents. Some of them overlap and are difficult to coordinate. Also, due to the lengthy preparation times of various documents, the final Recommendations are based on outdated information. At times they do not properly address the sources of problems.[10]

Euro-Plus Pact

In March 2011 the Euro-Plus Pact was adopted to give further impetus to the governance reforms. The pact commits signatories to even stronger economic coordination for competitiveness and conver-

[8] http://ec.europa.eu/economy_finance/economic_governance/the_european_semester/index_en.htm
[9] Toporowski (2013)
[10] Kawecka-Wyrzykowska (2014)

gence, even in areas of national competence, with concrete goals agreed on and reviewed on a yearly basis by heads of state or government.[11]

Originally it was advocated by the French and German governments (and was called the Competitiveness Pact) with the aim of covering only eurozone members. Poland and several other countries expressed fears of deepening two-speed European integration and requested they be included in the initiative. As a result, the original proposal was converted into the Euro-Plus Pact, open to all EU members that endorse the objectives of the agreement. It was signed in March of 2011 by 23 member states, including six that are outside the eurozone (Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania). Later the Euro pact was integrated into the European Semesters.

Apart from measures to foster competitiveness and employment and to enhance the sustainability of public finances, the Pact provides for the possibility of tax policy coordination. Fiscal statements are the most controversial elements of the Euro-Plus Pact.[12] The document recognises that *“…direct taxation remains a national competence”*[13] but *“[p]ragmatic coordination of tax policies is a necessary element of stronger economic policy coordination in the euro area to support fiscal consolidation and economic growth. In this context, member states commit to engage in structured discussions on tax policy issues, notably to ensure the exchange of best practices, avoidance of harmful practices and proposals to fight against fraud and tax evasion.”* In particular, *“…developing a common corporate tax base could be a revenue neutral way forward to ensure consistency among national tax systems while respecting national tax strategies, and to contribute to fiscal sustainability and the competitiveness of European businesses.”* Some commentators consider these statements an important step to reach closer real fiscal integration. Others are more cautious and see such a possibility only in the longer term, if at all. The main element hindering faster fiscal integration is the re-

[11] Euro Summit Statement (2011)
[12] Kawecka-Wyrzykowska (2013b)
[13] This citation and the next come from Annex I to A Pact for the Euro Stronger Economic Policy Coordination for Competitiveness and Convergence annexed to Conclusions of the Heads of the State or Government of the Euro Area, 2011.

quirement of unanimous voting on taxes, which is extremely difficult to achieve among 28 very different EU member states. The consensus rule can be voided by using – under certain conditions – the provisions of the Treaty of Lisbon on enhanced cooperation.[14]

Altogether, the pact is an instrument of coordination of national policies and not of their harmonisation. Its commitments are of a political character and not legally binding. In the medium and longer term their implications can be, however, far reaching. One cannot exclude that coordination will lead to much closer cooperation and harmonisation in new areas. It may be that a formal, fully voluntary process will take place under peer pressure and will induce countries to adopt new commitments, e.g., in the fiscal area. Therefore, since the very beginning Poland has considered it better to be inside this process in order to monitor changes and gradually better integrate with eurozone members, even if the decision to introduce the euro seems quite distant at the moment.

Surveillance of economic and fiscal policies: revised Stability and Growth Pact (Six-Pack)

A much stronger, and practically more important impetus to EU governance reforms was created by the modification of the Stability and Growth Pact (SGP) and adoption by the European Parliament and the Council of six legislative proposals put forward by the Commission in September of 2010. The Six-Pack was adopted on November23, 2011 and entered into force on December13, 2011 with a new set of rules for economic and fiscal surveillance.[15] They aim at strengthening the rules of the SGP, first of all by adopting a quasi-automatic procedure for imposing penalties in case of breaches of either the deficit or the debt ceilings.[16]

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[14] A recent example is the proposal of 11 countries which have been negotiating on the introduction of a financial transactions tax, see: Proposal for a Council Decision authorising enhanced cooperation in the area of financial transaction tax, European Commission, Brussels, 25.10.2012, COM(2012) 631 final/2.

[15] The legislative package was published in: Official Journal, L 306, Volume 54, 23 November 2011.

[16] Kawecka-Wyrzykowska (2013b)

The Six-Pack was adopted under the Polish Presidency, which worked hard for its legal components. Before the February 2011 Summit Meeting Poland presented a document supporting the proposals: *"The Stability and Growth Pact is a vital asset in maintaining a stable EU fiscal framework that promotes economic responsibility. Poland therefore supports the attempt to improve economic governance among the European Union member states provided that there is an increased flexibility in the reform of SGP"*. Thus, supporting SGP reform, Poland opted for "more flexible" ways to achieve the SGP requirements, arguing that "Poland feels countries like itself may need more time and lighter restrictions on debt levels in order to implement desired economic policies requested under SGP". No details of "flexibility" were defined. At the same time, Poland expressed strong opposition to the Commission's proposal of fines for non-eurozone countries breaching SGP rules in the form of withholding EU funds for such countries (see more below).[17]

The legislative package[18] has introduced several important components which are presented below:

a) Stronger preventive action of the SGP. Member states are required to make significant progress towards country-specific, medium-term budgetary objectives (MTO) for their budgetary balances to ensure public finance sustainability. The new rules introduce a cap on the annual growth of public expenditure.
b) Stronger corrective action: The launch of an Excessive Deficit Procedure (EDP) can now result not only from government deficit developments (as was in practice before) but also from breaching the government debt ceiling: member states with debt in excess of 60% of GDP should reduce their debt in line with a numerical benchmark.
c) A new surveillance mechanism aims to identify, prevent and correct divergences in competitiveness and major macroeconomic imbalances between member states. It relies on an alert system

[17] Poland Position for European Union Summit 2011, at: http://jsis.washington.edu/euc/file/Model%20EU%202011/Position%20papers/Economic%20Governance/Position%20paper_Economic_Poland.pdf

[18] http://ec.europa.eu/economy_finance/economic_governance/index_en.htm

that uses a scoreboard of indicators and in-depth country studies, strict rules in the form of a new Excessive Imbalance Procedure (EIP) and better enforcement in the form of financial sanctions for member states which do not follow up on recommendations.

d) Rigorous enforcement. A strengthened enforcement regime has been established for eurozone countries. It consists in the form of "reverse qualified majority" voting. Under this voting system, a Commission recommendation or proposal to the Council is considered adopted unless a qualified majority of member states votes against it (in the Council). Sanctions can also be imposed for twice failing to submit a sufficient corrective action plan. In case of non-euro area members sanctions are possible in the form of suspension of Structural Funds.[19]

Poland under the excessive deficit procedure

Poland has suffered from deficits which exceeded the Maastricht criterion ceiling since it entered the European Union. The high deficit, in excess of the prescribed reference value of 3% of GDP, caused the European Commission to recommend the Council launch the excessive deficit procedure upon Poland's accession in May 2004. The deficit reduction efforts on the part of the government, aided by high economic growth, proved successful: the deficit gradually decreased from 6.3% in 2003 down to 2% in 2007 – by the original deadline for eliminating the excessive deficit, as was established by the Council. It allowed the EU to drop the procedure in July of 2008.[20]

[19] In March 2012, the Council took the decision to suspend Cohesion Fund commitments in the case of Hungary as a result of EDP procedure. The suspension would have taken effect as of January 1, 2013. In June of 2012 this decision was lifted. It was the first time since the Cohesion Fund was established in 1994 that a clause enabling the suspension of commitments for a beneficiary country had been invoked. (Hungary: Council lifts cohesion fund suspension, Council of the European Union, Luxembourg, 22 June 2012 11648/12 PRESSE 278). The current law (under the programming period 2014-2020) even more explicitly provides for the suspension of the totality, or part of, the Fund in the case of an excessive government deficit and an absence of effective action to correct it (Regulation (EU) No 1303/2013, art. 19).

[20] Council Decision (104§12) abrogating the Decision on the existence of an excessive deficit, see: http://ec.europa.eu/economy_finance/sg_pact_fiscal_policy/excessive_deficit9109_en.htm

In 2009 the Ecofin Council (Economic and Finance Ministers of the EU member states) established excessive deficit in Poland once again, as the deficit again increased above the ceiling of 3% of GDP.

Box 1. Excessive Deficit Procedure (EDP)[21]
At the time when the Excessive Deficit Procedure (EDP) was adopted, the assumption was that this procedure should be an essential element preventing "excessive" deficits and public debts and ensuring a sound EU fiscal framework. Practice showed that this was not the case. Enforcement appeared to be extremely weak. The budget deficit ceiling was exceeded many times by member states but no single fine was introduced. Public debt levels were never examined under the SGP as this criterion was not taken seriously. Deficits and debts increased instead of decreased in the majority of EU members and in some of them became a causeof serious economic troubles.
On December 13, 2011, a new set of rules entered into force under the so called "Six-Pack". Their main purpose is to enforce the SGP mechanism. The new rules affect both arms of the SGP, namely the preventive and the corrective arms (EDP). New enforcement mechanisms, including fines, were drawn up for non-compliant euro area member states in order to make the SGP more effective. Also, it is now possible to open an EDP on the basis of the debt criterion.

The deficit was to be reduced to below 3% of the GDP in 2012 at the latest. In 2012 economic growth slowed down and it appeared that this target could not be achieved. In June 2013, the Ecofin Council postponed the deadline for elimination of the excessive deficit by 2 years, i.e., to 2014. This date could not be achieved either and, as a consequence, a new deadline for bringing an end to the excessive deficit was set up for 2015.[22] In November of 2013 the European Commission recognised[23] – based on a report received from the Pol-

[21] Kawecka-Wyrzykowska (2013b)
[22] Council Decision of December 10, 2013 establishing that no effective action has been taken by Poland in response to the Council Recommendation of June 21, 2013 (2013/758/EU), at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0906:FIN:PL:HTML
[23] Commission Staff Working Document: Analysis of the budgetary situation in Poland following the adoption of the Council Recommendation to Poland of June 21, 2013 with a view to bringing an end to the situation of an excessive deficit, available at: http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/other_documents/2013-11-15_pl_communication_swd_pl.pdf

ish Government[24] – that the country had not taken effective action to implement the Council recommendation of June. Taking into account these circumstances, the European Commission found it necessary to define a new deadline for the correction of the excessive deficit.

Following the existing procedure, at the end of April, 2014, Poland adopted and later forwarded to the European Commission and the Council the updates to both the National Reform Programmes and Convergence Programme (Update 2014) (National Reform Programme (2014); Convergence Programme (2014)). The update of the Convergence Programme (2014) contained information on measures taken by Poland in response to the Council recommendation of December 10, 2013. On the basis of the analysis of these documents, the Council issued modified recommendations for economic policy in Poland in the next period.[25]

Thus, it has taken Poland several years to introduce sufficient measures to improve the state budget situation and to exit – hopefully in 2015 – the EDP, partly because of low economic growth. It goes without saying, however, that successive guidelines and peer pressure have sped up government actions to introduce more radical instruments. One of them was the reform of the Open Pension Funds (OFE), which will result in a substantial one-off improvement (surplus) in the Polish budget in 2014. In view of earlier, quite radical measures to improve the public finance situation, very few new elements have been introduced into the Recommendation of 2014 as compared with the assessment of the previous year, except for two things. One new element is a proposal for a Tax Council. Such tax councils exist in several EU members but are not prescribed by EU law. A debate on the usefulness of such a body, its functions, effectiveness, etc., has begun in Poland. Also, the Commission deleted the recommendation to introduce the stabilising expenditure rule on a permanent basis, as this proposal was introduced by Poland in 2013.

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[24] Information on measures undertaken by Poland in order to implement the recommendations of the Council pursuant to Art. 126.7 of the Treaty on the Functioning of the European Union of June 21, 2013. This information was prepared in accordance with The Stability and Growth Pact which requires countries subject to the excessive deficit procedure to provide EU institutions with—and publish reports on—measures undertaken in connection with the Ecofin Council recommendations.

[25] Council Recommendation (2014)

Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG)

The treaty is called the Fiscal Compact (or fiscal pact) for short. The main goal of the Fiscal Compact is to foster fiscal discipline, notably in the euro area, building on and enhancing the reinforced SGP. Besides the fiscal part, the treaty includes a fostering of economic policy coordination and convergence, as well as measures related to euro area governance. As two member states were not willing to adopt the TSCG, the new rules took the form of an intergovernmental agreement among the contracting parties. After ratification in member states the treaty entered into force on January 1, 2013.

The treaty has confirmed commitments undertaken in the Six-Pack which entered into force in form of regulations (thus, they should be binding for member states, without the possibility of introducing changes in the process of transposition into domestic legal systems, which is sometimes the case with directives).

The reforms provided for by both sets of laws (Six-Pack and TSCG) have resulted in a substantial reinforcement of the mutual surveillance framework of EU member states. Some solutions are stricter under the TSCG, e.g., an automatic correction mechanism, lower structural deficit ceiling, risk of the Court of Justice fines. A new element holds that under the TSCG budget rules shall be implemented into the national laws through provisions of *"binding force and permanent character, preferably constitutional"* (Art.3(2)).[26]

The main difference seems to be the very fact that the provisions entered into force in the form of an intergovernmental agreement which has not been endorsed by all member states (the UK and the Czech Republic have decided not to sign and ratify the treaty). Such a solution has a number of implications. It is a step toward having more solutions in the EU on the basis of the intergovernmental instead of the Community method. The result is different rules for signatories and for countries staying outside this concept. If such a solution becomes more popular in the future, the model of a several-speed EU will be reinforced, at the expense of poorer EU members.

[26] Kawecka-Wyrzykowska (2013a)

Poland's ruling coalition and most of the country's Eurodeputies supported the government's decision to join the new European fiscal treaty on tighter budget discipline as a step in the right direction. But the opposition has attacked what it described as a step that undermines Poland's sovereignty. It is worth briefly presenting these different opinions as they illustrate a quite strong scepticism about EU affairs in Poland, which currently negatively affect the country's chances for quick euro adoption, and in the future may result in shrinking role for Warsaw in shaping European integration projects (e.g., should the political opposition win in the next parliamentary elections scheduled for Autumn 2015).

"The main assumptions of the fiscal treaty indicate that Poland is at the core of the European Union," said Jerzy Buzek, former President of the European Parliament. He emphasised that the outcome of the summit was good for Poland and several other non-eurozone members. In his words: *"We wanted very much to have the eurozone repaired, so as to help Greece and possibly other countries... although we are not taking part directly in this assistance and we are not incurring financial burdens."*[27] *"Today, Poland is fully taking part in all preparations for a new eurozone, its restructuring, as well as action designed to prevent crises from recurring in the future. This is extremely important,"* added Mr. Buzek.

Danuta Hübner, head of the European Parliament's committee for regional development, said that at the summit Poland managed to reverse a trend toward replacing European integration with eurozone integration. In her opinion, the provision that competitiveness problems will be discussed at summits attended by all signatories of the treaty is of key importance.

"The choice of whether or not to sign an imperfect fiscal treaty was tantamount to a strategic choice between taking or not taking part in Europe's decision-making process," said Janusz Lewandowski, the EU commissioner for financial programming and the budget. In his view, the significance of the EU summit went well beyond the content of the fiscal treaty adopted by the 25 leaders. *"This is a decision with*

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[27] For all citations on the Fiscal Compact presented below see: http://www.warsawvoice.pl/WVpage/pages/article.php/24574/article, 23 February 2012

long-term consequences for the future of the EU. And the rationale of signing it and of the pact itself should be assessed from a strategic perspective rather than in terms of its economic meaning," Lewandowski said. "The content of the pact is imperfect and unsatisfactory. But Poland and other signatories of the treaty will be taking part in all meetings about issues reaching beyond eurozone problems," he added, stressing that Poland will take part in the decision-making process and will have an influence on important issues, for example finances.

"Joining the fiscal pact, Poland, as a non-eurozone country, is not obliged to and will not submit itself to the sanctions resulting from the pact's provisions on financial penalties for excessive deficit," Mikołaj Dowgielewicz, Poland's minister for European affairs, said after the summit. *"These rules apply to eurozone countries. No country outside the eurozone is obliged to comply."*

But opposition politicians disagreed. Jarosław Kaczyński, leader of Poland's largest opposition party, Law and Justice (PiS), said that the decision to join the treaty undermines Poland's sovereignty and increases its dependence on the EU's big players, especially France and Germany. J. Kaczyński praised Britain and the Czech Republic for their *"courage and far-sightedness"* in refusing to sign up.[28]

The real "fight" on the Fiscal Compact took place in the Polish Parliament during the ratification process.

The government qualified the Fiscal Compact as "an international treaty closed between some of the EU member states, outside of the EU's framework" and as "supplementing EU Treaties".[29] In its draft Ratification Act the government proposed Art. 89 (1) of Poland's Constitution as a legal basis for the ratification of the Fiscal Compact.[30] The majority of Parliament was in favour and, on July 24, 2013, on

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[28] http://www.warsawvoice.pl/WVpage/pages/article.php/24574/article, February 23, 2012

[29] In the case of the Fiscal Compact, opposition MPs and Senators (PiS and SP) argued for a higher, two-thirds majority vote, yet Art. 90 PC was not applied as a legal basis in the ratification of the Fiscal Compact.

[30] Under this Article ratification of an international agreement is based on Art. 120 of the Constitution of the Republic of Poland: "The Sejm shall pass bills by a simple majority vote, in the presence of at least half of the statutory number of Deputies, unless the Constitution provides for another majority." The opposition argued that Article 90 of the Constitution should be applied, which requires a two-thirds majority vote in both chambers of the Parliament.

the basis of this affirming vote in Parliament (in both chambers), the President signed the Ratification Act.[31]

Before it happened, the opposition MPs tried to block the ratification. They prepared a motion for the rejection of the Ratification Act, which was rejected by the majority of MPs. The main arguments of the opposition were as follows:

(a) the Fiscal Compact divides the EU member states and destroys the unity of EU law (is outside of EU law regime, but uses EU institutions);
(b) the Euro Summits do not give Poland the same voice in debates as in the Ecofin Council;
(c) the Fiscal Compact and its ratification process are contrary to the Polish Constitution;
(d) the excessive deficit procedure in the Fiscal Compact impacts the competence of Polish state organs;
(e) the Balanced Budget Rule and its sanctions are causing some asymmetries (namely, the penalties imposed on Poland would be paid to the Commission, whereas the penalties of the eurozone members would be paid to the Fund, from which Poland will not benefit);
(f) the Fiscal Compact creates a possibility that Poland may be taken before the ECJ by another member state. In general, the PiS opposition criticised the Fiscal Compact as a part of the "pseudo-democratic European federation".[32]

In March of 2013 a group of opposition (PiS) MPs lodged an application to the Constitutional Court asking for a constitutional review of both the Ratification Act of the TSCG and the TSCG itself (under the ex-post constitutional review procedure).[33]

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[31] Out of 438 MPs attending, 282 voted in favour (governing majority PO and PSL and left-wing opposition SLD and RP, as well as 2 independent) and 155 against (conservative opposition PiS and SP, 1 independent) and 1 abstained (PSL). The Senate did not introduce any amendments and approved the Ratification Act. Out of 83 senators attending, 57 voted in favour, 26 against.

[32] http://eurocrisislaw.eui.eu/topic/fiscal-compact/

[33] In Poland, ex-ante review is available only on the request of the President who may, before ratifying an international agreement or before signing a bill, refer to the Constitutional Court with a request for the constitutional review of such treaty or bill.

On June25, 2013, the Constitutional Court decided to discontinue its proceedings with regard to the constitutional review of the TSCG on formal grounds, namely because the request for constitutional review by the MPs was lodged before the Ratification Act became a binding law.[34] As Poland is not a euro area member yet, the Treaty is binding for the country but its application is postponed to the moment of the abrogation of the derogation (Art. 14(5) TSCG).[35]

The practical effect is that Polish representatives have been granted the possibility to participate in euro area summits on competitiveness and debates on general changes affecting the eurozone. It is an opportunity to be better informed on any measures that might be introduced in the area using the single currency. For Poland, as a country aspiring for euro membership, such an opportunity means a great deal as it allows for better ex-ante preparations.

Poland’s position on the adoption of the Euro

Under the Accession Treaty Poland has a status of a “Member State with a derogation” (Art. 139 of TFEU). It means that it has committed itself to adopt the euro after fulfilling all necessary criteria, first of all the Maastricht criteria of nominal convergence.

Of course, meeting the nominal Maastricht criteria is not enough. The higher the real convergence of the Polish economy on the day of euro adoption, the more stable and secure the situation of the economy will be in the following period. Poland should be able to remain competitive without nominal exchange rate depreciation even in the event of large adverse shocks. Without close economic con-

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[34] MPs lodged the application for constitutional review after the Parliament had approved the ratification of the TSCG but before the ratification of the treaty by the President. Thus, according to the Constitutional Court, the application for the ex-post constitutional review was lodged too early. Hence, ex-post review was excluded. The ex-ante review was also excluded, because the President did not demand it. Therefore, the Constitutional Court decided only on the constitutionality of the procedure leading to the approval of the TSCG by Parliament and did not review the TSCG. Several members of the Court did not, however, support, this decision.
See: http://polska.newsweek.pl/trybunal-konstytucyjny--ustawa-o-ratyfikacji-paktu-fiskalnego-zgodna-z-konstytucja,105761,1,1.html

[35] In the view of the MPs, Article 26 of the Vienna Convention of the Law of Treaties (Pacta sunt servanda) creates an obligation to observe and perform the TSCG in good faith.

vergence of Polish economy to the better-developed EU countries there is a risk of a number of problems including that of a strong Balassa-Samuelson effect and loss of price competitiveness of Polish products and services.[36]

Thus, in the medium and long term, the key role will be played by structural reforms, going far beyond the public finance sector. They include first of all increased flexibility of the labour market, improved business environment, upgrading of transport infrastructure, an increased role for innovations in economic development, etc. Such reforms are necessary to ensure sustainable growth and longer term competitiveness of the economy.

However, according to Polish representatives, recent turbulence in the euro area has shown that another vital condition for the introduction of the single currency in Poland is the stability of the euro area itself. Thus, the government aims to achieve this goal as soon as the necessary conditions of secure euro area membership are met: *"...the issue of euro adoption in Poland has become highly conditional on the enforcement of the economic governance enhancements in the EU, which are of utmost importance for boosting the stability of the euro area as a whole."*[37]

Representatives of the government have also stressed that from the point of view of countries with a derogation, most of which can be classified as catching-up economies, emphasis should be put on the issue of differences in interest rates between those countries and the developed member states.[38] Bearing in mind those differences as well as the centralisation of monetary policy decisions in the euro area, it seems reasonable to leave at least some scope for country-

[36] As some countries have to meet the convergence criteria in the catching up framework, the European Economic Advisory Group in its report advices the introduction of a "Balassa-Samuelson rebate" (maximum 1 percentage point) for the inflation criterion; this rebate would provide more elasticity to reach the reference rate for countries with lower levels of economic development [EEAG (2007)].

[37] http://www.mf.gov.pl/en/ministry-of-finance/poland-in-eu/euro-in-poland/events/-/asset_publisher/5djV/content/conference%3A-economic-governance-in-the-eu-euro-area-%E2%80%93-what-lessons-for-poland-warsaw-5-july2012;jsessionid=C3D93FEE86330979CCDA96B364B22AAF?redirect=http%3A%2F%2Fwww.mf.gov.pl%2Fen%2Fministry-of-finance%2Fpoland-in-eu%2Feuro-in-poland%2Fevents%3Bjsessionid%3D382C96641E3FF3B8D1ED56C58CF2E4A7%3Fp_p_id%3D101_INSTANCE_5djV%26p_p_lifecycle%3D0%26p_p_state%3Dnormal%26p_p_mode%3Dview%26p_p_col_id%3Dcolumn-2%26p_p_col_pos%3D1%26p_p_col_count%3D2

specific macro prudential policy. Maximum harmonisation in terms of financial sector supervision may hinder member states' efforts aimed at fostering the stability of their financial sectors, especially in terms of preventing (or reacting to) boom-bust cycles after having adopted the euro.

As a candidate for euro area accession, Poland is strongly interested in playing an active role in discussions on new rules that are to be obeyed by Poland in the future, after adopting the common currency (as confirmed by signing and ratifying the TSCG).

Apart from nominal and real convergence, there is also a problem of domestic politics. Adopting the euro requires a change in Poland's constitution. This can be enacted by a two-thirds majority in parliament. Public discussions and opinion polls show the majority of voters do not back euro adoption. According to surveys, public support for joining the euro is as low as 12%.[39] The constitution will need to be changed, though there is no legal requirement to hold a referendum. In this situation, an important and necessary task for the government that decides on introducing Poland into the euro area will be to prepare society for replacing the zloty with the single European currency. Without restoration of public support it will not be possible to reverse the present situation and get the support to change the Constitution. Also, it is impossible to imagine preparations for euro adoption should an significant part of society be against it: they could risk de-stabilisation of the domestic political situation.

As a final conclusion, let us say that in the present context, preparations for euro membership, including proper economic policy to meet the Maastricht criteria, are more important than the concrete date of euro area entry. After the worsening of the political situation in Europe as a result of the annexation of Crimea by Russia, a new

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[38] http://www.mf.gov.pl/en/ministry-of-finance/poland-in-eu/euro-in-poland/events/-/asset_publisher/5djV/content/conference%3A-economic-governance-in-the-eu-euro-area-%E2%80%93-what-lessons-for-poland-warsaw-5-july-2012;jsessionid=C3D93FEE86330979CCDA96B364B22AAF?redirect=http%3A%2F%2Fwww.mf.gov.pl%2Fen%2Fministry-of-finance%2Fpoland-in-eu%2Feuro-in-poland%2Fevents%3Bjsessionid%3D382C96641E3FF3B8D1ED56C58CF2E4A7%3Fp_p_id%3D101_INSTANCE_5djV%26p_p_lifecycle%3D0%26p_p_state%3Dnormal%26p_p_mode%3Dview%26p_p_col_id%3Dcolumn-2%26p_p_col_pos%3D1%26p_p_col_count%3D2

[39] http://mobile.reuters.com/article/worldNews/idUSBRE89N10P20121024

element has appeared as a factor in euro adoption. Some voices claimed that, in a new situation, the economic criteria should not be required with great precision and that fast adoption of the euro would enhance Poland's security. They seem to have gained support from the National Bank of Poland governor, Mr. Marek Belka who said that events in Ukraine had made him more positive on the benefits of Poland accepting the single currency.[40] Of course, there is still a long distance between such a statement (and a very general position on the euro) and the final euro changeover.

Fiscal union concepts

In November of 2012 the European Commission presented the document "Blueprint for a Deep and Genuine Economic and Monetary Union" which describes the necessary elements and the steps towards a full banking, economic, fiscal and political union, including the concept of a euro area budget: "*in the long term (beyond 5 years), based on the progressive pooling of sovereignty and thus responsibility as well as solidarity competencies to the European level, the establishment of an autonomous euro area budget providing for a fiscal capacity for the EMU to support Member States in the absorption of shocks should become possible.*"[41] Also, a banking union has been suggested by the Commission. Such a union: "would be able to end the disintegration of the EU's financial market and ensure reasonably equal financing conditions for households and business across the EU; it would help sever the negative feedback loops between Member States and banks."[42] Any such decision, however, will be difficult politically, taking into account high oppositionin member states vis-à-vis EU level fiscal federalism.

There is a widespread opinion that in order to survive, the EMU needs more fiscal discipline at the national level.[43] In this context ef-

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[40] http://www.reuters.com/article/2014/03/27/us-poland-cenbank-osiatynski-idUSBREA2Q1CV20140327

[41] Communication from the Commission (2012), p. 12.

[42] Communication from the Commission (2012), p. 12.

[43] The problem does not exist at the EU level because – under the treaty – the EU has to run a balanced budget.

forts to strengthen fiscal surveillance rules under the revised Stability and Growth Pact and TSCG as well as other decisions presented above and reinforcement of both "preventive" and "corrective" arms (including automatic and meaningful sanctions) under those laws are usually assessed as a move in the right direction. A few economists, including Ch. Wyplosz, argue, however, that such solutions will never work efficiently. The reason is that *"…fiscal discipline is and remains a deep-seated national prerogative of each national government and parliament… The pact never worked and cannot work because it presupposes that a sovereign government can be told what to do with its budget. Eurozone governments should not waste time trying to strengthen the Stability and Growth Pact. Strengthening means adding sanctions but sanctions cannot be really imposed on democratically elected governments."*[44] According to Ch. Wyplosz, fiscal discipline should be enforced by new national institutions. The responsibility of national institutions and laws for observing fiscal discipline has been included in the recently signed Fiscal Compact and is already in force as a constitutional requirement in several countries (as a constitutional ceiling for government debt together with automatic mechanisms to correct divergences from these rules): e.g., in Poland since 2007[45], in Germany since 2009, and in Slovakia and Hungary since 2011 (in Hungary a debt break amounts to 50% of GDP).

Instead of strengthened national rules, some economists propose constraints on fiscal discretion imposed, monitored, and enforced by an independent fiscal policy council.[46] They argue that governments are unable to maintain fiscal discipline because either they abandon the rules due to political demands, or they conduct a highly pro-cyclical policy during downturns, thereby further exacerbating the reduction of demand during recessions. Independent fiscal policy councils would act as an anchor that helps governments ensure sustainability.

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[44] Wyplosz (2010), p. 35.

[45] This constitutional rule is one of the reasons Poland has avoided breaching the 60% of GDP ceiling for public debt, despite regular political pressures to increase public expenditure in order to "support economic growth". The 60% debt break rule was introduced in Poland in 1997, when the new constitution was prepared, to adjust the country to the anticipated EU accession.

[46] Fatás – Mihov (2010), p. 69.

Others argue for the necessity of closer political union, which entails a major uploading of budgeting and receipt powers to a federal EU executive and legislature. At the same time, they usually admit that a full political union seems unrealistic in the short and medium term. In this context, a more pragmatic approach has been presented by P. de Grauwe, who argues that *"…the survival of the eurozone depends on its capacity to embed itself into a political union … But a full political union seems unrealistic for the foreseeable future, as it would imply a significant transfer of spending and taxing powers to a central EU government and parliament."*[47] In such a situation, enforcing the SGP may be a necessary condition for preventing future crises, but it is far from sufficient. According to Prof. de Grauwe, *"[t]he domain of the Stability and Growth Pact must be broadened: it must include the monitoring of private debt developments as well as public debts."* This would be the minimum ingredient of a political union that can keep the eurozone alive in the long run.

Assessing successive agreements aimed at stronger governance in the eurozone and in the EU as a whole, it is worth noting that no law adopted thus far charts a path out of the crisis.[48] On the contrary, rigorous fiscal adjustments, as recommended by the EU and IMF, have delayed – according to many opinions – the pickup of growth in countries with the deepest problems, especially in Greece. In this context, it is important to stress once again that the austerity measures implemented by most European countries to counter the debt crisis are not sufficient and their continuation may worsen the situation. This is partly related to the unclear sensitivity of GDP changes to fiscal instruments (via the mechanism of the so-called fiscal multiplier: see Box 2). A mix of enforcement of recently adopted laws and the right macroeconomic solutions might be necessary. In parallel to measures aimed at restoring confidence in sovereign debt markets, new efforts to speed up economic growth are indispensable.

[47] The latter must imply some transfer of sovereignty in macroeconomic policies and the organisation of automatic solidarity between member states (see: De Grauwe 2010, p. 29.).
[48] The very general Europe 2020 Strategy, with no binding financial or other instruments, cannot play this role.

Box 2. Effects of the fiscal consolidation on GDP changes[49]
In January of 2013, on the basis of a publication by O. Blanchard, chief IMF economist, and his associate D. Leigh, a heated debate started on the so-called fiscal multiplier and the effects of fiscal consolidation upon aggregate output. The fiscal multiplier is usually defined as the change in real GDP that is produced by a shift in fiscal policy equal to 1% of GDP. Most economists prior to this paper assumed the fiscal multiplier to be about 0.5. This would mean that government spending cuts equal to 1% of GDP would reduce actual GDP in the coming year by about 0.5%. According to the findings of the two authors, based on data for 28 economies, actual multipliers in several recent years were higher, in the range of 0.9 to 1.7. Thus, the conclusion should be that with such high fiscal multipliers, the fiscal adjustments (in the form of deep budgetary cuts and tax increases) suggested by the IMF and applied by a number of countries (i.e., in Greece and Portugal) could not improve the economic situation. On the contrary, they have resulted in a deeper production decrease and unemployment increase. The authors say that more work is needed to examine the causes of this failure of multiplier assumptions. They also add that their results need to be interpreted with care. As suggested by both authors, theoretical considerations and the evidence in empirical papers show that there is no single multiplier for all times and all countries. There is no doubt that this paper has intensified the earlier discussion on whether tight fiscal adjustments contribute to economic recovery or instead result in deeper recession through the effects of the fiscal multiplier.

Poland's changing role in the EU

Since EU accession in 2004, Poland's ambition has been to rank amongst the key players of the EU. However, only in the past few years has Poland been able to play an important role in many discussions and initiatives, mainly due to its relative domestic economic stability (Poland was the only EU country to avoid recession in 2009 and to record relatively good economic indicators and fiscal stability), which was in contrast to other EU members' deep instability. Poland's potential was revealed at the time when the stakes were the highest.[50]

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[49] Blanchard – Leigh (2013)
[50] Parkers (2014)

Throughout the debates over EU crisis management and required reforms, Poland's desire was first of all to overcome the crisis and to stop it from deepening. At the same time, Poland strived to accede to the inner circle of EU decision-making. In the second half of 2011 Poland held the Presidency in the Council of the EU. This was a time when Poland expressed its strongest support for closer EU cooperation and strengthened its position in the EU as a clever negotiator and a supporter of deeper integration. It presented a number of initiatives and worked hard during the 2011 Presidency to coordinate the activities of plenty of committees, institutions and other EU members' proposals. Its relative success was highlighted by its participation in 2012 as the sole "new" (not so new at that time) member state involved in drawing up a report of the so called Future of Europe Group, composed of 11 foreign ministers.[51] Also, the earlier described active role of Poland in shaping the Euro-Plus Pact and other EU-wide initiatives has confirmed this ambition. An important achievement, apart from the adoption of anti-crisis measures (Six-Pack), was the initiation of a debate on economic growth and deepening the European single market.[52]

It was not a coincidence that the first priority of the Polish Presidency was "European integration as a source of growth."[53] In the introductory part of the Program of the Presidency, Poland declared that *"…the European Union is changing at a pace and scope not seen for a long time. The economic crisis – the underlying cause of these changes – has also demonstrated the strengths of European integration. By pulling together, Europe has overcome the shock wave of the crisis."*[54] This was a clear message that Poland identified European unity and further integration as the way to overcome the crisis. Moreover, the Polish Presidency has confirmed successful efforts in assuring the integrity of the European Union by avoiding division between members of the euro area and other EU countries. Poland's role during its Presidency is well illustrated by the following opinion:

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[51] Parkers (2014)
[52] Parkers (2014)
[53] Two other priorities were "Secure Europe" and a "Europe benefiting from openness" Przybylska-Maszner (2013).
[54] Ministry of Foreign Affairs (2011)

The Polish Presidency was a period of initiatives and activities taken in order to improve the regulation and supervision of member states’ financial markets and develop the principles of crisis management. Being outside the eurozone, and to a large extent not suffering from the crisis, Poland found it highly difficult to perform its tasks. It became its goal to act as a broker of the “Six-Pack”, its endeavors were concentrated on preventing divisions between Union states, and maintaining Poland’s influence on decisions, as illustrated by the metaphor that *“Poland [had] its foot in the door, so as not to let it close and separate states.”* Importantly, Poland’s options were limited, because despite his formal Presidency over the EU Economic and Financial Affairs Council, Polish Finance Minister Jacek Rostowski was not invited to the meetings of ministers of the Eurogroup. It should be emphasized that Poland did not play first fiddle in the matters of crisis management security. Given the economic crisis, the primary role in the debate was played by European institutions, led by the duo of the presidents of the European Commission and European Council, and the French-German tandem. Poland’s role was limited to organizing numerous important meetings and administering their agendas.[55]

The EU Council Presidency held by Poland between July and December 2011 came at a very difficult time when all EU institutions and member states looked for remedies to the implications of a deep financial and economic crisis. Another analyst noticed that, being outside the eurozone, Poland helped to overcome the eurozone crisis and stabilise the situation in the whole EU. The best example was the Six-Pack, which Poland helped to negotiate. Even if many of Poland’s proposed priorities were overshadowed by developments in North Africa (the Presidency coincided with revolutionary changes in Arab states: Tunisia, Egypt and Libya) and difficulties of the eurozone, the country succeeded in making its voice heard and providing sound management of EU issues.[56]

A broader reflection on the EU’s future and Poland’s position on it found its expression in a speech delivered on November 28, 2011,

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[55] Przybylska-Maszner (2013)
[56] Parkers (2014)

in Berlin at the German Society for Foreign Affairs, by Foreign Minister Radosław Sikorski, entitled "Poland and the Future of the European Union".[57] In his address, Mr. Sikorski underlined the need to deepen the integration of the EU in economic matters, preferably through European federalism. He also requested Germany take the lead in solving the euro crisis.[58]

According to Mr. R. Sikorski, European institutions need to be stronger. *"The European Commission needs to be stronger. If it is to play the role of an economic supervisor we need commissioners to be genuine leaders, with authority, personality – dare I say charisma – to be true representatives of common European interests."*[59] He added that to be more effective, the Commission should be smaller. European institutions need, however, to have more democratic legitimacy. Equally important for Poland is that coherence between the euro area and the EU as a whole be maintained. The minister clearly said that EU institutions must remain central, which was a clear show of support for the Community method of work, as opposed to intergovernmental method.

Conclusions

The recent crisis was the most serious since the Great Depression, which started in 1929. Thanks to relatively good economic management, inflow of EU funds, flexible domestic currency and a large domestic market, the Polish economy has performed relatively well throughout the entire financial crisis and since. Poland has been, however, deeply worried that the crisis might remove the export source of growth and reduce the country's role to the status of a "second-class member" of the EU, outside the eurozone and not consulted on laws which will affect its future. To avoid such a situation, the government has supported successive initiatives to strengthen economic governance in the EU, including European Se-

[57] Polonia.pl (2011)
[58] "The biggest threat to the security and prosperity of Poland would be the collapse of the eurozone. And I demand of Germany that, for your own sake and for ours, you help it survive and prosper. You know full well that nobody else can do it."
[59] Polonia.pl (2011)

mesters, the Euro-Plus Pact and the Fiscal Compact, and to reduce the risk of a future crisis. Poland has worked to contribute to this task through – among other things – joining the initiatives presented by other actors, putting forward its own initiatives and trying to meet more and more demanding requirements of fiscal stability. Moreover, the Polish Presidency was marked by successful efforts in assuring the integrity of the European Union by avoiding division between members of the euro area and other EU countries.

The foundation of Poland's European policy is its participation in decisions about the future of integration in order to prevent future crises and to enhance benefits from EU membership. The main challenge to continue and strengthen this role is that Poland is outside the eurozone which takes important decisions. To put it differently: all Poland needs to do to be included in the decision-making is to join the common currency. But it is exactly this task that is unrealistic in the near future (see section on euro adoption). The other obstacle to continuing this policy would be the change of the governing coalition after the parliamentary elections to be held in Autumn of 2015. As already mentioned, the strongest opposition party (PIS) is much more sceptical about the EU and critical as regards the deepening of integration. One of the lessons of the recent difficult times is that international cooperation and coordination on various issues is of utmost importance. By pulling together, the EU countries have managed to overcome the deepest wave of the crisis.

There are divergent opinions on the efficiency of the economic governance initiatives and actions adopted recently by the EU or eurozone members. Some observers consider them the right solution, sufficient to ensure stability of the eurozone – under the condition that the new mechanisms are observed rigorously. Others criticise those solutions from two opposite angles: either they call for more stringent rules of the SGP, including external independent control of the application of the SGP, or they argue for giving up SGP rules as politically unworkable and for the adoption of stronger national institutions to effectively control national fiscal discipline.

Even those who accept the recent strengthening of economic governance in the EU are aware of the fact that there is no guarantee the new solutions will work better than the previous laws. The tricky issue is that the final decisions, including those under the TSCG, are still subject to political considerations to be taken into account by the Council. Much will also depend on the progress of implementing and applying the national constitutional requirements as provided for in the TSCG. Also, reverse voting in the Council provides a chance for a more pragmatic, economically justified use of the modified SGP. Faced with a lack of political will to move forward into a political union, the new governance mechanisms and their rigorous enforcement seem the only realistic approach to ensure fiscal stabilisation and keeping the eurozone alive in the short and medium run. The key structural reforms lie in the hands of the national governments. Coordination of economic policies is a useful instrument encouraging governments to take care of their fiscal equilibrium and structural reforms. At the same time, however, it is not a sufficient instrument to force appropriate reforms upon the member states.[60]

A big challenge – apart from the necessity to continue structural reforms and properly enforce the new principles of economic governance – is that different EU actions to increase the credibility of fiscal policies and to enhance stability of the financial sector of the EU member states have resulted in fragmentation of the EU, or in multi-track EU. Successive laws cover different groups of EU member states (in particular the Euro-Plus Pact and the Fiscal Compact) and provide for different solutions for individual groups of EU countries. For weaker partners there is always a risk of being deprived of some privileges negotiated by the stronger partners. Also, the very fact that their legal basis is not the same (EU treaties versus intergovernmental legal basis) makes the future of the EU more unpredictable.

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[60] Toporowski (2013)

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The Czech Republic's position on EU governance trends

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This paper aims at providing an analysis of Czech views on the current developments in EU and Eurozone governance. It is based on the input paper by Krisztina Vida called "EU governance trends – dilemmas and recommendations for the Visegrad countries".[2] It analyses the EU strategy of the Czech Republic, its official position, as well as the positions of main stakeholders towards the newest developments in EU and Eurozone governance. It also strives to identify interests and positions of the Czech Republic regarding possible directions of European integration.

Introduction – What kind of Member State is the Czech Republic?

The Czech Republic entered the European Union 10 years ago in 2004, together with other seven post-communist states. This step concluded a process that started already in 1989 during the Velvet revolution in Czechoslovakia. One of the main slogans of this revolution was "Return to Europe". Czechs always considered themselves part of the Western hemisphere, thus Euro-Atlantic integration was a natural step after the start of democratic transition. There was a nation-wide consensus on the importance of becoming a member of the European Union throughout the nineties. Only a few marginal

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[2] Vida (2013)

political forces challenged this resolution. The Czech integration process went relatively smoothly thanks to several facts:

1) as mentioned above, membership in the EU was a shared goal of main political actors,[3] whether they came from the left or right part of the political spectrum;
2) the country avoided a backlash against democracy as was witnessed in other countries – e.g., Slovakia;
3) the country did not have to deal with minority rights issues like most of the other post-communist states; 4) the Czech economy was doing relatively well during the transition process, maintaining stable growth and avoiding major economic turmoil.

Nowadays, the Czech Republic is considered a Eurosceptic country by many. Roots of Euroscepticism date back to the accession process when part of the political elite started to challenge not the integration process as such, but the conditions of accession negotiated by the government. However, all the parliamentary political parties (except the Communists, who did not offer any recommendation) supported the yes vote in the referendum on EU accession. The position of the Czech population in the referendum was clear. With 55% turnout, 77% of Czech participants voted for EU membership. However, the accession process itself was a very difficult and demanding process, and politicians failed to provide citizens with all the details and consequences of this project. Fatigue of citizens from the long-term process of profound reforms had an immediate result in the first elections to the European Parliament, when electoral turnout reached only 28% and the political forces that led the country into the EU (mainly Social Democrats) suffered electoral defeat. The trend of very low electoral turnout in the European Parliament elections continued in 2009 (the same turnout as in 2004) and especially in the latest elections in 2014, when it reached only 18%. This was the lowest turnout in the whole European Union apart from Slovakia. The above-mentioned number confirms that Czech citizens consider European Parliament elections second-class and unimportant.

[3] The only relevant political force that had a rather negative or ambiguous attitude toward EU integration was the Communist party. However, even this party refrained from advocating a no-vote in the EU membership referendum.

In the first five years after EU accession, the Czech public was very positive in its position on whether EU membership was beneficial for the country. Citizens started to enjoy the advantages of EU membership, such as free travel without border controls, and freedom to study, work and do business in any EU member state. They also witnessed projects in their communities supported from EU funds. Support for EU membership was highest during the Czech presidency in the Council of the EU in 2009 (69% in favour), when EU-related issues received very broad coverage in media. Starting 2009 support for EU membership among Czech citizens began to drop quickly. It reached its lowest point so far in November of 2014, when only 45% of Czech citizens said that the country faces a better future inside the EU, while 44% said the opposite. This negative trend can be explained as mainly a consequence of the economic crisis in the European Union and Eurozone, when citizens began losing the belief that the EU can overcome the crisis. They were also generally much more critical about their own situation, the situation in the Czech Republic and consequently in the EU. Another important reason for the drop in support for EU membership was a very negative political discourse that dominated public space, led by former Czech president Vaclav Klaus (this will be analysed in the next part of this paper).

The Czech Republic has not always behaved as a predictable and responsible partner in the European Union. Whether the long delay in ratifying the Lisbon Treaty, or the refusal to sign the Fiscal Compact, these were steps that the country could not credibly justify to its partners and which often cast the country in the position of an outsider. The Czech Republic was generally perceived during the government of Prime Minister Nečas as a country with a rather negative approach to the deepening of European integration, which was (in addition to refusing the introduction of the common currency or the bank union) also demonstrated by its unwillingness to engage in certain projects of enhanced cooperation (a tax on financial transactions or the harmonization of divorce law). In terms of influence in the European Union the country – with only the exception of the Presidency and a few initiatives in foreign policy – cannot boast that it is able to introduce new agendas and promote its initiatives.

Domestic political framework

EU strategy

According to programmatic documents, the EU agenda has been a priority for all Czech governments that have ruled the country since EU accession in 2004. In the first five years after EU accession Czech governments focused on preparation for the EU council presidency that the country held in the first half of 2009. The EU policy of the Czech Republic was defined in the foreign policy concept for the period 2003-2006 and afterwards in the various versions of the Council presidency programme. Governments that ruled the country after the elections in 2006 failed to adopt a new foreign policy concept, thus the Czech Republic lacked guidance in foreign policy in general, not only in EU issues. A new foreign policy concept[4] was adopted only in 2011 and in 2013 it was followed by the first EU strategy of the Czech Republic. The EU strategy especially was criticised for being vague and overly technical in individual sector priorities. None of the documents offer answers to the question of what kind of EU the Czech Republic wants, and they avoid answering the question of Eurozone membership. The new Czech government that was appointed in February 2014 after the latest parliamentary elections has already signalled that it will replace both of the documents.

The current foreign policy concept mentions eight foreign policy priorities. Two of them are EU-related. It includes support for an operational, politically and economically strong European Union as the fifth priority only. In last place is the European integration of Eastern and South-Eastern Europe. According to the concept, the Czech Republic considers the EU to be a pragmatic political project to which it sees no alternative, but at the same time it strives to optimise its political and economic costs. The European Union is seen as a tool for the promotion of national interests. The key interests of the country within the EU are the internal market and energy security. In these

[4] Conceptual Basis of the Foreign Policy of the Czech Republic, http://www.mzv.cz/file/681350/koncepce_zahranicni_politiky_2011_en.pdf

areas the EU is perceived as the principle instrument through which the country can pursue and realize its interests. The concept also mentions other priorities such as Western Balkans EU enlargement or the Eastern Partnership. However it gives no guidance on the question of whether the Czech Republic supports further integration, especially in the area of economic governance, or whether or not the country wants to be in the hard core of EU integration. On the other hand it gives a clear answer on the future of Common Foreign and Security Policy, which in the opinion of the government shall remain an intergovernmental platform.

The current EU strategy of the Czech Republic, called Active Policy for Growth and Competitive Europe[5], was adopted by the former centre-right government in 2013. Its adoption was accompanied by large disputes between the Office of the Government (which is in charge of EU policies in the Czech Republic) and the Ministry of Foreign Affairs. The Office of the Government (under the political leadership of ODS – see stances of political parties below) had a quite Eurosceptic approach (especially in issues related to further continuation of the integration process), while the MFA (led by TOP09 - see stances of political parties below) had the opposite approach. The final version of the document reflects the stronger position of the Office of the Government. As mentioned before, the document is quite detailed in its definition of Czech interests in individual sectoral priorities, but lacks a clear vision for the Czech Republic on the future of European integration. The strategy only acknowledges the country's obligation to introduce the Euro and mentions that this can be done only after the final form of the Eurozone will be known. It is quite negative toward the newest developments and measures that are being implemented by the Eurozone and stresses that these developments are changing the nature of the Czech obligation to introduce the Euro. The strategy is overtly sceptical toward further integration (with an exception of the underlined necessity to accomplish the construction of the internal market and further liberalisation of energy markets). According to the document the current framework of EU

[5] http://www.vlada.cz/assets/media-centrum/aktualne/Strategie-pusobeni-CR-v-EU.pdf

primary law is sufficient and well-functioning. The country *"will be ready to participate in the discussion on treaty reforms, only if it is absolutely inevitable for sustainability of European integration"*[6] and future transfers of competencies to the EU shall be subject to approval by citizens in referenda.

The new centre-left government appointed in January 2014 decided to shift the steering wheel of the Czech EU policy in the opposite direction. The government declared a pro-EU policy and committed itself to taking concrete steps in this direction. One of the first decisions of the government was to sign the Fiscal compact; this is still to be ratified, however (see below). It has also decided to adopt both a new foreign policy concept and EU strategy that would reflect different opinions of state political leadership on EU integration. Both documents are yet to be adopted (October 2014), but the draft versions of these documents confirm a general change in opinions and wording when discussing EU integration. The draft EU strategy clearly states that the strategic interest of the Czech Republic is to become a fixed part of the EU and its aim is to be in the main integration stream. The EU is understood as a strategic choice and a political project as well as a basic economic, social, cultural and security framework for the development of the Czech Republic.

Political parties and other actors

Despite an overwhelming image of the Czech Republic as being a Eurosceptic country, most relevant political parties have a positive opinion on the further continuation of European integration. The negative picture of the Czech Republic was created mainly by former president Vaclav Klaus and in turn by the government led by Prime Minister Petr Nečas (2010 – 2013) of the Civic Democratic Party (ODS). President Klaus succeeded in becoming the most visible high profile opponent of European integration, especially during his second term (2008-2013) in office. He lingered long with the ratification of the Lisbon Treaty and he made ratification conditional on a special opt-out for the Czech Republic from the Charter of Fundamental

[6] http://www.vlada.cz/assets/media-centrum/aktualne/Strategie-pusobeni-CR-v-EU.pdf

Rights.[7] Although he ratified the Treaty in the end (the Czech Republic was the last country to ratify the Treaty), he remained extremely critical of it. In his opinion, the Treaty has ended national sovereignty of EU member states. He also absolutely refused the introduction of the Euro in the Czech Republic and made anti-EU criticism his main political programme. He was able to dominate public discourse on EU issues in the Czech Republic; hence, the negative shift in the opinion of citizens on the EU can be attributed to a great extent to him. The government led by Nečas, and especially the Prime Minister himself, was at all times under strong pressure from President Klaus. In 2011 the government refused to sign the so-called Euro Plus Pact as well as Fiscal Compact in 2012.

We can analyse general attitudes of political parties toward the continuation of European integration according to the ratification of the Lisbon Treaty. We can suppose that parties with pro-European attitudes would not object ratifying the Lisbon Treaty and parties opposing ratification can be assessed as Eurosceptic. During the ratification of the Treaty in both chambers of Parliament (House of Representatives and Senate), only the Communist party opposed the Treaty openly. The Social Democrats (ČSSD), Christian Democrats (KDU-ČSL) and Greens (nowadays not represented in the Chamber of Deputies) were in favour. All of these parties remained very pro-European, with some reservations in the case of KDU-ČSL toward harmonisation of civil law (especially family law).

Most complicated was the position of the ODS. Its general assembly gave a free mandate to its deputies and senators to vote on the Treaty. This was a result of internal division inside the party on EU issues. The hawkish wing of the party, which recognised President Klaus as their intellectual leader, refused to agree with ratification, while a dovish wing led by then-Prime Minister Topolánek pushed his party members to ratify the Treaty for the sake of the country's

7 This opt-out aimed at securing that the Charter of Fundamental Rights will not challenge the so-called Beneš decrees. These decrees among others expropriated possessions of Sudeten Germans (and partly Hungarians) in Czechoslovakia after World War II.

reputation in the EU. The party remained divided on the issue and more than half of ODS deputies and senators voted against the Treaty. Since the ratification of Lisbon Treaty, the party took a direction toward even more Eurosceptic rhetoric. After elections to European Parliament in 2009, ODS, together with British conservatives, formed a new political group called the European Conservatives and Reformists (ECR). Since a series of scandals almost destroyed the party that used to be the leading right wing party in Czech Republic, it is trying to find an agenda (EU scepticism) that would be attractive for citizens. For example, before the last elections to the European Parliament, the party organized a petition against the introduction of the Euro and for keeping the Czech crown as a national currency.

Currently, three new political parties that did not exist in 2009 are present in the Parliament. TOP09 was established mainly by politicians that left KDÚ-ČSL (the party proclaims to be conservative, but its electorate is mostly liberal) and has replaced ODS as the strongest right wing party. This party is very pro-European and supports further continuation of European integration, including Czech participation in the Euro Plus Pact and Fiscal Compact along with quick adoption of the Euro. The second strongest party in the Chamber of Deputies is ANO 2011 (a political party established in 2011 by a billionaire of Slovak origin, Andrej Babiš): it lacks a comprehensive programme on EU issues. Although it considers itself pro-European, the party is currently against the introduction of the Euro. The last party is the Dawn of Direct Democracy (Úsvit), a newly established populist political party that got into parliament with populist anti-establishment, xenophobic and anti-immigration programmes. This party can be considered Eurosceptic, although they do not have a defined programme on EU issues.

Although, we have defined three Eurosceptic political parties in the Czech Parliament, we can label them as modestly Eurosceptic parties, as they oppose further continuation of EU integration process, but they do not call for leaving the EU altogether. There is only one relevant political party with this aim: Party of Free Citizens (Strana svobodných občanů), which succeeded in the elections to the European Parliament, wherewith the support of around 5% voters it won one seat in the European Parliament.

The formulation of national positions on EU policies during the House of Representatives term of 2010-2014 was negatively influenced by the fact that the Prime Minister came from the Eurosceptic ODS, while the Minister of Foreign Affairs and Minister of Finance were from the pro-European TOP09. Especially strong tension was witnessed between the Office of the Government and the Ministry of Foreign Affairs. Both institutions publicly fought for influence in policy formulation. Another problem that arose was the issue of representation of the country in the Council for General Affairs (GAC). In the area of EU economic governance, the Ministry of Finance and the Office of the Government often promoted divergent positions. The current government managed to establish a higher level of convergence. First, the Prime Minister and Minister of Foreign Affairs are now from the same party – Social Democracy. Second, although the Minister of Finance is Andrej Babiš, leader of ANO2011, the discrepancies in their views on economic governance are not so profound (although they have different opinions on introduction of Euro).

Other important actors that are able to shape positions of both the Czech Republic and public opinion are the President, the Czech National Bank and the Constitutional Court. Current Czech President Miloš Zeman, who took office after Václav Klaus, considers himself a "European federalist". He supports the quick introduction of the Euro, participation of the Czech Republic in core Europe, and a real common foreign policy. The Czech National Bank and its Board of Governors also play an important role in defining Czech EU positions, especially in the area of economic governance. Given the fact that with one exceptionall serving members of the Board of Governors were appointed by former President Klaus, the Bank has a very negative stance on introduction of Euro and on the country's participation the in mechanisms such as the Banking Union. The Constitutional Court was crucial, especially during the ratification of Lisbon Treaty, when in two decisions it confirmed that the Treaty does not violate the constitution. However, the Court (similar to the German equivalent) reserved for itself the right to scrutinize conformity of any new EU treaty with the constitution of the country.

Position of the Czech Republic toward new developments in the EU and Eurozone

As suggested in the previous chapter, attitudes of the Czech Republic toward the newest developments in the economic governance of the EU and Eurozone were reserved. Under the leadership of previous governments the country adopted a "wait and see" strategy that resulted in a very passive approach toward negotiations of new *acquis* within the EU. This attitude had a negative consequence in marginalising the Czech Republic in the EU. As such the country had no chance to influence proposed measures in a way that would be beneficial for the country. A few times the former government threatened to veto new measures (e.g., in the case of the Single Supervisory Mechanism), but in the end never did so. The image of a country that does not want to be in core Europe was established mainly by its refusal to participate in both the Euro Plus Pact and the Fiscal Compact. As mentioned above, the current Czech government announced a change in the general attitude of the Czech Republic toward changes in economic governance in the EU and Eurozone, although concrete steps are yet to be taken (to this point the Czech government has signed Fiscal Compact and sent it to Parliament for ratification).

Implementation of European Semesters

The Czech Republic supported the creation of the European semester as a measure that would be used for the evaluation of economic policies of the member states of the Union. Since its start, the government has annually prepared and adopted the so-called Convergence Programme and National Reform Programme. The Convergence Program sets the basic direction of the government's macroeconomic policies but also serves as a basis for the European Commission's and EU Council's decision-making on abrogation of the excessive deficit procedure. The National Reform Programme (NRP) represents a conceptual national policy document, which sets a plan of key measures to stimulate economic growth in the Czech Republic. The reform measures included programmes aimed to fulfil national targets set within the Europe 2020 Strategy. At the same time they reflect the implementation of country-specific recommendations the country receives in the framework of European Semester each year.

Recommendations that the country has received since 2011 are mostly consistent, due mainly to the fact that the Czech Republic has to this point not been able to implement most of them.

Recommendations require:
- Proper implementation of the convergence programme, especially the aim to achieve the so-called medium term objective;[8]
- Changes in tax legislation, including increasing the efficiency of tax collection, simplifying the tax system and harmonising the tax bases for personal income tax and social and health contributions, reducing the high level of taxation on labour and reducing discrepancies in the tax treatment of employees and the self-employed, and shifting taxation to areas less detrimental to growth, such as recurrent taxes on housing and environmental taxes;
- Accelerating the increase of the statutory retirement age in order to ensure long-term sustainability of the public pension scheme;
- Implementing measures that would enable the employment of women with small children, youth and older workers;
- Reforming higher education in order to improve its quality and especially its labour market relevance;
- Removal of unjustified and disproportionate requirements for regulated professions;
- Adopting a Civil Service Act that would ensure a non-politicized state administration service.

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[8] A medium-term objective (MTO) represents a budgetary position that safeguards against the risk of breaching the 3% of GDP threshold budget deficit and ensures the long-term sustainability of public finances.

According to the analysis conducted by the European Parliament[9] which monitors the implementation of Country Specific Recommendations for the years 2011 and 2012, the Czech Republic fully implemented only 13% of recommendations from both years, while the EU average was 18%; not implemented at all were 52% of recommendations (the EU average was 43%) and serious work underway was observed for 35% of recommendations (the EU average is 39%). The country is doing worse than most EU countries, but some progress can be witnessed this year, when foremost the Civil Service Act was finally adopted and the Czech Republic was able to leave the Excessive Deficit Procedure. The government agreed with all the recommendations from the European Commission, except for the one asking for acceleration of increase of statutory retirement age in order to ensure long-term sustainability of the public pension scheme. This is a very sensitive issue, especially for a government led by Social Democrats, although social partners (trade unions and employers' federations) back the position of government.

Euro Plus Pact

The Czech Republic is one of the four Member States of the European Union (along with the United Kingdom, Sweden, Hungary and the Czech Republic) that do not participate in Euro Plus Pact. The government claimed that it agrees with most of the proposed measures in the Pact, but does not want to commit the country and hence would not participate in the Pact. This decision was justified by two main reasons: 1) since the Pact was negotiated only between the Eurozone Member States, the Czech Republic did not have an opportunity to promote its interests during the negotiation process; 2) the government was against the harmonisation of the tax base, and although the final text of the Pact included only a delicate reference to this topic, it was used as a main reason for rejecting the Pact. Rejection of the Pact was supported by President Klaus, but heavily criticized by the ODS's coalition partners as well as by the Social Democrats who were the main opposition party at that time.

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[9] http://www.europarl.europa.eu/RegData/etudes/etudes/join/2014/497735/IPOL-ECON_ET(2014)497735_EN.pdf

Nowadays, there is no discussion on the possibility of joining the Euro Plus Pact in the Czech Republic, as it is considered an obsolete project with little relevance.

Surveillance of economic and fiscal policies: revised Stability and Growth Pact (Six-Pack)

The Stability and Growth Pact was created as a basic measure that would maintain stability of Eurozone by setting fiscal criteria that every Member State of the Union has to follow. Debt crisis in the Eurozone proved that the Stability and Growth Pact cannot work if it doesn't have a functioning corrective and sanction mechanism that would enforce adherence. The response of the European Union was the adoption of six legislative measures that increased enforcement of the SGP by strengthening and simplifying possibilities of sanction imposition in the Excessive Deficit Procedure – the corrective arm of the SGP. Among these measures the Six-Pack introduced surveillance over economic policies of EU member states through the creation of the so-called Macroeconomic Imbalance Procedure (MIP).

The Czech position toward their introduction was mostly positive, although discrepancies between the Office of the Government and the Ministry of Finance arose. While the Ministry of Finance supported the Six-Pack from the very beginning, the Office of the Government adopted a more cautious attitude. The Czech government fought for very strict enforcement of the SGP for Eurozone members. The main objective of the country's strategy was to preserve sanctions for Eurozone members exclusively. The country was against the possibility of punishing other member states of the Union. The Czech Republic did not welcome the final compromise whereby non-Eurozone Member States can be punished by suspension of payments from the Cohesion Fund, as this measure tackles only countries that are below 90% of EU GDP per capita.[10] It promoted (unsuccessfully) the idea that in such cases, other payments (such as payments from

[10] In the end, this measure can result in stronger punishment of non-Eurozone members of the Union as payments from the Cohesion Fund in several countries exceed the maximum level of fine (1% of GDP) imposed under the Excessive Deficit Procedure on Eurozone member states.

Common Agricultural Policy) should be subject to suspension as well. The government also strictly refused the idea that the Council could suspend voting rights of countries severely breaching the SGP. The country successfully promoted some technical amendments to the Macroeconomic Imbalances Procedure that better reflect differences in character of economies of individual member states (for example the influx of Foreign Direct Investments to the Czech Republic, which is much higher than domestic investments, could be assessed as a macroeconomic imbalance, although their primary context for the Czech Republic is convergence to economies of richer member states).

The Czech Republic entered the Excessive Deficit Procedure in December 2009, mainly as a consequence of lower budget incomes and greater budget spending inflamed by the economic crises that seriously hit the Czech Republic – together with most of EU Member States – in 2009. Due to a strict fiscal policy implemented by the previous governments that included huge cuts in budget spending and increases of both VAT and income taxes, in 2013 the country lowered the deficit of public finance to 1.5% of GDP despite the fact that the economy of the country declined by 0.9%. It was able to leave the Excessive Deficit Procedure in June 2014, together with five other member states of the Union.

To this point the Six-Pack provisions have not been implemented into national legislation. The former government proposed a constitutional amendment that would enact the so-called “Financial constitution,” limiting government debt and imposing sanctions in case certain limits of the debt are reached, in 2013. The draft of the constitutional amendment also assumed the creation of an independent National Budget Council that would oversee the financial management of the state and local governments, monitor transparency of the management of public funds, or issue opinions on important laws and their impact on the budget.

The draft amendment was, however, not approved, due to the fact that the government collapsed in June 2013, following a scandal con-

Table 1. The government proposal set the following sanctions in cases of reaching certain limits of public debt

Debt as a percentage of GDP	Sanctions imposed
40 – 45	The government must provide the Chamber of Deputies with reasons for such developments and propose measures to reduce the debt.
45 – 48	The government must freeze spending by at least 3% of the approved state budget. It will also reduce by 20% the salary basis for calculating salaries of the highest state officials, except for judges. The government will also freeze the growth of salaries of employees in public services and administration.
48 – 49	The government can submit to the Chamber of Deputies only a proposal of balanced or surplus state budget.
50 and more	The government has to ask the Chamber of Deputies for a vote of confidence.

nected to political corruption and abuse of the military information agency. A caretaker government that lead the country to early elections took no steps in promoting the law in the Parliament. The law would not have been enacted anyway, as the two main opposition parties (Social Democrats and Communists) were against the strict limits anticipated by the draft.[11] Their argument was that these limits would not allow for investing in a re-start of economic growth of the country.

The current government declared that the adoption of similar law would be a priority. To this point (November 2014) the Ministry of Finance presented similar draft law that anticipates sanctions only in cases where the debt reaches 55% of GDP. However, it will be difficult for the coalition to agree on the final version of the law and to find support for it among opposition parties.

Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG)

The Czech Republic was – together with the UK – the only EU member state that did not signed the TSCG in March 2012. It was a sur-

[11] Constitutional amendments or laws have to be approved by qualified majority of both deputies and senators. The coalition government did not have this majority.

prising decision made by Prime Minister Petr Nečas in the very last moment of the negotiations.[12] During the negotiations, the government adopted a rather positive attitude towards the Fiscal Compact.

The decision not to take part in the TSCG was explained PM Nečas with three reasons:
1) uncertainty on the ratification process in the Czech Republic;
2) discontent with the participation of the non-Eurozone Member States in only some Eurosummit meetings;
3) the fact that the TSCG did not operationalize debt criterion enforcement through the possible imposition of sanctions. The Prime Minister's decision not to sign the Fiscal Compact received significant criticism from the coalition partners of ODS, namely from TOP09 (represented by the Minister of Foreign Affairs and the Minister of Finance), as well as from the main opposition party – the Social Democrats. These actors criticised the fact that this decision excluded the country from the mainstream of European integration. They also stressed the fact that the provisions of the TSCG are binding only for Eurozone member states, and the fact that the Czech Republic did not join would have major consequence for ability of the country to participate in Eurosummit meetings. The current Czech government, after some hesitation from the ANO2011, decided to accede to the Fiscal Compact in Spring of 2014. Ratification in Parliament is yet to take place and the result is not guaranteed. The governing coalition does not have the qualified majority required for the ratification of the Treaty in Parliament and needs support from opposition parties. The only opposition party that is willing to support the ratification of the Fiscal Compact in Parliament is the pro-European TOP09. This party, however, conditions ratification on the adoption of declaration of the government that the Czech Republic will be bound by all the fiscal and economic provisions of the Treaty.[13] This is opposed by the coalition, as it would constitute restrictions on fiscal policies of the

[12] Interview with former Head of Permanent Representation of the Czech Republic to the European Union, Milena Vicenová.
[13] The same step by other non-Eurozone countries was taken only by Denmark and Romania so far.

government, such as the necessity to lower the structural deficit by 0.5% annually. In the opinion of the coalition parties this does not fit in with their pro-growth programme. Moreover, it would mean that the Czech Republic could be sanctioned should it fail to introduce the so-called debt brake to its constitution.

Banking Union

The Czech Republic was cautious from the very beginning on the plans to build a Banking Union. Although it expressed general support for the idea, it also insisted that membership in the banking union be compulsory only for Eurozone member states. The most vocal opponent of the banking union was the Czech National Bank (CNB). It did not want to lose competencies in overseeing the stability and financial health of Czech banks. In the opinion of the national bank, Czech banks are in much better condition that Eurozone banks thanks to their low dependence on foreign capital and very cautious lending policies. The government and the Czech National Bank perceived the creation of a Single Supervisory Mechanism (SSM) as the most problematic question. Most of the banks in the Czech Republic are subsidiaries of banks in the Eurozone. Should they transform from subsidiaries into branches, they would fall under the regulation of the ECB. The Czech government was even prepared to use its veto to block the creation of the SSM. In the end, the government was satisfied with guarantees that the transformation of Czech banks from subsidiaries (under the supervision of CNB) to branches (under the supervision of the ECB) would be possible only with the consent of the CNB.

The Czech government was also rather sceptical toward creation of the Single Resolution Mechanism. In the end, the country supported the so-called bail-in principle, which introduces a proposal whereby the first actors to rescue banks would be shareholders and creditors rather than public funds.

There is a general consensus that the membership in Banking Union shall be connected with the accession to Economic and Monetary Union and adoption of the Euro.

Position on the adoption of Euro

Since the outbreak of the Eurozone crisis in 2010, discussion on the introduction of Euro almost stopped. Mainstream political discourse argued that the preservation of an independent monetary policy helped the country to withstand the negative consequences of the crisis.[14] The introduction of the Euro became very unpopular among citizens. While before the crisis supporters and opponents of the Euro were almost equal, in the latest opinion poll from March 2014, only 24% of Czechs support the introduction of the Euro in the Czech Republic, while the rest oppose it. However, these numbers already indicate a change in the trend: in 2012 polls showed only 17% of Czech were in favour of the Euro, while more than 50% opposed it strongly.[15] The change in the trend is even more visible among business leaders. While in June 2013 only 25% of business representatives supported introduction of the Euro and around 50% opposed it,[16] the latest poll showed a dramatic shift according to which around 75% of business leaders now support Euro introduction.[17]

The Czech ruling coalition did not promise the introduction of the Euro during the current legislative term (2013-2017), mainly due to opposition from ANO2011 – a coalition partner. While the other two coalition parties (Social Democrats and KDÚ-ČSL) support introduction of the Euro (although due to negative public opinion, they do not stress this fact), ANO2011 claimed that this goal should lie beyond the current legislative term. The coalition, on the other hand, promised to prepare the country for possible accession. Opposition parties – with the exception of TOP09 – are against the introduction of the Euro. ODS in particular used this question as a main topic of its campaign in the European Parliament election, when it launched a "Campaign for the Czech Crown". Together with two other opposi-

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[14] The exchange rate of the Czech crown to the Euro devaluated by around 20% between summer 2008 and spring 2009. Many argue that this helped Czech exporters and thus prevented an even stronger decline of Czech economy.

[15] STEM Trends 3/2014; http://www.stem.cz/clanek/2929

[16] http://ekonomika.Eurozpravy.cz/ceska-republika/72390-Euro-nechceme-krici-ceske-firmy-z-ceho-maji-nejvetsi-strach/

[17] http://byznys.lidovky.cz/preji-si-cesti-podnikatele-Euro-ruzne-pruzkumy-maji-odlisne-vysledky-1el-/firmy-trhy.aspx?c=A140430_121034_firmy-trhy_mev

tion parties (Communists and Úsvit, which are against the Euro) they demand that possible accession be subject to a referendum.

The Czech Republic currently fulfils all the Maastricht criteria for introduction of the Euro except for the criterion demanding participation in the ERM2 mechanism. Due to the low political support as well as opposition from the Czech National Bank, it is almost impossible that this government would set a fixed date for introduction of the Euro and make a decision on participation in the ERM2 mechanism.

Fiscal Union

The Czech position toward the creation of Fiscal Union is rather negative. The EU strategy of the government claims that the EU, and especially Eurozone, should first properly implement and utilize already existing mechanisms, such as the internal market, the European semester, a revised SGP, etc. Steps envisioned in European Commission blueprint[18] for a deep and genuine economic and monetary union are considered unrealistic and too ambitious. The government especially rejected the idea of debt-sharing and possible joint issuance of bonds or treasury vouchers. The main argument against these is the risk of moral hazard. Countries protected by debt-sharing would not be motived to follow cautious fiscal policies and implement structural reforms. At the same time the government refuses the creation of a "central" European budget funded by a new EU tax and also the creation of financial instruments for Eurozone (Convergence and Competitiveness Instrument) that could provide incentives for member states of the Union to implement necessary structural reforms.

Interest and positions of the Czech Republic to ward possible directions of European integration

Differentiated integration was an important topic of discussion in the Czech Republic during the first years of its EU membership. The Accession Treaty contained many aspects that positioned the country

[18] https://eur-lex.Europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52012DC0777&from=EN

into a different level of integration compared to those of old EU member states. Within the relatively narrow transitional period with a fixed maximum duration (e.g., EU regulations in the field of environmental policy, common agricultural policy, free movement of persons and capital), the country faced derogations from the application of EU *acquis* without a clear time frame. The two most important exceptions in this category were full participation in Economic and Monetary Union and Schengen cooperation. The Czech government advocated a quick termination of transitional periods especially in the area of free movement of labour. It also promoted accession to the Schengen zone at the earliest possible moment. Similarly, the country promoted the accession of Romania and Bulgaria and did not agree with political reasons that were behind the denial of their accession. During the first years of membership in the Union the Czech Republic carried out the first steps that would lead to accession to the Eurozone. It created the position of Coordinator for Euro Introduction in the Ministry of Finance and it also set indicative data for accession to the Eurozone to in 2009-2010.

The Czech Republic did not request permanent derogation from higher levels of integration such as Schengen or the Eurozone during the accession process and never impugned its obligation to access the Eurozone should all the Maastricht criteria be met. Hence, the country accepted and promoted the full level of integration although it accepted the fact, that this could only be achieved at a different speed.

After the outbreak of the debt crises, the EU and Eurozone took several steps with the aim of promoting the stability of the Eurozone that have had a significant impact on the EU and Eurozone governance. The creation of rescue mechanisms, such as the European Financial Stabilization Mechanism (EFSM), European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM), changes in the economic governance of the EU and Eurozone, the promotion of the coordination of fiscal policies of Eurozone member states and the Banking Union significantly increased the difference in the level of integration of Eurozone Member States and other members of the Union. During the negotiations for new mechanisms the Czech Republic made clear that they be open to non-Eurozone member states as well, although they decided not to participate in them for the moment (Euro Plus Pact, TSCG, Banking Union). On the other hand, it never blocked such initiatives where its consent was needed, such as in the creation of the EFSM or the incorporation of ESM into the EU legal structure (Amendment to Art. 136 TFEU).

The Czech Republic also consistently expressed its concerns regarding the growing importance of para-union structures involving only Eurozone member states, such as Eurosummit meetings or the possibility of creating Eurogroups beyond the ECOFIN formation of the Council of the EU. On the other hand, the country was never very active in promoting its positions during negotiations and mostly adopted a wait and see strategy, thus refraining from shaping the format of the new measures. The reason behind this position was a significant difference in opinions among different political parties within the ruling coalition towards more intensive levels of EU integration.

Generally, the Czech position towards changes in Eurozone governance can be described as a gradual acceptance of the multi-speed or even multi-level model of EU integration on the condition of relative openness of the Eurozone toward other EU member states. This openness shall include the possibility of opt-in for some of the new mechanisms created by the Eurozone, such as the Banking Union, but also the requirement that the Eurozone itself will remain open to other EU countries that would like to join it. As was envisaged before, the current Czech government would like to position itself into the core of European integration. That includes not only membership in the Eurozone (as declared by the government, the country will not join until at least 2018), but also other initiatives, such as harmonisation of legislation in the area of police and judicial co-operation. The government also declared that it wants to be active in shaping the new instruments of the Eurozone, even though they would serve only Eurozone member states. Hence, its strategic interest is that measures be taken in the EU-28 format.

Areas and interests of the Czech Republic in Visegrad co-operation

The Czech Republic considers Visegrad co-operation to be one of the most important components of its foreign policy. The Visegrad group was set up in 1991 in order to facilitate association and accession processes of Central European countries into the EU. When this process was accomplished, the Visegrad group had to find a new justification for its existence. Nowadays, the Czech Republic views Visegrad cooperation as the most natural way to increase the influence of Central European countries in the EU decision-making process. In the Czech view the importance of Visegrad cooperation has increased in recent years together with the outbreak of crisis and consequent EU efforts to solve it. The Visegrad group is more and more active in information exchange, cooperation and coordination of positions vis-à-vis EU decision-making. Coordination meetings of Prime Ministers before each European Council have already brought about results, for example in the successful negotiation of financial perspectives for 2014–2020. Although, there are areas where Visegrad countries' interests diverge (for example agriculture), for most issues interests are similar. Czech diplomats understand that the first countries to approach in cases where they would like to promote an idea on the EU level are their counterparts from other V4 countries. Although the Czech Republic does not endorse enlargement of the Visegrad group with other countries, it views more frequent cooperation in Visegrad Plus format positively, when representatives of other countries are invited to join the group for discussion or joint projects.

V4 Cooperation includes various levels of decision makers and state administration. Frequent meetings of Prime Ministers and line ministers are supplemented by meetings on the working level and increasingly vivid cooperation between civil society organisations. In this respect the activities of the International Visegrad Fund that enable cultural and scientific cooperation between academia and civil society are viewed very positively. The Czech government also welcomed and supports the recent extension of Visegrad Fund activities toward Eastern Partnership countries and the Western Balkans.

Czech priorities for Visegrad cooperation are very similar to its EU priorities. These include increasing competitiveness and fostering economic growth mainly through the completion of the internal market, energy security, including interconnectivity and diversification of energy sources and transportation routes, Eastern Partnership and Western Balkans. In addition, cooperation in defence, including the formation of the Visegrad Battle Group in 2016, transport infrastructure and internal cohesion in Central Europe are also seen as priorities.

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EU governance and economic challenges – perspectives from the Slovak Republic

Boris Hošoff [1]

Introduction

In this paper we present some of the challenges relevant to macroeconomic policies brought on by the developments of last couple of years. The contemporary period and accepted policy measures are strongly affected by the financial crisis and subsequent public finance problems. Here we will emphasize those main challenges that in this regard are more or less similar for all V4 countries. We will focus on current economic developments heavily influenced by external conditions and the process of population ageing, while analyzing actual policies applied in the process of fiscal consolidation. Particularly important are activities focused on better competitiveness and hence economic growth prospects purportedly brought by the Euro, plus pact measures and sustainability of government finances supported by the Fiscal compact rules, which are also our objectives. Then we shift our focus to the federalization of the EU and the position of the Slovak Republic regarding fiscal union. Further, we analyze the potential for cooperation among the V4 countries.

Long term factors affecting the fiscal position

The IMF Mission concluded that the Slovak Republic's strong fiscal commitment is evident and that since 2009 the budget deficit has

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been reduced by about 5.0 percentage points to 2.8 percent of GDP in 2013, just below the threshold for exiting the EU´s Excessive Deficit Procedure.[2] The Slovak Republic's debt of around 55 percent of GDP is manageable, this being reflected in relatively favourable market conditions and low interest rates for government debt.

A demographic trend whereby people will live and work longer is a common feature of all European economies, including V4 countries, and is directly related to future consumer behaviour or employment developments.[3] An immediate pursuit of sustainability of public finances is in this regard a condition for the future sustainability of pensions, social security and health care systems. Therefore it is important to interconnect the whole social system with demographic evolution. For example, the Slovak Republic has in this regard introduced binding pension age tied to life expectancy, imposed restrictions on early retirement and enacted labour market policy focused on the employability of persons 55 and older.[4] In these terms, to prevent the potential growth of public debt induced by an ageing population, the Slovak Republic is implementing several structural reforms in its social, pension, or health care systems.

An alternative to the current regulation of retirement age will be prepared by the Ministry of Labour, Social Affairs and Family of the Slovak Republic by the year 2017. An integral part of this new regulation should be specification of the length of pension insurance participation (in years) needed to apply for full pension benefits without any conditions pertaining to the actual age of the insured person. There is the option to radically increase the number of minimal pension insurance participation years needed to apply for a full pension from the current 15 years up to 30 years.[5]

The Ministry of Labour, Social Affairs and Family will set the minimum pension to accord with the number of years worked and be in line with the presumption that the person who worked the prescribed

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[2] IMF (2014)

[3] Not to neglect the influence on public finances.

[4] In this regard it is important to mention that an older population will work longer, which could create obstacles for the employability of younger generation. Therefore it is important to pay attention to work opportunities for other age groups and to support intergenerational dialogue.

[5] Ministry of Labour Social Affairs and Family (2013)

number of years should not find him/herself[6] financially dependent on the social aid system. The age of the person will therefore not be the key precondition for pension beneficiaries. According to the Ministry plan, when dealing with pre-retirement age beneficiaries, participants in the third pillar of the pension system will be allowed to leave the labour market earlier and finance their living expenses with private funds held on personal accounts.

In the year 2012 the Slovak Republic adopted an amendment to the Act on Social Insurance to improve the long-term sustainability of the pension system, facilitate the consolidation of public finances in the short-term and also abolish certain exemptions and special regimes applicable to social security contributions. Adopted measures have different repercussions in the short and medium term as they affect mainly the net income of insured persons (through an increased tax burden).In the long-term the amendment will mainly affect pensioners (higher retirement age, indexation of pensions solely to inflation, reinforced solidarity in the system). There are indications that most insured persons will not be able to accumulate enough pension savings on their private accounts, and thus there should be supplementary charges to their pensions from the government. When confronted with such weaker household demand influenced both by short term as well as long term factors, future growth prospects are dependent on competent reaction and strategy from the respective institutions and authorities.

Fiscal Compact measures and consequences

The above mentioned measures will be implemented in line with the procedure called the Fiscal Compact, which entered into force in January of 2013. The Slovak Republic established this policy framework with the institution of the Council for Budget Responsibility (CBR). Slovakia established the CBR to deal with overall fiscal health and conduct policies. It was formed as an independent body equipped with competences to monitor and evaluate the fiscal per-

[6] When obliged to receive the pension.

formance of the government.[7] This is a transparent step towards precise targeting and more sound and better quality measures implemented in the field of fiscal management. It provides comprehensive, independent and politically unbiased information on the development of public finances, hence it is an important new element in the fiscal policy framework and a reaction to the sharp growth of the budget deficit and public debt in the aftermath of financial crisis and recession. It also serves as a signal to financial markets, indicating that public finances are now much better monitored than before: this should lead to more sustainable public finances and better conditions for fiscal financing under pressure.

One of the key elements of this new framework is the adoption of the Fiscal Compact rule of debt brake, limiting the general government debt, which corresponds with binding government expenditure ceilings to ensure better fiscal discipline in the medium term.[8] Another important feature is an approved tightening of rules for municipalities and self-governing bodies (which are independent in their decision making but constitute a part of the public finance sector). This new fiscal framework should improve the overall understanding of fiscal policies pursued by the government, particularly in the context of long-term sustainability of public finances, hereby creating a better overview for private as well as public institutions and investors to make better decisions.

According to the report entitled *"Long-Term Sustainability of Public Finances"*,[9] the purpose of which is to evaluate the situation in public finances within the context of long-term sustainability while taking into account positive and negative impacts of adopted legislative measures and policies, the most important and challenging areas are:

1. Pension system and health care (population ageing)
2. Major expenditure programs which have consequences over a longer term horizon (e.g., PPP projects)

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7 Council for Budget Responsibility (2012)
8 Council for Budget Responsibility (2012)
9 Council for Budget Responsibility (2012)

3. Contingent liabilities that constitute potential risks for public finances (e.g., lost court cases)
4. Macroeconomic shocks which may change the fiscal position (e.g., narrowly defined tax base)

One of the main tasks of CBR is to inform Parliament on compliance with fiscal responsibility and fiscal transparency rules – it serves to evaluate whether all the rules laid down in the Fiscal Responsibility Act have been met. This institutional framework should be relevant for other members of V4 as well, since the basic idea is to incorporate Fiscal Compact rules into existing EU treaties as soon as possible. This is a new development and could cause problems in the future, because European institutions (neither the European Parliament, nor the European Commission) are not playing a significant role in the process of the negotiation or application of Fiscal Compact rules. This political stance with EU institutions as "bystanders" has created more space for the activity of individual states and their representatives, which is particularly visible in the success of Germany's agenda in this regard. The marginalization of European institutions rises once again in terms of the question about their legitimacy (i.e., democratic deficit) and the structure and competences they should represent in the future. On the other hand, in the absence of adherence to common principles, fiscal imbalances in the EU could persist and established negative externalities could possibly spread to all member states of the EU.

The basic idea behind this stricter version of the Stability and Growth Pact is to obstruct the repetition of mass bailouts that occurred in Europe after the onset of the financial and debt crisis. The Fiscal Compact will have especially severe consequences for those countries that are highly indebted, because they will have to carry out radical austerity reforms to boost their competitiveness and bring budgets back into balance. Balanced budget requirements could lead to a much smaller need for fiscal transfers in Europe (compared to current levels) and potentially hinder the growth of V4 countries.

It is uncertain whether the reforms needed to comply with Fiscal Compact would enable the depressed economies of Europe to regain their competitiveness, when their membership in the EMU has to this point brought higher disparities and deficits.[10] It is questionable whether prescribed reforms and proposals could be effectively implemented in every member state of eurozone at the same time, and that is why we will probably witness the persistence of imbalances between countries in the years to come.

In the environment of restrained economic growth, along with the pursuit of spending cuts already contained in the Fiscal Compact rules, we can see the ambition to carry out deeper income reforms through unifying tax rates or tax bases, from which tax rates are calculated. This (along with the impossibility to weaken their currency) could further undermine the former competitive advantages of national states that joined the EMU and hence possibly force individual countries to make vital structural reforms.[11] How the process of budget balancing will look will depend very much on the particular country and its political representatives. On the other hand, one force behind potential implementation of fiscal reforms could be pressure from financial markets, which will probably penalize those countries that are unable to undertake needed reforms and lower their public debts or fiscal deficits with higher interest rates.

In the absence of democratic institutions on the federal level, this new concept could lead to budget cuts in social services, even though the ongoing crisis and recession around Europe has very negative implications reflected in record high unemployment, high long term unemployment, rising income polarization and growing poverty rates. This is in sharp contrast to the proclaimed objectives set out in the Europe 2020 strategy, for example, which has clear targets for poverty reduction and social inclusion, as well as targets for developing the smart economy and better education, the financing of which is now under threat. These targets are jeopardized by possible expenditure cuts and continuous fiscal consolidation imposed by markets.

A well-prepared fiscal concept of balanced budgets is a vital part of greater economic governance reform gradually leading eurozone

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[10] In the states which are deprived of the ability to weaken their respective currencies, imports are growing much faster than exports (low competitiveness) and during the crisis this fact contributed to rapid growth of foreign debt.

[11] For example, reforms leading to a more flexible labor market.

member states to a more unified fiscal system – likely fiscal and political union. After the onset of the financial crisis eurozone member countries began implementing coordinated policy measures. It is very likely that the process of closer integration and deeper cooperation will continue not only on the level of eurozone, but also on the level of the whole EU.

This system is moving Europe closer to the existing arrangements of macroeconomic policy and institutions as we know them in the USA, where member states of the Union are obliged to have balanced budgets. This means that every country posting a deficit in the case of a cyclical downturn, while recording a combination of lower revenues and higher expenditures, must take steps to rebalance the budget, which in practice means cutting (social) spending, and/or increasing taxes. This fact, without appropriately strong federal expenditure support in Europe – contrary to the USA[12] – will reinforce the risk that even a relatively small recession could be transformed into a major one.

In the light of the experiences from the financial crisis we can meaningfully expect higher savings rates in the eurozone member states. Extended public spending cuts, labour cost reduction and persisting high unemployment could harm the growth models of V4 countries. Developments in many European countries during the period 2009-2012 have clearly shown that austerity measures adopted in the majority of EU member states under the patronage of European Commission and IMF have had a much more pronounced impact on economic growth than was previously expected, hence creating self-defeating fiscal consolidation. Therefore we assume that V4 countries should cooperate more closely on the theoretical and institutional challenges imposed by the process of EU federalization, which if properly conducted, could counterbalance the rules imposed on member states' non-deficit budgetary planning.

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[12] Fiscal union in USA has a very different nature and functioning institutional framework, where the Federal government collects revenue equalling around 24% of the GDP – which is much more than approximately 1,5% equivalent in Europe. This means that the Federal government in the USA has a bigger social impact and better ability to influence the cyclical behavior of the economy. The Federal government can in this way compensate for demand losses resulting from balanced budget requirements passed by individual states during the economic cycle.

Treaty on Stability, Coordination and Governance

The Treaty on Stability, Coordination and Governance (TSCG) in the Economic and Monetary Union was signed by all leaders with the exception of the Czech Republic and the United Kingdom, but it has an inclusive character, meaning that it can be joined in later phases of its implementation. On the other hand, it is impossible to withdraw from it. TSCG is intended to strengthen fiscal discipline by (a) establishing a 'balanced budget rule' and automatic correction mechanism, and (b) introducing stricter surveillance mechanisms. The Slovak Republic ratified TSCG on January 11th of 2013.Incorporated into the national legal system were the balanced budget rule with a structural deficit not higher than 0,5 % of the GDP and the institute of a correction mechanism in the case of a breach of this rule. This mechanism is an integral part of economic partnership programmes, which contain detailed structural reforms member states are intended to put in place for improving competitiveness and boosting economic growth. In 2013 the Slovak Republic proceeded to its medium-term budgetary objective and avoided significant variation in terms of the Fiscal Compact, while the consolidation effort was significantly higher then those stated in Fiscal Compact requirements.[13]

The Slovak Republic has to comply with the agreed rules three years after the excessive deficit procedure has ended. According to the Stability and Growth Pact, the Slovak Republic was put under the excessive deficit procedure in the year 2009[14], because general government deficit was 8% of the GDP at that time. Nevertheless, after four years SR had completed the process of budget consolidation, moving the deficit under the threshold of 3% of the GDP.[15] In June of 2014 SR was taken out of the excessive deficit procedure.

The objective of the budgetary strategy is to ensure the sustainability of the correction of the excessive deficit and to reach the medium-term objective of a structural deficit around 0.5% of the GDP by 2017, as mentioned in Recommendation (8) of the European Council (EC, 2014). The structural deficit stood at the level of 3.0%

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13 Ministry of Finance of SR (2014b)
14 Ministry of Finance of SR (2009)
15 European Commission (2014a)

of the GDP in 2013, and we can expect that the largest part of the consolidation effort to reach the medium-term objective will take place in the years 2016 and 2017.

Table 1. Fiscal indicators, 2008-2013 (% of GDP)

	2008	2009	2010	2011	2012	2013
Public debt	27.9	35.6	41.0	43.6	52.7	55.4
Deficit	-2.1	-8.0	-7.5	-4.8	-4.5	-2.8

Source: Eurostat (2014)

The effort of the SR government is systematically concentrated on the continuation of successful fiscal consolidation, the fight against tax evasion and effective VAT collection. The European Commission advises these efforts be complemented by the broadening of the tax base and by the use of taxes less harmful for economic growth – e.g., taxation of property and environmental taxes.

The Euro plus pact corresponds with Fiscal Compact rules and establishes an important policy framework representing strategy for higher competitiveness as well as more sustainable growth brought by lower macroeconomic and structural imbalances between EMU member states.[16] The Euro-Plus Pact focuses primary on five important objectives: competitiveness; employment; sustainability of public finances; strengthening of financial stability; and coordination of tax policies. In this regard there are several challenges particularly important for the Slovak Republic.

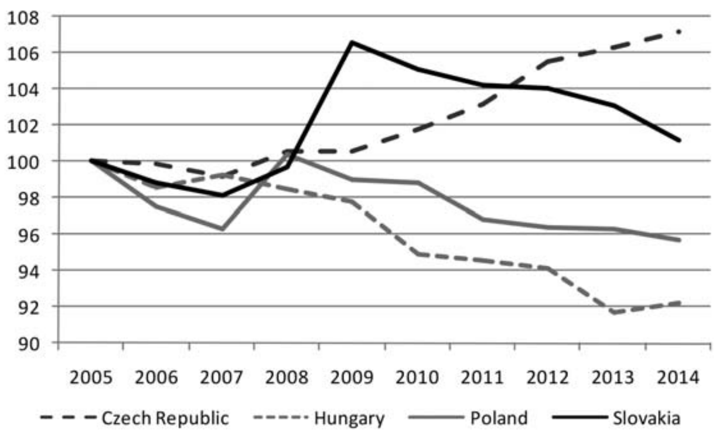
The Euro-Plus Pact upgrades the cooperation within the planned macroeconomic policies on the national level. It is clearly inspired by macroeconomic policy conducted by Germany, which is based on a balanced budget (constitutional law), export-led GDP growth and competitiveness based on wage deflation. Obviously, these objectives can´t be reached by all EU countries at once and are going to have different impacts on particular member economies through conducted policies and their cyclical behaviour. There are some doubts

[16] Beyond EMU member states Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania also joined the Pact.

that suggests the limited ability of the Euro-Plus Pact to impact unit labour costs, hence restraining expected influence on the accumulation of current account imbalances.[17] Common economic interests could therefore be reached only by a respective macroeconomic policy mix realized by individual countries, which should be obliged to discuss with partner countries the repercussion effects of principal reforms they are going to implement and hence create better conditions for regional stability, which is precisely the case for V4 countries.

Important parameters of the Euro-Plus Pact should include features such as markedly improved monitoring, adherence and evaluation of the obligations with which individual countries have to comply. Stricter required compliance and penalizations are important features of new European institutional architecture, because the disfunction of similar control mechanisms was one of the triggers contributing to activation of fiscal and debt crisis in Europe.

Figure 1. Real unit labour costs (Index, 2005=100)



Source: Eurostat (2013)

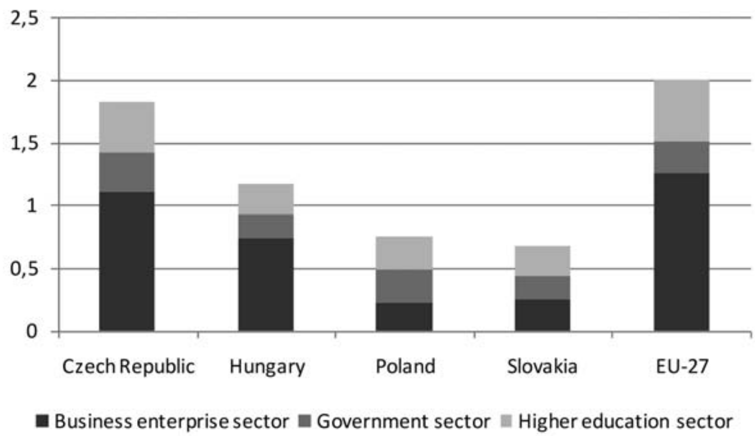
Probably the most important parameter of the Euro-Plus Pact – the competitiveness objective – should be based on wages, productivity development, market flexibility and quality of institutions. Optimal com-

[17] Hubert and Karsten (2012)

bination of these parameters should create higher flexibility and space for needed adjustments throughout the business cycle on the national level. With regard to wages, responsible institutions will monitor unit labour costs and mechanisms of wage creation (European Council, 2011), hence substituting monetary authority on the fiscal side. The development of labour costs in V4 countries is illustrated Figure 1, where we can see a continuous declining trend of real unit labour costs in the Slovak Republic after the adoption of the Euro in 2009.

In contrast to other V4 member states, the Czech Republic is experiencing a rather long period of rising labour costs since the year 2007, which could undermine its competitiveness[18] when compared to neighbouring countries. Important factors of competitiveness, possibly compensating for higher labour costs, are expenditures on education and R&D (research and development) activities, which are basic preconditions for a modern economy in the era of the knowledge society. In the next figure we present the structure of these expenditures and different positions of V4 countries, reflecting the urgent need for further structural reforms, especially in the Slovak Republic.

Figure 2. Structure of R&D expenditure in V4 countries and EU-27, 2011 (% of GDP)



Source: Eurostat (2013)

[18] If not matched by higher productivity and added value.

Expenditures in the Slovak Republic and Poland are lagging behind those in Hungary and especially the Czech Republic, when Slovakia was spending only 0,68% of GDP on the research and development agenda. In the two former countries, there is an especially big share of government sector gross domestic expenditures on R&D, reaching 55.8% of total expenditures in Poland and 49.8% of total expenditures in Slovak Republic – in comparison to Hungary and Czech Republic, where the share of the government sector was less than 40% of total gross domestic expenditures on research and development (but still well above the EU-27 average). This position is reflected in a higher share of the business enterprise sector in total gross domestic expenditures in the Czech Republic and Hungary, and a much lower share of this sector in the Slovak Republic and Poland. Lower private sector participation in the financing of R&D could hinder the competitiveness of domestic markets and firms in the latter two countries.

When comparing V4 countries in the area of expenditures on education as a percentage of GDP we observe considerably more similarities than in the area of research and development financing. Nevertheless, the Slovak Republic was spending the lowest share of GDP on funding education among the V4 countries. Average total public expenditure on education was slightly below 5.5% of GDP in the EU-27, in comparison to 5.17% of GDP in Poland, 4.88% of GDP in Hungary, 4.24% of GDP in the Czech Republic and 4.22% of GDP in the Slovak Republic.

When compared with other V4 countries, the Slovak Republic is also underperforming in the area of life-long learning, where only 10.5% of total population in the age group of 18-64 years old were participating in education and training programs during 2011. According to Eurostat data the Slovak Republic is the second-worst in this area after Hungary (9%), followed by Poland (12.6%) and the Czech Republic (16.9%), which achieved a higher share than the average for the EU-27 (14.7%).

The Slovak Republic's research and development as well as educational systems are under-financed. We need to breakthrough and advance further in this area to stay in touch with our neighbours and to meet the requirements for post-industrial knowledge-based societies of the modern world. These conditions are complicating the path towards higher competitiveness and lower unemployment.

Funding for active labour market policies in Slovak Republic is low when compared with other countries, even though it is an important tool and should not be neglected during the process of budget consolidation. This again highlights the importance of improving the effective application of EU funds, which can be very useful and compensate for expenditure cuts during the process of fiscal consolidation. According to the Euro-Plus Pact agreements, progress will be monitored in the area of long-term unemployment, unemployment of young people and labour force participation rate. Responsible authorities should also monitor labour market reforms towards the support of flexicurity and life-long education.[19]

Especially worrying is high unemployment among youth, which in SR (together with long-term unemployment) among the highest in the entire EU. Recent reforms to active labour market policies are an important step in the right direction, but additional reforms are needed, especially with regard to the improvement of quality and labour-market relevance of education. Slovakia also needs to improve educational outcomes of children from marginalized communities.[20]

Table 2. Long-term unemployment in 2004-2012 (% of total)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Czech Republic	51.0	53.0	54.2	52.3	49.3	30.1	41.0	40.6	43.4
Hungary	45.1	45.1	45.1	46.8	46.5	41.6	49.3	47.9	45.0
Poland	53.7	57.7	56.2	51.4	33.5	30.3	31.1	37.2	40.3
Slovakia	63.9	72.0	76.3	74.2	69.5	54.0	64.0	67.8	67.3

Note: Unemployed 12 months and more. Source: Eurostat (2013)

To lower the very high unemployment rate it is essential to match education know-how with labour market demands and to support

[19] European Council (2011)
[20] European Council (2013)

training and active labour market policies. Despite a high nominal rate of unemployment, this problem is complicated by its high long term and regional patterns, with high unemployment rates remaining, especially in eastern regions of Slovak Republic.

There are other important labour market factors, although some of them could be politically or financially hard to achieve, for example a relatively high tax wedge on labour hitting especially low-wage workers, or low labour mobility – access to rental housing and better transport infrastructure must be improved; they are currently insufficient to meet transportation needs in the modern globalized economy, especially in eastern parts of the Slovak Republic. The mobility of work force could represent another important objective of prospective cooperation for V4 countries when trying to comply with the Euro-Plus Pact.

Taxes are turning out to be important area for possible cooperation among V4 countries. Pressure for consolidation and sustainability of public finances is concentrated mainly on the expenditure side of national budgets[21] and more or less absent on the side of budgets revenues, where we find various problems unsolved. These problems include:

1) income inequalities connected to the structure of taxes and transfers;
2) tax avoidance and arbitrage;
3) tax havens;
4) transfer pricing.

Lasting effects of the economic and financial crisis and Fiscal Compact initiatives have intensified the debate over the international harmonization of VAT and the harmonization of corporate income tax. Preoccupation over such tax harmonization is prompted by the presumption that existing tax competition has resulted in a shift away from taxes on mobile capital and toward taxes on comparatively immobile labour. Another area of concern and a common V4 approach is the fact that there is relatively wide gap between the old EU-15 member states and the new ones, with the former having on average

[21] Weakening social standards and public services that were available before the debt crisis.

higher tax rates than the latter.[22] These harmonization trends are clearly undermining national interests and competitiveness of individual countries on part of the EU and transnational corporations interests and are therefore another theme which could inspire dialogue among V4 countries and foster their closer cooperation on the European level. Proposed tax harmonisation will eliminate the opportunity to compete with lower-tax countries and will bring selected countries on the same level in this regard. Here we will loose some competitive edge, because the Slovak Republic was able to progress in economic transformation, and in some areas to outperform its neighbours or competitors[23] thanks to lower taxes (and labour costs).

Fiscal Union

In principle we have already established some sort of fiscal union, but instead of transfers financed through taxes, we have transfers financed with debt, or Eurobonds, which are bonds issued within the framework of the European Stability Mechanism (ESM) – an intergovernmental institution under public international law, which was established to solve the problems of indebted EMU member countries. These bonds were, for example, used for the recapitalization of the banking sector in Spain and Cyprus. This permanent institution has an authorised capital stock of 702 bn Euro, with 80 bn. Euro of paid-in capital and 622 bn. Euro of committed callable capital. The capital contribution of the Slovak Republic is 0.8217 %, what can be expressed as a capital subscription of 5.77 bn. Euro and paid-in capital in the amount of 0.66 bn Euro.[24]

The European Monetary Union was not intended to be a fiscal union. This huge step towards possible fiscal union (federalism) is ongoing, in a more or less uncontrolled manner, without proper discussion or initiative from within the EMU member states, with the exception of the biggest and economically strongest members – especially Germany. Proper preparation in terms of real and structural

[22] The difference between European countries is relatively smaller when comparing the rates of indirect taxes.
[23] For example in FDI inflow, or productivity.
[24] European Stability Mechanism factsheet (2014)

integration was replaced by the notion that this is the only way to deal with existing structural problems and to avoid the repetition of the fiscal and subsequent debt crisis in the EMU. In the light of imposed legislation in terms of the Fiscal Compact and conditions for balanced budgets, fiscal union is the only next, logical step in an already designed direction.

One of the main unsolved institutional problem concerns the competent authorities that could and should be able to pursue adherence to agreed conditions and rules. This lack of competences and ability to enforce rules was one of the main reasons for the misbehaviour of governments that led to the onset of debt crisis in the European Monetary Union. The current situation, in which many countries are experiencing the impacts of the debt crisis and realising the true costs of their past policies and behaviour, is probably best suited for the formation of self-awareness that could naturally lead to adherence to agreed principles.

In this respect we find two main problems in the ongoing debate on European level. First, there is the lack of coordination and political will: there are only 11 countries fully supporting a “Stabilization mechanism”. Second, the discussion on fiscal union is almost solely driven on the expenditures side of public finances, missing the important points on the side of revenues mentioned above.

Another problem is that in the past and even today too many countries did not comply with the adopted rules, whether these were Maastricht rules for the future, or Fiscal Compact rules for today. How could fiscal union could possibly function under the current framework in the future is questionable. Hence, we can reasonably anticipate that financial funds available through a “Stabilization mechanism” will be used by some countries just to deal with Fiscal Compact rules.

Significantly different economic, political, social and cultural systems that exist under the framework of eurozone and the EU have very different capacities and of course opportunities to address prescribed fiscal rules. We can reasonably expect that economically weaker countries will be under significant pressure that will dampen their recovery and future progress. We already mentioned the institutional problem with the enforcement of rules, which without proper management and execution could lead to the repetition of the situation before the onset of the fiscal crisis, when countries were not adhering agreed rules under the Maastricht framework. But we also have to mention the other side of the coin: in the environment of proper enforcement of fines from the countries not in compliance with agreed criteria, it could be a burden to load the European rescue mechanism with funds that are to a large extent transferred from strong economies to weaker ones. This could lead to an even more pronounced polarization of European economies.

Ideas of collective guarantees for debts have many risks involved. There is the obvious problem of moral hazard, when countries will tend to use the mechanism of collectivism more readily when they are recipients, as contrasted with the opposite situation, when they are donor countries.[25] Mandatory set quotas for individual countries could distort market forces by supporting moral hazard and potentially make the financing of indebted countries easier as it would be under the operation of market forces and impositions to borrow on foreign financial markets.

The main precondition for the optimal functioning of the fiscal union, inherent in structurally balanced member states with low real divergences, is not met. There are obviously real risks – according to past experiences and the inability to form optimal monetary union – that we will perhaps abandon vital reforms, leading to a selection of countries capable of forming optimal monetary and fiscal union. Fiscal union could be the preferred solution over EMU breakup.[26] Unfortunately the EMU's current composition will perpetuate structural imbalances and problems in indebted countries, hence giving justification for fiscal union as a financing mechanism for indebted countries.

The question is, how will the process of transformation, connected with various forms of fiscal austerity measures, look in individual countries, especially when it will be connected with expenditure cuts affecting already weakened middle class families? The fact that politicians are forced to make reforms in a situation of high unemployment

[25] Not to mention possible higher tensions between actual beneficiaries and payers of transfers.
[26] And its reduction to fewer member states that are capable of adhering to agreed rules and reforms needed to form monetary union that better resemble its optimal form.

and unsatisfied hopes of voters could create obstacles for the proper execution of reforms: hence deficits and debts could persist. But they could be lowered after at least some reforms are carried out and the eventual financial burden will be shared among member countries.

When adherence to agreed rules and policies in the case of adverse development of deficits or debts is properly conducted, countries will be forced to make sometimes drastic expenditure cuts, which will certainly affect levels of existing social services. Therefore it is important to transform existing models of social programs and make public service more effective. To lower the possible negative impact of reforms on the expenditure side, these should be accompanied through reforms on the receipts side of fiscal budgets. Here we consider more effective tax policies (tax collection), probably higher taxes and broader tax bases, lower corruption and tax avoidance (tax havens), and last but not least measures against the grey and black economy. These policies can only be effective in a coordinated manner, creating space for V4 countries to have tighter cooperation in this regard.

Fiscal union will encompass tax harmonization and cooperation in tax policies, as is manifested with the first steps in this direction through VAT harmonization or a common tax on financial transactions (not valid before 2016). The Slovak Republic is participating in this enhanced cooperation with 10 other countries, namely Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal and Slovenia.[27] The initiative to harmonize value added taxes[28] is creating a new legal framework by offering two general possibilities based on basic rules:

1. supplies of goods and services are normally subject to a VAT rate not lower than 15%;
2. member states may apply one or two exemptions for restricted rates of no less than 5%.

In praxis, some states (LU, IE, IT, FR, ES) have in addition introduced super reduced VAT rates (less than 5%). VAT rates in the Slo-

[27] European Commission (2014b)
[28] European Commission (2014c)

vak Republic are 20% as standard rates and 10% as reduced rates for pharmaceutical products, medical equipment for disabled persons, and books. Hence, with regard to VAT rates we cannot speak of total harmonization, because there are some differences in particular countries, but this initiative is an important step toward the broader harmonization of fiscal policies.

Another common activity on the side of revenue harmonization concerns taxes on financial transactions, corresponding with the overall perception that the financial sector – largely responsible for financial and debt crisis – should take greater responsibility for its risky behaviour. Common taxes on financial transactions are aimed to reduce the fragmentation of the single market for financial services, now highlighted with different bank levies and financial taxes on the national level. In any case, the fact that only 11 states are willing to introduce coordinated measures in this direction so far is undermining the effectiveness of such attempts.

These activities are validated by the presumption that initiatives to introduce separate levies and financial transaction taxes on national levels are leading to the fragmentation of the single market for financial services, hence risking tax arbitrage or avoidance. The concept of tax harmonization is acting against "fiscal competition" and imposes a loss of flexibility that could in some countries lead to potentially slower growth dynamics. With strengthening of coordination in this regard we can clearly move toward the gradual disposal of traditional competitiveness advantages created with various tax regimes and rates. This form of competitive advantage is probably over and we should expect similar institutional activities to ensure better monitoring, higher transparency and harmonization of taxes being undertaken on a global level too.

From our point of view it is very important to have a debate about fiscal union that targets not only expenditures, but also receipts, or taxes, because only the combination of measures on both sides of the budget can bring expected results in the form of consolidated public finances and functioning fiscal union. Therefore it is important to pay attention to tax evasion, fraud or aggressive tax planning and to coordinate measures in this regard on both European and global levels. In order to consolidate national budgets these actions have to be accompanied by country-specific measures, because a large part of tax evasions happen on the national level.

The Slovak Republic introduced an Action Plan to combat tax evasion in 2012. An important source of tax evasion is the loss on expected receipts from VAT, which in 2010 stood at the level of 3.5% of the GDP.[29] The Action Plan has three steps. The first step was enacted in 2012 and involved measures in the area of tax law, commercial law and criminal law. The second step, enacted in 2013, further enhanced already implemented measures in the three areas of law mentioned above, for example with the introduction of reinforced surveillance over risky business entities established in non-cooperative jurisdictions, or the introduction of special courts in the area of tax crime. Overall in this second phase financial administration intensified its anti-corruption program and established specialized tripartite teams (tax specialists, investigators, prosecutor) to address serious tax offences, which in combination with other enacted measures contributed to a better awareness and reputation of financial administration authorities, leading to higher tax collections.

Third step will have take effect no later than October 1st, 2014. This phase will introduce a new obligation to submit data on the domestic supply of goods and services to tax administrators in electronic form (summary statement), followed by the introduction of ratings for taxpayers and mandatory labelling of their ratings on tax documents. In the area of commercial law there is going to be an established register of disqualified persons and an insolvency register, as well as a stricter law on bankruptcy (deadline for bankruptcy with consequences of asset penalties and criminal sanctions for statutory bodies). In the area of criminal and financial law, there will be comprehensive reviews of elements of "tax crimes," with the possibility of introducing a new category of criminal act, namely "established fraudulent limited liability company". Legally seized financial assets will be held in the institution called the Asset Management Office. According to the Financial Policy Institute at the Ministry of Finance it is possible to reduce total loss thanks to actions taken in the Action Plan by at least 1,6% of the GDP (1,1 billion Euros) up to the

[29] Slovak Government (2010)

level of 1,9% of GDP, which would correspond to the average efficiency in the rest of the V4 countries and EU countries in 2009.[30]

Visegrád cooperation from Slovak Republic perspective

Cooperation among V4 countries is developing in the line with broader policy objectives that are also apparent on the European level. They can be categorized as three key areas, namely: energy security; transport; and defence. The Slovak Republic in this regard emphasises the building and upgrading of transmission infrastructure in the north-south gas interconnections networks and electricity grids in order to overcome unilateral import dependence on energy carriers (gas, oil). Further, Slovakia also emphasises the completion of single EU energy market as a key element for global climate and energy policy. The Slovak Republic also pays attention to building missing transport links, particularly through the development of a north-south transcontinental axis and the construction of an integrated intermodal transport system between the countries of Central Europe, which is one of the crucial factors for the intensification of trade, tourism, inward investments, sustainable factors of economic growth and the competitiveness of the region as a whole. Therefore SR will continue to support and implement the recommendations of the V4 working group on closer and better transport links.

The Visegrád cooperation strategy is closely connected with broader European integration and is particularly important when facing a dramatically changing external environment. SR will continue to strengthen growth and competitiveness of the V4 region as an integral part of Visegrád cooperation. In this respect we should focus particularly on a new framework for climate and energy policy, and promotion of an economic framework by implementing sustainable pro-growth measures, not excluding the use of foreign financial funds and the prevention of tax evasion. In order to increase regional competitiveness SR is implementing a policy supporting technological and social innovations. Common interests in energy, transport and

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[30] Slovak Government (2010)

regional infrastructure could be financed through European Instruments (for example CEF – Connecting Europe Facility) and there should be space created for the exchange of experiences and "best practices" in order to achieve synergic effects on growth and jobs in the V4 countries.

Foreign policy

For the Slovak Republic the Visegrád group was a very important platform in the process of integration into international structures, e.g., NATO. This platform for cooperation also supported political, economic and social transformation of the whole region. From this point of view the V4 format is still important, establishing a good example for democratization processes in Eastern countries. SR has no intention to enlarge the V4 group, but is supporting the development of cooperation with other regional groups and individual countries (in the V4+ format).

The cooperation of the V4 group within the EU, cooperation with other individual countries, or with other regional blocks (for example with Benelux, Baltic states, Gulf countries, Central Asian countries, Japan, USA, Russian Federation, Turkey and others) is a very important feature of future Visegrád strategic frameworks. European partners and Russia are for example important in dealing with the diversification of the energy supply. V4 countries should find a common voice when trying to achieve reasonable compromise between regulations on the European and respective national levels in the area of common agricultural policy. A common approach represented through the V4 platform could also be communicated in the area of changing climatic conditions and various global initiatives. Another area suitable for common representation and communication could be the exchange of information about cultural heritage, tourism and international policy in general, especially when dealing with very distant countries (and regions) like Japan, China, Australia, etc.

Whereas global partners often perceive V4 countries as one region, it is strategically important to be consistent when negotiating externally. In this respect we should better utilize the V4 format, focus on deepening already existing partnerships and identify potential new partners if there is room for value added in terms of V4 countries

(Austria, Croatia). Regular dialogue of V4 legislators is important and highlights the possibility of a deeper parliamentary dimension of V4 cooperation and exchange of views on current developments in the EU, foreign and regional policy levels. SR therefore supports strengthening the involvement of national parliaments in EU policy making.

SR also emphasizes a focus on strengthening the civic dimension of Visegrád cooperation, perhaps through closer cooperation of public television and radio organizations leading to increased awareness among the general public about current events and challenges, as well as our cultural heritage and historical links. In line with this communication strategy we should support activities of V4 public diplomacy to promote the Visegrád "brand" inside as well as outside the framework of V4 countries (the recent Visegrád cycling race, for example). The visibility of a Visegrád "brand" in the public eye could be increased through the synergistic effect of closer cross-border cooperation. To highlight the common approach of the Visegrád Group and strengthen international cohesion we should continue to build regional platforms such as GLOBSEC conferences or Tatra Summits and support the activities of the International Visegrád Fund with increased national contributions.[31]

V4 should be more active and visible in the process of EU policy formulation, especially when dealing with the eastern vector of European policy (Eastern partnership, Western Balkans). Eastern partnership should be accomplished not only as a technical process, but with help of the V4 example as a policy with a pronounced and clear political vision of "opening the door" to the EU. The V4 group could coordinate its activities or support individual activities of members in the area of development policy and help. There is the possibility for strengthening cooperation among V4 countries in the process of candidatures to various bodies of international organizations. There is space for closer cooperation when formulating positions of V4 countries during the process of mitigating the effects of the global economic, financial and social crisis, as well as when formulating the EU position in areas which have global dimensions, for example in ne-

[31] Ministry of Foreign and European Affairs of SR (2014)

gotiations on global climate change (including financial instruments to address the impacts of climate change).

An important area for possible joint policy is to achieve closer cooperation in providing assistance to V4 member country citizens in third countries, where one of the V4 members does not have diplomatic representation, or it is difficult to access such help (in large countries). Therefore it is important to pursue closer cooperation and communication on the level of Foreign Affairs ministries, with possible benefits from the coordination and rationalization of V4 diplomatic and consular presence abroad. In this regard V4 countries could seek mutual support abroad and search for effective options, or even share the premises and buildings owned by one of the V4 member countries.[32]

Policy towards Eastern countries

When compared with old EU-15 countries, the V4 platform has – thanks to similar languages and experiences – a natural advantage toward assisting the integration process of eastern countries. Common cooperation with Central European countries outside the EU (Eastern partnership, Ukraine) and with Western Balkan countries could be targeted on various issues, for example migration and democratization.There is space for a more flexible exchange of views and information on issues threatening national security, with emphasis on the security in the Central European region. It is also possible to take a more coordinated and active part in the preparation of NATO strategic concepts. With regard to NATO there is space for establishing common tactical units.

An important area where we can find common interests is strengthening the global approach to migration – i.e., legal migration management, the fight against illegal immigration and strengthening the synergies between migration and development of the eastern and south-eastern dimensions. In this regard it is important to address issues of institutional and systemic linkages between migration and development policy. Sharing experience from the transformation and implementation of sectoral policies could be the

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[32] Ministry of Foreign and European Affairs of SR (2014)

premise for setting sectoral policies as part of the dialogue with countries of the Western Balkan and Eastern Partnerships. Experiences from economic transformation and economic and social reforms, plus joint sharing of expertise achieved during the Visegrád group countries' accession process to the EU and NATO, are important areas where we can help. The active engagement of V4 countries should facilitate the achievement of positive results in various areas of cooperation, such as energy, agriculture, justice, homeland security, human rights and democratization, as well as administrative capacities building.[32]

Integration to EU and NATO (open door policy) are still strategic instruments for achieving stability, democracy and prosperity in Europe. But developments during the last couple of months in the Ukraine and policies pursued by EU and NATO are clearly further escalating the conflict with separatists from Eastern Ukraine and especially with Russia. Therefore we assume that V4 countries should act as mediator in this conflict and try to introduce a more helpful form of dialogue, especially without economic sanctions, which are very costly for European countries and not helping to solve the problems of Ukraine in any way. V4 should coordinate its efforts to end the civil war in Ukraine, consolidate democratic institutions and put the country back on normal economic and social development paths as soon as possible. We should ensure the effective implementation of the Eastern Partnership with its bilateral and multilateral dimensions, paying special attention to dialogue with Russia.

Transport

Transport is a very important area of existing and prospective cooperation. Such cooperation should continue through the process of revising the policy of Trans-European transport networks on the European level, in order to formulate common position and future priorities for V4 countries. V4 countries should intensify common efforts in supporting the development of international rail freight corridors and road infrastructure within the Trans-European Transport Network, as well as efforts to promote the development of the European Rail Traffic Man-

[33] Ministry of Foreign and European Affairs of SR (2014)

agement System. Last but not least there are unexploited opportunities for the development and construction of joined waterways.

Social infrastructure

Social infrastructure is important to promote intercultural dialogue, cultural diversity and cultural exchange programs in V4 countries and neighbouring regions. We should further support joint projects and events within the activities of institutes and V4 cultural centres to strengthen the platform for a continued effort of V4 presentation through cultural and historical heritage. Cooperation could be further strengthened in the operation of public-service television and radio. Ministries of education should continue to provide internships to students in all active and new programs. Supported programs should strengthen Visegrád civic participation, particularly in the areas of scholarships and academic exchange, culture, tourism, science and research, official development assistance and cross-border cooperation. Cooperation among V4 countries should in this area focus on:

a) the transfer of good practices with regard to the problem of long-term unemployment;
b) exchange of information and experience when dealing with post-crisis measures in the field of active labour market policies and;
c) exchange information and intensify efforts leading to the integration of the Roma population.

V4 countries should exchange expertise and continue to implement, in collaboration with the EU, the strategy for promoting Roma inclusion in society. Possible common strategy could incorporate and elaborate specific modalities for the purposes of implementation and closer cooperation between V4 countries and the EU. V4 cooperation should in this regard strengthen the coordination mechanisms leading to the social integration of the Roma population.[34]

Regional development

We should support regional development through strengthening the territorial cohesion of V4 countries, while respecting the specificities

[34] Ministry of Foreign and European Affairs of SR (2014)

of each country. There is space for cooperation in the development of integrated plans for particular towns and villages. Rural area development and the agricultural sector should be objectives for the coordination of common positions when mutual interests arise, especially during discussions with major international institutions (EU, OECD, WTO, etc.). Implementation should particularly focus on:

1) common approaches in order to prevent the decline of livestock and to revitalize the dairy sector;
2) common approaches when dealing with the current market situation – where we should prevent the abuse of the dominant market share by multinational chains against domestic suppliers and food processors, with particular emphasis on small and medium-sized producers. In this regard coordinated support is helpful, through the creation and promotion of producer association interests against oligopolies and monopolies.

A further unexploited sector for joint initiatives is in the area of food safety, where V4 countries should make efforts to eliminate problems related to the import of low-quality agricultural products from third countries and, subsequently, persuade the European Commission to lobby WTO negotiators for better management of low quality imports and for limiting harmful food (GMO) imports to EU member states as well. This could lead to greater improvement in the quality of food.

Also important is the continual coordination of the long-term common goal to minimize the differences between “new” and “old” EU member states and ensure their equal treatment in the field of common agricultural policy. Regarding the solution to the potential energy crisis, V4 countries should discuss and cooperate in increasing the production of biofuels and other sources of sustainable energy (e.g., thermal).

Security of energy supplies has in the last couple of years been granted significant economic importance. Therefore it is important to jointly elaborate possibilities for mutual cooperation among V4 countries, especially during critical situations. V4 countries should assess the possibility of a crisis plan for the region and to exclude the possible creation of isolated energy islands out of reach of alternative (emergency) supplies of energy. Therefore it is important to strengthen the interconnections of gas infrastructure, including the reverse flow of gas. In the field of environment Visegrád cooperation should reflect eco-efficient development under the Europe 2020 strategy for sustainable development and the strategy to combat climate change. Another important issue, but one with more regional impact, is waste management and related prevention, recycling and biodegradable waste, with regard to the responsibility for the illegal cross-border transportation of waste. It could be useful to intensify cooperation in the fields of chemical and industrial security, with emphasis on the prevention and correction of environmental damage.

Industry and innovation offer another potential cooperation agenda, where the V4 platform could create a beneficial environment for the promotion and coordination of innovations development within the V4 framework. The development of infrastructure is necessary in this regard. For example, the creation of common fund for the co-financing of selected innovation projects, or the establishment of a "V4 innovation centre" that would enable the transfer of technologies and knowledge, transfer applied research results to the business community, as well as help in the search for and marketing of innovative ideas (technologies, processes and services) to the market, in order to improve the quality of innovative environment in cooperating countries, is possible. Such a policy could be also helpful for promoting innovative firms from V4 countries to various domestic and foreign partners.[35]

Conclusions

The consolidation process post-recession and post-debt crisis is well under way in the Slovak Republic, and sustainability of public finances is regarded as a key feature of future economic expansion. Strong fiscal commitment is evident and the health of public finances is visible through the sustainability of pensions, social security and health care systems. These systems are crucially influenced by an ageing population and therefore it is important to connect whole social system with demographic evolution. In these terms, to prevent

[35] Ministry of Foreign and European Affairs of SR (2014)

the potential growth of public debt induced by an ageing population, the Slovak Republic is implementing several structural reforms. Important measures are going to be implemented in the line with procedure called the Fiscal Compact, which entered into the force in January of 2013. The new fiscal framework should improve overall understanding of fiscal policies pursued by the government, particularly in the context of long-term fiscal sustainability.

However, it is uncertain whether the reforms needed to comply with the Fiscal Compact will enable the depressed economies of Europe to regain their competitiveness, because it is questionable whether prescribed reforms and proposals could be effectively implemented concurrently in every member state of eurozone, and that is why we will probably witness persistent imbalances between countries in the years to come (without appropriate economic growth).

The fiscal concept of balanced budgets is part of the greater economic governance reform gradually leading eurozone member states to a more unified fiscal system – probably fiscal and political union. Probably the most important parameter of Euro-Plus Pact treaty – the competitiveness objective – will be based on wages, productivity development, market flexibility and quality of institutions. A continuous declining trend in real unit labour costs in the Slovak Republic after the adoption of the Euro in 2009 is shaping competitiveness, with active labour market policies, research and development and an educational system that are under-financed. We need to breakthrough and advance further in this area to stay within reach with our neighbours and to meet the requirements for post-industrial knowledge-based societies of the modern world. These conditions are complicating the path towards higher competitiveness and lower unemployment.

High unemployment is probably biggest challenge SR has to face, because of its systematic implications on regional differences. Differences between particular regions are now (data for 2011) bigger than at the beginning of 21st century. This regional pattern of the SR economy is creating space for regional cooperation within the V4 framework. There are several other important areas for Visegrád cooperation, which is especially important during these times of rapidly change in the external environment. Well-defined common interests are to be found in the areas of energy supply and safety, or transport and regional development. The V4 should be more active and visible in the process of EU policy formulation, especially when dealing with the eastern vector of European policy (Eastern partnership, Western Balkans). Whereas global partners often perceive V4 countries as one region, it is strategically important to be consistent when negotiating common interests externally.

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Manifestations of Russia's Great Power Interests in the Central European region, and its effects on the Visegrad Cooperation

András Rácz[1]

Amidst the crisis in Ukraine and the cool-down of EU-Russia relations, the role and position of Central Europe – a region neighbouring Ukraine – also receives increasing attention regarding its relations with the Russian Federation. This paper is aimed at providing an overview of how the role of the Visegrad region has changed in Russian foreign policy since the collapse of the Soviet Union. The main aim is to define the main strategic interests behind the foreign policy of Moscow towards the region.

Hence, the paper seeks to answer the following research questions. First, what are the main interests of Russian foreign policy vis-à-vis the Visegrad countries? Second, whether Russia's general, strategic interests related to the EU and NATO may overwrite or change the bilateral, country-specific interests?

The paper is composed of five main parts. Following the introduction, the first chapter briefly discusses the self-perception of Russia as a geopolitical player. In the second part, the historical context of Central Europe – Russia relations is discussed, focusing on the im-

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mediate post-1989 period. The third chapter describes the similarities and differences of Visegrad foreign policies vis-à-vis Russia, including the analysis of how the present conflict in Ukraine has affected the Visegrad. Thereafter, in the fourth part a brief effort is made to map out the main scenarios of the future of Visegrad – Russia relations. The paper ends with a final, concluding chapter.

Concerning sources, the analysis is built on both primary and secondary sources. From the first group, the researcher is in a lucky situation, as the foreign policy strategies of the Visegrad countries are publicly available, as well as the documents of the International Visegrad Fund. From the Russian side, several relevant documents are published on the website of the Ministry of Foreign Affairs of the Russian Federation, and also on the one of the Kremlin. In addition to all these, one can rely on numerous declarations and public speeches of Central European and Russian politicians too.

Secondary sources are also richly available. Numerous Central European researchers publish regularly about various aspects of Visegrad-Russia relations. From Poland the publications of the Centre for Eastern Studies need to be mentioned on the first place.[2] From the Polish Institute of International Affairs, Dariusz Kałan regularly publishes about the Visegrad cooperation, including its relations to the Russia-Ukraine crisis.[3] A valuable contribution to the research on Visegrad foreign policies was the 2011 special issue of the *Perspectives,* the reviewed academic journal of the Institute of International Relations in Prague. This issue, edited by Elsa Tulmets discussed in detail the identity-related dimensions of the Eastern foreign policies of the Visegrad countries.[4]

Alexander Duleba is frequently publishing about Slovakia's relations with Russia[5] and the functioning of Visegrad Eastern policies, as well as about the development of the EU neighbourhood policy. The comprehensive study of Juraj Marušiak about the history of Slovak foreign policy vis-à-vis Russia also worths reading.[6] From the Hungarian

[2] See, for example: Gniazdowski et al. (2014)
[3] Kałan (2013)
[4] See: Perspectives (2011)
[5] Duleba (2009)
[6] Marusiak (2013)

academic community, Andras Deak frequently assesses the energy policy dimensions of Visegrad-Russia relations,[7] while Zsuzsanna Végh regularly contributes to the debate about the future of the Eastern Partnership, including the role of the Visegrad countries in it.[8]

Moreover, there is certain Western interest in the subject as well: one may mention the insightful papers of Martin Dangerfield on the Visegrad cooperation[9], for example his valuable comparative study about the Russia policies of the Czech Republic, Hungary and Slovakia, published in 2013.[10] The Center for European Policy Analysis (CEPA) in Washington D.C. also publishes regularly about the Visegrad region.[11]

From the Russian side, one may mention the works of two prominent researchers of the Russian Academy of Sciences, namely Svetlana Glinkina and Lyubov Shisheslina.[12] Moreover, in 2012-13 with the support of the Friedrich Ebert Foundation a highly interesting collaborative research was carried out under the project leadership of Andrei Zagorski from the Moscow State Institute of International Relations (MGIMO), discussing the relations of the wider Central Europe and Russia and the possibility of a fresh start.[13] Though the Ukraine crisis annulled the possibilities identified in this project, the assessment was anyways remarkable.

As the paper was finished in December 2014, certain questions are obviously left open regarding the relations of Russia and the Visegrad countries, such as whether the winter would bring a lasting ceasefire in Ukraine, or how the V4 countries will vote in spring 2015 about maintaining the EU sanctions against Russia. In the paper the term "Central Europe" is going to be used in a narrow sense, as a synonym to the Visegrad region, thus meaning only the Czech Republic, Hungary, Poland and Slovakia.

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7 Deák et al. (2013)
8 Végh (2014)
9 Dangerfield (2012)
10 Dangerfield (2013)
11 For example, see: Lucas et al. (2014)
12 The Russian names mentioned in the study are transliterated according to the English spelling rules.
13 Zagorski (2013)

The self-perception of Russia as a geopolitical player

There is wide consensus among both Russian and Western experts that the Soviet heritage, i.e. the former status of a global power still plays a key role in the foreign policy of Russia. In addition to the historical heritage, the continuity among the foreign and security policy decision-making elites, particularly among the so-called *siloviki*[14] plays a role as well. The strong anti-Western ideology that one may witness today is also deeply rooted in the Soviet past: as pointed out by Marie Mendras, the West was the rival self of the Soviet Union, as *"the myth of a hostile and unjust Western civilization legitimized the Soviet Union."*[15] The present Russian official discourse on the West often uses the very same ideological and communication panel like the Soviet propaganda did.

Regarding the real status of Russia, one has to add that the contemporary strategic documents of Russian foreign policy admit more or less openly that Russia is not a global power any more. The National Security Strategy adopted in 2009 spoke about the need of *"transforming the Russian Federation into a world power",*[16] which implies that it was not one at the time when the strategy was adopted. The Foreign Policy Concept from February 2013 declared that the CIS region is the priority area of Russian foreign policy,[17] and admits that Russia contributes to the settlement of global problems mostly via its permanent membership in the U.N. Security Council and in many regional organizations,[18] thus not on its own like the Soviet Union was able to do.

The Foreign Policy Concept also reflects to Russia´s opposition to the global leadership role of the U.S. In his famous speech given at the Munich security conference in 2007, Vladimir Putin accused the United States of endangering global stability, trying to build a unipolar world by imposing its will on other states, and of generating a new

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14 The word originates from the Russian term 'sil', meaning 'force.' The expression 'siloviki' is used as a collective name for all those, who are active or former members of the various state force structures, such as the armed forces, the police, or various secret services.
15 Mendras (1997)
16 Office of the President of the Russian Federation (2009), Paragraph 21.
17 Ministry of Foreign Affairs of the Russian Federation (2013), Paragraph 42.
18 Ibid, Paragraph 23.

arms race with its missile defense system, but without putting an end to any of the new wars it has started. Hence, Putin declared the whole U.S. foreign and security policy to be fundamentally mistaken, and called for the complete reconsideration of the global security architecture.[19] An important Russian initiative into this direction was the proposal of then President Dmitry Medvedev about a new European Security Treaty, launched in 2009. The Medvedev-plan envisioned the creation of a new security institution, in which Russian would have had a de facto veto power over all important questions of European security.[20] The proposal received no serious consideration on the West, despite the “reset” policy of the Obama-administration, because empowering Russia with an institutionalized veto power would have been a step too far for Western policymakers.

Because Russia has perceived and still perceived the former Soviet Union as a zone of its special interests, consequently it was vehemently opposed to any changes which may endanger its influence in the region. In other words, one may well call Russia a status quo power, as did, for example, Anne Clunen in 2009.[21] Moscow has been firmly against the so-called color revolutions, i.e. the series of democratic, pro-Western political turns in a number of post-Soviet countries, which removed the previous, pro-Russian elites from power. Some of these revolutions were successful, like the ones in Georgia, Ukraine and Kyrgyzstan, while other failed, like they did in Moldova, Belarus and Uzbekistan.

Moscow has also been traditionally against any policies of the EU and NATO to expand their activities to those countries of the former Soviet Union, which choose the pro-Western track. This concerned particularly the intentions of Georgia and Ukraine to join NATO: during the Bucharest summit in 2008, Putin accused the U.S. of not taking into account the legitimate security concerns of Russia when trying to make Tbilisi and Kyiv become members of the Alliance.[22] The Russian Military Doctrine from February 2010, adopted shortly after the Bucharest summit openly named the Eastwards expansion

[19] Watson, Rob: Putin’s Speech: back to cold war? BBC, 10 February 2007
[20] President of Russia: The draft of the new European Security Treaty. 29 November 2009
[21] Clunan (2009), p. 174.
[22] Erlanger (2008)

of NATO as a primary security threat for Russia.[23] The change came shortly after Bucharest: the August 2008 war in Georgia and the recognition of the "independence" of Abkhazia and South Ossetia demonstrated that Russia was not a status quo power any more, but a revisionist actor that was ready to challenge the existing world order, as Paul Goble wrote already during (!) the war.[24] The annexation of the Crimea and the massive armed intervention into Ukraine in 2014 may well fit into the very same framework: Russia is not accepting any more the existing world order. Moreover, it is increasingly able to do so, as the lengthy military reform, which got a new impetus as a reaction to the several deficiencies experienced during the Georgia war, has started to bore fruits. To early 2014 the Russian conventional and nuclear armed forces were much more mobile, flexible, better led and better equipped than they were in 2008, as Giles and Monaghan argue in their comprehensive study.[25]

The increasing assertiveness of Russian foreign and security policy obviously affects Moscow´s relations with the European Union as well. Vis-a-vis the EU Russia has long been trying to maximize and utilize the existing differences between the member states. Instead of negotiating with the EU as a whole, a partner much stronger and economically more powerful than Russia, Moscow prefers to negotiate bilaterally with the member states, thus pursuing a traditional, "divide and rule" type of policy, as it was pointed out by Mark Leonard and Nicu Popescu in 2007.[26] This obviously affects Russia´s relations with the countries of Central Europe as well.

The historical context of Central Europe – Russia relations

The relations of Central Europe and Russia indeed have a turbulent past. The Russian Empire played a key role in the partitions of Poland in the 18-19th century, and the 1830-31 uprising of Poles, often called the Cadet Revolution was quickly cracked down by the

[23] President of Russia (2014). Voennaya doktrina Rossiyskoy Federatsii
[24] Goble (2008)
[25] Giles – Monaghan (2014)
[26] Leonard – Popescu (2007), p. 13.

Tsarist forces. Russia helped Austrian Emperor Franz Josef defeat the Hungarian uprising in 1848-1849, and another Polish uprising in 1863-1865 was also brutally crashed by the Russian Empire. Russia was a menacing enemy of the Austro-Hungarian Empire on the Eastern Front in the First World War, where tens of thousands of Slovak and Czech nationals fought against the Tsarist forces. Following the revolution in 1917, Soviet Russia launched a deadly, though finally unsuccessful attack against the newly independent Poland in 1919, and peace was restored only in 1921. Meanwhile, in Hungary a Soviet-style Communist regime came to power for a short while, the so-called Hungarian Soviet Republic (*Tanácsköztársaság*) in 1919.

In the beginning of the Second World War, Poland was jointly invaded by Nazi Germany and the Soviet Union, while parts of Czechoslovakia were already annexed by Hitler, and in Slovakia the satellite state of the First Slovak Republic was installed, led by Jozef Tiso. Meanwhile, Hungary under Regent Miklós Horthy was striving for regaining as much as possible of the territories lost in 1920 by the Treaty of Trianon. The promised of Hitler to support Hungarian revisionism, as well as the fear from the Soviet Union made Budapest to join forces with Berlin, thus Hungarian forces were fighting against the Soviet Union almost until the very end of the war.

In the post-war period, the Sovietization of Central Europe was finished to 1949, and loyal Communist regimes were installed to Warsaw, Prague, Bratislava and Budapest. Hundreds were executed in political show trials, while tens of thousands got deported or imprisoned. The Soviet Union cracked down all protests and uprisings against its rule, let them be in Poland in 1953, in 1956, in 1970, in Budapest in 1956, or in Czechoslovakia in 1968. The heritage of the Communist past left lasting marks on the societies of all Central European countries.

However, nowadays the strategic leverages of Russia over the whole region are much smaller than they were in the Soviet times. First and foremost, with the Soviet Union falling apart, Central Europe has no common border with Russia any more, except a short section in northern Poland at the Kaliningrad region. Second, occupying forces of the Red Army were withdrawn from the whole region peacefully, without any major problems.[27] The Warsaw Pact also ceased to exist peacefully in July 1991. Besides, since the Visegrad countries have joined NATO in 1999 and 2004, the region enjoys the collective defense provided by the Article V. of the Washington Treaty. Though debates are frequent about how meaningful NATO collective defense is,[28] Central Europe still enjoys a much higher level of military security vis-a-vis Russia than it ever did. Third, the old, pro-Moscow Communist elites were ousted from power in the whole region and they have no chance to return. Instead, all four countries of Central Europe are firmly integrated into the European Union and the NATO. Fourth, unlike in the Baltic States, there are no significant ethnic Russian minorities living the Central Europe. Even though there are a considerable number of Russian citizens investing and often residing in the Czech Republic and Hungary, they do not constitute such an organized, ethnic minority which could cause any political turmoil, or could serve as a pretext for any action from the side of Russia.

In other words, Russia does not possess any of the classical hard security leverages over Central Europe any more that the Soviet Union did. The direct control that Moscow was able to exercise over Warsaw, Prague, Bratislava or Budapest until 1989 disappeared. The maximum Russia is able to do is to rely on a rich toolbox of political and economic influencing vis-a-vis the Visegrad countries, for example, to use energy prices or lucrative business contracts, etc. These, one has to admit, may be very effective in certain cases. However, it is important to keep in mind the historical past: in the context of the last two centuries, the post-1989 period was the first time when Central Europe needed to be concerned only of the soft power potential of Russia, but not of any direct hard security threat from Moscow. This period of grace came to a quick end by the Russian occupation of the Crimea in March 2014, which has fundamentally changed the overall context of European security, including the one of the Visegrad region, which is to be discussed in the next chapters.

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[27] For more information, see: Nadovič (2005)
[28] See, for example, a brief, but serious contribution by Jamie Shea: Shea (2013)

Russian policies towards the Visegrad region after 1991

Following the disintegration of the Soviet Union, Russian foreign policy had a brief, pro-Western period, characterized by the establishment of the basic structures of a multi-party democracy, liberal economic reforms and a strongly pro-Western foreign policy led by Minister of Foreign Affairs Andrei Kozyrev.[29] This time many in Russian believed that because Russia and the newly free countries of Central Europe experienced similar problems, this may produce a common ground for a friendly approach towards each other.[30] In line with these hopes, President Boris Yeltsin visited Budapest in 1992 and Warsaw in 1993, and besides addressing questions of bilateral cooperation, he made important gestures as well: in Poland he laid flowers at the memorial of the Katyń massacre,[31] and in Budapest he apologized for the breakdown of the 1956 Hungarian revolution. Yeltsin also expressed his understanding of the will of Poland to join NATO.

However, this initial euphoria quickly faded away both in Russia and in Central Europe. As pointed out by Davydov, both sides had a share in the blame. Russia failed to elaborate a new strategy towards the region, while Central European leaders wanted to limit the influence of Russia. They preferred to have a weak, but stable Russia – something which quickly turned out to be impossible, as it was demonstrated by the conflict of Yeltsin and the Russian parliament in autumn 1993. The mutual mistakes were exploited by nationalists on all sides, and the emotional moods of the societies were not helpful either.[32]

Hence, the pro-Western momentum of Russian foreign policy was gradually replaced by a more critical, increasingly nationalist line starting from late 1992.The failure of the IMF-promoted "shock therapy" economic reforms, the war in Yugoslavia and the conflict in Chechnya all played a role in changing the Russian foreign policy course towards the West, including Central Europe as well. Russia

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29 On this foreign policy line see in detail: Tsygankov (2006)
30 Davydov (1997)
31 Perlez (1993)
32 Davydov (1997), p. 371.

started to perceive the intention of Poland, the Czech Republic and Hungary to join NATO as a threat to its own security. Russian concerns about the 1999 enlargement of NATO are well documented by several Western and Russian authors. According to the Russian perception, NATO enlargement meant not only as a principal violation of the Gorbachev – James Baker talks in early 1990, but also as an important national security threat.[33] The latter was well reflected in the Military Doctrine of the Russian Federation adopted in 2000.[34]

The overall negative Russian attitude over Central European NATO enlargement prevailed in the late 1990s. The August 1998 financial crisis in Russia also contributed to the cool-down of Central Europe-Russia relations. Bilateral trade dropped radically, and the dominant players of Central European exports to Russia either ceased their trade activities, or decreased them to a significant extent.

In 1997 the Russian Council for Security and Defense published an analytic report on the interests of Russia in the Central and Eastern European region.[35] This was actually the first foreign policy document of Russia which specifically addressed the role and place of Central Europe for Moscow. The document was remarkably sober compared to the earlier 'flat refusal' attitude of Russia regarding NATO's Eastern enlargement.[36] It pointed out that despite the historical attractiveness of the Balkans region the real interests of Russia lay in nearby Central Europe. Consequently, it suggested that Russia should strive for strengthening its economic positions in the Visegrad countries before they became members of the EU, then expected to happen in 2005. The document also demonstrated that the primary importance of Central Europe for Russia did not originate from the bilateral relations, but from the region's foreseeable membership in the NATO and EU.

Central Europe - Russia relations started to again develop approximately from the year 2001, motivated both by political and economic elements on both sides. First, the rapid recovery of the Russian economy had an important role to play: the Russian market became in-

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[33] Arbatov (2000)
[34] Ministry of Defense of the Russian Federation (2000)
[35] Sz. Bíró (1997)
[36] On the 'Karaganov-doctrine', see for example Valki (1995)

creasingly attractive for Central European export companies again, and Russian business circles also became more active in the Visegrad region. Second, following the 11 September 2001 attacks, the United States considerably improved its relations with the Russian Federation, and so did the NATO. Consequently, Poland, the Czech Republic and Hungary as NATO member states were also to follow this track, in addition to the above mentioned economic factors. Slovakia, not yet a NATO member, but clearly on the way towards accession, followed the same line. Third, Moscow finally realized the inevitability of the EU enlargement, thus started to pursue the policy described in the mentioned 1997 strategy. This change was well demonstrated by the declarations of various Russian decision-makers. For example, First Deputy Foreign Minister Alexandr Avdeyev said in Moscow on the scientific conference titled 'Russia and Central Europe in the New Geopolitical Situation' in 2001 that *'In the light of the coming enlargement of the European Union, Russia considers the development of lasting good neighbourly relations with countries of Central and Eastern Europe of high significance.'*[37]

However, the cool-down of Russia-West relations under the U.S. administration of President George W. Bush affected the Central European countries as well. This was particularly so, because Poland, and to a lesser extent, the Czech Republic as well were actively engaged in supporting the "color revolutions" in the former Soviet Union, thus indirectly challenging Russia´s perceived privileged interests there. Besides, decisive majorities of the Visegrad foreign policy elites have been in favor of strengthening the EU´s and NATO´s cooperation with countries of Eastern Europe, and particularly with Ukraine and Georgia. It is not surprising that the Czech Republic and Poland were among the leading champions of the launch of the Eastern Partnership in 2009, following the war in Georgia. Slovakia and Hungary have also been supportive to the initiative, though on slightly different motivations and with a bit lesser enthusiasm.

The Visegrad skepticism on Russia was further strengthened by the "energy wars" between Russia and Ukraine (and, to a lesser extent, between Russia and Belarus), concerning particularly the mont-long

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[37] Quoted by Siselina (2002), p. 61.

supply interruption in January 2009, which seriously affected Slovakia and Hungary. The crisis gave an important push for speeding up the gas supply diversification efforts in the region, in order to decrease the dependency on Russia.[38] Visegrad countries were also very supportive to the Nabucco pipeline project, motivated by the same diversification intentions. Not surprisingly, as a counter-reaction, Russia has done its best to kill the Nabucco,[39] and also to hamper Polish shale gas extraction projects,[40] which would mean another possible alternative to the Russian gas. The approach to energy security and Russia is currently perhaps the most important dividing factor inside the Visegrad cooperation.

Divided We Stand: Visegrad Foreign Policies on Russia

Regarding the crisis in Ukraine, though the Visegrad countries share many common interests related to Ukraine as a neighbouring state, but they are very much divided on Russia, the main actor in the conflict. The Russia-related differences inside the Visegrad Four contain both normative and policy ones as well.

Speaking in a broader context, one needs to be aware of the strong normative differences between the four Visegrad countries vis-à-vis Russia Poland has a traditionally very strong Trans-Atlantic commitment and, furthermore, taking a hard stance on Russia often serves certain geopolitical ambitions of Warsaw as well. Foreign policy of the Czech Republic has been long characterized by a strong focus on human rights, and this attitude often makes Prague taking a very Russia-critical position. At the same time, both Slovakia and Hungary are much more pragmatic on Moscow and pay much less attention to normative issues, including the situation of democracy and human rights in Russia than Poland and the Czech Republic do. Besides, Hungary, under Viktor Orbán is likely to continue its increasingly Euro-skeptic, more East-oriented policy track, often described as

[38] Nosko (2013)
[39] Geropoulos (2012)
[40] Harvey (2014)

"Opening to the East."[41] Though originally the "Eastern opening" was launched only as an economic policy, since the July 2014 speech of Orbán in Tusnádfürdő, where he announced his will to build an illiberal state,[42] one may have very few doubts that the project has normative motivations as well.

In terms of military security, though Russian troops are fighting a war in Ukraine, these groupings do not pose any direct military threat on the Visegrad region, which is firmly protected by the NATO membership. Hence, a Russian military attack directly against any V4 country is very unlikely, though since the occupation of the Crimea it cannot be fully excluded. Besides, the Visegrad countries are, of course, well aware of the security concerns of the Baltic NATO allies. Hence, Poland and the Czech Republic are ready even to militarily contribute to strengthening NATO's Eastern European defense capabilities. Besides demanding the deployment of U.S. troops to the country, from 1st May Poland leads the NATO mission aimed at enhancing the air defense of the Baltic States. Poland contributes with four MiG-29 fighters and hosts other NATO air force units as well.[43] Prague has offered Gripen fighters and 300 Czech soldiers to strengthen the Alliance.[44] Besides, Hungarian Gripen fighters are participating in the defense of the Baltic airspace, in the framework of a NATO operation.

Regarding energy security, Gazprom is clearly the dominant player of the region[45]. The Czech Republic is least dependent, with Russian gas having a 66% share in all gas imports. Hungary and Poland receive 81 and 83 per cents of their gas imports from Russia, while Slovakia is dependent on Russian import to the extent of 93%. It is important to note however that there are considerable differences in the Visegrad countries' level of dependence on Russian gas supplies, and not only in terms of numbers. Both Poland and Slovakia are key transit countries of the Russian gas flowing westwards, and the

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[41] Kałan (2014a)
[42] Egy munkaalapú állam korszaka következik" [The Era of a Labour-Based State is to Come], www.fidesz.hu, 26 July 2014. Official website of the Fidesz party.
[43] NATO (2014)
[44] Radio.cz. 18.4.2014.
[45] Deák – Naumenko (2013), p. 11.

Czech Republic also plays a transit role. Hence, these three countries are protected by their transit positions, meaning that Russia cannot simply turn off their gas supplies without endangering its other Western clients. It should be added that Poland, the Czech Republic and Slovakia have already renewed their long-term gas delivery contracts with Gazprom.

In terms of gas dependence, Hungary is perhaps the most vulnerable country of the region. Unlike the other three Visegrad states, Hungary has no significant transit position moreover, Budapest has not yet signed a new gas delivery contract instead of the previous one expiring reportedly in early 2015. These factors make Budapest very vulnerable both to Russian price hikes in connection with the new gas contract, and also to possible supply interruptions. Besides, the government-managed cut of household costs, particularly of gas and heating costs has played a decisive role in the re-election of Prime Minister Viktor Orbán in April 2014 by attracting many voters. Among such circumstances Orbán simply cannot afford any increase in the gas prices, because its domestic political costs would be far too high. This makes his government very cautious about any confrontation with Russia.

Noteworthy, one needs to note that the Visegrad countries are jointly pursuing a number of projects aimed at decreasing their dependence on Russian gas. The building of North-West gas interconnectors and enabling reverse-flows are going on, as well as the construction of an LNG terminal in Poland. In the long run these projects may enable the Visegrad region to considerably decrease the share of Russian gas in its imports, thus to decrease the dependence on Gazprom. However, as none of these projects are yet completed, in the short run they could not help either against unwanted supply breaks, or against deliberate punitive measures of Russia.

This latter concern is particularly relevant taking into account the strong capabilities Russia has and is ready to use to reciprocate for anti-Russian actions. Moscow's inventory includes gas price hikes, breaks and delays in oil supplies, non-signing of pending contracts, sudden bans on agricultural imports, etc.

Regarding trade, among the Visegrad countries Russia has the highest share in Poland's exports with 5,4 per cent. According to the official Russian statistics,[46] in 2013 Poland exported to Russia in the worth of 8334 million USD, the Czech export reached 5318 million USD, the export of Slovakia was 3554 million USD, and of Hungary 3007 million. This implies that in economic terms it is actually Poland that has the most to lose in case Russia reacts with economic counter-measures to EU sanctions.

However, the other three Visegrad countries are engaged in a number of large, demonstrative political-business projects with Russia. Slovakia planned to build two new nuclear reactors in Jaslovske Bohunice together with Rosatom, and hopes to be partner of Russia in getting the broad-gauge railway network extended to Slovak territory. Besides, Slovak defense industry has a number of important Russian partners. Until very recently the Czech Republic planned to get its Temelín nuclear power plant extended by Russian contractors. However, the Czech Minister of Defense already declared that it was highly unlikely that the Temelín project could be finished by a Russian company. This is in strong contrast with the policy of Hungary, as Budapest has signed a contract in December 2013 about two new reactors to be built in Paks, and took also a credit line of 10 billion euros to finance it.

As a result of all these differences, the Visegrad Group has been unable to adopt a similarly common position on Russia like it did on Ukraine. The V4 is very much divided about how to react on Russia's actions in Ukraine. In particular, the Czech Republic and Poland have been very much supportive to the first two rounds of EU sanctions, including the latest expansion of targeting Russian leaders,[47] whereas Slovakia and Hungary were far less active. Regarding the most critical, third round of sanctions, though in the beginning all the Czech Republic, Slovakia and Hungary were opposed to them, finally they all gave their consents, though reportedly under strong pressure from Germany. The Russian food ban, introduced as a reaction to the third round of EU sanctions, came as an unpleasant surprise for the Visegrad region, and particularly Poland, the Czech Republic and Hungary, who imported agricultural products to Russia. Though the share of

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[46] Vneshnaya torgovlya (2014)

[47] EU Prepares More Sanctions Against Russia. EurActiv.com 8 May 2014. Available at: http://www.euractiv.com/sections/global-europe/eu-prepares-more-sanctions-against-russia-301998, accessed 25 October 2014.

Russia in their overall exports is marginal, the food ban may anyways cause a minor drop in their GDP, around 0.1-0.2%.[48] The fact that Moscow introduced the import ban without any distinction against the whole EU was particularly painful for Viktor Orbán, as it delivered a bow to the credibility and profitability of his “Eastern opening” project.

Interestingly enough, though Hungary is striving for becoming a reliable ally of Russia, Moscow is not hesitating to put pressure on Budapest either, when it comes to weaken either the EU or the NATO. One may remember the fake information published by an obscure Hungarian-language website linked to Russia, based on which “news” Russia officially accused Hungary of delivering tanks for the Ukrainian government.[49] Besides, Hungary has recently faced a high-level spying scandal as well: a Member of the European Parliament fraction of the opposition party Jobbik, Béla Kovács is officially accused of spying for Moscow.[50]

The recent Russia-related espionage scandal in the Czech Republic fit into the very same picture. Though Prague tends to be sympathetic with Moscow in terms of being reluctant to further EU sanctions, Russia has anyways been trying to put pressure on the Czech Republic by intensifying the activity of its intelligence services there.[51]

A closer look on the recent espionage cases reveals another, actually not at all new Russian motivation besides weakening the EU’s coherence on the sanctions, namely to gather information on the NATO. Very recently, in October 2014, a high-level officer of the Ministry of Defense of Poland was arrested, accused of spying for Russia.[52] In late December, a major spy ring was uncovered in a NATO-operated airbase in Lithuania.[53] This leads readers to the conclusion that for Moscow the strategic relations vis-à-vis the EU and particularly the NATO are much more important than the bilateral relations with individual member states. This obviously concerns the Visegrad countries as well.

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48 Carney et al. (2014)
49 Ministry of Foreign Affairs of the Russian Federation (2014)
50 Orenstein – Krekó (2014)
51 Fitsanakis (2014)
52 Foy (2014)
53 Sharkov (2014)

Scenarios for the Visegrad cooperation

As the whole project, in the framework of which this study is prepared, is focused on the future of the Visegrad, it is certainly useful to consider a few possible scenarios about the foreseeable developments in the light of the Ukraine crisis.

First and foremost, it is important to see that regardless how deep the Russia-related intra-Visegrad divisions are, the complete collapse or cease of existing of the cooperation is absolutely unlikely. The main reason is that simply all four countries need the Visegrad cooperation. Besides, both the political and the foreign policy administrative elites have been socialized in the “Visegrad way” already more than a decade, and this provides strong internal coherence. In addition to this, the present tensions are not the first internal crisis the cooperation has witnessed: in the mid-90s the V4 hardly functioned at all, particularly due to the skepticism of the Czech leadership of that time, and also due to the pro-Eastern orientation of Slovakia during the era of Vladimir Mečiar, i.e. until 1998.

Hence, Visegrad four is going to stay Visegrad four: no members will be expelled from the group (the consensus-based decision-making would not even make this possible), and no new members will be admitted, despite sporadic proposals to do so.[54] Recently a Polish analyst suggested that Poland should increasingly rely on the Visegrad+ mechanism and cooperate closer with Lithuania and Romania in order to outweight the Ukraine-related resistance of Hungary, the Czech Republic and Slovakia,[55] this is unlikely to happen, again because of the need to take decisions by consensus.

Visegrad taking the lead

Theoretically, if the Visegrad countries could be able to form and efficiently represent a common position on Ukraine and Russia inside the EU, this would significantly boost both the visibility and prestige of the cooperation, as well as of its individual member states. A unison Visegrad voice could indeed be heard very well, as the four coun-

[54] For more information, see the analysis prepared in the framework of the Think Visegrad project in 2013: Rácz (2013)
[55] Kałan (2014b), p. 2.

tries altogether have the same 58 votes in the Council of Europe like Germany and France have together. Moreover, a unified Visegrad coherent on Russia could be a much more valuable and respected partner of the U.S. as well, than it currently is.

However, as it was demonstrated above, differences between the Visegrad countries are far deeper than occasional, minor disagreements. Instead, many of them are of strategic and structural nature, such as size, economic power, the level of energy dependence on Russia, etc. Hence, it is highly unlikely that a common, meaningful Visegrad position could be formed about Russia.

Visegrad in coma

Another, theoretically possible option is that due to the deepening lack of trust between the Visegrad countries the cooperation gets halted or suspended, similarly to the mid-1990s. A possible political frontline inside the V4 could emerge if any (or more) of the countries would veto the continuation of the EU sanctions against Russia in spring 2015. Such a move would probably alienate Poland, a firm supporter of the sanctions, and would significantly decrease the readiness of Poland to rely on the Visegrad cooperation. In this case, the above-mentioned scenario could come true, namely that Poland would increasingly rely on ad-hoc cooperation projects with Lithuania, Romania and other EU member states, which have a similar agenda vis-à-vis Russia and Ukraine, instead of dedicating too much efforts or resources to the Visegrad.

Business as usual

The third, probably the most likely scenario is that Visegrad will remain to be unable to form a common position about Russia, due to the prevailing differences in business and political interests. However, as it was already argued above, this is not the first time in Visegrad history when no common positions could be formed. Actually inside the Visegrad cooperation there is a so-called "art of disagreeing",[56] meaning that if no consensus can be reached on a concrete question, then the problem is put aside, and cooperation continues in

[56] Rácz (2013)

those other issues where a joint position can be agreed on. An additional factor pointing towards this scenario is the very existence and functioning of the International Visegrad Fund (IVF). The Fund, jointly operated by the four member states and managed by a Bratislava-based secretariat and a rotating executive director, has a budget of 8 million euros,[57] donated by the four member states on an equal basis. The Fund is the primary foreign policy arm of the Visegrad cooperation and its sole institutionalized component. The need to keep the Fund operational is an important factor preventing the member states from halting or suspending the cooperation.

Conclusions

The Visegrad is deeply divided over how to address Russia on the Ukraine crisis. Most of the divisions are either of structural type, such as size, and the level of energy dependence on Russia, or of normative nature, such as approach to democracy and the West in general, and neither of these is easy to change. Hence, most likely the intra-Visegrad differences will prevail in the future as well. However, the very functioning of the Visegrad is unlikely to change, because the cooperation has a rich routine in handling disagreements between the member states.

Russia, in line with its general strategy vis-à-vis the EU, has been doing its best to deepen the differences among the Visegrad countries, thus to weaken both the EU and NATO. Moscow has been relying both on political, economic and informational tools in order increase intra-Visegrad tensions.

It is important to note that weakening the Visegrad coherence is not an objective, only a tool of Russian foreign and security policy. The main objective is to weaken the two great, strategic adversaries according to the perception of Moscow, namely the EU and the NATO. From this perspective, contemporary Russian foreign policy seems to be a clear continuation of the approach drafted already in the 1997 strategy on Central Europe: countries of the region are not important because of their per se importance, but because of their

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[57] About. International Visegrad Fund. Available: http://visegradfund.org/about/ Accessed: 25 October 2014.

membership in the EU and NATO. In order to achieve the strategic goal of weakening the EU and NATO Russia is ready to take up serious losses in its bilateral relations vis-à-vis the Visegrad countries. As demonstrated by the Russian pressure put on Hungary, even the imaginary status of a prioritized ally, like Viktor Orbán would like to perceive himself, does not guarantee any protection from Russian economic and information measures, or espionage activities.

All in all, the role and place of the Visegrad region in Russian foreign policy is defined by the strategic considerations of Moscow towards the EU and NATO, and not by the bilateral agendas vis-à-vis the Visegrad countries. This leads to the final conclusion that for a Visegrad country it is probably impossible to achieve any privileged status in the eyes of Vladimir Putin. A small Central European country can never be more for Russia than a useful weak point inside the EU and NATO, and also in the Visegrad cooperation.

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Past, present and future macroeconomic trends of the Visegrad countries: heading towards more convergence?

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Introductory remarks

This chapter aims at giving a snapshot of the performance of the Visegrad countries (V4) in the first decade of their EU membership and, based on past trends and available forecasts, attempts to outline the prospects for their future catching up. The evaluation is done along several aspects mainly focusing on growth, real and nominal convergence, as well as basic elements of competitiveness. The main question of the paper is whether there has been convergence by the Visegrad countries to EU averages/benchmarks as well as to each other since 2004, and whether converging or diverging trends can be expected until the end of the decade.

Growth and catching up

The Visegrad countries entered the EU with a GDP growth rate of 5% on average, but right after accession they took a diverging trend.[2] In fact, Slovakia got the biggest impetus from membership, but the Czech and (with the exception of a slow-down in 2005) the

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[2] Statistical data used here stem from the Eurostat database unless indicated otherwise. http://ec.europa.eu/eurostat/data/statistics-a-z/abc (consulted in January 2015).

Polish rates were also impressive in the first years. The Czech and Slovak expansion was fuelled by both domestic demand (especially high investment rates) and exports, while in Poland domestic demand was the main driver of growth. Only the Hungarian economy showed a steadily declining trend after EU entry (with exports being the single stable pillar of growth); to suffer from the deepest recession in 2009 (-6.6%). The Czech and the Slovak negative GDP rates were similar to the EU average (-4.4%) while Poland – due to its robust internal market and lower exposure to external effects – was the only country in the group and also across the EU to avoid recession at all.

As Figure 1 illustrates it, in the years of 2010-2013 the four countries have been recovering at a higher (Poland, Slovakia) or lower pace (the Czech Republic and Hungary experiencing even a milder recession). But the gap among their rates has been narrowing lately, and 2014 was the first year since accession when the rhythm of economic expansion was in harmony in the region (ca. 2-3%). Moreover, according to medium-term forecasts by the Economist Intelligence Unit,[3] the growth rate of the V4 countries until 2019 is expected to remain within the band of 2.2-3.8% and their cumulated average will be around 2.8% in the coming years.

Given the fact that, according to the same forecast, the EU28 average growth rate will oscillate between 1.3 and 1.9% (and the euro area between 1.1-1.8%), the better performance of the V4 will enable a sustainable continuation of catching up until the end of the decade.The high pre-crisis dynamism is however not to return to the region in the foreseeable future,[4] but a steady and more modest convergence – supported also by the EU's financial assistance in the 2014-2020 period[5] – can be predicted. As regards the structure of growth, according to European Commission forecasts,[6] in all four

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[3] Country Reports by the Economist Intelligence Unit, January 2015.

[4] Mainly due to two factors: ailing export partners and lack of „easy" borrowing. IMF (2014), p. 60.

[5] In the current seven (plus three) year budgetary period, the V4 countries taken together will benefit from more than 135 billion euros in the form of development assistance (and over 57 billion under the common agricultural policy).

[6] European Commission (2014a)

countries it will be driven overwhelmingly by domestic demand. Within that investments will take the lead while public and private consumption will have varied patterns in the V4. Net exports will again contribute positively to growth in the three smaller Visegrad countries while Poland was not able to maintain its post-crisis improving trend of external trade.

Figure 1. Real GDP growth rate (%)

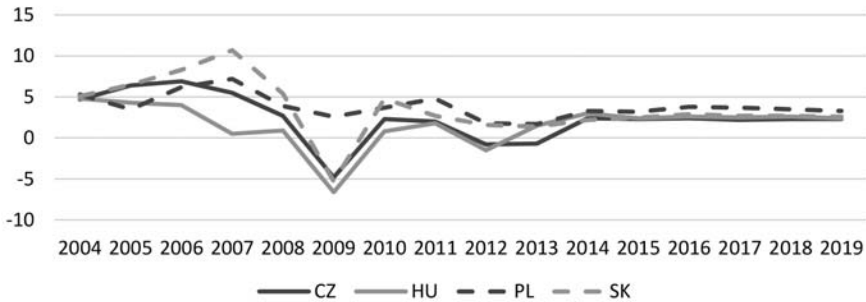
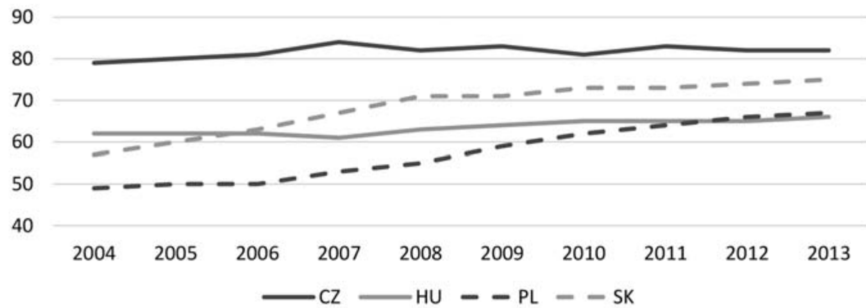


Figure 2. GDP per capita (PPS, EU28=100)



Source: Eurostat, Economist Intelligence Unit (2015a; 2015b; 2015c; 2015d)

Convergence of living standards to the EU average has actually been one of the major reasons for joining the Union. In this respect, very promising trends – measured in GDP per capita – could be detected in the cases of Poland and Slovakia (improving equally by 18 percentage points in the first decade of membership). In contrast, the Czech rate remained rather constantly at roughly 80% compared to the EU average, while the Hungarian catching up process has been a very modest one (up from 62 to 66%).[7] As Figure 2 shows it, these developments mean two things: an obvious narrowing of the gap within the Visegrad group – led by the Czech Republic, followed by Slovakia and Poland-Hungary sharing the third place – and a gradual convergence of the V4 as a whole towards the EU average. Thus, the development of the region validated the theory of beta convergence, according to which poorer countries are capable of higher growth rates when catching up, while, the relevance of sigma convergence is shown by the narrowing of the gap among the V4 as well as between them and the EU average. Furthermore, as it was mentioned, thanks to continuously higher growth rates in the next five years, the catching up of the V4 in terms of GDP per capita can be continued. This convergence will however happen at a more reduced pace than the Polish and Slovak examples in the past ten years, and will be closer to the Hungarian performance demonstrated so far.

As regards catching up at the level of regions, the picture is partly similar to the national performances (see Table 1).[8] This means that the most spectacular catching up took place in NUTS-2 regions of Slovakia and Poland while the Czech and especially the Hungarian regions did not experience a similar convergence. Hungary is the only Visegrad country where some regions even reported a negative closing up rate in 2011 compared to 2004, and here can be found the poorest regions too – which was not the case at the time of accession. The regions surrounding the capital cities (or in the Czech Republic the capital itself) are the flagships of catching up. At the same time, it seems to be a shared challenge that there is a huge discrepancy in development levels between those central regions (reaching well above 100% of EU average – in the Slovak and Czech cases closer to 200%) and the rest being below 75%. Paradoxically,

[7] If one looks behind the trends and examines Eurostat's nominal sums of per capita GDP at current prices (in euros), then the developments show an even sharper picture. Namely, in the case of Slovakia and Poland GDP per capita more than doubled (!) from 2003 to 2013, while in the Czech case the multiplier was 1.75 and for Hungary merely 1.4.

[8] Eurostat data for 2004: http://europa.eu/rapid/press-release_STAT-07-23_en.htm?locale=en Eurostat data for 2011: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/1-27022014-AP/EN/1-27022014-AP-EN.PDF (no newer data were available at the time of writing the paper)

Table 1. Catching up of NUTS-2 regions in the Visegrad countries (2004-2011)

REGION NUTS-2	GDP/capita 2004, PPS, EU27=100	GDP/capita 2011, PPS, EU28=100*	Change (percentage points)
CZECH REPUBLIC			
Praha	157	171	+14
StredníCechy	70	73	+3
Jihozápad	70	70	0
Severozápad	61	63	+2
Severovychod	64	67	+3
Jihovychod	67	73	+6
Strední Morava	60	66	+6
Moravskoslezko	61	71	+10
HUNGARY			
Közép-Magyarország	102	110	+8
Közép-Dunántúl	61	59	-2
Nyugat-Dunántúl	67	68	+1
Dél-Dunántúl	46	45	-1
Észak-Magyarország	43	40	-3
Észak-Alföld	42	43	+1
Dél-Alföld	44	44	0
POLAND			
Lódzkie	47	60	+13
Mazowieckie	77	107	+30
Malopolskie	43	56	+13
Slaskie	57	70	+13
Lubelskie	35	44	+9
Podkarpackie	35	44	+9
Swietokrzyskie	39	49	+10
Podlaskie	38	47	+9
Wielkopolskie	55	68	+13
Zachodniopomorskie	47	55	+8
Lubuskie	45	54	+9
Dolnoslaskie	52	74	+22
Opolskie	44	52	+8
Kujawsko-Pomorskie	45	54	+9
Warminsko-Mazurskie	39	47	+8
Pomorskie	50	62	+12
SLOVAKIA			
Bratislavskykraj	129	186	+57
ZápadnéSlovensko	53	72	+19
StrednéSlovensko	47	59	+12
VychodnéSlovensko	42	51	+9

Source: Eurostat, *EU27 comparison not available, minor changes due to accession of Croatia this problem seems to be the gravest in the smallest Visegrad country: Slovakia. If disregarding the capital cities/regions we can also see that the most homogenous country in terms of regional development is the Czech Republic (with just a 10 percentage points discrepancy between the most and the least developed regions) while the other three countries struggle with gaps of between ca. 20 (Slovakia) or even around 30 percentage points (Poland and Hungary).The fact that regional gaps did not start narrowing, while some regions switched to a high gear than others, validates the trade-off theory regarding con*vergence, according to which "…in case a less developed national economy starts to converge to the international average, an increase of dispersion will be experienced among the domestic regions within the national economy, thus the more developed regions will grow faster than the less developed ones."*[9]

Besides the national and regional level achievements, at the citizens' level wage convergence must be mentioned too. In this respect important changes took place between 2004 and 2012. First of all, the initially leading position of Hungary melted away, and was significantly outstripped by the Czech Republic and also Slovakia (while the gap with Poland almost disappeared). This means that – according to Eurostat figures in purchasing power parity – in 2012 the net annual earnings reached approximately 8,000 euros in the Czech Republic, 6,300 in Slovakia, 5,700 in Hungary and 5,400 in Poland. These figures should be contrasted with the nearly 20,000 euros average earnings in the EU27 in the same year. However, there has been some catching up: taken the four Visegrad countries' average in 2012 (6,350 euros) it was "only" one third of the EU average instead of one fourth in the year of accession. In parallel, it must also be mentioned that price convergence happened significantly faster. By 2012, the prices of communication devices and services reached 102%, clothing and footwear 89% while electricity and gas 80% of respective price levels of the EU15.[10]

[9] Kertész (2010), p. 2.
[10] Kotian–Münz (2014)

Overview of macroeconomic performance

When analysing the macroeconomic performance of countries – influencing their competitiveness too – several factors can be taken into account. Here the external balances, labour market indicators, investments, productivity and innovation performances will be highlighted shortly. Starting with the external balances, there is an obvious difference among the Visegrad countries. The three smaller and highly open economies have a much higher ratio of exports to GDP (between ca. 75-95% reflecting a greater vulnerability) than Poland with its big domestic market and having a less than 50% export-to-GDP ratio. The external trade position of these countries has varied significantly in the first ten years of membership: the Czech Republic has had a goods' trade surplus practically since accession, but this has been the case for Hungary and Slovakia only since 2009 (which was however the deepest point in value terms for both exports and imports across the region). While export orientation became an important tool to mitigate the effects of the crisis[11] imports fell back as consumption shrunk in the crisis years – having a benign impact on the trade balances of all the Visegrad countries (see Figure 3).As however growth is back to the region, it seems to reinforce the dynamism of net exports in the smaller Visegrad countries while generates increasingly more imports than exports in Poland. This striking gap can mainly be explained by the fact that the three smaller Visegrad countries are hosting relatively more manufacturing plants run by foreign investors who realise the overwhelming part of their exports, than in the case of Poland. In parallel to these important changes, some geographical reorientation of exports has been taking place in the V4 since accession. While these countries are far (by ca. 15-20 percentage points) more integrated into the EU markets than the EU average itself – testifying that the V4 is very far from being a periphery in economic terms – Table 2 shows a significant retreat from their traditional export markets towards news ones, as a result of protracted recovery of the euro area. This outward orientation actually goes hand-in-hand with the same trend at the EU level. In the case

[11] Novák (2012)

of the Visegrad countries exports – especially in the period of 2009-2013 – picked up mainly in the direction of Russia, Ukraine, China and Turkey.[12]

Table 2. Share of EU exports in total exports

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU27	68.5	67.7	68.3	68.2	67.3	66.6	65.1	64.2	62.6	61.8
CZ	87.1	85.5	85.7	85.3	84.9	84.8	84	83.1	81	80.8
HU	83.1	80.9	79.2	79	78.2	78.7	77.2	75.9	75.7	76.5
PL	80.3	78.6	79	78.9	77.8	79.6	79.1	78	76	74.6
SK	86.7	87.2	86.8	86.8	85.4	85.9	84.4	84.8	83.8	82.6

Source: Eurostat

Connected with trade performances, the current account balances (Figure 4) have been improving in the post crisis years in the V4, but since 2013 Poland seems to take a downward trend again. When looking deeper into the composition of the balances of the current account, the following specificities (beyond trade in goods) can be stated. As regards trade in services, it has recently been positive in all Visegrad countries. As to income flows, due to substantial profit repatriations of foreign-owned companies, all V4 countries have substantial deficits which cannot be counterbalanced by the relatively low level of net transfers. The latter is the highest in Poland due to significant remittances of Polish workers from abroad, while it is negative in Slovakia which, although a net beneficiary of EU funds, has to contribute to the eurozone's rescue fund. Finally an important remark on Hungary's good performance in this respect: from the V4 Hungary is by far the biggest outward investor in share of GDP,[13] meaning that returns on its investments make a significant positive contribution to the current account.

[12] Éltető (2014)
[13] According to Eurostat, this rate in 2012 amounted to: 26.6% for Hungary (up from 5.4% in 2004!), 11.4% for Poland, 8.3% for the Czech Republic and only 4.7% for Slovakia.

Figure 3. Balance of trade in goods (% of GDP)

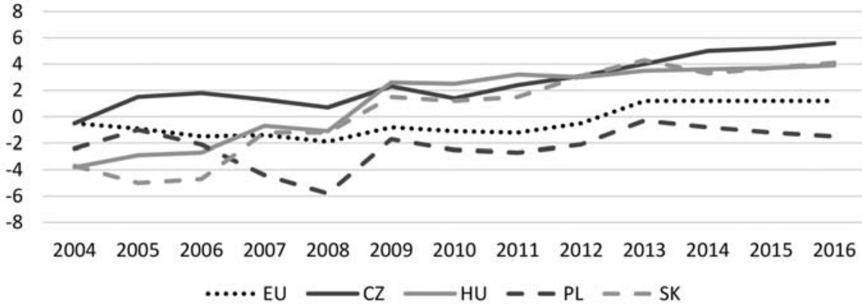
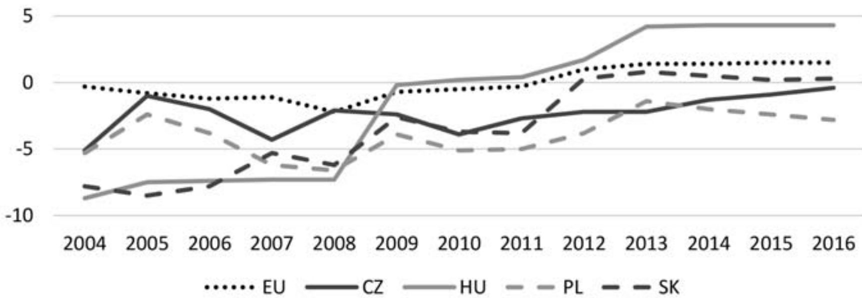


Figure 4. Balance of the current account (% of GDP)

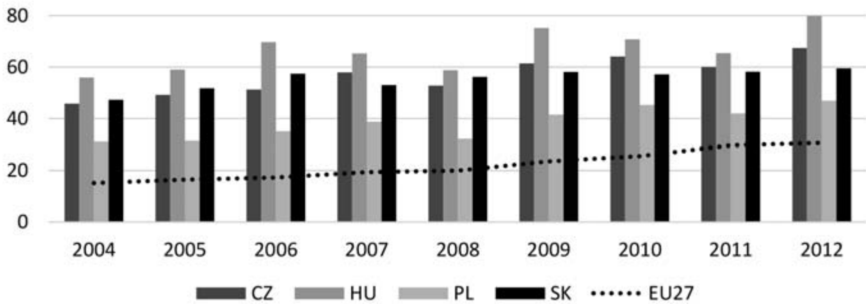


Source: Eurostat, European Commission (2014a)

Investments play a crucial role in macroeconomic developments. In the year of accession, the three smaller Visegrad countries started with rather close GDP-ratios of gross fixed capital formation (24-28%), while Poland was lagging behind them (18%). Regarding the Eurostat figures, Poland, Slovakia and the Czech Republic increased or preserved their levels, while the Hungarian one took a declining path. Later on, the crisis resulted in lowering investments across the Visegrad region, similarly to the EU as a whole. So, what has been the reason for that?

Figure 5 testifies that it was not due to a decline in foreign direct investments: looking at FDI stocks as percent of GDP – even if through some ups and downs – they are significantly higher in each Visegrad country (according to 2012 data) than in the year of accession, and always well above the EU average. Consequently, domestic (both private and public) investments were declining which was to some extent eased by EU assistance.

Figure 5. FDI stock in the reporting economy (% of GDP)



Source: Eurostat

However, in this respect the Visegrad countries seemed to undergo a long learning process: by mid-2013 not even the half of financial support earmarked in the period of 2007-2013 for the Czech Republic, Slovakia and Hungary could actually be spent in those beneficiaries, while the best performing Poland reached nearly 60% by that time.[14] Thanks to the n+2 rule, the Visegrad countries still have time until the end of 2015 to use up the EU funds which has indeed been speeded up in all of them recently. By mid-2014, the contracting ratio was actually the highest in Hungary, followed by Slovakia (98%), Poland (95%) and the Czech Republic (92%), but the payment ratio was still just 53% in Slovakia, 62% in Hungary, and 64% in both the Czech Republic and Poland.[15] In general, the Visegrad countries tended to spend most of the money from the EU funds on physical infrastructure[16] which was understandable given their backwardness in this respect. But thanks to the new rules, the current cycle is likely

[14] Information taken from Insideurope website: http://insideurope.eu/
[15] KPMG (2014)
[16] Ibid.

to be dominated by investments promoting small and medium sized enterprises and job creation. Medium-term forecasts of the Economist Intelligence Unit show that the Visegrad countries will be characterised in general by investment growth in line with or above their GDP growth rates in the coming years; anticipating the end of the post-crisis downward trends.

As regards employment and unemployment – as can be seen in Figures 6 and 7 – in the dynamic period between accession and the crisis the Czech Republic, Slovakia and especially Poland (starting from the worst position) managed to steadily improve these rates. Employment went up and unemployment fell to historically low levels (due also to outmigration of labour especially from Poland). While both labour market indicators took a spectacularly improving path in three Visegrad countries, the Hungarian figures – due to mismanagement of the economy – went into the opposite direction: in parallel with slowing growth and investments after accession, employment decreased and unemployment increased. The crisis broke the positive trends in the three members of the group but a few years after the crisis, recovery of labour market indicators started. According to European Commission forecasts, by 2016 only Slovakia will have two-digit and above-EU-average unemployment rate in the Visegrad region, while the employment rate will be rising until the same year.[17] Here some exchange of good practices might also be useful, including the high share of self-employed and of the elderly at work coupled with a low share of early retired in the best performer Czech Republic, or the job protection action plan (protecting among others the younger-than 25 and the older-than 55) as well as the public work programmes (designed partly to lead people back to the labour market) in Hungary.

Finally, productivity and innovation are also key factors of competitiveness where the Visegrad countries are still facing challenges. Regarding the labour productivity per person employed, the V4 are all lagging behind the EU average by some 20-30 percentage points.

[17] European Commission (2014a), p. 155.

Figure 6. Employment rate (%)

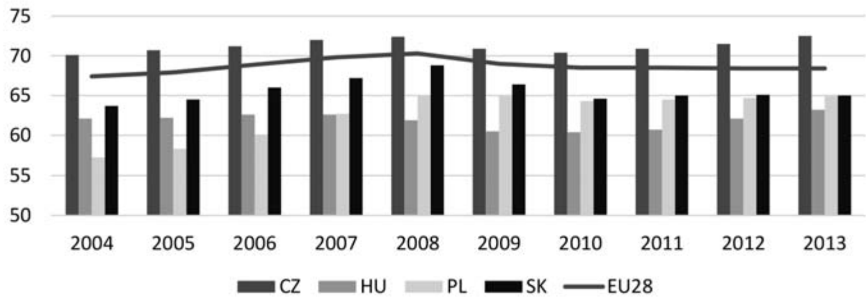
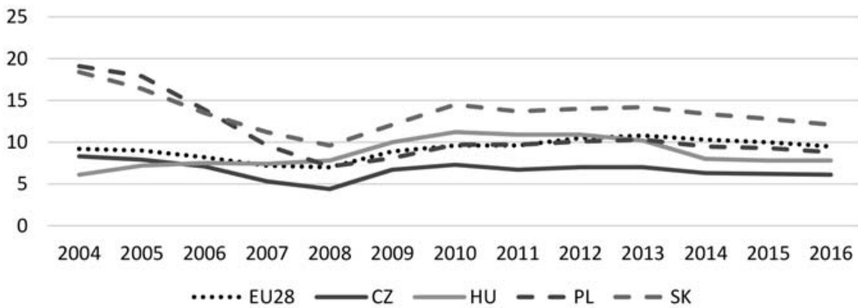


Figure 7. Unemployment rate (%)



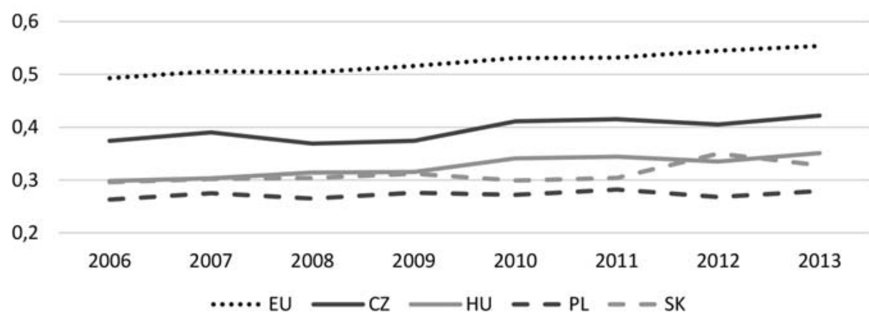
Source: Eurostat, European Commission (2014a)

Despite the initial convergence of all four countries upon accession, the Czech performance has been worsening in the past few years. Poland, on the other hand, after some initial deterioration, has registered a spectacular catching up by over 10 percentage points between 2007 and 2012; thanks mainly to improved productivity in the manufacturing, energy services and construction sectors.[18] After some convergence upon accession, the overall Hungarian performance has recently been rather stagnating. In the V4 group Slovakia has by far the best record in labour productivity (on average by 10 percentage points higher compared to its Visegrad partners) thanks primarily to significant pick-up in the manufacturing sector in the past

[18] European Commission (2013a), p. 37.

few years.[19] Despite the overall still weak productivity performance of the V4 against the EU average, according to Eurostat data, their real unit labour cost growth rates have been positive each year since 2011 and are forecast to remain until 2016. Even if – due to the mentioned still big wage level gaps – the price of labour should continue to catch up with Western European standards, it should go hand in hand with steady improvement of labour productivity, to avoid a loss of competitiveness. Finally, it is also relevant to evoke here the innovation performance of the V4. The European Commission publishes each year the complex index (composed of 25 indicators) of the EU countries' performances (including among others the gross expenditure on research and development, the contribution to innovation by the enterprise sector, the number of patent applications or that of new doctorate graduates). According to this index,[20] the performance of the Visegrad countries is also well below the EU average. From among the four categories (defined by the Commission) none of them is in the range of innovation leaders or innovation followers. The three smaller Visegrad countries are classified as moderate and Poland as modest innovator. Figure 8 certainly suggests some catching up by the V4, but this is a policy area where much greater efforts are needed in the coming years (and for which there are now increased resources available in the multiannual budget of 2014-2020).

Figure 8. Innovation index



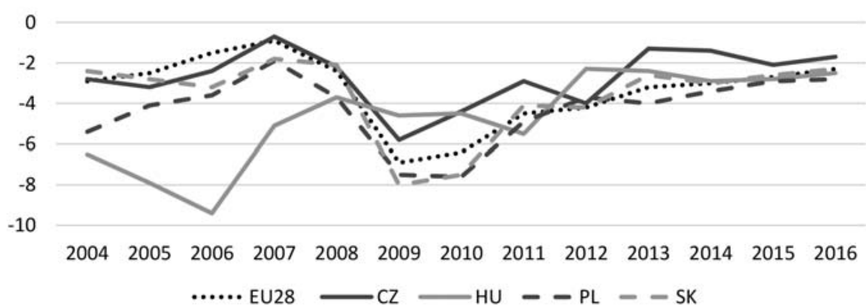
Source: Eurostat, European Commission (2014b)

[19] European Commission (2013b), p. 45.
[20] European Commission (2014b)

Public finances and monetary developments

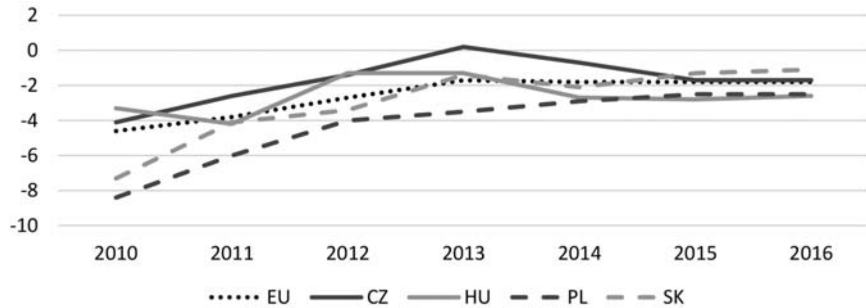
Sound public finances are not only an obligation under the Maastricht convergence criteria, but actually also building blocks of a country's competitiveness. The Visegrad countries entered the EU with very different levels of budget deficit but – as Figure 9 shows – by 2007 three of them managed to put their public households in order (similarly to the EU average). The only exception has been Hungary which – in parallel with a slowing GDP and lack of prudent fiscal policy – took a sharply diverging path and accumulated a huge (9.4% of GDP) budget deficit by 2006. Thus, from 2007 onwards Hungary – under excessive deficit procedure practically since accession – had to make considerable efforts to consolidate its budget and, as a consequence, the country was hit by the crisis in the midst of austerity measures. Due to these developments, and contrary to the other Visegrad countries, Hungary had no room of manoeuvre to temporarily relax its fiscal discipline. While the European Commission put a pressure on Hungary to cut back its deficit, it also brought all the other Visegrad countries under the excessive deficit procedure in 2009. Thanks to serious efforts by the Hungarian government, the country was finally released from EDP in 2013, followed by the Czech Republic and Slovakia in mid-2014.[21] In early 2015 Poland is still there but this year is its deadline for correction.[22]

Figure 9. Public budget balance (% of GDP)



[21] Overview of excessive deficit procedures (as of 31 January 2015): http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm
[22] Ibid.

Figure 10. Structural balance (% of GDP)



Source: Eurostat, European Commission (2014a)

Figure 9 shows the improvement of budgetary positions of the V4 in the post-crisis period. When looking at the methods applied to increase revenues and rationalise expenditure, it can be stated that the four countries introduced on both sides many similar but also several country-specific steps. Table 3 summarises in a simplified way the most important anti-crisis measures taken in the past few years by the Visegrad countries – leading finally in all of them to a budget deficit below 3% of GDP by 2015.

The different conventional and non-conventional measures applied to consolidate the public budgets also led to some increase of the state's role in redistribution in the region, which however should decline again until 2017 according to each stability/convergence programme of the V4, as published in April 2014. These countries also envisage to reduce their structural deficits, i.e. the public budget's position rid of cyclical and one-off flows. As can be seen in Figure 10, structural deficits seem to get stabilised between 2.6 and 1.1% of GDP in the V4 countries by 2016.The medium-term plans of Slovakia and Poland foresee a gradual improvement of this indicator until 2017 while the Hungarian and Czech figures would rather be stagnating (indicating a postponement of further structural reforms).

The other pillar of public finances is the level of indebtedness by the state. Here the Visegrad countries had very different initial positions but all of them remained below the Maastricht benchmark of 60% of GDP in 2004.

Table 3. Main anti-crisis fiscal measures in the V4 (2011-2014)

Revenue side	CZ	HU	PL	SK	Expenditure side	CZ	HU	PL	SK
VAT and excise duty hike	●	●	●	●	Freeze/cuts in public sector wages	●	●	●	●
Combatting tax-evasion/improving tax collection	●	●	●	●	Freeze/cuts in social benefits	●	●		
Increase in social security contributions		●		●	Lower indexation of pensions	●			
Freeze of personal income tax thresholds, broadened base of PIT			●	●	Increasing of retirement age	●	●	●	●
Rising corporate income tax				●	Cuts in government consumption	●	●	●	●
Full/partial elimination of the private pension pillar[23]	●	●	●	●	Cuts in government investment	●		●	●
Introduction of lottery tax	●				Reduction of certain subsidies	●	●	●	●
New energy-related fee	●			●	Reduction in payments to farmers			●	
Bank levy and/or financial transaction duty		●		●	Capital injection into a development bank		●		
Special sectoral taxes		●	●	●	Wage increase in some public services		●	●	●
Sale of frequencies		●		●	Debt assumption of local governments		●		
Sale of emergency oil stocks				●					
Sale of carbon emission rights				●					
Privatisation			●						

Source: Stability/Convergence Programmes of the V4, 2011-2014[24]

Figure 11. Public debt (% of GDP)

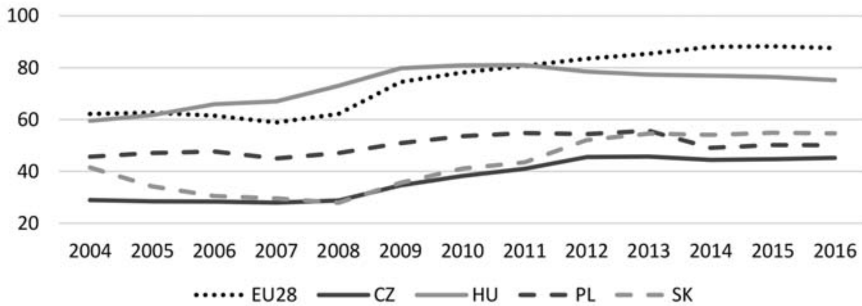
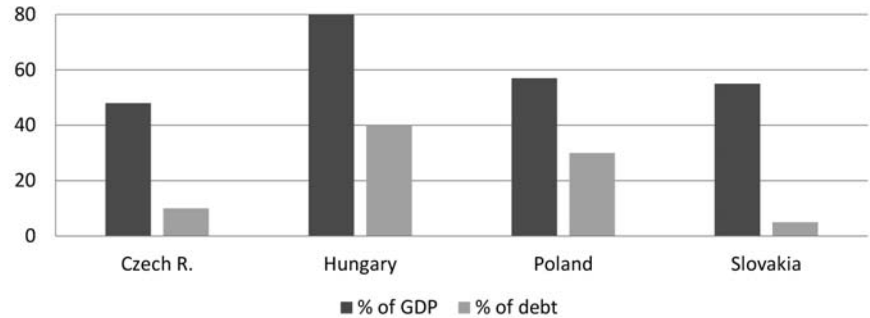


Figure 12. Public debt as % of GDP
(share of foreign currecy denominated debt in total debt)



Source: Eurostat, European Commission, Stability/Convergence Programmes of the V4 (2013)[25]

As Figure 11 demonstrates it, after accession the Hungarian rate – due to the mentioned mismanagement of fiscal policy – took a steep upward direction until the crisis, while in the other Visegrad countries this level was stagnating or declining. As a response to the crisis, these governments thus had a greater room of manoeuvre to accumulate higher debts, while always remaining under 60% of GDP. Moreover, none of these states' stability or convergence programme calculates

[23] All four Visegrad countries revised their mandatory private pension system. Poland and Slovakia decided to eliminate it partially, while Hungary opted for its full abolishment, and – based on a decision in autumn 2014 – the Czech Republic will do the same by 2016.
[24] Those documents can be retrieved here: http://ec.europa.eu/economy_finance/economic_governance/sgp/convergence/index_en.htm
[25] Those documents can be retrieved here: http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/2013/index_en.htm

with ever breaching this threshold in the foreseeable future. At the same time, Hungary – in parallel with budgetary consolidation – started to cut back its debt ratio after 2011. Despite some promising results however, the Hungarian case is more vulnerable as nearly 40% of the debts are denominated in foreign currencies exposed to volatile exchange rate movements. It must also be mentioned that three countries already have a public debt ceiling in their constitutions or high-level laws: for Poland and Slovakia it is 60%, for Hungary it is 50% of GDP, and – in parallel with joining the Fiscal Compact – the Czech Republic is preparing for a similar step, even if it is not a smooth process.[26]

Finally, when looking at the monetary environment since accession: after very hectic and heterogeneous developments between 2004 and 2013 – as can be seen in Figure 13 on inflation and in Figure 14 on long-term interest rates – recently very promising converging trends can be detected. As regards the harmonized indices of consumer prices, they reached historically low levels: between -0.1% (Slovakia) and 0.5% (Czech Republic) in 2014, while medium term forecasts by the Economist Intelligence Unit calculate with an inflation rate of between ca. 1-3% across the Visegrad region until 2019 – resulting in the most harmonious price developments since accession. Similarly, gaps among long-term interest rates have been quite substantial in the region, mainly due to the extremely high rates in Hungary. Recently however, as shown by Figure 14, thanks to the monetary policy in both Hungary and Poland, the 10 years bond yields started a gradual convergence to each other as well as to the EU average. These processes have to be welcomed and – together with the above mentioned public finance efforts – should be seen as a smoother way leading up to the introduction of the single currency also by the three bigger Visegrad countries. Based on the described facts and forecasts it is not unrealistic to foresee a (desirably) common joining of the euro area in 2022, provided that the favourable nominal convergence trends will continue and the zloty, the koruna and the forint would all join the ERM-2 system by 2020 the latest. Another key prerequisite is of course that there will be no political obstacles to entering the eurozone (like in Poland).[27]

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[25] See more on this in Vladimír Bartovic's chapter in this volume.

Figure 13. HICP - inflation rate (%)

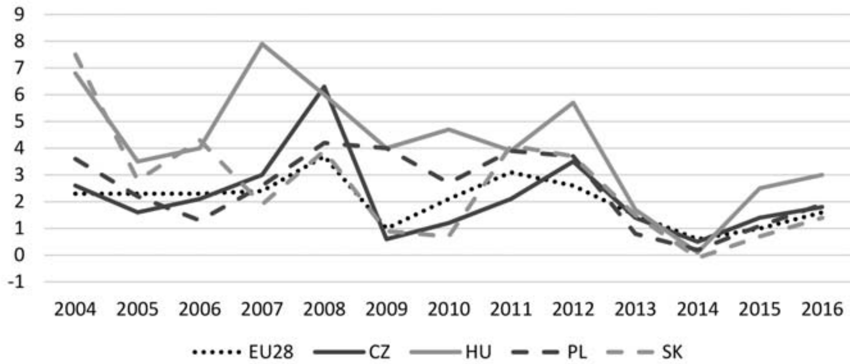
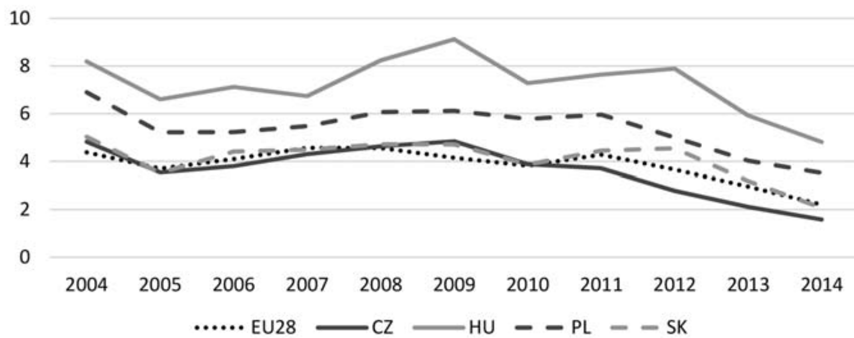


Figure 14. Long-term interest rates* (%)



*EMU criterion series for ten years government bond yields

Source: Eurostat, European Commission (2014a)

SWOT analysis for the Visegrad countries for the time horizon of 2022

Based on the findings on main macroeconomic trends in the Visegrad countries, it can be useful to draw up an inventory of their strengths, weaknesses, opportunities and threats. Such a SWOT analysis can contribute to more efficient national and joint, region-wide strategies for development in the coming seven-eight years.

[27] See more on those political obstacles in Elzbieta Kawecka's chapter in this volume.

The SWOT analysis below is however limited to those aspects that were treated in this study (so it does not include issues of e.g. political stability, energy security, migration, demography or external threats which would be equally relevant, but would stretch over the scope of the present paper).

Table 4. SWOT analysis of the V4 countries

	Strengths	Weaknesses	Opportunities	Threats
Czech Republic	arket indicators, strong attraction of FDI, consolidated public finances, low inflation, interest rate synchronisation	slower post-crisis recovery, sluggish catching up of GDP per capita since accession, declining investments and productivity	continued convergence to EU averages, harmonious development at V4 level, strong industrial and export potential, rising domestic demand, attraction of FDI, use of EU funds, diversification of export markets, own monetary policy, upward trend of innovation	low growth of main export partners, income outflows (higher repatriation of profits), nearly zero interest rate discourages savings, productivity and ULC trends not in harmony, no significant improvement of structural balance, exchange rate vulnerability

	Strengths	Weaknesses	Opportunities	Threats
Hungary	growth, good trade performance, high current account surplus, improving labour market indicators, strong attraction of FDI, significant investment activities abroad, consolidated public finances, low inflation, interest rate convergence	modest catching up of GDP per capita, poor convergence performance of regions, slow wage convergence, low rate of fixed investments, recent worsening of productivity	continued convergence to EU averages, harmonious development at V4 level, good manufacturing and export potential, rising domestic demand, attraction of FDI, use of EU funds, diversification of export markets, own monetary policy, upward trend of innovation	low growth of main export partners, still high public debt, high (but shrinking) share of foreign-currency denominated debt in total debt, no significant improvement of structural balance, exchange rate vulnerability

	Strengths	Weaknesses	Opportunities	Threats
Poland	dynamic growth, faster catching up at national, regional and wage levels, improving productivity, improved public finances including structural balance, low inflation, interest rate convergence	sluggish investments, stagnating labour market indicators, negative and declining trade and current account balances, poor innovation performance	continued convergence to EU averages, harmonious development at V4 level, big domestic market, lower exposure to external effects, rising domestic demand, use of EU funds, diversification of export markets, own monetary policy	low growth of main export partners, further worsening of the current account balance, considerable part of debt denominated in foreign currency, exchange rate vulnerability, political resistance to the euro

	Strengths	Weaknesses	Opportunities	Threats
Slovakia	growth, faster catching up at national, regional and wage levels, good trade performance, current account in balance, strong attraction of FDI, high pace convergence of productivity, consolidated public finances, including structural balance, low inflation	big gaps in regional development, still sluggish investments, stagnating employment, high (but decreasing) unemployment, recent retreat in innovation performance	continued convergence to EU averages, harmonious development at V4 level, good manufacturing and export potential, rising domestic demand, attraction of FDI, use of EU funds, diversification of export markets, shelter against exchange rate volatilities thanks to euro membership	low growth of main export partners, income outflows, very low interest rate discourages savings, potentially higher contributions to euro-related funds

Summary and conclusions

This chapter attempted to give a snapshot of the experience and performance of the Visegrad countries in the first decade of EU membership along a set of important aspects, as well as to make some medium-term projections with the help of forecasts. In the analysed developments a clear sequencing of three stages could be identified: the post-accession and pre-crisis years (2004-2008) of diverging but mostly improving macroeconomic trends especially by Poland, the Czech Republic and Slovakia, the crisis years (2009-2013) of recession, stagnation or low growth and gradual recovery/consolidation, and finally the post-crisis years (2014 and beyond) marked by harmonious converging trends to each other as well as to several EU averages/benchmarks.

As regards growth trends, the four countries joined the EU with around 5% rates which have been significantly diverging until 2014. While Poland, the Czech Republic and especially Slovakia got an impetus from membership, the Hungarian economy has been on a declining path after 2004 just to experience the worst recession in the group in 2009. Recovery from contraction (Hungary, the Czech Republic and Slovakia) or slower growth (Poland) has been happening at different paces again, however, growth rates were in harmony in the V4 in 2014 (around 2-3%) and, according to forecasts, the region may enjoy an economic expansion of between 2-4% until 2019 which would mean the most homogenous development since the year of EU entry. It will also mean a modest but steady continuation of catching up by the region to the EU and euro area averages, as growth rates for both will remain below 2% throughout the forecast period. As it was evidenced, the Visegrad region is actually characterised by a protracted catching up process at the national, regional and wage levels too. Regarding national and regional convergence Slovakia and Poland were the best performers while in terms of wages the Czech Republic took the lead. All in all, the V4 countries did converge to each other as well as to the EU, but they need a very long way to reach EU averages in national and wage levels and to bring up all their regions at least to the 75% level (in terms of GDP per capita) of the Union average.

When analysing labour market and investment developments, it was demonstrated that very positive pre-crisis trends in Poland, the Czech Republic and Slovakia were interrupted by the crisis. Employment, unemployment and gross fixed capital formation rates have been spectacularly improving in those three countries while in Hungary these indicators took a deteriorating trend after accession, thus leaving the country in an extremely weak position by 2009. In the past few years, slowly improving trends on the Visegrad countries' labour markets can be detected while investments are still sluggish.

The latter is however not due to lower foreign direct investments in general, but to the shrinking private and public investment activities resulting from ailing demand and austerity measures during the crisis years. Investments are expected to be boosted now by EU funds, as big parts of the money earmarked for the Visegrad countries between 2007-2013 have still to be spent until the end of 2015 (which add up to the new resources available for the 2014-2020 framework).

In the case of external balances the mostly negative pre-crisis trends seem to improve in the post-crisis period as exports of goods are growing dynamically (although still inferior to imports in Poland). Thus the current account balances took very positive trends with surpluses in Hungary and Slovakia and with relatively small and shrinking deficits in the Czech Republic. Poland is the only Visegrad country where this indicator is again deteriorating, signalling some challenges of competitiveness.

Last but not least, compliance with the Maastricht benchmarks were also scrutinised shortly. Here too, very positive achievements were disrupted by the crisis in Poland, the Czech Republic and Slovakia, while the unprecedented mismanagement of the Hungarian public finances left the country in an extremely vulnerable state by the crisis. Thus Hungary had to start with fiscal stabilisation earlier than the other three countries without, at the same time, having any room of manoeuvre to relax its budgetary discipline and debt policy. The situation was recently reversed: while – thanks to a mix of measures aiming at spreading the burdens across all the actors of the economy – Hungary could finally be released from the excessive deficit procedure in 2013, the Czech Republic and Slovakia followed it only in 2014 and Poland's correction deadline is 2015. The promising consolidation processes in all four countries seem to keep budget deficits under 3% also in the medium run. In parallel, public debts are slowly declining in high-rate Hungary while – despite increases – are kept below 60% of GDP in the other three Visegrad countries. The stabilising public finance trends are recently coupled with stabilising monetary trends too, which – in case of their continuation – may result in the three bigger Visegrad countries' introduction of the euro at the beginning of the next decade. In any case, given the significance of political and economic relations among the four countries, a common joining to the eurozone by the three outsiders would be desirable.

In this study it was shown that within the Visegrad group, Hungary used to be the “black sheep” under most of the analysed aspects between accession and the crisis; meaning that it was not able to grasp the opportunities offered by membership and used by its Visegrad peers more successfully. But in the past few years this specificity has been fading away, and recently there seems to be more converging trends among the V4 as well as by the region to EU averages/benchmarks than ever before; and, according to forecasts, those trends may continue in the medium-term. Building on their strengths and opportunities, the Visegrad countries should consciously maintain the mentioned converging trends. Furthermore, in the process of improving among others labour market indicators, innovation capacities, absorption of EU funds or public finance consolidation, the Visegrad platform should be used more intensively in the future with a view to exchanging best or even unsuccessful practices and to tighten cooperation in major macroeconomic developments, including an eventual coordination of investment projects and public procurements linked to the inflow of EU assistance until (thanks to the new n+3 rule) 2023.

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Visegrad countries as part of the global economy – some aspects of competiveness and the technological level of their exports

Gábor Túry[1]

The purpose of this study[2] is to review some factors of national competitiveness and examine the development of exports in the four Visegrad countries (i.e., Czech Republic, Hungary, Poland and Slovakia), in order to show how these economies have benefited from integration into world economy from the beginning of the 1990s. First, we will review the performance of the Visegrad countries in institutional competitiveness rankings. Second, the external trade performance of the Visegrad countries vis-à-vis the European Union, BRIC, USA and Japanese economies will be reviewed. Finally, the study analyses the international trade competitiveness of the V4 countries based on the most widely used classifications: SITC for trade and ISIC/NACE for economic activities.

Introductory remarks

Competitiveness of nations is high on the agenda. While emerging countries are increasing their shares in the global economy, one of the key questions for developed economies is how to improve their

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competitiveness in the global market. There are ever more research groups and think-tanks that produce rankings to compare countries[3], providing information able to help the decision-making process. However, competitive comparisons can produce different results, due to different approaches. Using yearly rankings based on international benchmarks easily results in premature statements on the reasons for good or bad performance. But can the development policies be based on single-year data? This is an important issue as one of the main goals of government development policies is to enhance national competitiveness. Nevertheless, due to different interpretations of the concept, the way forward is not clear.

Competitiveness at the national level

The question of the national competitiveness arose in the mid-1980s when new competitors emerged in the world economy. Because of increasing competition, the American economy was starting to lose competitive advantage in its internal market. Research dealing with the examination of American competitiveness formulated the concept of national competitiveness. Scott and Lodge defined national competitiveness in 1985 as that which *refers to a country's ability to create, produce, distribute and/or service products in international trade while earning rising returns on its resources*[4].

In the early 1990s, the OECD (1992, p. 237) defined national competitiveness as follows: *„the degree to which an economy can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over longer run"*.[5] Rapkin (1995, p. 2.) offered a similar definition stressing the importance of the economic development as a result of national competi-

[2] An earlier version of this paper was presented at UniaEuropejska.pl *(Diverging competitive performances of the Visegrad countries: some conclusions from the technology level of external trade.* 2014/24:(3) pp. 36-51.)
[3] World Economic Forum, International Institute for Management Development, Economist Intelligence Unit, International Finance Corporation, European Commission. Cf.: Lukovics (2008), p. 55.
[4] Scott–Lodge (1985)
[5] OECD (1992), p. 237. cited in Thompson (2003), p. 632.

tiveness. In his work, he described the challenges for the U.S. economy posed by East Asian capitalism over the 1980s and 1990s. The above works commonly refer to competitiveness as a factor in creating a country's welfare.

The unilateral approach of competitiveness emphasising economic growth also appears elsewhere. The annually-published World Economic Forum Global Competitiveness Report[6] defines competition *"as the ability of a country to achieve sustained high rates of growth in gross domestic product (GDP) per capita"*[7]. This competitive approach highlights economic growth to show the way in which a given economy is able to provide sustainable growth in changing global economic conditions.

The academic literature of the past decades (including Aiginger[8] and Thompson[9]) confirms that the concept of national competitiveness is highly controversial. Some authors like Reich[10] and Krugman[11] judge any effort to measure competitiveness as meaningless. They stress that national competitiveness has broad and diverse interpretations and lacks a clear and agreed definition. Several methodological questions arise during measurement (Buckley et al.[12]; Lall[13]; Szentes[14]; Török[15]). Losoncz refers to more than 10,000 different approaches to competition.[16] No consensus has been achieved regarding the factors and measurement. Further, this field of research is characterised by subjectivity. On this basis we can distinguish between two different "schools". Knack and Keefer[17], Krugman[18], Lall[19] and Reinert[20] emphasise that public policy matters in national com-

[6] World Economic Forum (1998)
[7] Cited in Dijck–Faber (2000), p. 74.
[8] Aiginger (1998)
[9] Thompson (2003)
[10] Reich (1990)
[11] Krugman (1994)
[12] Buckley et al. (1998)
[13] Lall (2001)
[14] Szentes (2011)
[15] Török (1989)
[16] Losoncz (2004)
[17] Knack- Keefer (1995)
[18] Krugman (1991)
[19] Lall (2001)
[20] Reinert (1995)

petitiveness. The notion of the “competition state „was coined by Cerny[21]. He emphasised that the way state intervention had been formed was a response to the changing global environment to preserve the competitiveness of the nation. Stiglitz also strengthens this political line when he points out to the situation of market turmoil when government intervention can improve market efficiency.[22] The other idea approaches the problem from the business side. Porter[23], Oral and Chabchoub[24] emphasise that business investment decisions are the key factors. Michael Porter, in his book “The Competitive Advantage of Nations”, used a truly economic perspective, and added that competitiveness was basically a microeconomic issue, and was thus hard to interpret on a macroeconomic level.[25] In a study[26] published later Krugman pointed out that – according to Tyson’s[27] definition – internal factors matter in the case of a nation with minor international trade. He provided an example of domestic productivity growth. He also highlighted that stressing national competitiveness could cause faulty government policies if governments began wasteful spending to enhance competitiveness. In extreme cases it might result in protectionism in international trade.

Central European authors have also shown interest in the topic of competitiveness. Bieńkowski[28] highlighted the importance of the institutional framework and macroeconomic policy in enhancing the competitiveness of companies. Kutasi et al. utilise the competitiveness approach to the economic policy, i.e. the nation's economic competitiveness originates from a competitive state.[29] This vision distinguishes between the state responsibility and market functions for competitiveness and development. However, they state that a multitude of available resources does not provide a clear answer to cer-

[21] Cerny (1990)
[22] Stiglitz (2002)
[23] Porter (1990)
[24] Oral–Chabchoub (1996)
[25] Porter (1990)
[26] Krugman (1991)
[27] Laura D'Andrea Tyson chairs President Clinton's Council of Economic Advisors and she wrote a paper titled: Who's Bashing Whom? (Institute for International Economics, November 1992).
[28] Bieńkowski (2007)
[29] Kutasi–Vigvári–Dani (2012)

tain questions. Excessive intervention can be detrimental to the market. Ágh examines the performance of the domestic public/state institutions, and underlines that "social progress" (as defined by the European Union) is a basic variable measuring progress in competitiveness.[30] Regarding this question, Kovács provides an even more specific answer: in order to enhance economic competitiveness the harmonious functioning of public households and a sustainable path of modernisation should be kept in mind.[31] Others analyse competitiveness with sectoral breakdowns.

Verner investigates the relationship between competitiveness and expenditure on higher education and research and development in the triad countries (the European Union, Japan, and the USA)[32]. Based on panel data analysis he concluded that increasing expenditures on education and research and development did not always promote national competitiveness. Concerning the situation in Slovakia during the (current) economic crisis, Ručinská and her co-authors highlight that the production factors are not the only important factors of competitiveness.[33] The question is more complex, because providing long-term sustainability of total production and relative satisfaction of the population concurrently are also the determinant factors.

Mrak referring to the OECD method[34], investigates cost- and qualitative competitiveness[35]. He points out that at the cost-competitiveness side of wages in foreign currency is crucial, thus exchange rates influence external trade performance. A study by Landesmann and Wörz deals with the global competitiveness of the CEE region vis-à-vis the EU-15 and Asian emerging economies.[36] The authors use hard data such as external trade positions, market shares and costs of financial intermediation as well as some soft points (based on perceptions of entrepreneurs) like costs related to running business (negotiation costs and distribution costs) in the business sector. In a global comparison, the CEE countries have gained a

30 Ágh (2011)
31 Kovács (2005)
32 Verner (2011)
33 Ručinsk –Urge–Ručinský (2009)
34 OECD (1998)
35 Mrak (2000)
36 Landesmann–Wörz (2006)

relatively strong competitive position. However, the new member states are found in the middle position between the first and the second development wave of "Asian tigers"[37] and the third wave, including China and India.

Kovačič, in order to rank factors of the World Economic Forum's (WEF) competitiveness report[38] for the selected countries, uses the standard deviation method.[39] Slovenia, Hungary, the Czech Republic and Slovakia have the leading positions, ahead of Poland, Croatia and Romania.

Visegrad countries in institutional rankings – an analysis of national competitiveness

Measuring international competitiveness and preparing benchmarking lists, economic development is often used in analyzing the performance of countries (c.f., World Competitiveness Yearbook). The other main institutional competitiveness observer, the World Economic Forum defines[40] competitiveness as the ability of a country to achieve sustained high rates of growth in gross domestic product (GDP) per capita. In recent years during the "great crisis" that affected the performance of the economies, regional distribution of growth has changed. The crisis interrupted a long growth period in the US economy, moderated Chinese development and amplified the structural problems of public finances in the countries of the European Union.

Regarding benchmarking of economies, there are two widely used sources based on international competitiveness. These ranks are comparisons with "non-priority countries"[41], which means that the competitiveness of a country is not measured in relation to others. The World Economic Forum – a private think-tank – has been publishing the Global Competitiveness Report since 1979. The WEF de-

[37] The first development wave of the newly industrialized countries (NIC) covered Hong Kong, the Republic of Korea, Singapore and Taiwan, the second one Indonesia, Malaysia, Philippines and Thailand, the third one – Philippines, India and China.
[38] World Economic Forum, Global Competitiveness Report.
[39] Kovačič (2008), pp. 3-26.
[40] World Economic Forum (1998)
[41] Szilágyi (2008)

veloped a measure called the Global Competitiveness Index, which is a weighted complex indicator[42] based on twelve different observational points of view. These areas[43] cover different governmental policies as well as different economic sectors. The driving point of the index is GDP growth.[44]

The other highly cited source is the International Institute for Management Development (IMD) World Competitiveness Center, which has been publishing the World Competitiveness Yearbook since 1989. International benchmarking is calculated over 300 criteria, two-thirds of which is based on hard data statistics and one-third on opinion surveys of business executives.

Based on the data of the Global Competitiveness Report, the V4 countries are in the lower-third of the ranking list of examined economies.[45] Spain, Portugal, Italy and Greece from the European Union, and Brazil and India from the BRIC countries have ranks that are similar to those of the four Visegrad countries. It is obvious that those Central and Eastern European emerging economies which have been economically embedded in the EU for the last 20 years face different conditions than the South European or the BRIC countries. Figure 1 shows the score numbers[46] for the last eight years. Three Visegrad countries, as well as the European Union countries, experienced deteriorating performances. For those emerging economies that based their growth and development on inward FDI and increasing demand in external markets, the question of the competitiveness cannot be independent from their external economic environment.

Real differences and competitive factors between countries become apparent when we consider more detailed data, i.e., dissimilar per-

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[42] Further: World Economic Forum (2012), pp. 8-9.

[43] The 12 pillars of competitiveness: Institutions, Infrastructure, Macroeconomic environment, Health and primary education, Higher education and training, Goods market efficiency, Labour market efficiency, Financial market development, Technological readiness, Market size, Business sophistication, Innovation

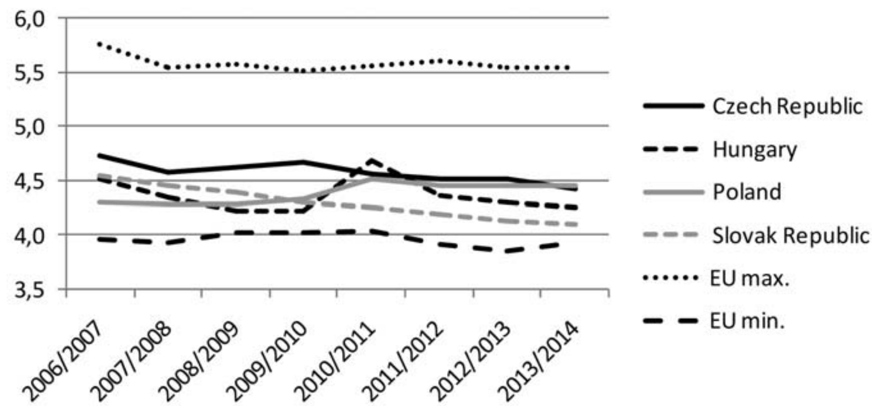
[44] van Dijck–Gerrit (2000), p. 74.

[45] We examine the EU28 plus Brazil, India, the U.S., People's Republic of China, Russian Federation and Japan

[46] The Global Competitiveness Report provides scores between 1 and 7.

formance of along sub-indexes.[47] Considering the average values of their rankings, the Czech Republic and Poland have the best positions. Compared to the other countries examined V4 countries showed the worst position for governmental/state performance (institutions) and some market/business indicators (labour market efficiency).

Figure 1. Scores of the Visegrad countries compared to the best and worst scores from the EU28 between 2006 and 2013



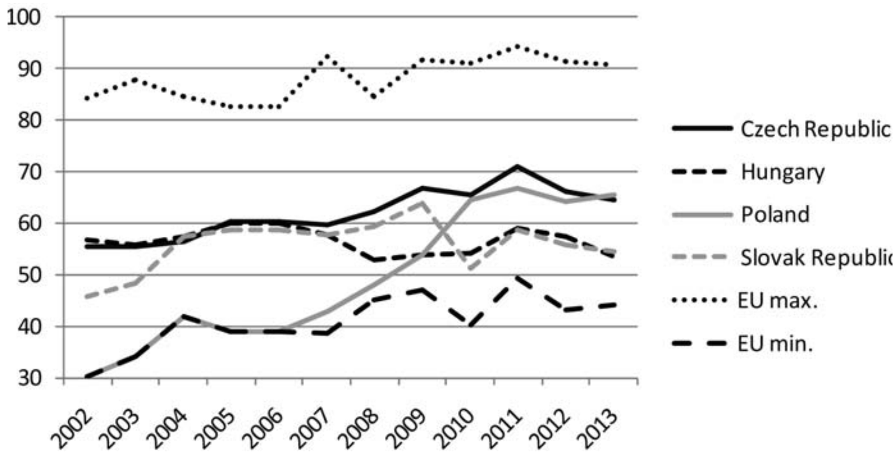
Source: author's calculations based on relevant issues in the World Economic Forum Global Competitiveness Report

The former plays an important role in investment decisions and the organization of production of business entities, and further determines cost-benefit calculations for the costs of development strategies. The efficiency and flexibility of the labour market are critical for the effective allocation of the appropriate workforce. We can distinguish advantageous and disadvantageous factors among nations as well, e.g., a large-scale internal market and the lack of a trans-European road transport network in Poland, or favourable innovation capacity in the Czech Republic and the (small) size of the domestic market in Slovakia. The World Competitiveness Yearbook edited by

[47] 1. Institutions; 2. Infrastructure; 3. Macroeconomic environment; 4. Health and primary education; 5. Higher education and training; 6. Goods market efficiency; 7. Labour market efficiency; 8. Financial market development; 9. Technological readiness; 10. Market size; 11. Business sophistication; 12. Innovation

IMD is also continuously ranks an increasing number of countries[48] according to their competitiveness. It is one of the most thorough and comprehensive annual reports on the competitiveness of nations. Overall the calculations are based on 327 variables[49] organized into four groups: economic performance, government efficiency, business efficiency and infrastructure. There is high volatility between different years thanks to the complexity of measurement methods. Based on data for different years in the World Competitiveness Scoreboard we compared the best and worst values of the EU countries[50] with the scores of the Visegrad countries (see Figure 2).

Figure 2. IMD scores of Visegrad 4 countries compared to the best and worst figures from the EU15+V4+Estonia+Slovenia



Source: author's calculations based on the IMD World Competitiveness Yearbook 2013 and relevant years of the IMD World Competitiveness Scoreboard

A review of the two competitiveness rankings (see Table 1) reveals discrepant results in long-term time series. The comparison of the

[48] In 2002: 49 countries; in 2013: 60 countries

[49] This can be problematic when making comparisons – when comparing successive years. For example, in 2007 the competitiveness ranking was investigated under 232 indices.

[50] Due to a lack of national data we use the EU15 countries and the Visegrad 4 countries plus Estonia and Slovenia.

ranks between the two investigations not useful, thanks to divergent sampling methodology and the ranking of countries taken into account. However, summarizing the most important experiences is useful. The trends of the time-series are clearly drawn out for developing economies and the lagging economies. Concerning the Global Competitiveness Report, the European Union (EU28) continuously dropped down in the list. Emerging economies performed differently, with Brazil, China (PRC) and the Russian Federation improving their performances. Traditionally developed economies like the USA and Japan dropped down in the list, as did the EU. Small Visegrad countries dropped in competitiveness while Poland was able to move forward. If we take into account previous years, among the new member states Poland was the only EU member that avoided recession, due to its favourable internal demand. The economic output in the other three Visegrad countries was significantly affected by the crisis, leading to other structural problems as well.[51] IMD's World Competitiveness Yearbook confirmed the good performance of Poland in recent years. The report also highlighted the Czech Republic as an example of a well-performing country for businesses. The European Union saw improvement in its competitiveness, contrary to the Global Competitiveness Report. All noted developed and developing economies have been improving their competitiveness over the last 11 years.

External trade performance of Visegrad countries

The external trade balance and the global market share in high-tech industries are the easiest way to compare national economies in the global economy. Investigating external trade is the obvious way to define the competitiveness of nations (Éltető[52]; Tomáš[53]) because it is a comprehensive concept, expressing the potential of national economies to stand the test of international products.

[51] Túry (2012)
[52] Éltető (2003)
[53] Tomáš (2011)

Table 1. Competitiveness development in the countries studied

Ranks and period/country	WEF Global Competitiveness Report 2006-2013	IMD World Competitiveness Yearbook 2002-2013
Czech Republic	-	+
Hungary	-	-
Poland	+	+
Slovak Republic	-	+
China	+	+
United States	-	0 (+)
Japan	-	+
Brazil	+	+
India	-	+
Russian Federation	+	+

Some (Török[54]) believe that measuring competitiveness on the demand side is impossible. Further, Török points out that there is a weak linkage between the export structure, technological level of manufacturing output and R&D expenditure.[55] A globalised examination of the international trade raises further questions. Is it possible to speak of the national competitiveness or just competitiveness of firms in the 21st century, when numerous transnational companies carry out production in almost all regions/countries of the world? There is ample evidence of the existence of isolated multinational corporations in national economies as a result of globalisation.[56] Firms with global value chains across economies create a global network of production and distribution.

The Central European emerging markets[57] are open and highly dependent on foreign demand. If key partners experience shrinking demand, export development is hit hard. In terms of external trade, Poland – with its rather large internal market – is different from the

[54] Török (1998)
[55] Török (2008)
[56] Sachs–Yang–Zhang (2000)
[57] I use this term in parallel with the term “the Visegrad countries” despite the two terms are not equivalent. The Visegrad countries are part of the Central European region, here defined as the Czech Republic, Hungary, Poland, Slovakia and Slovenia.

other three countries, which are deeply involved in external markets. The net value of exports showed a positive turn during the time of breakdown of internal consumption and the relapse of the import-based production of large multinational companies during the world economic crisis. The improvement of the trade balance took place despite a declining trade performance, i.e. the decreasing volume of exports due to the lack of demand growth in external markets

The Central European countries have been showing tremendous development – in terms of both quantity and quality – in foreign trade since the beginning of the 1990s. According to WTO statistics[58], from the beginning of 1990 until 2012 the world trade increased threefold, while the external trade turnover of the Visegrad countries tenfold. Landesmann and Wörz highlighted that evolution of trade balance was a sign of the catching-up processes of the Central and Eastern European countries.[59] Concerning export competitiveness, despite a relative export price growth, productivity gains were able to offset the process. In this regard, a number of studies have explored the relationship between trade development, economic growth and pattern of trade in the CEE region. Pavličková deals with the export competitiveness of the Slovak Republic, giving a comprehensive summary of the empirical studies dealing with the topic[60]. She investigated export data using Peneder's[61] classification of industries according to involvement of human resources between 1999 and 2011. Using statistical methods (Constant Market Share Analysis, Revealed Comparative Advantage, Michaely Index, and unit export and import values) she confirmed the increasing competitiveness of Slovak exports in European markets. Nevertheless, she did not assess any significant change in the Slovak commodity structure during the observed period. Price competitiveness fulfils the main role in trade development. Outrata and co-authors examined foreign trade trends as part of intra-industry trade tendency using the Grubel-Lloyd Index[62]. They found that CEFTA countries had a comparative advan-

[58] WTO (2013)
[59] Landesmann–Wörz (2006)
[60] Pavličková (2013)
[61] Peneder (1999)
[62] Outrata–Gajdošová (2004)

tage in products of lower added value. CEE countries are competitive in the labour-intensive industries and have disadvantage in marketing- and technology-driven industries. Vokorokosová and Čarnický, using the Revealed Competitive Advantage and the Michaely Index, added to this claim, showing that in term of international trade Slovakia had a competitive advantage not just in the labour-intensive industries but also in those industries which are relatively higher capitalised.[63]

The mentioned articles deal with a time period far before the crisis. In this paper, I concentrate on the developments of the recent decade. A deeper analysis of external trade development is necessary. Additional methods were used to attain a picture of a qualitative aspect. First, the share of high-technology products in total exports and the structure of the high-technology products are analysed. Second, high-technology production and the high-technology trade are compared.

The Eurostat's high-technology aggregation[64] based on OECD's high- and medium-high-technology manufacturing classification[65], reveal remarkable developments and differences among the Visegrad four (see Table 2). The Czech Republic and Hungary are in the leading position, while Slovakia and Poland can be found behind them. Despite the outstanding figures, the trend of Hungarian high-technology exports in the last decade was showing a remarkable decrease.

How did exports vs. high-technology export growth develop over the last decade? Determining the nexus between growth of exports and high-technology trade between 2000 and 2013[66], we use the Pearson product-moment correlation coefficient.[67] There are strong correlations between the yearly export figures and high-technology export figures in all V4 countries (the Czech Republic: 0.9918; Hungary: 0.9379; Poland: 0.9482; Slovakia: 0.9541). If we examine the relative figures, i.e. year-on-year figures of the growth of total and

[63] Vokorokosová–Čarnický (2003)
[64] Eurostat (2009). High-technology aggregations based on SITC Rev. 4
http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/Annexes/htec_esms_an5.pdf
[65] OECD (2013), p. 240.
[66] For long tern analysis I use Eurostat data. For comparison to developed and emerging economies I use the database of UN Comtrade based on the same classification as Eurostat's data.
[67] http://en.wikipedia.org/wiki/Pearson_product-moment_correlation_coefficient

high-technology exports, the dynamics of the two series are similar in the Czech Republic and Hungary, but the correlation is low in the case of Poland and Slovakia.

Table 2. Share and growth of high-technology products in total exports (%)

Country	2000	2005	2010	2013	Growth rate 2013/2000	
					total exports	high-tech exports
Czech Republic	7.7	11.8	16.1	15.0	386	750
Hungary	23.7	20.8	21.8	16.1	267	182
Poland	2.7	3.0	6.0	6.7	443	1086
Slovakia	2.8	6.3	6.6	9.6	505	1711

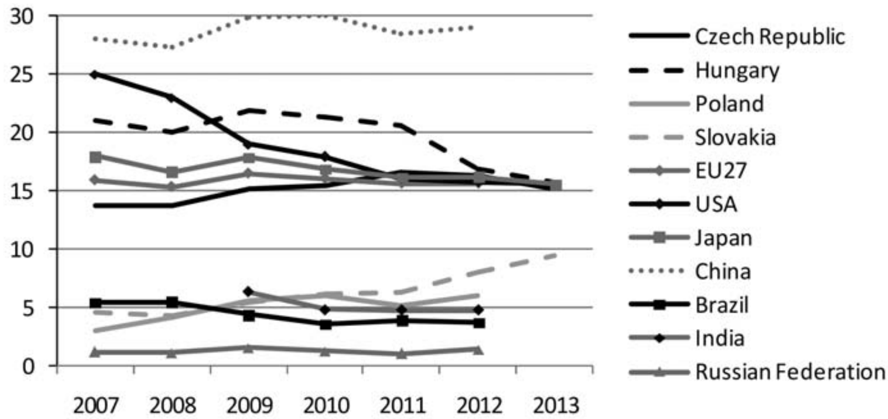
Source: author's calculations based on Eurostat Comext (2014)

The reason should be the different growth rates of total and high-technology exports (see Table 2). The table also shows the level of sustainability of exports of the high-technology products in the examined economies. There is a remarkable development in high-tech exports in three Visegrad countries. The increase of high-technology exports was growing above the export growth by 3.4 times in Slovakia 2.5 times in Poland and almost doubled (1.9 times) in the Czech Republic, while in Hungary the high-tech growth was below (0.7 times) the dynamics of overall exports. Concerning Hungary, the cause of the decline is that in 2008 the exports of computers (SITC Rev.4.: 752) decreased and in 2012 the exports of telecommunications equipment (SITC Rev.4.: 764, excluding 764.93 and 764.99) also decreased. There were corporate issues explaining these developments, reflecting changing global circumstances and multinational-network reorganisations. In 2008, the U.S. company Sanmina-SCI sold its global computer facilities. The deal affected Hungarian production as well[68].

[68] Sanmina-SCI sold its PC manufacture, including the production capacity of the Hungarian facilities (Eladja PC-gyártását a Sanmina-SCI, közte magyar kapacitásának egy részével) http://www.hwsw.hu/hirek/35382/sanmina-sci_hon-hai_foxconn_foxteq_szerzodeses_elektronikai_gyartas_ems_lenovo_flextronics.html

In 2011, the Finnish communications and information technology corporation Nokia had announced the restructuring of its production and reallocations of its facilities[69] that caused the downsizing of the Hungarian production plant in 2012.

Figure 3. Share of high-technology exports in the selected countries



Source: author's calculations, based on the data of the UN Comtrade (2014)

For the comparative analysis of the high-technology exports of the V4 countries with the leading developed and emerging economies, I used the database of the United Nations Commodity Trade Statistics[70] (UN Comtrade) for the available years (i.e. between 2007 and 2013). China has the leading position with an almost 30% high-technology export ratio. The shares of high-technology products in the total exports of Hungary and the Czech Republic are about the same level as in exports of the European Union and the most developed countries (Japan and the USA). However, there is a strong decreasing trend of the ratio of high-technology exports in the USA and Hungary (see Figure 3). Regarding the technological level of the exports of the Slovak

[69] Nokia press release: Nokia continues to align its workforce and operations. 29 September 2011 http://company.nokia.com/en/news/press-releases/2011/09/29/nokia-continues-to-align-its-workforce-and-hai_foxconn_foxteq_szerzodeses_elektronikai_gyartas_ems_lenovo_flextronics.html operations.

[70] Based on Eurostat's high-technology products classification.

Republic and Poland, in recent years the figures have been exceeding the values of Brazil and India and catching up to the most developed countries in terms of output. The values of the Russian Federation, the fourth member of the BRIC countries, are extremely low.

Based on this comparison we can say that some Visegrad countries are among the leading high-tech exporting economies, while some are in the catching-up process. Have these Central European countries completed the catching-up process? Are they technologically at the same level as the developed countries? In order to obtain a full picture we will analyse more detailed data.

Breakdown of exports by technological intensity – international comparison of the Visegrad countries

Beside the differences in shares of high-technology exports among the countries, there are other characteristics as well. The structure of high-technology exports indicates remarkable differences among the economies (see Table 3) that justifies more detailed research of the added value of the manufacturing industry. There are certain characteristics of the countries appearing first. Clusters are based not on the geographical location but on characteristics of economies. Computers and office machines[71] have a large share in high-technology exports in China and all V4 countries. Exports of the electronic telecommunications have the largest share in emerging economies such as China, India, Hungary and Slovakia, and in Japan from the developed world. The export share of the aerospace industry is high in Brazil, the Russian Federation and Poland.[72] Due to the above-mentioned corporate issues, these indices can fluctuate year-to-year, influencing the dynamics and composition of high-technology exports.

Although there are some differences in the export structure of the countries in question, electronic equipment plays the main role in high-technology industries in all V4 counties. In Hungary and Slovakia, telecommunications equipment (excluding 764.93 and 764.99)

[71] For the detailed SITC code see Eurostat (2009): High-technology aggregations based on SITC Rev. 4 http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/Annexes/htec_esms_an5.pdf.
[72] There are differences in terms of the aerospace industry. While in Brazil the civil aviation industry has the leading role, in the Russian Federation the production of military aircrafts leads.

Table 3. Structure of high-technology exports in the selected countries in 2012 (shares within high-technology exports)

	Brazil	China	India	Russia	USA	Japan	EU27	Czech R.	Hungary	Poland	Slovakia
Aerospace	57	0	1	32	3	2	25	2	0	14	1
Computers office mach.	3	35	3	3	18	4	8	48	18	32	15
Electronics telecomm.	10	49	35	16	37	50	22	35	56	34	73
Pharmacy	8	1	22	3	8	1	16	1	5	3	1
Scientific instruments	6	9	9	12	21	27	17	5	13	9	5
Electrical machinery	1	2	1	4	3	6	2	3	2	1	2
Chemistry	10	2	28	8	4	2	4	1	2	3	1
Non-electrical machinery	1	0	1	17	5	8	6	4	4	4	2
Armament	4	0	0	4	2	0	1	1	0	0	0

Source: author’s calculations, based on UN Comtrade 2014 data.

has the highest share with computers (752). In the Czech Republic and Poland computer production (752) has the highest rate alongside electronic boards and consoles (776.4+772.61).

This one-sided high-tech trade structure and the high rate of the electronic telecommunication products raise the question of the structure of output. Authors dealing with the high-technology content of external trade focus their analyses on the structural and geographical fragmentation of production.[73] We have to take into consideration that the international network of multinational enterprises, i.e. global value chains, have become a dominant feature of world trade, encompassing developing, emerging, and developed economies.[74] Saito and his co-authors referring to the World Input-Output Database[75], deal with the input and output sides of world production and trade development.[76] They pointed out to the increasing role of global value chains in terms of global output. The global division of labour in the global value chain means that every country has its own role and value added phase within the global production chain.

Based on the academic literature the following trends can be drawn up. The amount of trade, related to output, has been increasing during the last decades. This is shown in the world export-to-output ratio, which has grown from 20 to 30 per cent from 1995 to 2008.[77] Concerning export growth, global value chains have a decisive role. Due to the global activity of multinational companies, production of the same output involves more intermediate products in global trade. More income is generated by being part of global value chains. This was led by the increase of value-added exports[78] (or income generated by exporting) that are becoming a bigger part of world income. During the 1995-2008 period, it increased from 15 per cent to 22 per cent of the world GDP.[79]

Higher value added in exports has a correlation with the presence of the global value chain. Saito and his co-authors, using VAX Ratio

73 Grodzicki (2014)
74 OECD (2013)
75 www.wiod.org/new_site/database/wiots.htm
76 Saito–Ruta–Turunen (2013)
77 Ibidem, p. 8.
78 Value added produced in a country and absorbed in another country.
79 Saito–Ruta–Turunen (2013), p. 9.

(Value-Added Exports to Gross Exports, as a summary measure of value-added content of trade) by Johnson and Noguera[80] examined the correlation between the vertical specialisation and value added exports. There are countries with low VAX Ratio at the assembly part of the global value chain (Ireland, the Czech Republic, Taiwan), and countries with high VAX Ratio providing the largest value added to global chains. There are many other measures developed to captured the role of value chains in exports: the import-content of exports[81], foreign value-added shares in exports[82], vertical specialisation of trade[83], and imports to exports.[84] Between 1995 and 2008 the Central and Eastern European region increased its share in the global value chains.[85] The paper by Baldwin and Lopez-Gonzalez (2013) based on the World Input-Output Database shows that importing to produce, i.e. the share of the foreign value added in the exports in 2009, are the highest in the Czech Republic (39%), Hungary (40.5%) and Slovakia (45%) among the countries measured. This confirms Baldwin and his co-authors' (2013) position that multinationals using their own technology and know-how do not rely on local technologies.

Analysis of the production and exports of high-technology industries

Beside the analysis of the export structure and the high-technology share, another aspect is the comparison of the nexus between production and external trade in high-technology industries. The purpose of the comparison is to provide a picture of the value added of the high-technology sector vis-à-vis exports of high-technology goods, i.e. a comparison of the internal and external performance of the countries.

There are several classification systems regarding high-technology production and products. The World Bank aggregates high-technology products with high R&D intensity, such as in aerospace, computers,

[80] Johnson–Noguera (2012)
[81] Hummels–Ishii–Yi (2001)
[82] Koopman–Powers–Wang–Wei (2010)
[83] Daudin–Rifflart–Schweisguth (2010)
[84] Baldwin–Lopez-Gonzalez (2013)
[85] Grodzicki (2014), p. 8.

pharmaceuticals, scientific instruments, and electrical machinery.[86] Eurostat refers to high-tech industry and knowledge-intensive services.[87] The OECD[88] has a technology intensity definition and classification of manufacturing industries based on R&D intensities.[89] Using OECD classification on the gross value added (GVA) side and Eurostat high-technology products (based on the OECD's classification of high- and medium-high-technology industries) on the export side, Table 3 (series01) shows the share of high-technology products in the share of the total exports.

Concerning the examined EU countries[90], the Pearson's correlation coefficient is rather low (0.4192), showing a low dependency between high-technology GVA and the exports of high-technology products, what confirms the results of some authors (Török 2008; Koopman, Powers–Wang–Wei 2010; Daudin–Rifflart–Schweisguth 2010; Baldwin – Lopez-Gonzalez 2013) previously mentioned. Another conclusion is that there are rather huge gaps in some countries between the GVA and the export ratio. On one hand, higher high-technology ratio shows a competitive export structure, while on the other hand it can show the "real value added" of the country regarding high-technology products.[91]

On the methodological side this comparison and common visualisation raises some questions. If we compare the gross value added (GVA) of high-technology production and trade of the high-technology products, we find that data is not compatible. GVA data are based on NACE[92] industry classification, while trade data are based on goods classified by SITC.[93] There is a problem regarding concordance, because the former classification is activity based, while the

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[86] World Bank (2014). World Development Indicators, Science and Technology: High-technology exports (% of manufactured exports) http://data.worldbank.org/indicator/TX.VAL.TECH.MF.ZS
[87] Eurostat: Reference Metadata in Euro SDMX Metadata Structure (ESMS) http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/en/htec_esms.htm
[88] OECD (2013), p. 240.
[89] OECD (2011)
[90] Belgium, Bulgaria, the Czech Republic, Denmark, Germany, Estonia, Greece, Spain, France, Italy, Lithuania, Hungary, the Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, and the United Kingdom
[91] Saito–Ruta–Turunen (2013)
[92] General Industrial Classification of Economic Activities within the European Communities (NACE) Rev. 2 system
[93] Standard International Trade Classification, Revision 4. nomenclature

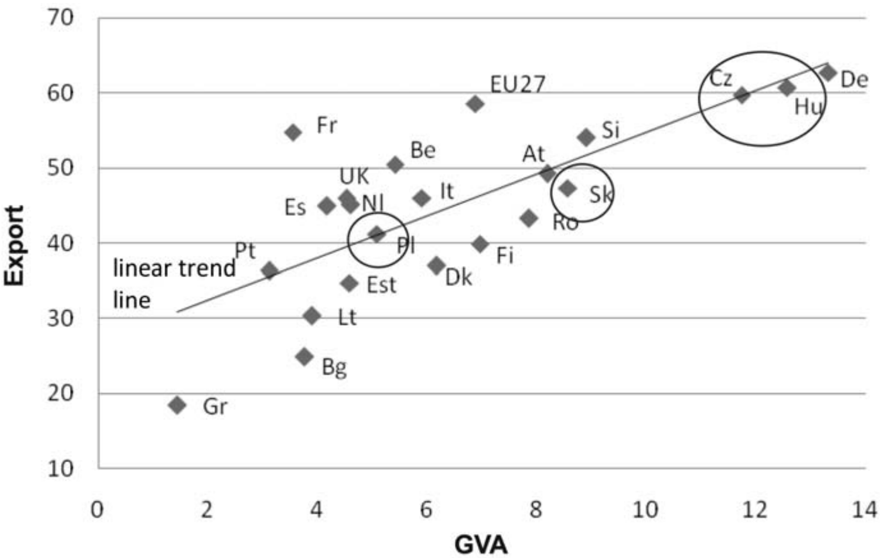
latter is product/goods based. Therefore, based on correspondence tables, the classifications were converted to make them suitable for comparison.[94]

Figure 4 shows the dispersion of the exports of high-technology industries and high-technology gross value added (GVA) regarding the selected countries, i.e. the internal and the external performance of the economies. Against the former dependence value (cf.: Table 3) between the GVA and high-technology export data, the Pearson's correlation coefficient of the recalculated data shows a stronger relationship (0.7557). The position and the rank of the V4 countries were not changed. The Czech Republic and Hungary have the leading position, very close to Germany. There is a change regarding the unusual figure of Hungary. The distance between Hungary and the Czech Republic in the second calculation was largely reduced (see Figure 4). It may have occurred for several reasons. In the Czech Republic, the branches using high technology are presented with broader activity (more products and more variance), expressly high-technology products are not presented as high rate as in the case of Hungary. Poland is in last place and Slovakia is nearer to the average (trend line). Compared to the previous figure (see Table 3), the technology level of Czech and Hungarian exports is much higher, showing a competitive advantage. Taking into account that the Hungarian, Czech and Slovak economies are highly involved in global value chains[95] (foreign value added in the exports in 2009 were the highest in the Czech Republic, Hungary and Slovakia) among the countries, these outstanding values are due to the activity of the largest transnational companies. Taking into account the data of the World Input-Output Database, Hungary, the Czech Republic and Slovakia have the highest rate (around 60% of foreign inputs and domestically produced inputs used in foreign exports as per cent of gross exports) of foreign inputs in direct exports among the selected countries[96] in

[94] See detailed: Túry (2014)
[95] As in the paper of Baldwin–Lopez-Gonzalez (2013)
[96] Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, United Kingdom, Japan, the USA, Brazil, China, India, Russia.

2009 concerning electrical and optical equipment and transport equipment industries[97]. Export values represent the value of the semi-finished or finished products which formed only a small proportion in the examined CE countries. That shows the large differences between the GVA and the exports of high-technology products.

Figure 4. The ratio of exports and GVA of industries using high technology in selected EU countries (2011): series02



Source: author's calculations, based on UN Comtrade and Eurostat Comext data.

Analysing the high-technology branches and products, we can see large differences between the examined V4 and EU countries (see Table 3). Having made datasets compatible based on correspondence tables, the differences between the countries are even more pronounced. Sample variance[98] of series01 is 5.4039, while that of series02 is 11.5656, showing that in some countries the industries using high technology are not represented in the whole vertical production, but only in the production of parts.

[97] European Commission (2013), p. 84-86.
[98] http://www.math.uah.edu/stat/sample/Variance.html

Table 3. GVA and export data of the selected countries

Country	Share of the branches using high technology as % of total GVA	Exports			Ratio of the series02 per GVA
		of the high-technology products as % of total (series01)	of the branches using high technology as % of total (series02)	*difference* series02-series01	
Greece	1.4	4.2	18.4	14.2	13.1
Portugal	3.1	3.0	36.3	33.3	11.7
France	3.5	19.1	54.7	35.6	15.6
Bulgaria	3.8	3.8	24.9	21.1	6.6
Latvia	3.9	5.6	30.4	24.7	7.8
Spain	4.2	4.7	44.9	40.2	10.7
UK	4.5	15.2	45.9	30.7	10.2
Estonia	4.6	14.0	34.7	20.7	7.5
Netherlands	4.6	16.0	45.1	29.1	9.8
Poland	5.1	5.2	41.2	36.1	8.1
Belgium	5.4	7.7	50.5	42.8	9.4
Italy	5.9	6.4	46.0	39.5	7.8
Denmark	6.2	9.3	37.0	27.7	6.0
EU27	6.9	15.6	58.6	42.9	8.5
Finland	7.0	8.1	39.9	31.7	5.7
Romania	7.9	9.1	43.2	34.2	5.5
Austria	8.2	10.5	49.2	38.7	6.0
Slovakia	8.6	6.3	47.3	41.1	5.5
Slovenia	8.9	5.2	54.1	48.9	6.1
Czech Republic	11.7	16.5	59.7	43.2	5.1
Hungary	12.6	20.5	60.7	40.2	4.8
Germany	13.3	13.6	62.8	49.2	4.7

Source: author's calculations, based on the data of the UN Comtrade and Eurostat Comext.

Comparing the GVA with series02 (ratio of series02 per GVA; see Table 3), the above shown sequence of the Visegrad countries will be almost the same order. The value of the exports of high-technology branches per GVA, in the case of Poland is 8.1, Slovakia 5.5, the Czech Republic 5.1 and Hungary 4.8. From one side this could mean that Poland is more competitive because relatively less high-technology industries export relatively more high-technology products. On the other side, lower values in the V4 countries, i.e. higher GVA and higher export share, may indicate a better export performance. In this comparison Hungary, the Czech Republic and Slovakia form one cluster, while Poland is far behind them.

Summary and conclusions

Regarding international competitiveness of the V4 economies, the picture is diverse according to different benchmarking ranks. There is increasing competitiveness on one side and a drop in ranking position on the other. There is a significant lagging of the V4 countries based on the rankings of the World Economic Forum Global Competitiveness Report. Further, this trend of the V4 countries parallels the globally declining competitive performance of the European Union. This highlights dependence on European trends as well as the increasing role of emerging markets (e.g., China, Brazil), which will be determinative for the global position of the V4 economies within global value chains.

Because of their export driven economies, most Central European emerging economies are highly dependent on foreign demand. Poland has a unique position with its large internal market. Another part of the picture is that their outstanding export performance derives from the fact that they are deeply involved in global value chains. This, however, causes further differences between the countries examined. One consequence of this is a high proportion of high-technology products in total exports in some countries. Regarding the exports of high-technology products, Hungary and the Czech Republic show the best performance, while Slovakia and Poland have lower exports of this kind. In order to compare the international competitiveness of the Visegrad countries, the study analysed the relation between the internal and external performance of high-technology production. At first, the OECD's high-technology ISIC classification was recounted into SITC classification. In terms of gross value added and export shares of branches using high technology, the Czech Republic and Hungary again have higher values compared to Slovakia and Poland. Regarding the ratio of GVA and exports of branches using high technology, Slovakia catches up to Hungary as well as to the Czech Republic thanks to increasing foreign investments in the automotive industry in recent years. Poland has less favourable data and low GVA and export share, despite developing industrial capacities. The reason is, on one hand, the different level of Poland's integration into the global value chains, which is a crucial factor in export performance. The other issue is Poland's large internal market, which distinguishes it from the other three economies, which are highly export dependent.

Besides these facts, further investigation of the countries involved in the analysis shows there are significant country-specific features. The ratio of exports of the high-tech intensive branches (series02) per GVA of the branches using high technology can be interpreted in two ways. On the one hand, high values can mean better external performance. On the other hand, low values indicate relatively higher export shares of high-technology industries. Therefore, ranks cannot be interpreted without knowing the internal characteristics of the countries, which give us a basis for further investigation.

Based on the examples examined in this paper, we see that corporate decisions affect the external performance of the countries in terms of the level of connection or disconnection of these economies to/from global value chains. For a complete picture we have to take into account the internal structure of the economy, i.e., the proportion of high-technology branches, corporate issues or characteristics of the economy.

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Trends of the social situation in Poland between 2005 and 2013 – challenges for the future

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Introduction and methodological remarks

The Europe 2020 strategy, adopted by the European Council on 17 June 2010, is the EU's agenda for growth and jobs for the current decade. It emphasises smart, sustainable and inclusive growth as a way to overcome the structural weaknesses in Europe's economy, improve its competitiveness and productivity and underpin a sustainable social market economy. Social cohesion should be achieved through actions addressing inclusive growth targets. Inclusive growth is measured against the employment rate and poverty or social exclusion headline indicator (*see Box 1.*).

Also, the Europe 2020 strategy set up targets related to education, in particular to early school leaving and tertiary education. They should also help to reduce social disparities among member states and their regions.

To meet the overall EU targets related to Strategy Europe 2020, member states have set their own national targets[2] in their National Reform Programmes. Poland's targets (vis a vis the EU targets) are presented in Table 1. They form the background against which changes in 2005-2012 are assessed. Whenever possible, data for 2004 and 2013 were included as well. Changes in the Polish situation are accompanied by the average indicators for the EU 27 countries (Croatia joined the EU in 2013).

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[3] See: http://ec.europa.eu/europe2020/pdf/targets_en.pdf

Box 1. The Europe 2020 strategy[3]

The Europe 2020 strategy puts forward three mutually reinforcing priorities to make Europe a smarter, more sustainable and more inclusive place to live:

- It envisions the transition to smart growth through the development of an economy based on knowledge, research and innovation.
- The sustainable growth objective relates to the promotion of more resource efficient, greener and competitive markets.
- The inclusive growth priority encompasses policies aimed at fostering job creation and poverty reduction.

The smart growth objective is covered by the indicators on innovation (gross domestic expenditure on R&D) and education (early leavers from education and training and tertiary educational attainment). The sustainable growth pillar is monitored by three indicators on climate change and energy (greenhouse gas emissions, share of renewable energy in gross final energy consumption and primary energy consumption). Inclusive growth is measured against the employment rate and poverty or social exclusion headline indicator (combining three sub-indicators on monetary poverty, material deprivation and living in a household with very low work intensity).

The target related to inclusive growth is addressed directly by the employment rate indicator (Poland has set a target of achieving an employment rate of 71% of the population of working age, 20 - 64 years) and by indicators on reducing the population at risk of poverty or social exclusion (to lift at least 1,500,000 people out of the risk of poverty and social exclusion by 2020). The respective targets for the EU 27 are 75% and 20 million people by 2020. Education, being one of the targets of smart growth objectives, is assessed through the measurement of early school leavers and tertiary education attainment.

The other indicators analysed in this chapter are: income distribution (as illustrated by changes in Gini indicator), working abroad, demography, changes in the quality of health care and changes in budgetary expenditures in social areas.

[3] Eurostat (2013)

Table 1. Europe 2020 Targets in Poland as set in the National Reform Programme in April 2011 vis a vis the EU targets

Member States targets	Employment rate (in %)	R&D (% of GDP)	CO2 emission reduction targets	Renewable energy	Energy efficiency – reduction of energy consumption (Mtoe)	Early school leaving (%)	Tertiary education (%)	Reduction of population at risk of poverty or social exclusion (millions)
Poland	71%	1.7%	14%	15.48%	14.00	4.5%	45%	1.5
EU headline targets	75%	3%	-20% (compared to 1990 levels)	20%	20% increase in energy efficiency equalling 368 Mtoe	10%	40%	20.0

Source: National Reform Programme. Europe 2020, Warsaw April 2011, p. 6.

Whenever possible, Eurostat statistics were used to analyse the changes in the above-mentioned areas. This allowed us to compare Poland's situation with that of changes in other EU countries, based on the same methodological approach to data collection.

Inclusive growth indictors

In this subchapter we analyse inclusive growth trends. As already mentioned, these are measured by the employment rate and poverty or social exclusion headline indicator (combining three sub-indicators on monetary poverty, material deprivation and living in a household with very low work intensity). The changes of these indicators in the years 2004-2012 are presented in Table 2.

Employment rate

Poland has set a target of achieving an employment rate of 71% (of persons aged 20-64), while for the whole EU it was set at 75%. In 2013 this indicator measured 64.9%, while the average value for the entire European Union amounted to 68.5%. Thus, Poland is still behind the average for the EU but has made a significant progress since EU accession (in 2005 this indicator measured 58.3%).

Table 2. Employment rate of persons aged 20-64 (%)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	Target
Poland	58.3	60.1	62.7	65.0	64.9	64.3	64.5	64.7	64.9	71.0
EU 27	68.0	69.0	69.9	70.3	69.0	68.6	68.6	68.5	68.5	75.0

Source: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table& init=1&plugin=1&language=en&pcode=t2020_10

The other side of the issue of employment situation is the unemployment rate. In 2013 it was close to the EU average, reaching 10.3%. This was an increase compared to the pre-crisis period in 2008 when it stood at 7.1% in Poland (and 7.0% in the whole EU). The high rate of unemployment has been a consequence of the unfavourable macroeconomic situation in Poland and in other EU countries.

Table 3. Unemployment rate, annual average (%)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Poland	17.9	13.9	9.6	7.1	8.1	9.7	9.7	10.1	10.3
EU 27	9.0	8.2	7.2	7.0	9.0	9.6	9.6	10.4	10.8

Source: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset= une_rt_a&lang=en

Other trends on the labour market are illustrated by (a) the long-term unemployment rate, in particular youth unemployment, and (b) young people not in employment, education or training (Table 4).

The long-term unemployment rate is the number of persons unemployed for 12 months or longer as a percentage of the labour force. This indicator has decreased substantially in Poland in the years 2004-2012: from 10.3% to 4.1% of the active population. In the EU

27 this indicator in 2012 was slightly above 10% for both the total and the population aged 20 to 64. A positive trend in Poland is that youth unemployment (as a % of the active population in the given age group) decreased substantially in the 2004-2008 period. Later, after the crisis, it increased significantly: from 17.2% in 2008 to 26.5% in 2012. An increasing trend characterised each year of the period 2009-2012, which suggests that the effects of the crisis on the labour market had not been overcome by 2012.

A similar trend characterised the third indicator: young people not in employment, education or training. The percentage of people in this category had decreased in the period 2004-2008 and later lightly increased year to year.

Table 4. Indicators of changes of in the social situation in Poland in the years 2004-2012

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Long-term unemployment rate (% of active population)	10.3	10.3	7.8	4.9	2.4	2.5	3.0	3.6	4.1
Youth unemployment (% of active population in the same age group)	39.6	36.9	29.8	21.6	17.2	20.6	23.7	25.8	26.5
Young people not in employment, education or training (% of total population)	15.0	13.9	12.6	10.6	9.0	10.1	10.8	11.6	11.8

Source: Alert Mechanism Report 2014. Commission Staff Working Document. Statistical Annex. *Accompanying the document.* Report from the Commission to the European Parliament, the Council, The European Central Bank and the European Economic and Social Committee (prepared in accordance with Articles 3 and 4 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances), p. 154.

Poverty and social exclusion

Following the Europe 2020 strategy Poland has a goal of reducing the number of people at risk of poverty or social exclusion by 1.5 million by 2020 compared with 2008. Poland has already exceeded this target as the number of this category of people has decreased from 2008 to 2013 by 1.743 millions. This was the highest and the biggest decrease of the indicator in the whole EU.[4] Still, the share of people at risk of poverty or social exclusion was in Poland in 2013 higher (25.8%) than in the EU 27 (24.5%).

Monetary poverty is the most widespread form of poverty. The percentage of people at risk of poverty after social transfers in 2012 was 17.1% of the total population in Poland. It was slightly higher than in the EU 27 where the respective indicator was 16.9%. However, in Poland this indicator has been steadily decreasing in recent years (from 20.5% in 2005) while in the EU 27 the average percentage increased slightly: in 2005 it amounted to 16.4%.

Material deprivation directly affected 13.5% of all Polish citizens. This indicator was still much higher than in the EU 27 where it reached 9.9%. However, in the EU 27 this percentage decreased in the period 2005-2012 by only one percentage point, while in Poland it decreased from 33.8% in 2005. Thus, Poland recorded significant progress in this respect. The third dimension is low work intensity, with 6.9% people experiencing it in 2012 in Poland. While this indicator was much higher in 2005[5], in 2012 it appeared to be much lower than in the EU 27 where it stood at 10.3%.

In the majority of EU member states the year 2009 marked a turning point in the development of all three dimensions of poverty. While monetary poverty had been stable in the EU 27 until 2009, it started to increase afterwards. Also, the other two dimensions started to increase from 2009, while earlier they had decreased considerably.

In Poland the majority of indicators analysed recorded interrupted decrease and were not reversed as a result of 2008-2009 (with the major exception of the unemployment rate among young people). This of course reflected the fact that Poland was the only EU member state which avoided recession in 2009. Also, Poland's relatively good position could be a result of faster improvement in the education field.

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[4] Radę Ministrów, Rzeczpospolita Polska (2015), p. 48.

[5] 14.3%, which was higher than in the EU 27 (10.4%)

The poverty or social exclusion indicator is based on a multidimensional concept, incorporating three sub-indicators on monetary poverty ("People at risk of poverty after social transfers"), material deprivation ("Severely materially deprived people") and low work intensity ("People living in households with very low work intensity"). The general observation is that in case of each of the indicators the situation in Poland has been improving (with minor exceptions). These trends are presented in more detail below.

Changes in multidimensional indicators

Measuring poverty and social exclusion requires a multidimensional approach. Household income is a key determinant of standard of living, but other aspects preventing full participation in society – such as access to labour markets and material deprivation – also need to be considered. People can suffer from more than one dimension of poverty at once. Therefore, the European Commission adopted a broad "at-risk-of-poverty or social exclusion rate" indicator to serve the purposes of the Europe 2020 strategy.[6] This indicator is an aggregate of three sub-indicators: (1) monetary poverty, (2) material deprivation and (3) low work intensity.[7] Normally, people can be affected by these forms of poverty. The aggregate indicator for Poland (as against the EU 27) is presented first and is followed by sub-indicators. Poland has made clear progress in integrating its most vulnerable citizens into society.

As shown in Table 5, the number of people at risk of poverty or social exclusion in Poland has been decreasing since 2005. The indicator reached its lowest level in 2013 with about 9.8 million people

[6] Cf: Eurostat (2013) "Indicators to support the Europe 2020 strategy" is the first of a new type of Eurostat flagship publications providing statistical analyses related to important European Commission policy frameworks or economic, social or environmental phenomena. It provides statistical support for the Europe 2020 strategy and backs up the monitoring of its five headline targets. The analysis in this publication is based on the Europe 2020 headline indicators chosen to monitor the strategy's targets. Other indicators focusing on subgroups of society or on related issues showing underlying trends help deepen the analysis and present a broader picture. The publication presents official statistics produced by the European Statistical System and disseminated by Eurostat. They cover the period from 2000 or 2005 up to the most recent year for which data are available (2011 or 2012).

[7] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Europe_2020_indicators_-_poverty_and_social_exclusion

in this category. Contrary to the EU average, where the number of affected people increased again in 2011[8] as compared to 2008 and 2005, in Poland there was a further decrease of people at risk of poverty. Even more importantly, Poland recorded a substantial decrease in the category of people categorised as such in relative terms: from 45.3% of the total population in 2005 to 25.8% in 2013. This is a 43% improvement.

Table 5. People at risk of poverty or social exclusion (% of total population and 1,000 persons): Poland and the EU 27

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Poland									
1,000 persons	17,080	14,938	12,958	11,491	10,454	10,409	10,196	10.128	9,748
% of total population	45.3	39.5	34.4	30.5	27.8	27.8	27.2	26.7	25.8
EU 27									
1,000 persons	124,339	123,051	119,360	116,418	114,328	116,821	120,171	122,857	121,626
% of total population	25.7	25.3	24.4	23.7	23.2	23.7	24.3	24.7	24.5

Source: http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=t2020_50&language=en

There is a greater risk of poverty or social exclusion for women than for men. For each year shown the indicator for women was higher, both in Poland and the EU 27. In 2011, 27.3% of women in Poland were at risk of poverty or social exclusion while for men this figure was slightly lower, at 26.1%. Young people aged 18 to 24 are more at risk than other age groups (especially those that live in single-parent households, those with lower educational attainment, and mi-

[8] Most probably this was related to the impact of the economic crisis in member states of the EU.

grants). People with low educational attainment are three times more likely to be at risk.

Changes in sub-indicators

(a) Monetary poverty

Monetary poverty is related to disposable income after social transfers. In 2005-2013 Poland recorded a decrease of the share of the population at risk of monetary poverty (in terms of incomes), from 20.5% to 17.3% of the total population (Table 6). However, the declining trend in 2005-2008 was interrupted by a slight increase of the indicator in 2009-2011 (from 16.9% to 17.7%), which was related to the crisis. In next year the trend was reversed. In the whole period Poland was one of the worst-performing EU member states for monetary poverty. The best-performing member states for this type of poverty (with the highest decrease of the number of people at risk of monetary poverty) were the Czech Republic (9.8%), the Netherlands (11.0%) and Austria (12.6%). However, monetary poverty increased in over half of the member states.

Table 6. People at risk of poverty after social transfers (% and 1,000 persons): Poland and the EU 27 situation

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Poland									
1,000 persons	7,756	7,215	6,540	6,353	6,435	6,588	6,623	6,478	6,520
% of total population	20.5	19.1	17.3	16.9	17.1	17.6	17.7	17.1	17.3
EU 27									
1,000 persons	79,306	80,424	80,650	81,130	80,505	81,090	83,679	84,121	82,527
% of total population	16.4	16.5	16.5	16.5	16.4	16.4	16.9	16.9	16.6

Source: http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=t2020_52&language=en

(b) Material deprivation

Material deprivation covers issues relating to economic strain, durables, and housing and environment of dwellings.[9] Severely materially deprived persons have living conditions much constrained by a lack of resources.

Table 7. Severely materially deprived people (% and 1,000 persons) Poland and the EU 27 situation

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Poland									
1 000 persons	12,752	10,445	8,415	6,680	5,625	5,331	4,885	5,108	4,480
% of total population	33.8	27.6	22.3	17.6	15.0	14.2	13.0	13.5	11.9
EU 27									
1 000 persons	52,032	48,214	44,595	41,907	40,232	41,276	43,736	49,017	47,640
% of total population	10.8	9.9	9.1	8.5	8.2	8.4	8.8	9.9	9.6

Source: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=t2020_53

In 2013, 4.4 million people in Poland were severely materially deprived people (Table 7). This equalled 11.9% of the total Polish population, making severe material deprivation the second most common form of poverty. The percentage of people severely materially deprived in Poland was one of the highest among EU countries soon after accession, as measured in 2005.

Only in Latvia was it slightly higher (39.3%). The percentage of this category of people has been decreasing over time, especially in the

[9] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Europe_2020_indicators_-_poverty_and_social_exclusion

first years after EU accession. The only increase was in 2012, by 0.5%. By that time it moved closer to the EU 27 average. In 2013 Poland occupied the eights place from the last (it performed better than, among others, Bulgaria, Romania, Hungary, Latvia, Lithuania and Greece). Still, the level was a significant improvement over 2005. Progress was most likely related to the positive effects of EU accession, including faster economic growth, income increases (especially among farmers), a larger diversity of industrial products on the market, etc.

(c) Work intensity

A large proportion of people live in households with very low work intensity. The problem is that lack of access to labour lowers people's income security. Very low work intensity describes the number of people aged 0 to 59 living in households where the adults worked less than 20% of their work potential during the past year. In the entire analysed period the number of households in Poland with very low work intensity decreased substantially: from 14.3% of the total population to 7.2% (Table 8).

Table 8. People living in households with very low work intensity (% and 1,000 persons): Poland and EU 27 situation

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Poland									
1,000 persons	4,446	3,862	3,104	2,444	2,102	2,211	2,073	2,063	2,124
% of total population	14.3	12.4	10.1	8.0	6.9	7.3	6.9	6.9	7.2
EU 27									
1,000 persons	39,242	39,902	36,885	34,433	34,454	38,222	39,003	39,103	40,240
% of total population	10.4	10.6	9.7	9.1	9.1	10.1	10.4	10.4	10.8

Source: http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=t2020_51&language=en

Thus, Poland recorded the second biggest improvement (after Romania): the number of households with very low work intensity decreased from 2005 to 2012 by more than 50%. Moreover, there was steady improvement in this indicator (with the exception of 2010 and 2013) over the whole period.

Education

In the field of education, Poland's achievements are in general better than the EU 27 average. This assessment is based, first of all, on the comparison of two Europe 2020 targets: early leavers from education and training, and tertiary educational attainment. Also, expenditure on educational institutions as a percentage of GDP in Poland was close to the EU 27 average.

According to OECD's Programme for International Student Assessment (PISA), Polish education is one of world's leading education systems, as measured by performance of 15 year olds with a particular focus on science (see more next).

Early school leaving

Early school leaving (ESL) is a Europe 2020 strategy indicator to be monitored by member states. The reason is that early school leaving is an obstacle to economic growth and employment.[10] Young people who leave education and training prematurely are bound to lack skills and qualifications, and to face serious, persistent problems on the labour market. As a result, early school leaving negatively affects productivity and competitiveness, and contributes to poverty and social exclusion. Early leavers from education and training as an indicator tracks the proportion of individuals aged 18-24 who have finished no more than a lower secondary education, and who are not involved in further education or training.

In the EU 27, some 12% of 18-24 year-olds were classified as early leavers from education and training in 2013 (Table 9). This was an improvement as compared to the situation in 2004 (16.1%) but still below the EU target of 10.0%. In Poland this indicator was two times

[10] http://ec.europa.eu/europe2020/pdf/themes/29_early_school_leaving.pdf

lower in 2013, thus being one of the lowest levels in early school leaving rates in the EU. At the same time, however, Poland has recorded stagnation and even a slight increase in recent years (Table 9). Apart from Poland, countries with similar trends include: Czech Republic, Luxembourg, Sweden, and Slovakia. In all of them the rate of early school leaving has actually increased. Among these countries Poland is still on track to reach its national target of 4.5%. The data available also show that early school leaving is significantly higher for boys than for girls. This applies for almost all member states (with the exception of Bulgaria) but is most visible first in Poland, Slovenia, Luxembourg, Latvia, Cyprus and Estonia.[11]

Table 9. Early leavers from education and training* (% of total population aged 18 to 24): Poland and the EU 27 situation

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Target
Poland	5.6	5.3	5.4	5.0	5.0	5.3	5.4	5.6	5.7	5.8	4.5
EU 27	16.1	15.8	15.5	15.0	14.8	14.3	14.0	13.5	12.8	12.0	10.0

* The denominator (total population) consists of the total population of the same age group, excluding no answers to the questions "highest level of education or training attained" and "participation to education and training".

Source: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsdsc410

Tertiary education

Tertiary education – provided by universities and other higher education institutions – is the level of education following secondary schooling. It is offered by universities, vocational universities, institutes of technology and other institutions that award academic degrees or professional certificates. Higher education plays an essential role in society. Educated people are better prepared to create innovations, to find easier new jobs, to perform more sophisticated jobs, etc.

[11] http://ec.europa.eu/europe2020/pdf/themes/29_early_school_leaving.pdf

In 2010 (the 2009/2010 academic year), the number of students enrolled in tertiary education in the EU 27 stood at 19.8 million; this was equivalent to 62.7% of all persons aged 20-24. Poland registered one of the highest figures as regards the number of tertiary students: more than 2 million students in 2010 (higher figures were registered only in Germany, the United Kingdom and France).[12] In order to explain different results, enrolment in tertiary education for 18-34 year olds as a percentage of the total population can be calculated. This indicator reached 18.8% in Poland in 2009 (recent available comparative data) while in 2004 it amounted to 18.3%. The countries with higher indicators (2009) were the following: Lithuania (23.1%, the highest ratio), followed by Finland (21.7%) and Slovenia (21.5%); the lowest rates were registered in Malta (8.9%), Portugal (13.1%), Cyprus (13.3%) and the Czech Republic (13.1%).[13]

According to data published by the Ministry of Science and Higher Education, the number of full-time students at public schools (studying without fees) has been growing steadily, despite the decline in the total number of students in the last few years. This resulted in an increased percentage of full-time students at public universities in 2011/2012; such students accounted for more than half of the total number of students (while in 2001/2002 the figure was only 38%).[14]

At the same time, the number of foreign students at Polish universities has been steadily increasing. In the years 2004-2011 the number of foreigners increased almost three times. In 2012 nearly 25 thousand foreigners studied in Poland. Most students come to Poland from Ukraine (over 6.3 thousand), Belarus (almost 3 thousand), and Norway (over 1.5 thousand). While the number of students coming to Poland via Erasmus has been growing steadily (around 9 thousand students in 2011), it is still much lower than the number of outgoing Polish Erasmus students (about 15 thousand two years ago). 28% of international students in Poland study economics and

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[12] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Tertiary_education_statistics
[13] Education, Audiovisual and Culture Executive Agency (2012), p. 21.
[14] http://www.naukawpolsce.pap.pl/en/news/news,396570,ministry-of-science-and-higher-education-report-the-number-of-students-in-poland-will-drop-by-400.html

business, 26% medicine, 11% technology and 8% social sciences. Polish universities offer over 400 programs taught in English.[15] Across the EU 27, just over one-third (34.0%) of the students in tertiary education were studying social sciences, business or law. The second largest number of students by field of education was in engineering, manufacturing and construction-related studies which accounted for 13.6% of all students in tertiary education. In Poland the pattern of education was the same: 39.7% of all students in 2010 were studying social sciences, business or law and 13.2% were studying engineering, manufacturing and construction.

The strategic framework for European cooperation in education and training that was adopted in May 2009 set a number of benchmarks, including one for tertiary education. The Europe 2020 strategy has confirmed the main benchmark, namely that by 2020 the share of 30 to 34-year-olds with tertiary educational attainment should be at least 40% (Table 10). Educational attainment is frequently used as a measure of human capital and the level of an individual's skills, in other words, a measure of the skills available in the population and the labour force.[16] The level of educational attainment is the percentage of a population that has reached a certain level of education. Higher levels of educational attainment are strongly associated with higher employment rates and are considered a basis to find any job or a better paid job. Good (higher) education is particularly important in recent times, when knowledge is the key to economic success in every country.[17]

In 2013 the share of the population aged 30-34 having completed tertiary or equivalent education in the EU reached 36.9% and was higher than the 2011 figure by 1 percentage point.[18] In Poland this indicator was 40.5% (and 39.1% a year ago) – see Table 12 – while the national target is 45%. The EU target is however lower, aiming at

[15] Conference of Rectors of Academic Schools in Poland (2012)
[16] OECD (2013a), p. 26 and next.
[17] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Tertiary_education_statistics
[18] Europe 2020 Target: Tertiary Education Attainment, see: http://ec.europa.eu/europe2020/pdf/themes/28_tertiary_education.pdf

40%. A better situation (rate above 40%) was found in Ireland, Cyprus, Luxembourg, Lithuania, Sweden, the United Kingdom, Finland, Belgium, France, Denmark, the Netherlands and Spain. By contrast, around 20% of people in this age range had a tertiary education in Italy, Romania and Slovakia.

Table 10. Tertiary education attainment in Poland and the EU 27 in 2000-2012 (%)

	2000	2009	2010	2011	2012	2013	Target
Poland	12.5	32.8	35.3	36.9	39.1	40.5	45
EU 27	22.4	32.2	33.5	34.6	35.8	36.9	40

Source: Europe 2020 Target: Tertiary Education Attainment, p. 5, at: http://ec.europa.eu/europe2020/pdf/themes/28_tertiary_education.pdf and http://ec.europa.eu/education/dashboard/tea/tea_en.htm

Secondary education

Another way to look at the level of education is to analyse the percentage of population with basic education, e.g., those who attained at least upper secondary education. Such figures are presented in Table 11, both for Poland and the average for the EU 21 (see the explanation of this group at the bottom of Table 11).

Table 11. Percentage of the population that has attained at least upper secondary education, by age group (2011)

	Age group					
	25-64	30-34	25-34	35-44	44-45	55-64
Poland	89	94	94	92	90	80
EU 21*	76	84	84	80	75	65

*Indicator for the EU 21 average is calculated as the unweighted mean of the data values of the 21 countries that are members of both the European Union and the OECD for which data are available or can be estimated. These 21 countries are Austria, Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Poland, Portugal, Slovenia, the Slovak Republic, Spain, Sweden and the United Kingdom.

Source: OECD (2013a), p. 36.

We can see that in all age groups the percentage of the population that has attained at least upper secondary education was significantly higher in Poland than in the EU 21 on average.

Expenditure on education

As regards expenditure on education, an average of nearly two-thirds in the EU 21 countries is devoted to primary, secondary and post-secondary non-tertiary education, while a quarter goes to tertiary education, and nearly one-tenth to pre-primary education. In Poland a slightly lower proportion of money is spent on tertiary education (24% of total expenditure for education): see Table 12.

Table 12. Expenditure on educational institutions as a percentage of GDP, by level of education (1995, 2000, 2005, 2010) from public and private sources, by year

	Primary, secondary and post-secondary non-tertiary education		Tertiary education		Total all levels of education	
	2005	2010	2005	2010	2005	2010
Poland	3.7	3.7	1.6	1.5	5.9	5.8
EU 21* average	3.6	3.8	1.3	1.4	5.5	5.9

*See explanation at the bottom of Table 5.

Source: OECD (2013a), p. 191.

Table 13. Expenditure on educational institutions as a percentage of GDP, by source of fund and level of education (2010; from public and private sources of funds)

	Tertiary education			Total (all levels of education)		
	Public (1)	Private (2)	Total	Public (1)	Private (2)	Total
Poland	1.0	0.4	1.4	5.0	0.8	5.8
EU 21 average	1.2	0.3	1.5	5.5	0.5	6.0

(1) Including public subsidies to households attributable for educational institutions, and direct expenditure on educational institutions from international sources.
(2) Net of public subsidies attributable for educational institutions.

Source: Education at a Glance 2013: OECD Indicators. OECD 2013, p. 193.

In Poland, the majority of all types of education was financed from public funds (71% of tertiary education and 93% of other types of education in 2010). These proportions were not much different from the average for the EU 21 countries. Public funding accounted for 86% of all funds for educational institutions, on average across the EU 21 countries (Table 13).

Other indicators

The ratio of students to teaching staff indicates how resources for education are allocated. This ratio is usually calculated as the number of students per teacher in full-time equivalents. In 2011 in Poland this ratio was exactly the same as the average for OECD countries and amounted to 17 students.[19] However, as the OECD stressed in the report referred to here, comparisons at this level should be made with caution since it is difficult to calculate full-time equivalent students and teachers on a comparable basis.

According to OECD's Programme for International Student Assessment (PISA), Polish education is one of world's leading education systems, measured by performance of 15 year olds with a particular focus on science.[20] In the latest PISA yardstick comparing school learning across 65 countries around the world, Poland came in 10th for reading, an improvement of four ranking spots on the last report three years ago. The success has also come despite spending far less money than in richer states.

Income distribution

Gini index changes

Income distribution is usually measured by the Gini index which measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution.[21] A Gini index of 0 represents perfect equality, while an index of 100 im-

[19] OECD (2013a), p. 370.
[20] OECD (2013b)
[21] http://www.indexmundi.com/facts/poland/gini-index

plies perfect inequality. The higher the value of this indicator, the bigger the difference between incomes of the richest and poorest people in a given country (region). Poland's situation against the EU 27 is illustrated in Table 14.

Table 14. Gini coefficient of equivalised disposable income (from 0 to 100): Poland and the EU 27 situation

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Poland	35.6	33.3	32.2	32.0	31.4	31.1	31.1	30.9	30.7
EU 27	30.6	30.3	30.6	30.9	30.5	30.5	30.8	30.4	30.4

Source: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_di12&lang=en

The Gini index has been gradually decreasing in Poland in the period 2005-2012 and reached 30.7 in 2013, it was not much higher than the average index in the EU 27 (30.4).[22] It has been more or less stable in the same period in the EU 27. In this respect, Poland occupies the middle position among the EU countries, between Germany, France, Denmark and Luxembourg (lower indices in 2012) on one hand and countries like Spain, Portugal, Greece, Romania and the UK (higher indices in 2012) on the other.

The decreasing trend of the Gini index suggests that there is currently a better redistribution of incomes in Poland than in the previous years. The richest citizens earn more than several years ago but they pay more money in the form of taxes, and this money is redistributed to the bottom income group of society. The other reason for the decreasing Gini index has been the relatively fast growth of the lowest salaries. Only in 2011-2012 they increased by 35% (from PLN 1,386 to PLN 1,500 in gross terms), while the average salary in the economy

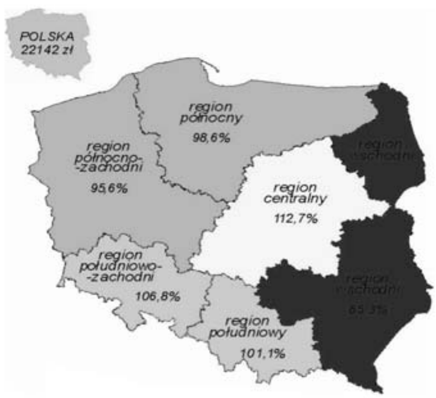
[22] Let's add that different institutions calculate the Gini index in slightly different ways and as result the nominal value of this indicator may vary according to different statistical sources. For example, calculations of the World Bank show that Poland recorded a Gini indicator of 34,9 in 2005 and 34,7 in 2009 (http://www.indexmundi.com/facts/poland/gini-index). These figures are higher than those calculated by Eurostat. The trend, however, is the same in both cases.

increased by 18%. A positive impact has also been exerted by the increase of the number of employed people in the economy: by 9% in 2005-2010.[23]

Changes of other indicators

The map below shows the average income of Polish households by regions (relation of disposable income in a region to the average disposable income in Poland). The shade of the region corresponds to the magnitude of the indicator. The darker the shade, the lower the value. The region with the highest incomes in Poland is the central region (where the capital is located) with the income at 112.7% of the average of the country. The poorest regions are located in the eastern part of Poland. More than half of the regions are characterised by higher than average risk of poverty. The lowest risk of poverty is in the Slaskie and Podlaskie Wojvodhships. The highest risk is registered in Lubelskie Wojvodhship and it has been rising consistently since 2005: see Figure 1.[24]

Figure 1. Differentiation of incomes in Polish households by regions (NUTS 1 level)



Source: http://www.stat.gov.pl/cps/rde/xbcr/gus/wz_badanie_dochodow_i_warunkow_zycia_EU-SILC_2010r.pdf

[23] http://www.wynagrodzenia.pl/artykul.php/typ.1/kategoria_glowna.51/wpis.1778

[24] http://www.stat.gov.pl/cps/rde/xbcr/gus/wz_badanie_dochodow_i_warunkow_zycia_EU-SILC_2010r.pdf

Governments try to address poverty and the risk of poverty in different ways, first of all through different forms of transfers of public money to the poorest people. An open question is, however, whether the redistribution really supports the poorest citizens or only reduces the incomes of the richest people. The situation is different in individual countries. An extreme case is Australia, where the poorest 20% of citizens receives more than 40% of all types of social support. Poland is an example of the opposite situation: the poorest 20% of the society receives less than 10% of the total social support.[25]

Working abroad

Over the last two decades, a number of Poles have left their country, and only a fraction has come back, in spite of the 2008-2009 crisis that hit some of the host countries. In 2012 about 2.1 million Poles stayed abroad: among them 1.7 million stayed in other countries of the European Union (for a period above 3 months). These figures do not include seasonal emigration, which usually is not registered and therefore impossible to estimate.

Emigration affects the home and host countries in a number of ways. In both cases it has both positive and negative implications. Emigrants working abroad have contributed to GDP growth in host countries instead of Poland. This has sometimes been treated as a potential loss for the Polish economy. On the other hand, very often emigrants could not find a job (or a job with a satisfactory level of salary) in their home country and therefore emigrated. Their remittances (and compensations) to families in home countries contributed to the improvement of the current account balance and GDP growth of the home country. According to Eurostat data, remittances and compensation inflows from Polish emigrants staying in other EU member states amounted in 2010 to 1.2% of the GDP.

Relatively high emigration was responsible for labour shortages in specific occupations and salary increases in several sectors of Polish economy where emigration was highest.

[25] http://www.wynagrodzenia.pl/artykul.php/typ.1/kategoria_glowna.51/wpis.1778

The number of emigrants

The Central Statistical Office (Główny Urząd Statystyczny) publishes data on Polish citizens who stay abroad for a temporary period (emigrants). This group involves people who stay abroad for a period longer than three months and are still registered in Poland (they have a permanent address in Poland).[26]

Data presented by the Central Statistical Office of Poland shows (Table 15) that in 2012 about 2.1 million Poles stayed abroad. Among them, 1.7 million stayed in other countries of the European Union (for a period above 3 months). Emigration in 2012 was higher than in 2011. Around 78% of emigrants (more than 1.5 million people) stayed abroad 12 months or longer. These figures do not include seasonal emigration which usually is not registered, therefore making it impossible to estimate.

The main country of destination is the UK (637 thousand people, or 37% of total emigration within the EU), followed by Germany (500 thousand, or 29.1%), Ireland (118 thousand; 6.9%), the Netherlands and Italy (97 thousand in each country; 5.6%).[27] It is interesting to see that this pattern has changed since EU accession. In 2004, the first year of EU membership, emigration from Poland to other EU members was not only 1.3 times lower, but it was headed mostly to Germany (51% of total number of emigrants within the EU). In the following years the nominal increase of emigration to Germany was relatively low, and as a result the share of this country decreased to 37% of total emigration within the EU. The UK, currently the main destination of Poles looking for jobs, occupied the second position in 2004 with a 20% share.

The vast majority of emigrants stay abroad in order to work. More and more emigrants stay abroad with their families who may or may not work (spouses and child/children). There are, however, other mo-

[26] Occasionally this data is corrected by the National Census data which (generally) is similar to data collected and published by GUS. *Informacja o rozmiarach i kierunkach emigracji z Polski w latach 2004–2011.* GUS (2012).

[27] Another important emigration destination is Norway. As a member of the European Economic Area, the country is a part of the free movement of persons zone and did not introduce any temporary restrictions for Poles. On the contrary, Norway encouraged Poles with some types of education (mostly nurses and medicine doctors) to go to this country. In 2012, 65 thousand Poles stayed in Norway, compared 56 thousand in 2011.

tivations for going abroad. According to the Central Statistical Office, in the end of March 2011, 73% of emigrants stayed abroad because of work (worked or were looking for a job). This indicator was much higher than in 2002 when it was 44%. For around 1/3 of emigrants who decided to go abroad and look for a job, the main motivation was the hope to get a higher salary than at home. The second most common reason for emigration (31%) was difficulty in finding a job in Poland. Three percent of emigrants expected to find more opportunities for their vocational development abroad.

Table 15. Temporary emigration from Poland in the period 2004-2012 (situation at the end of the year, number of emigrants in 1,000 and %)*

	2004	2005	2006	2007	2008	2009	2010	2011	2012	%
Total emigration	1,000	1,450	1,950	2,270	2,210	2,100	2,000	2,060	2,130	
EU 27	750	1,170	1,550	1,860	1,820	1,690	1,607	1,622	1,720	100.0
Austria	15	25	34	39	40	36	29	25	28	1.6
Belgium	13	21	28	31	33	34	45	47	48	2.8
Denmark				17	19	20	19	21	23	1.4
France	30	44	49	55	56	60	60	62	63	3.7
Greece	13	17	20	20	20	16	16	15	14	0.8
Netherlands	23	43	55	98	108	98	92	95	97	5.6
Spain	26	37	44	80	83	84	48	40	37	2.2
Ireland	15	76	120	200	280	140	133	120	118	6.9
Germany	385	430	450	490	490	465	470	470	500	29.1
Sweden	11	17	25	27	25	31	33	36	38	2.2
UK	150	340	580	690	650	595	580	625	637	37.0
Italy	59	70	85	87	88	88	92	94	97	5.6
Other EU Members										1.1
* – data relates to persons staying abroad for a temporary period: for 2002-2006 – more than 2 months, from 2007-2012 – above 3 months; since 2006 – for 25 countries										

Source: Informacja o rozmiarach i kierunkach emigracji z Polski w latach 2004 –2012, GUS Warszawa 2013. (Information about the size and directions of emigration from Poland in the years 2004-2012, GUS, Warszawa 2013, p. 3)

Effects of remittances and compensations of Polish emigrants on the Polish economy

According to Eurostat, which regularly publishes data related to workers' remittances, remittances of Polish workers amounted (the last available data) to 2.7 billion euro in 2010. The figure in 2008 was 2.2 billion euro. Poland is the third biggest EU country in terms of the value of workers' remittance inflows - after Spain and Romania.

Emigrants working abroad contribute to GDP increases in host countries, and not in home countries. This is sometimes treated as a potential loss for source countries of emigration. On the other hand, very often emigrants cannot find a job (or a job with a satisfactory level of salary) and therefore emigrate. Their remittances (and compensations) to families in home countries contribute to the improvement of current account balances and GDP growth of a home country.

Remittances and compensations of Polish emigrants have been a very important source of revenue for families living in Poland and have contributed substantially to the improvement of the Polish economic situation. The peak of Polish emigration was in 2007 when around 2.27 million Poles stayed abroad (in other EU countries and outside the EU). The total value of their remittances reached around 6.2 billion euro, i.e., 2.5% of Poland's GDP. Since then, the value of remittances has been decreasing. In 2011 it amounted to 3.7 billion euro, which is 2.42% of Poland's GDP.[28] According to Eurostat data, remittances and compensation inflows from Polish emigrants staying in other EU member states amounted to 3.9 billion euro in 2010 (tables above). This sum was the equivalent of 1.2% of the GDP.

Let's add that official data can be underestimated. Such calculations do not include sums brought by emigrants who visit their families at home and leave money. They do not include the money brought by emigrants coming back to their home country either. The last type of financial "transfer" is sometimes – according to some experts – even more important for the Polish economy than regular remittances. First, it can be higher in financial terms (all savings brought

[28] *Transfery pieniężne emigrantów a rozwój gospodarczy Polski na podstawie danych NBP,* raport, Centrum im. Adama Smitha (2012). cited by: http://inwestor.msp.gov.pl/si/polska-gospodarka/wiadomosci-gospodarcze/21971,Transfery-pieniezne-polskich-emigrantow-i-ich-znaczenie-dla-polskiej-gospodarki.html

home by emigrants). Second, this money is often spent on investments (opening of own business, tuition for studies, etc.).

Other effects on Polish economy

Emigration – on a large scale – can affect the level of salaries at home. According to estimates of the Rockwool Foundation Research Unit, high emigration in the years 1998-2007 was responsible for 1/10 of the increase of salaries in Poland.[29] According to the 2014 OECD Report on Poland, based on the opinion of Polish researchers, worker outflows were likely to have generated wage pressures, but they seemed to have been limited.[30]

A more important impact was observed at the sectoral level. Emigration since 2004 has fuelled labour shortages in specific occupations, such as construction, retail trade and healthcare. Between 2004 and 2009, 5.8% of physicians, 2.6% of dentists and 3.4% of nurses were granted a European certificate of professional qualification, a good proxy of their propensities to emigrate. The most extreme case was anaesthesiologists, about 19% of whom requested such a certificate. Overall, the increase in the stock of emigrants since 2004 was estimated to be equivalent to about 4.1% of the working-age population.[31] With the world economic crisis and Poland's good relative performance, this trend has been partly reversed.[32]

Effects of emigration from Poland on host countries

The conclusions on the 8th anniversary of Poland's EU accession, prepared by the Polish Ministry of Foreign Affairs in 2012, cited for-

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[29] http://wiadomosci.onet.pl/swiat/ue-emigracja-wplynela-na-wzrost-zarobkow-w-polsce,1,5293986,wiadomosc.html, 2 November 2012.

[30] Budnik (2008); Kaczmarczyk, P. (2012). Labour Market Impacts of Post-Accession Migration from Poland, Chapter 7, cited by: *OECD Economic Surveys: Poland 2014*, OECD Publishing, Paris 2014, p. 79. Free Movement of Workers and Labour Market Adjustment: Recent Experiences from OECD counties and the European Union

[31] Okólski M. –Topinska I. (2012). Social Impact of Emigration and Rural-Urban Migration in Central and Eastern Europe. Final *Country Report, Poland*, on behalf of the European Commission, DG Employment, Social Affairs and Inclusion, April, cited from: OECD Economic Surveys … op.cit., p. 78.

[32] A stronger propensity to migrate abroad has been observed among young people who originate from economically backward areas, giving some credit to the idea that emigration was a response to the oversupply of labour (*OECD Economic Surveys* … op.cit., p. 78).

eign opinions on the positive effects of emigration from new member states on economic growth rates in the majority of the EU 15 countries (host countries).[33] According to one such expert's opinion, migration was responsible for 0.89% of the UK's GDP growth, 0.33% of Denmark's, 0.18% of Sweden's and 0.15% of Italy's GDP growth.[34] Ireland and the UK benefited the most from migration from the EU 8 (Central European new EU members), while Spain and Italy benefitted the most from the EU 2 (Malta and Cyprus).

The conclusions also cited the opinion of a British research institute whereby the increased immigration of workers to the EU 15 did not lead to a long-term increase in unemployment levels in the host countries.[35] This fact has been corroborated by reports of the British ministries,[36] which concluded that the opening of the labour market was beneficial to the British economy because workers from new member states, including from Poland, filled employment gaps in many professions and eased local shortages of workers, while at the same time not representing a heavy burden on the British social welfare system.

Demographics of Poland (birth, death, mean age, frequent causes of death)

The demographic situation in Poland has been changing significantly over recent years. Two major trends are occurring:
(a) decreasing population (mainly because of low birth rates and continued emigration);
(b) ageing of the population

An ageing population means that a decreasing number of workers will have to maintain an increasing number of pensioners, with major negative implications for the public pension system.

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[33] Economic and Social Impact of Poland's EU membership, accounting for the impact of enlargement on the EU-15 (1 May 2004 – 1 May 2012) - key conclusions on the 8th anniversary of Poland's EU membership, at: http://polskawue.gov.pl/Eight,years,of,Poland%E2%80%99s,membership,in,the,European,Union,11162.html
[34] Baas (2012), op.cit.
[35] Fic et al. (2011), op.cit.
[36] Department for Work and Pensions, Home Office and the Office for National Statistics.

The health status of the Polish population has improved substantially, with average life expectancy at birth improving, which can be attributed to a number of factors, including rising living standards, improved lifestyle and better education, better nutrition and sanitation, as well as greater access to quality health services. However, there is still a vast gap in life expectancy between Poland and western European Union (EU) countries.

Poland recorded worse indicators in all types of diseases as compared to the EU 27 average, except for respiratory disease and breast cancer. Specifically, the gap was significant for circulatory diseases and transport accidents. In general, given its modest financial, human and material health care resources and the corresponding outcomes, the overall financial efficiency of the Polish system can be assessed as satisfactory.

Level of population

According to data of the Polish Central Statistical Office (Główny Urząd Statystyczny - GUS), at the end of 2013 Poland's population was estimated at 38,496,000.

The number of the population has been slowly declining in recent years: from 38.6 million in 1995, to 38 million in 2011, to an expected 32 million in 2050.[37] In 2013 Poland registered a negative population growth of minus 0.09%.[38] There are two main reasons for Poland's population decline: (a) low birth rates and (b) continued emigration.

The birth rate is the total number of births per 1,000 of a population (for a given year): in 2013 it amounted to 9.88 births/1,000 persons.[39] Poles have fewer children as they are afraid of the crisis, fear uncertainty and unemployment and lack a sense of stability. With a fertility rate (number of children that would be born to a woman over her lifetime) of 1.3 children per woman, Poland holds 212th position out of a total of 224 countries. A total fertility rate of around 2.1 live births per woman is considered to be the replacement level (a number required to keep the population size constant if there were no inward or out-

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37 http://www.worldbank.org/en/news/opinion/2012/06/14/poland-aging-and-the-economy.
38 https://www.cia.gov/library/publications/the-world-factbook/geos/pl.html
39 https://www.cia.gov/library/publications/the-world-factbook/geos/pl.html.

ward migration). Demography works in waves. There are about 3.2 million women between the ages of 25 and 35 today, in the most procreation-friendly period of their lives. But because fertility fell in the 1990s, there are only 1.8 million girls between 5 and 15 years, the potential mothers of the next generation: even if they all were to have 2.1 children, this would not suffice to stop the demographic decline.[40]

If the birth rate in Poland does not increase significantly, the country's population may drop by almost 8 million in the next 47 years, according to a report compiled by the Social Insurance Institution (ZUS).[41] ZUS considered several scenarios for Poland. One option uses forecasts from the EU's statistical office Eurostat, which sees the average fertility rate in Poland growing from the current level of 1.3 to 1.56 in 2060. However, even if that happens, the population will still shrink to 32.3 million by 2060. The most pessimistic scenario sees the fertility rate at roughly 1.4-1.2, similar to what it has been in the last few years, with population numbers shrinking to 30.56 million. Even in the most optimistic scenario the country's population would still fall to 34.3 million by 2060.

Emigration trends have contributed to declining population levels. Over the last two decades, a number of Poles have left their country, and only a fraction has come back, in spite of the 2008-2009 crisis that hit some of the host countries. Emigrants tend to be young, and they have/will have children in foreign countries. Future trends will largely depend – as previously – on levels of economic growth, although some people go abroad looking for a better paid job and better work environment. At the same time, with the continued rise in living standards, Poland will become an increasingly attractive destination for immigrants, especially those coming from non-EU countries.

The female population is bigger (51.8% of total population, see Table 16), mainly because women live longer than men. The share of the rural population was 39.1% in 2011 and has gone largely unchanged in recent years (38.8% in 2006 and 38.4% in 2001).

40 http://www.worldbank.org/en/news/opinion/2012/06/14/poland-aging-and-the-economy

41 http://www.wbj.pl/article-63478-polands-population-to-shrink-significantly.html and https://www.cia.gov/library/publications/the-world-factbook/geos/pl.html

Table 16. Population changes in Poland

Indicator	Level	Units	As of	First year change	~5Y Ago	~10Y Ago	~25Y Ago
Total Population	38,216	1,000s	2011	0.08%	38,121	38,230	37,668
Female Population	51.77%	%	2011	0.02%	51.68%	51.56%	51.25%
Rural Population	39.11%	%	2011	0.05%	38.75%	38.39%	39.53%
Urban Population	60.89%	%	2011	-0.05%	61.25%	61.61%	60.47%
Population Below Age 15	14.69%	%	2011	-0.10%	15.59%	18.09%	25.54%
Population Aged 15 to 64	71.50%	%	2011	-0.10%	71.05%	69.20%	64.91%
Population Above Age 64	13.81%	%	2011	0.20%	13.,36%	12.71%	9.55%
Population Growth Rate	0.08%	%	2011	0.00%	-0.05%	-0.05%	0.56%

Source: http://www.quandl.com/poland/poland-demography-data

In 2013 life expectancy[42] at birth was 76.5 years for the total population, 72.5 years for males and 80.6 years for females. In 2010, the respective figures were: 75.8 years for the total population, 71.9 years for men and 80.1 years for women.[43] Thus, while all indicators have improved over recent years, life expectancy for women as compared with that of men has slightly increased.

Increased life expectancy at birth reflects reductions in mortality rates at all ages. These gains in longevity can be attributed to a number of factors, including rising living standards, improved lifestyle and better education, as well as greater access to quality health services. Better nutrition, sanitation and housing also play a role.[44]

Statistics on deaths remain one of the most widely available and comparable sources of information on health. The mortality rate from all causes of death in the EU 27 in 2010 was 866 for males, 509 for females and 663 for the total population. In Poland respective figures

[42] Life expectancy measures how long, on average, people would live based on a given set of age-specific death rates.
[43] https://www.cia.gov/library/publications/the-world-factbook/geos/pl.html
[44] OECD (2012), pp. 16-17.

were: 1,065 for males, 557 for females and 776 for the total population. Thus, all those indicators were higher in Poland than in the EU 27 on average.[45]

Ageing of Polish population

Poland's population is ageing, and ageing fast. Ageing population refers to the increase of the average (and median) age for the population and an increasing share of older members in the population. One proof of this development is the increasing share of the population above age 64: it grew from 12.7% in 2001 to 13.8% in 2011. In the past 25 years, the number of Polish citizens aged 65 and over has risen by over 50% to 5.6 million. In 2060, over a third (34.5%) of Poles will be aged 65 or higher, according to forecasts from Eurostat.[46] No other EU country other than Latvia will have as many senior citizens (in relative terms).

Ageing is already observable. However, in the near future, changes will accelerate, thus altering the structure of the population and the age of the workforce. Recent developments and projections of the Central Statistical Office of Poland are presented in Figure 2.

This means that a decreasing number of workers will have to maintain an increasing number of pensioners. This will have negative implications for the pension system financed mostly from the state budget. Specialists also warn that such a situation will bring with it the risk of revolution and cause a wave of emigration. In order to balance the equation, Poland would have to have an inflow of at least 5 million immigrants by 2050. In order to achieve this goal, the country would have to compete with richer western countries for these immigrants. Besides, Poland would stop being an ethnically homogenous society and Poles do not seem ready for this.[47]

Another sign of an aging population is the change of the median age, which is the age that divides a population into two numerically equal groups – i.e. half the people are younger than this age and half are older. It is a single index that summarises the age distribution of

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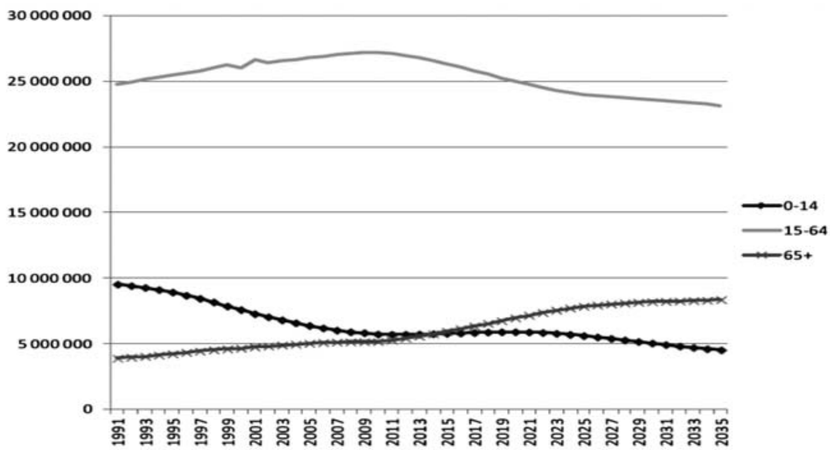
45 OECD (2012)
46 http://www.wbj.pl/article-64731-poland-facing-demographic-catastrophe.html?type
47 http://www.wbj.pl/article-64731-poland-facing-demographic-catastrophe.html?type=wbj.

a population. In 1950, the median age in Poland was 25.8: half of the Polish population was younger, half older than this age. In 2011 it was 38.2. In 2013 it was 39.1 years. It will be 51 in 2050.[48] The median age is higher for females: 40.9 years and 37.5 years for men in 2013.

Figure 2. Aging of population in Poland: changes in the size of age groups



Source: Central Statistical Office of Poland, 2012, cited from: Demographic transition and an ageing society: Implications for local labour markets in Poland. OECD (2013), p. 29.

Although the ageing of Polish society is underway, it should be noted that Polish society is relatively young. According to Eurostat (2011), the proportion of those aged 65 or over in the population is one of the lowest in the European Union, and is significantly below the average for the EU 27. In 2011, with a rate of 13.5% (see Table 17), Poland was an EU country with one of the lowest proportions of population aged 65 years and older. It was outpaced only by Ireland where the indicator was 11.9%, by Slovakia with 12.8% and Cyprus at 12.8%.[49]

48 http://www.worldbank.org/en/news/opinion/2012/06/14/poland-aging-and-the-economy
49 http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Population_structure_and_ageing; see also: Demographic transition and an ageing society: Implications for local labour markets in Poland, OECD 2013, p. 30.

Table 17. Population age structure by major age groups in 2011 (% of the total population)

	0-14 years old	15-64 years old	65 years old or over
Poland	15.2	71.3	13.5
EU 27	15.6	66.9	17.5

Source: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Population_structure_and_ageing

Changes in the quality of health care

Since EU accession the share of public money spent on healthcare (as a percentage of the GDP) increased slightly in Poland but it was still one of the lowest shares in the EU 27 (slightly above 6% of the GDP). The highest shares amounted to 10% of the GDP in a few EU countries.

The number of practicing physicians in Poland in 2010 amounted to only 247,9 per 100,000 residents and was lower than 10 years earlier (in 2000 it was 221,1). It was one of the lowest indicators in the EU. Nurses play a critical role in providing health care. In 2010, there were over 7.9 nurses per 1,000 population in the EU 27 and 5.3 in Poland. In the period 2000-2010 the situation in Poland has improved but at a much lower rate than in the EU on average: the average annual growth of the number of nurses in this period in the EU 27 was 1.2%, while in Poland it was only 0.7%. As regards the number of hospital beds, the situation in Poland was better compared to the EU 27 average. There were 6.6 hospital beds per 1,000 persons in 2010 in Poland (compared to 5.3 beds in the EU 27).

Public expenditure on healthcare system

In Poland citizens are granted free access to the publicly funded healthcare system.[50] In particular, the government is obliged to provide free healthcare to children, pregnant women, disabled people and to the elderly. However, in practice a number of Poles use private healthcare.

[50] According to Article 68 of the Polish Constitution everyone has a right to free health care.

In 2012, according to Eurostat, Poland spent 6.33% of its GDP on health (Table 18).[51] This share has been slightly decreasing since 2009. Since EU accession this indicator has increased, however, by 0.5 percentage points. Poland belongs to the group of EU countries with the lowest healthcare expenditure (in relative terms). In five EU member states (France, the Netherlands, Germany, Denmark and Austria) the share of current healthcare expenditure exceeded 10% of the GDP, which was almost double the share of healthcare expenditure relative to the GDP recorded in Romania and Cyprus, where the indicator was the lowest (below 6% of the GDP).

Table 18. Healthcare expenditure by financing agent in Poland in 2005-2011 (% of GDP)

	2005	2006	2007	2008	2009	2010	2011	2012
All financing agents	5.85	5.85	5.93	6.43	6.72	6.55	6.39	6.33
General government	4.02	4.05	4.15	4.61	4.82	4.69	4.53	4.43
Private sector	1.83	1.80	1.77	1.82	1.91	1.85	1.86	1.90

Source: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=hlth_sha_hf&lang=en

The majority of healthcare expenditure is incurred by the public sector (slightly more than 70% of total expenditure in 2012), generally meaning government (including social security funds). The private sector accounted for almost 30% of total expenditure. The relatively high share of private expenditure is explained mostly by out-of pocket (OOP) payments, meaning direct household payments, mainly in the form of co-payments and informal payments.[52] Voluntary health insurance (VHI) does not play an important role and is largely limited to medical subscription packages offered by employers. Compulsory health insurance covers 98% of the population and guarantees access to a broad range of health services. However, the limited finan-

[51] http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=hlth_sha_hf&lang=en

[52] Poland. Health system review. European Observatory on Health Systems and Policies, Health system review. Vol. 13 No. 8 2011, at: http://www.euro.who.int/__data/assets/pdf_file/0018/163053/e96443.pdf, p. x.

cial resources of the National Health Fund (Narodowy Fundusz Zdrowia–NFZ) means that broad entitlements guaranteed on paper are not always available.

Number of physicians and nurses

One of the key indicators for measuring healthcare staff is the number of physicians per 100,000 inhabitants. In this context, Eurostat gives preference to the concept of practicing physicians.[53] In 2010 the highest number of practicing physicians per 100,000 inhabitants was recorded in Austria (478.0), followed by Sweden (380.2). In Poland, the respective indicator amounted only to 247.9 physicians. It was one of the lowest indicators in the EU. Over the years 2000-2010 the situation in Poland has worsened. The average annual growth rate of the number of practicing doctors per 1,000 persons was minus 0.1%, while the average for the EU 27 was 1.4.[54] Poland and France were the only EU countries with negative growth of this indicator (the rate of decline in France was the same as in Poland). The decreasing number of physicians per capita in Poland (since 2003) results mostly from outward migration, attributable to better remuneration, working conditions and prospects for professional advancement abroad.[55]

The share of generalists[56] in 2010 was 21%. Specialists accounted for 79%. In the EU 27 the respective shares were 30% and 62% of the total number of doctors.

In 2009 there were 82,900 doctors, 12,100 dentists, 24,200 pharmacists, 200,500 nurses and 22,400 midwives employed in health care institutions providing publicly financed health care services in

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[53] Practicing physicians are defined as doctors who are providing care directly to patients. This approach has been adopted by Eurostat despite the fact that data are not available for eight EU member states – being replaced by the number of professionally active physicians in Ireland, Greece, France, Italy, the Netherlands, Slovakia and Finland, and by the number of licensed physicians in Portugal.

[54] OECD (2012), p. 69.

[55] The reduction of practicing physicians in Poland may be explained by several breaks in the data series – for example, from 2004 onwards the Polish data has excluded private practices (thought to account for about 2,000 physicians).

[56] Generalists include general practitioners (“family doctors”) and other generalist/non-specialist practitioners who may be working in hospitals or outside hospitals, see: Health at glance … op.cit., p. 68.

Poland. Although there are no reliable estimates on the adequacy of staffing levels, available evidence suggests a shortage of health care professionals. The number of health professionals per 1,000 population was lower in Poland than in the EU 15 on average for all key health professions: 2.2 physicians per 1,000 in Poland (compared with 3.5 in the EU 15), 5.2 nurses (EU 15 = 9.1), 0.3 dentists (EU 15 = 0.7) and 0.6 pharmacists (EU 15 = 0.8).[57]

Nurses are usually the most numerous health profession, outnumbering physicians in most European countries. Nurses play a critical role in providing health care not only in traditional settings such as hospitals and long-term care institutions but increasingly in primary care (especially in offering care to the chronically ill) and in home care settings.[58] In 2010, there were over 7.9 nurses per 1,000 population in the EU 27 and 5.3 in Poland.[59] In the period 2000-2010 the situation in the majority of EU countries has improved (with the exception of Slovakia and Lithuania): the average annual growth of the number of nurses in this period was 1.2%, while in Poland it was 0.7%.

The number of hospital beds provides an indication of the resources available for delivering services to patients in hospitals. The number of hospital beds per 100,000 inhabitants averaged 538.2 in the EU 27 in 2010.[60] Between 2000 and 2010 there was a reduction in bed numbers across the whole of the EU 27 which equalled 101.9 beds per 100,000 inhabitants. This was partly related to decreasing population levels and partly to progress in medical technologies which has enabled a move to same-day surgery and a reduced need for long hospitalization.

In Poland there were 6.6 hospital beds per 1,000 persons in 2010, which was one of better indicators among EU countries (the best situation was in Germany (8.3 beds), Austria (7.6 beds), Hungary (7.2 beds) and the Czech Republic (7.0 beds). These are minor differences. The average number of hospital beds per 1,000 population in the EU 27 was 5.3.[61]

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57 Poland. Health system review. .. op.cit.
58 OECD (2012), p. 69.
59 OECD (2012), p. 69.
60 http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Healthcare_statistics.
61 OECD (2012) op.cit., p. 69.

Changes in the budgetary expenditures in the social areas of the overall budget and the internal structure of social spending

In Poland, like in other EU countries, expenditure on social protection increased during the crisis in 2008-2009. The level of social protection expenditure in relation to GDP in 2011 was lower than in highly developed countries but higher than in several other EU countries, thus reflecting differences in living standards and the diversity of national social protection systems in the EU member states.

The main challenge faced by the social protection system in Poland is related to the financing of this system, as the proportion of older persons grows while the number of persons of working age decreases. In recent years Poland introduced several reforms in order to mitigate long-term problems resulting from drawbacks of the previous inefficient pension system and in order to increase the stability of financing the pension system in the long term.

Social spending

Social protection[62] (also called social safety net or social security) is the revenue (income) that is received for the funding of schemes to combat poverty and inequality. It includes: social benefits, administration costs (which represent the costs charged to the scheme for its management and administration) and other expenditures.[63] They

[62] Social protection can be defined as the coverage of precisely defined risks and needs associated with sickness/healthcare and invalidism; disability; old age; parental responsibilities; the loss of a spouse or parent; unemployment; housing; and social exclusion (for a definition see: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Social_protection_statistics.

[63] Social protection benefits are classified according to eight social protection functions (which represent a set of risks or needs):

- sickness/healthcare benefits – including paid sick leave, medical care and the provision of pharmaceutical products;
- disability benefits – including disability pensions and the provision of goods and services (other than medical care) to the disabled;
- old age benefits – including old age pensions and the provision of goods and services (other than medical care) to the elderly;
- survivors' benefits – including income maintenance and support in connection with the death of a family member, such as a survivors' pensions;
- family/children benefits – including support (except healthcare) in connection with the costs of pregnancy, childbirth, childbearing and caring for other family members;
- unemployment benefits – including vocational training financed by public agencies;
- housing benefits – including interventions by public authorities to help households meet the cost of housing;

include mostly old age (pensions)[64] and sickness/healthcare benefits. In the period of the financial and economic crisis, general government expenditure on social protection relative to gross domestic product (GDP) increased by 2.8 percentage points between 2008 and 2009 in EU 27.[65] In 2010 and 2011 the value of social protection expenditure in relation to GDP decreased slightly in the EU 27 (Table 19).

In Poland, expenditure on social protection also increased during the crisis (from 18.6% of GDP in 2008 to 19.2% of GDP in 2009) and then stagnated later. Among the EU member states, the level of social protection expenditure in relation to GDP in 2011 was highest in Denmark (34.3%), France (33.6%) and the Netherlands (32.3%). By contrast, social protection expenditure represented less than 20.0% of GDP (thus less than in Poland) in Malta, Slovakia, Bulgaria, Lithuania, Romania, Estonia and Latvia (where the lowest share was registered, at 15.1%). These disparities reflect differences in living standards, but are also indicative of the diversity of national social protection systems and of the demographic, economic, social and institutional structures specific to each member state.

Table 19. General government expenditure on social protection, 2001 - 2011 (% of GDP)

	2004	2005	2006	2007	2008	2009	2010	2011
Poland	20.1	19.7	19.4	18.1	18.6	19.2	19.2	19.2
EU 27	17.0*	27.0	26.6	26.1	26.8	29.6	29.3	29.0
*EU 17 (euro area)								

Source: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Social_protection_statistics

- social exclusion benefits not elsewhere classified – including income support, rehabilitation of alcohol and drug abusers and other miscellaneous benefits (except healthcare).

Source: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Social_protection_statistics

[64] Expenditure on pensions comprises the following social benefits: disability pension, early retirement due to reduced capacity to work, old-age pension, anticipated old-age pension, partial pension, survivors' pension and early retirement due for labour market reasons. (http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:Expenditure_on_pensions).

[65] This increase reflected a 4.2% increase in overall social protection expenditure (in current prices), combined with a fall in GDP (-5.8%).

Looking at expenditure per inhabitant, we see a big gap between expenditure in Poland as compared to the EU 27 average – with more than three times less in Poland (Table 20).

Table 20. Total general government expenditure on social protection by country in 2011 (% of GDP, million euro and euro per inhabitant)

	% GDP	Million euro	Euro per capita
Poland	15.9	58,879	1,528
EU 27	19.6	2,480,614	4,932

Source: http://epp.eurostat.ec.europa.eu/statistics_explained/index. php?title=File:7_General_government_expenditure_on_social_protection_by_country_%25_GDP_MEUR_EUR_HAB,_2011.png&filetimestamp=20130618074834

The use of a purchasing power standard (PPS) facilitates a comparison of the level of social protection expenditure per inhabitant between countries, eliminating differences in price levels. In Poland this indicator amounted to 46% of the EU 27 average (100%) in 2011.[66] Thus, the social protection level enjoyed by Poles was much lower compared to the EU average. The highest level of expenditure on social protection per inhabitant in 2011 was registered for the richest EU country, Luxembourg (186% of the EU average). By contrast, expenditure in Romania and Bulgaria was respectively only 28% and 29% of the EU average. These disparities between countries are partly related to different levels of wealth, but may also reflect differences in social protection systems, demographic trends, unemployment rates and other social, institutional and economic factors.[67]

In 2011, social protection was the most important function of government expenditure. Governmental social protection expenditure in the EU 27 was equivalent to 39.9% of total government expenditure. In Poland the respective figure was not much lower, at 36.69%.

[66] Social protection, Eurostat newsrelease, 174/2013 - 21 November 2013.

[67] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Social_protection_statistics.

Old age and survivors benefits accounted for 46% of total social benefits in the EU 27 in 2011, and were the major part of social protection benefits in nearly all member states. The share of old age & survivors benefits in total was highest in Italy (61%), Poland (58%), Portugal, Latvia and Malta (all 55%), and lowest in Ireland (23%) and Luxembourg (37%).[68]

Expenditure on pensions across the EU 27 was equivalent to around 13.0% of the GDP in 2011. In Poland this share amounted to 11.6%, thus being close to the EU average (Table 21).

Table 21. Expenditure on pensions (current prices, % of GDP)

	2004	2005	2006	2007	2008	2009	2010	2011
Poland	13.3	12.7	12.5	11.6	11.6	11.9	12.0	11.6
EU 27	n/a	12.1	11.9	11.7	12.1	13.1	13.0	12.9

Source: http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00103&plugin=0

Table 22. Social protection receipts by type in 2001 and 2008 (%)

	General government contributions		Social contributions						Other receipts	
			Total		Employers		Protected persons			
	2001	2008	2001	2008	2001	2008	2001	2008	2001	2008
Poland	33.2	34.6	52.4	42.8	28.6	23.4	23.9	19.4	14.4	22.6
EU 27	35.9	38.2	60.4	57.5	38.8	37.1	21.6	20.4	3.6	4.3

Source: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Social_protection_-_main_indicators

In 2008 (the most recent year available), the main sources of funding of social protection at the EU 27 level (Table 22) were social contributions, which accounted for 57.5% of all receipts, and general government contributions from taxes (38.2%). In Poland the share of

[68] Social protection, Eurostat newsrelease, 174/2013 - 21 November 2013.

social contributions in total social protection funding was lower and amounted to 42.8%, while the share of general government contributions was 34.6%. Social contributions can be broken into contributions paid by the protected persons (employees, self-employed persons, retired persons and others) and those paid by employers. In both Poland and the EU 27 employers contributed more to social contributions than protected persons (Table 22).

Reforms of the pension system in Poland

Pension systems can play a role in allowing beneficiaries to maintain living standards they enjoyed in the later years of their working lives. Poland's population is getting progressively older. Thus, the main challenge for the social protection system is related to its financing, as the proportion of older persons grows while the number of persons of working age decreases. In order to address this issue, Poland recently decided to introduce several changes. First, the decision was taken to gradually increase the statutory retirement age effective January 1, 2013. A uniform retirement age of 67 years for men and women was decided upon, meaning an increase from 65 and 60, respectively, starting from 2012 and to be completed by 2,020 (men) and 2,040 (women). This decision will bring about substantial effects on the economy: likely long-lasting effects, albeit in the medium- and long run. It will, on the one hand, increase future pensions and, on the other hand, improve the balance of the public pension fund, limiting the imbalance of public finance. Moreover, raising the statutory retirement age will mean an increase in the labour supply which, in turn, shall foster economic growth, as a consequence of which the improvement of the financial situation should be visible in all institutional sectors, including the public finance sector.[69]

The second decision referred to is the radical change of the private pension fund sector (OFE) in Poland. In December 2013 the Polish parliament passed a governmental bill to reform this sector.[70] As a result, 51.5% of the net asset value of open pension funds (OFE) was

[69] Convergence Programme 2014 Update. The Republic of Poland (2014), Warsaw April.
[70] It was passed despite receiving strong criticism from many economists and experts and ignoring warnings that that the bill could breach the Polish constitution, see more: http://www.allenovery.com/SiteCollectionDocuments/Publication_OFE_Investment_after_the_reform.pdf.

transferred to the state's Social Security Institution (ZUS) effective January 31, 2014.[71] The transfer of OFE assets involved primarily treasury bonds and treasury bills worth around PLN 127 billion. It is estimated that the transfer will lead to a decrease of public debt in Poland from around 55% of the GDP to 47% of the GDP, and this is the main short-term purpose of the reform. The government argued, however, that the main reason for the reform was to provide improved financial security for retirees.

The third decision consisted of increasing the length of service (from 15 to 25 years) required to qualify for early retirement in a special scheme for uniformed services.

General summary and challenges for the future

The objective of this paper was to analyse trends of the social situation in Poland in the period 2005-2012 and to draw conclusions with regard to future economic and social challenges.

The approach undertaken in this paper derives from the Europe 2020 strategy, adopted by the European Council on June 17, 2010, which is the EU's agenda for growth and jobs for the current decade. The strategy emphasises that inclusive growth (apart from a smart, sustainable growth) is one of the ways to overcome the structural weaknesses in EU economy, improve its competitiveness and productivity and underpin a sustainable social market economy. The inclusive growth priority aims at fostering job creation and poverty reduction and in this way creates the basis for an environment for growth. In turn, inclusive growth is measured against the employment rate and poverty (social) exclusion headline indicators (combining three sub-indicators on monetary poverty, material deprivation and living in a household with very low work intensity).

The smart growth objective of the Europe 2020 strategy is covered by the indicators on innovation (gross domestic expenditure on R&D)

[71] The decision also substantially affected the Polish capital market as open pension funds were previously key private investors on the Warsaw Stock Exchange and thus a major player in this market.

and education (early leavers from education and training and tertiary educational attainment). In this paper we addressed only the latter indicator (education). The role attached to this indicator in the Europe 2020 strategy results from the widely accepted thesis that education is one of the most important investments individuals and societies can make in their future.

All these indicators were covered by the analysis presented above. Concrete values of indicators were assessed against the targets which have been established by Poland (and other member states) in line with the overall goals of the Europe 2020 strategy. Each member state prepares a National Reform Programme, which is updated every year. Assessment of national reforms takes place in the EU – from a formal point of view – within the European Semesters and culminates in a Council recommendation on a proposal from the European Commission. Apart from the above mentioned indicators we also assessed a number of other indicators characterising the social situation, among them the Gini coefficient, emigration and its role for the country's development, demographic situation, and changes in the budgetary expenditures in the social areas as a proxy of the role of social problems in the government's policies.

This summary of main trends in the social situation reflects the above indicators.

In the case of employment rate, the target set by Poland is 71% (of persons aged 20-64) while for the whole EU it was set at 75%. Almost no progress or even stagnation has been recorded since the troublesome year 2009, when a significant slowdown in GDP rate was registered in Poland (from 5.1% in 2008 to 1.6% in 2009). The same trend has been observed in the majority of EU countries.

Measuring poverty and social exclusion requires a multidimensional approach. Household income is a key determinant of standard of living, but other aspects preventing full participation in society such as access to labour markets and material deprivation also need to be considered. The number of people at risk of poverty or social exclusion in Poland has been decreasing since 2005. The indicator reached its lowest level in 2012 with about 10.1 million people in this category. Contrary to the EU average, where the number of affected people increased again in 2011 as compared to 2008 and 2005, in

Poland there was a further decrease of people at risk of poverty. Even more important, Poland recorded a substantial decrease in the category of people discussed here in relative terms: from 45.3% of total population in 2005 to 25.8% in 2013, which is a decrease of 43%. In other words, significant progress seems to have been achieved in this area. Poland's target to reduce the number of people at risk of poverty or social exclusion by 1.5 million people has been exceeded. Still, the share of people at risk of poverty or social exclusion was in Poland in 2013 higher (25.8%) than in the EU 27 (24.5%).

As regards the three sub-indicators of poverty and social exclusion[72] the conclusions are as follows. Monetary poverty, which is related to disposable income after social transfers, recorded in Poland in the period 2005-2013 a decrease – from 20.5% to 17.3% of total population. However, the declining trend in 2005-2008 was interrupted by a slight increase of the indicator in 2009-2011, which was related to the crisis. In next year the trend was reversed. In the period as a whole Poland was one of the worst performing EU member states in terms of monetary poverty. Still, the Polish situation has improved slightly since 2005, while the average for the EU 27 stagnated in recent years or even increased (from 16.4% to 16.6% in 2005-2013).

In 2013, 11.9% of people in Poland were severely materially deprived people (because of lack of durables and housing). Poland recorded significant progress in reducing material deprivation, as the percentage was one of the highest (33.8%) among EU countries when Poland joined the EU. Only in Latvia it was slightly higher (39.3%). Poland's indicator is, however, still much higher than that of the EU 27, where it reached 9.6%.

In the whole analysed period, the number of households in Poland with very low work intensity (activity in relation to the capacity for work) decreased substantially: from 14.3% of the total population to 7.2%. Thus, Poland recorded the second biggest improvement (after Romania): the number of households with very low work intensity decreased in the period 2005-2013 by more than 50%. The EU average for this indicator showed a slight increase: 10.4% in 2005 and 10.8% in 2013.

[72] (1) monetary poverty, (2) material deprivation and (3) low work intensity.

The analysis has revealed that in Poland the majority of indicators relating to inclusive growth recorded interrupted decrease and this trend was not reversed in the crisis years 2008-2009 (with the major exception of the unemployment rate of young people). This of course reflected the fact that Poland was the only EU member state to avoid recession in 2009.

In the field of education Poland's achievements were in general better than for the EU 27 average. This assessment is based, first of all, on the comparison of early leavers from education and training and tertiary educational attainment. Also, expenditure on educational institutions as a percentage of GDP in Poland was close to the EU 27 average. Of particular importance is early school leaving, as this development negatively affects productivity and competitiveness, and contributes to poverty and social exclusion. In 2013 this indicator amounted to 5.8% in Poland and was not much higher than the national target (4.5%). In the EU 27 the indicator amounted to 12.0% (the target being 10%). Thus, in Poland this indicator was in 2013 two times lower than the EU average and was one of the best results in the measurement of early school leaving rates in the EU. At the same time, however, Poland recorded stagnation in this respect in recent years. The other side of the education issue is the tertiary education attainment, as higher education plays an essential role in society, contributing to an increased number of educated people who are better prepared to create innovations, to better find new jobs, to perform more sophisticated jobs, etc. In several recent years Poland recorded substantial progress regarding the share of graduates of tertiary education – 40.5% in 2013, thus approaching the target of 45%. The average for the whole EU is less ambitious and is at 40%.

Analysing the changes in other non-economic areas which have crucial importance for long term growth and competitiveness we've observed the following elements. The Polish economy is characterised by a relatively equal distribution of incomes as measured by the Gini index, which in Poland amounted to 30.7 in 2013. Thus, in Poland, differences between incomes are not extremely high. The Gini index has been gradually decreasing in Poland over the period 2005-2013 (from 35.6 in 2005). This decreasing trend suggests that there is currently a better redistribution of incomes in Poland than in previous years. This means that the richest citizens earn more than several years ago (due to highly dynamic Polish economy and inflow of FDI) but they pay more money in the form of taxes, and this money is redistributed to the bottom income group of society. The other reason for the decreasing Gini index has been relatively fast growth of the lowest salaries. In EU 27 the index has been more or less stable in this same period (30.4 in 2013). Poland occupies the middle position among EU countries in terms of Gini index. Thus, the situation is still unsatisfactory. In recent years several steps were undertaken to reduce disparities, among them a faster increase of the minimum salary as compared to the average growth of salaries. The results will only be visible in the long term.

Over the last two decades a number of Poles have left their country, and only a fraction has come back, despite the 2008-2009 crisis that hit some of the host countries. In 2012 about 2.1 million Poles stayed abroad. Of that number, 1.7 million stayed in other countries of the European Union (for a period of more than 3 months). These figures do not include seasonal emigration which usually is not registered and is thus not possible to estimate.

Emigration affects the home and host countries in a number of ways. In both cases it has both positive and negative implications. Emigrants working abroad have contributed to GDP increases in host countries, but not in Poland. This has been treated sometimes as a potential loss for the Polish economy. On the other hand, very often emigrants were unable to find a job (or a job with satisfactory level of salary) in Poland and therefore emigrated. Their remittances (and compensations) to families in home countries contributed to the improvement of the current account balance and GDP growth in the home country. According to Eurostat data, remittances and compensation inflows from Polish emigrants staying in other EU member states amounted to 1.2% of the GDP in 2010.

Relatively high emigration was responsible for labour shortages in specific occupations and for increases in salaries in several sectors of the Polish economy where emigration was highest.

As regards the demographic situation in Poland, this study has identified two major negative trends:

(a) a decreasing level of population, mainly because of low birth rates and a continued emigration (in 2013 Poland registered negative population growth: minus 0.09%);
(b) aging of the population.

The population level has declined from 38.6 million in 1995 to 38 million in 2011, and is expected to decrease further to 32 million by 2050. The birth rate is the total number of births per 1,000 of a population (for a given year): it amounted to 9.88 births/1,000 persons in 2013. Poles have fewer children due to a poor economic and housing situation, unemployment, etc. The trend of a declining population has been intensified by emigration.

An ageing population means that a decreasing number of workers will need to maintain an increasing number of pensioners, with dramatically negative implications for the public pension system. Although the ageing of Polish society is underway, it should be noted that Polish society is relatively young. The proportion of those aged 65 or over in the population is one of the lowest in the European Union, and is significantly below the average for the EU 27. In 2011, with a rate of 13.5%, Poland was the EU country with the second lowest proportion of population aged 65 years and older (the EU average was 17.5%).

Social protection (also called social safety net or social security) is the revenue (income) that is received for the funding of schemes to combat poverty and inequality. It includes mostly old age (pensions) and sickness/healthcare benefits.

During the financial and economic crisis, expenditure on social protection (revenue received for the funding of schemes to combat poverty and inequality) increased in Poland (from 18.6% of GDP in 2008 to 19.2% of GDP in 2009) and later stagnated. This was also the case in other EU member states. However, the level of social protection enjoyed by Poles was much lower as compared to the EU average. In 2011, social protection was the most important function of government expenditure. Governmental social protection expenditure in the EU 27 was equivalent to 39.9% of total government expenditure. In Poland the corresponding figure was not much lower, at 36.69%.

Pension systems can play a role in allowing beneficiaries to maintain living standards they enjoyed in the later years of their working lives. Poland's population is becoming progressively older. Thus, the main challenge for the social protection system is related to its financing, as the proportion of older persons grows while the number of persons of working age decreases. In order to reduce the challenge of financing social protection from public funds, Poland recently decided to introduce several changes. They included: (a) the gradual increase of the statutory retirement age up to 67 years, effective January 1, 2013, (b) radical change of the private pension fund sector (OFE), (c) increased length of service (from 15 to 25 years) required to qualify for early retirement in a special scheme for uniformed services. These decisions will improve the balance of the public pension fund, limiting the imbalance of public finance and also – in the long term – will increase the labour supply, thus fostering economic growth.

Social changes occur at slower pace than economic changes. At the same time they constitute an important basis for short term and long term competitiveness of each economy and its ability to develop. Therefore it is important to identify possible risks and challenges as early as possible in order to prepare proper responses and policy-oriented actions.

The analysis has revealed that in the last 9-10 years Poland has made significant progress in the majority of the areas monitored. But the economy still faces serious challenges. In the area of labour market and social situation, the most pressing challenges can be identified as follows:

a) Work force shortage (because of aging and a shrinking workforce), especially of skilled workers. There are two main ways of dealing with this challenge: increasing the employment rate, and increasing productivity. These efforts are of course mutually reinforcing and they have one key ingredient in common, namely investment in human capital.
b) A related challenge is a very low labour force participation rate (% of population age 15+): as of 2010 it was 48.20 for females and

64.30 for men.[73] These rates were among the lowest among EU member states. This is of particular concern in the medium- to long term, given an aging population and growing life expectancy. Low women's participation in the labour market is very much a result of the lack of affordable childcare.

c) Regarding the poverty challenge, any improvement is dependent on a number of factors, including education. In the short run, the capacity of the government to reduce poverty is constrained by fiscal consolidation. For a number of years Poland has been aiming to exit the excessive deficit procedure, which competes with the objective of a more generous social policy. The best option to address social needs is to promote economic growth and create new jobs.

All the above mentioned challenges have been addressed in *National Reform Programme. Europe 2020. Update 2014/2015*[74] which contains a detailed timetable of the adoption of various remedies (legislative actions and financial means to implement necessary actions). Together with already implemented changes in the pension system and pension age they create the basis for a continuation of positive changes with regard to the situation in the labour market, education system and social protection. As a result, the achievement of the Europe 2020 Strategy targets in those areas seems to be realistic.

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Trends of the social situation in the Czech Republic – challenges for the future

Vladimír Bartovič[1]

This paper provides an analysis of the trends of the social situation in the Czech Republic in the period 2005-2013. It analyses the socio-economic trajectory of the country, its demographics, labour market and social situation. *It strives to identify socio-economic challenges that the country and its citizens might face in the near future.*

Demographics of the Czech Republic

According to the data of the Czech Statistical Office, on September 30, 2014, the Czech Republic had **population** of 10,528,477 inhabitants.[2] This is the highest number since the country gained independence in 1993. However, the highest population the Czech lands ever had was in 1944 before the post-war expulsion of the German population (11,109,341). Since the end of Second World War, the population of the Czech Republic grew steadily until the beginning of the nineties when it started to decline. Growth of the population was restored only in 2004.

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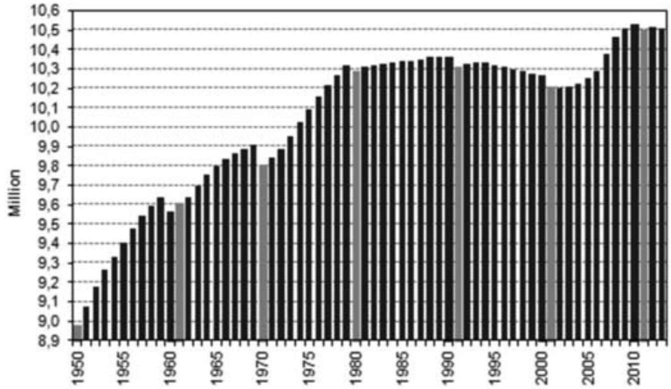
[2] Population size (number of inhabitants) at a given moment of time refers to the resident population of the Czech Republic, irrespective of citizenship. Since 2001, the figures also include (in accordance with the Population and Housing census of 2001) foreigners with long-term stay (i.e., a stay based on a visa of over 90 days, as stipulated by Act No. 326/1999 Coll.) and foreigners with asylum status granted (in compliance with Act No. 325/1999 Coll.). Since May 1, 2004, in accordance with the amendment to Act No. 326/1999 Coll., the figures also include citizens of the European Union with temporary stay on the territory of the Czech Republic, and citizens of other countries with long-term stay.

Figure 1. Total population, 1950-2013



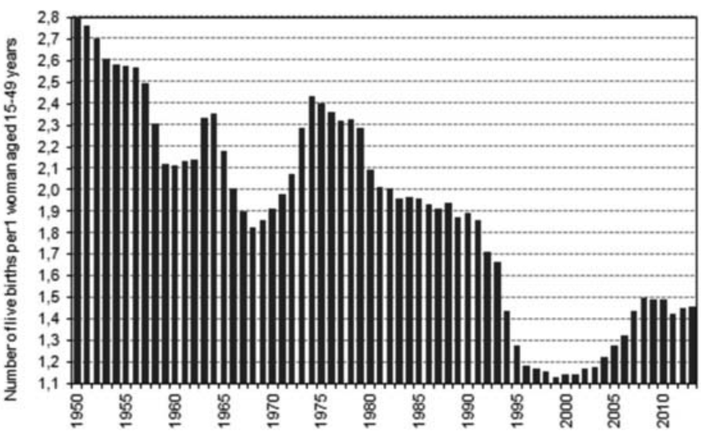
Note: The census years are marked by grey colours

Source: Czech Statistical Office

Vital statistics of the Czech Republic

The Velvet revolution in 1989 brought deep political and economic reforms that had a huge impact on the social situation of Czech families. The **number of live births** decreased dramatically, especially between 1991 and1996 when the number of newly born children decreased by 30 percent, from around 130 thousand in 1991 to 91 thousand in 1996. This was caused by a decreasing female fertility rate that dropped from 1.89 in 1991 to less than 1.2 in 1996.

Figure 2. Total fertility rate, 1950-2013



Source: Czech Statistical Office

The changed economic situation of families, changes in the social security system and also changes in the way of life had huge impacts on the ability and willingness of families to have children. Hence, a reduction in the total level of newly born children was caused by changes in the reproductive behaviour of women newly entering the age of intense fertility. In the first half of the nineties young women started to delay marriage and subsequently bore children at older ages. Along with these delays the depth of the decline in total fertility signalled low fertility in older women of reproductive age, since most of these women fulfilled their maternal role at a younger age in accordance with the previous reproductive model. Since 2005 we can witness an **increasing fertility rate**, a growing number of newly born children and a natural increase of population. This can be explained by several factors, such as increasing living standards, intensive construction of new housing and especially the phenomenon of delayed deliveries. Since the beginning of the nineties the mean age of women at birth of first child rose from 22.5 to higher than 28.0 in 2013.

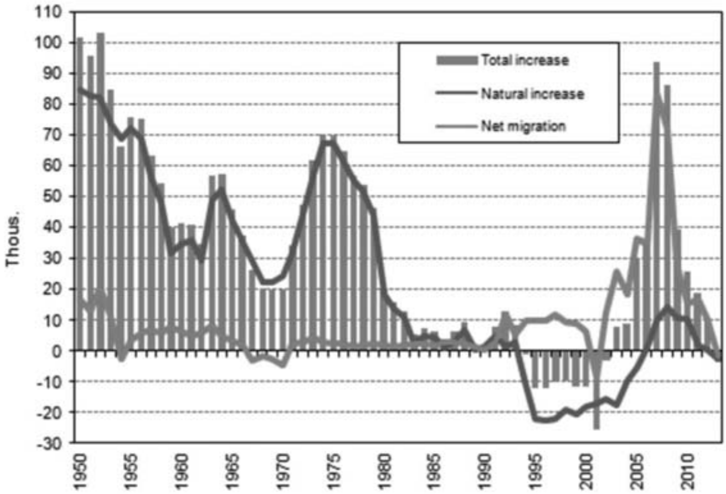
Since 2010, the number of newly born children started to decrease again. The main reason is the fading factor of delayed deliveries combined with uncertainty of families caused by the economic crisis that hit the Czech Republic in 2009. While the number of newly born children was changing sharply in the last 25 years – with a huge drop at the beginning of nineties and a baby boom at the end of last decade – the number of deaths is steadily decreasing: from 130 thousand in 1990 to 110 thousand in 2013. *This can be explained by two facts: a huge increase of* **life expectancy at birth** *for both genders and a declining infant mortality rate.* In the case of males life expectancy rose from 67.6 years in 1990 to 75.2 years in 2013; in the case of females it rose from 75.4 years in 1990 to 81.1 years in 2013. Further, the infant mortality declined from 10.8 to 2.5 in 2013, placing the Czech Republic among countries with lowest infant mortality rate in the world. The dramatic increase in life expectancy in recent years can be attributed to many factors, such as better living conditions, improvement in the quality of life, better education, healthier lifestyle, but especially to the improvement of access to and quality of healthcare available to Czechs. Increases in the quality of pre-natal and natal healthcare is the main reason for the extraordinary achievement in the decrease of infant mortality in the country.

Between 1994 and 2005 the **natural increase of population** *in the Czech Republic was negative.* In 1996 the natural decrease of population peaked at more than 22 thousand people. During the 12 years when the number of deaths exceeded the number of newly born children, the natural decrease of population amounted to almost 200 thousand people, e.g., 1.9 percent of its total population. A change in this negative trend started in 2006 and continued until 2012, a period during which the number of newly born exceeded the number of deaths. During this short period of time the natural increase of the Czech population amounted to more than 49 thousand inhabitants. However, the factor of delayed births since 2010 faded away, causing a decrease in number of births. This, together with a slight increase in the number of deaths, caused the country to once again face a *natural decrease of population starting in 2013.*

Migration

Migration *is a very important factor in demographic trends in the Czech Republic.* The country's migration balance has been positive for most of the time since its independence in 1993. In 2001 the country changed the definition of inhabitant to include foreigners who reside in the country under so-called long-term visas or long stay permits. This statistical change significantly increased the number of migrants, both those leaving the country and coming to the country. Another impetus for increasing migration were accession of the country to the EU (and the opening of the Czech labour market to all the EU member states) in 2004, entry to the Schengen system (abolition of border controls) and strong economic growth *causing a deficit in the available workforce between 2005–2008.* These factors led to strong influx of immigrants and their number significantly exceeded the number of emigrants, thereby contributing to the growth of the total population. So far the most prominent year in terms of migration was 2007, when according to official statistics 104.4 thousand people immigrated and 20.5 thousand people migrated. In this year net migration reached unprecedented high levels – 83.9 thousand individuals. *Between 2002 and 2013 net migration amounted to 353 thousand inhabitants who represent 3.4 percent of total population of the country.*

Figure 3. Structure of total increase, 1950-2013



Source: Czech Statistical Office

The influx of immigrants more than compensated for the natural decrease of population between 2002 and 2002 and added significantly to its increase between 2003 and 2013. While in the examined period of 2005-2013 the total natural increase in population amounted to 41,320 inhabitants, immigration represented an increase of 296,561 inhabitants. Hence, the total population of the country increased by 337,881 inhabitants in the above-mentioned period.

Perspectives for the future

According to 2013 predictions of the Czech Statistical Office[3] for the years 2013-2100, the **number of inhabitants** *will be decreasing in the country in the future.* The Office projected three scenarios (high,

[3] Projekce obyvatelstva České republiky (Projekce 2013), http://www.czso.cz/csu/2013edicniplan.nsf/t/A6003061EE/$File/402013u.pdf

medium and low variant) that differ by the intensity and rate of decrease. The medium variant is considered to be the most likely. If expectations of future development of fertility, mortality and migration are correct, population growth in the Czech Republic will soon be replaced by a population decrease. According to the medium variant projection, the population will steadily increase until 2018, when it reaches 10.54 million inhabitants. According to the high variant population growth will last for a decade longer and the highest population (10.66 million) will be reached in 2027. All increases will be recorded due to migration. According to the results of the projection, 2012 was the last year of natural increase of the Czech population. The low variant estimates a decrease of the population of the Czech Republic from the very first year of the projection due to a stagnating low fertility rate and negative migration balance at the beginning of the projection. According to all three scenarios, *the most significant decrease of the population is expected in the period 2050-2080 resulting in an expected number of inhabitants between 6.1 million and 9.1 million in 2100.*

A decrease of live births will continue and the situation will not change until the early 30s of this century, when the local minimum expected is 78 thousand children (medium variant). Subsequent growth will culminate in 2040 with a small secondary wave of birth (85 thousand) that will reflect a higher number of children born at the beginning of the century. The long-term projection for the period after 2040 counts on a further continuation of the decease in number of live births to a level of around 60 thousand in 2100. Low and medium variants of the projection describe similar trends in the number of live births: they differ only in the level of recorded values.

Despite increasing life expectancy in all variants of the projection, an increase in the number of deaths is expected: it will accelerate in the thirties, when the people born in strong (post-Second World War) baby boom years will come enter the age group with the highest mortality rates. The highest number of deaths will be around 2070, with 140 thousand. A subsequent decline in the number of deaths will return the level to that observed currently (97-115 thousand).

Very negative trends in the vital demographics of the Czech Republic could be influenced positively in the future by migration. The development of migration is difficult to predict, due to its strong external conditionality to legislative measures, economic situation and potential source countries. According to the prediction of the Czech Statistical Office, expected immigration from abroad is between 20-40 thousand people per year depending on the variant. The resulting net migration as a reflection of the expected rate of immigration and emigration in the medium variant ranges from 8.6 thousand to 17.7 thousand, with a high between 18.6 thousand and 25.4 thousand. In the low variant, net migration in the early years of the projection moves into negative territory, rising to 10.4 thousand persons.

However, as was witnessed between 2005 and 2008, immigration can change dramatically depending on economic development, opportunities for immigrants and legal regulation of immigration. In the case of the Czech Republic most immigrants come from culturally similar environments and integrated very quickly into society (26 percent from Ukraine, 19 percent from Slovakia, 19 percent from Vietnam, 8 percent from Russia, 4 percent from Poland).[4]

In the following part of the study, dedicated to the **labour market**, we will argue that vacancies – arising especially in industry – will have to be filled by foreign workers. *A very low unemployment rate and an inability to match the demand for new labour from domestic sources will create a demand for immigration, and the country will have to adopt measures that will attract foreigners to move to the Czech Republic.*

A debate on the expert and political level took place in 2007 and 2008. *The conclusion was that the country need "managed" immigration.* The main consequence of this debate was the creation of so-called green cards for non-EU immigrants, enabling them to get job and residence permits through simplified procedures.

[4] http://www.czso.cz/csu/cizinci.nsf/kapitola/ciz_pocet_cizincu

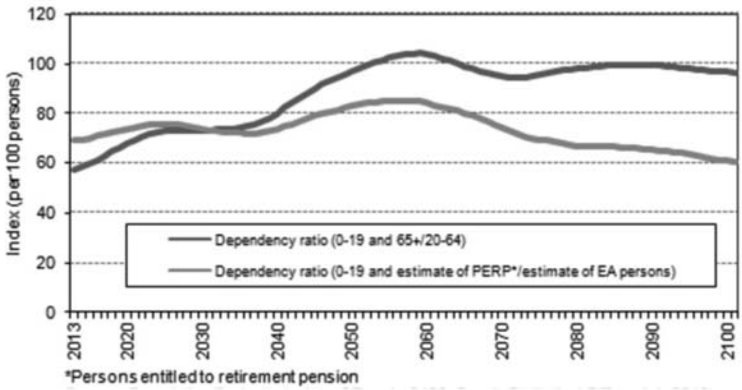
Another major issue in the **demographics** of the Czech Republic is the *problem of ageing population.* The number of working-age population probably reached its peak in 2009 (7.43 million). In the future, we can expect an *overall downward trend.* The fastest decline will occur until 2020 (expected number is 6.69 to 6.82 million), when baby boomers born in late 40s and in the early 50s will leave this age category. However, weak boomers from the turn of the 20th and 21st centuries will enter it. A more intense reduction in the number of people of working age will begin at the end of the thirties of this century, in connection with a shift of people from the numerically strong 1970s age bracket, and the still relatively numerous 1980s births, over the border of 65 years. According to the medium projection, the level of working-age population between the years 2040 and 2060 will be reduced from six to five million. The proportion of people of working age will fall from the current 70 percent to 55 percent at the end of the century.

Contrary to this, *the number of persons aged 65 and older will increase until 2057,* when it should culminate (almost doubling from the current 1.7 million people to 3.2 million). The main characteristic of the population of the Czech Republic in coming decades will clearly be *progressive ageing.* The relative proportion of seniors in the population will increase from today's one-sixth to one-third. The mean age of the population shall increase from 41.3 years in 2013 to almost 50 years in the sixties of this century.

The ageing of population will soon create sustainability problems in the pension and health care systems. The ***dependency ratio*** *will reach 100 percent mid century; this means that the level of productive population (20-64 years) will be equal to the sum of people under age 20 and above 65.*

According to the current trend in the pension system (gradual increasing of retirement age without an upper limit), the dependency ratio that counts with working age people (instead of setting the limit at 65 years) will be highest in the fifties and sixties of this century, surpassing 80 percent.

Figure 4. Dependency ratios up to 2101 (medium variant; 1 Jan)



Source: Czech Statistical Office, 2013 [5]

Socio-economic trajectory of the Czech Republic

The Czech Republic belongs among the most developed countries in the world. According to World Bank data[6], the country's gross national income per capita in purchasing power parity (GNI per capita PPP) amounted to 26,970 USD, thus placing the country at 31st place in the world and 18th place in the European Union. Beyond economic development, it also belongs among countries with the highest human development. According to the United Nations Development Programme (UNDP) Human Development Report for 2013[7], the Czech Republic is 28th in the world and 15th in the EU in human development. Both indicators also champion the *Czech Republic as a Visegrad leader in economic and human development.*

Economic development

When the Czech Republic entered the EU in 2004 its **GDP per capita** in purchasing power standard was at 79 percent of the EU average. During the ten years of membership the country was not able to

5 Czech Statistical Office (2013). Population projection of the CR up to 2100

6 http://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD/countries?order=wbapi_data_value_2013+wbapi_data_value+wbapi_data_value-last&sort=desc

7 http://hdr.undp.org/en/data

catch up to the old members of the Union and converge toward the EU average. The Czech economy grew quickly during the first years of membership, but the crisis that hit in 2009 stopped the convergence process for five years. Convergence reached its highest level in 2007, at 84 percent of the EU average. In 2013 it was 82 percent of the EU average. The country has an economic development trajectory similar to Hungary, while the other two Visegrad group members – Poland and Slovakia – have been much more successful in their convergence to the EU average.

While the average annual economic growth during the Czech Republic's first five years of EU membership – between 2004 and 2008 – was 5.3 percent, during the second five years it reached negative average annual economic growth (-1.3 percent). The Czech economy was able to return to growth only in 2014, when growth was 2 percent. Long economic stagnation was caused by the world economic crisis, but also by very strict austerity measures adopted by government of Prime Minister Nečas that ruled between 2010 and 2013. Czech GDP per capita in 2013 was 14,200 euro, while in 2008 it had peaked at 14,800 euro, thus the economy is still lagging behind its potential.

Employment and unemployment

The **employment** rate in 2014in the Czech Republic was 73.5 percent while the EU average rate was 69.2 percent. The employment rate grew from 70.1 percent in 2004 and the country has highest employment rate among the Visegrad countries. The Europe 2020 strategy national target aims for at least 75 percent in 2020.

This target is realistic due to a very low rate of unemployment and growing salaries that motivate more and more people to enter the labour force. The male employment rate is considerably higher (81 percent) in comparison with the female employment rate (63.8 percent). The employment gap is very profound and points to gender inequality in labour issues. Two main factors explaining women's lower labour activity are women's lower statutory retirement age and long parental leaves. The statutory retirement age of male and female population will be completely aligned only for those born in 1975 and later (in the case of women who raised no children, for those born after 1957; in the case of women who raised two children, for those born after 1965). The main obstacles for women with children to enter the labour market are the lack of affordable childcare services and the limited use of flexible working-time arrangements. Access to childcare facilities remains among the lowest in Europe, with only 3 percent of children up to 3 years of age cared for in formal childcare, far below the EU average of 28 percent (2012). A low level of part-time working is another obstacle to employment: in 2014 part-time work accounted for only 10.4 percent of female employment.

According to Eurostat data from February 2015, the unemployment rate of 5.5 percent in the Czech Republic is the third lowest in the EU after Germany and Austria. It had been decreasing since 2004 – from 8.3 percent – to 2008 when it reached 4.4 percent. Thanks to the economic crisis it started to grow again in 2009 and peaked at 7.3 percent in 2010. Unemployment among women is higher than unemployment among men, although the gap between the genders is smaller than in 2004.

Unemployment *does not constitute a burden for the national economy as it represents mainly a regional problem* and affects only certain disadvantaged groups within the population. The only region in the Czech Republic with unemployment higher than 10 percent is the Ústecký region of North-West Bohemia. Other regions with an unemployment rate higher than 7.5 percent are found in eastern Czech Republic. On the other hand, the capital city Prague is the region with the lowest unemployment rate in the EU, at 2.5 percent (April 2015).[8] Also, personnel agencies and companies report a shortage of qualified staff in many areas, especially those requiring technical qualifications and IT specialists.[9] Along with reforms to the educational system, managed migration is considered to be a tool for how to

[8] http://ec.europa.eu/eurostat/statisticsexplained/index.php/File:Regions_with_highest_and_lowest_unemployment_rates_in_2014,_%25.png

[9] http://www.financninoviny.cz/zpravy/personalni-agentury-cr-bude-celit-silnemu-nedostatku-odborniku/1175001

tackle this issue. In 2009 the Czech Republic introduced a system of green cards combining work and residence permits in order to simplify the administrative procedures connected with employment of non-EU workers. In 2014 the green card was replaced by a new "employment card" that further decreases the administrative burden for employers and foreign workers.

The long-term unemployment rate is one of the lowest in the EU, at 2.6 percent in 2014. It has been decreasing since 2004 when it reached its maximum of 4.2 percent. Youth unemployment is also much lower than the EU average rate, at 14.4 percent in December 2014.It is slowly decreasing. It bottomed out before the economic crisis at 9.9 percent in 2008.During the crisis it almost doubled to 19.5 percent in 2012. *The highest unemployment rate is among non-qualified workers, at 20.7 percent in 2014* (in the age group 25-64). This rate is quite stable; in 2004 it was 22.8 percent, it decreased to 17.3 percent in 2008 and due to the crisis it started to rise again until it hit its maximum in 2012 (25.5 percent)after which it started to decrease again.

Previous tables show that most vulnerable groups affected by the economic cycle are young people and non-qualified workers. This defines challenges for the future – to adopt the Czech educational system to the needs of employers as well as to develop a system of more efficient assistance to recent school graduates in search of a first job.

Risk of poverty and social exclusion

The percentage of the population at **risk of poverty and social exclusion** *in the Czech Republic is the lowest in the European Union.* From 2005 until 2013 it decreased from 19.6 percent to 14.6 percent. However, *there are vulnerable groups in the population, where the risk of poverty and social exclusion is considerably higher.* In the group of people with pre-primary, primary or lower secondary education it is 32.4 percent (2013).This is still under the EU average (34.8 percent), but we cannot witness a positive trend like in the case of other groups (in 2005 it was 33.8 percent). The highest percentage of people at risk of poverty and social exclusion can be identified in the group of unemployed people (44.5 percent in 2013 compared to 51.21 percent in 2005). The second biggest group is single persons with dependent children (35.1 percent in 2013), where the country was able to reduce risk from 58 percent in 2005. After Finland this is the best result in the EU.

The poverty rate in the Czech Republic is significantly influenced by social transfers. After payment of social transfers the poverty rate falls from 14.6 percent to 8.6 percent, which again is the lowest rate in the EU. *Government expenditures on social protection in the Czech Republic represent 20.8 percent of GDP in comparison with the EU average of 29.5 percent (2012). This indicates very high efficiency in social transfers. The biggest problem in the Czech Republic is the expanding number of socially excluded – mainly Roma populated – communities that are characterised by high unemployment rates that exceed the national average,* restricted access to legal forms of livelihood, low educational level, poor amenities, dilapidated infrastructure and higher incidences of risk behaviour. According to an analysis from 2006, there are 301[10] of these socially excluded localities, and their number is constantly increasing[11].

The government acknowledges the importance of the fight against poverty and social exclusion and set up several priorities in this area that are included in the Social Inclusion Strategy 2014-2020 adopted in 2011. The following priorities are defined by the Strategy:

- Affordable and Professional Social Work
- Adjustments to the social services system
- Social benefits scheme
- Caring for vulnerable children
- Socially excluded localities
- Regulation of long-term care

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[10] http://www.gac.cz/userfiles/File/nase_prace_vystupy/GAC_MAPA_analyza_SVL_aAK_CJ.pdf?langSEO=documents&parentSEO=nase_prace_vystupy&midSEO=GAC_MAPA_analyza_SVL_aAK_CJ.pdf

[11] http://www.vlada.cz/cz/ppov/zalezitosti-romske-komunity/aktuality/zprava-o-stavu-romske-mensiny-roste-pocet-socialne-vyloucenych-lokalit-i-nezamestnanost-mladych-romu--113912/

- Regulation of the rehabilitation of persons with disabilities
- Social housing
- Availability of rental housing and increased mobility of the workforce
- Preventing and addressing homelessness
- Fight against indebtedness
- Active ageing
- Development of assisted living services

Income distribution

The **distribution of income** in the Czech Republic is very even in comparison with other EU countries. The indicator that shows the ratio of total income received by the 20 percent of the population with the highest income (top quintile) to that received by the 20 percent of the population with the lowest income (lowest quintile) in the country is the lowest in the EU. While the EU average was 5.0 in 2013, in the Czech Republic it was 3.4, meaning that the 20 percent of families with the highest income have disposable income 3.4 times higher than the 20 percent of families with the lowest income. Very similar results arise from analyses of the so-called **Gini coefficient** of disposable income distribution. The coefficient provides values from 0 to 100, where 0 means absolutely equal distribution of income and 100, where all disposable income is in the hands of one person. *The value for the Czech Republic in 2013 is 24.6, the third lowest level in the EU (after Slovakia and Slovenia).*

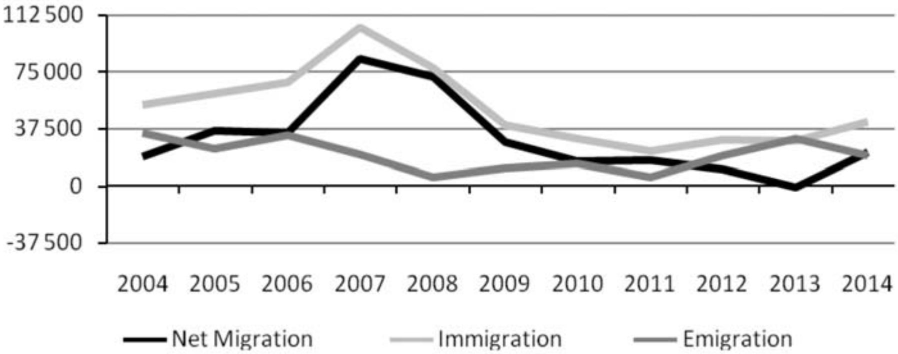
Both indicators show that the Czech Republic is still a quite egalitarian country with a fair distribution of income and solid social policies. Both indicators are currently stable, so we do not witness any negative tendencies that would indicate growing income disparities.

Working abroad

Although exact data on job migration is not available from the official statistical resources (Czech Statistical Office, Eurostat), studies and indirect data (such as volume of remittances) prove that ***job migration*** *from the Czech Republic abroad does not constitute a serious problems for the Czech economy.* According to Eurostat data, the

Czech Republic does not belong among the top five immigrant groups in any other EU countries, with the exception of Slovakia.

Figure 5. Migration flows in the Czech Republic (2004-2014)



Source: Eurostat

With the exception of 2013, net migration in the country was positive during the whole period of membership in the European Union. During the 10 years of EU membership total net immigration to the country amounted to 337 thousand people. According to a study from 2009, the most significant impact of labour emigration of Czech citizens can be identified among professional groups of highly skilled experts, such as researchers, doctors or IT specialist[12]. According to the study, most Czechs emigrate to Germany, the UK, the USA, Canada or Switzerland. Still, even in the above-mentioned areas, there are more foreigners working in the Czech Republic than Czechs working abroad.

Changes in the quality of health care

Expenditures of the country on **health care** provision represented 7.55 percent of GDP in 2012. Their volume was gradually rising from 6.93 percent in 2004. *The Czech Republic belongs to a group of member states that joined the EU in 2004 and has among the lowest healthcare expenditures in the EU.* Among the Visegrad countries, the Czech Republic is in third place after Hungary and Slovakia:

[12] Vavrečková (2009).

lower spending on healthcare occurred only in Poland. According to Article 31 of the Charter of Fundamental Rights and Freedoms that is a part of the constitutional order of the Czech Republic: “Everyone has the right to the protection of her health. Citizens shall have the right, on the basis of public insurance, to free medical care and to medical aids under conditions provided for by law.”[13] Public insurance is compulsory for everybody with permanent residence in the Czech Republic. The government makes payments to health insurance funds for some groups. These include children, pensioners, people on maternity and parental leave, or registered unemployed persons.

Even those who do not pay for healthcare insurance are entitled to urgent care. Private expenditure on healthcare represented only 1.21 percent of GDP in 2012, *placing the Czech Republic among those countries with lowest private spending on healthcare* (and the lowest among Visegrad countries). However, there is a trend of increasing private spending, as in 2004 it was only 0.75 of GDP – the lowest in the EU. Previous governments attempted to secure higher contributions to the system from private sources but the Constitutional Court declared them unconstitutional and the current government cancelled them. Thanks to this, it is expected that the trend of increasing private spending in healthcare will be stopped. Despite the fact that expenditure on healthcare is among the lowest in the EU, people assess the quality of healthcare positively.

According to Eurobarometer[14], 78 percent of Czechs (compared to an EU average of 71 percent) have positive evaluations of the quality of healthcare in the country. The country exceeds the EU average level along other indicators as well. There are 367 practising physicians per 100 thousand inhabitants in the Czech Republic. Among the new member states, only Lithuania has a higher number of practising physicians per 100 thousand inhabitants. In 2011, there were

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[13] http://www.usoud.cz/en/charter-of-fundamental-rights-and-freedoms/
[14] Eurobarometer (2013). Patient safety and quality of care; Fact sheet Czech Republic http://ec.europa.eu/health/patient_safety/docs/ebs_411_factsheet_cz_en.pdf

684 (763 in 2004) beds per 100 thousand inhabitants in hospitals, out of which 470 (540 in 2004) are curative. The government and health insurance companies are trying to lower the number of hospital beds and in-patient length of stay in hospitals: the average of 10.2 days is the second longest in the EU (after Finland).

Education

According to the Europe 2020 strategy, there are two main indicators in the area of **education**. The first indicator is the proportion of early leavers from education and training, while the second indicator shows the proportion of people between 30 and 34 years of age with tertiary (university) education. In the first indicator the Czech Republic performs well – with 5.5 percent in 2014 it has the fourth lowest level of early school leaving (after Croatia, Slovenia and Poland). It is about half the number for EU 28 and the country is fulfilling the national target which happens to be 5.5 percent. *In the second indicator, the country is performing bellow the EU average of 37.9 percent of tertiary education attainment in the given age group (30-34).* In 2014 this number was only 28.2 percent, while the national Europe 2020 target is 32. However, we can observe a very positive trend, as this indicator reached only 12.7 percent in 2004. Among the Visegrad countries, Poland and Hungary are doing better, while Slovakia lags behind the Czech Republic. The country is performing poorly in terms of the number of students per teacher in primary education. With 18.9 students per teacher it is in second place in the EU, after the United Kingdom (together with France). Also below the EU average is the share of population in life-long learning. In 2014, 9.3 percent of persons aged 25-64 declared that they had received education or training in the last four weeks before the survey. On the other hand, this indicator in the Czech Republic is the highest among Visegrad countries (Poland = 4 percent, Hungary = 3.2 percent and Slovakia = 3 percent). This indicator almost doubled from 2004 to 2011, and although it started to decreasing again in the last three years, it is still triple the average of other Visegrad countries.

In 2012 there were 440 thousand students enrolled in tertiary education compared to 319 thousand in 2004. *The country has one of* *the highest proportions of students coming from other EU countries.* In 2012, more than 28 thousand students from other EU member states studied in the Czech Republic (this number more than tripled in comparison with 2004, when it was only 8.9 thousand). The number of foreign students (from other EU member states) studying in the Czech Republic is much higher than that in several times bigger EU member states, such as Italy (20 thousand) or Poland (9 thousand). Around 20 thousand of these students come from Slovakia thanks to the practically non-existent language barrier. Slovak students can study under the same conditions as Czech students. On the other hand, there are 13 thousand Czech students studying in other EU countries (in 2004 it was only 5.4 thousand).

Currently, there are intensive discussions in the country on the profile of tertiary education graduates. Politicians as well as employers criticise the country's educational system, claiming it does not produce graduates in the areas where there is a demand for them. According to the criticism, there are too many graduates in social sciences and humanities and a lack of graduates in technical sciences. However, Eurostat data indicates that the career profile of graduates converges with the EU average.

Budgetary expenditures in the social areas

Budgetary expenditures on social protection represented 13.8 percent of GDP in the Czech Republic compared to the EU average of 19.9 percent. Since accession to the EU the ratio to GDP increased slightly (in 2004 it was 12.5 percent). *Among Visegrad countries the highest expenditures on social protection were spent by Hungary, followed by Poland.*

We can get another picture of the level of expenditure on social protection if we analyse total expenditure on social protection in purchasing power standards per capita. *The EU average in 2012 was 7,185 euro (PPS) per capita, while the Czech Republic provided only 4,166 PPS per capita – still enough to be in first place among Visegrad countries.* Similarly, the average old age pension in PPS in the Czech Republic is highest among Visegrad countries. In 2012 it was 1,649 PPS monthly, while the EU average was 2,532 PPS.

Table 1. Total expenditures on social protection as a percentage of GDP (2004-2012)

	2004	2005	2006	2007	2008	2009	2010	2011	2012
European Union (27 countries)	18.3	18.2	17.9	17.5	18	20	19.9	19.6	19.9
Czech Republic	12.5	12.3	12.3	12.5	12.5	13.7	13.6	13.7	13.8
Hungary	16.1	17	17.7	17.6	17.8	18.6	17.8	17.2	17.1
Poland	17.6	17	16.9	15.6	15.6	16.4	16.9	15.9	16.1
Slovakia	12.1	13.2	12.3	10.6	10.2	12.3	12.2	12	12.1

Source: Eurostat

Table 2. Total expenditure on social protection in PPS per capita

	2004	2005	2006	2007	2008	2009	2010	2011	2012
European Union (27 countries)		6,079	6,312	6,530	6,709	6,970	7,218	7,329	7,591
Czech Republic	3,302	3,483	3,623	3,961	3,744	4,084	4,166	4,275	4,460
Hungary	2,969	3,253	3,523	3,641	3,754	3,691	3,896	3,913	3,880
Poland	2,272	2,339	2,479	2,672	2,890	3,134	3,323	3,358	3,367
Slovakia	2,224	2,344	2,529	2,841	3,015	3,267	3,547	3,590	3,732

Source: Eurostat

One of the biggest challenges for the future in the Czech Republic is the sustainability of the pension system. The dominant system in the country is the on-going pension system. The capital pension pillar is voluntary and the state is not doing enough to motivate people to use it extensively for securing their pensions. The on-going pension system is already in deficit, whereby its revenues are lower than expenditures every year (49.7 billion CZK in 2013 – approximately 1.8 billion euro). Although the retirement age is gradually going up, the country will have to take further steps how to ensure the sustainability of the pension system. There are intense discussions on the expert as well as political levels about what kind of amendments should be introduced to the system.

Summary and recommendations

The Czech Republic is one of the most developed countries in the world. Apart from economic development, it also belongs among those countries with the highest human development. According to the United Nations Development Programme (UNDP) Human Development Report for 2013, the Czech Republic is 28th in the world and 15th in the EU in human development. Both indicators also champion the Czech Republic as a Visegrad leader in economic and human development. *The country has one of the lowest rates of population at risk of poverty and social exclusion in the world and belongs among those countries with the most even distribution of income. It also has a very low rate of unemployment, a well-functioning health-care system and solid social protection for citizens.*

The main challenges for the future development of the country arise from its demographic trends. Thanks to the low fertility rate, the country will be facing a natural decrease of its population. Together with the factor of ageing of the population this will lead to several threats to its socio-economic developments, such as: *shortage of qualified labour as a prerequisite for future economic growth and sustainability of the healthcare, pension and social protection systems.* The country should therefore take measures to increase the willingness of families to raise children, such as social and tax benefits, measures increasing availability of housing and higher availability of child-care facilities. Government should also continue the implementation of measures that increase female participation in the work process and secure gender equality in the labour market. The country also has to adopt and implement a strategy of managed migration in order to attract skilled workers from abroad.

Although the education system of the country is solid, the *government must take measures that will lead to a better correlation between the structure of graduates and the needs of the labour market, such as scholarships or implementing a dual education system for technical sciences.* The country should also continue increasing the share of workers with tertiary education and increase support for lifelong learning. *Despite the fact that risk of poverty and social exclusion* *is extremely low in the Czech Republic, there is a growing number of socially excluded communities, mainly with significant Roma populations.* Government has to implement measures motivating people living in these communities to increase their labour participation, e.g., through the establishment a stronger link between the level of social protection and willingness to do community work and up-skilling. Affirmative actions should be taken especially in the area of access of the young generation from the socially excluded communities to better education.

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Demographic processes of the Slovak Republic – current developments future trends

Boris Hošoff[1]

In this paper we present the characteristics of general demographic developments with an eye to broader ageing population effects and a labour market overview. In this regard we also analyse particular policy measures and propose some areas of possible common interests shared between V4 member countries.

According to official data from Statistical Office of the Slovak Republic[2], the Slovak Republic (SR) had population of 5,415,949 people at the end of 2013, with the biggest regions being *Western Slovakia* with 1,836,644 inhabitants and *Eastern Slovakia* with 1,613,672 inhabitants. Then we have the region of *Middle Slovakia* with 1,347,233 inhabitants and *Bratislavský kraj* with 618,380 inhabitants. The Slovak Republic has changed the concept used in demographic statistics: the number of permanent residents was used until 2010 inclusively, and since 2011 the arithmetic mean of the population has been calculated. This change in the pattern is evident in the next table.

Table 1. Population as of December 31 (thousands of persons)

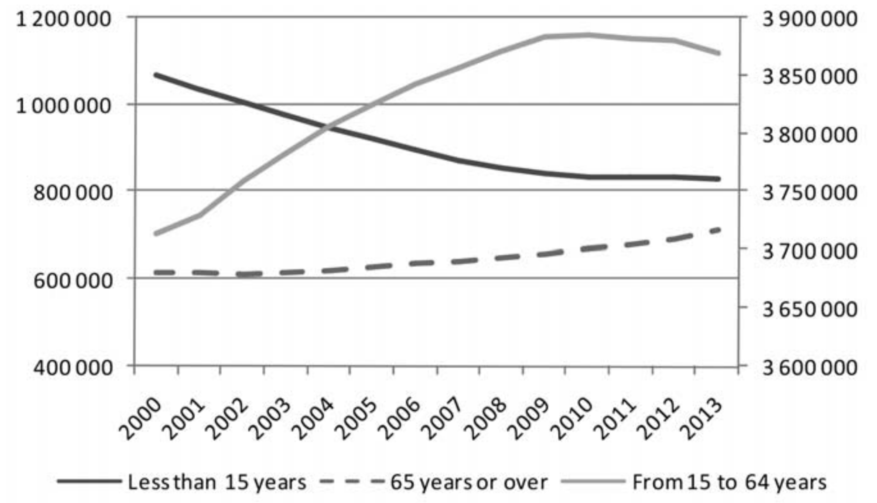
2005	2006	2007	2008	2009	2010	2011	2012	2013
5,389	5,394	5,401	5,412	5,425	5,435	5,404	5,411	5,416

Source: Slovstat (2014)

1 Research fellow, Institute of Economic Research, Slovak Academy of Sciences, Bratislava
2 Slovstat (2014)

When considering total population by age groups we can see a rather clear trend of ageing[3], demonstrated in the next Figure 1. Of note is the development of the productive population age group (15-64 years old), where we see divergence in the trend after 2009. This development does not correspond with trends in the Europe as a whole (EU-28), where the productive population actually increased during the selected period, despite lower numbers of Europeans under the age of 15. A possible explanation is immigration policy in the EU.

Figure 1. Total population by age groups (2000-2013)



Source: Eurostat (2014)

This development complicates the social and pension systems, hence highlighting the need for comprehensive reform in this regard, which we discuss in below. Therefore it is important and encouraging that the trend of rather steep decline among those aged 15 years and lower had slowed in recent years, probably indicating reversal of this trend. If this is note the case then the only alternative to achieve higher numbers in the productive population would be immigration. We consider this question below.

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3 As can be seen on the green line, with a rising number of people 65 years and older.

One interesting feature is the reversal of trend between males and females in the productive population age group (age 15-64), with two other age groups (lower than 15 and 65+) still holding their development trend after the year 2009. While until the year 2009 SR had more females in working age population, after the threshold of 2009, which marks the start of the decline in numbers of overall productive age population, SR has at its disposal more males in the productive age group. Declining numbers in the productive population and rising numbers of people older than 65 years are connected to trends in ageing, fertility and immigration.

Encouraging, but very challenging from the state social services point of view, is rising life expectancy at birth, which has increased during the last decade more for males (+3.13 years) than for females (+1.99 years), as can be seen in Table 2. This development is reflected in a lower difference between life expectancy at birth for males and females, which has been decreasing since 2008, when it was around 7.88 years. It is now 6.71 years (in 2013).

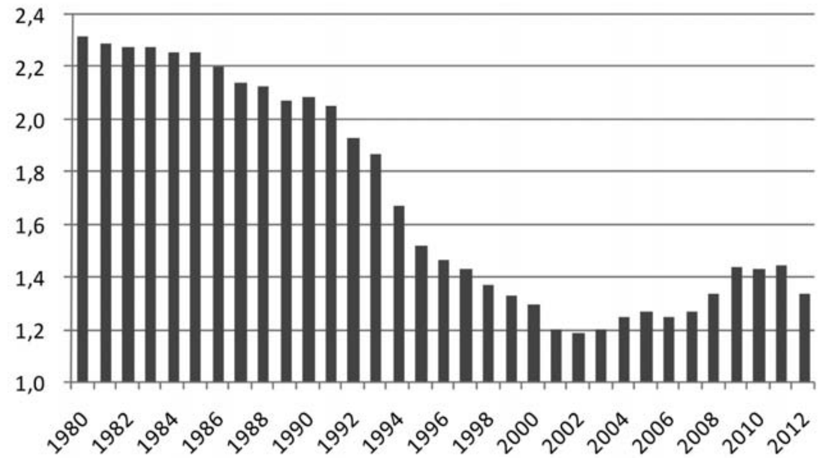
Table 2. Life expectancy at birth (years)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Females	77.62	77.83	77.9	78.2	78.08	78.73	78.74	78.84	79.35	79.45	79.61
Males	69.77	70.29	70.11	70.4	70.51	70.85	71.27	71.62	72.17	72.47	72.9

Source: Slovstat (2014)

Total fertility rate in Slovak Republic is amongst the lowest in the whole European Union, where only Poland, Portugal and Spain having worse indicators in this regard. According to Bleha and Vaňo (2007) we can expect a gradual increase in the level of total fertility rate by the forecast horizon of the year 2025. The most important assumption is that the fall in fertility finally will abate (Figure 2), influenced by an improved climate and perhaps better general mood in the population, with economic determinants leading to decreasing fertility rates in transition economies slowly disappearing.

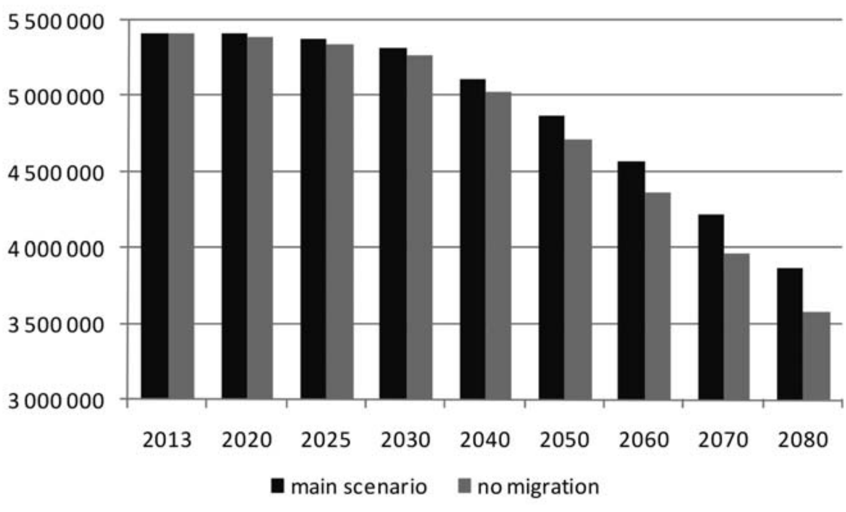
Figure 2. Total fertility rate, Slovak Republic (1980-2012)



Source: Eurostat (2014)

A correspondingly positive trend (like that of total fertility rate) can be observed when comparing data for total live births with total deaths during a particular year. After 2008 the Slovak Republic experienced a positive divergence of live births from deaths.

Figure 3. Population projections (2020-2080)

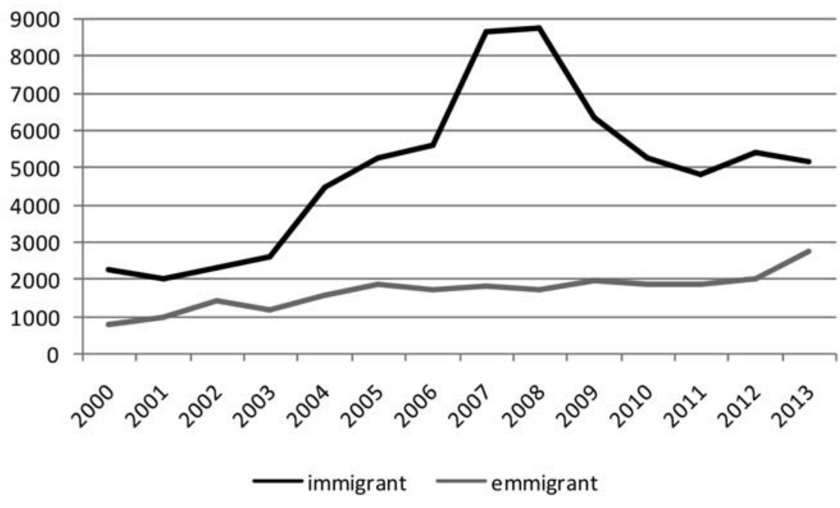


Source: Eurostat

However, a total fertility rate could anytime in the future reaching the value of 2.1 is not to be expected in the near future, and Slovakia probably cannot count on achieving the replacement level in natural terms. This assumption can only be turned through significant immigration into the population, with higher fertility rates. The same prognosis (Bleha and Vaňo, 2007) expects a gradual increase of migration from current low levels as determined by crises and overall aggravated expectations. This scenario is in line with similar projections published by Eurostat, which also confirm that gradual decrease of population would be worse without the inflow of migrants to the Slovak Republic.

The potential of SR with regard to immigrant levels reached its top level in 2008.When the negative repercussions of the economic crisis disappear it is possible that levels of immigration similar to those observed in 2008 will be attained in the mid-term. Emigration as well as immigration levels have decreased in recent years, with a particularly strong drop visible in the numbers of immigrants after the onset of the crisis.

Figure 4. Movement of population (2000-2013)



Source: Údaje roku 2011 zohľadňujú výsledky SODB 2011

The growing difference between total immigrants and immigrants from the EU27 diminished in 2011 and 2012, signalling a lower inflow of people from outside the EU27 to the Slovak Republic in recent years. SR is one of those countries receiving relatively small numbers of immigrants, with only Iceland, Liechtenstein and Estonia having lower numbers for the year 2012. The Slovak Republic has a relatively small numbers of immigrants when compared with other countries of similar size or economic performance. This in combination with low fertility rate could create problems in the future, as mentioned earlier. According to statistics for the years 2008-2012, we have an increasing proportion of third country nationals who were refused entry at the external borders. These trends, combined with low fertility rates and decreasing numbers in the productive population, could create problems with regard to the sustainability of the social system, particularly the pension system.

Challenges and measures related to an ageing population

The European Commission published the Green Paper *"Faced with demographic change, a new solidarity between the generations"*[4] with recommendations essential not only for the EU, but for policy in SR in particular. This Green Paper concluded that Europe should pursue three broad priorities:

1) modernisation of social protection systems, increasing female employment and the employment of older workers, introducing innovative measures to support the birth rate and appropriate management of immigration;
2) ensuring balance between generations in the sharing of time throughout life and in the distribution of the benefits of economic growth;
3) finding new bridges between the stages of life as young people find it difficult to gain employment.

An ageing population brought about by lower natality and longer life expectancy will lead to lower numbers in the working age population, hence we will have more pensioners than people in the pro-

[4] European Commission (2005)

ductive age bracket. That means we have to deal with the productivity of workers to sustain appropriate levels of pensions paid out. Hence, to sustain economic growth[5], we must profit from technology and other economic innovations. We have to build a framework for sustainable growth based on knowledge, technological innovations and more effective institutions, but still we will probably not be able to avoid the introduction of higher taxes because of our obligations to pensions, long-term health and social care systems. These measures and reforms will need broad support and consensus and we can reasonably expect that pensions, health care and social issues will be issues of higher importance for the electorate in the future.

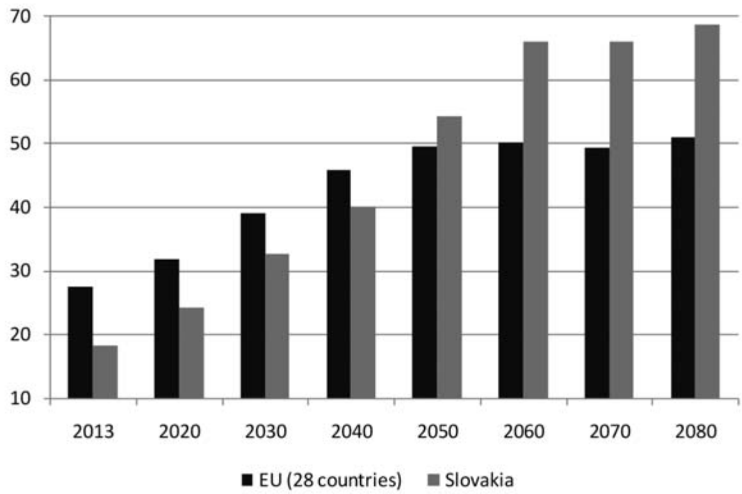
According to Eurostat projections[6], the number of inhabitants in the Baltic states, Slovakia, the Czech Republic, Hungary and Poland might fall by more than 10% overall between 2005 and 2050. The largest population declines are witnessed in regions where both components of population change (natural population increase/decrease and net migration) are moving in a negative direction. The Slovak Republic, together with Poland and the Czech Republic, belong to this group of European countries. Therefore we can conclude that a reversal of this trend can be reached only by strong pro-family policy and/or pro-migration policy, which could compensate for natural decrease of the population.

The need for further reforms is illustrated in the development of the old-age dependency ratio, or the population aged 65 years and older, in relation to the population aged between 15 and 64 years. In recent times the Slovak Republic had the lowest old-age dependency ratio in the EU, while during the projected period 2013-2080 we will witness a dramatic shift in this regard. According to projections SR will reach highest rate of old dependency ratio in the EU. Hence, the urgency to be prepared in this regard is very important. The old-age dependency ratio in the Slovak Republic is projected to increase well above the EU28 average. Actually, it is projected that the Slovak Republic will experience the biggest increase in the whole EU28 over the period 2013 to 2080, representing a 50.36% increase in compar-

[5] Which will be probably slower than used to be before.
[6] Eurostat (2008)

ison to the EU28 average increase of 23.52%. This highlights the need for comprehensive reform of social, pension and health care systems, because the Slovak Republic will became the fastest ageing country in the EU.

Figure 5. Old-age dependency ratio (2013-2080)



Source: Eurostat (2014)

Pension system adequacy

The Slovak pension system consists of three tiers: a mandatory defined-benefit pay-as-you-go scheme (pension insurance), a mandatory defined-contribution funded scheme (old-age pension savings), and a voluntary supplementary defined-contribution funded scheme (supplementary pension saving). The first tier is administered by the public Social Insurance Agency, the second and third tiers by six private pension management companies and four supplementary pension companies, respectively. Mandatory tiers are financed from contributions paid by economically active persons, each at a rate of 9% from gross earnings and/or 18% of gross earnings if a person is enrolled only in the defined benefit pay-as-you-go scheme. The minimum insurance/saving period for pension entitlements in the first tier is set at 15 years and is set at 10 years in the second tier. The statutory retirement age is 62 years. For men, the retirement age has gradually increased from 60 to 62 years in the period 2004-2008. Women will gradually reach the same level in 2024, depending on the number of children raised. The pensions in the earnings-related defined benefit scheme aim to provide an average 50% replacement rate after a 40-year working career. The level of pensions benefits in the funded scheme depends on the participant's amount of contributions paid, on the choice among available funds offering different level of risks and revenue, and the performance of chosen funds. Beginning in 2015 benefits will be paid out either in the form of life annuity or programmed withdrawal combined with life annuity.

Slovakia belongs to the group of EU countries with below-average risk of poverty or social exclusion in old age. This is mainly due to low relative monetary poverty amongst the 65+ population, which is along with Hungary and Czech Republic the lowest in the EU. Slovak senior citizens face a comparatively lower risk of poverty or social exclusion than the pre-retirement population. This applies mainly to elderly men, as women encounter a poverty risk 2-3 times more often than men in the 65+ population.[7] Obvious reasons are shorter working lives, lower labour force participation rates and lower earnings of women.

Interestingly, in contrast to the working-age population, the income situation of pensioners has relatively improved during the crisis, suggesting that current provisions (and the pay-as-you-go system) for the old-age population have not suffered from negative effects of the crisis to the extent that those earning from regular work (and possibly benefits from private pensions systems) have. Between 2008 and 2013 the average pension in the Slovak Republic increased by 25%, while the average wage increased by 14% and only slightly outpaced the rise in prices.[8] According to the European Commission the percentage of an average worker's net pre-retirement income to be paid out by a pension program upon retirement will decrease by 9.2 percentage points from 74.6% in 2010 to 65.4% in 2050. The evolution

[7] see: Eurostat (2014)
[8] see: Slovstat (2014); Sociálna poisťovňa (2014)

of replacement rates[9] will be influenced by a number of variables, including demographic factors, economic development, labour market performance, financial market movements and pension system reforms (adjusting to various parameters like retirement age, pension formula and actuarial corrections, or indexation of awarded pensions). Future pension adequacy could be uncertain for example because of external factors such as capital markets, wage inflation, or political interventions (European Commission 2012).

From pension and health care systems requirements point of view it is important to analyse life expectancy after retirement. According to OECD projections (OECD 2011), life expectancy of men after pension age in the Slovak Republic was among the lowest among OECD countries, with only 14.9 years of expected life after retirement in 2010. Only Poland had a shorter retirement duration, with an expected life duration of 14.4 years after retirement. Average retirement duration for OECD countries in 2010 was 18.5 years. The Slovak Republic will sustain this trend in the future, with expected retirement duration for men in 2050 being 18.6 years, with only Poland, UK, USA, Hungary, Denmark and Czech Republic having shorter life expectancy after retirement (OECD average in 2050 being 20.3 years).

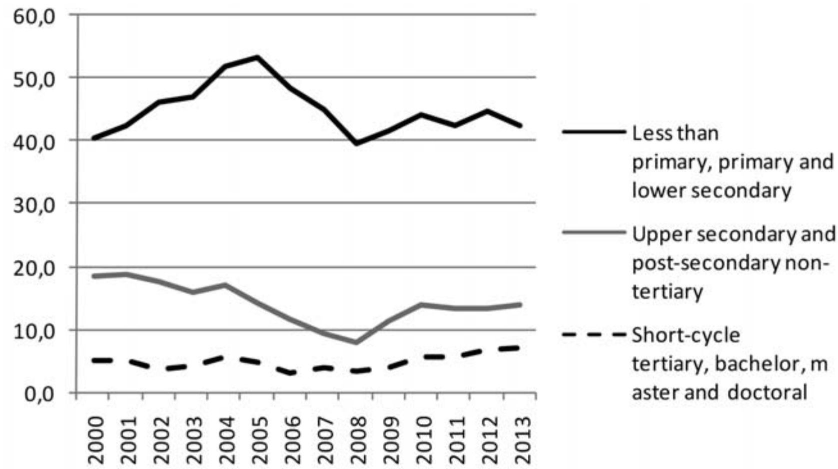
The position of women in the Slovak Republic is much better in comparison to men, when OECD was projecting life expectancy after retirement for women in 2010 at 24.9 years, the highest number among the V4 countries and also higher than the OECD average, which predicts a life duration of 23.3 years after retirement. The OECD expects a decline in life expectancy after retirement for women in 2050 of one percentage point in comparison to the year 2010 (a drop from 24.9 to 23.9 years), lower than in Poland or the OECD average (24.6 years). These trends are signalling a rather short life for Slovak pensioners after retirement in comparison to other European countries, highlighting the urgent need for proper development and funding for health-care and social care for elderly systems.

9 Or effectiveness of the pension system.

High unemployment and social inclusion

Another challenge – already mentioned several times – is the problem of a relatively high level of unemployed people. This phenomenon has several dimensions, from regional aspects or attained education levels to social exclusion.

Figure 6. Unemployment rates by highest level of education attained (age group 15-64 years, %)

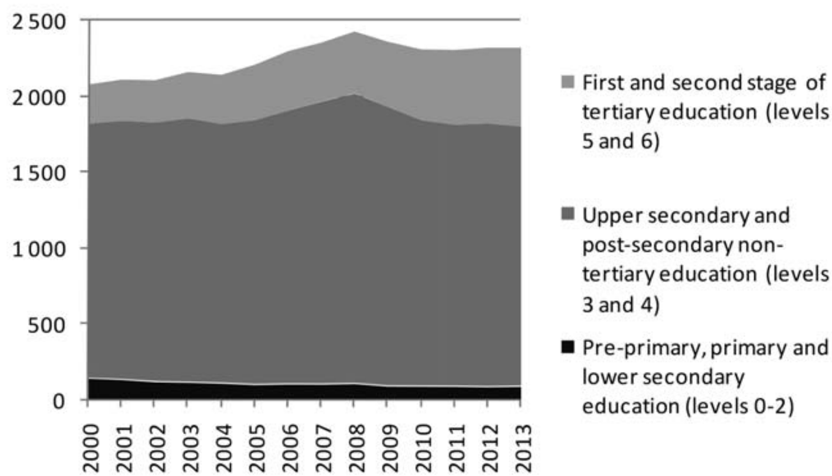


Source: Eurostat (2014)

Unemployment in the productive age group is strongly influenced by the level of attained education. During the selected period there is a slightly improved performance in the employment figures of people with upper secondary and post-secondary non-tertiary education, where SR has now recorded a smaller percentage of unemployed people than at the beginning of new millennium. Especially encouraging was the trend after accession to the European Union, where SR has since recorded a steep decline in unemployment levels, also visible in the category of people with less than primary, primary and lower secondary education. On the other hand, worrisome is the rising unemployment rate of people with tertiary and higher education. This trend was also witnessed in Poland and Hungary. Overall, the Slovak Republic has the worst record of unemployment structure in all categories of attained education among the V4 countries, with an especially high percentage of unemployed people among those with less than primary, primary and lower secondary education attained.

In developments within the inactive population we can identify similar patterns in all V4 countries, especially when considering the lower numbers in the subgroup of inactive people with pre-primary, primary and lower secondary education. The other two groups with attained upper secondary and tertiary education indicate growing numbers of inactive persons, with the highest percentage increase during the period 2000-2013 documented for the Slovak Republic, when compared with the other V4 member countries. Especially worrisome is a more than 300% increase of inactive persons with the highest levels of attained education, indicating important limitations of the educational system in terms of employability of graduates. This negative trend is reflected in slightly higher overall numbers of inactive persons (+3.75%) in contrast to other V4 member countries, where we have witnessed a decreasing overall trend.

Figure 7. Employment by highest level of education attained (1,000, age group 15-64)



Source: Eurostat (2014)

Contrary to the inactive population, when comparing V4 countries the overall numbers of employed persons, we can conclude that during the last 13 years the Slovak Republic has experienced the highest increase of employed people within the productive population.[10] Numbers for employed people with pre-primary, primary and lower secondary education have declined during the selected time horizon in all V4 member countries. The pattern is visible also in the subgroup with attained upper secondary and post-secondary non-tertiary education, except in SR, where we have witnessed a 2.11% increase in numbers. Encouraging are rather significant increases of employed people with first and second stage tertiary education in all V4 member countries. When analysing developments in the long-term unemployment rates from the regional perspective, we can see rather clear differences between Bratislavský kraj and the rest of Slovakia.

Table 3. Long-term unemployment rate (in %)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Slovakia	11.7	10.2	8.3	6.6	6.5	9.2	9.3	9.4	10.0
Bratislava region	2.1	2.5	2.3	1.5	1.0	2.5	2.4	2.5	2.7
Western Slovakia	8.7	7.2	5.5	4.2	5.2	8.2	7.6	7.5	7.9
Central Slovakia	13.7	12.1	11.5	9.6	8.8	10.6	10.5	10.9	12.2
Eastern Slovakia	18.1	15.9	11.8	9.4	8.7	12.3	13.3	13.5	13.8

Source: Eurostat (2014)

The situation in this regard is particularly difficult in the *Východoslovenský kraj*[11] and *Stredoslovenský kraj*[12] regions of the Slovak Republic. This is also true when comparing them to regional patterns of other European countries[13], because of very high long-term unemployment rates and a high share of long-term unemployed people within overall unemployment.

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[10] People aged 15-64.
[11] Eastern Slovakia
[12] Central Slovakia
[13] In the EU-28 in 2013 the percentage of the long-term unemployed among the total unemployed was approximately 47% and the long-term unemployment rate stood at 5.1%.

This clearly indicates local patterns and causalities of unemployment rates influenced by different labour market conditions in particular regions. These are accompanied by inadequate transport infrastructure, outflow of talented people and low levels of FDI in the affected eastern and southern regions of the Slovak Republic. Other reasons for relatively low economic development include, for example, marginal locations, which could be improved with an appropriate strategy for border regions and targeted cross-border cooperation for the development of business activities, development of cultural and historical potential, development of transport and energy infrastructure. When considering social cohesion trends according to income gaps, we can identify growing inequality both from education level attained and regional location perspectives.

From available data we can observe growing regional differences according to education level attained, which supports the notion about education effect on income inequality. When considering the balance between primary income and disposable income on a regional distribution, we can observe growing regional differences during the selected time period. Primary income (ESA95, 8.22) is income received by virtue of direct participation in the production process, and income receivable by the owner of an asset in return for putting the asset at the disposal of another institutional unit (the latter being called property income). Rising differences among the households are thus further pronounced on the regional level. Growth of primary income had slowed in the light of the crisis, leaving *Bratislavský kraj*, which has considerably fewer inhabitants than the three other regions, behind other parts of the Slovak Republic. Differences between particular regions are now (based on 2011 data) larger than at the beginning of 21st century. The same development is visible in disposable income distribution, which better reflects the material well-being of individuals and the gap between *Bratislavský kraj* and the rest of Slovak Republic.

Eastern Slovakia *(Východné Slovensko)* had witnessed the slowest improvement since the beginning of new millennium. Other regions and SR as a whole have experienced better improvements during the selected period. Growing regional inequality corresponds with a higher percentage of population belonging to the at-risk-of-poverty category in concerned regions of Slovak Republic. Responsible authorities should be concerned about the fact that the economic crisis negated almost all improvements that occurred before the crisis, the only exception being *Bratislavský kraj*, hence confirming its outstanding economic performance in comparison to the rest of the regions of the Slovak Republic.

With the exception of *Stredné Slovensko*[14], all other regions and Slovakia as a whole have reached a lower percentage of population at risk of poverty than at the beginning of selected period. Nevertheless, after the onset of the crisis in 2008 they have experienced a reversal of positive trends, with the only exception again being *Bratislavský kraj*. What is also worrisome is the fact that differences between particular regions in the Slovak Republic are greater than at the beginning of the selected period in 2005, indicating that regions in SR have to tackle more diverse negative externalities than before the crisis, hence underlining other already-mentioned regional differences in this regard and the urgency for comprehensive policy responses. We can see that the positive trend in this indicator was reversed, hence creating conditions for the possible worsening of the situation for the social inclusion and its regional patterns.

Unemployment is probably the most significant challenge that authorities in SR have to face. Even though this problem has persisted for a rather long time, SR was unable to improve this indicator and has still one of the highest long-term unemployment rates among EU member countries. The European Commission is recommending the reform of active labour market policies. This recommendation was recognised by the government, which is ready to take further steps in this regard. Besides education system reform, there are additional labour market targeted measures necessary for the most disadvantaged jobseekers from marginalised groups of the population, young unemployed people and also the elderly.

[14] Central Slovakia

Health care

Overall there was growing number of working posts in the SR health care system during the years 2005-2011.At the beginning of selected period in 2005 there were a total 16,783,21 full time equivalent (FTE) working posts; in the year 2011 there were a total of 19,366,62 FTE working posts in the Slovak Republic health care system. The registered numbers of working posts were recalculated based on full-time contracts of the categories of health worker, physician and dentist. Even though we have witnessed an overall increase during the selected period 2005-2011, after the year 2009 there is evidence of a decrease in total numbers.

A visible decrease of FTE working posts was observed in the category of general out-patient care units and special out-patient care units, but also in natural curative spas and in institutes for treatment, even though these two last categories are only marginal in terms of the total number of working posts in health care system facilities. This trend corresponds to a long-term decreasing trend in the category of beds available in all mentioned units of health care, which is the outcome of persisting overcapacity and the an effort to attain higher efficiency. Between the years 2008 and 2011 we witnessed a clear trend of decreasing total numbers of in-patients, from 982,593 in 2008 to 954,024 in 2011. The quest for efficiency is visible in the fact of fewer working posts per patient, as can be seen in the Table 4.

Table 4. Working posts and beds per patient (2005-2011)

	2005	2006	2007	2008	2009	2010	2011
Working post per patient	57.2	55.9	45.8	53.5	49.3	49.0	49.3
Beds per patient	19.7	20.2	19.2	21.0	20.8	21.2	21.6

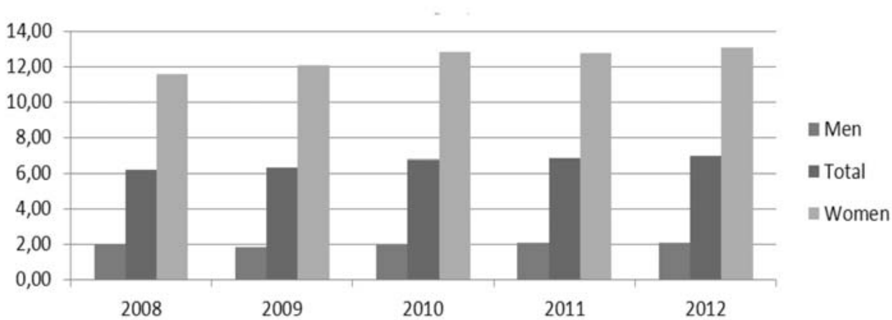
Source: Eurostat (2014)

According to available data we can conclude that corresponding to the trend of decreasing numbers of beds there is a visible increase of patients per bed (from 19.74 to 21.64 in the selected period), as a possible consequence of dismantling hospital over-capacities in this regard. This trend is leading to fewer working posts and beds per patient. If this trend is to be maintained of stabilised while maintaining the current standard of health care service quality, authorities have to increase efficiency through organisation and standardisation of procedures performed.

The transformation of the health care system in SR during the years 2002-2006 highlighted workforce shortages, especially among specialists such as pathologists, paramedics, general practitioners, dentists, nurses, midwives, anaesthetists and psychiatrists. These shortages are the results of several factors, especially the poor demographic structure of the workforce, low numbers of educated professionals and also workforce turnover in the system. These are issues for all the EU. Statistical data which could help weigh these shortages is not available.

The health care sector is an important segment of the economy from the employment point of view. The share of health and social work employment in total employment in the Slovak Republic was about 6.9 %in 2012, which means that about 161,300 people were employed in this sector. Women are more dominant in this sector than men: the share of women working in this sector among total female employment was at a level of around 12% during the period 2008-2012.

Figure 8. Share of health and social work employment in total employment in Slovakia (%)



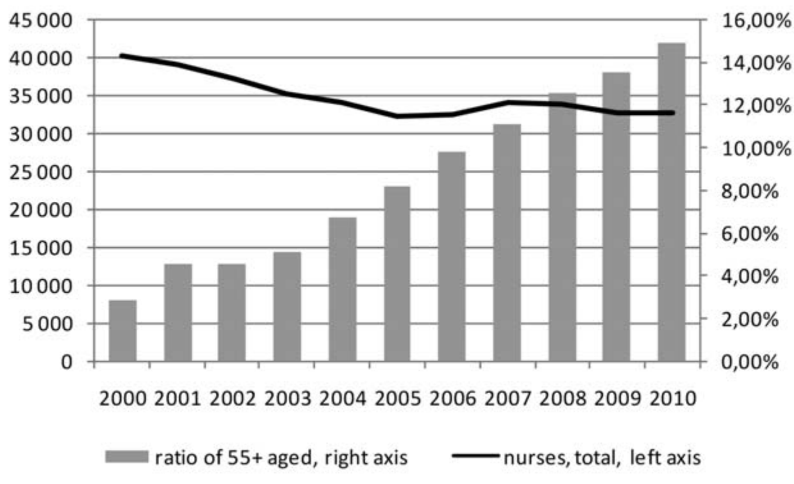
Source: Slovstat (2014)

The total numbers of employees in health care went down in 2011 and is reflected in selected occupations development, as shown in Figure 9 below. Overall the trend exposes growing numbers, the only exceptions being dentists, technicians, other health occupations, and also nurses. In 2011 Slovakia had on average 3.3 practicing physicians and 5.9 nurses per 1000 inhabitants. In comparison with EU27 and OECD countries the average numbers of nurses in SR is insufficient, in contrast with the average numbers of physicians, which is approximately the same as in other developed countries.

There is a middle generation of doctors who leave for better salaries and working conditions abroad, especially to Czech Republic, where Slovaks have almost no language or cultural barriers. According to the president of the Slovak Medical Chamber, the shortage of doctors is manifested mainly in surgery or radiology units and in smaller towns. Besides lower numbers in some occupations there is another challenge for future employment, namely age structure and the fact that health-care workforce is getting older.

An ageing population is manifesting itself especially among dentists, with the proportion of dentists of the age 55 years and over standing at 46.61% in 2009, compared with only 28.81% in the year 2003.

Figure 9. Stagnant total numbers and rising ratio of nurses aged 55 years and older



Source: Own calculation, National Health Information Centre (2014)

Especially worrying are developments among nurses, with declining total numbers and a growing percentage of those 55 years and older in the total health care workforce. According to the President of the Slovak Chamber of Nurses and Midwives, the situation is complicated. Every year 1200 to 1600 nurses retire, but schools graduate only 500, with at least 200 new nurses leaving the country to work abroad. The average age of nurses is therefore increasing.[15]

The ageing population of physicists and nurses is also connected with changes in the education system, where we are witnessing a trend of increasing age of graduates. This phenomenon has several consequences. One of them is a missing middle age generation caused by migration, when many physicists and nurses have chosen better wage conditions and work abroad, especially in the Czech Republic, but also in German-speaking countries, Great Britain and Ireland. It is estimated, than in the period 2004-2009 about 2800 Slovak doctors, or approximately 15% of the total, went abroad. Migration from abroad to Slovakia is minimal, and at present is limited to individual arrivals mainly from Ukraine and foreign graduates of Slovak universities. The number of doctors with foreign origin in the Slovak Republic does not exceed 0.4% of the total. Data on reverse migration, i.e., doctors returning from abroad, is completely absent, although estimates range up to 15% of those who departed from the Slovak Republic.[16]

The driving force behind the mobility of health care professionals is certainly higher salaries in Western Europe, but health care professionals earn more even in the neighbouring Czech Republic. Slovak Republic cannot currently compete in this field and from the provision of health care point of view it is important to draw attention to the urgent need to increase the wages of health care workers in SR, subject to an increase in payments for the services of health care facilities by health care companies. When considering the major causes of death in SR it is obvious that the most frequent causes are the diseases of

[15] Zachar (2012)
[16] Zachar (2012)

circulatory system followed by malignant neoplasms. These two diagnoses are responsible for almost 80% of all deaths in SR.

Other causes include non-malignant neoplasms; certain infectious and parasitic diseases; endocrine, nutritional and metabolic diseases; mental and behavioural disorders; diseases of the nervous system and sense organs; diseases of musculoskeletal and connective tissue; diseases of the genitourinary system; symptoms, signs and abnormal clinical and laboratory findings; certain conditions originating in the pre-natal period; and congenital malformations, deformations and chromosomal abnormalities. The number of deaths per cause increased in all categories between 2001 and 2010 except for diseases of the circulatory system and external causes of death, both of them having a lower incidence in 2010 than in 2001.

Education

According to OECD data from 2012 PISA tests,[17] Slovak Republic students belong to one of the best participating countries and economies, even though SR has one of the lowest quality of school educational resources (ranked 55 among 64 participants). The only exception is found in financial literacy, where Slovak students achieved one of the lowest scores among participating countries. Students performance and the ranking of the Slovak Republic can be seen in the Table 5.[18]

Table 5. Student performance (PISA test 2012)

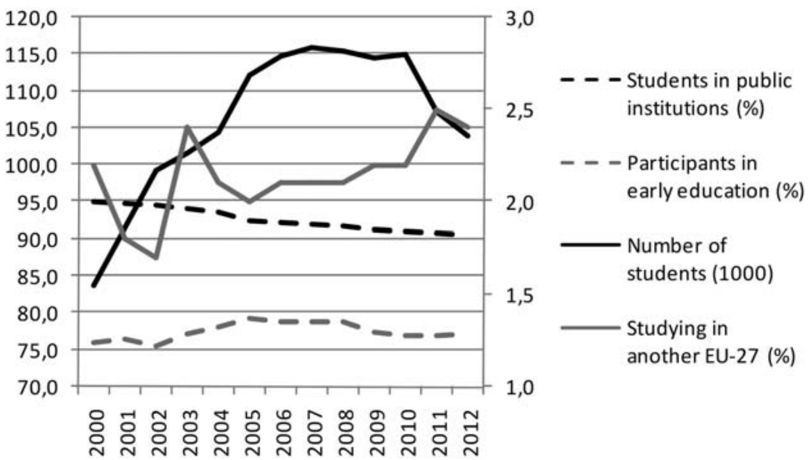
	PISA score	Rank
Mathematics	261	6/64
Reading	270	9/64
Science	260	8/64
Problem solving	251	10/42
Financial literacy	470	15/16

Source: OECD (2012)

[17] OECD (2012)
[18] OECD (2012)

The Slovak Republic has had a rather steady rise in participants in early education (aged between 4 years and the starting age of compulsory education) as a percentage of inhabitants in the corresponding age group, oscillating between 75.4% and 79.3% in the selected time period (2000 to 2012). At the same time we have witnessed a clear decreasing trend in attendance in public schools, with the percentage of students in public institutions (ISCED 1 to 4) – as the percentage of all students in public and private institutions – decreasing from 94.9% in the year 2000 to 90.5% in 2012, the lowest number during the selected period.

Figure 10. Trends in education (%)



Note: Number of students indicates category of tertiary education.
Source: Eurostat (2014)

When analysing the important category of tertiary education, the growing trend of numbers of students (ISCED 5-6) peaked during the years 2006-2010. In the following two years Slovakia experienced a sharp decline in the numbers of students. On the other hand, since the year 2005 the Slovak Republic has been experiencing a slow but steady increase in the percentage of students (ISCED 5-6) studying in another EU-27 country, with the biggest outflow of students going to the Czech Republic. Decreasing long-term trends in the ratio of students to teachers, as well as declining average class size could indicate trends towards better conditions for education. Nevertheless, the biggest challenge for the education system is the inadequate educational outcome of the children from marginalised communities and the high youth unemployment rate, indicating limitations in the labour market adequacy of the education system and shortcomings with regard to individually tailored learning processes. Therefore it is necessary to improve the quality and labour-market relevance of education.

Income distribution

According to World Bank or Eurostat data, Slovak Republic has the lowest dispersion of national income among the V4 countries and a lower coefficient than the EU-28 average. A well-known indicator of income distribution is the GINI coefficient, illustrated in Table 6, where we can see a slightly decreasing trend in its value – an indication of a more equal distribution of income – and also the importance of social transfers when dealing with unequal distributed income and the possible negative repercussions of social exclusion.

Table 6. Income distribution, 2005-2013 (GINI coefficient)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
GINI before social transfers	45.2	44.7	42.2	41.1	41.3	43.3	42.9	42.1	41.3
GINI	26.2	28.1	24.5	23.7	24.8	25.9	25.7	25.3	24.2

Note: pensions included in social transfers
Source: Eurostat (2014)

When analysing income distribution in society by means of tenths we can conclude, that the share of national equivalised income of the first five deciles is only slightly above 30%, indicating unequal distribution in favour of tenth decile, which holds approximately 20% of all income over the whole period. Over nine years we have not seen any significant changes in the distribution of income, with only a slight increase in the income of lowest deciles at the expense of the highest deciles directly after the year 2006. In comparison with other V4 countries, only the Czech Republic has a lower percentage of population at the risk of poverty or social exclusion. The Slovak Republic achieved a rather significant reduction of poverty risk during the selected period. Currently Slovakia has fewer people threatened with social exclusion when compared with the EU-28 average. Slightly higher numbers – that correspond to EU-28 developments – are found for the indicator of poverty and social exclusion for people aged 6 years and less. Therefore it would be wise to pay greater attention to this vulnerable group, especially when trying to break the cycle of poverty.

Table 7. Risk of poverty or social exclusion (% of total population)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total	32.0	26.7	21.3	20.6	19.6	20.6	20.6	20.5	19.8
Less than 6 years old	32.5	30.5	26.2	24.4	24.6	25.2	25.5	25.1	21.3

Source: Eurostat (2014)

Particularly difficult is the situation of the marginalised Roma population. The Roma represent a large minority of the Slovak population. According to various estimates about 430,000 Roma live in Slovak Republic (8% of Slovak population) and about two-thirds of them are in the productive age group. One problem is that a large number of Roma rely on welfare benefits. Further, Roma have very low rate of employment – only one in ten Roma in the productive age group works – resulting in poverty, which is passed from generation to generation.[19] Low education of parents negatively affects the education of their children. A substantial number of Roma children are labelled mentally retarded and sent to schools for special-needs students, which robs them of the chance to participate in the job market in adulthood. The Roma population – including children – is rising gradually, so the cost of welfare benefits received by the Roma is ris-

[19] Marcinčin and Marcinčinová (2010)

ing too, which is further exacerbated by the failure to use their job market potential. Society is aware of the problems of the majority of the Roma and encourages the introduction of new strategies and programs, allocating substantial funds for their implementation. However, the results of these programs and strategies fail to meet expectations, and exclusion of Roma communities from society creates enormous losses for Slovakia (lost opportunities), including higher welfare costs, education, healthcare and policing. An important loss is non-produced (and unconsumed) national product. All these losses have a strong regional character, lowering the economic potential of municipalities and counties and lowering the value of property of their inhabitants. According to Marcinčin and Marcinčinová (2010), about two-thirds of Roma resigned from seeking employment between 2006 and 2010, resulting in a very low Roma employment rate of about 10% compared to 60% for the non-Roma population. In turn the Roma suffer from a very high unemployment rate of about 46% compared to 10% for non-Roma.[20] We can observe substantially higher unemployment rates in counties with higher concentrations of the Roma population.

The economic cost of non-inclusion of the Roma population is staggering. According to estimates, inclusion of Roma in Slovak society would increase annual GDP from 7 to 11%.[21] This justifies substantial public investment in education system reform and Roma-oriented social projects. The main recommendations of this study are:

- prepare collection of ethnic-based data and a system of monitoring and evaluation of Roma-oriented programs;
- eliminate language barriers in education;
- cancel special needs schools and place Roma children in regular elementary schools;

[20] There is also a very high long-term unemployment rate, when up to 60% of the unemployed have been without a job for longer than a year and 44% have been unemployed for over two years.

[21] The main reason this number is so high is not the potential savings on social benefits, but the potential increase of the employed workforce in the Slovak Republic and a related boost in GDP.

- adjust labour market policies to the cultural and social specifics of Roma minority;
- evaluate experience with current Roma-oriented programs and projects.

Public finances

The Slovak Republic has made progress in the consolidation of its public finances as was confirmed by the European Commission.[22] Deficit correction measures brought its level under the threshold of 3% of GDP. With regard to the long-term sustainability of public finances, it is important to make progress in health care reform especially. This area lags behind the pension reform which is already in progress. The European Commission further acknowledges progress in limiting the scope for tax fraud and tax evasion (with particular focus on VAT) and the recommendation to broaden the tax base and make greater use of taxes that are less detrimental to growth, for example property taxation or environmental taxes.[23]

SR adopted pension reforms in 2012 to enhance long-term sustainability of public finances. However, the long-term sustainability gap remains well above the EU average. It largely reflects the impact of an ageing population with a growing deficit in regard to pension expenditure (1.5 pps of GDP) and health care spending (2.0 pps of GDP). With pension reform already underway, the main challenge will be to reform the health-care system in order to place public finances on a suitable footing. There should be measures taken for improving cost effectiveness in the health care system. Anticipated challenges in the medium and long term centre on proper planning in the health workforce, as current trends are leading to an insufficient number of nurses and too small a proportion of general practitioners. The cost effectiveness of health care could be improved by the standardisation of recommended clinical procedures.

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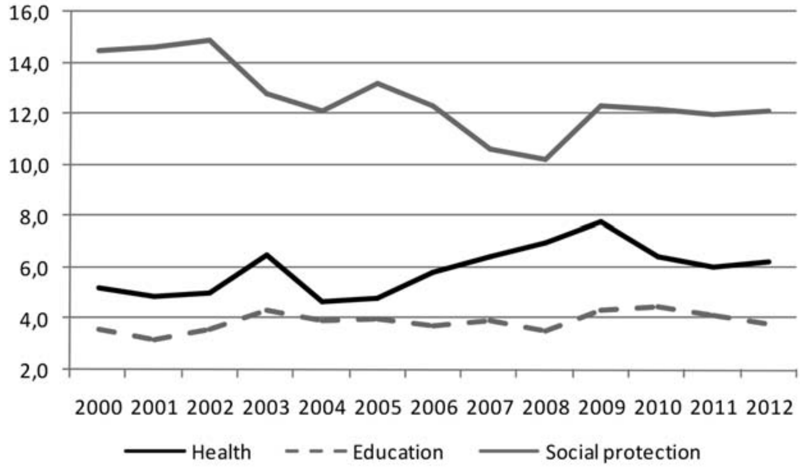
[22] European Commission (2012)
[23] European Commission (2012)

Figure 11. Selected indicators of general government expenditures (% of GDP)



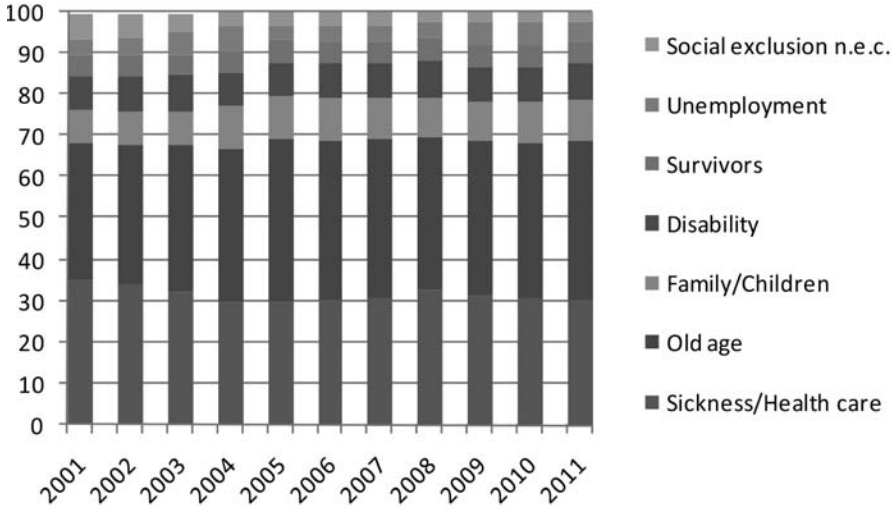
Source: Eurostat (2014)

A lower share of social protection expenditures as a portion of GDP indicates lower engagement of government in this regard, hence confirming the need for more efficient and targeted programs for social protection. The rising share of health care expenditures corresponds with the long-term trend of an ageing population and highlights the need for efficiency measures to be taken with regard to over-capacities and standardisation of procedures.

Social benefits consists of transfers, in cash or in kind, by social protection schemes to households and individuals, which are structured to relieve them of the burden of a defined set of risks and needs.

In the figure above the trend toward higher social benefits by function biased toward old age and unemployment is clearly depicted, highlighting the biggest challenges the Slovak Republic has to face in this regard. It is therefore important to foster reforms in the education system, active labour market policies, health care system and services for older people.

Figure 12. Structure of social benefits by function
(% of total selected benefits)



Source: Eurostat (2014)

Conclusions

A stagnating trend in the productive population group and ageing highlight the need for comprehensive reform in the social system, especially with regard to the pension and health care systems. Even though pension reform was undertaken, we can still feel pressures on public finances, which persist in the area of health care system as well, which is still waiting for comprehensive reform. The Slovak Republic will witness a dramatic shift and reach the highest dependency rate and ratio in the EU. Hence, the urgency to be prepared in this regard is very important. Interestingly, in contrast to the working-age population, the income situation of pensioners has relatively improved during the crisis, suggesting that current provisions (and the pay-as-you-go system) for the old age population have not suffered from negative effects of the crisis to the extent of earnings from work (and possibly benefits from private pensions systems).

The social situation of households is complicated with persistent high unemployment, strongly influenced by different labour market conditions in various regions of the Slovak Republic. These regional differences are manifested in the polarisation of income as well, and underline the need for strategies of regional development fit for particular patterns of the regions or social groups. Differences between the regions of the Slovak Republic are greater, hence indicating that regions in SR have to tackle more diverse negative externalities than before the crisis. They must strive to respond to a possible worsening of the situation of social inclusion.

Besides the ageing population (a global trend in advanced economies) probably the most significant challenge SR has to face is unemployment. Even though this problem has persisted for a rather long time, the Slovak Republic was unable to improve this indicator and stabilise the rate at least on the EU average level. The European Commission recommendation reform to active labour policies, and this was recognised by the government, which claimed it is ready to take further steps in this regard, particularly recognising the need for additional targeted measures for the most disadvantaged jobseekers from marginalised groups of the population, young unemployed persons and older people.

The transformation of health care system highlighted labour market inadequacies, manifesting themselves in workforce shortages as a result of several factors, especially the poor demographic structure of health care workforce, low numbers of educated professionals and workforce turnover in the system. Another challenge for the future, besides low numbers in some occupations, is age structure and the fact that the health-care workforce is getting older.

Looking at the situation in the education system, the biggest challenge is the inadequate outcome of the children from marginalised communities and the high youth unemployment rate, indicating limitations in the labour market adequacy of the education system and shortcomings with regard to individually tailored learning processes. It is therefore important to improve the quality and labour market relevance of education.

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The labour market and social situation in Hungary in the last decade

Annamária Artner[1]

Introduction

The success of a country can be measured in many ways. The most frequent indicators are level and growth of GDP and GDP per capita, domestic spending on research and development (GERD) as a percentage of GDP and also foreign direct capital inflow and stock. Further, the growth of export and its share to GDP, the state of the equilibrium (balance of the government budget and the current account) and the rate of inflation are also used frequently.

However, as good as these indicators may be, economic success means nothing if it doesn't go hand in hand with the improvement of the population's standard of living. For describing the latter the characteristics of the labour market and social conditions are the most adequate tools. Some other aspects (e.g., education and health) are helpful in gaining a deeper insight into the living standard of the population and the perspectives for its future. In the following I examine the state and changes in unemployment, consumption, real wages, income distribution, poverty, social protection expenditures of the government and the structure thereof in Hungary in the last decade, i.e., since 2004. Further attention will be given to education, demography, migration and public opinion about the EU. The examination of health indicators would be important too, but I will not deal with it

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in detail, as the state of health of the population and the efficiency of the system of health care are special problems for which a separate study should be devoted.

I am aware that even these indicators are not sufficient to describe the quality of life of a population perfectly and completely. I still think that they by and large reflect the social and political situation of a country from the viewpoint of the interests of the majority of people living on salaries, wages and unemployment benefits.

Labour market

Unemployment – ILO definition

Eurostat works with the internationally accepted concept of unemployment that was created by the International Labour Organization (ILO). According to the ILO definition the unemployed are those people who haven't had even a one-hour paid job in the week prior to the date of survey, actively sought work in the previous month and are available to start work within the next two weeks. They also used to be called the "active unemployed". First we examine the Hungarian labour market by using this indicator.

Unemployment in Hungary as defined above has grown considerably after accession to the EU. In 2013 there were 449,000 unemployed in Hungary, compared to 252,000 in 2004. The balk of this growth derived from the crisis beginning in 2008. Between 2004 and 2007 the number of unemployed people swelled by 60,000, while between 2007 and 2010 it grew by 163,000. Following 2010 the level remained high until 2012 when it began to decrease thanks to the efforts of the government through launching workfare programs.[2] The number of unemployed persons who have taken part in these programs has grown considerably in the last year and a half (I will return to this later).

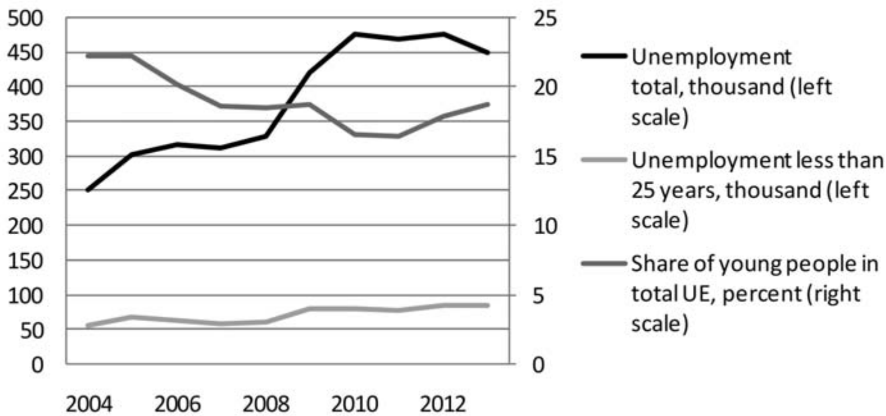
Even with these results the number of unemployed did not decrease much between 2010 and 2013. In 2013 the number of unemployed people in Hungary was 26,000 or 5.5% less than in 2010. Comparing this number with the 2004 data, unemployment has

[2] They are so-called "fostered workers".

grown by 197,000 persons and the unemployment rate rose from 6.1 to 10.2% by 2013. Within this time period the peak of the number of unemployed was 476,000 in 2012.

The situation of young people in the labour market has also deteriorated during the years of membership. The number of young unemployed under 25 years of age was 56,000 in 2004 and 84,000 in 2013. However, their share in total unemployment had been decreasing until 2011 more or less continuously. Then it began to rise and reach the pre-crisis level (Figure 1).

Figure 1. Unemployment and youth unemployment in Hungary (2004-2013)



Source: Eurostat

From the second half of 2013 the labour market situation has improved considerably inasmuch as the number and rate of both young and elder “active” unemployed decreased substantially.

In May 2014 the number of unemployed persons decreased to 355,000, which equals an unemployment rate of 7.9%. The number of unemployed youth (under 25 years of age) reached 65,000 (19.9%). The share of long-term unemployed (people who are unemployed for longer than 12 months) in total unemployment was 49.5% in the first quarter of 2014. This rate is higher than the corresponding EU average. Even with these beneficial developments in the last one and a half years the numbers of both young and elder "active" unemployed were higher in the first quarter of 2014 than before the crisis (2008).

Unemployment – Registered unemployed

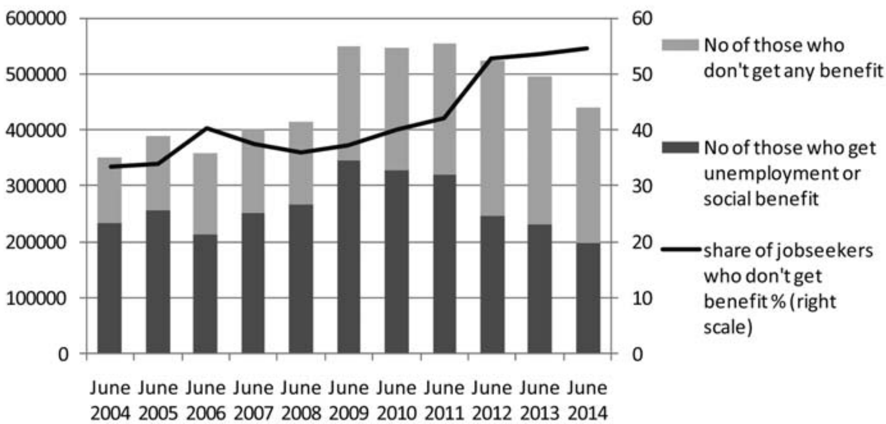
In the previous section I used Eurostat data that follows the unemployment definition of the International Labour Organization. There is, however, another indicator, prepared by the Hungarian National Employment Service (NES) that refers to the number of people who registered themselves as jobseekers. They are also unemployed but may have occasional work and as such they are not unemployed according to the ILO definition. This means that quite a number of this category of jobseeker is not recorded in the statistics prepared by Eurostat and the Hungarian Central Statistical Office (HCSO).

On the other hand, the number of registered unemployed people depends on some specific factors. Those jobseekers who think they can find a job quite rapidly are not likely to register because it requires time and poses other bureaucratic burdens. People with better qualifications, young people or those who are living in a region where more jobs are offered (e.g., in Budapest) are less likely to apply at the National Labour Office for registration as jobseekers. Besides, the advantages, which can be enjoyed by being registered unemployed, influence jobseekers' inclination for registration too. If the unemployment benefit is meaningful, it is worth making the effort, otherwise not. In Hungary the unemployment benefit was cut by the government in 2010, which had a discouraging effect on jobseekers' registration.

Bearing in mind the above-mentioned processes, we can assume that the number of registered jobseekers at the NES is smaller than the number of those who *are actually looking for* stable or at least relatively stable employment. Despite this, the number of jobseekers at the National Employment Service is *much higher* than that of the unemployed on the basis of the ILO definition. In May 2014 there were 355,000 unemployed persons according to the ILO definition while there were 514,000 jobseekers according to the data of the NES. As mentioned above, the labour market situation seemed to improve in the first half of 2014, thanks mainly to a decrease in the number of jobseekers at NES in June 2014. As a result, the official unemployment rate (ILO-definition) was 8% in the first six months of 2014 on average. This rate matches the pre-crisis level. The situation is not so promising, however, if we examine how the data on jobseekers for June of *every year* changed in the past decade.

In June 2014 there were 439,000 people in Hungary who looked for employment, according to the data of the NES. This number is 107.000 less than in June 2010 but with 23,000 more than in June 2008, i.e., before the outbreak of the crisis. Further, it is important to know that in June 2014, 291,000 jobseekers, i.e., 57% of all jobseekers *received no unemployment or social benefits.* Their number rose by 11.000 in two years (since June 2012) and by 68,000 in four years (since June 2010). *Relative to June 2004 the number of jobseekers grew by 2% in June 2014.* In the same period the number of unemployed persons receiving no benefits *has more than doubled* and the number of those who receive unemployment allowances or social aid *decreased by 15%* (Figure 2).

Figure 2. Number of jobseekers with or without unemployment or social benefit in Hungary in June of every year (2004-2014)



Source. Hungarian National Employment Service, Monthly detailed reports. http://www.afsz.hu/engine.aspx?page=full_afsz_havi_resz-letes_adatok_2014

Fostered workers

Since 2005 Hungary has been following the guidelines of the employment policy ("guidelines") of the EU and has created an institutional structure to suits it. The crisis activated those labour market institutions and measures, for example the unemployment benefit, which helped to mitigate the socially disadvantageous effects of the crisis on people. However, the decrease in the number of unemployed was not possible until the new government restructured unemployment policy by taking a turn toward the workfare program. Participation in this program is compulsory for the unemployed, and those who participate in it are called "fostered workers". Since 2012, according to the modified labour law, all jobs that the labour offices offer to the unemployed persons are to be accepted by them even if the job has much lower qualification than the unemployed person has. Those who do not accept the job lose the social benefit that amount to approximately 76 euro per month in 2014. Three years ago this benefit was higher, but in order to motivate unemployed people to work the conservative government decreased it by 20% from 2012 on.

The workfare program has involved more and more unemployed people since 2010, reaching 129.100 people on average in 2013 and 178,700 people on average in the first half of 2014.[3] This is an exceptionally high number since the program has been launched and this is the reason why the official unemployment was considerably lower in May and June 2014 (see Table 1).

In Hungary the minimum wage is approximately 330 euro per month, and the average gross monthly earnings of workfare workers is 75-80% of that. This means a net monthly income of approximately 170 euro, which is less than 60% of the *minimum subsistence for a single person* that is given by the *HCSO.*[4] The workfare program offers cheap labour to the government and to those private sector employers who take part in the program. The unemployed, especially in disadvantaged regions where regular and formal employment can hardly be found, are usually thankful for the possibility of secure employment in the program and they hope it will continue.

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[3] HCSO (2014a)

[4] HCSO online database Table 2.2.12. (Minimum subsistence since 1990, HUF/month) http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_zhc011.html

Table 1. Labour data of fostered workers in Hungary (2010 – May 2014)

	2010	2011	2012	2013	2014 Jan-May monthly average
Number of employees (thousands)	87.4	60.9	90.8	129.1	178.7
Of which: Number of full-time employees	67.9	20.3	72.4	111.5	176.0
Number of part-time employees	19.5	40.6	18.4	17.6	2.7
Average gross monthly earnings of full time employees (HUF)	75,427	78,369	73,151	76,846	78,051

Source: HCSO. KSH Gyorstájékoztatók, Keresetek
http://www.ksh.hu/keresetek_tn

The labour market policy of the government

The above-outlined developments reflect the socio-economic concept of the new government (since 2010) that is built on the principle of the so-called "work-based society". As such, so-called "passive" labour market policy (LMP) measures – unemployment benefits, early retirement – have been scaled back and the structure of so-called "active" measures – that aim at employability and job creation – has been changed.

Regarding labour market policy expenditures of the new government since 2010, the absolute level of expenditures has been reduced with the exception of direct job creation (i.e. workfare) and employment incentives (allowances given to employers). The government spent more than the half of the total LMP expenditures on the latter two types of actions in 2012. In 2013 the budget of the workfare program was further raised to more than 180 billion HUF (approximately 600 million euro).

On the other hand, the role of training and education of the unemployed within labour market policy has significantly weakened in the last couple of years. In 2008-2009 54-55 thousand unemployed took part in some kind of training and education programs each year. This number shrank to 36-47 thousand in 2011-2012.[5] Between 2004 and 2010 the previous governments spent an average of 50 million euros a year on labour market training. In the following years this amount fell radically, equalling only 3.4 million euros in 2012.[6]

Cutbacks of the passive measures in labour market policy have also been radical after 2010. The maximum amount of the unemployment benefit was cut from 120% of the minimum wage to 100%. The time span for receiving unemployment benefits has been reduced by two-thirds, from 270 to 90 days. The result, as I have already stated above, is that *fewer people get less unemployment benefit for a shorter period of time,* with the share and number of unemployed getting no unemployment or social benefit having increased (see Figure 2). On the other hand, the number of those who are involved in the workfare program and receiving very low wages has risen (see Table 1). As a result, it seems that in the slogan of the government's "work-based society" the word "work" is used instead of *"cheap wage-labour".* This is also reflected in the decreasing real wages in the public sector and increasing wage differentials within the labour market.

Social conditions

Consumption, real wages and income

First of all, it is worth casting a glance at Figure 3. This shows how the growth of real wages, real income and consumption has slowed down after 2003. They even turned into a decreasing trend following 2006 when the government was forced to apply an austerity policy because of a huge budget deficit. Here I should note that the year 2006 was an exceptional one, as in that year the government deficit grew extremely high, reaching 9.6% of the GDP. For this reason a quick and strong adjustment was necessary; it was carried out at the expense of the population. However, in the years following until 2010 government policies more or less paid attention to the interests of

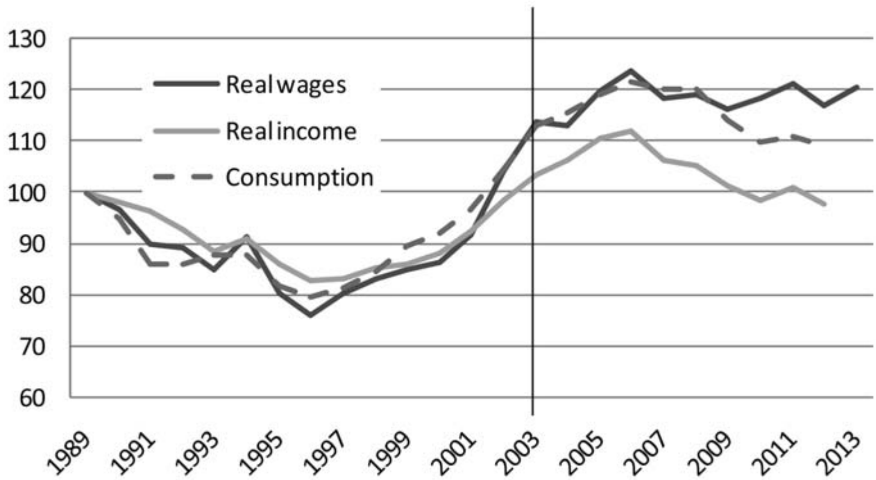
[5] Tajti (2009, 2012)

[6] Eurostat Online, Statistics by theme, Labour market, Labour market policy, Public expenditure on labour market policy (LMP) interventions.

the most helpless strata of society. Even this was not enough to satisfy the needs of the population. The shock of the crisis in 2008 and the following austerity policy resulted in a change in government at the 2010 elections. However, social conditions haven't improved since the inauguration of the new government.

In 2012 consumption and real income of the Hungarian population were below 2004 levels and real wages in 2013 were only by 6.6% higher than they were ten years earlier.

Figure 3. Real wages, real income and consumption in Hungary



Source: Own calculations on the basis of data from the Hungarian Central Statistical Office, http://www.ksh.hu/docs/hun/xstadat/xstadat_hosszu/h_zhc001.html KSH STADAT rendszer: 3.2. A háztartások jövedelme és fogyasztása (háztartási szektor makroszintű mutatói). (1960–)

Figure 3 shows an upward trend in all three indicators between 1996 and 2007. This, however, hides the differences between various strata of society. The increase of the general level of real wages, income and consumption doesn't mean that these indicators grew for all citizens. Differences have increased quickly in recent years.

This will be discussed in the following chapters.

Growing wage differences within the group of employees

The real value of net labour incomes increased in the first years after accession to the EU and since 2006 has been more or less the same. However, the differences within the group of employees have widened.

First, since 2006 the average private sector wage grew faster than that of the public sector. In the year of accession (2004) state employees earned 16.2% more than private sector employees. In 2009 the wages of these two sectors were essentially equal, and since then *public sector wages have been gradually lagging behind the wages of the private sector* and equalled 88.2% of the private sector average in 2013. What is more, by correcting this data with consumer price inflation we find that *the real wages of the public sector have been decreasing* since 2006 and in 2013 were under their 2004 level by 11%. In the same period of time, i.e., between 2004 and 2013, the real wages of the private sector grew by 17.6 %.

Second, the flat income tax rate that was introduced in 2011 by the new government *favoured the highest wage earner groups disproportionally* in every sector of the economy and caused increasing income inequality in society as a whole. I will discuss in more detail below. Third, between 2004 and 2013 the average gross compensation of all employees (public and private together) grew by 63% in nominal terms while consumer prices went up by 60.8%. *This means that the real value of labour compensation on average has strengthened only by 1.3%,* and in some branches has even decreased. The latter, as I have mentioned above, is characteristic of the public sector. Those who are employed as medical staff or social workers lost more in real terms. Employees in trade and construction industries enjoyed the highest real increase of their wages.[7]

Fourth, *the gap between the wages of blue and white collar workers has widened in all sectors. Blue collar employees in the public sector have suffered the largest deterioration* both in their absolute and relative position (Table 2).

[7] HCSO: 2.1.40. Azalkalmazásbanállókrendszereshavibruttóátlagkereseténekalakulása a nemzetgazdaságban (2004–) http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qli022.html

Table 2. Net earnings of blue and white colour workers in Hungary by main sectors 2008–2012

Rate of net earnings, percent	2008	2009	2010	2011	2012	2008-2012 change in percentage point
Blue-collar/white-collar, total economy	57.6	58.2	57.5	54.8	52.7	-4.9
Blue-collar/white-collar, private economy	53.7	53.3	53.0	47.8	46.8	-7.0
Blue-collar/white-collar, government	62.9	62.3	59.4	64.1	54.6	-8.3
Government/private economy, white-collars	85.1	79.5	79.2	69.4	67.4	-17.8
Government/private economy, blue-collars	99.7	92.9	88.8	93.2	78.6	-21.1

Source: HCSO online statistics, STADAT. „Munkaerőpiac. Idősoros éves adatok."(Labour market. Annual data.) Table 2.1.45.and 2.1.46. http://www.ksh.hu/stadat_eves_2_1

Finally, the *gender pay gap* was over 20% in the 1990s. Until 2006 this gap had narrowed considerably, reaching 14.4% in 2006. Following that year the gap began to rise again and reached 20.1 in 2013, which was the fourth highest rate within the Central and Eastern European member states of the EU after Estonia, the Czech Republic and Slovakia, and the sixth highest in the EU28.[8]

Divergence of wage-groups is not the only problem. It is accompanied by growing poverty, social exclusion and income differences.

Poverty, social exclusion and income distribution

The labour market situation is always in significant connection with the state of poverty. These two social factors also reflect the class content of the policy of a government. In Hungary, as we have seen above, the unemployment decreased in the last few years, but the support that the government has been offering for the unemployed people in the form of unemployment and social benefits has diminished even more. This situation leaves many people without help and

[8] Eurostat Online, Statistics by theme, Labour market, Earnings, Gender pay gap in unadjusted form.

hope although the head of government that gained a two-third support on the last two elections (2010 and 2014) promised that "we leave nobody behind"[9]. To be honest, he said it in connection with the families that are *indebted in foreign currency* and there are not many such families among the poorest ones.

Table 3. People at risk of poverty or social exclusion between 2005 and 2013 (percent of the population)

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total population									
EU28	..	..	..	..	..	23.7	24.3	24.8	..
EU27	25.7	25.3	24.4	23.7	23.2	23.7	24.3	24.8	..
NMS12	41.0	38.0	35.0	31.7	30.6	30.8	30.6	30.7	..
Hungary	32.1	31.4	29.4	28.2	29.6	29.9	31.0	32.4	33.5
Less than 6 years old									
EU28	..	..	..	..	..	25.6	25.4	25.9	..
EU27	26.6	25.7	24.5	24.6	24.6	25.6	25.4	25.9	..
NMS12	42.4	39.4	35.7	31.7	31.3	31.4	31.3	30.7	..
Hungary	36.9	37.7	33.8	31.7	37.0	37.1	36.8	39.1	42.4

Source: Eurostat, Statistics by theme, Income, social inclusion and living conditions

In 2013 more than one third (33.5%) of the Hungarian population was at risk of poverty or social exclusion, which is among the highest rates in the EU and it is also higher than the average rate of the new member states (NMS12). Besides, this rate is bigger than it was in 2005 in Hungary (earlier data are not available in Eurostat) when it stood at 32.1%. Within the period of 2005-2013 the number of the people at risk of poverty or social exclusion was the lowest in 2008 with 2,794 thousand. Since then the number has been continuously

[9] The Prime Minister's video massage: https://www.facebook.com/video/video.php?v=10150311565624836

growing and reached 3,285 thousand in 2013 which is *one hundred thousand more than eight years ago and with 491 thousand more than in 2008.* Children under 6 years of age are even more affected. For them the above mentioned rate of risk was 42.4% in 2013, *the highest since 2005* in Hungary and the third highest rate in the EU after Bulgaria and Romania. In 2013 there were 24 thousand more children at risk of poverty and social exclusion than eight years earlier (Table 3.).

Another important indicator concerning children and thus referring to the state of living standard of the population is the infant mortality rate. This decreased almost continuously in the 2000s, with the exception of 2007 when it increased a little (by one percent only) and then has fallen again. This favourable long trend broke in 2011. Between *2011 and 2013 the infant mortality grew by 21,000 or 4.8 %.*[10]

Material poverty is measured by the share of persons with an income below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income. This is the so-called at *risk-of-poverty rate.* This is measured both *before* and *after* receiving social transfers. The good news is that in Hungary the share of the population that lives under this threshold before receiving social transfers has been decreasing (Table 4). However, the picture alters significantly if we take a look at the rate of those who live under the poverty threshold after *social* transfers. Surprisingly, this rate has been growing in recent years. In 2013 after social transfers 1.4 million people were below the risk-of-poverty threshold. This is the highest number since 2005 with the exception of 2006 (Table 4). With these two rates it is possible to calculate the rate of those whom the social protection system frees from poverty. This is also presented in Table 4. This rate increased from 2005 until 2008. Since that year it has been declining and its decline has been accelerating since 2010. The rate of the population whom the social policy lifts out of material poverty was the lowest in 2013 (since 2005).

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[10] HCSO online database, Table 6.1.4.http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_wdsd006.html

Table 4. At risk of poverty rate before and after social transfers in Hungary (2005-2013, percent)

GEO/TIME	2005	2006	2007	2008	2009	2010	2011	2012	2013
At risk of poverty rate before social transfers (A)	29.4	29.6	29.3	30.4	28.9	28.4	28.9	27.1	26.3
At risk of poverty rate after social transfers (B)	13.5	15.9	12.3	12.4	12.4	12.3	13.8	14	14.3
Rate of those whom the social sytem help (A-B)	15.9	13.7	17.0	18.0	16.5	16.1	15.1	13.1	12.0

Source: Eurostat, Statistics by theme, Income and living conditions, Monetary poverty.

Similar tendencies are to be found when examining the number of *severely materially deprived people,* i.e., those whose living conditions are severely constrained by the lack of resources.[11] Their number decreased from 2.3 million (22.9% of the population) in 2005 to 1.8 million in 2008. After that year, however, the number of people within this group began to rise and reached more than 2.6 million in 2013 (26.8% of the population).[12]

The Gini coefficient is the generally accepted measure of income inequality. In the case of Hungary this coefficient was unusually high (33.3%) in the exceptional year of 2006 but then had eased down to 24.1% in 2010. Since then inequality has been on rise again, reaching 28% in 2013.[13] The distribution of income by income deciles presents the "perverse redistribution" after 2010 even more clearly. Between

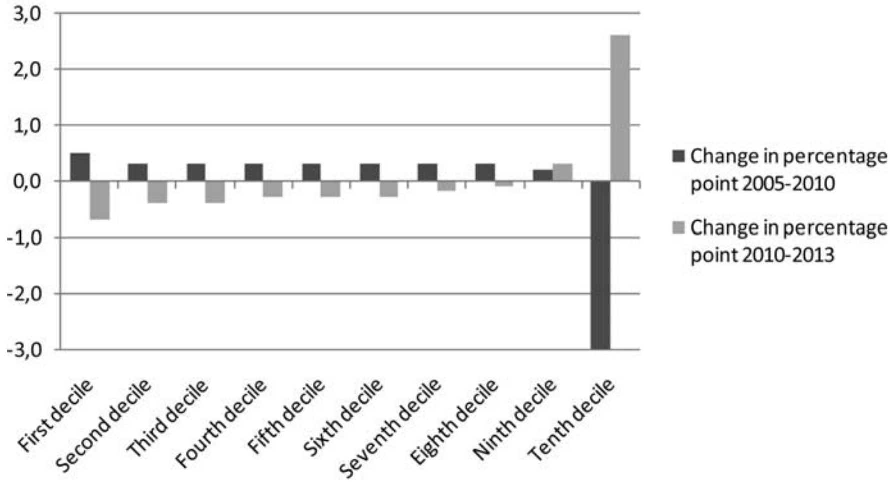
[11] Those people, who – according to the Eurostat definition – "experience at least 4 out of 9 following deprivations items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone." See Eurostat Europe 2020 indicators explanatory notes. http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

[12] Eurostat, Statistics by theme, Income and living conditions, Material deprivation.

[13] Eurostat, Statistics by theme, Income and living conditions, Income distribution and monetary poverty.

2005 and 2010 the share of the bottom nine income deciles in the national income grew and the share of the tenth decile, i.e., the richest 10% of the population, lessened. After 2010 the trend reversed. Between 2010 and 2013 only the ninth and tenth deciles saw their positions improve and the upper 10% of the population has gained the most. All the other deciles lost and the first decile, the poorest ten percent of the population, lost the most (see Figure 4).

Figure 4. Distribution of the national income by income deciles in Hungary 2005-2013 (changes in percentage point)



Source: Eurostat, Statistics by theme, Income and living conditions, Distribution of income, Distribution of income by quantiles.

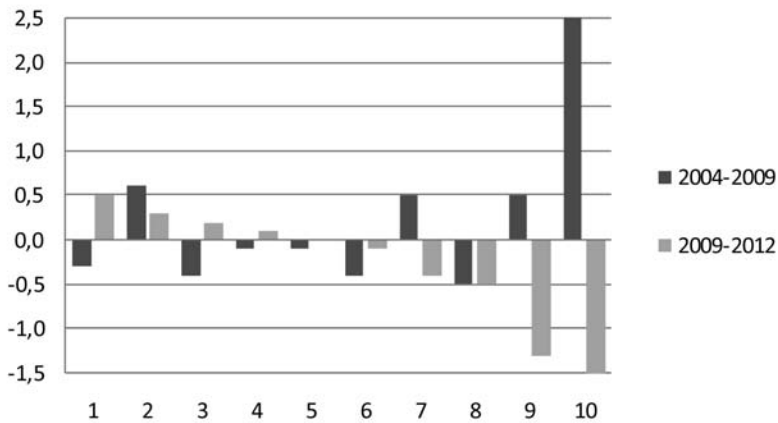
As a consequence, the ratio of the tenth decile to the first one increased from 4.8 to 6.5 between 2010 and 2013. Before 2010 the trend line was the opposite, even despite the unhappy year of 2006 when for the above-mentioned reasons income distribution deteriorated significantly but was quickly corrected afterward.

The social policy of the government

How is the government dealing with the impoverishment of the lower strata of society? In the last few years the government did very little to prevent this compared with the efforts to push the public deficit under three percent, which it did successfully. Besides, the government aims to reduce national debt and retrieve a substantial part of the economy from foreign owners and into Hungarian private and public hands. Regarding these goals the principles of "who doesn't work shall not eat" and the "work-based society" are coupled with the eventuality of dismantling the social protection system.

According to Eurostat data[14] the social protection expenditures of the Hungarian state were equal to 17.1% of the GDP in 2012. That rate is the lowest since 2006 and is substantially lower than the average of the EU28 (19.9% in 2012). In 2012 the level of social protection expenditures was only 0.5% higher than in 2009, meaning a decrease in real terms (Figure 5).

Figure 5. Structural change* in government expenditure in Hungary: government expenditure as a share of GDP (change in percentage point)



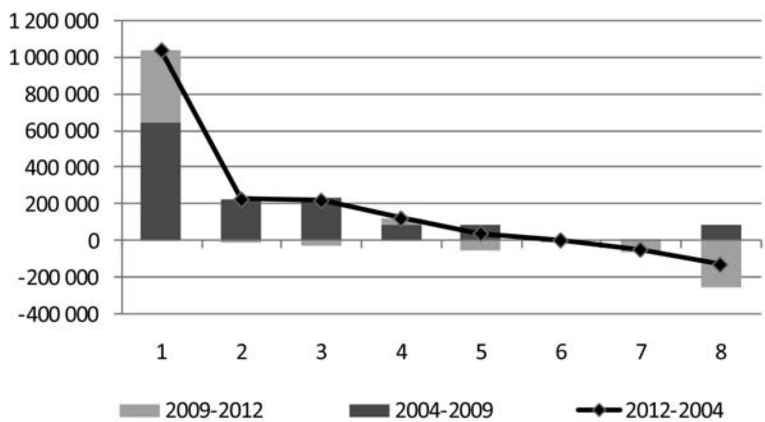
* Note: 1. Recreation, culture and religion; 2. Economic affairs; 3. Health; 4. Environment protection; 5. Public order and safety; 6. Defence; 7. Housing and community amenities; 8. Education; 9; General public services; 10. Social protection.

Source: Eurostat Statistics by theme, Government statistics, General government expenditure by function

[14] Eurostat Statistics by theme, Government statistics, General government expenditure by function.

Since 2004 the structure of the social protection expenditures has changed at the expense of the poorest people. The most disadvantageous developments in this respect happened after 2009. Between 2009 and 2012, within the social protection expenditures, only old age pensions and benefits to survivors gained bigger shares and sums, whereas the amount of money devoted to sickness, disability, family and children, housing, unemployment, social protection and exclusion (not specified elsewhere) decreased. The government saved close to 400 billion HUF (1.3 billion euro) on these latter items in 2010, 2011 and 2012 together (Figure 6).

Figure 6. Structural change in social protection expenditures of the government in Hungary 2004-2009 and 2009-2012 (change in million HUF)



* Note: 1. Old age; 2. Sickness and disability; 3. Family and children; 4. Survivors; 5. Unemployment; 6. R&D Social protection; 7. Housing; 8. Social protection and social exclusion n.e.c.

Source: Eurostat Statistics by theme, Government statistics, General government expenditure by function

Education

In the last two decades the participation rate in education for the 15-24 years of age cohort has been growing faster in Hungary than in the EU on average. Before 2004 the Hungarian participation rate was lower than the average of the EU27. In 2004 the rates were equal, and then the Hungarian rate continued to rise. In 2012 66.6% of the Hungarian population aged 15-24 years participated in formal education compared with 62% in the EU28. The Hungarian rate was the ninth-highest in the Union. This is partly thanks to the extension of the private education sector in Hungary that originated in the reform processes of the 1990s, when the establishment of private schools on all levels of education became possible. Further, persistent unemployment has also inspired young people to learn more and for longer as participation in post-secondary and tertiary education (ISCED 4-6) is an advantage in finding better-paid jobs after finishing school and also serves as a means of avoiding unemployment for some time.

In the first years of EU-membership (between 2004 and 2007) and in 2010 government spending on education relative to the GDP was higher than the EU27average. In 2012 the Hungarian rate decreased to 4.8%,which is considerably lower than the average of the EU and *one percentage point lower than at the time of accession to the EU.* Again, similarly to other disadvantageous social developments, most of the decrease happened in 2011 and 2012, when the conservative government that was elected by a two-thirds majority withdrew 789 million euros from education. As a result, the money devoted to education in 2012 is *the lowest since accession to the EU* and 85 million Euros (or 1.8%) less than in 2004. With this Hungary is one of the two member states that spent less money on education in 2012 than in 2004. The other country is Portugal where the decrease was 7.2% in the same period. The EU as a whole (without Croatia) increased education budgets by 24.1% between 2004 and 2012, although the absolute level of expenditures stagnated in 2011 and 2012.[15]

Between 2004 and 2008 the ratio of students to teachers at the ISCED 1-3 level decreased: after that it increased and became higher in 2012 than in 2004. The rate of early school leavers from education and training aged 18 to 24 years who finished the level ISCED 3 lessened considerably until 2010 and then began to grow. This means

[15] Eurostat, Statistics by theme, Government statistics, General government expenditure by function.

that in the last three years Hungary has rolled away from the Europe 2020 target on education according to which the rate of early school leaving is to be reduced to below 10% (Table 5).

Table 5. Some indicators of education in Hungary 2004-2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Participation rates in education, ISCED 1-6, aged 15-24 years (%)	59.7	61.6	62.6	63.7	64.5	64.6	65.6	66.3	66.6	n. a.
Ratio of students to teachers, ISCED 1-3	11.0	11.0	10.9	10.8	11.3	11.4	11.4	11.3	11.3	n. a.
Early leavers from education and training, from 18 to 24 years (%)	12.6	12.5	12.6	11.4	11.7	11.2	10.5	11.2	11.5	11.8
Entrants at theoretical starting age in ISCED level 5 as % of all persons of the corresponding age group	12.3	12.7	11.8	11.8	11.2	9.3	9.1	8.0	6.9	n. a.
Entrants at the theoretical starting age in ISCED level 5 as % of all entrants in ISCED level 5	15.2	15.3	14.2	14.9	15.4	13.7	12.5	10.8	9.3	n. a.

Source: Eurostat online, Statistics by them, education and training, Education indicators - non-finance

According to PISA assessments between 2000 and 2009 the performance of the Hungarian 15-year old pupils improved in reading literacy and did not change significantly in mathematics and science.[16] In 2009 the scores of Hungary in all fields were around the

[16] Halász (2011)

OECD average.[17] The results of the assessment in 2012 showed considerable deterioration.[18] On the basis of this data and indicators of the social conditions in Hungary, the balance of the last decade shows a negative result at the end of the period.

Demographics, migration and the judgement of the EU

Similar to the general trend in Europe, Hungary's population has been decreasing for decades, by approximately 35-40 thousand persons per year. The number of marriages per thousand inhabitants has been decreasing and more than half of marriages end with divorce. While the birth rate is low and decreasing, more and more children are born outside marriage. Although these trends are naturally results of socio-economic development in general, they reflect not only positive developments.

Contrary to more developed countries, where net immigration frequently outnumbers the natural decrease of the population, Hungary doesn't attract enough foreigners. What is more, in the last years the number of emigrants has risen as a consequence of growing unemployment (due to the crisis) on one hand and the opening of the German and Austrian labour markets on the other. There is no reliable data on emigration. Politicians and newspapers speak of about 300-500 thousand or even more, while the Central Statistical Office puts this number at 95.000 in the first quarter of 2014. The HCSO also stated that emigration showed an upward trend between 2011 and 2013 but now seems to have halted: emigration in the first 3 months of 2014 was not higher than a year ago.[19]

The general feeling among people, however, is that many Hungarians under 40 years of age are leaving or at least planning to take their chances in some Western-European country to find a better-

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[17] Reading: Hungary 494, OECD 493. Mathematics: Hungary 490, OECD 496. Science: Hungary 503, OECD 501.https://docs.google.com/spreadsheet/ccc?key=0AoBYy67QwoevdHlyc2Rha2VYamZ0LUl0Xy1TdUszRkE&usp=sharing#gid=2

[18] Reading: Hungary 488, OECD 496. Mathematics: Hungary 477, OECD 494. Science: Hungary 494, OECD 501.https://docs.google.com/spreadsheet/ccc?key=0AoBYy67QwoevdHlyc2Rha2VYamZ0LUl0Xy1TdUszRkE&usp=sharing#gid=0

[19] HCSO (2014b), p. 2.

paid job. The amount of the money in euro that Hungarians can earn in more developed member states of the EU inspire them, as well as other Eastern Europeans, to work in them at least for a while.

The above is especially true for young people in general and particularly for those students who have had the possibility to get acquainted with life abroad thanks to the EU student exchange program (Erasmus). According to the last Eurobarometer results, Hungarians appreciate the Erasmus program of the EU quite a lot. 30% of those surveyed stated that the Erasmus program is the most positive result of the EU against 23% on average in the EU28.[20]

The opportunity to work and study in other EU countries likely played a role in the growing popularity of the EU in Hungary in recent years. Optimism concerning the future of the European Union has grown and became the majority view in Hungary (53% in spring 2014 vs. 44% in autumn 2013). A growing proportion of Hungarians (59% in spring 2014) feels that they are citizens of the EU too. Optimism regarding the crisis on the job market has also been increasing, and Hungary was among the four most optimistic EU member states in spring 2014 in this aspect. 61% of respondents thought that the crisis in the job market had already reached its peak.[21] Still, 46% of respondents felt they could fall into poverty, which is the fifth-highest rate in the EU28.

Changing governments – changing concepts

Although the crisis has played a crucial role in the changes in the labour market and in the social conditions of the majority of employed and unemployed people, the effect of the policies of Hungarian governments cannot be neglected in these processes. As I have presented above, the most disadvantageous developments for the most vulnerable strata of the society happened after 2010, when the bulk of the negative effects of the crisis had already passed. Since 2010 new legislations have come into force. Their essence shows a clear preference for the upper-middle and – even more so – the top

[20] EC (2014a), p. 4.
[21] EC (2014b), pp. 11., 22., 27., 29.

income strata. The negligence of education disadvantageously affects foremost the lower-income segments of the population.

The governments ruling before the crisis were convinced that the best direction of the country's development and its successful integration into the world economy was to make Hungary a place where globalized capital finds it worth producing and investing in. This resulted in a neoliberal policy where the largest companies could exploit the incentives of the government most successfully and where either the manufacturing and service industries or financial institutions could gain substantial profits from their operation. This strategy was justified by the increasing stock of foreign direct investments (FDI) in the country and also with the relatively high rate of GDP growth. In the 2000s the stock of FDI as a percentage of GDP in Hungary had been among the highest of the new member states of the EU, being surpassed by Bulgaria and Estonia only. After accession to the EU the annual growth of the Hungarian economy was around 4% until 2007.

EU membership has supported these processes and the strategy of these governments seemed to be on track in terms of increasing real incomes, salaries and consumption. This was, however, a short period of time, and was fuelled by the financial (credit) bubble that the same governments allowed to take place, rather irresponsibly. First, the immense budget deficit in 2006, then the subsequent collapse of economic growth in 2007 and finally the outbreak of the crisis in 2008 questioned the validity of the neoliberal model, especially because the growth of the economy that was led by external factors had gone hand in hand with the indebtedness of private households. These factors made the failure of the neoliberal economic policy inevitable.

Still, as the data above has illustrated, the neoliberal governments paid attention to the problems of the most vulnerable strata of the society and did their best in the frame of the global capitalism to redistribute incomes in favour of lower income groups. In this sense the governments before 2010 can be called “left-neoliberal”. What they did, however, was far from satisfactory for people living on wages, salaries or social benefits and carrying the burden of the crisis. The reason for this is that in the meantime the Hungarian economy has become “empty”. National capital has been forced back by the market processes and/or has not been able to grow out from the small and medium-sized enterprise sector because of the stronger competitiveness of the much larger foreign companies. Thus, the Hungarian economy with its national capital has become strongly dependent on globalized “foreign” capital. This model of development is a natural and frequently repeated mode of integration into the world economy by less developed countries. It is also true for bigger countries, for example Brazil. Larger countries, especially if they are well-endowed with natural resources, seem to have a larger playing field and more possibilities to stand on their own feet. However, even they need partners in order to catch up, as the cooperation between the large and dynamic BRICS countries proves.

Returning to Hungary, the new conservative (or “right-neoliberal”) government was able to win the last two elections on the wave of general social dissatisfaction that was caused by the weakness of the national economy and the lack of perspective for a stable future for those who can make a living from selling their labour only.

Since 2010 the new government has changed the strategy of national development, but not completely. The government endeavours to turn, at least partly, the supportive power of the state towards national capital instead of the foreign capital. This does not mean giving up neoliberal principles. First, the new government has been supporting foreign investments in the manufacturing sector. Second, it has been creating an environment that offers good profit opportunities to both national and foreign capital by creating a low wage environment and a weakly protected labour market.

From the viewpoint of the labour market, however, these two directions have the same consequences: the share of the labour in added value inevitably decreases, as this stimulates competitiveness.

Conclusions

In this paper I have tried to assess the state of the Hungarian labour market and social conditions since accession to the EU on the basis of statistical data available in Eurostat and Hungarian Central Statistical Office databases. The majority of the indicators show an inverse

U-turn from the viewpoint of the majority of the population. This means that most of the indicators improved in the first half but deteriorated in the second half of the examined period. The most recent values of the examined indicators in most of the cases are worse than those at the beginning of the examined decade.

In some cases, for example the number of unemployed people, the turning point is the year of the crisis and the concomitant austerity policy of the government. However, the first three years of the crisis don't explain the recent state of labour market properly. For most issues deterioration happened or worsened after 2010, when the new government with its new socio-economic concept came to power.

The concept of the new government is to build the economy of Hungary on stronger national capital with the help of more and cheaper labour. This policy does not contradict the rules of the market. What's more, it is rather liberal in the sense that it favours the interest of company owners. The core of competitiveness is unit labour cost. With increasing productivity, i.e., strong investments in technological innovations, ULC can be cut back so that in the meantime the level of the compensation of employees and hence their standard of living increase or at least do not decrease. However, in the absence of or insufficient level of technological progress the growth of productivity cannot substitute for the absolute decrease of wages. To increase productivity, however, a substantial amount of capital is needed: an amount that weaker companies don't have.

To help smaller, technologically less developed, less competitive firms, like the national capital of a small country usually is, a government has to decrease the unit labour cost by pushing down the absolute level of wages. Domestic companies are technologically and financially less developed than the large, globalized foreign companies used to be. This means that competitiveness of national capital can be developed by decreasing the unit labour cost through the absolute decrease of the labour costs.

The result of this "national capital-minded" economic policy is reflected in the labour market and social situation of Hungary and in the unequal redistribution of national income in favour of the better-off strata of society. As a consequence, the ratio of the compensation of employees as a share of GDP decreased from 46.8% in 2007 to 45.5% in 2013. Those who produce the added value receive less and less of it. This strategy is however beneficial for foreign capital too, at least in the short run. In 2012 the inflow of FDI to Hungary hit an all-time record high level and Hungary attracted the most foreign capital after Poland within the Central and Eastern European EU member states in the four years between 2010 and 2013.[22]

In the longer run, increasing inequalities, the growing number of poor people within the society and the worsening conditions in education and healthcare will backfire by creating a morally, intellectually and physically ill society in which less profit can be generated both for foreign and national capital.

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Prospects of the Visegrad cooperation in changing economic, political and social conditions – identifying converging and diverging factors

Judit Kiss[1]

Visegrad cooperation as an instrument of the articulation of common interests

In the last two decades, the Visegrad cooperation proved its grounds. In 2011, when the agreement celebrated its 20th anniversary, against all sceptic voices the cooperation among Poland, the Czech Republic, Slovakia and Hungary was in good shape. In spite of the weak institutionalisation – until now the International Visegrad Fund is the only joint institution – Visegrad cooperation exists and is visible, meaning we can talk about a successful agreement that was established in 1991.[2] It is an important political interface to elaborate strategies based on common interests or to discuss about bilateral problems without any constraints.

Due to the fact that cooperation is done among independent and sovereign countries, a number of different and similar interests can be articulated, so there are issues that weaken and others that strengthen the agreement. The interrelations of the four countries

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2 Szilágyiné Bátorfi, E., Conference address at: A visegrádi együttműködés 20 éve - Értékelések, értelmezések. Budapest:Magyar Külügyi Intézet. 2011. február 17.

3 Hamberger (2010)

have a historical determination to weaken the integration.[3] Disagreement was tangible during the history of the cooperation, because of different political strategies in the member states; thus there were successful and less successful periods.[4] It also works against the cooperation that most of the current issues of the Visegrad Group are not being discussed systematically but are dealt with on an ad hoc basis.[5] Nonetheless, the cooperation had to face new and formerly non-existing challenges during its recent history, that put the agreement to the test, but cohesive forces seem to prevail among the V4 in the long term. In spite of some historically rooted conflicts, the similar history and the geographical location[6] connect these states on several points. The perspective of the alliance can be seen as determined by the necessity of closer cooperation in the social and cultural fields, as well as of the articulation of common interests on internal and external issues.[7]

2004 was a turning point for the V4, as the strategic goals of these countries have been achieved, namely successfully joining NATO and the European Union. Soon it seemed that the cooperation would lose its relevance (by becoming a multilateral forum without any special target). It seemed that the agreement was to become empty and powerless, and many thought that the V4's continued existence was obsolete.[8] Despite the political will to inject new aims into the cooperation, there was a diverging force that Poland, the largest member of the agreement, because of its' size played a more significant role in the European Union than its Central European partners.[9] It was perceptible at the Ukrainian orange revolution in 2004 and the east Ukrainian conflict in 2014, when Poland had a leading role within the Visegrad countries (V4). But after a few years of EU membership – partly due to some disillusionment and realisation that being a member means a never ending compliance procedure – representation of national and common regional interests came to the fore. Further en-

4 Šoth (2010); Strážay (2013); Walsch (2014)
5 Marek (2011)
6 Zelenická (2009); Brazova et al. (2013)
7 see more: Hamberger (2010); Walsh (2014)
8 Hamberger (2010)
9 Marek (2011)

largement, new initiatives within the EU and the reform of the Union's common policies/structures gave new impetus to the V4 countries to cooperate.

Despite political turbulences, the agreement fulfilled its role: it was the main forum for political dialogue and bilateral relations between its member states. Similar or even better perspectives may await the cooperation if its members recognise the benefits of joint actions. There are two dimensions of the Visegrad cooperation after EU accession.[10] On the one hand, the internal dimension means joint internal programs (economic, infrastructure, trade, energy, investment, cultural and educational programs) and on the other hand, the articulating of common interests in the EU decision-making mechanisms as well as towards third countries. Concerning the latter aspect, it was a significant progress after 2004, that the V4 engaged in transferring membership experiences to the Western Balkan countries. Regarding the EU issues, at the debate of the 2014-2020 budget, Visegrad countries were successful in establishing a large and thus influential "friends of cohesion" group[11] successful in preserving most of the acquis and financial background of cohesion policy. However, a weak point of the cooperation is the lack of regular pre-discussion of national positions prior to Council negotiations, as these countries prefer to enter ad hoc coalitions within the Union.[12] An example of this behaviour was the reform of the common agriculture policy where the Visegrad countries were not able to agree on a united approach.[13]

All in all, the balance of the Visegrad cooperation is on the one side a success story, on the other side – because of the weak institutionalisation – it has its limits. However, lack of institutions means more flexibility to respond to internal and external challenges.[14] Therefore this regional alliance has a unique opportunity – via coordination of national politics – to create a more visible and more competitive Central European region in the international context. Based on the history

[10] Walsh (2014)
[11] Vida (2012); Walsh (2014)
[12] Köles (2011); Marek (2011); Vida (2012)
[13] Šoth (2010)
[14] Strážay (2013)

of the Visegrad cooperation we can see that the operation and prospects of this agreement should be examined in the context of the regional and international issues. This research attempted to analyse the effects of the changing internal and external environment and to identify the main threats, challenges and possibilities regarding V4 cooperation.

Aims of the research

The significance of the Visegrad cooperation has led to countless interpretations (both academic papers and other articles) which are mainly preoccupied by the opportunities it provides. Merely the bibliography that was published at the 20th anniversary of the cooperation, contains approximately 1400 selected articles, books and academic papers between 1991 and 2011 about the Visegrad.

For researchers the following questions can be articulated in this framework. How successful is the agreement in the context of changing economic circumstances with special regard to the anti-crisis strategies and the post-crisis period? What are the main challenges and tasks of the decision-makers? How can the political changes inside the EU and the V4 influence the future prospects of the agreement? How can the V4 cooperation be influenced by such ideas as a two speed Europe with a federal core area, and a confederal outer band (non-euro countries)? What are the major challenges for the region in terms of social circumstances or trends? How do these trends influence the competitiveness and sustainable catching up process including productivity, human and physical infrastructure in these countries?

The main assumption is that dynamics and scope of the Visegrad cooperation have been determined by the *political, economic* and *social development* not only of the individual countries but of the EU as the main anchor, as well as the changing global political and economic environment. Our goal was next to draw up the main challenges facing the V4 countries and to find *similarities and differences* regarding the *economic, political and social issues.* We did it because in the last two decades the history of the Visegrad cooperation proved that it was driven by identified common interests.[15] **Therefore the main aim of this research was to reveal in this frame of reference those cohesive (or centripetal) forces which drive towards more cohesion and lead to deeper cooperation.** At the same time, we also attempted to uncover those diverging (or centrifugal) forces which might weaken or halt cooperation. During the research we kept in mind the practical use of our results therefore we put forward recommendations for enhancing cooperation and overcoming difficulties, solving arising problems.

The research has three angles built on our basic concept. The first angle of the project focuses on economic issues. The questions to be answered are as follows:
– How can Visegrad countries reach a sustainable development, and increase their competitiveness given the current external circumstances?
– Is there a change as regards the basis for further economic development in the post-crisis period?
– Have public finances been stabilised in a sustainable manner or will further pressures come to the surface?

The second research angle tries to catch the crucial political fields for the future cooperation among V4 countries.
– How can the V4 represent and enforce its interests vis-à-vis the general developments of the European Union (e.g. two-speed Europe, common EU budget, etc.)?
– What is the potential for the Visegrad group to represent national and common regional interests in the EU's decision-making processes?

The third issue deals with the social challenges facing the V4. Sufficient quantity and quality of labour, and ageing society are among the major challenges for the whole Europe. Adequate social development is one of the key prerequisites of sustainable economic development and public finances (taxes, social insurance etc.).

[15] See among others: Pastwa (2014); Rácz (2014)

– How can sustainable social structures be built up and enhance overall competitiveness in the Visegrad countries?

First we summarise the main results of the country studies highlighting the main similarities and differences in order to show the possible cooperation linkages between the V4 countries. For all pillars we completed a SWOT analysis based on the main internal and external trends. Finally, we draw up the prospective future direction of the cooperation and formulate recommendations to the decision-makers.

Economic pillar
Convergence and sustainable catching up process – partially successful

In today's global economy the emergence of the countries depends even more on the opportunities from their external economic relations as well as on their internal adaptability to respond to external challenges. In this context, regarding the economic ties, the changing global environment provides the framework. In the case of the Visegrad region this phenomenon is even more important, because the *three smaller countries are highly open economies* (Czech Republic, Hungary and Slovakia) with 75-95% of exports to GDP ratio, reflecting a greater vulnerability to external market developments. Poland with its big domestic market has less than 50% export to GDP ratio, which plays a key role in the differences among the V4 countries. The V4 have been showing significant development in their foreign trade: *while between 1990 and 2012 the volume of world trade has tripled, the external trade turnover of the Visegrad countries was ten times bigger.*

While the V4 countries are far (by 15-20 percentage points) more integrated into the EU market than the EU average (61.8% in 2013)[16], some geographical **reorientation** of exports has been taken place in the V4, too, especially since the crisis (mainly in the direction of Russia, Ukraine, China and Turkey).

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[16] Vida (2015b)

According to the statistical data, the **economic development** of the Visegrad countries in the last ten years was mainly determined by the impact of EU accession, the effect of the financial and economic crisis, and the outcome of crisis management. In analysing the economic situation of the V4, three stages of development could be identified: the *post-accession and pre-crisis years* (2004-2008) of diverging but mostly improving macroeconomic trends, especially in Poland, the Czech Republic and Slovakia; *the crisis years* (2009-2013) of recession, stagnation or low growth, and finally the post-crisis years (2014 and beyond) marked by harmonious converging trends. As regards GDP figures, in spite of diverging growth rates right after accession and in the years of the crisis, by 2014 the growth rates of V4 have converged to around 2-3%. Though in the *coming years the high pre-crisis dynamism will not return to the region,* a continuation of catching up to the EU could be envisaged due to the above-EU-average expected growth rates (2.2-3.8% vs. 1.3-1.9% until 2019).[17] The main drivers of growth will be (remain) domestic demand (especially investment, and public and private consumption to a certain degree), net exports (especially in the smaller countries) and EU funds equalling 135 billion euro in the 2014-2020 period. As the Visegrad countries' economy highly depends on the EU, especially in the field of foreign trade and financial resources (FDI, funds, remittances), their *future economic trends cannot be separated that of the EU.*

Catching up at **regional level** shows a similar picture to national performances: *the most spectacular development took place in NUTS-2 regions of Slovakia and Poland, while the Czech and especially the Hungarian regions did not experience a similar closing up.* However, in all countries there is a huge discrepancy in development levels between the central regions (reaching well above 100% of EU average) and the rest being below 75%.[18] This problem is the gravest in the smallest but the most dynamically catching up country (Slovakia), confirming the trade-off theory of convergence.

As regards the convergence of **living standards** measured by per capita GDP, both the beta and sigma convergence theories were val-

[17] Vida (2015b)
[18] Vida (2015b)

idated by our research results: poorer countries (like Slovakia) managed to reach higher growth rates, consequently the *gap narrowed among the Visegrad countries* as well as between the V4 and the EU average. As a consequence of **wage** convergence, by 2012 the net annual earnings of the V4 average (6,350 euro) reached one third of the EU average instead of one fourth in the year of accession.[19] However, **price** convergence happened significantly faster.

All in all, the V4 countries did **converge to each** other and to the EU, *mainly due to the very quick catching up of the less developed countries, namely Slovakia and Poland.* While at the accession the Slovak GDP per capita in PPS stood at 57% of the EU average, by 2013 it reached 75%. The same figures for Poland were 48% and 67%, respectively. In contrast to the 18-19 percentage point convergence of the two less developed countries, the two more developed countries' convergence was only 3 percentage point in the case of the Czech Republic and 4 percentage point in the case of Hungary, that is these countries performed below their potential. The convergence within the Visegrad group is proved by the fact that while at accession the difference between the most and the least developed country in term of GDP per capita in PPS was around 30 percentage point, by 2013 this difference has halved.[20] As a consequence of the above convergence, the ranking of the countries changed: though the Czech Republic managed to keep its leading position, Slovakia and even Poland overtook Hungary due to the diverse economic structures and the different impact of the economic crisis. *It looks like that divergence within the V4 will slow down, however it will be a long way to bring all countries and all regions at least to the 75% of the EU.*

Apart from quantitative changes, remarkable qualitative **i.e. structural changes** could be revealed: while in the 1990s Visegrad countries were mainly competitive in labour intensive industries and had disadvantages in technology-driven industries, during the last decade the share of *high-technology products in total exports has increased significantly, showing a catching-up to the developed*

[19] Vida (2015b)
[20] Bartovič (2015)

countries. The Czech Republic and Hungary are in a leading position with 15.0 and 16.1% shares (2013), respectively, while Slovakia and Poland are lagging behind with 9.6% and 6.7% shares.[21] As in the case of Slovakia, Poland and the Czech Republic high technology exports grew more dynamically than total exports, in Hungary high-tech export growth was below the overall export dynamics due to multinational-network reorganisations, signalling that corporate decisions affect the external performance of the countries. *The increasing share of the V4 in the global value chain means that in the 21st century national competitiveness cannot be separated from the competitiveness of transnational firms.*

Cleaning up public finances – consolidation without real structural changes

Public finances in the post-crisis period are being successfully stabilised, however consolidation was not accompanied by thorough structural reform of the national budgets. Sound public finances are not only an obligation under the Maastricht criteria but also building blocks of a country's competitiveness.[22] The Visegrad countries entered the EU with differing levels of **budget deficit**. While the improving trends of the Czech Republic, Slovakia and Poland were disrupted by the crisis, Hungary was hit by it in the middle of fiscal policy ‘repair’. Thus Hungary was the first to leave the excessive deficit procedure in 2013 (after ten years of being under EDP), followed by the Czech Republic and Slovakia. Regarding Poland, as neither the 2012 nor the 2014 deadline were kept, a new deadline was set up for 2015.[23] The promising consolidation processes in all four countries seem to keep budget deficits under 3% also in the medium run, while the public debt ratios remained below 60% in three of them, and the high Hungarian rate has been converging towards the Maastricht threshold in the recent years.

While the V4 countries have been focusing on decreasing their deficits, no major structural reforms were adopted. This is especially

[21] Túry (2014)
[22] Vida (2015b)
[23] Kawecka-Wyrzykowska (2014), pp. 7-8.

true in the case of Hungary and Slovakia where public revenues increased, and expenditures were not cut back.

Table 1. Total general government revenues and expenditures as percentage of gross domestic product (GDP)

Revenues			
	2004	2010	2004-2013 in pp.
European Union (27 countries)	43.8	44.1	2.0
Czech Republic	40.4	39.1	0.5
Hungary	42.6	45.6	5.1
Poland	37.2	37.5	0.3
Slovakia	35.3	32.3	0.6
Expenditures			
	2004	**2010**	**2004-2013 in pp.**
European Union (27 countries)	46.7	50.6	2.4
Czech Republic	43.3	43.7	-1.0
Hungary	49.1	50.0	0.9
Poland	42.6	45.4	-0.7
Slovakia	37.7	39.8	1.0

Source: Eurostat

Looking at the **monetary** developments since accession, after divergences in the pre-crisis years, *very promising converging trends can be detected in the post-crisis period.* There is recently a clear convergence of both inflation rates (forecasted to be around 1-3% in the medium run) and of long-term interest rates (thanks to systematic base rate cuts in Poland and Hungary) Stabilising public finances, keeping the rules on fiscal discipline, approaching to and sustaining nominal and real convergence plus implementing some structural reforms (e.g. in the field of the labour market, business environment, transport infrastructure, innovation etc.) may result in the **introduction of the euro** at the beginning of the next decade in the case of the three bigger Visegrad countries. *A common joining would be desirable, however, the societies should be prepared for the change, also public and political support should be strengthened.*

The **SWOT analysis based** on the main macroeconomic trends in the Visegrad countries for the time horizon of 2022[24] shows that the **common strengths** of the V4 countries are: growth, low inflation, interest rate convergence, consolidated public finances, strong attraction of FDI, good trade performance and current account balance. Future **opportunities** are provided by continued convergence to EU averages, harmonious development at V4 level, rising domestic demand, attraction of FDI, good manufacturing and export potential, diversification of export markets and use of EU funds. The main **weaknesses** are in the field of investment, productivity, innovation and regional development. Potential **threats** are partly external, such as low growth of main export partners, and partly internal such as the exchange rate vulnerability with the exception of Slovakia, or the net income outflows.

Political pillar

Western linkages – the European environment

Governance issues have always been on the agenda of European integration, just like the *permanent struggle between the federalists and the intergovernmentalists.* From the early 1990s onwards – starting with the Maastricht treaty, through the Amsterdam and Nice treaties – up until the entry into force of the Lisbon treaty in 2009, *governance modes became increasingly complex and less transparent.* A great challenge was the historical enlargement and the fact that not all member states were willing and/or able to participate in all projects of European integration. *As a response, innovative ideas on a two-tier EU and the re-emergence of federalism came into the fore.*

Governance issues became recently intertwined with the **tackling of the global crisis.** In 2009 the most serious financial and economic crisis ever hit the European Union. The crisis has actually been exercising two parallel impacts on the integration: *a centripetal one, pushing for deeper cooperation* and a centrifugal one, *working in the other direction* i.e. finding other types of breaking points to ensure economic growth. In practice, the EU applied mixed methods and instru-

[24] Vida (2015b)

ments to tackle the crisis and there has been a boom of new institutions, legislation and financial tools proposed/created. The centripetal and centrifugal forces became visible. On the one hand, all the *member states were united to manage the crisis and work together* (e.g. European Semester, Europe 2020 Strategy, Six-pack, Two-pack, Deposit Guarantee Scheme), *while on the other hand, there were initiatives not supported by all member states* (Euro Plus Pact, Fiscal Compact) *and not involving everybody* (European Stability Mechanism Treaty, Single Surveillance Mechanism).

The measures are an obvious mixture and patchwork of the Community and the so-called Union methods leading to less transparency and accountability, and making the economic and fiscal policy governance extremely complex and bureaucratic. Based on the introduced measures and advocated proposals, and taking into account the actual political and economic situation and citizens' perception, Vida (2015a) distinguishes four possible scenarios for EU governance. A *federation of states* with clearer delimitation of competences and more subsidiarity. The *two-tier* EU for the euro area would be further institutionalised within the EU institutions and also within the financing system. The third scenario could be s*treamlined and flexible* EU; in some areas the way competences are exercised would be revised. The last scenario is the p*reserving of the current status quo.*

Visegrads' different positions

In several fields the Visegrad countries have a shared position (e.g. in cohesion policy financing, interconnection of transport and energy networks, Eastern partnership, increasing competitiveness, fostering economic growth, energy security etc.), however in other areas they have *different attitudes determined by their economic and political situation.*

Poland – which weathered the crisis well thanks to responsive domestic economic policy – *has been supportive for all anti-crisis measures taken by the EU* (like European Semester, Euro plus Pact, the Stability and Growth Pact (Six-pack), Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG)), *while favouring a strengthened economic governance and deeper in-*

tegration. As the country's main endeavour is to avoid any "second-class" membership, to accede to the inner circle of EU decision-making and to become a big player, Poland acceded to all new institutions and instruments.

Poland signed the Euro plus Pact in order to *prevent the further deepening of a two-speed European integration,* to be part of the changes and to cooperate with eurozone members. Concerning the Six-pack – which was adopted under Polish presidency in November 2011 – Poland supported SGP reform, however, it opted for "more flexible" way to achieve the SGP requirements and strongly opposed the Commission's proposal of fines for non-euro members breaching SGP rules in the form of withholding EU funds.[25]

Poland position is that there is *a need to deepen integration, to make European institutions stronger and to complete the EMU via steps towards a full banking, economic, fiscal and political union.* However, there is a fear that the different EU actions might result in fragmentation of the EU or in several speeds of the EU.[26]

In the **Czech Republic** there was a nation-wide consensus on full political support to becoming a member of the European Union. Support for EU membership was the highest during the Czech presidency in 2009, then it started to drop quickly as a consequence of crisis in the EU and the euro area. Nowadays the Czech Republic is considered to be a eurosceptic country and an unpredictable and irresponsible partner (see the example of the long delay in ratifying the Lisbon Treaty), *finding itself in the position of an outsider.*[27] Regarding the EU relations of the Czech Republic – pro or against deepening integration – we can observe a clear correlation with different political directions, at the level of both, ruling parties and the president of the country. The Czech Republic has been *sceptical about the EU's new crisis management methods and the further deepening of the integration process, especially under the centre-right government.* This *passive wait and see strategy,* accompanied by the outright eurosceptic view

[25] Kawecka-Wyrzykowska (2014)
[26] Kawecka-Wyrzykowska (2014)
[27] Bartovič (2014)

of the former president, Mr. Vaclav Klaus, marginalised the Czech Republic in the EU and resulted in the country's abstention from both the Euro Plus Pact in 2011 and the Fiscal Compact in 2012. The new coalition government appointed in January 2014 declared a pro-EU policy and adopted a new EU strategy with an aim to become a fixed part of the EU. The current Czech president, Miloš Zeman considers himself a "European federalist", he pledges for quick introduction of the euro and for the country's participation in core Europe. As a sign of change, the *new government signed the Fiscal Compact and sent it to the parliament for ratification.*

The Czech position towards changes in the EU governance means *"a gradual acceptance of the multi-speed or even multi-level model of EU integration on the condition of relative openness of the eurozone towards other EU member states".*[28]

Slovakia, as a euro-member since 2009, *does not have any choice but to join all new structures and instrument of the Economic and Monetary Union.* The Fiscal Compact came into force in January 2013 and the newly established Council for Budget Responsibility is dealing with overall fiscal health, including the issue of budget deficit and public debt. In order to comply with the Fiscal Compact, Slovakia continues fiscal consolidation and makes efforts to fight against tax evasion, improve VAT collection and broaden the tax base. The *primary focus of the Euro Plus Pact,* namely competitiveness, employment, sustainability of public finances, financial stability and coordination of tax policies, *are particularly important for Slovakia.*

Concerning the *fiscal union,* Slovakia emphasises its clear objections. *Lack of coordination and political will* are weakening the legitimacy of the agreement. *The fiscal union is almost solely driven by the expenditure side of public finances,* the revenue side (like taxes) is underrepresented. Slovakia is for a gradual tax harmonisation, as recently the differing tax rates and separate levies at national levels are functioning as an element of "fiscal competition".[29] Finally Slovakia finds that there are *institutional problems with enforcement of*

[28] Bartovič (2014), p. 18.
[29] Hošoff (2014a)

rules, and the collective guarantees for debts have many risks. All in all, Slovakia strives to maintain the country's place in the mainstream of the EU.

Hungary *has so far had a mixed approach.* The country is fully in favour of the Six-pack and Two-pack, and has always been committed to all the reforms taken in the framework of the existing treaties and institutions. At the same time, Hungary is more cautious about any new measures outside the Treaty framework. *Hungary did not sign the Euro Plus Pac*t (along with the Czech Republic, Great Britain and Sweden) *because of its references to tax harmonisation, while Budapest is willing to join the coordination on the other aspects of the Pact.* This step however was in line with the government's slogan of national independence and emphasis on national sovereignty. However, in order to avoid a reinforced outsider position and to show commitment to sound public finances, *Hungary actually signed the Fiscal Compact* (but most of its provisions will be binding only upon its accession to the eurozone).

It can be concluded that the attitudes of the **Visegrad countries** in connection with the key anti-crisis instruments *are different and non-homogenous.* While the Europe 2020 Strategy, the European Semester, the Six-pack, the Two-pack, and the EU wide institutions for monitoring financial markets (e.g. the European Banking Authority) were accepted by all V4 countries, the Fiscal Compact was signed only by Hungary, Poland and Slovakia. The Euro Plus Pact was accepted by Poland and Slovakia, while the European Stability Mechanism was signed by Slovakia only, as a member of the eurozone.[30]

Eastern linkages – Russian relations

The Central European countries can be defined geopolitically by their relations to Western Europe and by Eastern Europe's (i.e. Russia's) interests towards them.[31] Therefore the future cooperation of the Visegrad countries depends not only on their position in the European Union but on their relation with Russia and its interests. It makes

[30] For details see Vida (2015a)
[31] Huntington (1996)

the situation complex that the relations of Central Europe and Russia have a quite turbulent past.[32] Nowadays, the strategic leverages of Russia over the whole region are smaller than they were in the Soviet times. With the Soviet Union falling apart, Central Europe has no common border with Russia, the Red Army was withdrawn, the Warsaw Pact ceased to exist, the Visegrad countries have joined and integrated into the NATO and the EU, the pro-Moscow elites were ousted from power and there are no significant ethnic Russian minorities living in Central Europe. In the post-1989 period Central Europe needed to be concerned only of the soft power potential of Russia (used in the case of energy business), but not of any direct hard security threat. This period came to a quick end by the Russian occupation of the Crimea in March 2014.

Though the Visegrad countries share a common interest related to Ukraine as a neighbouring country, they *are very much divided on Russia.* Both normative and policy differences are discernible. *Speaking about the normative differences, Poland has a traditionally very strong Trans-Atlantic commitment, taking hard stance on Russia. The very Russia-critical position of the Czech Republic is based on its focus on human rights. Slovakia and Hungary are much more pragmatic. Besides, Hungary under the Prime Minister Viktor Orbán, is continuing its eurosceptic, more East-oriented policy track.*

In military terms, though the Russian troops are fighting a war in Ukraine, there is no any direct military threat to the Visegrad region, which is protected by the NATO membership. *Regarding energy security, all countries are highly dependent on Russian gas supply to varying degrees.* The Czech Republic is the least dependent with a 66% share in all gas imports. Hungary and Poland receive 81% and 83% of their gas imports from Russia, while the ratio for Slovakia is 93%. Both Poland and Slovakia are key transit countries, and the Czech Republic also plays a transit role. Hence, these countries are protected by their transit position, while Hungary is perhaps the most vulnerable country. *Visegrad countries are jointly pursuing a number*

[32] Rácz (2014)

of energy projects. As none of them are completed, they could not provide an umbrella against unwanted supply breaks or punitive measures of Russia. In economic terms Poland has the most to lose if Russia reacts with economic counter-measures to EU sanctions. However, the other three Visegrad countries are engaged in a number of large politically-driven projects which might be at stake.

As a result of the above mentioned differences, the Visegrad group has been unable to adopt a common position on Russia. The V4 is very much divided about how to react to Russia's actions in Ukraine (take the example of EU sanctions). However, one should not forget that increasing intra-Visegrad tensions belongs to the tactics of the Russian foreign and security policy aimed at weakening the EU and NATO.[33] According to one of the possible scenarios, if the Visegrad countries could be able to form a common position on Ukraine and Russia, *their visibility and prestige would be boosted.* A *common Visegrad voice* could be better heard in the EU, as the four countries have the same 58 votes in the Council like Germany and France have together. Moreover, a coherent Visegrad position on Russia could turn the V4 into a more valuable and reliable partner of the USA. *However, differences between the V4 are far deeper than occasional, hence it is unlikely that a common Visegrad position could be formed.*

Another theoretical – though unlikely – option is that due to the deepening lack of trust between the countries, the cooperation gets halted or suspended. The most likely scenario is that the *V4 will remain unable to form a common position about Russia,* however, cooperation will continue due to the "art of disagreeing" rule, meaning that if consensus cannot be reached on a certain issue, then the problem is put aside and cooperation continues on those areas where a joint position can be agreed on. The existence and the activity of the International Visegrad Fund as the primary foreign policy arm of the V4 cooperation might be a guarantee for not suspending cooperation.

[33] "A small Central European country can never be more for Russia than a useful weak point inside the EU and NATO, and also in the Visegrad co-operation." Rácz (2014) p. 15.

Social pillar

Social changes occur at a slower pace than economic changes. However, they provide a basis for the competitiveness of each economy and its ability to develop. Therefore it is vital to give a clear picture about the present situation, to identify possible risks and challenges in order to prepare appropriate responses and policy-oriented actions.

Europe 2020, the European Union strategy for growth and employment, was adopted in 2010. It emphasizes smart, sustainable and inclusive growth with special regard to social inclusion aiming at fostering job creation and poverty reduction. Apart from these two measures the social situation and living standards of the V4 countries are determined by demographic trends, real wages, income distribution, education, health care, pensions, social protection, migration etc. To meet the overall EU targets, member states have set up their own national targets in their national reform programmes. Therefore the structure of the country reports focuses on this development strategy.

Demographic trends

The **demographic trends** of the Visegrad *countries are quite similar to those of the EU countries*. The V4are also characterized by *declining and/or negative population growth rates* caused by decreasing fertility rates and changing reproductive behaviours. If *trends continue the population of the Visegrad countries will actually decrease, unless large-scale immigration is not considered* (envisaged). Because of population decrease **migration trends** have a significant role in the Visegrad countries. In the case of *Poland and Hungary migration is dominated by an increasing trend motivated mostly by economic reasons*. The result of emigration is the inflow of remittances and compensations which can improve the current account balance of the countries; however, emigration might cause labour shortages in certain occupations. In contrast to this, the migration trend in the *Czech Republic is dominated by immigration, resulting in a positive migration balance*. The V4 countries are not destinations for each other with the exception of the Czech Republic for the highly educated segment of the Slovak workforce. In the future there will be an increasing need in all the **Visegrad countries to promote immigration for counterbalancing natural population decline and the ageing of the society**.

Life expectancy is increasing due to decreasing mortality rates, higher living standards, better nutrition and easier access to health services. The consequences are: *progressive ageing, decreasing working-age population and an increasing dependency ratio. The main associated challenge is the sustainability of the pension and health care systems.*

The 38 million-strong **Polish** population is also slowly declining and is expected to be 32 million in 2050 if current trends do not change. The negative population growth rate is due to a low birth rate – caused by a low fertility rate – and continued emigration of young people. Emigration from Poland has increased significantly since accession: from 1 million to above 2.1 million in 2012. Around 78% of emigrants stayed abroad 12 months or longer. Large number of emigrants have also had a positive effect on the current account balance of the country, because Poland is the third biggest EU country in terms of workers' remittance inflows. However, one should not forget the negative impact of emigration, namely wage pressure and labour shortage in specific fields, i.e., construction, health care and retail trade.[34]

Life expectancy is continuously increasing: nonetheless there is a vast gap in life expectancy between Poland and western EU countries. The Polish population is aging fast: by 2060 34.5% of Poles will be aged 65 or more. This means that a decreasing number of workers will have to care for an increasing number of pensioners, with a detrimental effect on the pension system. As a solution, Poland would have to have an inflow of at least *5 million immigrants* by 2050, though the country is not ready to become a non-homogenous society.[35]

In 2014 the **Czech Republic** had a population of 10.5 million, the highest number since the country's independence in 1993, largely *due to the positive migration balance*. Between 2002 and 2013 net migration amounted to 353 thousand, which is 3.4% of the total population. The strong influx of immigrants was mostly the result of the country's accession to the EU, entry to the Schengen zone and strong economic

[34] Kawecka-Wyrzykowska (2015)
[35] Kawecka-Wyrzykowska (2015)

growth causing labour force shortages. Despite the positive figures, according to projections[36] a significant population decrease is expected until 2100, resulting in a population between 6.1 and 9.1 million. The negative population trends can be counterbalanced by the country's positive migration balance. *According to projections, the proportion of the working age population will fall until the end of the century*. In the meantime there will be progressive ageing as the share of persons aged 65 and above will increase from today's one-sixth to one-third of the population. The dependency ratio will reach 100 per cent in mid-century: this means that the number of those in the productive population (20-64 years) will equal the sum of the number of people under 20 and above 65.Increasingthe retirement age would affect this trend.

The **Slovak** population size is around 5.4 million and is moving lightly upwards due to an increasing birth rate and a stagnating death rate. However, the size of the population is projected to decrease below 4 million by 2070 should sizeable immigration and/or a strong pro-family policy not occur. Slovakia is the only country from the V4 where migration did not play a significant role: it affects only some ten thousand persons. Slovakia is the only Visegrad country where immigration has always exceeded emigration, which was curbed by the crisis in the EU. However, the health sector suffers from the emigration of professionals. Between 2004 and 2009 2.800 doctors moved abroad, which is 15% of the total staff. While emigration is not currently an issue in Slovakia, in the future the country could rely more on immigrants as a substitute for the decreasing domestic labour supply.

Increasing life expectancy leads to an ageing society and an increasing dependency ratio. Recently Slovakia had the lowest dependency ratio in the whole EU (below 20%). However, there will a dramatic shift in the coming decades resulting in the highest dependency ratio (almost 70%) by 2080.

The **Hungarian** population has been decreasing for decades by 35-40 thousand persons per year due mainly to the decreasing birth rate and declining number of marriages. In 2014 the Hungarian population dropped below 10 million and is expected to be 7.33 million in 2060. *Hungary does not attract enough foreigners to counterbal-*

[36] Bartovič (2015)

ance population decrease. Emigration outnumbers immigration, though there is no reliable data on the former. According to official statistics for the first quarter of 2014 only 95 thousand persons left the country, though unofficial sources speak of between 300 and 500 thousand. In accordance with the general migration trend, mainly young educated people leave the country, hence leading to labour shortages in certain professions, especially in the heath care sector.

Labour market trends

Though the **labour market situation** has improved in the V4 countries since the crisis, *unemployment – with special regard to youth and long term unemployment – is still a challenge for all the countries with the exception of the Czech Republic*. A special common problem is the *high unemployment of the unskilled labour force* and *unemployment in less developed regions*. Another general problem for Hungary, Poland and Slovakia is the low employment and activity rate (63.2%, 64.9% and 65.0%, respectively in 2013), especially in the case of women. In order to handle the above problems, active labour market measures should be adopted and the adjustment of the educational systems to labour market demands is required.

One of the indicators for inclusive growth is the employment rate. According to Europe 2020[37] the headline target for the whole EU was set at 75% of the population aged 20-64. The **Polish** target is 71%, while the actual figure for 2013 was around 65%, compared to the EU average of 68.5%. In the **Czech Republic** the employment rate (73.5% in 2014) is the highest among the Visegrad countries and is well above the EU average: the 2020 target is 75%. The **Slovak** target is 72%, which is very ambitious as the current figure is around 65%. **Hungary** has the lowest figures among the V4 countries with its 62.5%: the 2020 target number is 75%.

As regards **employment figures** between accession and the crisis in the Czech Republic, Slovakia and Poland, employment went up and unemployment fell to historically low levels, while the Hungarian figures went into the opposite direction due to mismanagement of the economy. Though the crisis broke the positive trends in the three

[37] http://ec.europa.eu/europe2020/pdf/themes/18_employment_target.pdf

former countries, labour market recovery has already started and unemployment rates show a converging trend. By 2016 only Slovakia is expected to have a two-digit unemployment rate.

The **unemployment rate** in **Poland** was 10.3% at the end of 2013, which is very close to the EU average. The long term unemployment rate decreased substantially between 2004 and 2012 (from 10.3% to 4.1%) compared to the EU average of around 10%.[38] In the beginning of 2015 the unemployment rate in the **Czech Republic** was 5.5%, which is the third lowest in the EU after Germany and Austria. Consequently, unemployment does not mean a burden for the Czech economy: it is mainly a regional problem and affects primarily nonqualified workers and certain disadvantaged groups of society.

In **Slovakia** unemployment is one of the most significant challenges, requiring reform of active labour market policies. The employment situation is strongly influenced by the level of attained education. Between 2000 and 2013 the highest unemployment rate (between 40-50%) was prevalent in the case of people with primary or less than primary education, and the Roma population. The employability of people with upper-secondary and post-secondary education improved, especially after accession, while the unemployment rate for people with higher education increased, like in Poland and Hungary, entailing a mismatch between education and employability. Though long-term unemployment rates decreased after accession, in 2013 it was around 10%, the same as the EU average, with significant regional differences caused by uneven development among regions.

In **Hungary** the number of active unemployed increased considerably after accession (from 252 thousand to 449 thousand by 2013) and the unemployment rate stood at 10.2% in 2013 as opposed to 6.1% in 2004. The number of young (under 25 years of age) unemployed reached 84 thousand in 2013 while it was 56 thousand in 2004. In May 2014 the labour market situation significantly improved: the unemployment rate dropped to 7.9% (355 thousand) and the number of unemployed youth was 65 thousand. At the same time the share of long-term unemployed in total unemployment was 49.5%, which is higher than the EU average.

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[38] Kawecka-Wyrzykowska (2015)

Education

The smart growth objective of the Europe 2020 strategy is closely related to education, which is one of the most important investments individuals and societies can make in the future. To assess the state of education four quantitative indicators were used.[39] The most important concerns keeping students in the educational system, therefore the first goal is to reduce the rate of *early school leaving*. Increasing the number/ratio of students in *secondary education* and *tertiary education* is also a target. Increasing the number of the students and giving them competitive knowledge entails investigating input into the education system in the form of *public expenditure on education*. On the output side PISA test scores were taken for qualitative assessment.

The performance of the **V4 countries** in the field of education varies. The share of early school leavers is below the EU average in the *Czech Republic* (5.4%), *Poland* (5.6%) and *Slovakia* (6.4%). *Early school leaving is of particular importance as this phenomenon negatively affects productivity and competitiveness and contributes to poverty and social exclusion*.

In the case of **secondary education**, the percentage of the population that has attained at least upper-secondary education was higher than the EU average in all V4 countries.[40] *Slovakia* is above 90% and *Poland* and the *Czech Republic* are around 90% while *Hungary* has the lowest figures (83.5%)

The proportion of population aged 30-34 with **tertiary education** is highest in *Poland* (40.5%) and lowest in the *Czech Republic* and *Slovakia*. As regards tertiary education in 2010, in the EU-27 19.8 million students, that is 62.7% of all persons aged 20-24, are enrolled in higher education. According to the Europe 2020 strategy by 2020 the share of 30-34 year olds with tertiary educational attainment should be at least 40% in the EU compared to 35.8% in 2012. In Poland this indicator was 39.1% in 2012, while the national target is 45%. Slovakia

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[39] http://ec.europa.eu/eurostat/statistics-explained/index.php/Europe_2020_indicators_-_education

[40] http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Upper_secondary_or_tertiary_educational_attainment_and_early_leavers_from_education_and_training,_2007_and_2012_%281%29_%28%25%29_YB14_I.png

is among the worst performers with around a 20% share. In Poland in 2010 more than 2 million students were registered, which is one of the highest figures in the EU. The overall *Polish* and *Czech* achievements are generally better and above the EU average. In the field of education, achievements by Poland are in general better than the EU-27 average, especially in the case of early school leavers and tertiary educational attainment.[41] While *Slovakia* is catching up, the *Hungarian* situation is deteriorating. In all countries there is an urgent need for rethinking the profile of higher education in order to better meet the labour market demands and to boost lifelong learning. Regarding **expenditure on education**[42] Slovakia has the worst figures. With the spending of the 4.06% of the GDP in 2011 is the weakest position among the V4 and the far away from the EU figures (5.25%). Poland earmarks 4.94%, followed by Hungary at 4.71% and the Czech Republic at 4.51%. Regarding trends of government spending on education, *Hungary* is considerably lower than the EU average and more than 1.0 percentage point lower than at the time of accession. Hungary is one of the two member states (the other country is Portugal) which spent less money on education in 2012 than in 2004.

Income distribution and poverty

Income distribution does not show a uniform picture in the V4. The most egalitarian countries are Slovakia and the Czech Republic, Poland occupies a middle position with an improving tendency, while the Hungarian situation is deteriorating.

In **Poland** income distribution, as measured by the Gini index, *is relatively equal and shows a decreasing tendency* (from 35.6 in 2005 to 30.9 in 2012) due to the fast growth of the lowest salaries and the fact that the richest citizens earn more but pay more taxes. Poland occupies a middle position among the EU countries.[43] In the **Czech Republic** income distribution is very even in comparison with other EU countries. The Gini coefficient was 24.6 in 2013, which is the *third lowest in the EU after Slovenia and Slovakia*. The **Slovak** Republic

[41] Kawecka-Wyrzykowska (2015)
[42] http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=educ_figdp&lang=en
[43] Kawecka-Wyrzykowska (2015)

has the lowest dispersion of national income among the Visegrad countries and the declining Gini coefficient is lower than the EU average (below 25% in 2013). *Income differences are closely related to attained level of education* (the higher the level of education, the higher the income) *and the location* of the workplace reflects increasing regional differences. In **Hungary** the Gini coefficient reached 28 in 2013, entailing an unequal distribution.[44] *Between 2010 and 2013 the upper 10% of the population had gained the most: income distribution became more unequal*.

The risk of poverty and social exclusion *decreased in all V4 countries with the exception of Hungary, where it increased since the crisis*. The most significant decline occurred in **Poland**, while the **Slovak** and especially the **Czech** rates are below the EU average and among the lowest in the EU. However, even in these well-performing countries certain strata of society, i.e., uneducated and unemployed inhabitants, Roma population, children and single persons are still vulnerable. *Altogether in the V4 in 2013 15.6 million people, that is 12.7% of the EU28 population were at risk of poverty.*

Regarding the trends of the social marginalization, the situation in **Poland** has been improving uninterruptedly (even in the years of crisis) along all indicators; *consequently the social exclusion rate decreased substantially*. With a rate of 26.7% in 2012 it is still a bit above the EU average and concerns around 10 million people. *Women and young people experience a greater risk of poverty*. The goal for Poland is to reduce the number of people at risk of poverty by 1.5 million compared to 2008. As regards monetary poverty, Poland was one the worst performing EU countries in 2012 with a rate of 17.1%, in contrast to the Czech Republic where the relevant rate was 9.8%. The high monetary poverty rate is due to the fact that a relatively small part (9%) of gross public transfers paid to households goes to the poorest citizens. Despite a significant decrease, in 2012 5.1 million people, 13.5% of the Polish population was still severely materially deprived and almost 7% were living in households with very low work intensity.[45]

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44 Artner (2014)
45 Kawecka-Wyrzykowska (2015)

In the **Czech Republic** the percentage of population at the risk of *poverty and social exclusion decreased* to 14.6 per cent by 2013, which is the *lowest figure in the EU*. However, people with lower education, without jobs and family, let alone the Roma-populated communities have higher risks of poverty. The poverty rate is significantly influenced by social transfers. In 2011 the Czech government adopted the Social Inclusion Strategy 2014-2020 with a main aim of fighting against poverty.

In **Slovakia** the social exclusion rate decreased significantly, from 32% in 2005 to 19.8% in 2013, which is below the EU average of 24.7%. The situation is not so bright in the case of children below the age of 6 years and the Roma population (8% of Slovak population). Monetary poverty improved after accession and then worsened as a consequence of the crisis, though with a 13% rate it is still a bit better than in Poland. In **Hungary** in 2013 *one-third of the population, that is 3.285 million people were at risk of poverty, which is amongst the highest rates in the EU and higher than it was in 2005*. Children under 6 years of age are even more affected: the rate in 2013 was 42.4%, the highest since 2005 and the third highest rate in the EU after Bulgaria and Romania. As regards material poverty, while the risk of poverty rate before social transfers decreased from 29.4% to 26.3% between 2005 and 2013, the poverty rate after social transfers increased from 13.5% to 14.3%. Consequently, the share of the population whom social policy lifts out of material poverty in 2013 was the lowest since 2005. The number of severely materially deprived people increased from 2.3 million in 2005 to 2.6 million in 2013.

Social welfare – social protection and social spending

A common issue for all V4 countries is how to eradicate poverty, to support socially excluded strata and to finance social systems with special regard to pensions and health care. *In all the V4 countries social expenditures as a percentage of GDP are below the EU average of around 20%, the lowest being in Slovakia (12%) and the Czech Republic (13.8%).* The main dilemma is how to increase social expenditures while keeping public deficit under the threshold of 3% of the GDP. Though retirement age is gradually increasing in all countries, further steps are required to ensure the sustainability of the pension systems.

In **Poland expenditure on social protection** increased during the crisis and in 2011 it stood at 19.2% of GDP and almost 36.7% of total government expenditure compared to the 29% and 40% averages of the EU27. The main sources of funding of social protection at the EU27 level were social contributions (57.5%) and general government contributions (38.2%). The same figures for Poland were 42.8% and 34.6%, respectively.

In the **Czech Republic** budgetary expenditures on social protection were 13.8% of the GDP in 2012 compared to the EU average of 19.9%. *It is the second-lowest share in the Visegrad group*. However, if the calculation is made based on purchasing power standards, the Czech Republic is in first place, providing the highest old age pension among the Visegrad countries: in 2012 it was 1.649 euro (PPS) monthly, while the EU average was 2.532 (PPS).

In **Slovakia** a decreasing share of GDP is spent on social protection (12% in 2012), indicating the lower engagement of the government and providing an impetus for *more efficient and targeted social protection programmes*. Rising health care expenditures (6% of GDP in 2012) correspond to the long-term trend of an ageing population. The number of health care facilities (hospitals, out-patient care units, etc.) increased since accession. By contrast the number of beds available decreased along with the number of patients, consequently the beds per patient ratio increased a bit. The health care system is struggling with a shortage of professionals, a deteriorating age structure due to demographic reasons, lack of graduates and immigration to the Czech Republic for higher salaries and better working conditions.

In **Hungary** social protection expenditures were equal to 17.1% of the GDP in 2012, which is the lowest since 2006 and substantially lower than the EU27 average of 19.9% in 2012. Since 2004 the structure of social protection expenditures has changed at the expense of the poorest people. While expenditures on pensions increased, the amount devoted to sickness, disability, family and children, housing, unemployment and social protection decreased.

As regards the **healthcare system** in **Poland,** citizens are granted free access to publicly financed health facilities. In 2011 6.39% of the GDP was *spent on health, which is one of the lowest shares in the EU*. 70% of expenditures was financed by the public sector and

30% by the private sector. As regards the number of practicing physicians and nurses per 100,000 inhabitants, Poland was the only EU country with a negative growth rate for doctors and very low figures compared to the EU average due to emigration, which causes shortages of health care professionals. The situation with the number of hospital beds is better.[46]

The **Czech Republic** is among those countries with lowest **healthcare expenditure** in the EU and it is in third place after Hungary and Slovakia in the Visegrad group. Expenditures on health care have increased gradually and reached 7.55% of the GDP. Public insurance is compulsory for everybody with permanent residence, while private spending on health care is increasing. However, the Czech Republic is among those countries (even in the Visegrad group) with the lowest rate of private spending. Despite the fact that expenditure on healthcare is among the lowest in the EU, people assess the quality of healthcare positively. In some indicators (like doctors and beds per inhabitants) the country exceeds the average EU level.

The biggest challenge for **Slovakia** is how to finance health care and pension systems amidst the consolidation of its public finances and keeping the public deficit under the threshold of 3% of GDP. There is a pressing need for a comprehensive reform of the social systems with special regard to pensions and health care. The rising share of health care expenditures corresponds with the long-term trend of an ageing population in Slovakia and highlights the need for efficiency measures to be taken with regard to over-capacities and standardisation of procedures.[47]

Because of the ageing society the biggest challenge for the V4 countries is how to finance their **pension systems**. In **Poland** 58% (in the EU27 46%) of total social benefits (that is 11.6% of GDP) is spent on pensions while the proportion of older people grows, all while the number of persons of working age decreases. *Recently Poland introduced several reforms for mitigating long-term problems and increasing financial stability.* It was decided to gradually increase statutory retirement age as of January 1, 2013 and to introduce a uni-

[46] Kawecka-Wyrzykowska (2015)
[47] Hošoff (2014b)

form retirement age of 67 years. This decision is expected to increase the labour supply and improve the balance of the public pension fund. Other decisions were the radical change of the private pension fund sector and the increase of the length of service for cases of early retirement.

One of the biggest challenges for the future in the **Czech Republic** is the sustainability of the pension system. The capital pension pillar is voluntary and the state is not doing enough to motivate people to use it extensively for securing their pensions. The on-going pension system is already in deficit, whereby its revenues are lower than expenditures. Sustainability of the pension system is also a problem in the case of **Slovakia**. It has a need for comprehensive reform of the pension system, because the Slovak Republic will became the fastest ageing country in the EU. These trends signal a rather short life for Slovak pensioners after retirement in comparison to other European countries, highlighting the urgent *need for proper development and funding for health-care and social care for elderly systems*.[48]

Unfavourable tendency, that because of the cutting government expenditures in **Hungary** – which is a result of government expenditure cuts – has seen expenditure on old age pensions decrease. *Renationalisation of the assets of the private pension funds provided short-term sustainability to the system, but in the long term it has caused unsustainability of the current level of the monthly allowances*.

The cohesive and diverging forces of the Visegrad cooperation – main conclusion and recommendations

After EU accession – as one of the strategic goals of the V4 was fulfilled – the need for Visegrad cooperation was questioned. The impact of the 2008 financial and economic crisis – what has its effects until now – brought to the surface the formerly existing structural problems in the V4 countries. These issues and the debate on the future of European integration give us the question what are the perspectives of this regional cooperation.

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[48] Hošoff (2014)

Table 2. SWOT analysis of the V4 countries' social situation

	Strengths	Weaknesses	Opportunities	Threats
Poland	Relatively young population, low share of elderly; decreasing unemployment; significant improvement in social inclusion; outstanding performance in early school leaving + tertiary education + PISA test; relatively equal income distribution, decreasing Gini index; net recipient of remittances; increasing expenditure on social protection; free access to health care + high coverage	Low fertility rate, declining + low population growth rate, decreasing population, lagging behind life expectancy, low life expectancy after retirement; low employment rate, low labour force participation, high youth unemployment, high unemployment rate for people with higher education; 10 million people are poor, high poverty among women and young, high monetary poverty rate; regional income disparities; emigration overpasses immigration; below EU expenditure on social protection and health care; shortage of health care professionals	Dynamic population; high employment rate target; further poverty reduction; ambitious target for tertiary education; increasing minimum wage; remittances - revenue for families, contribution to current account balance; reforming the pension system; promoting immigration	Ageing society, low labour supply, labour shortage, massive emigration; youth unemployment; lack of access of the poorest to public transfers; regional differences; brain drain; wage pressure; financing social protection and pension system; impact of immigration
Czech Republic	Relatively high convergence to the EU average in GDP per capita, the highest employment rate in V4, very low unemployment, extremely low long term unemployment (the lowest in the EU), well functioning social protection – the lowest level of population at risk of poverty and social exclusion in the EU, highest old age pension in V4, even distribution of income, positive migration balance, low level of early school leaving, lowest infant mortality in the world, good quality of healthcare, growing life expectancy	Low fertility rate, natural decrease of population, gender inequality in labour issues, lack of childcare facilities, weak economic growth, low share of people with tertiary education, high number of students per teacher in primary education, existence of socially excluded strata and communities, low health care expenditures, low private spending on health care	Positive migration flows, higher labour activity of women, increasing retirement age, space for increase of private spending on healthcare system, increasing number of inhabitants with tertiary education, lifelong learning and skills development, space for increase of public spending on social protection	Stronger natural decrease of population, ageing society, decreasing working age population, growing dependency ratio, sustainability of the pension system, shortage of skilled labour force, negative effects of migration, growing number of socially excluded communities

Table 2. SWOT analysis of the V4 countries' social situation

	Strengths	Weaknesses	Opportunities	Threats
Slovakia	Increasing/ stagnating population, increasing working age population; immigration exceeds emigration, migration is negligible; below average risk of poverty in old age; increasing number of health care facilities, increasing health care efficiency, elimination of overcapacities; high participation in early education, decreasing ratio of students to teachers, declining average class size, good PISA-test results; relatively low Gini coefficient; low and decreasing social exclusion rate; increasing health care expenditures	Decreasing young population, low fertility rate; unemployment + high unemployment rate for people with higher education + high regional differences; high long term unemployment; no positive remittance balance; low life expectancy after retirement; decreasing number of hospital beds + deteriorating age structure in health care; drop in primary school attendance + decreasing student number in tertiary education; situation of the Roma population; decreasing social expenditures	Labour force supply depends on immigration; fertility rate can be increased via pro-family policy; immigration can be promoted; retirement age can be increased; cross-border cooperation may decrease unemployment and regional differences; wages can be increased for retaining labour force; studying abroad might decrease youth unemployment; reforming social protection system (health care and pension)	Decreasing population size without immigration; fastest ageing society - increasing dependency ratio; low retirement age; lack of young people; decreasing productive population; labour shortage; mismatch between education and employability; regional differences in unemployment; shortage of health care professionals; brain drain; financing social protection systems (pensions + health care)
Hungary	Improving labour market indicators, decreasing unemployment in the last years, high participation rate in education, slightly increasing students to teachers ratio, below EU average early school leavers rate	Decreasing population, declining birth rate, high share of long term unemployment, rising youth unemployment, cutting budget on unemployment benefits, decreasing consumption and income, "perverse redistribution" of income, high rate of poverty, especially among children; low social protection expenditures, decreasing government spending on education	Improving labour market situation, active labour market measures can be strengthened, remittances can improve current account balance + family revenue, promoting immigration might counterbalance population decrease, training and education of unemployed	Ageing society, increasing employment via public work programmes, decreasing number of job seekers, cutting unemployment (social) benefits, lack of active labour market measures, flat income tax favours the highest wage earners, one third of the population is poor, increasing inequalities, brain drain, worsening conditions in education and health care, shortage of health care professionals

The main objective of our research was to analyse the main political, economic and social trends in order to attempt to reveal those cohesive forces that lead to deeper cooperation and to uncover those diverging forces that might weaken cooperation. Due to the complexity of the problem it was not an easy task. Based on the history of the cooperation it can be stated that the shared problems or tasks (EU and NATO accession, energy policy, infrastructure development) strengthen the cohesive forces and push the V4 to deepen the cooperation. On the other side, lack of financial funding, joint programs and week institutionalisation can only result in articulating some common interests (e.g. North-South infrastructure corridor).

There are three "levels" of the cooperation. The most visible is the political side because common statements are always high on the agenda. However, the global financial and economic crisis brought such opportunities and problems to the surface that bring a new dimension into the cooperation. The most robust **centrifugal forces have derived from the crisis, the national and EU-level crisis management.** In order to overcome the crisis, Poland continued and the other three Visegrad countries started to follow an **inward looking** economic policy which works against enhanced cooperation. It became obvious that because of its large internal market, Poland has more possibilities to sustain and create economic development. The other three V4 countries are highly dependent on external markets, mainly on the demand of the EU countries – despite the fact that through the global value chain their exports are being re-exported to the global markets – therefore the recession in the whole EU has forced them to find individual ways to sell their products.

This **reorientation** of their **external relations** (towards e.g. Russia, Ukraine, China and Turkey) beyond the boundaries of the EU **loosened their internal trade relations.** Also, the economic crisis led to decreasing demand, and **competition** for the shrinking **markets** became keener within the EU and among the V4 countries; strengthening the centrifugal forces among the V4 countries. Furthermore, there is a competition for foreign direct investment that had a declining trend during the crisis, triggering a strong **competition** in this field among the resource-poor V4 countries. On the political side, the differences are more visible and detectable than on the economic side. Not only currently, but in the long term too, the debate about the future of the EU and the relations with Russia could weaken the cohesion among the V4 countries. The differing position of the V4 is determined by their economic and political situation along with their national, regional and EU-level aspirations. First of all, as regards the EU level, the Union has initiated a great number of **crisis management** methods and instruments which were not supported by all the V4 countries and/or not all the V4 countries were involved. One can see that the four countries had different attitudes towards these steps, consequently there was not much cooperation among them when formulating their position. The same is true in connection with the **future of the EU** too, with due regard to economic governance and deepening the integration. While Poland is for strengthening economic governance and for full economic, monetary and political union, the Czech Republic and Hungary are rather (euro) sceptical/critical, whereas Slovakia as a eurozone member is already deeper integrated. Also, there is no consensus among the three non-eurozone Visegrad countries about the introduction of the euro either, even though coordinated preparations and joint introduction of the single currency would be clearly beneficial for the regional economic and trade relations.

Due to their different development levels and challenges, the V4 countries pursue different development strategies. That could be seen in the debate about the future of the cohesion policy and agricultural subsidies (even if they were united in the ‘friends of cohesion’ group). Regarding the decision-making on different EU issues and policies, the V4 countries make alliances not by their geographical position – i.e. Central European countries – but according to shared interests in given topics with any EU member states concerned. This can also be perceived as a factor weakening the agreement. Regarding global issues, increasing **Russian** interests could redraw the balance of power in the former socialist block countries as well as in the V4. Recently, the V4 countries are mostly divided by their foreign policy vis-à-vis Russia with special regard to the present conflict in

Ukraine: Poland has a strong Trans-Atlantic commitment, the Czech Republic is very critical, while Hungary and Slovakia have a pragmatic approach. No common position on Russia is expected due to the V4 countries' differing history, interests and energy supply vulnerability.

Table 3. Factors that strengthen and weaken the V4 cooperation

Converging (strengthening) factors	Diverging (weakening) factors
Harmonious post-crisis growth trends	
Narrowing of the development gap among V4	Non-adherence to the euro area by PL, CZ, HU
Public finance stabilisation, convergence of monetary indicators	Different approaches/attitudes vis-à-vis EU governance changes
Post-crisis improvement of several macroeconomic indicators	Different interests/attitudes vis-à-vis Russia
Openness of the four economies	Different levels of exposure to external markets
Deepening integration into global value chains	Insufficient interconnectedness of infrastructure networks
Representation of some common interests at the EU level (e.g. cohesion policy, energy issues)	Lack of mechanisms for harmonising positions on key EU issues
Potential to coordinate parts of the 135 billion euro EU assistance flowing into the region between 2014-2020	Lack of platforms for regularly exchanging best practices on public finance consolidation or EU funds absorption, etc.

It seems that the social situation and trends are the least visible in the case of the regional cooperation. However, in the 21st century, social conflicts do not stay within the state borders (see the illegal immigration trend into the EU). Social welfare is also a key to a sustainable and competitive socio-economic development. Just to mention the most challenging ones: declining population and ageing society, long-term sustainability of the social and welfare systems (pension, health care and other social care) or the lack of workforce in maintaining the economic development. Organised immigration may be a key factor for all V4 countries. Other competitiveness factors such as activity rate and educational systems are also important for a successful catching-up. This issue drew our attention to another important problem, namely that without a redesigned social welfare system the region will lag behind. Furthermore, the V4 countries have to tackle the gaps in regional unemployment and focus efforts on regions struggling with high joblessness. In connection to this, the current situation of the Roma minority anticipates increasing social tensions and migration problems as well.

While the above summarised **centrifugal forces** do deteriorate V4 cooperation, some emerging centripetal forces might work in the other direction. It is obvious from the list, that the factors pushing for a stronger cooperation are shorter than the diverging factors. The ground for further cooperation is provided by the Visegrad countries' continued **convergence** to the EU based on which they should be able to articulate and represent common interests more systematically. Good examples of shared positions in **some EU policies** include the already mentioned cohesion policy, interconnection of transport and energy networks, Eastern partnership, increasing competitiveness, job creation, fostering economic growth, energy security, or the Europe 2020 Strategy.

At this point we have to ask, do we want more from the Visegrad cooperation besides strengthening the political and cultural cohesion? Without any joint instrument (except for the International Visegrad Fund), an independent and supranational organisation, and without any common budget all economic cooperation will be only under the umbrella of the funds of the European Union. Therefore the **future of Visegrad cooperation** will be shaped by – beside the interplay of the above mentioned centripetal and centrifugal forces – the institutionalisation of the agreement. A firm ground for cooperation is provided by the continued convergence to EU averages, recovering from the crisis and harmonious development at V4 level. In order to **enhance cooperation, national interests should be harmonised with regional, V4 level ones with due regard to the developments of the EU.** Our recommendations regarding the main fields of enhanced cooperation should be the following:

a) In relation to the EU, the V4 should be able to formulate at least the principal common guidelines vis-à-vis the future governance structures. A basis for V4 cooperation in shaping the future of European integration should be the closing of the EU's legitimacy gap via strengthening both input and output legitimacy. Reinforcing input legitimacy means the strengthening of the democratic aspects and fostering the emergence of a European demos via bringing the EU closer to its citizens. Strengthening output legitimacy entails the reinforced use of subsidiarity, that is, the EU should focus on policy areas which really matter for citizens (mostly issues of a cross-border dimension). It could be a good strategy for the V4 countries to push for more input and output legitimacy before any treaty change is put in the agenda..

b) In relation to high politics, the Visegrad platform should be used for exchanging ideas and coordinating their positions in some international problems (such as migration, conflict in Ukraine).
c) The three bigger countries should harmonise their strategies to joining together the euro area. They should use the Visegrad platform for exchanging best practices as regards both nominal and real convergence.
d) The V4 should coordinate investment projects and public procurements linked to EU funds, in order to expand the possible (cross-border) cooperation. To this end, some harmonisation of major objectives of their national development programmes might be useful.
e) Finding solutions to common economic and social problems and exchanging best practices thereof would also be important. Here the issues to be covered could include increasing competitiveness and productivity, financing innovation, decreasing regional differences, accelerating EU funds' absorption, curbing corruption, combating tax evasion, attempting at some tax harmonisation, whitening black and grey economies, increasing youth employment, promoting labour force mobility, reforming pension and health care systems while keeping public deficit under the 3% threshold, stopping population decline primarily via pro-family policies, strengthening social inclusion.
f) In a policy-based approach, major fields of substantive cooperation could be: energy security (e.g. building transmission infrastructure), transport and infrastructure (building international rail freight corridors and road infrastructure within the Trans-European

Transport Network, construction of joined waterways), environment, food safety, innovation (establishment of a “V4 innovation centre”), cross-border cooperation and migration.

Even if all the obstacles to enhanced cooperation are eliminated and all possibilities are utilised, the V4 will still remain only a supplement to the EU as the main anchor of development. However, if the cooperation is used to its full potential, it can contribute to the successful EU membership of the countries concerned.

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