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The Eurozone Crisis:
Implications for Central and Eastern Europe

Edited by
Anna Visvizi & Tomasz Stępniewski

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Introduction: the eurozone crisis in perspective: implications for Central and Eastern Europe

The eurozone crisis has had a number of negative manifestations. It attracted considerable attention from the key EU-level actors that for the last three years seem to have been absorbed completely by efforts to navigate the crisis. Undeniably, the crisis in the euro area, the first of its kind in the Economic and Monetary Union (EMU) consists of several overlapping crises identified in the literature as a banking crisis, a sovereign-debt crisis, and a growth crisis. Consensus has emerged among politicians, academics and analysts that a political crisis, or to be more precise, a crisis of governance, has played a quintessential role in triggering a number of vicious feedback effects among these three crises thus contributing to the escalation of the problems and their spread beyond the euro area.

The debate on the crisis in the eurozone abounds with insights into the complex causes of the crisis, its imminent implications and the appropriateness of the responses to the crisis generated at the EU-level as well as in the EU member-states. Recently, the question of the impact of the unwelcome developments in the euro area on the accession countries, mostly Western Balkans, has made its way to the surface of the debate on the eurozone crisis[1]. Surprisingly, in this otherwise rich political and academic debate on the crisis, the question of its impact on the countries of Central and Eastern Europe (CEEs)[2] has been largely ignored until now. This raises several questions about how the CEEs are perceived across the EU and thus how their involvement in the EU-level

1 D. Bechev, *The Periphery of the Periphery: the Western Balkans and the euro crisis*, Policy Brief 60, European Council on Foreign Relations (ecfr), August 2012.

2 Clearly, inaccuracies regarding the content and the application of the term CEE exist. In the EU context, the term CEE tends to be applied to a highly differentiated group of countries consisting of ten EU member-states that joined the EU in 2004 and 2007 respectively, including: the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia, Slovenia as well as and Bulgaria and Romania.

policies, processes and developments is assessed. All in all, the CEEs' absence in the broader debate on (the implications and the ways of overcoming) the crisis in the euro area is at least worrying.

Taking into account the diversity inherent in this group of countries, country-specific challenges that the eurozone crisis triggers, and finally the variability of responses to these challenges across the CEEs, it is imperative that a discussion on the multifaceted implications of the eurozone crisis for the CEEs be launched in an organized manner. This issue of the Yearbook upholds this plea in that it highlights the sources of the CEEs' vulnerability to developments in the euro area and against this background offers a snap-shot view into specific implications of the eurozone crisis for Poland, Hungary, and Lithuania. The case of Ukraine, also included in the volume, is employed to stress that the eurozone crisis is by no means a predicament limited in its scope to the euro area. By framing the above case-studies in a broader discussion on the causes and implications of the eurozone crisis, the aim of the volume is to provoke questions and to start a debate on the otherwise neglected political, economic and social consequences of the eurozone crisis for the CEEs.

In the introductory paper on the causes and implications of the eurozone crisis, Anna Visvizi examines the causes as well as the ways of addressing the crisis. Against this background, the diverse correlated implications of the eurozone crisis for the EU member-states, for the EU institutions, and for the EU itself are discussed. A significant feature of the discussion consists in the author highlighting sources of vulnerability of the CEEs to the developments in the euro area. In this sense, this paper lays the ground for the ensuing discussion. Accordingly, László Csaba skilfully guides the reader through the meanders of the Hungarian political scene. He argues that as one of the most open economies in Europe, Hungary has suffered from the global and the European crises and their mismanagement. Domestic policy blunders complicated the situation. By focusing on Hungary's response to the eurozone crisis, the paper addresses the questions of: whether the country converged or diverged to EMU membership, whether joining the EMU is still a good idea for Hungary, and whether the measures to ward off the crisis have actually helped to face the challenge of growth. In the following step, the empirical focus of the discussion is directed at the case of Poland, presumably 'an island of growth in the sea of recession'.

Katarzyna Żukrowska explores the factors that made Poland resistant to the negative impacts of the global financial crisis and the crisis in the euro area. It is argued that the Polish economy responded to the global financial crisis differently than the remaining CEEs' economies, and even if the growth impetus weakened, the positive growth rates in Poland were maintained during the crisis. By examining the case of Poland against the background of the Czech Republic, Hungary and Slovakia, Żukrowska argues that the variability of responses to the crises can be explained by reference to the differences in the transformation strategies employed in each of these countries. The different transformation strategies that each of the countries adopted in the 90s resulted in different levels of development, openness, and competitiveness, thus influencing the respective economies' responses to external shocks. Gediminas Kazėnas discusses the impact of the eurozone crisis on Lithuania's economy as well as on Lithuania's bid to adopt the euro. Kazėnas argues that due to the crisis in the euro area and due to the necessity for the eurozone member-states to contribute to financial assistance for the European South, there is no particular political will in Lithuania to adopt the euro at the moment. The dilemma is that the euro remains the best warranty of financial and economic stability in the country.

The volume closes with a paper by Tomasz Stępniewski devoted to the broad question of the relationship between the EU and Ukraine. Following the launch of the European Neighbourhood Policy (2003-2004), the eastern enlargement of the EU (2004/2007) has further reshaped the quality of the EU's relations with Ukraine. Stępniewski examines the evolution of this relationship and by so doing answers the following questions: What is the EU's role in Eastern Europe? How does the eurozone crisis translate into the EU's relations with Ukraine?

By presenting the volume to the readers the Editors hope that it will trigger a number of new questions about the crisis in the euro area and its impact on the CEEs. In this sense, the Editors welcome any ideas and initiatives that could potentially lead to an organized discussion of the CEEs and their role in the ever-changing EU.

The Editors:
Anna Visvizi & Tomasz Stępniewski
Athens & Lublin, November 2012

Articles

Anna Visvizi

The eurozone crisis in perspective: causes and implications

Abstract: The eurozone crisis, apart from revealing serious institutional weaknesses in the structural design of the Economic and Monetary Union (EMU), has also highlighted the limits of the EU and its member-states to act efficiently, swiftly, and comprehensively to address the problems at hand. A number of vicious feedback effects that the crisis fuelled resulted in unwelcome political and economic developments spreading beyond the eurozone. The objective of this paper is to shed some light on the causes and the ways of addressing the crisis in the euro area. Against this background, the diverse correlated implications of the eurozone crisis for the EU member-states, for the EU institutions, and possibly for the future of the EU itself are discussed.

Keywords: eurozone, crisis, EU, economic governance, CEEs

The eurozone crisis that has been unfolding for more than two years now attracts enduring attention worldwide. The situation of emergency and the need of addressing it forced the European Union (EU) leaders to seek ways of navigating the crisis. As time passed and the crisis spread, the limits to the current form of governance and policy coordination in the EU became striking. In this sense, the eurozone crisis, apart from revealing serious institutional weaknesses in the structural design of the Economic and Monetary Union (EMU), has also highlighted the limits of the EU and its member-states to act efficiently, swiftly, and comprehensively to address the problems at hand. This incapacity to act efficiently is reflective of a number of problems inherent in the current design and ways of functioning of the EU, whereby the most important of them is poor governance structure. The poor structure of governance fuels a number of vicious feedback effects resulting in diverse unwelcome political and economic developments spreading beyond the eurozone.

As a means of introducing the reader to the following papers included in this volume, the objective of this essay is to shed some light on the causes and the ways of addressing the crisis in the euro area. Against this background, the paper dwells on the diverse correlated implications of the eurozone crisis for the EU member-states, for the EU institutions, and possibly for the future of the EU itself. The argument is structured as follows. In the first section the overlapping causes of the crisis are outlined. In the following step, the actions devised at the EU-level aimed at addressing the manifestations of the crisis are mapped. A discussion on the variety of implications of the crisis follows.

1. The overlapping causes of the crisis

It is quite common in the literature to seek a direct connection between the global crisis of 2007-2008 and the crisis in the eurozone. Although the global financial crisis has had a profound impact on the euro area, it has merely unveiled the pre-existing problems nurturing the European economies and made the weaknesses inherent in the design of the EMU more apparent. It is not to say that the EMU is a failure; quite the contrary. The EMU proved resistant to a number of external shocks that it has incurred since its inception. Moreover, "the EMU actually delivered what it promised: price stability for a long period, i.e., over 13 years. Criticisms blaming the single currency for what it is not constructed for, or which is not to be influenced by monetary policy, are therefore misdirected"[1]. In this view, what matters in a discussion on the causes of the crisis in the euro area is what kind of weaknesses the global financial crisis has exposed and what the connection between them is.

1 L. Csaba, *Perspectives for the eurozone: Consolidation, Collapse or Muddling Through?*, [in:] E. Latoszek et al. (ed.), *European integration process in the new regional and global settings*, University of Warsaw Press, Warsaw 2012, pp. 77-78.

On a country-specific level the global financial crisis exposed a number of diverse long-standing economic policy problems. Here the contrasting cases of Greece and Ireland could be mentioned[2]. At the eurozone-level, the crisis revealed structural imbalances that exist among the European economies, divergence in their economic performance and competitiveness, as well as grace balance-of-payment imbalances. At the EU-level finally, the global financial crisis revealed, on the one hand, that the economic growth model pursued by the majority of the EU member-states is unsustainable and does not promote growth. On the other hand, it proved that serious drawbacks in the implementation of the single market agenda halt back the European economy as a whole and limit the elasticity of markets to react to situations of distress.

That the weaknesses exposed by the global financial crisis led to a full-scale crisis in the eurozone has to be attributed to faults in the institutional design of the EMU. Five factors should be mentioned here. First, since its inception, the EMU did not fulfil the requirements for an optimal currency area, and according to many commentators it should have failed a long time ago. Second, that the monetary union was not accompanied by a fiscal union[3] was considered a major weakness of the EMU. Third, the implementation of institutional solutions instated to balance up the lack of a fiscal union, such as the Stability and Growth Pact and the accompanying surveillance mechanisms, was spotty, inconsistent and thus inefficient. Fourth, the euro-area banking system remained very fragile and overly exposed to government debt and to the risk of under-capitalization. What made the four correlated root-causes of the crisis break out simultaneously is, fifth, a poor structure of governance[4] in the euro area, and possibly in the EU as a whole. The poor structure of governance could be defined as an "insufficient ability to make authoritative policy and political decisions for the region as a whole"[5]. As the practice of handling the crisis suggests this inability to

2 See e.g., A. Visvizi, *The crisis in Greece and the EU-IMF rescue package: determinants and pitfalls*, Acta Oeconomica, Vol. 62, No. 1, pp. 15-39; and: K. Regling, M. Watson, *A Preliminary Report on The Sources of Ireland's Banking Crisis*, Government Publications of the Republic of Ireland, May 2010.

3 P. Subacchi, S. Pickford, *The Euro on the Brink: 'Multiple' Crises and Complex Solutions*, Research Paper, January 2012, Issue 7, Nomura Foundation Publication.

4 P. Subacchi, *Merkel on steroids won't work*, The World Today, August-September 2012; A. Dukes, *The Euro Crisis: Preservation of Dissolution? An existential crisis for the euro*, Working Paper 11, 2012, Institute of International and European Affairs.

5 N. Veron, *The Challenges of Europe's Fourfold Union*, Bruegel Policy Contribution, August 2012, Issue 13, p. 2.

make authoritative decisions is aggravated by an inability to recognize that country-specific political, cultural and economic circumstances and different causes underlying their respective crises beg for different approaches toward addressing the crisis.

In this sense, although feedback effects between all of the five components enumerated above exist, the poor structure of governance constitutes the most powerful factor that contributed to the escalation of the crisis in the euro area and let it spread beyond the eurozone. Greece represents a good case in point here. Even if the sovereign-debt crisis is to be associated with structural and institutional weaknesses inherent in the Greek economy and its failed state-apparatus[6], since it has not been addressed by the EU-leaders adequately, on time, and with the political sensitivity and wit required, it has definitely added to the scale and dynamics of the crisis in the euro area[7].

In short, the eurozone crisis represents a complex set of weaknesses detectable at the micro-level (domestic economic problems of the member-states), at the mezzo-level (the institutional set-up of the EMU) and at the macro-level (the economic model promoted by the EU). These weaknesses gave rise to three concurrent crises that the Euro area is struggling with at the moment. These include: a banking crisis, a sovereign-debt crisis, and a growth crisis[8]. The political crisis (or a crisis of governance) complements this list. These four crises translate in turn into four basic challenges that the EU has to deal with, i.e. the challenge of establishing a banking union, a fiscal union, a competitiveness union and a political union[9]. It remains to be seen whether the measures devised at the EU level and by the EU member states themselves will prove sufficient to pave the way toward facing these multiple challenges. The following section sheds some light on this issue.

6 K. Featherstone, *The Greek Sovereign Debt Crisis and EMU: A Failing State in a Skewed Regime*, Journal of Common Market Studies, Vol. 49, No. 2, pp. 193-218.

7 A. Visvizi, *Addressing the crisis in Greece: the role of fiscal policy*, [in:] B. Farkas (ed.), *The Aftermath of the Global Crisis in the European Union*, Cambridge Scholars Publishing, Cambridge 2012, pp. 210-239.

8 J. C. Shambaugh, *The Euro's Three Crises*, Brookings Papers on Economic Activity (BPEA), Spring 2012, Brookings Institution, Washington DC.

9 N. Veron, *The Challenges of Europe's...*, p. 2.

2. Ways of addressing the crisis

The responses devised by the EU leaders to address the eurozone crisis can be divided into three groups, i.e. financial assistance and support measures; measures aimed at enhancing economic governance in the eurozone and in the EU as a whole; and measures targeting the financial sector in the EU.

2.1. Financial assistance and support measures

Three qualitatively different sets of measures aimed directly at providing financial assistance to the EU member-states in financial distress have been implemented in the EU, initially as a response to the global financial crisis, and eventually as a means of addressing the sovereign-debt crisis (see Table 1. for details). On the one hand, prior to 2012, several member-states benefited from multilateral financial assistance programmes provided to them by the EU, the IMF and other creditors. In each case, the objectives and the economic circumstances behind the assistance varied considerably. On the other hand, faced with a lack of an independent European financial stability mechanism, and thus challenged with the (politically contingent) need to resort to the IMF's support, the EU leaders established the European Financial Stability Mechanism (EFSM) in May 2010. It was replaced by the European Financial Stability Facility (EFSF) in 2011. The European Stability Mechanism (ESM) in 2012[10], a form of a 'self-insurance' arrangement for the EMU members, complemented the EFSF in 2012.

Irrespective of the hopes and prospects that the ESM generates in view of restoring stability and confidence in the euro area, analysts stress that it may prove a double-edged sword for the EMU. "If the stability mechanism proves simultaneously too little to be effective and too large to sit easily on the political economy basis of the countries that formed it, it may ultimately become subject to the very contagion it was set up to prevent"[11].

10 A. Leipold, *Making the European Stability Mechanism Work*, Lisbon Council Policy Brief, Vol. 6, February 2012, No. 1, The Lisbon Council, Brussels.
11 A. Leipold, *Making the European Stability...*, p. 2.

Table 1. Addressing the crisis: financial assistance & support measures

<table>
<tr><th></th><th>Type of measure</th><th>Eligible countries</th><th>Value in billion €</th><th>Time-line</th><th>In force</th></tr>
<tr><td colspan="6">Permanent measures</td></tr>
<tr><td colspan="2">European Financial Stability Facility (EFSF)</td><td>euro area member-states</td><td>440</td><td>2010, revised October 2011</td><td>2011</td></tr>
<tr><td colspan="2">European Stability Mechanism (ESM)</td><td>euro area member-states</td><td>700</td><td>signed July 2011, revised June 2012</td><td>October 2012</td></tr>
<tr><td colspan="6">Financial assistance programmes</td></tr>
<tr><td colspan="2"></td><td colspan="4">Latvia (Dec-2008/€7.5bn), Romania (May-2009/€20bn), Greece (May-2010, €110bn), Ireland (Dec-2010/€85bn), Portugal (May-2011/€78bn), Hungary (2009/€20bn), Spain (Jul-2012/€100bn), Italy*</td></tr>
<tr><td colspan="6">Enhanced credit support by the ECB</td></tr>
<tr><td colspan="2">Securities Markets Programme (SMP)</td><td>Greece, Ireland, Portugal, Italy, Spain</td><td>211</td><td>May 2010, August 2011</td><td></td></tr>
<tr><td colspan="2">Covered Bond Purchase Programme (CBPP2)</td><td>credit institutions and enterprises</td><td>40</td><td>until October 2012</td><td></td></tr>
<tr><td colspan="2">Outright Monetary Transactions (OMTs)</td><td>member-states in need</td><td>no ex ante limits</td><td></td><td></td></tr>
</table>

* European Commission, *Financial Assistance to the EU member-states*, DG Economic & Financial Affairs, http://ec.europa.eu/economy_finance/assistance_eu_ms/index_en.htm

Source: Adapted from: European Commission, *European Financial Stability and Integration Report 2011*, Commission Staff Working Document, April 2012, Brussels, 13.4.2012, SWD (2012) 103 final, pp. 47-49.

The European Central Bank (ECB) acquired a significant, yet contested, role in mitigating the sovereign debt crisis in the eurozone. Already in May 2010, via the Securities Market Programme (SMP), the ECB purchased Greek sovereign bonds, otherwise rated as 'junk'; Ireland and Portugal followed. Italy and Spain were included in the programme in August 2011. Until October 2012, the ECB run the so-called Covered Bond Purchase Programme (CBPP2) designed to improve funding conditions for credit institutions and enterprises across the euro area, and thus ease lending across the eurozone.

Finally, in what has been referred to as a desperate move to rescue the eurozone and reduce the market pressures on Italian and Spanish bonds, in August 2012, the ECB President, Mario Draghi announced the introduction of Outright Monetary Transactions (OMT), i.e. the purchase of government bonds in the secondary market. The purpose of OMT, designed to address many of the problems of the SMP, is to safeguard an appropriate monetary policy transmission and the singleness of the monetary policy[12]. "The OMTs will cover government securities purchases, focused on the shorter part of the yield curve. Importantly, the ECB will accept the same treatment as private or other creditors with respect to bonds purchased through the OMT programme"[13]. Governments wishing to resort to OMT will be required to follow either a macroeconomic adjustment or precautionary programme negotiated with and supervised by the EFSF/ESM.

2.2. Measures aimed at enhancing economic governance in the eurozone

Given the fact that poor governance structures have been repeatedly pointed to as the major culprit behind the eurozone crisis[14], since the beginning of the crisis significant effort has been directed at enhancing economic governance in the EU (see Table 2. for details). In late 2010, the European Commission came forward with a pack of six legislative proposals (the so-called Six Pack) that aim at strengthening fiscal and macroeconomic surveillance in the EU. Supplementary regulations will apply to the eurozone member-states only. The Six-Pack has been complemented by the so-called European Semester. The objective of this policy instrument is to integrate the various surveillance procedures already in place into one policy framework allowing, on the one hand, coordination of economic policies of the EU MS, and on the other hand, ex-ante policy guidance on the member-states' budgets and structural reforms.

Careful observers of the developments in the euro area will recall the havoc caused by the Franco-German plan on – what later became – the

12 U. Dadush, *The ECB Can't Rescue Europe*, National Interest, 12.10.2012.

13 IMF, *World Economic Outlook: Coping with High Debt and Sluggish Growth*, October 2012, International Monetary Fund, p. 23.

14 See: P. Subacchi, *Merkel on steroids...*; A. Leipold, *Making the European Stability...*

Table 2. Addressing the crisis: enhancing economic governance in the EU

Measure	Objective	Applicable to euro/non-euro MS	Agreed	In force
"Six-Pack"	fiscal surveillance	All (but special provisions for the euro-MS)		Dec-11
	macroeconomic surveillance	All (but special provisions for the euro-MS)		Dec-11
European Semester	surveillance: fiscal and macroeconomic policy framework	All		Mar-11
Euro Plus Pact	economic policy coordination & improved competitiveness	Euro MS & Bulgaria, Denmark, Latvia, Lithuania, Poland, Romania	Mar-11	
Treaty on Stability, Coordination & Governance in the EMU / (incl. Fiscal Compact)	greater budgetary discipline & better coordination of fiscal policies across the EU	All (but UK & Czech Rep.) / Fiscal Compact applies only to the euro-MS	Mar-12	target: Jan-13

Source: Adapted from: European Commission, *European Financial Stability and Integration Report 2011*, Commission Staff Working Document, April 2012, Brussels, 13.4.2012, SWD (2012) 103 final, pp. 49-53.

"Euro Plus Pact"[15]. Proposed in early 2011, the Pact was adopted by the eurozone MS and several non-euro countries. The Pact's major objective is to strengthen economic policy coordination and, through a range of commitments regarding the labour market and fiscal discipline, to improve the competitiveness of the countries involved. An equally debated intergovernmental agreement, misleadingly named "*Treaty* on Stability, Coordination and Governance in the EMU", of which the most important element is the so-called "Fiscal Compact", builds directly on other European legislation already in existence. It introduces the notion of "debt breaks", obliges the member-states to a fiscal balance or surplus, and strengthens the execution mechanisms underpinning the existing fiscal surveillance procedures[16]. The variety of measures and legislative

15 See also: D. Gros, *Competitiveness Pact: Flawed Economies*, CEPS Commentaries, 18.03.2011, Center for European Policy Studies.

16 For an interesting discussion on the Fiscal Compact, see: S. Dullien, *Reinventing Europe: Explaining the Fiscal Compact*, ECFR Commentary/Analysis, 01.05.2012, European Council on Foreign Relations.

proposals aiming at improving the (economic) governance in the eurozone, notwithstanding the efficiency of the measures, remains an open question.

2.3. Measures targeting the financial sector in the EU and its reform

The eurozone crisis exposed the fragility of the European financial system, i.e. it exposed the vicious feedback loop that exists between the banks and sovereigns[17]. In order to address this weakness, the European Commission came forward with a series of legislative proposals aimed at improving financial supervision, coordination, as well as stability and governance of financial institutions in the EU. Table 3. highlights the major objectives of the Commission's legislative proposals and the institutional framework that will be put in place once the Commission's proposals have been accepted by the EU member-states[18]. Overall, the objective of the reforms depicted in Table 3. should be considered in terms of confidence-building measures. The specific institutions and mechanisms proposed or already in place seek to stabilize the financial sector, make it more transparent, more resistant to potential future shocks, and thus capable of mitigating future crises. The credibility and effectiveness of these institutions still needs to be established.

In this view the success of measures proposed by the Commission to a large extent depends on the domestic regulatory approaches to the reform of the banking system across the EU. Until now, progress toward putting banks on a sounder footing has been uneven. For instance, countries such as the United Kingdom, Sweden, and Switzerland expressed their preference to go beyond the Basel III minimum requirements to reinforce capital as a way to strengthen their banking system and reduce associated fiscal risks. In Ireland, on the other hand, "institutions are unwinding noncore assets while nonviable banks are being resolved – ultimately leading to a much leaner banking sector. Meanwhile, other euro area regulators are pushing to soften somewhat

17 IMF, *Global Financial Stability Report*, International Monetary Fund, April 2012, pp. 9-10.

18 For an insightful discussion on the design, efficiency, credibility and prospects of the new institutions underpinning the EU financial sector architecture, see: T. Tressel, *Macro-prudential Reforms in the EU: Objectives and Progress*, [in:] IMF, *Regional Economic Outlook Europe: Navigating Stormy Waters*, World Economic and Financial Surveys, International Monetary Fund, October 2011, pp. 19-21.

Table 3. Addressing the crisis: major financial sector reform

<table>
<tr><th colspan="2">Field</th><th>Objective</th><th>Institution</th><th>Established/revised/proposed</th></tr>
<tr><td rowspan="11">financial institutions</td><td rowspan="3">financial supervision</td><td rowspan="3">European Supervisory Authorities (ESAs)</td><td>European Banking Authority (EBA)</td><td>2011</td></tr>
<tr><td>European Insurance & Occupational Pensions Authority (EIOPA)</td><td>2011</td></tr>
<tr><td>European Securities Markets Authority (ESMA)</td><td>2011</td></tr>
<tr><td>macro-prudential supervision</td><td>systemic risks to financial stability</td><td>European Systemic Risk Board (ESRB)</td><td>2011</td></tr>
<tr><td rowspan="7">stability & governance (Basel III) of financial institutions</td><td>capital-requirements for banks & investment firms</td><td>Capital Requirements Directive (CRD)</td><td>2011 (revised)</td></tr>
<tr><td>economic risk-based solvency requirements in insurance firms</td><td>Solvency II</td><td>2013 (expected)</td></tr>
<tr><td>mitigation of risks related to the functioning of the rating business</td><td>Credit Rating Agencies (CRA III) (legislative proposal)</td><td>2011 (proposed)</td></tr>
<tr><td>problems related to financial conglomerates</td><td>Directive of financial conglomerates</td><td>2011 (review proposal)</td></tr>
<tr><td>dealing with distressed credit institutions</td><td>EU bank resolution regime (legislative proposal)</td><td>2012 (expected)</td></tr>
<tr><td>veracity of financial statements of companies etc.</td><td>Statutory Audit Directive (legislative proposal)</td><td>2011 (proposed)</td></tr>
<tr><td>statutory audit services/single market</td><td>legislative proposals</td><td>2010-2011-2012</td></tr>
</table>

Field		Objective	Institution	Established/re-vised/proposed
financial markets	efficiency, integrity, liquidity & transparency	securities markets: transparency, efficiency, security	Regulation on Market Abuse	2011 (proposed)
			Markets in Financial Instruments Directive (MiFID)	2011 (proposed revision)
		Over-The-Counter derivatives markets	European Markets Infrastructure Regulation (EMIR)	2010 (proposed)/ in force end 2012
	safety & efficiency to securities settlement	addressing settlement fails & creation of a true internal market for national CSDs	Central Securities Depositories (CSD) Regulation	2012 (proposed)
		increasing transparency	Short Selling and Credit Default Swaps (CDSs) Regulation	2011 (adopted)
Protection and inclusion of customers				
Protection and inclusion of investors				

Source: Adapted from: European Commission, *European Financial Stability and Integration Report 2011*, Commission Staff Working Document, April 2012, Brussels, 13.4.2012, SWD (2012) 103 final, pp. 53-59.

the capital quality standards and see no need to go beyond Basel III"[19]. Parallel to the regulatory effort, the idea of a "banking union" has been floated during the 18-19 September 2012 EU Summit Meeting. At the time of writing, however, it is too early to make any valid observations regarding the design, functioning and efficiency of this possible future construct.

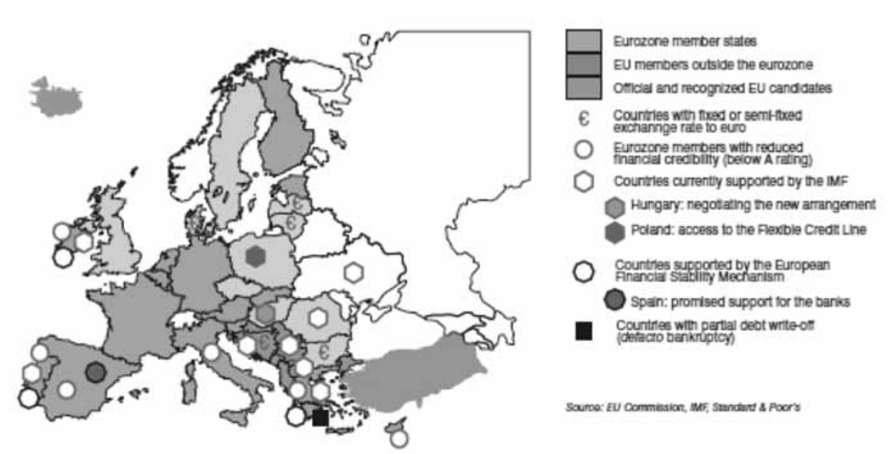
19 IMF, *Regional Economic Outlook Europe: Navigating Stormy Waters...*, pp. 3-4.

3. The variability of implications of the crisis

The eurozone crisis has had a number of implications for specific members of the euro area, for the eurozone itself, as well as for the rest of the European Union. As Graph 1. indicates, very few members of the EU have managed to avoid financial troubles being the result of either directly the global financial crisis or the four crises that beset the Euro area specifically.

While some countries found themselves on the brink of insolvency (Greece, Ireland, Portugal) and extra-ordinary measures were needed to assist them, several other countries saw their credit ratings deteriorating (Spain, Italy, Cyprus), thus causing substantial strain on external financing. As the financial troubles are not the only ones that the crisis caused, the implications of the eurozone crisis can be divided into two broad groups. These include: the economic implications of the crisis as well as its impact on the institutional structure of the EU and the balance of power among the EU member-states. The following subsections shed some light on these issues.

Graph 1. Financial troubles in Europe



Source: PWC, *Approaching storm. Report on transformation. Central and Eastern Europe and the eurozone crisis*, September 2012, p. 5.

3.1. Economic implications of the eurozone crisis

Different countries were affected by the crisis differently. Apart from the countries that were forced to request full or partial international assistance to avoid insolvency, other countries were affected either through their banking sector exposure (via the financial channels) or via secondary implications of the crisis in the form of falling demand for their exports. Whereas Greece, Italy and Spain found it either impossible or increasingly difficult to secure access to affordable external financing, countries such as Austria, Finland and Germany as well as Sweden, Switzerland and the UK have benefited from increasingly low, and sometimes even negative, interest rates[20].

As Table 4. depicts, overall the euro area is currently in recession with the eurozone unemployment hitting a record level of 11.6% in September 2012. Although a very modest recovery is in sight, the risks to the eurozone economy have not been bypassed yet. On the one hand, the results of the ECB's latest bank lending survey (Q3) suggest that credit growth is not going to support economic recovery in the euro area any time soon. On the other hand, the uncertainty related to the developments in the eurozone periphery may cause renewed negative effects on the confidence of consumers, bankers and investors in the eurozone's core. Finally, weaker global growth will cause additional strain on growth prospects in the centre of the euro area. Clearly, a more detailed analysis than the one presented here is required to assess the diverse implications of the eurozone crisis for specific economies of the area. Essentially, however, the picture that emerges gives more reasons to worry than to be optimistic about the prospects for the euro area economies.

The economic and financial condition of the euro area core has serious implications for the growth prospects in the ten Central and Eastern European countries (CEEs) that joined the EU in 2004/2007. Following a disastrous year of 2009, the CEEs have been showing positive growth tendencies (Table 5.). Still, due to their exposure to the euro as well as due to their dependence on the eurozone as their major export market, the CEEs remain highly vulnerable to the developments in the euro area. Thus, irrespective of the encouraging statistics of economic growth (Table 5.), fiscal indicators (Table 6.) call for caution when as-

20 K. Schwab, *The Global Competitiveness Report 2012-2013*, World Economic Forum, Geneva 2012, p. 24.

Table 4. Euro area: Macroeconomic indicators (% annual real changes unless otherwise stated)

	2009 (€bn)	2010	2011	2012 p	2013 p	2014 p
Private consumption	5,128	0.9	0.2	-0.8	-0.4	0.3
Government consumption	1,987	0.7	-0.3	0.2	-0.9	-0.8
Fixed investments	1,735	-0.2	1.6	-3.0	1.1	2.4
Stock-building*	-48	0.7	0.3	-1.2	-0.1	0.5
Exports	3,272	11.0	6.3	1.6	4.9	1.6
Imports	3,155	9.4	4.1	-2.3	2.9	1.4
Net exports*	-0.8	0.7	1.0	1.6	1.0	0.2
GDP		1.9	1.5	-0.4	0.6	1.7
Nominal GDP, €bn	8,917	9,155	9,410	9,512	9,725	9,804
Unemployment rate, %		10.1	10.2	11.3	11.6	10.6
Industrial production, % y/y		4.3	2.7	-2.6	2.9	5.8
Consumer prices, % y/y		1.6	2.7	2.2	1.6	1.6
Core inflation**		1.0	1.7	1.6	1.2	1.0
Hourly earnings, % y/y		1.6	2.2	2.3	2.2	2.1
Current account, bn EUR		-3.2	-1.1	33.1	21.0	17.0
Current account, % of GDP		0.0	0.0	0.3	0.7	1.0
General government budget balance, % of GDP		-6.2	-4.1	-3.7	-3.0	-2.5
General government gross debt, % of GDP		85.3	87.2	90.9	93.9	96.4

* Contribution to GDP growth (% points)

Source: Nordea Bank, *Economic Outlook: Euro area*, Nordea Markets, September 2012.

sessing the implications of the eurozone crisis and the prospects of the CEEs' economies. Domestic and external structural and political factors add to the CEEs' vulnerability vis-à-vis the developments in the EU's core.

Since their accession to the EU, the CEEs have become highly integrated with its economic and financial structures. With the eurozone serving as their major export market, the CEEs are highly susceptible to the falling demand in the euro area that may cause recessionary pres-

Table 5. The CEEs: real GDP growth (percentage change on previous year)

	2008	2009	2010	2011	2012 (f)	2013 (f)
Bulgaria	6.2	-5.5	0.4	1.7	0.5	1.9
Czech Republic	3.1	-4.5	2.5	1.9	0	1.5
Estonia	-4.2	-14.1	3.3	8.3	1.6	3.8
Latvia	-3.3	-17.7	-0.9	5.5	2.2	3.6
Lithuania	2.9	-14.8	1.5	5.9	2.4	3.5
Hungary	0.9	-6.8	1.3	1.6	-0.3	1
Poland	5.1	1.6	3.9	4.3	2.7	2.6
Romania	7.3	-6.6	-1.6	2.5	1.4	2.9
Slovenia	3.4	-7.8	1.2	0.6	-1.4	0.7
Slovakia	5.8	-4.9	4.4	3.2	1.8	2.9

Source: Eurostat, last updated 31.10.2012.

sures. In terms of their vulnerability to financial shocks originating in the eurozone, one should bear in mind two issues. Firstly, out of the ten CEEs that joined the EU in 2004/2007, three have adopted the euro (Slovakia, Slovenia, Estonia) and two (Latvia and Romania)[21] have set the national target dates to adopt the single currency. The remaining countries have their currencies linked to the euro either via currency board arrangements or via currency baskets. Secondly, the banking sector in the majority of the CEEs is closely connected to the West European banking groups. As a result, the CEEs were already affected by the deleveraging of western European banks as well as by the declining capital inflows from Western Europe[22]. Given the fact that the financial crisis in the eurozone is far from being over and recognizing the CEEs' investment needs, the declining capital inflows to the CEEs may add to the recessionary pressures. These can be aggravated by structural problems in the banking sector of the CEEs.

21 01.01.2014 and 01.01.2015, accordingly.

22 IMF, *Global Financial Stability Report: Restoring Confidence and Progressing on Reforms*, International Monetary Fund, October 2012.

Ironically, rather than making the CEEs more immune to economic and financial shocks, the single market has served as a transmission belt of the financial and economic troubles that beset the eurozone. Four major threats resulting from the euro area crisis have been identified as particularly challenging for the CEEs' economies. These include: the recessionary impact of the crisis in the eurozone, the limited room for the macroeconomic policy to manoeuvre in counteracting the recession, possible problems with foreign debt, and potential problems in the banking sector[23]. These four threats should be complemented by a fifth one concerning the risk of political reform drift as the examples of Romania and Bulgaria indicate.

On a positive note, "given the still large income differences between emerging and advanced Europe, there remains significant scope for further catching-up with advanced Europe, but it will not be automatic. It is contingent on a combination of sound macroeconomic policies and structural reforms that help ensure balanced growth and rising potential"[24]. This is particularly true as the CEEs lag behind the countries of Northern and Western Europe in terms of competitiveness. Nonetheless, as the most recent Competitiveness Report indicates, "the traditional distinction made between the 15 original members and the 12 countries that joined after 2004 does not hold from a competitiveness point of view"[25], thus indicating a relative improvement of the CEEs' position vis-à-vis the South of Europe[26].

3.2. The eurozone crisis and the EU's (institutional) balance of power

As the preceding discussion on the measures undertaken at the EU-level to contain and to address the crisis suggests, an 'emancipation' of the ECB is apparent. Although at the early stages of the crisis fears were voiced that the ECB would lose its independence, today it is obvious that the ECB has not only succeeded in defending its unique status but it has also extended the space of the politically possible in its political

23 PWC, *Approaching storm. Report on transformation. Central and Eastern Europe and the eurozone crisis*, September 2012, p. 22.

24 IMF, *Regional Economic Outlook Europe: Navigating Stormy Waters...*, pp. 29-31.

25 K. Schwab, *The Global Competitiveness Report...*, p. 25.

26 See also: K. Żukrowska, *The global financial crisis, the eurozone crisis and their consequences for the Polish economy*, in this volume.

Table 6. CEEs: fiscal indicators (general government deficit, debt, fixed investment) % GDP

		2008	2009	2010	2011
Bulgaria	deficit/surplus	1.7	-4.3	-3.1	-2.0
	debt	13.7	14.6	16.2	16.3
	fixed investment	5.6	4.9	4.6	3.4
Czech Republic	deficit/surplus	-2.2	-5.8	-4.8	-3.3
	debt	28.7	34.2	37.8	40.8
	fixed investment	4.6	5.1	4.3	3.6
Estonia	deficit/surplus	-2.9	-2.0	0.2	1.1
	debt	4.5	7.2	6.7	6.1
	fixed investment	5.4	5.1	3.9	4.2
Latvia	deficit/surplus	-4.2	-9.8	-8.1	-3.4
	debt	19.8	36.7	44.5	42.2
	fixed investment	4.9	4.3	3.7	4.2
Lithuania	deficit/surplus	-3.3	-9.4	-7.2	-5.5
	debt	15.5	29.3	37.9	38.5
	fixed investment	4.9	3.9	4.6	4.4
Hungary	deficit/surplus	-3.7	-4.6	-4.4	4.3
	debt	73.0	79.8	81.8	81.4
	fixed investment	2.9	3.1	3.4	3.0
Poland	deficit/surplus	-3.7	-7.4	-7.9	-5.0
	debt	47.1	50.9	54.8	56.4
	fixed investment	4.6	5.2	5.6	5.7
Romania	deficit/surplus	-5.7	-9.0	-6.8	-5.5
	debt	13.4	23.6	30.5	33.4
	fixed investment	6.6	5.9	5.7	5.2
Slovenia	deficit/surplus	-1.9	-6.0	-5.7	-6.4
	debt	22.0	35.0	38.6	46.9
	fixed investment	4.4	4.6	4.4	3.6
Slovakia	deficit/surplus	-2.1	-8.0	-7.7	-4.9
	debt	27.9	35.6	41.0	43.3
	fixed investment	2.0	2.3	2.6	2.3

Source: Eurostat, *Government finance statistics: main tables*, Eurostat, last updated: 31.10.2012.

conduct. A significant role in this regard was played by the ECB's president, Mario Draghi. Although opinions on Draghi's policy approach and efficiency of the measures he suggests are split, commentators describe him as the "commanding general in the battle to rescue the euro"[27]. It was also stressed that Draghi succeeded in establishing a division of labour between politicians and the central bank policy makers, i.e. "He has managed to tell governments: you do your job, I do my job"[28].

The central role of the ECB in managing the banking crisis as well as the sovereign-debt crisis revives the tension between the European Parliament and the ECB. As the Parliament has a strong track record as a chamber demanding more control over EU decision-making and the decision-makers themselves, it is to be expected that it will seek greater influence on the ECB in managing the crisis, especially given the prospect of the creation of a banking union in the Euro area[29].

From a different angle, the Eurozone crisis, and the responsibility attached to decisions needed to address it, in particular as regards the notion of economic governance in the EU, caused a shift in the balance of power from the Council (of Ministers) to the European Council. Referred to in the literature as "deliberative intergovernmentalism"[30], the term captures the fact that "growing policy interdependencies motivate more co-operative intergovernmentalism that relies on deliberative processes of policy co-ordination"[31]. Notably, however, the underlying logic of this form of policy co-ordination is that it is "about the representation of national interests as much as about the search for collective policy responses"[32]. In this sense, the nascent deliberative intergovernmentalism bears a promise of improving the efficiency of EU economic governance. At the same time, it is reflective of further weakening of the European Commission and a move toward forms of governance specific to federalism[33]. These developments seem to confirm the findings of the post-Lisbon research into the EU institutional structure. In this strand

27 M. Steen, *Draghi expands role in fight to save euro*, Financial Times, 31.10.2012.

28 Ibidem.

29 B. Fox, *Parliament is starting to bare its teeth on ECB*, Analysis, EU observer, 22.10.2012, http://euobserver.com/political/117946 – retrieved 23.10.2012.

30 U. Puetter, *Europe's deliberative intergovernmentalism: the role of the Council and European Council in EU economic governance*, Journal of European Public Policy, Vol. 18, 2011, Issue 8, pp. 1-18.

31 Ibidem, p. 15.

32 Ibidem.

33 See also: L. Csaba, *Hungary and the eurozone crisis: a comedy of errors?*, in this volume.

of scholarship it is suggested that the traditional balance between the supranational and the intergovernmental has been weakened in favour of the intergovernmental[34]. The crisis in the euro area has only added to this process.

In the light of the above, the questions are: what is the role of the EU member-states in managing the crisis? Has there been any change in the intergovernmental balance of power in the EU following the member-states' involvement with managing the crisis? Initially Germany was all too often blamed for taking the lead in attempting to address the crisis, with the German Chancellor Angela Merkel being the addressee of the majority of criticisms. In fact, supported by Sarkozy's France, Germany played a very active role particularly in the initial stages of the crisis when the decision on the IMF's involvement in Greece was discussed[35]. Although the German leadership did not necessarily produce the most adequate policy responses to the crisis, until 2012 very few actors on the EU political scene seemed to be able or willing to challenge the role assumed by Germany. It was not until June 2012 that Italy's Prime-Minister, Mario Monti, made a very clear attempt to build a new coalition for Europe going beyond the, by that time somewhat weakened, Franco-German tandem. In this way, in a strategic manner, Monti succeeded in opening up the space for alternative solutions (as compared to German and French views) in the debate on the future of the eurozone. In this way, the voices of the European "South" could be articulated at last in the EU-level discourses.

The way the eurozone crisis was handled at the EU-level and especially the role ascribed to the Council and the Eurogroup in the process, raised serious questions about the role and position of the non-eurozone member states in the EU decision-making process. The CEEs, remaining outside the eurozone, were particularly affected by the modus vivendi that emerged vis-à-vis the question of EU economic governance. In essence, the so-called "outs" seemed to have lost a significant part of their influence in Brussels. Overall, for the ten non-euro EU member-states – that nevertheless supported the Fiscal Compact – the

34 J. Monar, *The European Union's institutional balance of power after the Treaty of Lisbon*, [in:] European Commission (ed.), *The European Union after the Treaty of Lisbon: Visions of leading policy-makers, academics and journalists*, Brussels 2011, pp. 60-89.

35 A. Visvizi, *Rola Niemiec w Europie: od zjednoczenia do kryzysu w Grecji* [Germany in Europe: from reunification to the Greek crisis], [in:] K. A. Kłosiński (ed.), *Japonia, Niemcy – Odzyskany honor w rozwoju gospodarczym* [Japan and Germany – honour and economic growth], KUL, Lublin 2011, pp. 109-128.

worry is that they will be marginalized in the increasingly multispeed Europe[36]. "The necessary measures to save the eurozone will lead to its closer political integration. Unfortunately, from the point of view of the Poles, Czechs, Swedes and others outside the block it means the EU is becoming a two-tier club"[37].

Clearly, and it should be seen as yet another of its implications, the euro area crisis brought the politically inconvenient question of "multispeed Europe" to the surface of the political debate across the EU. Interestingly, although a defining feature of the European integration process, the pace variability inherent in the EU since its creation was a 'taboo' in the political discourse on Europe. One would expect that the eurozone crisis, and the variety of suggestions on how to address it, would force the EU leaders to engage with the meaning and the implications of the "multispeed Europe question" for the future of the European integration process. As the practice of the EU Summit Meetings suggests, the tendency remains nevertheless to sweep the question under the carpet.

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As the crisis in the euro area is taking its toll in the eurozone and beyond, several questions about the nature of the integration process itself, about the institutional structure that underpins it and about the future of the EU still need to be addressed. In this context, a more cohesive and more inclusive approach to the question of how to handle the crisis – that by now does not concern only the euro area – is urgently needed.

36 See also: K. Gebert, *Reinventing Europe: Poland and the euro crisis*, ecfr Paper, 07.02.2012, European Council on Foreign Policy, Warsaw 2012.

37 Mikołaj Dowgielewicz, vice-governor of the Council of Europe Development Bank and a former Europe minister, quoted in: The Economist, *Augustinian delay: The European Union's sixth-biggest country has a hard choice over the euro*, The Economist, 18.08.2012.

László Csaba

Hungary and the eurozone crisis: a comedy of errors?

Abstract: The spill-over of the global financial crisis has uncovered the weaknesses in the governance of the EMU. As one of the most open economies in Europe, Hungary has suffered from the ups and downs of the global and European crisis and its mismanagement. Domestic policy blunders have complicated the situation. This paper examines how Hungary has withstood the ups and downs of the eurozone crisis. It also addresses the questions of whether the country has converged with or diverged from the EMU membership, whether joining the EMU is still a good idea for Hungary, and whether the measures to ward off the crisis have actually helped to face the challenge of growth.

Keywords: Hungary, eurozone crisis, EMU membership, growth

General remarks

The crisis of the management of the European Monetary system has become one of the hottest topics in the aftermath of the global financial crisis. While in the pre-crisis period conventional wisdom held the EU to be a safe haven, well-equipped to protect its members from external shocks, the procrastination of both national crisis and EU-level crisis management raised doubts against this insight. Sceptical voices, conventionally associated with the Anglo-American mainstream of the economics profession, spread into continental Europe and policy-making alike.

In this short essay we investigate how Hungary has withstood the ups and downs of the eurozone crisis. We pose the question of whether the country has converged with or diverged from the EMU membership, which was taken upon as a contractual obligation in the accession agreement of December 2002. We may also ask if joining in the EMU is still a good idea for Hungary; furthermore, it is asked if the measures implemented to ward off the crisis have helped to face the challenge of growth.

1. Caught in the storm, longer than ever thought

In 2008 Hungary has just come out of a period of external adjustment triggered by the fast growth of external debt and the need to curtail the explosion of fiscal deficit. On its own, Hungary's debt/GDP ratio at the end of 2007 was been exorbitant – 67% of GDP, just above the average of the eurozone's 66.3% – but the trend was clearly unsustainable and showed no convergence to the Maastricht criterion of 60%. It was all the more disquieting as the starting point in 2001 had been slightly below 52% and thus the most important criterion was missed just at the time when GDP growth was over 4.5% in the entire decade[1].

Having managed the external adjustment in 2006-2007, the overall expectation in Hungary was that of recovery. Recovery was seen as quasi-automatic given the favourable global conditions[2]. But the writing already appeared on the wall. Following the collapse of the British investment bank Northern Rock in June 2007, basically all informed analysts knew that we were sitting on a volcano. It was to erupt, the question being not if, but when. However, the decision-makers of the period[3] considered the subprime crisis as a basically intra-US affair. As they put it, the tornado marches on a different root and Europe is touched only by its rim.

1 Source (unless otherwise indicated): *ECB Statistics Pocket Book*, Frankfurt am Main, June 2012.

2 For details see: L. Csaba: *Hungary: the Janus-faced success story of transition*, [in:] A. Fosu (ed.), *Developmental Success: Historical Accounts from More Advanced Countries*, Oxford, Oxford University Press, 2012, pp. 252-277.

3 J. Király, *A tornádó és a hurrikán – a 2007.év válságos hatásai* [The tornado and the hurricane – the crisis-ridden year of 2007], [in:] L. Muraközy (ed.), *A jelen a jövő múltja* [Present is the past of future], Akadémiai Kiadó, Budapest 2009, pp. 295-332.

Furthermore, the Socialist government was intent to showboth the domestic and external audiences that the crisis was over. Therefore the fiscal plan for 2009 was formulated in an extremely optimistic manner, in terms of growth and financing. Submitting a fiscal plan based on a 3% growth forecast for 2009 in October, weeks after the collapse of Lehman Brothers, was asking for trouble. And external markets did react swiftly, attacking the exchange rate in an aggressive manner. The collapse could only be averted by a blitz stand-by loan, orchestrated together by the IMF, the EU and the World Bank. Both its size – €20bn – and the involvement of the Washington Twins in managing the affairs of a respectable EU member-state constituted major innovations for the period.

In other words, economic policies from the minute of agreeing to the bailout were subordinated to meeting quantitative targets of debt servicing, irrespective of any other broader considerations. The caretaker Bajnai government was eminently fit to manage this task. While cultivating the image of technocratic managers – not unfamiliar for the post-transition Left – they were supported by the Socialists only and by two centrist parties, rightly fearing early elections. All in all, the administration did not have to care about socio-political concerns, while the centre-right opposition Fidesz did not have to care much about economic exigencies and could put the entire blame for suffering on the Left.

The price to be paid in the second half of the electoral cycle when governing parties refused to step down despite their loss of legitimacy[4], was heavy. In 2009, the GDP dropped by 6.9%, the debt ratio jumped to 72.9%, unemployment jumped to 10% against barely over 7% in the preceding period. Oddly enough for a contracting economy, inflation remained at 4% (HICP, y/y), when at the same time the euro area barely escaped deflation with 0.3% annual inflation in 2009.

Let us underscore what can be documented by a broad survey of sources: Hungary has not entered a crisis because of the spill-over of the global financial crisis in the last quarter of 2008. The country was

4 The infamous 'lie speech' of the then Premier in May 2006 – leaked to the press in September only – triggered 6 weeks of violent street protests, calmed down by the opposition by calling for referenda on social matters. The latter was won, by a majority of 85% on 9th March 2008. This would, in theory, have called for a resignation of the government. But they were sticking to power, irrespective of the consequences – including their devastating defeat two years later and the annihilation of the two centrist formations, the heroes of early transition years, MDF and SZDSZ.

already on a slowing track from 2004 onwards and the growth in 2004-2006 could only be sustained owing to the accumulation of external debt. In 2006-2008 adjustment did happen, but structural and institutional weaknesses have not been remedied. The government produced a large number of reform projects, but their implementation was in reverse order to the breadth of the initiatives, covering all walks of life. By contrast, the caretaking Bajnai government did address some of the overdue issues. These included the increase in retirement age, cutting disability and early retirement schemes, cutting central administration and severing tax collection. These measures have, for a variety of reasons, survived the change of government and have been intensified by the Széll Kálmán Plans – no 1 and no 2 – of the centre-right government in 2010-2012.

2. Inflated expectations – improvised solutions

As follows from the sketchy overview produced above, the centre-right attained a landslide victory in 2010. In an unprecedented manner, they won both the national and municipal elections with a convenient margin, in theory allowing the new coalition to do whatever they wished in terms of change, reform, restructuring.

'Life is not as it is in books'. First, a double majority implied that the most difficult items of public finance, relating to municipalities, welfare provision, public firms and the like could not be easily touched upon as fellow party-members were running those too. Second, already by June 2010, i.e., upon the formation of the new government, the external environment had turned quite sour. The allies of the country, who were funding it under the still running IMF/EU stand-by agreement made no secret of judging the government on its fiscal conservatism. While one may puzzle on the theoretical rationale of the insistence, the evolving Greek crisis and the new rescue package and related items[5] have clearly dominated over country-specific considerations or considera-

5 J. Featherstone, *The Greek sovereign debt crisis and EMU: a failing state in a skewed regime*, Journal of Common Market Studies, Vol. 49, 2011, No. 2, pp. 193-217; see also: A. Visvizi, *The crisis in Greece and the EU/IMF rescue package: determinants and pitfalls*, Acta Oeconomica, Vol. 62, 2012, No. 1, pp. 15-40.

tions of the business cycle. European governance gradually learned new forms of tight coordination, such as the European Semester and many others. Withdrawal of EU funds from fiscal trespassers was mandated.

The second Orbán government was taken by surprise as the above events unfolded. Their original platform included major restructuring, even at the cost of temporary fiscal deterioration, in line with international experience. While it was supposed to run to 7%, which would have been in line with the 6.6% actually achieved in the EU-27 in 2010, this idea was considered by the EU Commission as a dangerous derailment, as a drift toward populism. Therefore – also by virtue of the terms of the inherited stand-by agreement – the room for manoeuvre has been narrowed.

The surprise component is perhaps the strongest single explanatory factor of what was later termed 'unorthodox policy measures'. The government resorted to a series of poorly prepared, improvised measures in order to meet the stringent deficit criterion of 3.8%[6]. These included raising the value added tax during the calendar year, cutting expenditure items, and not least nationalizing the previously compulsory private pillar in the pension system. The latter generated sizable revenues for 2010 and even more for 2011, thus allowing the country to record a headline surplus (sic!) of 4.3%. The ratio of public debt to GDP grew only slightly, i.e. to 81.3% by 2010 and started to decline to 79.3% in 2011, further declining somewhat in 2012[7]. Sectoral taxes were imposed, both in 2010 and 2011, on banks, retail chains, the pharmaceutical industry and telecommunications. These did generate revenues; however, they were distortive and one-shot measures, heavily criticized not only by the European Commission but also by top politicians from France, Austria and Germany, intervening in favour of their respective banks and corporations, both directly and at the EU fora.

While these measures did suffice to make both ends meet, broader restructuring – such as re-tailoring public administration or of public firms, especially in the transport sector – fell victim to the pressure of daily fiscal improvements. As global and European upswing gave way to stagnation and uncertainty, especially on the financial markets, conditions for growth and the ensuing improvement of the employment

6 The actual final number was 4.2%, an innocent slip against the major deviations in Greece, Portugal and Spain, but also in France and the UK in 2010-2011.

7 These numbers are extremely sensitive to exchange rate volatility, which has indeed been a problem for Hungary during the entire period of scrutiny.

situation failed to materialize. Especially the latter proved painful, with Hungarian unemployment rates – traditionally way below EU standards – reaching the EU average of 11% and getting stuck. This happened at a time when the centre-right government was elected on a ballot promising to create 1 million new jobs in a decade. In the first two years, only 80 thousand were created, a mere four per cent. This of course created serious social strains and disenchantment, especially among the young, the better qualified and the more mobile. The comprehensive country report of the OECD[8] has rightly stressed the lack of employment and employability as one of the major structural weaknesses in the Hungarian economy, which is to be seen at the root of the fragility of fiscal improvements in the medium term and beyond.

3. The return of the IMF/EU tandem in shadow boxing

It could be seen from the sketchy overview above that the relationship of the centre-right government and the international organizations has been strained from the very outset. The idea to disregard fiscal targets angered the IMF. In return, the Hungarian government launched what it called a "freedom fight" and, in one of its first moves in June 2010, terminated the stand-by agreement of 2008. . Simultaneously, the conflictual relationship with the European Commission intensified. This happened in part owing to disagreements over the economic strategy implemented, and in – perhaps larger – part, due to dissimilar approaches to a series of non-economic issues, including retroactive legislation, media laws and changes in the judiciary system. The adoption of the new Basic Law of Hungary, making references to the Christian roots of the nation, supporting explicitly the concept of marriage as a liaison between man and woman only, as well as making historic and emotional references, stirred heated debates in the European Parliament, whose co-decision powers have been considerably extended by the Lisbon Treaty of 2009. Also the Commission saw the crisis management as a window of opportunity to enhance its own influence at the expense of national governments.This is particularly true given the fact that the Lisbon Treaty called the Commission the guardian of all European val-

8 OECD, *Hungary – March 2012*, OECD Economic Surveys, Paris 2012.

ues. Accordingly, Brussels sought to interpret its own prerogatives in an extensive manner. While the process of severing fiscal and banking regulations has gradually reinforced the federalist elements[9] in the institutional structure of the EU, in the debate over who is compelled to do what and when anything is but settled. For instance, the Commission's initiative of January 2012 to withhold cohesion funds from Hungary was seen as legitimate in terms of the Six-Pack package on fiscal stringency adopted only two months earlier. However, the subject of the controversy was not an actual statistical figure, but a forecast for 2013, i.e., an event yet to be materialized. While the Commission did not consider the Hungarian measures sufficiently sustainable, the Hungarian government disagreed. The solution came in May 2012 when the new medium-term fiscal plan, integrated in the more general Széll Kálmán 2.0 Plan, convinced the Commission's experts of the plausibility of sustainable improvements.

The government was forced to request an IMF/EU rescue package in mid-November 2011. It happened as the Greek crisis escalated, once again triggering tremors reaching from Spain to Romania, all across the European periphery. The exchange rate of the forint plummeted from 280 Ft/euro to 323 Ft/euro; spreads, bond yields and CDS skyrocketed. Hungarian government bonds were sold at close to 11% yield in a country that recorded growth of only 1.1% on a year-to-year basis[10]. Under the panic generally ruling in Europe an IMF/EU rescue package, whose nature was unspecified, was asked for.

Oddly enough, while the IMF was quick to fix the real crisis cases, such as Bosnia, Belarus, Egypt and even Spain, negotiations with Hungary tiptoed until 17 July 2012, when a delegation of the creditors arrived in Budapest. One may wonder why it took 7 months to get down to business. The answer lies in the changing role of the European Union.

The EU as it stands today is far more than a free trade area with a single currency, as portrayed in the British press. The EU has developed into a truly political institution with wide-ranging prerogatives in a number of areas, from social policy to environmental protection, deciding over legal claims and sustaining peace in Macedonia. It is far from settled in legal and political terms how far the EU can go in ap-

9 H. Berger et al., *Euro Area Policies – Selected Issues*, IMF Country Report, No. 12/182, Washington DC, 03.07.2012, offers an analytical overview of major issues.

10 Even if we consider that the rate of forint inflation was close to 5%, the real rate of interest far exceeded the rate of growth, which is clearly unsustainable in the long run.

plying the community method, i.e., supranational prerogatives. Some considered it a too far reaching method even before the adoption of the Fiscal Compact of March 2012 and the European Stability Mechanism in June 2012[11]. Just because of the unsettled nature of affairs, the Commission does have a leeway, much greater than conventionally, in re-interpreting its own prerogatives and deciding over its own competences. In this case, the Commission clearly wished to signal its eagerness to exhaust in full the potential vested in it by the European Semester, by the Six-Pack package and the Fiscal Compact, as well as the cross-border banking regulations. These constitute the fiscal discipline component, against which net contributors, from Germany to Finland, agreed to soften the stance on the mutualisation of debts, issuing Eurobonds and targeting the bailout of Spanish banks, originally prohibited by the statutes of the ECB.

Given that the Greek drama was far from over, it was further complemented by the Spanish and Romanian cases, with Italy suffering continuously from distrust of the markets due to its exorbitant – close to 123% – debt/GDP ratio, and by May 2012 time had come to discontinue the play for the general audience. While the question-marks on Hungarian fiscal sustainability have not been fully addressed, the Commission agreed – following a visit by the Hungarian Premier to Brussels in May 2012 – to launch negotiations in substance. It happened later with the 8 weeks of additional delay reflecting the remaining discontent.

In short, although the seven month of wrestling may be considered an insubstantial issue, it played an important role in putting the Hungarian credit deal eventually on the agenda. While jabs were big, pain was next to nil, with Hungary remaining on the international capital markets, while Cyprus, quite unexpectedly, collapsed in June 2012.

4. Assessment and outlook

As we have seen, the evolving crisis of the EMU – especially in terms of governance – has implied an external shock *par excellence* for the Hun-

11 For an extensive review of those doubts see: F. Scharpf, *Monetary union, fiscal crisis and the pre-emption of democracy*, Zeitschrift für Staats- und Europawissenschaften, Vol. 9, 2011, No. 2, pp. 163-198.

garian economy and policy-making all over the period of 2008-2012. The spill-over of the global financial crisis triggered the bailout package. Later, the indecisiveness in managing the Greek debt created animosities within the EU. Finally, the return to the umbrella of the IMF/EU twins proved to be more of style than of substance. The evolving new governance structures in the European Union pose new challenges to managing economic matters in Hungary as well. The idea of a fiscal and banking union to be finalized by December 2012 is a tall order, both on its own as well as in terms of its implications for the country proper.

We do not share the view of doomsayers, fantasizing about the breakup of the eurozone. If we consider that ever since the launch of the European Monetary System – with very few exceptions – fixed exchange rate regimes have survived for over three decades, we do not see any reason to expect a major reversal. A peg sustaining decades – as it was the case of the Belgian Franc or the Dutch guilder against the D-Mark – makes the difference across currencies purely notional. Outsourcing monetary policy to a supranational authority, shielded from political interventions – be that from Oskar Lafontaine or Silvio Berlusconi – has proven to be a major success, contributing to the broadening of the scope of the single market. Those with good macroeconomic indicators – as Finland or Slovakia – profit from being part of a big market and are freed of the labours of sustaining price stability. Those with major problems – such as the southern cone or Ireland – would follow suicidal policies if they were to opt for re-introducing their former weak currencies, which would depreciate, thus sending asset prices to the cellar. Selling out the country in response to changed price signals is thought a text-bookish example, but watching the news coming from the Mediterranean would advise anybody against buying this pale wisdom as a policy relevant consideration. Furthermore it is quite evident that it is trespassers – and not those playing by the rules – that ran into trouble.

From this angle we may well ask if Hungary should still strive for joining the single currency as long as its architecture seems to be in crisis. Recent analyses[12] unanimously favour meeting the criteria. Not primarily for obtaining the advantages of the single currency, but because of the obvious benefits accruing from the macroeconomic framework which is conducive to sustainable public finances and price stability. The latter may serve as a major pre-condition for reviving growth.

12 J. Neményi, G. Oblath, *Az euró bevezetésének újragondolása* [Rethinking the adoption of the euro], Közgazdasági Szemle, Vol. 59, 2012, No. 6, pp. 569-684, with 13 comments by experts.

Let us note that Hungary has never been closer to meeting the Maastricht criteria than today. The commitment to keep deficits below 3% of GDP as well as the continuous fall of debt/GDP ratio is anchored in the new Basic Law of 2011. This arrangement is being enforced by a new Fiscal Council, composed of the governor of the central bank, the chair of the State Audit Office and a respectable university professor, who served 9 years as vice chair and 9 years as chair of the state audit office[13]. Moreover, the strategy of the government is explicitly built on reducing the debt rate in order to render public finances sustainable. The current account has been in surplus for the fourth consecutive year. Under peace times the rate of exchange is relatively stable between 290 and 270 Fts per euro. Real rates of interest are historically not high, roughly 1.5% in Fts terms. The weak point is inflation, running close to 6% in 2012, reflecting the costs of delayed price adjustments in administered prices as well as increases in indirect taxes designed to raise fiscal revenue. The convergence plan, if its targets were delivered, would allow meeting all the Maastricht criteria by the end of 2014, rendering the adoption of the single currency by Hungary feasible by 2016, i.e. after a preparation of two years.

It should be noted, however, that the government is less than enthusiastic about this idea. Having burnt its fingers repeatedly – with the first euro target date being 2006, declared by the first Orbán government in 2001 – caution rules. Following the examples of Poland and the Czech Republic, the government does not intend to "hasten in the eurozone", and wishes to sit out the outcomes of the solution of the crisis. Declarations of those responsible refer to 2020 and beyond as possible target date.

Let us note: the "convergence game" by its nature is an exercise limited by time. Governments and central banks may anchor expectations only if those are within reach for the median players – households, firms, capital market participants, investors, political parties and social partners alike. Given the decisive role of the electoral cycle, a deadline reaching beyond the mandate of the successor of the current government cannot be taken seriously. Thus the possibility of anchoring expectations and thereby launching virtuous circles is unlikely to materialize, due to lack of credibility and lack of foreseeable perspectives. Whenever

13 The previous fiscal council, set up in 2009, was an independent research institute with personnel of about 60 highly qualified analysts, including three academics. This body had no veto power and was abolished by the new majority in 2010.

convergence games were played, be it the original D-Mark zone, or later the accession of the countries of the south and east, the precondition was the time constraint of 3-4 years at maximum.

Therefore, we may come to a paradoxical conclusion. On the one hand, Hungary is close to meeting EMU criteria. Being a small, open, vulnerable country, with exports and imports together accounting for more than 160% of GDP, it would greatly benefit from joining the EMU. All the more so, as 70 plus % of external trade is transacted with EMU countries. On the other hand – not least owing to the procrastination and ups and downs in crisis management in 2008-2012 – the willingness as well as the credibility seems to be missing.

From this it also follows that Hungary is most likely to follow a less enthusiastic approach to the fiscal and banking union, as the traditional alliance with Germany and the warming up of its relationship with France would suggest. While small countries, like the Netherlands or Belgium, or Ireland have tended to be in favour of more supranationalism and a strongest possible Commission to countervail threats inherent in enhanced intergovernmentalism of the recent years, this situation is gradually on the change. Not least because of the ever growing frequency of decisions taken in narrow informal groups, small members – from Estonia to Cyprus – tend to be more often caught foot dragging. Ireland with her recurring referenda on a variety of issues is a telling case in point.

Therefore, it is both conceivable and probable that Hungary will take a more assertive stance than earlier, especially if forms of closer governance include more supervision without possibilities to ask for remedial actions. The recapitalization of Spanish banks in July 2012 included restructuring the supervision, re-allocation of competences to European organs and a loss of control by fiscal authorities – and by implication, of elected MPs – over major expenditure elements and conditions for their realization in favour of European technocratic bodies. This is clearly a case indicated by Fritz Scharpf[14] on hollowing democracy; thus old issues of accountability, transparency and burden sharing pop up, without however being resolved. Therefore, the reserved attitude looks justified. Hungarian banks did not have to resort to public international funding, as their Irish, Portuguese, Spanish, Italian, Greek, Estonian and Cypriot counterparts. Thus the country has limited if any interest in transferring either regulatory or financial sovereignty to a banking

14 F. Scharpf, *Monetary union...*

union. Also in terms of public debt, while according to Eurostat 2012 numbers for public debt were 88.2% for the eurozone and 83.4% for the EU-27, Hungarian indicators improved to 79%, as one of six exceptional cases[15]. Attempts to employ punishment for future misdeeds should be a warning sign to anyone.

15 As reported in: portfolio.hu, 23 July 2012 /online financial daily, bilingual/

Katarzyna Żukrowska

The global financial crisis, the eurozone crisis and their consequences for the Polish economy

Abstract: The Polish economy responded to the global financial crisis differently than the remaining economies of Central and Eastern Europe (CEE). Although it lost some growth impetus, the positive growth rates were maintained during the crisis, thus rendering Poland, next to Australia, a rare case among the OECD countries. Why? By means of addressing this question, the specificities of four economies, i.e. the Czech Republic, Hungary, Poland and the Slovak Republic are examined and the roots behind the variability of their responses to the crisis are identified. It is argued that the variability of responses to the crisis can be explained by reference to the differences in the transformation strategies employed in each of these countries, which resulted in different levels of development, openness, and competitiveness. This influences respective economies' responses to shocks such as the eurozone crisis and helps to explain the reasons behind Poland's sustained growth.

Keywords: crisis, Polish economy, growth, economic policies

The reasons behind the eurozone crisis are explained differently by individual economists. This has an impact on the interpretation of the consequences of the crisis for the Polish economy. As such, this topic cannot be considered either as simple or easy to tackle and explain. It is additionally complicated by the fact that neither EMU nor the EU functions in a hermetic environment but they are part of the world economy which despite its fragmentation interacts with the EU internal market and its economic subjects. The main message of the paper is that the eurozone crisis exposed some of the policies which were introduced and applied in the period of national, protective economy. It has also proved that there is a need to introduce certain new regulations, which will adjust the rules of the system to current needs and conditions, more complicated and advanced both in qualitative and quantitative forms in comparison with the former period. The old solutions turned out not only to be insufficient, costly and obsolete but also difficult to replace by more appropriate ones, i.e., corresponding with the current economic conditions where national markets in Europe form an internal European market. Given the fact that Poland is part of the internal market of the EU, the impact of the EMU crisis on the Polish economy is unquestionable. Nevertheless, the negative effects of the crisis have been limited in Poland compared to other European economies; no matter if they are in the group of "new" or "old" EU member-states. The paper seeks to shed some light on this issue looking for an explanation of why the Polish economy was affected less by the crisis than other EU economies? It also attempts to predict if the negative effects for the Polish economy, not occurring in a synchronized manner, as it was seen in other member states, are perhaps postponed in time and will occur with a certain delay? The argument has the following structure: First, the connection between the global financial crisis and the eurozone crisis is outlined. Second, the characteristics of the Polish economy in the 2008+ crisis and the current eurozone crisis are discussed. Against this backdrop, third, the following two questions are addressed: Why the Polish economy was not affected by both crises in a similar degree as other economies in the region? Will the eurozone crisis reach the Polish economy with a certain delay?

1. The connection between the global financial crisis and the eurozone crisis

Economists find different reasons for the crisis in the euro area and mainly in the countries known as GIIPS (Greece, Ireland, Italy, Portugal and Spain). The reasons can be divided into the following groups:

- Impact of the US financial crisis which started in 2007/2008[1] with the Chairman of the Federal Reserve, Ben Bernanke, warning on government-sponsored enterprises such as Fannie Mae[2] and Freddie Mac[3], which he considered sources of systemic risk. The crisis was transferred by derivative acquisitions, which resulted in toxic assets[4].
- Causes of the slowdown of the economy resulting in a decline of budget revenues;
- Causes of the budget expenditures increase, used as a cyclical stimulus;
- Mixed results in competitiveness[5], deriving from relatively low productivity and relatively high labor costs, mainly social benefits paid by the employer[6], limited innovativeness or readiness for international cooperation and the use of ITC;
- Application of policies which were correct in the period of protective policies and national economies but are insufficient in the current conditions of open economy;
- Limited flexibility of the labor market caused by a mismatch between the demand and supply of the labor market.

Some other economists put the blame for the crisis on quick withdrawal from the intervention, too low taxes, the level of interest rates, the value of the exchange rate of the euro to dollar, etc.[7] In other words several explanations of the crisis co-exist and it is relatively difficult to explain what and how has influenced the specific standing of the Polish economy. Reports on EU member-states and their economies since the

1 A. Buckley, *Financial Crisis. Causes, Context and Consequences*, Prentice Hall–Pearson, London–New York 2011, pp. 2-8.

2 Fannie Mae – Federal National Mortgage Association, established in 1938.

3 Freddie Mac – Federal Home Mortgage Corporation, established in 1968.

4 According to J. Tobin the model investment portfolio consists of public debt emissions, money and securities which bring interest. (J. Tobin, *Monetary policies and the economy: the transmission mechanism*, Cowles Foundation on Contemporary Macroeconomic Theory, The University of Chicago Press, Chicago 1980).

5 According to: K. Schwab, *The Global Competitiveness Report 2012-2013*, World Economic Forum, Geneva 2012, p. 14.

6 Some of the EU MS have improved their rankings with Finland, Sweden, Netherlands, Germany, UK in that number, limiting the information to the first 10th. Poland was able to keep the 41st position, while some other countries from the region slipped down the list more or less considerably.

7 P. van den Noord, I. P. Székely (eds.), *Economic Crisis in Europe. Causes, Consequences and Responses*, EU Information Series, Routledge, London–New York 2012.

2007/2008 crisis noted that the Polish economy performed in a different manner than the remaining economies but in most cases there was no convincing explanation why it was the case.

2. Characteristics of the Polish economy in the 2008+ crisis and current EMU crisis

During the 2007/2008 crisis the Polish economy performed relatively well, i.e., the economy did not turn into depression but continued growing. Although the rates of growth were relatively low, they stayed in green and did not move into red. In the group of the OECD states there were only two such examples: Australia and Poland. In that period, Poland improved her position on the list of competitive economies, which was followed by high ranking as far as the creation of jobs in the economy was concerned[8]. Explanations of the reasons why the Polish economy performed relatively well in this period differ and cannot be considered as fully convincing but just hypothetic with limited evidence that such suggestions are based in reality.

2.1. Why the Polish economy outperformed during the crisis

Explanations of why the Polish economy performed differently can be divided into the following groups:

- Some economists argue that Poland was obtaining biggest transfers from the EU's general budget, which was followed by relatively big FDI flows, as well as transfers of remittances of the money earned abroad by the Polish emigrants. All of these are facts but when we study them not in absolute but in relative terms – it turns out that the remaining economies in the region were not neglected in these areas and their external financial stimuli were even higher than in the particular case of Poland;

8 *European Growth and Jobs Monitor: Indicators for Success in the Knowledge Economy*, Allianz Dresdner Economic Research and The Lisbon Council, Frankfurt am Main 2008.

- Other economists point to the fact that the Polish economy performed well because it represents a relatively low level of development. Again this hypothesis is not well funded in the realities as other less developed economies from the region ducked into depression;
- The remaining economists try to explain Poland's position of an only green island in the EU by the fact that the banking sector in Poland was underdeveloped, which resulted in a limited exposure to the toxic assets imported by other banks in other countries. This suggestion is also not well based in the realities.

The real explanation can be found when one goes back to the transformation period of 1989-2004, when the Polish economy went through much deeper changes within the applied "shock therapy" than the remaining economies of the region, where shock was postponed till the EU membership[9]. This hypothesis finds support in comparative studies of the stage of preparation of the region for the EU membership.

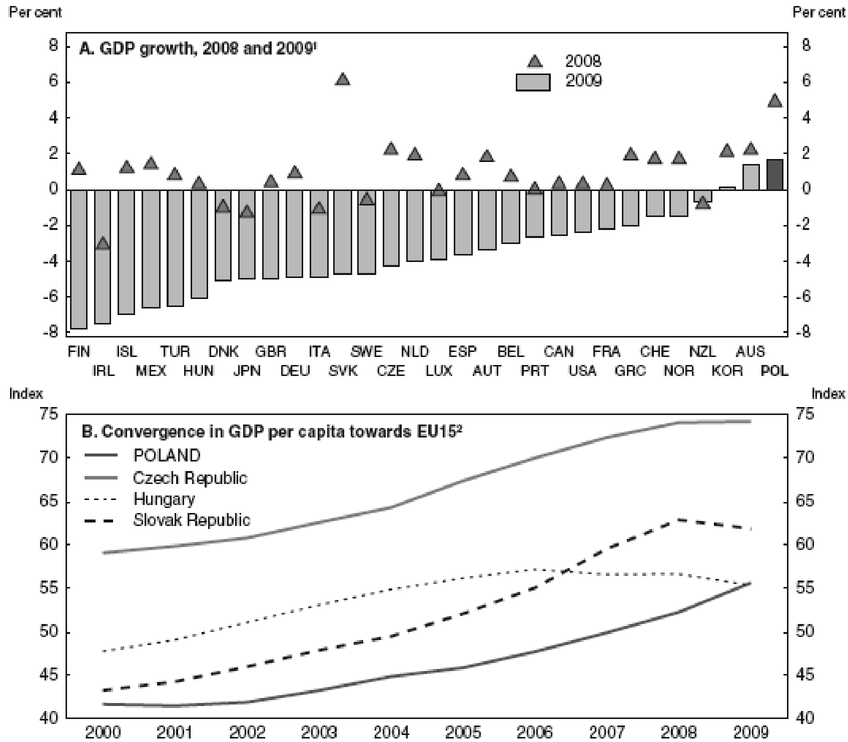
2.2. The Polish economy over the period 2008-2010

Changes in the evaluation of the Polish economy after the financial crisis of 2007/2008 were caused by two factors: the fall of the ranking of the countries listed before Poland in the earlier periods, as well as an upgrading of the Polish economy in this specific period, which can be considered as a litmus paper of the immunity of the economy to external shocks. This was so despite the fact that the economy was still relatively fragile as its market could be considered shallow. It should be explained that the Polish market had become part of the internal European market, which in the period of crisis could and did result in the fall of demand for the Polish exported goods and could cause a deeper fall in the Polish production.

Nevertheless, in 2009 the Polish zloty depreciated, which counterbalanced the drop of demand for the Polish exports increasing price competitiveness of the export offer. Why did such a phenomenon occur

9 K. Żukrowska (ed.), *Transformacja systemowa w Polsce*, SGH, Warszawa 2010, pp. 789-799; K. Żukrowska (ed.) *Transformation in Poland and in the Southern Mediterranean. Sharing Experiences*, Poltext, Warsaw 2010, pp. 69-90.

Figure 1. Poland was the best economic performer in the OECD in 2009



1. Figures for 2009 are based on fourth-quarter projections for Iceland, Ireland, Luxemburg, New Zealand and Turkey.
2. In constant 2005 PPPs, EU15 = 100.

Source: OECD, *OECD Economic Outlook Database*; GUS.

StatLink http://dx.doi.org/10.1787/814127371578

Source: OECD Economic Survey: Poland, April 2010, p. 22.

in Poland? Why did it not work in case of the remaining East and Central European economies or the group of so called New Member States in the EU? The explanation here is relatively easy and will be presented further in the essay. First it is necessary to show the parameters which characterized the Polish economy in the period 2008-2010, compared with the countries of the region.

Usually economists consider all economies in the region as a group that performs in a similar manner and as such can be put automatically into one bundle. If some economists see any differences in the group they are rooted in the fact that those economies historically represent certain difference in development, starting with the period directly after the WWII. Czechoslovakia in 1945 was not so strongly destroyed as Poland; moreover it was an industrial economy, while Poland was an agricultural-industrial economy with low industrial and high agricultural employment. The Hungarian economy represented a position between the two stages of development of Poland and Czechoslovakia. After the "velvet divorce", the Czech Republic was not so strongly exposed to external trade as Poland or Hungary as it traded "externally" with part of its former economy – the Slovak Republic[10].

The average rate of growth in Poland was higher than the rate of growth in the remaining economies of the region in the whole period 1989-2011, it was higher than the average rate of growth of the EU member states, while the remaining economies from the region, which serve as a background for comparisons, experienced a lower average rate of growth than the EU. This means that the catching-up strategies in the group differed and their results can be evaluated in a diversified manner.

The European Growth and Jobs Monitor, published in 2009[11], contains some interesting data on the Polish economy vis-à-vis the remaining economies of the EU. The data refer to the economic rate of growth, labor productivity, ability to create jobs, human capital index, investment activities and the sustainability of the public finance. The outcome of the comparisons made in a group of European economies places Poland in the second position. Interestingly, in the same survey Greece as well as Spain are placed high in the referred group of countries.

The Jobs Monitor presents some comparisons between the Old Member States and Poland, who is a New Member State. Without trying to make some comparisons with the East-Central European EU members such comparisons seem to be incomplete. Poland starts with a lower *per capita* income resulting from a lower level of development. In such circumstances the productivity in Poland grows quicker and the economy gains in the area of job creation, when the Old Member States move their businesses to the East where the production costs are lower (labor costs less and taxes are also lower). Some more detailed comparisons can be made by presenting data for Slovakia, the Czech Republic, Hungary and Poland. Below some data for 2008-2010 with forecasts for

10 The "divorce" eliminated from the list of Czech's economic policy most of the problems related to heavy industry as most of it was located in the Slovak Republic.

11 *European Growth and Jobs Monitor: Indicators for Success in the Knowledge Economy*, Allianz Dresdner Economic Research and The Lisbon Council, Frankfurt am Main 2008.

Table 1. Scoring of Jobs Monitor in 2009 in selected EU member states

Ranking overall	Country	Overall score in 2008	Overall score in 2007	Economic growth	Labor pro-ductivity	Jobs	Human capital	Investment activity (equipment)	Sustainable public finance
1	Finland	1.34	1.79	0.84	1.40	1.05	1.20	0.75	2.80
2	Poland	1.24	1.51	2.01	1.80	0.90	0.41	1.00	1.33
3	Netherlands	1.09	1.50	1.03	0.92	1.10	0.91	0.91	1.70
4	Greece	1.04	1.48	1.12	2.07	0.93	0.53	0.97	0.60
5	Sweden	1.02	1.31	0.41	0.19	1.08	0.88	1.19	2.36
6	Spain	1.01	1.29	0.71	0.70	0.96	0.91	1.39	1.41
7	United Kingdom	0.93	1.27	0.64	1.37	1.02	0.96	0.74	0.84
8	Belgium	0.90	1.26	0.62	0.52	0.91	1.12	1.22	1.04
9	Germany	0.90	1.24	0.59	0.76	1.03	0.62	0.98	1.40
10	Austria	0.89	1.21	0.73	0.87	1.05	0.22	1.10	1.39
11	Denmark	0.87	1.18	0.003	-0.47	1.11	1.04	1.10	2.43
	EU 15	0.84	1.12	0.53	0.67	0.99	0.68	0.98	1.18
12	France	0.80	1.09	0.50	0.59	0.96	0.75	1.21	0.82
13	Ireland	0.70	1.00	0.31	0.73	0.99	1.04	0.56	0.55
14	Italy	0.39	0.66	-0.05	-0.18	0.89	0.08	1.04	0.58

Source: *European Growth and Jobs Monitor: Indicators for Success in the Knowledge Economy*, Allianz Dresdner Economic Research and The Lisbon Council, Frankfurt am Main 2008, p. 35.

Table 2. Real GDP, consumption prices, current account balances for 2008-2009 and 2010-2011 forecasts (in %)

	GDP rate of growth				Consumer prices				Current account balances			
Years	**2008**	**2009**	**2010**	**2011**	**2008**	**2009**	**2010**	**2011**	**2008**	**2009**	**2010**	**2011**
Advanced economies												
Slovak Republic	6.2	-4.7	4.1	4.5	3.9	0.9	0.8	2.0	-6.5	-3.2	-1.8	-1.9
Czech Republic	2.5	-4.3	1.7	2.6	6.3	1.0	1.6	2.0	-3.1	-1.0	-1.7	-2.4
Emerging economies												
Poland	5.0	1.7	2.7	3.2	4.2	3.5	2.3	2.4	-5.1	-1.6	-2.8	-3.2
Hungary	0.6	-6.3	-0.2	3.2	6.1	4.2	4.3	2.5	-7.2	0.4	-0.4	-0.1

Source: IMF, *World Economic Outlook 2010: Rebalancing Growth*, International Monetary Fund, Washington, April 2010, p. 54.

2010 and 2011 will be given[12]. They concentrate mainly on GDP rates of growth, consumer real prices and current account balances in the respective years. Such comparisons help to show that different strategies applied in the analyzed four countries as well as difference in their levels of development result in a differentiation of the dynamics of growth, prices and current account deficit.

The classification applied by the IMF dividing the four countries into two categories of emerging and advanced can be questioned. There is no doubt that Poland represents a less developed economy than the Czech Republic. The same can be said about Poland and Hungarian level of development, while Poland and Hungary are both labeled as emerging and Slovakia is classified as an advanced economy. This remark shows that the knowledge of the four economies is limited but this does not change the fact that all four economies in question reacted differently to the 2008 drop of production which continued in 2009. We can see the same fall of rates of growth in Slovakia (a country which is in the EMU) and the Czech Republic (which is not an EMU member) as in the remaining economies which are the subject of the comparison. There was

12 Further details concerning GDP growth, current account balance, consumer prices, unemployment rates for 2011/2012 and 2013 (forecasts) will be discussed later.

Table 3. Rank of the four countries on the competitiveness list in 2010/2011

State	Rank	Score	2009	2009-2010
Czech Republic	36	4.57	3.6	31
Poland	39	4.51	39	46
Hungary	52	4.33	52	58
Slovakia	60	4.25	60	47

Source: K. Schwab, *The Global Competitiveness Report 2012-2013*, World Economic Forum, Geneva 2012, p. 15.

also a fall in the rates of growth in Hungary, which ranked lower than Poland on the list of IMF. This leads us to the conclusion that the level of development was not crucial here to decide about the rate of growth or depth of fall of the production. This can be additionally supported by the fact that also Australia (from a different region but also a developed economy, an OECD member) enjoyed growth on a par with Poland in 2009.

According to the Global Competitiveness Report the ranking of the four economies in question changed after 2008. The three economies: Czech, Hungarian and Slovakian slipped down the list, while Poland has improved its position. Table 3. beneath provides evidence for that.

In addition, in the past the prospects and potential to improve its competitive position was high for the Czech Republic, Hungary and the Slovak Republic, while at the same time it was low for Poland. Poland was climbing up slowly by 1-2 positions per year while the remaining states from the group either kept their rank or lost 1-2 positions. This fact shows how fragile the results of such evaluations are. In contrast, in the difficult times of crisis, Poland has improved her ranking position. Was it feasible to continue this tendency against the odds of the prolonged slowdown in the world economy? The next section deals with this question.

2.3. The Polish economy over the period 2010-2012

After the critical year of 2009, the Polish economy continued its growth, although the dynamics of growth was relatively low. Nevertheless, de-

Table 4. Rate of GDP growth, consumer prices, current account balance for Czech Republic, Hungary, Poland and Slovakia in 2011-1013

State	GDP			Consumer prices			Current account balance			Unemployment rate		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Economically advanced												
EMU	3.3	2.6	2.8	4.1	3.6	2.3	0.1	0.8	0.3	13.5	13.7	13.5
Non-EMU												
Czech Republic	1.7	-1.0	0.8	1.9	3.4	2.1	-3.0	-2.4	-2.3	6.7	7.0	8.0
Emerging Europe												
Poland	4.3	2.4	2.1	4.3	3.9	2.7	-4.3	-3.7	-3.8	9.6	10.0	10.2
Hungary	1.7	-1.0	0.8	3.9	5.6	3.5	1.4	2.6	2.7	11.0	10.9	10.5

Source: IMF, *World Economic Outlook 2012: Coping with high debt and sluggish growth*, International Monetary Fund, Washington, October 2012, p. 66.

spite collecting bitter remarks concerning the predicted rates of growth and end of depression in the World Economy, the Polish economy continued to grow (Tables 4 & 5 attest to that). One can see that in some areas reforms in Poland continued. This is evidenced by the fact that the unemployment rate dropped, consumer prices increased, and the current account deficit narrowed.

The growth of the Polish economy could not be considered as a short-term phenomenon. The growth was also transmitted by the multiplier mechanism to other areas of the economy. This can be seen in the rank on the competitiveness list.

All the three economies in question, except Poland, lost their positions in 2012-2013 on the ranking list of the Global Competitiveness Report, published in October 2012. Also the banking system in Poland, despite the recent collapse of the "pseudo-bank" Amber Gold[13], is considered to be stable and attractive for investors. It is not the first time that the developments in Poland turn it into a promising market for foreign investors. The previous occasions included: (1) deep depression af-

13 WBJ, *Amber Gold clients told to wait for their money*, Warsaw Business Journal, 7.08.2012.

Table 5. Rank of the four countries on the competitiveness list in 2012-2013

State	Rank out of total 144	Score	Previous ranking for 2011-2012
Czech Republic	39	4.51	38
Poland	41	4.46	41
Hungary	60	4.30	48
Slovakia	71	4.14	69

Source: K. Schwab, *The Global Competitiveness Report 2012-2013*, World Economic Forum, Davos 2012, p. 13.

ter 1989 and a relatively short period leading to the recovery in 1992; (2) the highest rates of growth in the region; (3) high entrepreneurship; (4) effective reduction of the unemployment rate; (5) relatively high rates of FDI inflows after 1995; (6) improvement of rank on the competitiveness scale; (7) high output levels; (8) ability to create jobs; (9) increase of office attractiveness in Warsaw; (10) reduction in the number of days needed to start a business.

3. Discussing the impact of both crises on the Polish economy

A comparative analysis of the budget deficit and public debt in the four states shows some differences in the level of state expenditures and their structure as well as points to some specific differences in the structure of the public debt. Nevertheless, it does not provide a convincing explanation of the reasons why one economy was growing (stayed in green), while the remaining were displaying negative rates of growth (went into red). The puzzle will be even more interesting when we look into the structure of the expenditures in these countries, following the same division into the EU-27 (which embraces all the member states, including the four analyzed economies) and EA (euro area which comprises also the Slovak Republic, one of the analyzed economies).

What can be observed in the table? Statistics indicate certain trends which show some differentiation between the states. In general, in the

Table 6. Total general government expenditures on economic affairs by country in 2002 and 2010 (as % of the GDP)

In % of the GDP			**Changes**
Group of countries/country	**2002**	**2010**	**2002-2010**
EU-27	4.0	4.7	↑
EA-17	4.2	4.9	↑
Czech Republic	8.6	6.6	↓
Hungary	7.7	5.8	↓
Poland	3.5	5.6	↑
Slovak Republic	6.7	3.6	↓

Source: L. Freysson, *General government expenditure: Analysis by detailed economic function*, Eurostat statistics in focus 33/2012, Economy and Finance, Eurostat 2012, p. 6.

EU-27 as well as in the EA-17 states the budget deficit increased between 2002 and 2010. In the Czech Republic, Hungary and the Slovak Republic the size of the budget deficit between 2002 and 2010 decreased. In Poland we can observe a trend contrary to the remaining states of the region and matching the trend observed both in the EU-27 and EA-17 states. Some additional explanation is needed here: we can draw a conclusion that the structure of the expenditures differed seriously between the EU-27 and EA-17 and Poland, assuming at the same time that the policy applied in the remaining East-Central European states did not work as it was based on different assumptions, and moreover the change of the productivity trend did not match the observed stimulation financed by the prime ministers and ministers of finances. There is also another possibility that the structure of the expenditures was incorrect when we make comparisons between Poland and the EU-27 or EA-17. Moreover, support could be given to areas where productivity was increasing more slowly than the increase in payments. All the mentioned options cause turbulences on the market. Let us start with the differences in the structure of the expenditures, picking some available data which can be used for comparisons.

The presented data partially illustrate the structure of the expenditures. From table 7. we can read that the old member-states and Poland have had a high share of social protection costs in the overall structure of their expenditures in 2002, while in the case of the Slovak Republic,

Table 7. Total general government expenditure on social protection, health, education, recreation and culture, environment and housing in 2002 and 2010 (as % of GDP)

Group of states, area and year	As % of GDP											
	Social protection		Health		Education		Recreation and culture		Environ-ment protection		Housing	
	2002	2010	2002	2010	2002	2010	2002	2010	2002	2010	2002	2010
EU-27	18.2	19.9	6.4	7.5	5.2	5.5	1.1	1.2	0.8	0.9	1.0	1.0
EA-17	18.7	20.5	6.5	7.5	4.9	5.1	1.1	1.2	0.8	0.9	1.0	1.0
Czech R.	14.0	13.7	7.2	7.8	5.1	4.8	1.2	1.4	1.0	1.0	0.6	0.9
Hungary	15.5	17.8	5.5	5.1	5.7	5.6	1.9	1.8	0.9	0.6	0.8	0.4
Poland	18.3	16.9	4.4	5.0	6.1	5.7	1.1	1.3	0.6	0.7	1.6	1.0
Slovak R.	14.9	12.3	5.0	6.4	3.6	4.5	0.9	1.2	0.9	0.9	1.0	1.0

Source: L. Freysson, *General government expenditure: Analysis by detailed economic function*, Eurostat statistics in focus 33/2012, Economy and Finance, Eurostat 2012, pp. 4, 5, 7.

Hungary and the Czech Republic the share of this component was relatively low. The share of this component converges in the period 2002-2010. The remaining components, which can be regarded as indices of the "quality of life" show a slow increase in their share. The observed structural changes match the assumptions introduced by J. Williamson in his "Washington Consensus"[14]. A similar direction of change can also be found in the main guidelines which were drafted within the Lisbon Strategy[15] and more currently are strengthened in the Europe 2020 strategy[16]. In this area the differences are not as big as in the social component.

14 P.-P. Kuczynski, J. Williamson (eds.), *After the Washington Consensus: Restarting Growth and Reform in Latin America*, Peterson Institute for International Economics, Washington 2003; J. Williamson, *A Short History of the Washington Consensus*, [in:] N. Serra, J. Stiglitz (eds.), *The Washington Consensus Reconsidered. Towards a New Global Governance*, Oxford University Press 2008, pp. 14-40.

15 European Commission, *Lisbon Strategy Evaluation Document*, Commission Staff Working Document, Brussels, 2.2.2010, SEC (2010), 114 final.

16 European Commission, *Europe 2020. A Strategy for Smart, Sustainable and Inclusive Growth*, Communication from the Commission, Brussels, 2.3.2010, COM (2010) 2020 final.

Table 8. Total general government expenditures on traditional collective functions by country, 2010 (as % of GDP)

Group of states, area and year	As % of GDP			
	General public services	Defense	Public order and safety	Total
EU-27	6.5	1.6	1.9	10.0
EA-17	6.7	1.4	1.8	9.9
Czech Republic	4.7	1.0	2.0	7.7
Hungary	9.3	1.2	1.9	12.4
Poland	5.9	1.4	1.9	9.2
Slovak Republic	6.3	1.3	2.7	10.3

Source: L. Freysson, *General government expenditure: Analysis by detailed economic function*, Eurostat statistics in focus 33/2012, Economy and Finance, Eurostat 2012, p. 5.

The data presented in Table 8. show bigger differences within the analyzed group, the two "pole" figures of the Czech Republic and Hungary differ by 5.2% and such a difference is relatively big. The remaining economies do not differ so much in this area. Some additional information can be obtained by a comparison of the share of the R&D expenditures in the GDP (Table 9). Nevertheless, the CEE economies also seem to differ here one from another. Poland has a relatively low share of the R&D in the state expenditures while the Czech Republic and Hungary spend more in this area. The Slovak Republic spends less than Poland but the share of R&D in the GDP is growing slowly but steadily each year by 0.01 point. Such differences derive from the slow preparation in Poland of the selective tools which will be applied when the financing is allocated with higher shares. At this point higher allocations would be spent in vain. Although there are very critical remarks addressed to the policy makers in Poland for such decisions.

Following the differences in the budget deficits and between the shares of its components one can also look into differences between the public debts. Here the differences are bigger than in the case of the budget deficits. An analysis of the public debt can be found both in the

Table 9. Research and Development (R&D) expenditures* in 2007-2009 in four analyzed states (as % of GDP)

Country	2007	2008	2009
Czech Republic	1.54	1.47	1.53
Hungary	0.97	1.00	1.15
Poland	0.57	0.60	0.68
Slovak Republic	0.46	0.47	0.48

*R&D considered as current capital expenditures incurred both in the public and private sectors

Source: The World Bank data.

Eurostat statistics, IMF: Economic Outlook, IMF Stability Surveys, as well as in the OECD national and specialized reports[17].

The main differences in the public debt burden can be ascribed to the fact that 14 among the EU 27 Member States have reported a debt-to-GDP ratio exceeding the 60% threshold introduced by Maastricht fiscal convergence. The highest level of debt is noted in case of Greece, where it reaches 165.3% GDP, followed by Italy with 120.1%. The lowest level is observed in Estonia, with a 6.0% debt-to-GDP ratio. Three out of the four countries have their public debt below the 60% threshold (the Czech Republic, Poland and the Slovak Republic), while in Hungary the public debt exceeds that level by over 20%[18]. Consolidation has had strong impact on the size of the deficit and debt in Poland and Slovakia, while in the Czech Republic and Hungary it is estimated at less than 1%. In all the four analyzed states the public debt is overwhelmed by the central government debts. In Poland we can find a small share of the local governments spending and Social Security Funds obligations.

There are also some differences as far as non-residents, residents with financial debts and non-financial debts are concerned. In the case of Hungary, a majority of the debts are owned by non-residents, while in the Czech Republic – by residents. There are also differences in the

17 J. Elmeskov, D. Sutherland, *Post-crisis debt overhang: growth implications cross countries*, Monetary Policy Sovereign Debt and Financial Stability, The New Trilemma, OECD Economics Department, 12.02.2012.

18 Eurostat Basic Figures, Autumn 2012.

advancement of the maturity of the debts. The most mature debts can be found in Poland. Also the average costs of the public debts behave differently and show different trends. In the case of Slovakia the costs keep the price, which means no significant changes between 2010 and 2011. There is no information concerning the price of debts in Hungary. In the Czech Republic and in Poland the price of debts ducked between 2010 and 2011. The currency of the public debt in the analyzed group also differed. There is no information concerning the currency of the debt issuance for Hungary. In Slovakia the debt is issued in euro. In the Czech Republic and in Poland the issuance of the debt is carried mostly (more than half of the public debts) in other currencies than the euro[19].

Only part of the differences which have been found within the group of the four East-Central European states can be explained by the difference in their fiscal policies. The main reason why one of the economies is growing and others perform differently is the different strategies of transformation. In Poland it was a typical "shock therapy" which was consistent and designed down to the detail, while in the Czech Republic, Hungary and Slovakia it resulted to a certain extent in a postponement of shock until the EU membership and the end of the transition period. The differences here were brought about by a different policy of the opening of the economy, which embraced trade policy, exchange rate policy, exchange rate regime, earlier consolidation of the budget (which limited the state's intervention at the level of enterprises). This strategy is covered in numerous publications, which justifies my mentioning the problem only, without a detailed presentation of the contents of the strategy applied in Poland after 1989.

***

To a large extent the Polish economy proved immune to the negative effects of the global financial crisis and the eurozone crisis. Although, a slowdown was recorded, the rates of growth remained positive and the economy kept expanding. Explanations attributing the positive growth rates to Poland's overall low level of development and to the underdevelopment of its capital markets in particular, cannot be regarded as universal. Similarly, this paper cannot present an absolute set of arguments indicating why the Polish economy outperformed. It only sheds

19 J. S. Eminescu, *Structure of Government debt in Europe in 2011 upward trend in the EU government debt level continued in 2011*, Economy and Finance, Statistic focus 34/2012, Eurostat, 2012.

some light on specific differences in the budgets of the member states, in their structure of expenditures, in public debt, its size, structure of the currency used, costs of the debt, place were the debts have been created (local/central government), owners of the stock of the debt issuance etc.

At this stage we can say that our knowledge in this field (i.e. the impact of the structure of the budget, the proportions between different budgetary allocations, their rates of growth or reduction, etc.) of research is still limited. However, observations of the Polish economy show that a well-selected strategy of policies applied in a given country can bring big changes. The policies employed have much to do with the structure of the expenditures, structure of the budget deficit and finally with the size and structure of the public debt. Most of the New Member States encounter less stress in their economic policies as their deficits did not continue to grow for such a long period as in the case of the Old Members States. Nevertheless, they are close to reaching the level of their budget deficits and public debts from which the point of return is remote and difficult. In other words, the EU members have to do something at this point of integration to stop that process; especially that it is seen as a threat not only in Europe but also in Asian, North African and Latin American economies.

Gediminas Kazėnas

Lithuania and the eurozone crisis[1]

Abstract: The aim of this paper is to discuss the impact of the eurozone crisis on the Lithuanian economy and on Lithuania's bid to adopt the euro. Similarly to other Baltic states, Lithuania was affected not only by the crisis in the euro area, but also by the global financial crisis of 2007-2008. In order to preserve the public finance stability, austerity measures were introduced and Lithuania did not have to resort to the IMF's assistance. Today, Lithuania's economy is on a path to recovery. In this context the question of the Lithuanian dilemma towards the introduction of the euro is discussed. Due to the eurozone crisis as well as due to the necessity for the eurozone member-states to contribute to financial assistance schemes for the European South, there is no particular political will to introduce the euro at the moment. Nevertheless, the euro remains the best warranty of financial and economic stability in Lithuania.

Keywords: eurozone crisis, Litas, Lithuania, monetary policy

General remarks

Lithuania joined the European Union (EU) in 2004 and thus belongs to the so-called new member-states (NMS). Although Lithuania has not adopted the euro yet, the state of its economy allows suggesting that it would be eligible to adopt the euro in the foreseeable future. As the

1 The author would like to thank Dr. Anna Visvizi for her comments and suggestions on earlier versions of this paper.

academic debate on the eurozone crisis unfolds and the diverse facets of the crisis are examined, the question of the impact of the eurozone crisis on Lithuania remains an issue under discussion. Given the size of the Lithuanian economy, its openness/interconnectedness with the eurozone economies, as well as recognizing the fact that Lithuania is part of the single market, it would be interesting to focus on the economic implications of the eurozone crisis. Another fact is that the eurozone crisis has negatively affected both the popular and the elite support for the euro. Accordingly, two sets of questions seem particularly relevant when assessing the impact of the Eurozone crisis on Lithuania. The first set of questions concerns the influence of the developments in the eurozone on Lithuania's economy. Here the notions of trade exchange and capital flows should be considered. The second set of questions relates to the evolution of Lithuania's stance toward the common currency, the euro, i.e. how it has changed as a result of the eurozone crisis. The discussion shall be structured as follows: in the first section, the economic implications of the eurozone crisis on Lithuania will be explored, then, the question of Lithuania adopting the euro will be discussed. Conclusions will follow.

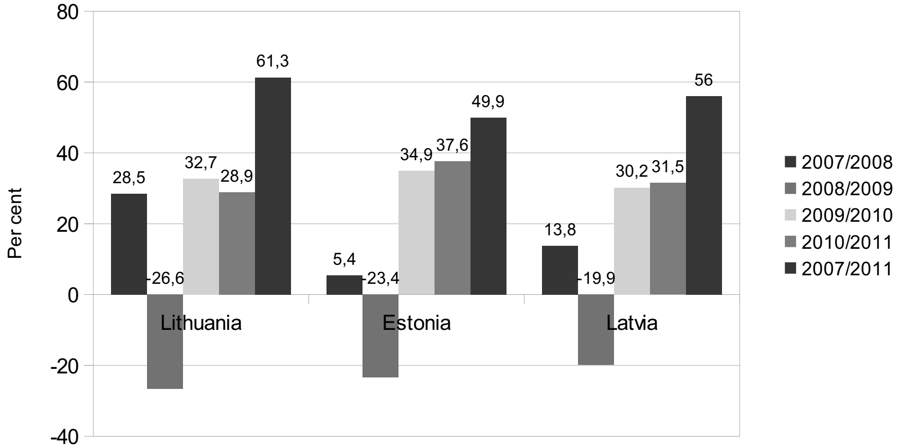
1. Implications of the eurozone crisis on Lithuania's economy

Lithuania's economy is very open to the international market and orientated to exports. According to statistical data, export of goods and services in 2008 accounted for almost 60% of GDP, meanwhile the EU average in 2008 was 41.1% of GDP. Lithuania is outstripping countries such as Poland, Latvia, Germany, Sweden and etc. Foreign trade indicators in Lithuania have changed for the better since 2009.

Since 2010 Lithuanian exports have been recovering rapidly and even exceeded the export amounts before the crisis. In 2011, the growth of Lithuanian export was the biggest in the EU. Goods of Lithuanian origin accounted for 65.9% of all export, 34.1% was re-export[2]. The main

2 *Prekių eksporto tendencijos (2011 metų)* [Tendencies of goods export in 2011], verslilietuva.lt, 2012, http://www.verslilietuva.lt/lt/rinku-apzvalgos-prekiu-eksporto-tendencijos-2011-metu/ – retrieved 25.10.2012.

Figure 1. Lithuanian export tendencies 2007-2011 (%)



Source: *Prekių eksporto tendencijos (2011)* [Tendencies of goods export in 2011], verslilietuva.lt, 2012, http://www.verslilietuva.lt/lt/rinku-apzvalgos-prekiu-eksporto-tendencijos-2011-metu/ – retrieved 25.10.2012.

export partners for Lithuania are EU countries which make up ca. 60-65% of Lithuania's total trade exchange. The biggest EU export markets for Lithuania include Germany, Poland, Latvia and Estonia[3].

The biggest import country for Lithuania is Russia. This is related to the fact that Lithuania is totally dependent on Russia's energy sources, first of all – gas. Such dependency on energy sources from one source creates an additional national security problem for Lithuania. This explains why Lithuania is so determined to build a new sea gas terminal, a new nuclear power plant and new electricity connections with EU countries. Those infrastructural projects are very expensive and have their economical consequences because certain costs will be incorporated in the price of energy sources used by citizens. That is why from the following year, i.e. 2013, the prices of gas and electricity in Lithuania are expected to rise.

3 *Lietuvos Respublikos 2009-2013 metų eksporto plėtros strategija* [Export strategy of the Republic of Lithuania for 2009-2013], http://www.ukmin.lt/uploads/documents/Eksportas/12.1.%20Lietuvos%20Respublikos%202009–2013%20metų%20eksporto%20plėtros%20strategija.pdf – retrieved 25.10.2012.

Table 1. Lithuanian trade with EU countries (€ million)

Lithuanian trade	Total		EU		Latvia		Estonia		Poland		Germany	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
2007	12519.5	17827.1	8106.8	12182.5	1612.3	975.5	728.6	637.2	786.6	1893.6	1314.3	2672.9
2008	16090.1	21161.2	9702.1	12178.6	1867.3	1101.7	918.8	613.2	929.8	2113.4	1152.1	2506.6
2009	11806.4	13133.6	7589.7	7760.3	1188.1	842	829.2	344.5	848.4	1309.4	1143	1488
2010	15663.4	17667.5	9551.4	9996.8	1466.1	1117.5	790.5	505.3	1211.2	1570.1	1548.3	1863
2011	20167.2	22844.1	12364.8	12959.5	2063.4	1516.1	1339.1	642.3	1400.8	2073	1875.9	2279.4

Source: The Lithuanian Department of Statistics [Statistics Lithuania], 2012.

Table 2. Lithuanian trade with non-EU countries (€ million)

Lithuanian trade	Total		EU		Russia		Belarus		Ukraine		Norway		USA	
	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.
2007	12519.5	17827.1	8106.8	12182.5	1876.2	3212.5	502.4	353.7	341	245.8	287.9	86.8	321.5	393.1
2008	16090.1	21161.2	9702.1	12178.6	2584.5	6334.7	723.4	361.4	523.3	294.9	337.9	118.7	514.7	369.6
2009	11806.4	13133.6	7589.7	7760.3	1563.6	3923.8	557.4	217	353.9	124	295.2	62.5	348.1	146.3
2010	15663.4	17667.5	9551.4	9996.8	2451.8	5762.4	823.3	300.6	566.5	174.5	360.1	59.7	426.3	182.1
2011	20167.2	22844.1	12364.8	12959.5	3342.8	7321.7	1044.3	556.4	668.3	223	407.6	85.4	525	265.9

Source: The Lithuanian Department of Statistics [Statistics Lithuania], 2012.

From the trade data it can be seen that main Lithuanian trading partners are not the euro area countries. This might suggest that the eurozone crisis has indirect effects on Lithuanian economy. As Lithuania is very dependent on export, it is very sensitive to all economic fluctuations outside. Although the economic growth prognosis for eurozone is not optimistic and the economy there is going to further shrink, the good news for Lithuania is that the economy of its main export partner in the eurozone – Germany – is going to grow. This fact allows it to be optimistic about the short-time future. Nevertheless, due to the developments in the world economy and the euro area, certain concerns and uncertainty remain. The predicted second wave of recession in the euro zone will have a negative impact on Lithuanian exports. Household and corporate expectations will deteriorate, internal demand will sink and thus employment growth will be hampered. It is therefore expected that real GDP growth will fall from 6% in 2011, to 3% and 3.5% in 2012 and 2013[4].

The foreign trade deficit in 2011 increased. The increasing prices of imported natural gas and oil and the deteriorating trade in mineral products had a major influence on expenses. However, the deficit grew slowly and was still twice smaller than in 2008.

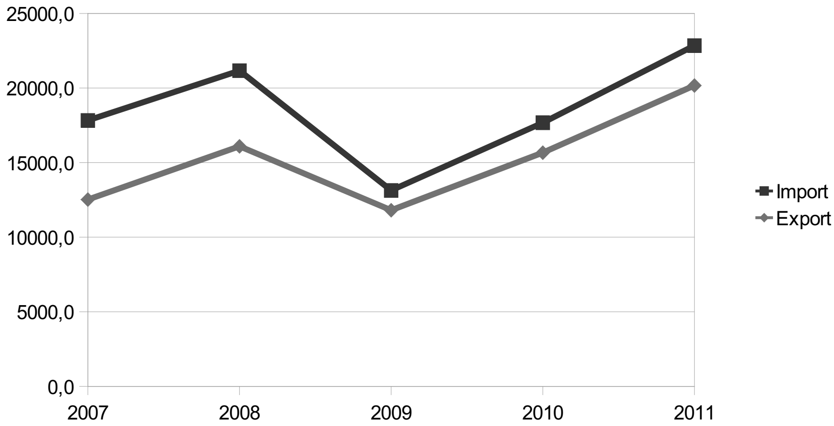
In 2012, export growth has been declining, but remained high. During the year, an increase occurred in some groups of goods, especially oil products exports. The total export growth was most affected by the growing domestic demand in Lithuania's trade partner-countries and Lithuanian higher competitiveness – Lithuanian export's market share in key foreign trade partner-countries grew. Imports have increased rapidly, but like exports, have slowed down. Most import was driven by increased industrial production. However, in the second half of 2012 import growth was lulled[5].

The economic crisis had a positive impact on Lithuanian trade balance (see Figures 2. and 3. for details); the trade balance improved. It is noticeable especially in the trade with the EU countries. Trade imbalance with non-EU countries is bigger because the natural energy sources from Russia cannot be replaced.

4 *Pranešimas, teikiamas Lietuvos Respublikos Seimui* [Report of the Bank of Lithuania for Seimas], Lietuvos Bankas [Bank of Lithuania], 2012, p. 10, http://www.lb.lt/pranesimas_teikiamas_lietuvos_respublikos_seimui – reviewed 2012-1023.

5 *Pranešimas, teikiamas Lietuvos Respublikos Seimui* [Report from Bank of Lithuania to Seimas], Lietuvos Bankas [Bank of Lithuania], 2012, pp. 13-14, http://www.lb.lt/pranesimas_teikiamas_lietuvos_respublikos_seimui – retrieved on 23.10.2012.

Figure 2. Lithuanian import-export total (€ million)



Sourse: The Lithuanian Department of Statistics [Statistics Lithuania], 2012.

The economic development also has a very big influence on Lithuanian labour market. Unemployment in Lithuania is further decreasing, but because of the increased uncertainty about the future of the eurozone, job creation is slower. The average unemployment rate in 2012 was 13.2%, next year and in 2014 it will decrease to 11.5% and 9.3%.

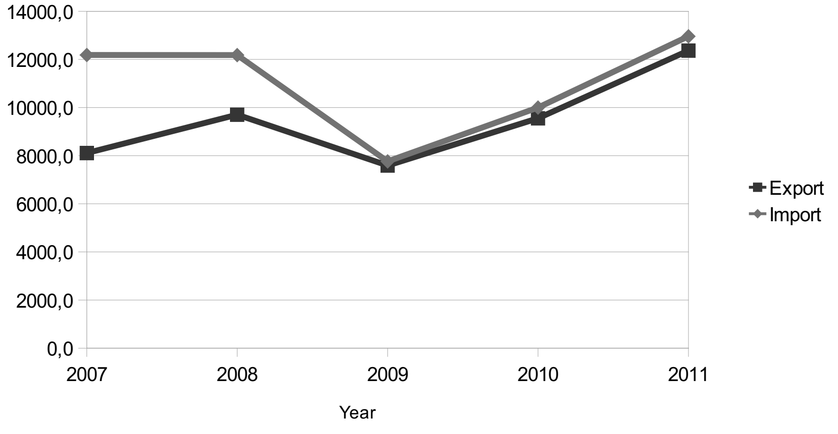
The growing unemployment very much affects the Lithuanian society. Lithuania has the biggest emigration in the UE (see Figure 5. for details).

Emigration in Lithuania significantly increases during an economic crisis. It is a very negative and painful moment for the Lithuanian state as people and the workforce are the main asset and treasure of the state and nation.

In this negative aspect we can only find such consolation that Lithuanian emigrants send huge amounts of money back to Lithuania. According to SEB bank, for each pensioner in the country litas got 90 cents remittances[6]. In 2011 remittances to Lithuania accounted for 4.6%

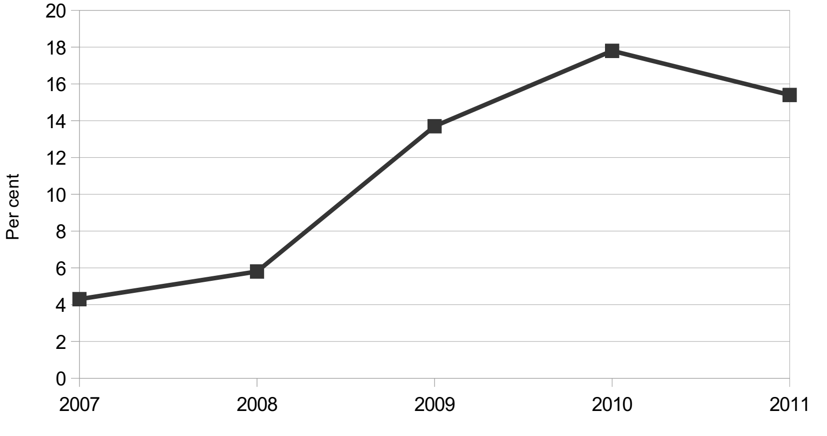
6 *Šalies pensininko litui teko 90 centų emigranto perlaidos* [Every pensioner litas got 90 cents emigrant remittances], Ekonomika.lt, 2012, http://www.ekonomika.lt/naujiena/salies-pensininko-litui-teko-90-centu-emigranto-perlaidos-23146.html?page=2 – retrieved 24.10.2012.

Figure 3. Lithuanian trade with EU countries (€ million)



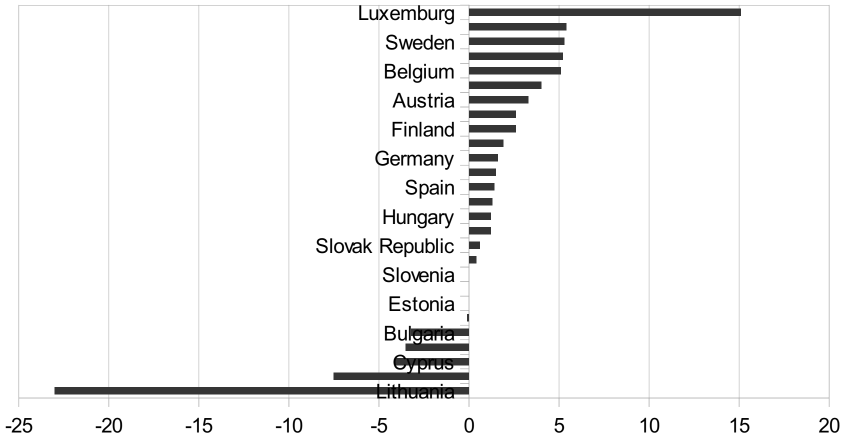
Source: The Lithuanian Department of Statistics [Statistics Lithuania], 2012.

Figure 4. Unemployment in Lithuania 2007-2011



Source: Eurostat, 2012.

Figure 5. Migration in the EU per 1000 people in 2010



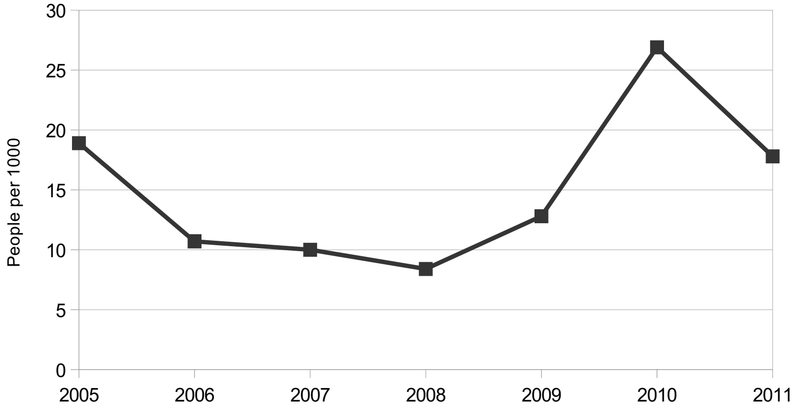
Source: Europos migracijos tinklas [European Migration Network], http://123.emn.lt/lt/bendros-tendencijos/lietuva-es-saliu-kontekste – retrieved 26.10.2012.

of GDP[7]. The biggest amount and sums of remittances are from Norway, followed by Germany, Ireland, and Sweden. The data show that Lithuanians emigrate to countries which are less hit by the eurozone crisis.

Despite many negative aspects of the eurozone crisis which affect Lithuania, it is clear that the Lithuanian economy is recovering quite quickly and Lithuania will come out of the crisis stronger. In 2011, export in all industry sectors grew and the goods went to the traditional export market. Additionally, the trade balance became less negative than it was before the crisis and that is important bearing in mind state finances.

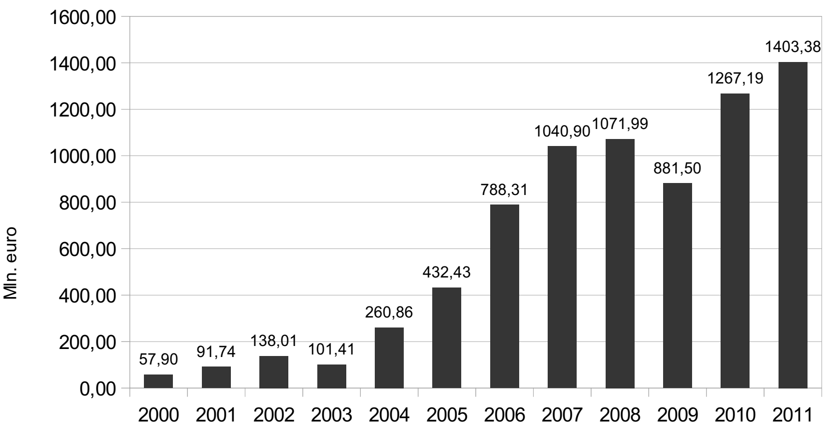
7 *Kiek pinigų persiunčia emigrantai* [How much emigrant remittances], Europos migracijos tinklas [European Migration Network], http://123.emn.lt/lt/emigracija/kiek-pinigu-persiuncia-emigrantai – retrieved 24.10.2012.

Figure 6. Emigration from Lithuania per 1000 people



Source: The Lithuanian Department of Statistics [Statistics Lithuania], 2012.

Figure 7. Lithuanian emigrants' remittances to Lithuania (€ million)



Source: Europos migracijos tinklas [European Migration Network], http://123.emn.lt/lt/emigracija/kiek-pinigu-persiuncia-emigrantai – retrieved 24.10.2012.

2. The question of Lithuania's membership in the eurozone

2.1. Lithuania's monetary policy since independence

Having regained independence in 1990, one of the major objectives of the Lithuanian government was to separate the Lithuanian economy from the Soviet Union's financial system, to create its own currency, and to stabilize the economic situation in the country[8]. In order to do that the Central Bank of Lithuania (CBL) introduced a temporary currency in May 1992. Following the introduction of the national currency, i.e. the litas, in June 1993, the CBL tightened its monetary policy. This caused a rise in litas' exchange rate. At the end of 1993 the litas was pegged to the US dollar and the rise in prices slowed down. In order to further reduce inflation and stabilize prices, on April 1, 1994 a currency board arrangement was introduced. In line with this arrangement litas was pegged to the US dollar at a ratio of 4:1, whereby it was entirely backed by gold and convertible currency reserves. That allowed stabilizing the economy and reducing the inflationary pressures. Nevertheless, external shocks in the form of the financial crises in South-East Asia (1997) and in Russia (1998) destabilized the Lithuanian banking sector in the late 90s thus triggering political pressures to abandon the currency board arrangement and devalue the litas. Regardless of these political pressures the currency board arrangement remained. The factors that contributed to that included: specific developments on the Lithuanian financial market, a financial assistance agreement with the IMF[9], and the prospect of Lithuania's accession to the EU.

Following the Russian financial crisis that affected many Lithuanian companies, economic ties with Russia weakened and Lithuanian business began to shift to the EU market. The improving Lithuanian and EU economic relations, and eventually Lithuania's integration with the EU, as well as large fluctuations between the euro and the US dollar, made the CBL peg the litas to the euro in February 2002. The status quo that prevails in Lithuania today is that the currency board arrangement will

8 As a result of price liberalization in 1990, inflation over the period 1990-92 rose from 9.1% to 1020.5%.

9 IMF, http://www.imf.org/external/np/fin/tad/exfin2.aspx?memberKey1=607&date1key=2012-10-25 – retrieved 24.10.2012.

be maintained until Lithuania's full integration with the structures of the EMU and the adoption of the euro[10].

2.2. Lithuania and the euro: the dilemma

Lithuania joined the EU in 2004 and in line with the Treaty of Accession it committed itself to adopting the single currency, i.e. the euro. Accordingly, Lithuania used to be very supportive of the single currency and very keen to introduce it as quickly as possible. In 2006, the Lithuanian government submitted an application to the European Commission to assess Lithuania's compliance with the Maastricht criteria in view of the possible adoption of the euro. However, Lithuania's euro-bid was rejected in 2007 due to a marginal miss of the inflation target, i.e. inflation exceeded by 0.1% the target value set in the convergence criteria[11]. The failed euro bid triggered a vivid discussion in Lithuania on to what extent the decision to join the euro was politically/economically driven[12]. Moreover, given the fact that a few years earlier several countries joined the EMU irrespective of the serious doubts as to their ability to fulfil the convergence criteria, in the eyes of the public opinion in Lithuania, the Commission's decision entailed a discriminatory overtone toward Lithuania.

Currently, the euro zone is in a deep crisis and Lithuania's determination to join the eurozone is fading. At the moment, it is commonly understood that membership in the eurozone has more negative than positive aspects for Lithuania. The euro is no longer as attractive as it used to be. It has also become clear that the political dimension of the euro-project is becoming dominant. In this context Lithuanian government's enduring support for the introduction of the euro is politically motivated and serves the purpose of avoiding political confusion rather than depicts true intentions to adopt the euro instantly. In contrast,

10 R. Kuodis, I. Vetlov, *Pinigų politikos poveikio mechanizmas Lietuvoje* [Mechanism of monetary policy in Lithuania], Pinigų studijos [Money Studies], Lietuvos Bankas [Bank of Lithuania], 2002, No. 3, pp. 32-34, http://www.lb.lt/kuodis_1 – retrieved 07.09.2012.

11 European Commission, *2006 Convergence Report on Lithuania*, European Economy, 2006, No. 2, Brussels, http://ec.europa.eu/economy_finance/publications/publication_summary467_en.htm – retrieved 25.10.2012.

12 J. Čičinskas, *Lietuvai sustabdytas ES lėšų mokėjimas* [EU suspended payments for Lithuania], delfi.lt, 2012, http://verslas.delfi.lt/archive/article.php?id=56097007 – retrieved 07.09.2012.

Polish politicians emphasize that the possibility of Poland adopting the euro is bound to Poland having some gains from it. For instance, the Polish President Bronisław Komorowski said that Poland would adopt the euro only when it was useful for Poland[13]. The Polish Finance Minister, Jacek Rostowski, stresses that it would happen only if the euro zone arranged it in a way that it was safe for Poland to join it[14].

Despite the fact that Lithuania has declared its wish to become a eurozone member, currently there is no a real desire to introduce the euro in Lithuania. First of all, it is related to the fact that by joining the eurozone, Lithuania would be have to contribute financially to the rescue programmes designed for the eurozone 'problem' countries. For example, in 2011 Estonia joined the eurozone and now it has to contribute €1.995 billion to the European Financial Stability Fund (EFSF) to save the euro[15]. Secondly, the present situation allows Lithuania to have a safe exit in case the euro does not survive after all. That is, since the litas is pegged to the euro, practically – if not technically – Lithuania is in the eurozone. Lithuania is a small country with a small and open economy. Contrary to countries such as Poland, it cannot rely on its domestic market and domestic demand to support its domestic production[16]. Taking into account the probability that the euro area crisis will either endure or that a new crisis will arrive, keeping the litas pegged to the euro, instead of adopting the euro, seems a better solution for the Lithuanian economy. That is it allows benefiting from some of the euro properties while at the same time leaves the Lithuanian authorities some space for manoeuvre to protect the economy from the shocks that the eurozone crisis generates. For instance, should the euro no longer meet the basic requirements for a hard currency, the Lithuanian government could decide to peg the litas to other currencies or precious metals. On the other hand, the prospect of joining the eurozone serves as a politi-

13 *Polska w strefie euro? Prezydent: tylko wtedy, jeśli będzie się to nam opłacać* [Poland in the eurozone? President: only when it is useful for us], wprost.pl, 2012, http://www.wprost.pl/ar/340184/Polska-w-strefie-euro-Prezydent-tylko-wtedy-jesli-bedzie-sie-to-nam-oplacac/ – retrieved 10.09.2012.

14 *Rostowski: Wtedy wejdziemy do strefy euro* [Rostowski: Then we will enter the eurozone], money.pl, 2012, http://www.money.pl/gospodarka/wiadomosci/artykul/rostowski;wtedy;wejdziemy;do;strefy;euro,212,0,1110996.html – retrieved 12.09.2012.

15 A. Vitas, *Estija po euro įvedimo: pirmieji rezultatai* [Estonia after euro introduction: first results], 2011, http://web.vu.lt/ef/a.vitas/2011/12/28/estija-po-euro-ivedimo-pirmieji-rezultatai/ – retrieved 12.09.2011.

16 P. Gylys, *Ar apskritai prasminga eiti į euro zoną?* [Is it generally worth entering the eurozone], respublika.lt, 2012, http://www.respublika.lt/lt/naujienos/nuomones_ir_komentarai/bus_isklausyta/profpgylys_ar_apskritai_prasminga_eiti_i_euro_zona/ – retrieved 11.09.2012.

cally disciplining factor, i.e. it creates pressure for sustained fiscal discipline as well as reduces the political risk associated with exchange rates or the monetary emission model[17].

Litas' reliability and stability is a key advantage for litas' users. This in turn increases the confidence underpinning the currency and its ability to perform the function of money. However, given the small size of the Lithuanian economy, should the litas be unpegged from the euro, it would affect litas' stability. According to the Lithuanian Free Market Institute[18], a devaluation of the litas would cause a lot of negative consequences for the Lithuanian economy. On the one hand, today, the currency board arrangement employed in Lithuania succeeds in separating the monetary policy from undue political influences and pressures, such as experienced during the Lithuanian banking crisis of 1995 as well as during the Asian and Russian crises. On the other hand, it would most certainly lead to inflation, which would impoverish the poorest (via depreciation of savings, rise in prices of imported goods, particularly energy, etc.) Finally, it is not bringing long-term sustainable economic growth because – as noted earlier – rapid economic growth occurs in particular when there is low inflation or even deflation[19]. Fourth, it would increase the cost of credits denominated in euro.

Lithuania is interested in the stability of the eurozone because litas is pegged to the euro. For this reason, Lithuania supported the Fiscal Compact. It should be noted, however, that the Fiscal Compact does not have any substantial influence on Lithuania because Lithuania has been implementing fiscal discipline measures to keep a balanced budget. As the Lithuanian President, Dalia Grybauskaitė pointed out: "financial discipline and responsibility suits Lithuania"[20]. That will also have good effects in the future, knowing that in 2012 there are Parliamentary elections and as usual before elections politicians will try to increase budgetary spending, which could cause later budgetary deficit and consequently delay Lithuania in its introduction of the euro.

17 *LLRI pozicija dėl lito devalvavimo* [LFMI position to litas devaluation], 2009, http://www.lrinka.lt/index.php/analitiniai_darbai/llri_pozicija_del_lito_devalvavimo/5341;from_topic_id;154 – retrieved 07.09.2012.

18 Ibidem.

19 J. G. Hülsmann, *Pasauliui reikia naujų pinigų* [The World need new money], http://iq.lt/iq-zurnalas/pasauliui-reikia-nauju-pinigu/ – retrieved 06.09.2012.

20 *D. Grybauskaitė: fiskalinė drausmė ir atsakomybė Lietuvai tinka* [D. Grybauskaitė: financial discipline and responsibility suits for Lithuania], Lietuvos žinios, 2012, http://www.lietuvoszinios.lt/sitemain/Lietuvoje/D.Grybauskaite-fiskaline-drausme-ir-atsakomybe-Lietuvai-tinka – retrieved 22.10.2012.

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After Lithuania was strongly hit by the World economic crisis, in order to keep public finances stable the new Lithuanian government had to apply austerity measures and to borrow in international markets at quite high rates. That caused an increase of public debt from 15.5% in 2008 to 38.5% in 2011, but it did not exceed the Maastricht criteria. Nevertheless, it had certain socio-economic consequences. A lot of companies went bankrupt, unemployment increased rapidly, pensions and salaries were cut, and many people emigrated. Emigration presently is the main topic on the political agenda. Before the 2012 Parliamentary elections there was even created a political party named the "Emigrants Party".

From another point of view, because of the structure of Lithuanian exports, Lithuanian economy managed quickly to recover, companies quickly adapted to the new conditions, and that led to great economic results in later years. Generally the socio-economic situation in Lithuania looks weary, but nipping out of the pit. There is hope that, until the time when Lithuania is ready for the euro introduction, the problems in the eurozone will be solved.

Lithuania wanted to enter the eurozone and adopt the euro in 2007, but because of the excessive inflation rate the entry door for Lithuania was closed. At that time Lithuania felt upset and its Prime Minister publically argued that Lithuania had met the Maastricht criteria. Presently Lithuania is happy for not being a member of the eurozone. The reasons are political and economic. The political reasons include the uncertain future of the euro and as far as the economic reasons are concerned, Lithuania is quite reserved towards the fact that all the eurozone members have to contribute to the European Financial Stability Fund. For instance, in the case of Estonia, this contribution amounts to ca. 8% of Estonia's GDP[21]. At the moment, Lithuania cannot afford this kind of commitment. Also, given the fiscal position of the country and the society's sensitivity to this issue, it would be difficult for the government to receive wide popular support for the decision to join the eurozone. In the international arena it shows the state's responsibility for the euro project, but internally it would surely be met with strong resistance. Remaining outside the euro area, Lithuania does not have to face such a dilemma.

21 *Estija dalyvaus ES finansinio stabilumo fonde* [Estonia will take part in EU financial stability fund], Diena.lt, 2012, http://www.diena.lt/naujienos/ekonomika/estija-dalyvaus-es-finansinio-stabilumo-fonde-446026#axzz2AQuoBMwt – retrieved 26.10.2012.

However, politically it means that Lithuania is again out of the main European agenda. Knowing that the present Lithuanian President D. Grybauskaitė used to be the Commissioner for Financial and Budgetary issues and as such – a very "European" person, her wish for Lithuania to be more active in EU issues seems logical. This is probably why she so readily, i.e., without any broader discussion, supported the Fiscal Compact. It was like a sign that for Lithuania EU issues matter. We can also remember the claim of D. Grybauskaitė at the beginning of her Presidency, that Lithuania has to try and make friends with the rich rather than the poor. That was a sign for Lithuanian foreign policy. Many analysts agree that one of the reasons for Lithuanian failure to introduce the euro in 2007 could be because its relations with the old EU countries were too weak to guarantee political support.

Tomasz Stępniewski

Ukraine, the EU and the eurozone: alternatives to Europeanization[1]

Abstract: This paper examines the policy of the European Union towards Ukraine. The 2004 and 2007 eastward enlargement of the EU created a new quality in the EU's relations with its eastern partners. Another major change in the EU's approach toward its eastern neighbourhood followed the launch of the European Neighbourhood Policy (2003-2004). The evolution of the EU's external policy gave rise to three basic dimensions of the ENP: the southern, the northern and the eastern one. Against this backdrop, the objective of this paper is to answer the following questions: What is the EU's role in Eastern Europe? Does this region matter to the EU at the time of crisis in the eurozone? How does the crisis in the eurozone translate into the EU's relations with Ukraine?

Keywords: Ukraine, European Union, Eastern Europe, Europeanization

1. Introduction

The paper examines the policy of the European Union towards Ukraine, i.e. the policy of the EU towards its immediate and biggest eastern

1 This article was previously published in a modified version in Polish: T. Stępniewski, *Ukraina w polityce sąsiedztwa Unii Europejskiej: europeizacja czy peryferyzacja?* [Ukraine in the Neighborhood Policy of the EU: europeanization or peripherization?], Rocznik Instytutu Europy Środkowo-Wschodniej, Year 10 (2012), Vol. 1: *Co po ULB? Polityka wschodnia Polski wobec sąsiadów w nowych uwarunkowaniach*, pp. 39-49.

neighbour. The eastward enlargement of the EU in 2004 and 2007 created a new quality in its relations with eastern partners[2]. Another major change in the eastern policy of the Union followed the establishment of the European Neighbourhood Policy (2003-2004) which reflects the multidimensional character of the EU. The evolution of the EU's external policy led to the emergence of the three basic dimensions of the ENP: the southern, the northern and the eastern one[3].

The eastern dimension of the EU is oriented at the states which are its immediate neighbours in the East: Ukraine, Belarus, Moldova and Russia. Since the proclamation of the Eastern Partnership program, the states of the Southern Caucasus have been increasingly included in that dimension. Nevertheless, the eastern dimension remains an integral element of the external policy of the EU which differs in quality from the Mediterranean and northern dimensions and can be regarded as a component of the EU's Common Foreign and Security Policy[4]. As for its organization structure, it should be based on two approaches: regional – in relation to the whole area of Eastern Europe, and bilateral – an individual approach towards each state in the region[5]. It should be noted that the latest regional programs of the EU are a source of a certain amount of ambiguity as to the relations between the EPN and the new initiatives aimed at eastern partners: the Black Sea Synergy and the Eastern Partnership. Should the programs be treated as complementary or competitive to the ENP?

Moreover, there is the question of rivalry among the EU dimensions – mainly over the financial resources necessary to implement an effec-

2 T. Stępniewski, *Geopolityka regionu Morza Czarnego w pozimnowojennym świecie* [Geopolitics of the Black Sea Region in the post-Cold War World], Lublin–Warszawa 2011; M. Klatt, T. Stępniewski, *Normative Influence. The European Union, Eastern Europe and Russia*, Lublin–Melbourne 2012; T. Kapuśniak, *Ukraina jako obszar wpływów międzynarodowych po zimnej wojnie* [Ukraine as an area of international influences after the Cold War], Warszawa–Lublin 2008, pp. 208-210.

3 P. J. Borkowski, K. Dośpiał-Borysiak, T. Kapuśniak, *Wymiar południowy, północny i wschodni Unii Europejskiej: osiągnięcia, szanse, wyzwania* [Southern, northern and eastern dimensions of the EU: achievements, chances, challenges], Prace Instytutu Europy Środkowo-Wschodniej, Vol. 1, Lublin–Łódź–Warszawa 2009; J. Popielawska, *W jakim towarzystwie? Partnerstwo Wschodnie na tle innych inicjatyw UE na wschodzie* [In what company? Eastern Partnership against other EU initiatives in the East], Analizy natolińskie, 2009, No. 5 (37), http://www.natolin.edu.pl/pdf/analizy/Natolin_Analiza_5_2009.pdf

4 T. Kapuśniak, *Wymiar Wschodni Europejskiej Polityki Sąsiedztwa Unii Europejskiej. Inkluzja bez członkostwa?* [The eastern dimension of the European Union's Neighbourhood Policy. Inclusion without membership?], Zeszyty natolińskie, No. 42, Centrum Europejskie Natolin, Warszawa 2010, http://www.natolin.edu.pl/pdf/zeszyty/Natolin_Zeszty_42.pdf

5 Ibidem.

tive policy towards the EU neighbours. It cannot be denied, however, that the European Neighbourhood Policy has had its share in the intensification of the EU activities in the states of Eastern Europe. Another issue that should be examined is the unequal status of the eastern countries included in the ENP program. While, e.g., Ukraine is perceived as one of the most important Eastern European partners, "Belarus is not the most urgent priority for the European Union, but the presence in Europe of an authoritarian regime with a leader who may hold his office for life causes deep concern"[6]. When analyzing the external policy of the EU, it is worth considering the problem of Belarus, which presents a peculiar challenge to the eastern dimension of the ENP.

2. Eastern Partnership of the European Union

In 2008, at the EU's Council, Poland and Sweden put forward a proposal for the creation of an Eastern Partnership, which was originally meant as a supplement to the European Neighbourhood Policy, announced on 12th May 2004[7] – by intensifying the EU's relations with the Eastern European countries: Belarus, Moldova and Ukraine, and the South Caucasus states: Georgia, Armenia and Azerbaijan. Then, at a summit in Prague (7th May 2009), the EU member states agreed that: "the Eastern Partnership is launched as a common endeavour of the Member States of the European Union and their Eastern European Partners (hereinafter the partner countries), founded on mutual interests and commitments as well as on shared ownership and responsibility. It will be developed jointly, in a fully transparent manner"[8]. They also declared that: "the main goal of the Eastern Partnership is to create the necessary conditions to accelerate the political association and further econom-

6 G. Gromadzki, W. Konończuk, L. Veselý, *Białoruś po wyborach. Jaka będzie przyszłość reżimu Łukaszenki?* [Belarus after elections. What future for Lukashenko's regime?], Fundacja im. Stefana Batorego (Warszawa), Stowarzyszenie Spraw Międzynarodowych (Praga), September 2006, http://www.batory.org.pl/doc/bialorus-po-wyborach.pdf, p. 9.

7 European Commission, *European Neighbourhood Policy – Strategy Paper*, Communication from the Commission, Brussels, 12.05.2004, COM (2004) 373 final.

8 Council of the European Union, *Joint Declaration of the Prague Eastern Partnership Summit*, Council of the European Union, Prague, 7.05.2009, 8435/09 (Presse 78), http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/107589.pdf

ic integration between the European Union and the interested partner countries".

It was decided that the Partnership would operate along two tracks: deeper bilateral commitment (Association Agreements and the establishment of comprehensive free trade areas) and multilateral co-operation (meetings of Heads of States or the Government of the Eastern Partnership will be held in principle every two years; four thematic platforms corresponding to the main areas of co-operation are created: Democracy, good governance and stability, Economic integration and convergence with EU sectoral policies, Energy security and Contacts between people). As it was put in the declaration, "the significant strengthening of EU policy with regard to the partner countries will be brought about through the development of a specific eastern dimension of the European Neighbourhood Policy"[9].

The second Eastern Partnership Summit in Warsaw in September 2011. On 29th and 30th September 2011, the second summit of the EaP was held in Warsaw, with the participation of EU member states and their eastern partners: Azerbaijan, Armenia, Georgia, Moldova and Ukraine. The summit was also attended by the representatives of European institutions: the European Parliament, the European Investment Bank and the European Bank for Reconstruction and Development. It took place during Poland's presidency in the EU Council and the successful realization of the Eastern Partnership project was to be one of the major events of the presidency. The sessions of representatives of EU member states and neighbour countries were aimed at deepening the integration and engaging both parties in joint activities. The participants were scheduled to discuss such issues as negotiations of Deep and Comprehensive Free Trade Areas (DCTFA) and Association Agreements with the EU, as well as changes in the visa regime. As it turned out, the summit discussions focused on three main subjects: funding (the amount of financial resources for the Eastern Partnership countries), the visa regime and the question of Belarus (the internal situation in Belarus after the presidential elections of 19th December 2010 and the repressive measures of Alexander Lukashenko's regime towards the Belarusian opposition). The final declaration of the EP Warsaw Summit provided for new initiatives to be launched in the participant countries to reinforce the process of building democratic institutions. With this in view, a decision was made to establish the Eastern Partnership Academy

9 Ibidem.

of Public Administration in Warsaw and the Estonian Centre of Eastern Partnership.

According to Thomas de Waal, the Eastern Partnership is an ambitious project and a huge step forward compared to previous initiatives oriented towards the East, yet the 2011 Warsaw Summit clearly showed how complicated it was for EU to commit itself more to eastern neighbourhood[10]. The complexity is added to by the fact that EP countries are rather unwilling to introduce changes which would bring them closer to the standards of democratic countries. The lack of progress on the road to democratization in the countries (also due to the "Arab Spring") has given rise to a new rule introduced by the EU to its Neighbourhood Policy in 2011: "more for more", meaning more funding in return for advances in integration and internal reform. The introduction of the rule by the EU "may *de facto* imply a reduction in EU funding for the countries of the Eastern Partnership"[11].

3. The eurozone crisis and the perception of the EU Eastern Partnership by Ukraine

The reaction of Eastern European countries and South Caucasus to the Eastern Partnership initiative was rather cautious. Some countries expressed hope that the new chapter of EU's eastern policy would lead to changes in its construction and functional logic and thereby the quality of mutual relations would improve. As Anna Zielińska and Kerry Longhurst observed, Moldova and Ukraine believed that "EaP will permanently tear eastern neighbourhood away from the south and that ENP will in effect become divided into two individual geographic areas. The eastern one would gain a new, more privileged position, a better chance for integration and a unanimous declaration as to its prospects

10 T. de Waal, *Expanding the EU's Ostpolitik*, Strategic Europe, 24.10.2011, http://carnegieeurope.eu/publications/?fa=45792

11 T. Iwański, A. Ciechanowicz, A. Kwiatkowska-Drożdż, R. Sadowski, *Kryzys w relacjach UE–Ukraina wokół sprawy Tymoszenko* [Crisis in the EU-Ukraine relations over the Tymoshenko case], Tydzień na Wschodzie, 09.05.2012, No. 17 (218), Ośrodek Studiów Wschodnich, www.osw.waw.pl; *ЄС ухвалив нову Програму з інтеграції та співпраці Східного партнерства*, Представництво Європейського Союзу в Україні, 27.06.2012, http://eu.prostir.ua/news/253736.html

for membership"[12]. Moreover, the initial stand of Ukraine was that "the Eastern Partnership should stipulate reasonable prospects for EU membership for those European neighbours of the Community who will be able to prove the honesty and weight of their European ambitions through concrete activities and tangible achievements"[13]. It should be noted that, when the ENP was announced, Ukraine also objected to being included in the project (group of countries) on a par with the southern neighbours who did not stand a chance of winning the membership as they were not European countries. In the case of EaP the situation was similar since Ukraine was opposed to being included in the project with the countries whose links with EU were weaker or which were not interested in gaining EU membership (e.g., Armenia, Azerbaijan, Belarus). This was why the ruling centre in Kiev emphasized the fact that the countries in EaP should be divided into those which are striving to improve their relations with the EU and are introducing internal reform and democratic changes, and those not interested in closer co-operation.

It should be mentioned that the reception of the Eastern Partnership initiative in Ukraine was also affected by the economic crisis in 2008/2009. As observed by Nicu Popescu and Andrew Wilson, the countries of the region were severely afflicted by the effects of the crisis, which made the prospect of the "failed states" highly probable and could lead to social unrest and have far-reaching geopolitical consequences[14]. For that reason, the EaP countries regarded the new EU initiative as an opportunity to change their internal situation, and, first and foremost, as a chance to obtain financial support or a guaranteed line of credit necessary for the Ukrainian economy. The high price of gas imported from Russia via Ukraine was a significant factor in the poor economic condition of Ukraine.

In 2012, the perception of EaP and the EU-Ukraine relations in general was distorted by the situation arising from the imprisonment of the former Ukrainian Prime Minister, Julia Tymoshenko. The ac-

12 A. Zielińska, K. Longhurst, *Partnerstwo Wschodnie – kontekst i reakcje niespokojnego regionu* [Eastern Partnership – context and reactions of a region in unrest], [in:] K. Longhurst (ed.), *Kształtowanie się nowej europejskiej polityki wschodniej – ocena Partnerstwa Wschodniego* [Shaping of a new European Eastern policy – an evaluation of the EaP], Warszawa 2009, p. 41.

13 Ibidem, p. 42.

14 N. Popescu, A. Wilson, *The Limits of Enlargement-Lite: European and Russian Power in the Troubled Neighbourhood*, Policy Report, European Council on Foreign Relations, London 2009, http://ecfr.3cdn.net/befa70d12114c3c2b0_hrm6bv2ek.pdf

tions of the group in power aimed against the opposition cast a shadow over Ukraine's relations with not only the EU, but the world at large. It has rightly been noted by scholars that the "breakdown of relations with Ukraine will entail a reduction of the role of eastern neighbourhood and the Eastern Partnership in EU politics. Faced with a freeze in its relations with Belarus and little progress of reform in Moldova and the Caucasus states, the EU has seen its commitment in the region dwindle"[15]. The weakening of the European vector in the foreign policy of Ukraine will also result in an impairment of its negotiating position with regard to Russia and therefore make it financially and otherwise dependent on the Russian influences in the country, and, more broadly, in the region of Eastern Europe and South Caucasus.

In addition – as pointed out by Jarosław Ćwiek-Karpowicz – Russia's appeal to the countries of EaP (its soft power) is the outcome of a few factors: the fact that, unlike the EU, Russia has not introduced visas for the countries of Eastern Europe and South Caucasus (with the exception of Georgia), its labour market is open to the citizens of the countries (approx. 3 million citizens of the CIS are employed in Russia, on top of many million illegal workers), the widespread knowledge of Russian, common cultural heritage of the CIS countries and Russia, and its huge resources of fuels (oil, natural gas, hard coal)[16].

4. Ukraine: Europeanization or 'peripherization'?

The question that has to be answered now is: the European perspective or a Eurasian Union? While the commitment of the EU to the problems of eastern countries has remained stable over the last years and the Community has marked its presence in the region but has abstained from too much interference with the internal affairs of its countries, the activities of the Russian Federation have been aimed at maintaining the influence of Russia in the countries of the post-Soviet area which are

15 T. Iwański, A. Ciechanowicz, A. Kwiatkowska-Drożdż, R. Sadowski, *Kryzys w relacjach UE–Ukraina...* [Crisis in the EU-Ukraine relations...]

16 J. Ćwiek-Karpowicz, *Rosja wobec wschodniego sąsiedztwa Unii Europejskiej – problemy z realizacją koncepcji „soft power"* [Russia and the EU's Eastern Partnership – problems with implementing the concept of "soft power"], Sprawy Międzynarodowe, 2011, No. 4 (LXIV), pp. 57-58.

now included in the EaP programme. Russia's activities are exemplified by its war with Georgia in 2008 and the proposal of the Russian Prime Minister, Vladimir Putin, to establish a Eurasian Union, put forward in October 2011. Recently Russia has intensified its efforts to achieve regional integration – an economic union for Eurasia. The project of a Eurasian Union is competitive to the EU and its initiatives directed at the Eastern European countries of the CIS area. According to Kristi Raik, although the attractiveness of the EU has been lessened, the Association Agreements may still offer its eastern partners a more sustainable economic growth and a bigger chance of political self-definition than the economic integration with Russia[17].

The European Neighbourhood Policy is not an effective policy, and as such it has to confront numerous obstacles arising from its structural incongruity[18]. First of all, it encompasses a group of a few dozen countries from Morocco to Georgia, which have totally different potentials and aspirations. Some of them are likely to join the Community, if only in a distant future, for others entering the free trade area is the height of their abilities. That is why the addressees, both eastern and southern, have felt underestimated by the EU. Their dissatisfaction was aggravated by the exclusion from the group of the countries of the European Economic Area (Iceland, Lichtenstein and Norway), who, if willing, may join the Community at any time, and also of those who already have or are awaiting the candidate status, e.g., Turkey and the Western Balkans. On the other hand, the most important neighbour of the Community – Russia, has expressly asked to be excluded from the neighbourhood program. On the strength of the provisions of the EU-Russia summit in December 2003, a formula of a strategic partnership based on four common areas has been adopted in relation to Russia[19].

The EU itself is also accountable for the ineffectiveness of its eastern policy. The approach of EU's policy-makers to the Eastern Partnership is technocratic and insensitive to the specificity of the countries con-

17 K. Raik, *A rocky road towards Europe: the prospects for the EU's Eastern Partnership Association Agreements*, Briefing Paper, 2012, No. 110, Finnish Institute of International Affairs, p. 2; also: X. Kurowska, P. Pawlak, *The EU's Eastern Partnership – More for More, or More of the Same*, Yearbook of Polish European Studies, Vol. 14, 2011, Centre for Europe, University of Warsaw, pp. 119-122.

18 G. Gromadzki, *Five Theses on European Neighbourhood Policy*, Batory Foundation Policy Brief, Warsaw, September 2008; also: A. Balcer, L. Revak, *Ukraine: European Australia or Congo?*, New Eastern Europe, April-June 2012, No. 2 (III), pp. 59-63.

19 *EU-Russia Common Spaces Progress Report 2007*, http://ec.europa.eu/external_relations/russia/docs/commonspaces_prog_report2007.pdf

cerned. It weakens its impact by lacking a clear strategy for the region. History shows that a prospect for integration has been the most effective mechanism of change in the internal situation of the candidate countries. Unfortunately, the EU is not able – even in the long run – to offer membership to the states of the Eastern Neighbourhood (now Moldovians are the most eager to join the Union). Moreover, the image of the EU in the eyes of the eastern decision-makers and societies is unfavourable due to the visa regime, among other things, which has created a new "glass curtain" on the eastern border. The Union should take action to raise its attractiveness to eastern societies by increasing financial support for their countries and preventing crises with appropriate measures (more efficient economic policies, stabilization missions in the areas of conflict etc.). The effectiveness of the EU's policy in the region requires a change in the Union's approach to Eastern Europe and South Caucasus[20].

When answering the title question about Europeanization or 'peripherization' of Ukraine, it has to be stated that the situation of Eastern European countries is becoming increasingly complicated[21]. On the one hand, there are the activities of the European Union in the shape of such projects as the European Neighbourhood Policy and its derivative – the Eastern Partnership, neither of which has managed to change the quality of the relations between the Union and its eastern partners. On the other hand, the Russian Federation is taking steps towards maintaining the countries in the zone of its sole power, making it more and more difficult for them to break free of the influence. The effectiveness of the EU's eastern policy, the shape of the political systems of Eastern European countries, and, first and foremost, the balance of power in this part of Europe, all depend on the EU's active involvement in the East[22]. The question of the orientation of the external policy of the countries – European or eastern – remains unanswered. That is why so much depends

20 P. J. Borkowski, K. Dośpiał-Borysiak, T. Kapuśniak, *Wymiar południowy, północny i wschodni Unii Europejskiej: osiągnięcia, szanse, wyzwania...* [Southern, northern and eastern dimensions of the EU: achievements, chances, challenges...]

21 T. Kapuśniak, K. Fedorowicz, M. Gołoś (eds.), *Białoruś, Mołdawia i Ukraina wobec wyzwań współczesnego świata* [Belarus, Moldova and Ukraine against the Challenges of the Modern World], Lublin 2009.

22 T. Kapuśniak, T. Olejarz, *Ewolucja zjawiska bezpieczeństwa międzynarodowego na obszarze Europy Wschodniej* [Evolution of international security in Eastern Europe], [in:] P. Olszewski, T. Kapuśniak, W. Lizak (eds.), *Bezpieczeństwo międzynarodowe. Wyzwania i zagrożenia XXI wieku* [International Security. Challenges and Threats of the 21st Century], Radom 2009, pp. 195-211.

on the Eastern European countries, and even more – on the policy-makers of the European Union and their attitude to the problems of its eastern neighbours. Unfortunately, the regress in democratic reform in Eastern European countries (e.g., repression of the opposition in Belarus, the case of Julia Tymoshenko) casts a shadow over the image of the region and weakens the interest of EU policy-makers. It has to be emphasized that the new EU members cannot allow for an area of poverty, social unrest and instability – the "grey security zone" – to stretch on the eastern frontiers of the Union[23]. Having cast anchor in the EU, the countries should in turn support Eastern European states, contributing to real systemic changes, economic transformation and the shaping of civil societies. To satisfy the need for transformation in Eastern European countries, particularly Ukraine, is not only in their own interest, but will benefit the entire EU[24]. On the one hand, the eastern dimension of the EU is threatened by the Union for the Mediterranean – an integration of southern EU states with their neighbours included in the Barcelona Process, and by the southern dimension of EaP. As a result of the "Arab Spring", southern neighbours pose a much bigger threat (challenge) as far as funding for the eastern countries is concerned than was the case before. Seeing the gravity of the problems in the southern neighbourhood, EU decision-makers are ready to increase funding and to show more involvement in that area than in the east of Europe, which is considered a stable and predictable region. On the other hand, Russia interprets the creation of EaP and its functioning in the present shape as proof that no further enlargement of the EU to the east will take place in the nearest future. This will allow Russia to restore its influences at the western and southern extremities of the post-Soviet area[25].

23 T. Stępniewski, *Geopolityka regionu Morza Czarnego w pozimnowojennym świecie* [Geopolitics of the Black Sea Region], Lublin–Warszawa 2011, pp. 295-320.

24 T. Kapuśniak, *Wymiar wschodni...* [Eastern dimension...]

25 T. Stępniewski, *Geopolityka regionu Morza Czarnego...* [Geopolitics of the Black Sea Region...], s. 77-118; T. Kapuśniak, *Ewolucja polityki Federacji Rosyjskiej wobec Ukrainy, Białorusi i Mołdawii* [Evolution of the RF's policy towards Ukraine, Belarus and Moldova], [in:] T. Kapuśniak, K. Fedorowicz, M. Gołoś (eds.), *Białoruś, Mołdawia i Ukraina wobec wyzwań współczesnego świata* [Belarus, Moldova and Ukraine and the Modern World], Lublin 2009, pp. 185-202.

Book Reviews

Anna Visvizi

Book review: *Ideas of Europe in National Political Discourse*

Cláudia Toriz Ramos (ed.), *Ideas of Europe in National Political Discourse*, Il Mulino, Bologna 2011, pp. 362.

What Europe is and whether the meanings attached to Europe and the European Union (EU) are mutually constitutive has been a recurrent question in EU studies. The constructivist turn added a new twist to this debate and the study of ideas that followed has significantly enriched our understanding of the nature of Europe and the EU. In other words, thanks to the constructivist turn we have acquired a new set of tools to inquire into discourses and narratives framing the issues and processes shaping the European integration. Clearly, taking into account variability inherent in the European integration process, it is imperative that ideas and discourses of Europe be documented in real-time and that the variety of narratives framing the developments in the EU are examined concurrently. In this way, the paradoxes and contingencies of the policy-making process in the EU can be identified and the efficiency of communication among the multiplicity of actors engaged in the decision-making process at national and EU levels can be ensured. The volume edited by Professor Cláudia Toriz Ramos[1] represents a highly welcome contribution that inserts itself in the so-defined context.

The value added of this publication is that, on the one hand, it allows a reader unfamiliar with the national variability inherent in the percep-

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tion of specific developments in the EU to gain a fair understanding of how and for which purpose specific concepts are employed at the domestic/national level. On the other hand, a reader specializing in the subject of national discourses acquires a comprehensive insight not only into the country-specific ways of referring to Europe but also into the mechanisms behind the successful employment and emulation of certain meanings and ideas. Finally, it should be stressed that the volume constitutes a very clear attempt to comparatively address the question of how the ideas of Europe, as expressed through national party politics and respective discourses framing it, align over time and across the EU member-states. To this end, the authors employ a variety of case studies, whereas an attempt to provide a theoretical frame to this phenomenon is also visible.

The volume consists of thirteen chapters including an introduction and a conclusion. Each of the papers offers a detailed view on the national discourses shaping the debate on Europe across the EU member-states. In the first chapter of the volume the historically established markers of the European identity are discussed by George Chabert. Specifically, the meanings attached to concepts such as 'Christianity', 'guilt', 'doubt', and 'European project' are examined, along with their role in shaping the contemporary ideas of Europe. João Rosas in the next chapter examines the four key strands of the contemporary normative political theory, i.e., the grand theories, political designs and projects, economic and social ideas, and the European identity. In this context, the author puzzles on the legitimacy and nature of the left-right divide as well as the cosmopolitan-identitarian split and their influence on public discourses in the EU. The following chapters deal explicitly with national political discourses shaping the ideas of Europe across the EU member-states.

Jean-Claude Revanger examines the French political scene and the major currents of the political discourse revolving around issues such as the 2004 referendum regarding the Constitution of Europe and the 2009 debate on the Lisbon Treaty. The argument elucidates how different concepts and social constructs were employed instrumentally by the political actors involved in the French political scene, thus influencing the French perceptions of the European project. The major features of the German political discourse on Europe have been captured by Andreas Wimmel and Erica Edwards. In their co-authored chapter, the evolution of the German political scene and its re-orientation towards the question of Europe and Germany's position vis-à-vis the developments at the EU level become very transparent. Accordingly, this chapter offers a fair idea of the role and purpose of specific discursive interventions by the key actors involved in the German political scene today, i.e., at the time of the eurozone crisis.

The specificity of the Belgian political narrative is discussed by Arnout Justaert and Roos Van de Cruys. Here it is emphasized that the federative design of Belgium softens the intensity of the political discourse on Europe and the European integration with Belgians taking the EU for granted. The case of Portugal, explored by Cláudia Toriz Ramos and Paulo Vila Maior, stands in striking contrast with the case of Belgium. As the authors stress, ideas of the European integration have constituted a clear marker of ideological divisions on the Portuguese political scene since Portugal's accession to the EU in 1986. In the next chapter, Sarah Meyer focuses on changes in Austrian parties' positions and ideas of Europe as expressed in parliamentary debates on EU treaty amendments. The main conclusion is that 'modifications in voting behaviour do not result from changes in the parties' ideas of Europe, but rather from changes in their governmental status' (p. 224). The paradox of increasing Euroscepticism in Hungary, one of the so-called new member-states, is discussed by Anna Molnár. A detailed survey of political discourses framing Hungary's accession to the EU, parliamentary debates and national elections, reveal a picture of Hungary where conflicting images, perceptions and expectations that citizens attach to the idea of Europe have been employed by political parties to pursue their particular agendas at the domestic level.

By directing the empirical focus towards the peripheries of the EU, the discussion in the volume turns to the political discourses and ideas of Europe in Turkey, Iceland and Norway. Ülkü Doğanay demonstrates that both the ruling and the opposition parties consider Turkey's membership in the EU and thus Europeanization, conceived in terms of 'modernization' and 'westernization', as a fundamental target for Turkey. However, cleavages in this stance emerge, as depicted in the discourse of the Turkish Grand National Assembly. The ambiguous stance of Iceland towards the idea of EU membership is explained in the chapter by Eirikhur Bergman. This paper provides an opportunity to understand how the historically determined struggle for independence and the specific meaning that Icelanders couple with sovereignty and nationality influence the political discourse on Iceland and the respective ideas of Europe today. Finally, through an analysis of discourses framing the 1994 referendum regarding Norway's membership in the EU, Lise Rye maps Norway's relationship with the EU. For readers unfamiliar with this topic, an interesting observation is that the Eurosceptic discourses notwithstanding, Norway succeeded in establishing very close relations with the EU. Paradoxically, in several areas Norway is more integrated with the EU structures than some EU member-states themselves. In this sense, it is possible to talk of a kind of symbiosis that has emerged between Norway and the EU.

Overall, the volume constitutes an impressive and representative collection of insights into domestic-level discourses on Europe/the EU. The constitutive character of these discourses is well-captured by reference to thoroughly documented case-studies. Without exceptions, each chapter is highly informative and methodologically sound. The empirical focus across the volume explores the highlights of political life in the countries under consideration. This adds to the relevance of the publication. On the other hand, the selection of country case-studies included in the volume offers a wonderful opportunity to map and to compare differences and similarities between the ideas of Europe across the EU and its periphery. In this way, a careful reading of this publication bears the promise of acquiring a clearer view of the intentions and purpose behind discursive interventions employed by the variety of key EU-level actors today. Against this background, the volume discussed here will be of interest not only to academics dealing with discourses and with the constitutive role of ideas, but also to researchers and analysts seeking to resolve the puzzle of what makes Europe hang together in times of crisis.

One final remark: The volume presents the findings of part of a broader research-project financed by the European Commission in the framework of the SENT project (Thematic Network of European Studies). SENT is an interdisciplinary project bringing together about 100 partners from the EU member states, candidate and associated countries. SENT's objective is to assess the state of EU studies today and, in this context, the evolution of the idea of Europe across time and space. Given the value added of the volume discussed here, the purposefulness of the project should be emphasized and the work of the editor and of the contributing authors should be applauded.

Monika Banaś

Book review: *Polityka spójności Unii Europejskiej. Doświadczenia, wnioski i rekomendacje na lata 2014-2020*, tom 1: *Wybrane problemy realizacji polityki spójności w Unii Europejskiej*

Bartosz Jóźwik, Mariusz Sagan, Tomasz Stępniewski (eds.), *Polityka spójności Unii Europejskiej. Doświadczenia, wnioski i rekomendacje na lata 2014-2020*, tom 1: *Wybrane problemy realizacji polityki spójności w Unii Europejskiej* [*EU cohesion policy. Experience, conclusions and recommendations for 2014-2020*, Volume 1: *Some problems of cohesion policy in the European Union*], Catholic University of Lublin Press (KUL), Lublin 2012, pp. 247.

A policy as complex and multidimensional as the EU cohesion policy requires a deep ongoing reflection and continuous debate. While theoretical aspects of this policy tend to be discussed by academics and politicians, the practical dimension seems to be reserved to practitioners. Clearly, it is imperative that the theoretical and practical approaches to the EU cohesion policy be combined. This statement seems rather banal but all too often the reality reminds us that combining theory and practice is not an easy task. However, undertaking attempts to do so seems necessary and inevitable. Such an example of attempts to consolidate the two approaches is delivered by the volume reviewed here.

The reader finds in its contents a collection of papers on a variety of aspects covered by the EU cohesion policy. The policy is examined from different perspectives that relate to various experiences from selected European countries, including Poland. The idea of preparing and collating a set of articles on such a vital issue as the cohesion policy and its implementation should be highly appreciated due to the still insufficient coverage of the topic in the Polish literature.

The publication consists of fifteen papers. These are grouped into three broad sections devoted to: 1) the challenges of EU cohesion policy, 2) competitiveness and regional development discussed with reference to country-specific case-studies, and 3) the implementation of the cohesion policy in Poland. Each section includes papers examining both theoretical and practical issues pertinent to the field of EU cohesion policy. In this way the balance between theory and practice in the volume is maintained and the reading of the volume becomes attractive.

The papers included in the volume offer theoretical insights into this field of study. At the same time they give a coherent view of the practical dimension of the EU cohesion policy. Together, the discussion combing theory and practice of the EU cohesion policy constitutes a value added of the volume discussed here. As such the book will be of interest for professionals, specialists and practitioners involved in the implementation of the cohesion policy. The book will also be thought-provoking to readers interested in broader questions of economic development as well as to those readers who explore more specific questions of standardisation of the European economic, financial and administrative order. Finally, since the volume can be perceived as a record of thoughts, ideas, and ways of interpreting the contemporary world, the publication remains of value also for those who do not specialize either in economics or finance.

The problems discussed in the book focus on issues relevant to the regional cohesion policy. These include: EU community law, the harmonization of the Eurozone finance system, cross-border and regional cooperation, methods of improving economic competitiveness and the promotion of small and medium enterprises at local and regional levels.

Of particular interest for Polish readers might be the papers included in the third part of the publication as they involve issues directly related to Poland. Among the topics discussed in this part of the volume we can find the following: the impact of the EU's cohesion policy on the economic life in Poland, the influence of the 'creative class' in Poland on domestic economy – which, according to Richard Florida's concept of 'creative class', reflects the predisposition of a society to alter economic growth and development.

An essential question is also raised in the paper about the current condition of Polish agriculture, which as an important branch of the Polish economy, requires a whole set of modern reforms. Unfortunately, due to socio-historical circumstances, the need to reorganize Polish agriculture meets a rather moderate acceptance from those employed in the sector. Along with agriculture, the Polish maritime industry requires increased attention from both professionals, practitioners and scientists. Thought and action are both required to introduce a remedial plan for Polish ports, especially the smaller ones. Regrettably, most concepts of modernization programmes are hitherto excessively politicized, which in turn seldom leads to improvement.

The Europe 2020 Strategy sets out the general principles and direction of the changes resulting from the need for constant adjustment of European economies to the high dynamics that take place on the global market. The general assumptions must be translated into clear and concrete tasks to make the goals achievable. One way of concretization is an ongoing debate and continuous verification of the existing and already implemented solutions, supplemented with new improved proposals.

The volume *European Union's cohesion policy. Experience, conclusions and recommendations for 2014-2020*, edited by Bartosz Jóźwik, Mariusz Sagan and Tomasz Stępniewski constitutes a valuable contribution to the debate on the cohesion policy of the European Union. It serves as an account of how Polish researchers and practitioners view the strategic issue of the EU cohesion policy.

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