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The Comparative Analysis of the Visegrad Countries Concerning Their Integration in the European Union

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Abstract

The objective of the paper is to analyse the integration of the Visegrad countries (the Czech Republic, Hungary, Poland and Slovakia, together referred to as V4) in the EU and its contribution to economic growth. The focus is on trade policy and cohesion policy.

The first part of the report discusses trade policy issues including the Europe agreements and the accession treaty concluded with the EU and its legal predecessor, respectively. The second part analyses the involvement of the Visegrad countries in the cohesion policy of the EU. It is a comparative analysis on the performance of the respective countries in attracting and absorbing EU funds with a special emphasis on the 2013-2015 time period covering partly the last multiannual financial framework of the European Union.

The underlying assumption is that the trade preferences provided by the EU, the adoption of the common trade policy and the resulting integration in the internal market as well as in the cohesion policy set free additional sources and driving forces of GDP growth from time to time in these countries that are identified and analysed in this paper. In other words, specific external economic factors of economic development are in the focus.

The integration of the V4 in the EU by foreign trade[1]

At the start of the transition to market economy, the European Communities (EC), the legal predecessor of the EU[2] offered the Visegrad countries various trade preferences. To start with, following the conclusion of various non-preferential trade agreements, the European Communities and some other OECD member states extended unilaterally the **provisions of the General System of Preferences of GATT** to Hungary and Poland as of 1 January 1990. This decision improved the conditions of market access of goods for the V4 in the EC.

Furthermore, in December 1991, the EC signed new generation association agreements labelled *European Agreements* with Poland, Hungary and Czechoslovakia and thereby institutionalised its relations with the Visegrad countries. (After the dismantle of the country, separate agreements entered into force for the Czech Republic and Slovakia, respectively replacing that concluded with Czechoslovakia.) The trade policy chapters of the agreements became effective temporarily as of 1 March 1992, the whole agreements in 1994.

The Europe Agreements envisaged **industrial free trade** between the EU and the V4 and **significant preferences in trade of agricultural produce** after a transitory period consisting of three phases. In fact, the European Council accelerated the process of trade liberalisation, and by the end of 1996 quantitative restrictions and customs tariffs on exports of manufactured goods by the Visegrad countries to the EU were completely abolished.

[1] This chapter and certain sections of the following one are partly based on *Losoncz 2017* published in Hungarian.
[2] The Treaty of Maastricht establishing the European Union entered into force as of 1 November 1993, since that time the official name of the European integration has been European Union.

On the other hand, with regard to their lower economic development level, based on the principle of **asymmetrical reciprocity**, the Visegrad countries were given a grace period of ten years to liberalise their imports from the EC. Until their accession to the EU in 2014, trade between the EU and the V4 was essentially liberalised, only minor restrictions remained in force. This enabled the rather smooth transition to EU membership in foreign trade.

The gradual reduction and finally the elimination of customs tariff rates implied significant savings for the Visegrad countries. (From 1992 to 1996 they amounted to about USD1 billion in Hungary. No data are available for the other three Visegrad countries.) Nevertheless, no precise information could be obtained about the distribution of these advantages between V4 exporters on the one hand and EU importers on the other one.

On the initiative of EU institutions, the Visegrad countries signed the **Central European Free Trade Agreement** in December 1992 with the aim of liberalising foreign trade among them. The reason for this was, first, the request of the EU to harmonise its free trade agreements and later the rules of origins within the Pan-European cumulation area. Second, according to the requirements of their membership in GATT, with the demise of the CMEA (Council of Mutual Economic Assistance) most favoured nations (MFN) tariffs had to be introduced in trade among Visegrad countries since foreign trade was tariff free in the CMEA. Establishing CEFTA aimed at, inter alia, the return to tariff-free trade, but under the new conditions of the market economy.

Furthermore, also on the request of EU institutions, negotiations had started in 1991 between **the V4** on the one hand and **EFTA[3] and its member states** on the other one on free trade in industrial goods that resulted in **industrial free trade agreements**. The motivations of negotiating these agreements were similar to those associated with CEFTA. Nevertheless, due to the smaller volume of trade, the potential and actual impact of these agreements on V4 exports was much more modest than that of the European Agreements concluded with the EC.

With the accession to the EU on1 May 2004, first, the remaining tariffs and quotas in trade between the old and the new member states as well as among the new member states were eliminated. Second, the common external tariff rates of the EU replaced those of the V4. They are much lower than most of their former MFN tariff rates were. It should be noted, however, that between the signing of the Europe Agreements in December 1991 and the enlargement of the EU as of 1 May 2004, the MFN tariff rates of both the V4 and the EU decreased as a result of multilateral trade negotiations under GATT/WTO. Third, due to the adaption of the common trade policy, the existing trade agreements of the EU with additional preferential access to specific external markets became effective for the V4. In turn, the V4, too, had to ensure trade preferences, frequently on a unilateral or non-reciprocal basis to the beneficiary countries. Nevertheless, the share of these countries in V4 foreign trade has been rather modest. Fourth, after enlargement, the provisions of the single European market in general were extended to the Visegrad countries including the abolishment of customs

[3] At that time, EFTA consisted of the following member states: Austria, Finland, Iceland, Liechtenstein, Norway, Sweden and Switzerland. Austria, Finland and Sweden joined the EU in 1995.

procedures and control in intra-EU trade and the adaptation of European industrial standards and norms.

In the socialist model, the **structural openness** of the V4 economies in terms of the share of exports and imports in GDP was much higher than **openness in terms of trade policy** including quantitative restrictions, tariff rates, etc. With the elimination of most of the quantitative and administrative barriers to trade and the reduction of customs tariff rates in the wake of the transition to market economy as well as with the accession to the EU, both trade policy and structural openness of the V4 economies increased significantly. Currently, customs tariffs are imposed on about 20 per cent of total imports of the V4. Changes in structural openness can be depicted from Table 1.

Table 1

The share of exports and imports of goods and services in GDP

(In per cent)

	Exports/GDP			Imports/GDP		
	1995	**2004**	**2015**	**1995**	**2004**	**2015**
Czech Republic	40,6	57,4	83,0	43,7	56,6	76,8
Hungary	39,3	59,7	90,7	39,2	63,7	81,8
Poland	23,0	34,4	49,1	20,7	36,9	46,3
Slovakia	56,7	68,7	93,5	54,6	71,4	91,1

Source: Eurostat database

The increase of the percentage shares indicate that the growth rates of exports and imports well exceeded those of GDP. EU membership gave a particularly strong boost to foreign trade relative to GDP growth. However, this was less pronounced in Poland with a rather large domestic market than in the other Visegrad countries with a high degree of structural openness or exposure to the world economy.

It is not just the rate of increase of exports and imports that contribute directly to GDP growth but net exports. The figures of Table 2 refer to the smaller or greater net export positions of the Visegrad countries even without specific calculations.

Based on their WorldScan model, experts of CPB Netherlands Bureau for Economic Policy Analysis quantified some *trade effects* of the establishment of a **customs union** between seven Central and Eastern European countries and the EU and those of **the elimination of non-tariff barriers** among the respective countries *(Lejour et al. 2001)*. They came to the conclusion that other things being equal and under given assumptions and parameters, in the long-run, Hungary's potential increase of total exports might equal to 44

per cent, and within it, the potential growth rate of exports to the to the EU 65 per cent. For Poland, the concomitant figures were 30 per cent and 50 per cent, respectively, for the remaining Central and Eastern European countries (the Czech Republic, Slovakia, Slovenia, Bulgaria and Romania taken together, no separate calculations were made for the remaining two Visegrad countries) 32 per cent and 52 per cent, respectively *(Lejour et al. 2001:17)*. The major impacts should have come from the integration into the single market of the EU rather than from the establishment of the customs union.

As far as the **macroeconomic effects** are concerned, the accession to the internal market might raise GDP in the long-run by 9 per cent and consumption by 13.8 per cent in Hungary, by 5.8 per cent and 9 per cent in Poland and by 3.4 per cent and 8.2 per cent in the rest of the region including the Czech Republic and Slovakia *(Lejour et al. 2001:25)*. Other model calculations based on different assumptions produced different numbers. Nevertheless, apart from the specific figures, it seems to be undeniable that EU membership in general and integration into the single European market in particular constituted both an important external source and a significant external driving force for the Visegrad countries.

It should be underlined that in its trade policy the EU treated the Visegrad countries together with the other Central and Eastern European applicants as a homogenous block in terms of applying the same rules and principle to them. The structure, the contents and even the wording of the individual Europe Agreements and accession documents were the same with insignificant differences between the beneficiary countries. This approach originated in the logics of the common trade policy pursued by the EU. The resulting diverse micro- and macroeconomic effects were attributed to differences in the economic structure and other factors of the Visegrad countries. The next chapter discusses the involvement of the Visegrad countries in the cohesion policy of the EU and some of its macroeconomic impacts.

The integration of the Visegrad countries in the cohesion policy of the EU

Financial transfers between 2004 and 2006

With EU membership, the Visegrad countries gained **access to** the financial sources of the **Structural Funds** (comprising the European Regional Development Fund, the European Social Fund and the Orientation Section of the European Agricultural Guidance and Guarantee Fund) and the **Cohesion Fund** of the EU.

The relevant seven-year programming period of the EU started in 2000, i.e. well before the V4 joined the integration in 2004 and was terminated in 2006. This is the first explanation for the rather limited sums earmarked for the new member states.

The second reason is that the EU was enlarged by ten countries rather than five as envisaged in the Agenda 2000 document that contained the budget figures for the 2000-2006 time period. Consequently, the same amount of money had to be distributed among ten new member states rather than five. Third, for a transitory period, special rules were applied for the new member states that were different from the general ones effective in the old member countries.

In fact, annual average transfers allocated in the Structural Funds and the Cohesion Fund for the Visegrad countries to promote growth and cohesion accounted for less than 2 per cent of their GDP from 2004 to 2006 (Table 2). Furthermore, not all the allocated funds were absorbed by the beneficiary countries. Due to these factors, the presumable impact of the EU funds on GDP growth must have been rather modest.

Table 2

The share of financial sources allocated to the Visegrad countries in the EU budget to ensure growth and cohesion between 2004 and 2006

	Total funds EUR million	**In per cent of cumulated GDP**
Czech Republic	2 621,1	0,83
Hungary	3 207,2	1,23
Poland	12 808,7	1,78
Slovakia	1 757,4	1,50

Source: Calculations based on the database of Eurostat and the European Commission (2004:2), Hallet, M. (2004)

The 2007-2015 multiannual financial framework

Things have changed substantially from the point of view of the V4 in the EU's next full multiannual financial framework ranging from 2007 to 2013 and 2015, respectively. The original time frame pertained to the 2007-2013 budgetary period. Nonetheless, according to the so-called N+2 rule, disbursements from the EU budget could be accomplished still in two subsequent years after the official termination of this multiannual financial framework. The term EU fund includes all types of payments from the common budget for both cohesion purposes and direct single area payments (SAP) in agriculture.

The first part of this chapter compares the National Strategic Reference Frameworks (NSRF) of the Visegrad countries. The second part contains an overview on the financial sources allocated to the V4 in the 2007-2013 budget of the EU. The third part includes a comparative analysis of the actually disbursed EU transfers to the Visegrad countries let they serve cohesion purposes or be direct payments. The fourth part consists of a comparative analysis of investments as well as the discussion of the relationship between the inflow of EU financial sources and trends in the general government. In this chapter, the relevant issues are analysed from the point of view of Hungary rather than from that of the other three Visegrad countries.

The 2007-2015 multiannual financial framework

1) The comparison of the NSRFs of the V4

The NSFRs are compiled according to requirements enshrined in EU legal rules. As a consequence of this, the structure of the NSFRs of the V4 are identical and their contents are similar to each other as well. The NSFRs of the Visegrad countries are analysed and compared with each other in terms of the size of the funds, the relationship with the Lisbon Strategy of the EU, the comprehensive objectives and the effects expected from cohesion policy *(European Communities 2007)*.

The **size of the funds** allocated in the budgetary plans of the EU that primarily serve agriculture (single area payment scheme SAPS) and cohesion depends on the economic dimension and the economic development level of the individual member states as well as on some other factors. In the 2007-2013 budgetary period of the EU, the size of cohesion funds allocated to the Czech Republic and Hungary was similar. Due to differences in economic dimensions, the magnitude of financial sources envisaged for Poland was outstandingly high (EUR67.3 billion), whereas much more modest for Slovakia whose GDP volume was rather small. Because of the geographical characteristics, subsidies related to agriculture (primarily SAP and some other items) were rather diverse; those earmarked to Poland alone were higher in nominal terms than the combined sum devoted to the remaining three Visegrad countries. Nevertheless, during the final negotiations several adjustments were made for each Visegrad country to reach a more balanced result in the V4 group.

The NSRF of each Visegrad country incorporated the main points of **the Lisbon Strategy for jobs and growth program**. As far as the individual member states are concerned, the NSRFs of the Czech Republic, Poland and Slovakia focused on the increase of investments, whereas that of Hungary laid emphasis on expenditures related to the achievement of the Lisbon's objectives. Hungary and Poland rendered priority to the development of agriculture as well.

Overall objective was not included in the NSRF of the **Czech Republic**. **Hungary's** overall objective was to sustain long-term growth and increase employment, that of **Slovakia** to significantly raise the competitiveness and performance of regions, the Slovak economy and employment. **Poland's** overall objective was the most comprehensive with the intention of creating the conditions of the increase in competitiveness and the knowledge based economy as well as entrepreneurship that enable growth in employment and economic, social and territorial cohesion.

The **specific objectives** of the individual Visegrad countries differed from each other in both quantitative and qualitative terms. **Hungary's** NSRF contained three specific objectives in order to achieve sustained growth: the improvement of competitiveness (including the strengthening of the knowledge economy), the widening of the economic basis and the development of the business environment. Increased employment had to be achieved through enhancing labour supply by improving employability and labour market activity, through raising labour demand by promoting job creation and through improving the market environment for ensuring the balance between supply and demand of labour. Nevertheless, the Hungarian NSRF included six thematic and territorial priorities. The NSRF of **Slovakia** defined four specific objectives focused on the development infrastructure and regional accessibility; innovation, information society and knowledge economy as well as human

resources and education. The four specific objectives of the **Czech Republic** contained the competitive Czech economy; open, flexible and cohesive society; attractive environment and balanced territorial development. **Poland's** NSRF defined six specific objectives such as the improvement of competitiveness and innovativeness of enterprises; the upgrading of public administration and the development of partnership mechanisms; the improvement of the quality of human capital and the increase of social cohesion; increased competitiveness of regions and the balanced development opportunities and support for structural changes in rural areas.

Regarding the **effects expected from the cohesion policy** of the EU in general and from the financial sources in particular, the increase of the employment rate that is one of the most important objective of the Lisbon Strategy is incorporated in the NSRF of each Visegrad country. In addition, the Czech and the Polish NSRF envisaged the increase of research and development expenditures relative to GDP. Poland and Hungary considered the lift of value added a priority although by different ways and means of implementation. Raising the development level in terms of GDP per capita relative to the EU average was part of the NSRF only in Poland and Slovakia. In addition, Poland expected quantified job creation, Slovakia the reduction of energy consumption relative to GDP from EU funds.

The number of operational programs aimed at the achievement of the objectives set in the NSRFs totalled 21 in Poland, 17 in the Czech Republic, 15 in Hungary and 10 in Slovakia.

As a summary, it can be stated that besides the similarities, the NSRFs reflected more or less the specific features of the economic position, the policy priorities, the economic philosophy, the planning and the institutional systems of the individual Visegrad countries. Therefore, it is not justified to draw far-reaching conclusions from the similarities and the differences of the NSRF for the quality and the efficiency of the NSRFs as well as the institutional system of the individual Visegrad countries. Ex post it can be concluded, however, that unforeseen circumstances particularly such as the global financial and economic crisis resulting in a more difficult macroeconomic situation in the Visegrad countries, changes in political objectives, increased bureaucracy and various expenditure pressures diverted the actual use of EU funds from the original goals.

2) The analysis of the financial sources envisaged for the Visegrad countries in the 2007-2013 budget of the EU

Community legal rules determine the size of the financial sources in the EU budget that are allocated to individual member states. The most important criterion is the size of GNI[4] per capita. Nevertheless, some other macroeconomic indicators such as regional development level, unemployment rate, the number of people having access to EU funds, etc. are considered as well, and corrections and adjustments, too, are implemented. In the spirit of the

[4] GNI stands for gross national income. According to a generally excepted definition, it is the total domestic and foreign output claimed by residents of a country. It consists of the gross domestic product (GDP) plus factor incomes earned by foreign residents, minus incomes earned in the domestic economy by nonresidents. GNI is a better measure of the economic performance of a country than GDP, therefore it widely used in the EU in general and in cohesion policy in particular.

EU's cohesion policy, the lower the development level of a member country in terms of GNI per capita, the higher amount of EU transfers the country in question is entitled to. However, amounts of SAP provided directly to beneficiaries in the framework of SAPS depend primarily on the size of the cultivated territory.

In the 2007-2013 budgetary period, **Hungary was the number one beneficiary of the EU transfers** in terms of both cohesion funds and SAP relative to GNI (Table 3). Compared with the other Visegrad countries, the difference was quite significant, amounting to at least 20 per cent. The Czech Republic received much less financial sources from the EU due to its relative high economic development level.

Table 3

EU funds allocated in the 2007-2013 budget plan to the V4

(Annual averages)

	Gross EU funds in per cent of GNI	**Net EU funds in per cent of GNI**
Czech Republic	2.27	1.38
Hungary	4.07	3.17
Poland	3.48	2.55
Slovakia	2.53	1.70

Note: Net EU funds: funds received minus contribution to the EU budget

Source: European Commission 2017a, 2017b

One of the reasons of Hungary's overvaluation in EU funding was that in the previous budgetary period of the EU in which the Central and Eastern European member states were involved only from 2004[5] to 2006, the European Commission underestimated Hungary's GNI growth rate, and it corrected this in the planned data of the 2007-2013 budget. **The other reason** was that based on the number of inhabitants and the volume of GDP, Poland was entitled to a rather significant amount of money, and in order to improve the proportions among the countries in the Central and Eastern European region, the Polish allotment was adjusted downward at the benefit of the others.

In terms of EU funds per inhabitant and GNI per inhabitant, **the comparison** among countries **is distorted** to some extent by differences in the changes of the number of inhabitants across countries. The reason for this is emigration to the old EU member countries in general and to the United Kingdom in particular to be employed there as well as negative demographic trends in the Visegrad countries. These factors played a minor role in the improvement of Hungary's relative indicators.

The structure of the use of EU funds is more or less given. It is determined by the objectives enshrined in the budget of the EU. In spite of this, member states enjoy a certain

[5] Eight Central and Eastern European countries joined the EU in 2014.

degree of room of manoeuvring. In the 2007-2013 budget, EU transfers allocated to member states could be divided into two large parts (Table 4). **The first and largest comprehensive heading** was "**Sustainable development"** funding primarily investment projects and related activities. Its relative share was the lowest in Hungary (64.2 per cent) and the highest in the Czech Republic (69.1 per cent). Within sustainable development, the objectives of cohesion policy were dominant.

Table 4

The distribution of the financial sources allocated to the Visegrad countries according to main items in the 2007-2013 budget of the EU

(In per cent of the total)

	Sustainable development	**Preservation and development of natural resources**	**Other not specified**
Czech Republic	69.1	29,8	1.1
Hungary	64.2	34.1	1.7
Poland	66.0	32.2	1.8
Slovakia	65.5	32.6	1.9

Note: Expenditures on agricultural markets and rural development

Source: Calculations of GKI Economic Research Co. based on *European Commission 2017a*

Regarding the heading "Sustainable development", the share of the narrowly defined sources of the **Cohesion Fund** ranged between 19.1 per cent of total expenditures in Hungary and 22.2 per cent in the Czech Republic. The proportion of the amounts originating in the **structural funds** was the lowest in Hungary (42.5 per cent of total expenditures) and the highest in the Czech Republic (44.7 per cent).

The second comprehensive heading was labelled "**Preservation and development of natural resources".** From this part of EU transfers primarily (but not exclusively) current expenditures were funded. The relative share of this heading was the highest in Hungary (34.1 per cent) and the lowest in the Czech Republic (29.8 per cent). The major part of the financial sources was directed to agriculture associated with SAPS that involved direct payments to beneficiaries and rural development whose major part accounted for investments. The significance of the other items was negligible. Compared with the Czech Republic and Slovakia, the higher share of agricultural subsidies in Hungary can be explained to some extent by the more pronounced national economic importance of this sector.

To sum up, the major difference in the expenditure structure of Hungary and the other Visegrad countries was that the share of the heading "Preservation and development of natural resources" financing current expenditures was lower in V3 than in Hungary,

particularly the item “Market related expenditure and direct aids” constituting almost exclusively agricultural subsidies. On the other hand, the relative weight of elements meant for investments in general, including the sources of the structural funds was higher in the V3 than in Hungary. These proportions implied different focuses in economic policy.

In the period ranging from 2007 to 2015, the objectives of economic, social and territorial cohesion were implemented with the help of the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund (CF). According to the breakdown of expenditures of the ERDF and the CF, the individual Visegrad countries made efforts to concentrate EU transfers on specific areas (Table 5). The major preference of Poland, the Czech Republic and Slovakia was the development of transport, whereas that of Hungary environment protection.

Table 5

The breakdown of the planned expenditures of the European Regional Development Fund and the Cohesion Fund in the 2007-2013 budgetary period

(Total expenditure = 100 per cent)

	Czech Republic	**Hungary**	**Poland**	**Slovakia**
Culture	2.3	2.0	1.8	2.3
Energy	5.2	1.7	4.0	1.7
Environment protection, risk prevention	19.0	28.2	15.8	18.9
Increasing the adaptability of workers and firms, enterprises and entrepreneurs	1.4			0.2
Improving access to employment and sustainability	0.2	0.4		
Improving human capital	0.1	1.1		
Improving the social inclusion of less-favoured persons	0.0	0.1		
Information society	4.1	3.5	6.7	11.8
Investment in social infrastructure	5.4	11.7	4.9	11.1
Research and technological development (R&TD), innovation and entrepreneurship	18.3	16.3	18.8	12.2
Strengthening institutional capacity at national, regional and local level	0.6	0.0	0.1	0.1
Technical assistance	3.1	3.9	3.5	3.4
Tourism	3.1	2.1	1.8	1.2

Transport	33.4	25.8	40.9	34.7
Urban and rural regeneration	3.8	3.2	1.7	2.4
Total	100.0	100.0	100.0	100.0

Source: *European Communities 2007*

As a summary, it can be stated that the planned breakdown of the expenditures of ERDF and CF envisaged to Visegrad countries was rather similar. Both the more or less identical starting positions of their economies and the recommendations of the European Commission might have played a part in the differences of the earmarked structure.

Similar trends could be observed in **the planned breakdown of the financial sources of the ESF** (Table 6). E. g., Slovakia and Poland concentrated the envisaged EU funds more to the sustainability of employment than the other two Visegrad countries. In addition, Hungary's focus was the development of human resources.

Table 6

The breakdown of the planned financial sources of the European Social Fund in the 2007-2013 budgetary period

(In per cent of the total)

	Czech Republic	**Hungary**	**Poland**	**Hungary**	**Slovakia**
Improving access to employment and sustainability	18,0	9,1	25,8	9,1	34,9
Improving human capital	40,5	58,7	36,8	58,7	36,5
Improving the social inclusion of less-favoured persons	9,7	8,8	11,2	8,8	10,8
Increasing the adaptability of workers and firms, enterprises and entrepreneurs	18,0	15,7	16,1	15,7	10,3
Mobilisation for reforms in the fields of employment and inclusion	0,6	0,2	0,7	0,2	1,2
Strengthening institutional capacity at national, regional and local	9,7	4,1	5,3	4,1	2,8

level					
Technical assistance	3,5	3,4	4,1	3,4	3,5
Total	100,0	100,0	100,0	100,0	100,0

Source: *European Communities 2007*

As a **summary**, it can be stated that no far-reaching qualitative conclusions can be drawn from the breakdown of the planned expenditure and from their identical and similar features of the 2007-2013 budgetary period for the efficiency of the use of EU transfers by the Visegrad countries.

3) Trends in the actual disbursements of EU transfers

This part of the report analysis first the disbursements from the structural funds (ERDF and ESF) and the Cohesion Fund in the Visegrad group. These funds serve the achievement of cohesion objectives. Apart from the availability of data enabling international comparisons, these financial sources are meant for promoting economic development with the support of investments and thereby they contribute to a large extent to GDP growth.

In this respect two categories are distinguished. Contracted funds are those that are included in the agreements concluded with the beneficiaries. Disbursed funds have already been paid to beneficiaries. (Here the term disbursement means payments accomplished by national authorities rather than EU institutions.) The figures for the whole 2007-2015 period are included in Table 7. Nevertheless, in 2016 and 2017 further minor payments are likely to be made at the level of both the national government and the EU.

Table 7

Contracted and disbursed EU funds by the national governments for cohesion purposes from 2007 to 2015 in the Visegrad countries

(EUR billion)

	Contracted funds	**Disbursed funds**
Czech Republic	27.1	23.4
Hungary	29.1	27.6
Poland	67.2	61.8
Slovakia	14.3	11.3

Source: *KPMG 2016*

As of the end of 2015, the **ratio between contracted amounts and planned ones** totalled 122 per cent in Slovakia, 117 per cent in Hungary, 103 per cent in the Czech Republic and 100 per cent in Poland. The ratio of Hungary and Slovakia was more favourable than the average of the Central and Eastern European region. A more important issue than this is **the**

percentage share of the contracted EU funds paid to beneficiaries by the individual countries (rather than EU institutions). The national payment/planned EU fund ratio was the highest in Hungary (111 per cent) followed by Slovakia (97 per cent), Poland (92 per cent) and the Czech Republic (89 per cent). Hungary accounted for the highest amounts of EU transfers excluding SAP relative to the number of inhabitants and GDP. These figures are indicated in Table 8.

Table 8

EU transfers meant for cohesion purposes excluding single area payments to the Visegrad countries in the 2007-2015 budgetary period

(Euro and in per cent of GDP)

	Per capita euro	**In per cent of GDP**
Czech Republic	302	1.9
Hungary	344	3.2
Poland	275	2.4
Slovakia	299	2.3

Source: Calculations of GKI Economic Research Co. based on data from *KPMG 2016* and Eurostat database

In terms of SAP, Hungary, too, received the highest amounts with EUR93 per capita per year against the EUR51-EUR61 average of the other three Visegrad countries.

In the 2007-2015 time period, Hungary had access to 22-60 per cent more EU funds relative to the number of inhabitants and GDP than the other three members of the Visegrad group. EU financial sources accounted for 4 per cent of GDP in Hungary, 2.9 per cent in Poland, 2.4 per cent in Slovakia and 2.3 per cent in the Czech Republic (Table 9).

Table 9

Total EU financial sources per capita and in per cent of GDP disbursed to the Visegrad countries from 2007 to 2015

	Per capita	**In per cent of GDP**
Czech Republic	363	2.3
Hungary	437	4.0
Poland	332	2.9
Slovakia	350	2.4

Source: Calculations of GKI Economic Research Co. based on data from *KPMG 2016* and Eurostat database

Different economic growth rates of the Visegrad countries may have caused some distortions, since from 2007 to 2015 GDP increased by 37 per cent in Poland, 32 per cent in Slovakia and 14 per cent in the Czech Republic, whereas only by 5 per cent in Hungary. In per capita terms EU funds- amounted to EUR437 in Hungary, EUR363 in the Czech Republic, EUR 351 in Slovakia and EUR332 in Poland (Table 9). These figures explain why the effects of the inflow of EU transfers were the greatest in Hungary according to every report.

Comparing the actions that were implemented until the end of 2015 with the original allocation plan, Hungary, the Czech Republic and Slovakia got access to somewhat more funds relative to GDP than envisaged in the EU budget, whereas Poland somewhat less than that (Table 10).

Table 10

Ex ante allocated and actually disbursed EU funds in per cent of GNI in the Visegrad countries in the average of the 2007-2015 budgetary period

	Ex ante allocated	**Actually disbursed**
Czech Republic	2.27	2.56
Hungary	4,07	4.29
Poland	3.38	3.35
Slovakia	2.53	2.64

Source: Calculations of GKI Economic Research Co. based on data of the European Commission

The rather favourable inflow of EU transfers to Hungary by Central European standards triggered rather modest GDP growth. From 2007 to 2015, the annual average GDP growth rate was 0.5 per cent in Hungary, whereas 1.5 per cent in the Czech Republic, 3.1 per cent in Slovakia and 3.6 per cent in Poland. Nevertheless, the fact, too, should be taken into account that the rate of GDP growth is influenced by a great number of factors other than EU funding.

According to the **model calculations of the European Commission**, investments accomplished in the framework of cohesion and rural development policy of the 2007-2015 period enhanced GDP in 2015 by over 5 per cent above the level it would have been in the absence of the funding in Hungary, by 4-4 per cent in Poland and the Czech Republic, respectively and by 3.5 per cent in Slovakia *(European Commission 2016a, 2016b, 2016c, 2016d)*.

As a result of these policies, in 2023 GDP is likely to be 4.5 per cent higher in Hungary, 6 per cent in Poland, 3.5 per cent in the Czech Republic and 3 per cent in Slovakia. According to the calculations of **City Research**, EU funds raised GDP by 10 per cent in Hungary, and 5 per cent in the Czech Republic and Poland.

Based on various assumptions, the **model calculations of GKI Economic Research Co.** pointed out that EU transfers enhanced Hungary's GDP by 6-11 per cent additionally from 2007 to 2015. The various models lead naturally to different results. Nevertheless, all models surveyed estimated the greatest influence of the inflow of EU funds on GDP growth in Hungary.

From these factors the cautious conclusion can be drawn that Hungary could absorb the EU funds that were much higher in relative terms than in the other Visegrad countries at average efficiency or close to average efficiency. The unfavourable conclusion drawn from this analysis is that Hungary's underlying economic growth performance with the exclusion of EU transfers was very weak. The investigation of the reasons for this is the subject of another report.

4) EU funds in the light of investments and the general government

EU funds aiming at promoting economic development played an important role in **investments** as well. In the average of the 2007-2015 period, their share in total investments was one and a half to two times higher in Hungary than in the other three Visegrad countries (Table 11).

Table 11

EU funds meant for cohesion purposes in per cent of investments in the Visegrad countries in the average of the 2007-2015 budgetary period

	In per cent of total investments	**In per cent of public investments**
Czech Republic	7.0	34.3
Hungary	14.6	57.1
Poland	9.3	40.9
Slovakia	9.7	52.1

Source: Calculations of GKI Economic Research Co. based on data of *KPMG 2016* and Eurostat

The share of EU funding in investments of the general government exceed 50 per cent in Hungary and Slovakia, 30-40 per cent in the Czech Republic and Poland. EU funds of investment purposes substituted to a great extent investments from domestic sources in general and from public ones in particular.

Funds paid to economic participants relative to general government expenditures, too, were significant in the Visegrad group. In the average of the 2007-2015 time period, **planned net EU funds relative to general government expenditures** amounted to 6.9 per cent in Hungary, 4.9 per cent in Poland, 4.7 per cent in Slovakia and 3.8 per cent in the Czech Republic (Table 12). The situation was similar in terms of **EU funds relative to general**

government deficit. EU funds enabled the governments to raise expenditures without the increase of the deficit and the gross government debt.

In reality, these figures were smaller since beneficiaries had to present their own contributions in order to get access to funding, and a certain part of the own sources appeared in the general government expenditure.

EU funds broadened the room of manoeuvring of fiscal policies, without them either the general government deficit and gross government debt relative to GDP would have been higher, or much less investments could have been accomplished by the public sector.

Table 12

Summary figures on the relationship between disbursed EU funds and general government expenditure in the Visegrad countries from 2007 to 2015

(Annual averages)

	Czech Republic	**Hungary**	**Poland**	**Slovakia**
General government expenditure in per cent of GDP	42,3	49.6	43.3	41.0
General government deficit in per cent of GDP	-2,5	-3.6	-4.2	-4.0
Net allocated EU funds in per cent of GDP	1,6	3.4	1.2	1.9
Net allocated EU funds in per cent of general government expenditure	3,8	6.9	4.9	4.7

Source: KPMG, Eurostat database

Summary and Conclusions

In the first half of the 1990s, the Europe Agreements with the EU, the CEFTA and the free trade agreements with the EFTA and its member states contributed not only to global integration, but to the increasing involvement in and simultaneous integration into the single European market by the Visegrad group as well. The preparation for and the actual accession to the EU in 2004 terminated the process through the abolishment of the remaining barriers to trade and through legal harmonisation.

With the decrease of the protection of the domestic market by customs tariffs and other measures and the increase in the share of exports and imports in GDP, the exposure of the V4 to the world economy intensified.

The establishment of the customs union between the EU and the Visegrad group and among their member states as well as the comprehensive integration in the single European market mobilised growth potential in foreign trade, GDP and consumption (trade, production and consumption effects of economic integration). Although the rules of the common trade policy of the EU were the same, their economic impact was different in the individual countries surveyed, depending on a great number of factors, particularly structural ones.

Due to the accomplishment of the integration in the single European market, additional impetus to GDP growth in the V4 can be expected from further measures to be introduced at the level of the EU with the objective of extending the single market rules to new segments of the economy and of making further progress in existing fields. In other words: GDP growth could get additional impetus from the further deepening of the single market not only in the Visegrad group, but in all EU member states as well.

Integration into the EU's internal market and cohesion policy involved financial transfers to the Visegrad group. In order to realise them, the Visegrad countries have to elaborate their National Strategic Reference Frameworks according to the provisions of EU legal rules.

In spite of the fact that they are identical in breakdown and similar in contents, the NSRFs of the Visegrad countries reflect to some extent their specific features in terms of economic policy priorities, economic philosophy and planning as well as institutions. However, it is not justified to draw far-reaching conclusions for quality and efficiency from the identical traits and the similarities.

Nevertheless, the EU's cohesion policy is more differentiated than the common trade policy since in the spirit of cohesion and convergence, the size of the transfers from the Structural Funds and the Cohesion Fund depends to a large extent on the development level of the beneficiary countries. The absorption of these funds is a different issue being the function of a great number of factors in the recipient countries.

In the time frame ranging from 2007 to 2015, the most EU funds relative to GDP, GNI and the number of inhabitants were allocated to Hungary from among the Visegrad countries. The size of the financial sources envisaged in the budget of the European Union was higher than that justified by Hungary's per capita GNI or GDP. The further ranking was Poland, Slovakia and the Czech Republic. The difference (i.e. Hungary's advantage over the V3) relative to GDP and the number of inhabitants was at least 20 per cent.

EU funds disbursed to the Visegrad group from 2007 to 2015 relative to GDP was equal to 4.0 per cent in Hungary, 2.9 per cent in Poland, 2.4 per cent in Slovakia and 2.3 per cent in the Czech Republic. Transfers meant for promoting growth and convergence accounted for a rather high share of total investments and an extraordinary high percentage of investments in the public sector, particularly in Hungary and Slovakia. EU funds certainly eased the capital shortage of every Visegrad country and broadened the room of manoeuvring of economic policy in, but the reliance on them was extremely high in the public sector with substituting own sources rather than complementing them.

According to the calculations of the European Commission, funds disbursed for cohesion and rural development purposes from 2007 to 2015 contributed to a significant rise in the level of GDP in the Visegrad countries. In line with preliminary expectations, EU funding

triggered the highest increase in the level of GDP in Hungary and Poland where the share of EU transfers relative to GDP was otherwise the highest, followed by the Czech Republic and Slovakia.

However, the comparison of generated and actual GDP growth reveal the fact that among the sources of GDP growth, Hungary relied almost exclusively on EU funding. Rent-seeking behaviour was less pronounced in the other three Visegrad countries than in Hungary whose underlying economic growth performance was extremely weak with the exclusion of EU transfers. GDP growth in the Czech Republic, too, relied on EU funding to a relatively large extent, but by far not so heavily than that of Hungary. Poland and Slovakia did not neglect the other, primarily indigenous sources of GDP growth, EU funds strengthened their growth effects thereby contributing to the rise of GDP.

One of the greatest challenges Visegrad countries are facing is that with the overhaul of the EU's cohesion policy and the common budget, EU transfers are expected to decrease after 2020. Beyond a certain stock level presumably reached by the Visegrad countries, the inflow of FDI, too, is likely to decelerate. Under the present conditions, the external sources and driving forces of GDP growth in the context of EU integration tend to approach their limits by 2020 and beyond. Under the new circumstances, first, the integration into the euro area, second, the more intensive involvement in global and EU-wide value chains may create new external sources of GDP growth for the Visegrad countries. In addition, indigenous growth factors tend to gain in importance.

The experiences of the Visegrad countries with the integration into the single European market and the cohesion and rural development policy of the EU may be instructive and inspiring for other countries intending to join economic integrations or to strengthen their relations with them. This holds true particularly for Ukraine, Moldova and Georgia having Association Agreements with the provisions of Deep Comprehensive Free Trade Area but for other countries as well.

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