EU Enlargement: Challenges of Integrating Accession Countries

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ABSTRACT
As countries integrate themselves into the world economy, removing barriers to flows of goods, services, and capital, they find themselves constrained by the norms and rules of the clubs they have chosen to join. This paper examines critical issues facing the ten accession countries soon to be joining the European Union. The question is: How rigidly will the EU enforce the rules of financial integration on the accession countries? The rules of the Stability and Growth Pact and implications of the convergence criteria are discussed with differences in economic conditions of the accession countries and that of the existing EU members. The paper concludes that, depending on country-specific circumstances and structural economic features, a mechanical application of the Pact's fiscal rules may be unnecessary or even harmful to the accession countries.

INTRODUCTION

This paper discusses the shortcomings of the existing fiscal financial criteria of the European Union (EU) relative to the soon forthcoming challenges of integrating ten accession countries in the union. The premise of the paper is that sustainable and stabilizing fiscal policies in the EU ought to depend on certain key structural economic features that address the potential problems that will likely be encountered when the "one-size-fits-all" fiscal financial criteria of the Stability and Growth Pact (SGP) and the Maastricht Treaty are confronted with the heterogeneous real economic structures of an enlarged union.

The paper argues that countries with markedly distinct real economic structures will be able to prosper in the Union only if there will be proper allowance made in the design of fiscal financial rules by recognizing the differences in the economic structures of the accession countries relative to the structures of the existing EU members. The paper discusses that, depending on country-specific circumstances and structural economic features, a mechanical application of the Pact's fiscal rules may be unnecessary or even harmful to the accession countries.

To address the challenges of EU enlargement and the integration of the accession countries, the paper is organized as follows. The literature review has three sections. Section I discusses EU enlargement from a historical point of view with a focus on the challenges of the accession countries. Section II summarizes the SGP and the Maastricht Treaty's convergence criteria. Section III reviews the conditions of real growth differentials between existing EU members and EU accession candidates. In the Discussion, challenges of integrating accession countries in the EU and implications of the strict fiscal rules to the accession countries are discussed. Recommendations are made in the Conclusion.

LITERATURE REVIEW

I. EU Enlargement and the Accession Countries

The EU enlargement has been viewed by many as an important opportunity for the EU to extend a zone of stability and prosperity to new members. Some consider the EU enlargement as a unique, historic task to further the integration of the continent by peaceful means (Boorman, 2002 and Trichet, 2002). Accession is also viewed as part of a broader picture of economic evolution for the countries concerned. According to Boorman (2002), accession is also an analogue of the broader process of globalization that is underway across the world. As countries integrate themselves into the world economy, they continue to remove barriers to flows of goods, services and capital. At the same time, they find themselves constrained by the norms and rules of the clubs they have chosen to join.

The EU can already look back on a history of successful enlargements. The Treaties of Paris (1951), establishing the European Coal and Steel Community (ESCS), and Rome (1957), establishing the European Economic Community (EEC) were signed by six founding members: Belgium, France, Germany, Italy, Luxemburg and the Netherlands. The EU then underwent four successive enlargements: having Denmark, Ireland, and the United Kingdom join in 1973, Greece joining in 1981, followed by Portugal and Spain in 1986, and Austria, Finland, and Sweden in 1995.

However, the enlargement facing the EU today poses a unique challenge, since it is without precedent in terms of scope and diversity: the number of candidates, the area (increase of 34%) and population (increase of 105 million), the wealth of different histories and cultures.

The enlargement process that started in 1998 includes the multilateral framework for the negotiation of the accession of ten Central and Eastern European (CEE) countries: (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic, Slovenia) plus Malta and Cyprus. Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic, and Slovenia are set to enter the EU on May 1, 2004. Bulgaria and Romania have an expected entry date of 2007.

Proponents of the enlargement quickly point out that third countries will benefit from an enlarged Union as the single set of trade rules, single tariff and single set of administrative procedures will apply not only across the existing member states but also across the single market of the EU. The harmonization of policies undoubtedly may improve conditions for investment and trade in the region. However, it is also important to note that current EU members must decide how rigidly will the strict rules of the Stability and Growth Pact (SGP) and the Maastricht Treaty be enforced and whether the rules and norms are likely to adapt to globalization. The goal for both existing and aspirant members should be an accession process that goes with the grain of globalization and not against it (Boorman, 2002).

The CEE accession countries have accomplished remarkable progress in stabilizing and strengthening their economies and institutions. In the transition process from central planning, the accession countries introduced ambitious structural reforms, opened up for world trade, accomplished price liberalization, and successfully implemented macroeconomic policies, adjustments, and economic/fiscal discipline. Nevertheless, there remains to be a significant gap in terms of GDP per capita production of the accession countries and the Euro area. On average, GDP per capita, in terms of purchasing power parity, in the accession countries is around 44 percent of that of the Euro area, while in terms of current exchange rates the GDP per capita is around 22 percent (Trichet, 2002). The size of the gap, combined with a rather limited growth differential between the two groups of countries suggests that the process of real convergence will be more gradual than initially planned and will have to continue beyond the tentative dates for EU accession.

Although differences in income levels are not incompatible with EU and even EMU membership, it is important for accession countries to increase real convergence. Real convergence is essential to create economic cohesion within the EU and EMU as this can promote integration between member states, helping to minimize the risk and the effects of asymmetric shocks, which should be in the best interest of the accession countries.

II. Stability and Growth Pact and Convergence Criteria

The EMU originated in 1989 as a plan for a single market. It harmonizes economic and monetary policies among EU member states. The Euro currency was created in 1999. Euro bills and coins went into circulation in January

2002, after which member status's national currencies were removed for circulation. The Euro zone currently includes 12 EU member states from 15 states. The exceptions are: Denmark, Sweden, and the United Kingdom. These three countries opted out of joining the Euro zone; candidate countries slated for entry in 2004 cannot opt out.

The Maastricht Treaty specifies that each member country is required to meet the convergence criteria to become a member of the single-currency system. The criteria also requires for members to become a part of the independent European System of Central Banks (ESCB) that comprise the ECB, and the national central banks of those countries that could belong to the Economic and Monetary Union (EMU). The convergence criteria requires countries to maintain:

1. Inflation rates within 1.5 percent of the rates of three best-performing countries in the Euro zone for assuring a high degree of price stability;
2. Long-term interest rates within 2 percent of those in the Euro zone;
3. Exchange rate fluctuations within the permissible range of the exchange rate mechanism for two years prior to adopting the Euro; and
4. Budget deficits that do not exceed 3 percent of GDP, and overall public debt not higher than 60 percent of GDP.

The SGP, alongside the Maastricht Treaty, creates three rules for economic policy. The three rules are that (1) the ECB is granted independence from political influence; (2) monetary financing of government deficits is prohibited; and (3) member states must avoid "excessive" deficits (defined as more than 3 percent of GDP).

There are three core elements of the SGP with respect to fiscal policy: (1) to pursue the medium-term objectives of maintaining budgetary positions close to balance or in surplus; (2) to require member states to submit annual stability and convergence programs; and (3) to monitor the implementation of those programs. The main feature of the core elements is the requirement that the national budget deficit should not exceed 3 percent of GDP. Failure to meet the requirement could lead to a series of fines (depending on the degree to which the deficit exceeds 3 percent). Adherence to the objective of sound budgetary positions close to balance or in surplus will allow member states to deal with normal cyclical fluctuations while keeping the government deficit within the reference value of 3 percent of GDP.

To meet the above criteria it is important for member countries to enact legislation for their central banks to become "independent." These criteria are to be applied to countries entering the Union at its creation and will also be applied to countries seeking to join the Euro in the future (Arestis, Brown, and Sawyer 2001).

With EU enlargement set for May 2004, CEE countries are looking ahead to the next stage of integration, i.e. entry into the Economic and Monetary Union (EMU) and related adoption of the Euro. However, while accession may be imminent, candidate countries are unlikely to be ready to adopt the Euro before 2008. The accession countries will not likely adopt the Euro for at least two years after joining the Union.

III. Differences in EU and Accession Countries

Buiter and Grafe (2002) examined several economic variables that are subject to the Maastricht criteria to identify differences between the accession countries and the current EU members. According to this, the average general government budget balance for the ten accession countries in 2001 was –3.0 percent, with a range of –6 percent (Czech Republic) to –0.5 percent (Estonia) (Table 1). Compared to this, the EU average of general government budget balance was –0.6 percent in 2001 and –1 percent in 2002. The range for the EU general government budget balance in 2001 was from 4.6 percent (Sweden and Finland) to –1.5 percent (Portugal). The EU range for 2002 was from 2.6 (Finland) to –2.5 (Portugal and Germany). The United States had a ratio of –0.5 and Japan had –7.1 percent of GDP reported as general government balance and (Table 2).

According to the above, the eight CEE and the Baltics (CEE) early accession candidates run general government deficits at a much higher level, as a share of GDP, than the existing full EMU members. For year 2001, the eight CEB countries' average general government deficit has exceeded 3 percent of GDP. Poland (-6), the Czech Republic (-.6) and Hungary (-5.2) in particular are currently running large and probably unsustainable general government deficits considering the budgetary implications of accession.

Tables 3 and 4 present the gross public debt as percentage of GDP ratio of the ten accession countries and members of the EU, the USA and Japan. Estimates of the cyclically adjusted general government deficits were not available for the ten CEE accession candidates. According to the data, the gross public debt to GDP ratio was about twice as high for the existing full EMU members as for the accession candidates The average gross debt of the ten accession countries in 2000 was 36 percent of GDP compared to the EU15 average of 64.1 percent and the EMU average of 70.2 percent. Correspondingly, the U.S. had a ratio of 60.3 percent and Japan had a ratio of 109 percent of GDP as gross public debt

As noted, there are persistent and significant differences among EU members in the growth rates of real GDP and in the rates of inflation. These differences are likely to become even larger when the ten accession countries join the EU. However, some believe that the existing fiscal rules are ill equipped to deal with the increasing economic diversity of EU membership (Buiter, 2002). The different economic realities exist due to differences in the status quo, differences in initial conditions (debt to GDP ratio, public capital stocks), and the differences in the likely future economic development of the member countries (growth rate, unemployment rate, and real exchange rate appreciation).

The accession candidates are very much in a catching-up phase. Table 5 shows the per capita income and per capita productivity levels in the five most advanced CEE countries. According to this, the Czech Republic, Estonia, Hungary, Poland, and Slovenia in 1999 were on average one third (17) of the EU average (63). When PPP is measured in real GDP, the per capita average in the ten accession countries was about half (39) of the EU average (77). The per capita output gaps between the most advanced current accession candidates and the current EU average were even larger measured in the current exchange rates. The gaps between the accession countries and the existing EU members were also larger than the gaps in 1986 between the per capita output levels in Greece, Portugal, Ireland, and Spain compared to the 1986 EU average.

Following accession, there is likely to be a convergence process which for some accession countries might take decades during which real GDP growth in the CEE countries will need to systematically exceed that in the rest of the EU. Table 6 illustrates the number of years to catch up taking absolute difference in real GDP growth rates with EU average in 25 and 50 years. According to this, if Slovenia were to catch up to the current EU average in 25 years, its annual real growth rate for these 25 years would have to be 1.3 percent higher than the growth rate of the current EU average. For Poland, the annual growth rate differential would have to be 4.0 percent if catch-up is to occur in 25 years. Taking 50 years in Poland for catch-up, the annual growth rate differential would be 2 percent.

DISCUSSION

Implications of the SGP to Accession Countries

The general thrust of the convergence criteria for the existing EU countries so far has been largely deflationary, as many of the existing member countries were required to cut budget deficits, reduce public debt, and bring down inflation and interest rates to meet the criteria. The relatively poor economic performance of some EU economies during the 1990s may to some degree explain the striving of EU countries to meet these criteria. From 1992 to 1999, the growth of national income averaged 1.7 percent per annum in the Euro zone, compared with the 2.5 percent per annum averaged by the United Kingdom over the same time period. Moreover, the unemployment rate fell substantially in the United Kingdom (as well as in the United States and Canada), but tended to rise in the Euro zone countries, most notably in France, Germany, and Italy.

Since it is the deficit criteria that will be applied most strictly to the accession countries, the above observations imply that major fiscal adjustments will need to be made in the accession countries if they were required to meet the criteria for accession. Given the budgetary demand requirements of the real convergence, it is expected that the fiscal adjustment for the accession countries upon entering the Union will be quite difficult to achieve economically and politically according to the existing rules of the Pact. Conflict about the timing and distribution of the pain of fiscal retrenchment has already been at the forefront of the policy debates in many accession countries.

In the Czech Republic, one of the main sticking points in the negotiations to build a coalition government has been the medium-term prospects for the public finances. The Social Democrats appear to have won the argument for now, and an adjustment of the deficit to below 3 percent of GDP is not envisaged before the next election. The smaller coalition partners had fought hard to reduce the deficit to 3 percent of GDP by 2006.

The fiscal and financial constraints of the Pact and the Treaty are best viewed as externally imposed constraints aimed at preventing each individual member country from ending up on an unsustainable, explosive path of public sector debt and deficits. If adhered to, this aim is likely to be met. The question is whether debt and deficit ceilings that are the same for all countries, regardless of their economic structures and circumstances, are excessively blunt instruments for addressing the issue of sovereign insolvency or default.

As noted above, it seems that there is no reference as to what may be termed real convergence in the EU; i.e. the convergence of economic growth, unemployment levels, levels of national income per capita, business cycles, and the like. Indeed, massive differences remain in living standards and unemployment rates across the Union. With the entry of the accession countries, the difference in economic conditions will further increase. For example, overall price values in the accession countries, on average, are 50 percent below the EU average (Slovenia 66 percent; Poland 55 percent; Latvia 54 percent; Lithuania 46 percent; Estonia, the Czech Republic, and Hungary 46 percent; and Slovakia 41 percent). The European Commission predicts that price convergence will occur as incomes rise after accession. Based on this, the single currency is more likely to operate effectively if real convergence is achieved between participating economies. However, these concerns have not been addressed adequately (Arestis, McCauley, and Sawyer 2001).

Challenges of CEE Accession Countries

The accession countries are generally much poorer than the current EU members. According to Eurostat figures, the average per capita GDP stands at around 40 percent of the EU average. The GDP per capita at PPP is about 40 percent of the current EU average but only about 33 percent at alternative PPP estimates and 20 percent if GDP if measured at market exchange rates. Based on this, it is estimated that it will take around 30 years to close the income gap with the existing EU member states.

The income gap has fueled concerns in both the existing member states and the accession countries. The current members fear that they could be swamped by imports from the low-cost accession countries and that firms will relocate to the new member states, where labor is much cheaper and social and environmental standards are less demanding. In practice, the widening of the gap of the average per capita GDP of the ten CEE and the existing EU countries is mainly attributable to the sharp fall in GDP in most of the region immediately after the shift from central planning.

The gap has not diminished appreciably even since the beginning of growth, mid-1990s, in part because of macroeconomic mismanagement in some countries, slowing structural change in others, and the impact of external shocks, such as the 1998 Russian financial crisis (Barysch, 2003). Although most CEE accession countries have made a remarkable progress towards achieving convergence to the EU standards, there remain many challenges on the road for real convergence.

The largest obstacle facing the Czech Republic seems to be the stability of its currency, the Czech crown. To this end, the Czech National Bank and the Czech government adopted a new strategy in 2002 aimed at stemming the appreciation of the crown. However, the currency remains slightly overvalued. Additionally, the 2002 budget deficit was at 3.8 percent of GDP, a little higher than the EMU benchmark.

In its recent review, the European Commission highlighted the need of further amendments to the Estonian Central Bank to ensure independence of the members of its supervisory board. Additionally, inflation in Estonia has been consistently higher than the EMU compliance rate.

Recent changes in the exchange rate mechanism and legislation regarding the National Bank of Hungary (NBH) have brought the NBH into full compliance and stabilized the exchange rate. However, inflation continues at nearly 10 percent, and the government ran a budget deficit of 5.2 percent of GDP in 2001.

In Latvia, the inflation, budget deficit, and exchange rate have all remained well within EMU requirements. Latvia has continually sought to bring interest rates into compliance, lowering the reserve rate form 8 percent to 5 percent between 1997 and 2001. However, further amendments to the laws on the central bank are needed to restrict the privileged access of the public sector to financial institutions.

While there is still work to be done on economic harmonization, Lithuania has demonstrated strong compliance with EMU criteria. The budget deficit in 2001 was just 1.8 percent of GDP, and inflation has consistently been the lowest in Central and Eastern Europe. However, legislative amendments are needed to safeguard against conflicts of interest related to board members of the central bank.

Inflation in Poland has consistently been above EMU guidelines, though there appears to be a recent downward trend. The appreciation of the zloty has made for tight monetary conditions, leading to high interest rates. While the central bank is currently in full compliance with EMU directives, there continues to be debate about altering its structure, potentially in ways not compliant with EMU requirements.

The exchange rate in Slovakia has remained relatively stable since shortly after the Slovak crown was floated on the open market in 1998. The National Bank of Slovakia is almost fully independent, and legislation in this area is EMU compliant. However, inflation of 6.4 percent and a budget deficit of 7 percent of GDP continue to hinder Slovakia's alignment with EMU standards.

Even though Slovenia has succeeded in complying with most EMU benchmarks, high inflation continues to trouble the economy. With a rate of 7.8 percent in 2002, inflation remains the main obstacle to full compliance (Central and Eastern Europe Commercial Update, 2003).

In summary, accession countries will be challenged to face sizeable current account deficits while they try stabilizing their financial sector and the macroeconomic conditions in their respective countries. The managing of increasing capital flows while liberalizing the capital account is a difficult task. Necessarily, institution building, including financial and legal adjustments will continue to impose a large fiscal burden on the accession countries. Beyond this, modernizing agriculture, massive infrastructure upgrading, and dealing with the legacy of poor environmental policies of the past will be costly tasks in the CEE countries. Most importantly, the catching-up process in the accession countries must include the building of a credible and flexible framework of financial and macroeconomic stability that can ultimately be a positive factor in the EU enlargement.

CONCLUSION

The soon forthcoming entry of ten accession countries in the EU has important implications for both existing EU members and the accession countries. As discussed, differences in the economic conditions of the accession countries and that of the EU members questions how can the "one size-fits-all" fiscal rules of the Stability and Growth Pact and the Maastricht Treaty be applied to the heterogeneous real economic structures of an enlarged Union?

Proponents of the enlargement claim that member countries benefit from an enlarged Union as the single set of rules for trade, tariffs, and administrative procedures will improve conditions for investment and trade in the region. However, it was also noted that current EU members must decide how rigidly will the strict rules of the SGP and the Treaty be enforced and whether the rules and norms are likely to adapt to globalization. The goal for both existing and aspirant members should be an accession process that goes with the grain of globalization and not against it.

If accession is viewed as part of a broader picture of economic evolution of the countries concerned, then accession is part of a broader process of globalization. As countries integrate themselves into the world economy, they continue to remove barriers to flows of goods, services and capital. At the same time, they may find themselves constrained by the norms and rules of the clubs they have chosen to join.

The fiscal and financial constraints of the Pact and the Treaty are best viewed as externally imposed constraints aimed at preventing each individual member country from ending up on an unsustainable, explosive path of public sector debt and deficits. If adhered to, this aim is likely to be met. The question is whether debt and deficit ceilings that are the same for all countries, regardless of their economic structures and circumstances, are excessively blunt instruments for addressing the issue of sovereign insolvency or default.

In summary, it is believed that a mechanical application of the Pact's fiscal rules may be unnecessary or even harmful to the accession countries. Rather, it is recommended that allowances should be made in the design of EU fiscal financial rules to recognize the unique differences in the economic structures and conditions of the accession countries and that of the current EU members. Since the accession countries must catch-up to the rest of the EU, these countries need a higher level of economic growth and a much increased budget expenditure to spur their economic activities. The ability to achieve real convergence in the Union will undoubtedly influence the well-being of the rest of the EU and the world.

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Table 1 : General Government Budget Balance for 10 Central European Accession Countries (% of GDP)

General Government Surplus for Accession Countires (% of GDP)							
	1995	1996	1997	1998	1999	2000	2001
Bulgaria	-5.7	-10.4	-2.1	0.9	-0.9	-1.1	-1.5
Czech Republic	-1.4	-0.9	-1.7	-2	-3.3	-4.9	-6
Estonia	-0.6	-1.9	2.2	-0.3	-4.6	-0.7	-0.5
Hungary	-6.7	-5	-6.6	-5.6	-5.7	-3.4	-5.2
Latvia	-3.9	-1.8	0.3	-0.8	-3.9	-3.3	-1.8
Lithuania	-4.5	-4.5	-1.8	-5.9	-8.5	-2.7	-1.7
Poland	-3.1	-3.3	3.1	-3.2	-3.7	-3.2	-6
Romania	-2.5	-3.9	-4.6	-5	-3.5	-3.7	-3.5
Slovak Republic	0.4	-1.3	-5.2	-5	-3.6	-3.6	-3.9
Slovenia	-0.3	-0.2	-1.7	-1.4	-0.9	-1.3	-1.5
Average Accession 8*	-2.5	-2.4	-2.2	-3	-4.3	-2.9	-3.1
Average Accession 10	-2.8	-3.3	-2.4	-2.8	-9.1	-2.8	-3

*Accession 8 includes all countires but Bulgara and Romania

Source EBRD

Table 2: General Government Surplus for the EU member countries, the US and Japan

General Government Surplus of EU countries (% of GDP)								
	1995	1996	1997	1998	1999	2000	2001	2002*
EU average	-5.3	-4.3	-2.4	-1.6	-0.7	0.9	-0.6	-1
Euro AVERAGE	-5.3	-4.4	-2.6	-2.2	-1.3	0.2	-1	-1.4
AUSTRIA	-5.1	-3.8	-1.7	-2.3	-2.1	-1.1	-0.1	-0.4
BELGIUM	-4.3	-3.7	-2	-0.8	-0.6	0.1	0	-0.9
DENMARK	-2.3	-1	0.5	1.1	3.1	2.8	2.2	1.7
FINLAND	-3.7	-3.2	-1.5	1.3	1.9	6.9	4.6	2.6
FRANCE	-5.5	-4.1	-3	-2.7	-1.6	-1.4	-0.9	-2.1
GERMANY	-3.3	-3.4	-2.7	-2.2	-1.6	1.2	-2.5	-2.5
GREECE	-10.2	-7.4	-4	-2.4	-1.8	-1.1	0.5	0.9
IRELAND	-2.2	-0.2	1.2	2.3	4.1	4.5	2.2	1
ITALY	-7.6	-7.1	-2.7	-2.8	-1.8	-0.3	-1.2	-1
LUXEMBOURG	2.3	2	3.4	3.5	3.7	6.1	5.6	5
NETHERLANDS	-4.2	-1.8	-1.1	-0.8	0.4	2.2	0.5	0
PORTUGAL	-4.6	-4	-2.6	-1.9	-2.1	-1.5	-2.8	-2.5
SPAIN	-7	-4.9	-3.2	-2.6	-1.2	-0.3	-0.3	-0.3
SWEDEN	-7.9	-3.4	-2	1.8	1.9	4.4	4.6	2.4
UNITED KINGDOM	-5.4	-4.1	-1.5	0.3	1.5	3.9	0.5	-0.1
UNITED STATES	-3.3	-2.4	-1.3	-0.1	0.6	1.5	0.3	-0.5
JAPAN	-3.5	-4	-3.2	-4.5	-6.8	-7.9	-7.2	-7.1

Source WEO

* data for 2002 is a projection

Table 3: Gross Public Debt of Accession Countries (% of GDP)

Gross Public Debt of Accession Countries (% of GDP)							
	1994	1995	1996	1997	1998	1999	2000
Bulgaria	160	72	156	119	103	98	94
Czech Republic	20	16	13	12	12	14	17
Estonia	Na	na	na	8	7	7	6
Hungary	137	131	108	89	89	91	85
Latvia	Na	na	15	12	11	13	13
Lithuania	Na	na	na	21	22	28	27
Poland	70	57	49	49	44	45	43
Romania	Na	20	23	25	24	30	28
Slovak Republic	Na	na	11	11	14	16	19
Slovenia	25	23	24	25	26	26	27
Average Accession 8	Na	na	na	28	28	30	30
Average Accession 10	Na	na	na	37	35	37	36

*Accession 8 includes all countires but Bulgara and Romania
Source EBRD

Table 4: Gross Public Debt of Member Countries of the Eruopean Union and the US and Japan

Gross Debt of EU Member countires (% of GDP)							
	1994	1995	1996	1997	1998	1999	2000
EU15	66.3	70.6	72.5	71.1	68.9	68	64.1
EUR-12	68.9	73.5	75.1	74.9	74.1	72.6	70.2
AUSTRIA	64.7	69.2	69.1	64.7	63.9	64.7	63.7
BELGIUM	136.8	133.9	130.1	125.3	119.7	115.9	110.3
DENMARK	73.5	69.3	65.1	61.2	55.6	52	46.1
FINLAND	58	57.2	57.1	54.1	48.8	47.3	44
FRANCE	48.4	54.6	57.1	59.3	59.5	59.8	57.6
GERMANY	49.3	57	59.8	61	60.9	61.3	60.3
GREECE	107.9	108.7	111.3	108.2	105	103.9	102.7
IRELAND	90.4	82.6	74.2	65.1	54.8	49.3	38.6
ITALY	123.8	123.2	122.1	120.2	116.4	114.6	110.5
LUXEMBOURG	5.7	5.6	6.2	6.1	6.4	6	5.3
NETHERLANDS	76.3	77.2	75.2	69.9	66.8	63.1	56.1
PORTUGAL	62.1	64.3	62.7	58.9	54.7	54.5	53.7
SPAIN	61.1	63.9	68.1	66.7	64.7	63.4	60.7
SWEDEN	76.2	76.2	76	73.1	70.5	65.3	55.7
UNITED KINGDOM	51.8	51.8	52.3	51.1	48.1	45.7	42.8
UNITED STATES	74.5	74.5	73.9	71.4	68.5	65.5	60.3
JAPAN	73.9	73.9	78.8	82.7	94.1	101.7	109

General government debt (% of GDP)
Source Eurostat, OECD

TABLE 5

GNI per capita in accession candidates compared to EU average (current $ and PPP)

GNI of accession countries and EU countries in comparison				
	Market Prices		PPP	
	1986	1999	1986	1999
& of EU 99				
Greece	45	51	74	68
Ireland	65	91	62	97
Portugal	30	47	59	68
Spain	56	63	73	77
Average	**116**	**63**	**67**	**77**
Bulgria			6	22
Czech Republic			21	55
Estonia			15	35
Hungary			20	47
Latvia			11	27
Lithuania			12	28
Poland			17	36
Romania			6	26
Slovak Republic			15	45
Slovenia			43	69
Average Accession 10			**17**	**39**
Average Accession 8			**19**	**43**
% of EU 85				
Greece	39	47	65	61
Ireland	56	83	54	87
Portugal	26	42	52	61
Spain	48	57	63	69
average	42	58	59	69

TABLE 6 How many years to catch up?

Absolute difference in real GDP growth rates needed to catch up with the EU average in 25 (50) years		
	full catch up in 25 years	full catch up in 50 years
Bulgria	6.2	3
Czech Republic	2.2	1.1
Estonia	4.1	2
Hungary	2.9	1.4
Latvia	5.3	2.6
Lithuania	5.1	2.5
Poland	4	2
Romania	5.5	2.7
Slovak Republic	3.1	1.5
Slovenia	1.3	0.7
Greece	1.4	0.7
Portugal	1.4	0.7
Spain	0.9	0.4

Date Source: WDI

Assumption: EU grows at 2%