ShowCASE

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Editorial

In light of the rise of Euroscepticism within the EU and ever-rising debates on the costs and benefits of further integration, this edition of showCASE provides a short summary of the forthcoming article revisiting the EU accession experience of the CEE countries and measuring long-term economic gains from the EU membership. While the extent to which individual countries have benefitted from the membership varies among the new Member States, their experiences are still undoubtely of great valaue for all the countries that aspire to join the EU.

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CASE Analysis

New Evidence on Economic Gains from EU Accession

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The article is based on a forthcoming paper: Hagemejer, J., Michałek, J.J., Svatko, P. (2021). Economic impact of the EU Eastern enlargement on New Member States revisited: The role of economic institutions. Central European Economic Journal, 8(55), 126-143. DOI: 10.2478/ceej-2021-0008. The results are summarised here with permission from the journal editor.

More than 15 years after the first EU enlargement we take on the challenge to (re)evaluate the long-term gains of the Central and Eastern Europe economies from the EU accession. The forthcoming article elaborates on the overall economic gains, measured as extra GDP per capita that can be attributed to the EU accession for the New Member States over time compared to a hypothetical scenario of having remained outside of the EU.

The results suggest the presence of significant gains from the EU accession (see Figure 1). More importantly, these gains appear to be long-lasting and increasing over time: for many of the analysed countries, the calculated gain at least doubled between the 6th and 12th year after accession. For 5 of the 10 analysed countries, the 12-year gain in levels of GDP per capita against the scenario of no accession is at least 30%.

The gains, however, have not been universal throughout all CEE economies. In particular, they were rather marginal for countries that entered the EU with relatively high levels of economic development and decent physical infrastructure. These include Slovenia with the performance gain close to zero as well as the Czech Republic and Hungary with the calculated gains ranging[1], respectively, from 3% to 10% and from 7% to 28% after 12 years. On the other hand, the gains were considerably larger in Poland, Slovakia, and Baltic countries, exceeding 50% of extra GDP per capita in 12 years after accession for Lithuania and Estonia.

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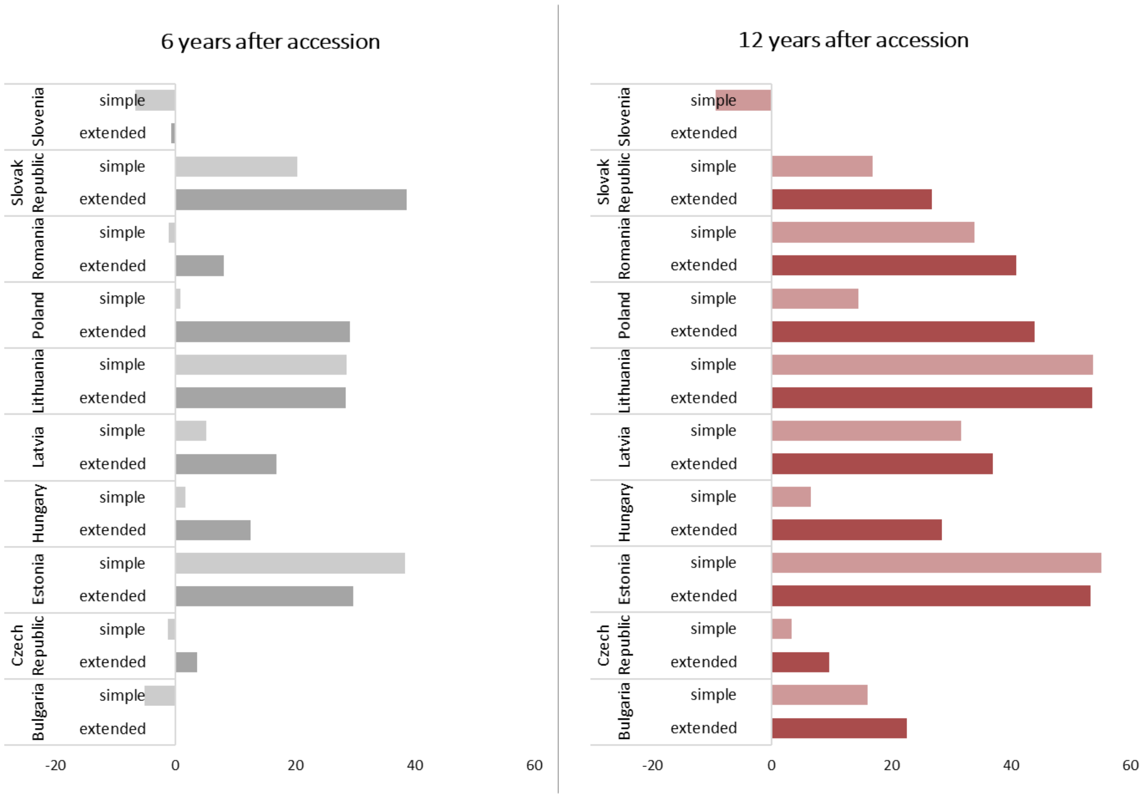
What about Poland?

As Figure 2 shows, the gains in Poland have been clearly accumulating over time and stood at roughly an extra 55% of GDP per capita 15 years after accession.

The "no-accession" Poland, in turn, has a persistently lower rate of economic growth compared to actual Poland. This difference in growth rates seems to even increase over time, suggesting that these are not one-off, but rather persistent, long-lasting benefits.

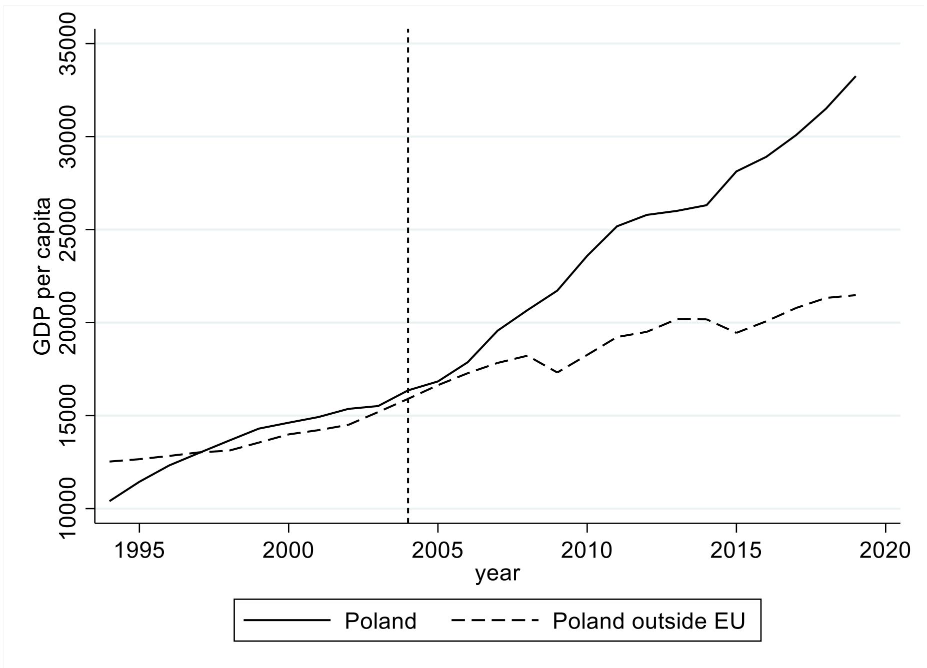
[1] Results vary depending on the method of calculation. For details see Hagemejer, J., Michałek, J.J., Svatko, P. (2021).

Figure 1. New Member States gains after accession in GDP per capita (%)



Source: Hagemejer, J., Michałek, J.J., Svatko, P. (2021).

Figure 2. Poland's actual GDP per capita vs hypothetical Poland's GDP outside the EU



Source: Hagemejer, J., Michałek, J.J., Svatko, P. (2021).

Construction of the "No-Accession" Scenario

The major difficulty in the assessment of economic gains from accession is to predict what would have happened if the accession had not occurred. Here, the synthetic counterfactual method comes in handy. In short, this method allows to create a "synthetic country" that is a weighted average of countries that have not been part of the EU integration. The choice of the countries is not random – it is based on a set of country characteristics that can predict the GDP per capita well.

Two alternative choices of variables were analysed for the creation of the synthetic counterfactual in the study. First, in the simple scenario, we included structural economic variables such as the population growth, share of industry in total value added, the share of agriculture in total value added, share of investment in GDP, the level of real GDP and secondary and tertiary schooling indicators. The second, extended version, of the model, additionally included several institutional variables related to the level of economic freedom in the country (i.e., tax burden, business freedom, monetary freedom and trade freedom indicators). These additional variables were assumed to reflect both phenomena: progress in the transition process and that of the accession to the EU. The choice of the model matters for the results with overall higher estimated gains found in the extended models.

The composition of synthetic "no-accession" country was different for each analysed New Member State – Australia, Belarus, Korea, Macedonia, Russia and Ukraine being often part of that construct. Alternative choices included Albania, Algeria, Brazil, Chile, China, Indonesia, Macedonia, New Zealand and Switzerland.

›› The results presented in the study provide yet another set of evidence on the substantial gains from the EU accession. This is particularly important for the countries aspiring to become members of the EU, i.e., shows that adherence to the requirements of several structural and institutional reforms pays off in the long run.

Economic and Political Reforms During the Accession Period

The EU accession experience of the CEE was very different from that of the West European countries and unfolded alongside profound political and economic transformations of the early 1990s.

The initial "Europe Agreements" enabled creation of the Free Trade Areas and put forward the expectations on the future structural reforms, including an approximation of the legal systems. The so-called Copenhagen criteria introduced in 1993, has further underlined the need for prospective Member States to have stable democratic institutions that could ensure the protection of the EU's fundamental values as well as functioning market economies as competitive members of the Single Market. While it was assumed that all future members of the EU should fulfil the Copenhagen criteria, the actual speed of transformation and implementation of the much-needed reforms was somewhat differentiated among the acceding countries at the time.

There is no simple answer about the extent to which the transition reforms were "imposed by" and/or "resulted from" the accession strategy. One may conclude that even in the case of the "Big Bang" strategy of reforms, the creation of the rule of law state would not have happened automatically. The external pressure, in the form of pre-accession commitments, facilitated the transition process and creation of the rule of law institutions.

Why Is This Still Relevant Today?

The results presented in the study provide yet another set of evidence on the substantial gains from the EU accession. This is particularly important for the countries aspiring to become members of the EU, i.e., shows that adherence to the requirements of several structural and institutional reforms pays off in the long run.

In light of the rise of Euroscepticism in the New Member States, it is also important to note that some of these gains are reversible, i.e., they stem from the access to the Single Market and the inflow of foreign direct investment from the EU-15 which is largely conditional on the EU membership. On the other hand, the improvement of infrastructure through structural fund has already been rather advanced and is not likely to play a major role in the development of most of the NMS. However, new initiatives (e.g., EU Recovery Fund) provide a sustained source of benefits from the EU membership for the newcomers.

In the case of the CEE countries, the anticipation of political and economic gains from the alignment with the EU and its values was a motivation for accelerated implementation of democratisation reforms, which explains the successful transitions in these economies. While it can be an important lesson for other countries from the region, it is also crucial to understand that these reforms were also required to support a smooth transition to a market economy. Consequently, their reversal could jeopardize the potential for reaping gains from the EU membership and further integration.

Highlights

Trade, Innovation, and Productivity

On June 24, the EU adopted new sanctions on Belarus following an escalation of human rights violations, violent repression of civil society, and the recently forced landing of a Ryanair flight in Minsk. The sanctions will target technology and software industries, dual-use goods, technology, tobacco, petroleum, potash products, and financial services. Thus, the EU imposed import restrictions on petroleum and potassium chloride products originating in or exported from Belarus as well as limitations on the EU the supply or export of goods used in the production of tobacco products to or for use in Belarus. In addition, access to the EU capital markets will be limited and European banks will not provide insurance or re-insurance to the Belarusian government or other public bodies and agencies. Finally, a licensing obligation was imposed on the sale, supply, transfer, or export to or for use in Belarus of various equipment, software, and technology for telecoms interception and monitoring. These sanctions may have significant adverse impact on the Belarusian economy. In fact, Belarus has an estimated 20% of the world potash reserves with export to the EU accounting for up to 8% of country's total potash export revenue in 2020. As of May 2021, Belarus export of petroleum products targeted by the new EU sanctions amounted to USD 1.5 billion with ca. 50% of the sales value being attributed to the EU alone.

Labour Market and Environment

The latest edition of the D+ survey in Poland discovered population concerns on the current pandemic situation, concerning, in particular, on health security, labour market, and socialisation. While about half of the respondent shared a rather positive outlook on the labour market situation in Poland and feeling of control over one's employment situation, the feeling of loneliness and loss of social bonds seem to be among the lasting effects of the pandemic. Thus, compared to 2010, much fewer respondents (ca. 10 pp fewer) believed that they have someone to rely on and a much greater share of people declared that they lack people around them (ca. 20 pp more). The extended periods of stress and uncertainty as well as lockdown fatigue are among the main factors contributing to lower levels of well-being during the pandemic. The ongoing vaccination campaigns and easing of the lockdown measures throughout the EU are set to support not only business activities and economic recovery but also psychological and social aspects of the pandemic.

Macro and Fiscal

On May 15, the ruling party in Poland (Law and Justice, PiS) presented the assumption of the "Polish Deal" (Polski Ład) - an economic plan designed to support Poland's post-pandemic recovery. Among other measures, quite substantial changes in the Personal Income Tax are envisaged. The new system with higher tax thresholds but inability to deduct public healthcare contributions from the tax base public and special adjustment for middle income taxpayers will have a substantial impact on the distribution of tax wedge. The changes will increase progressivity of the system increasing the effective tax rate for ca. 12% of high-income taxpayers and majority of the self-employed. In addition to the distributional impacts, the change will have a range of other repercussions. According to experts, these include unnecessary impact on the transparency of tax rules and related compliance costs, and will not reduce poverty rates among the most vulnerable groups.

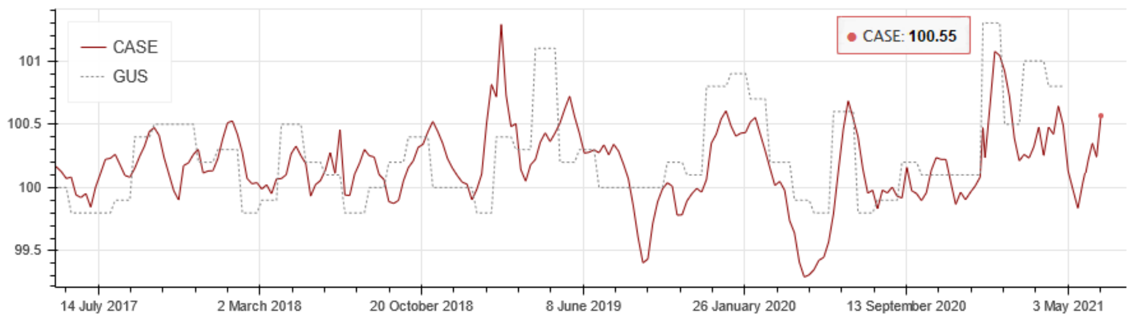
Other CASE Products

The Weekly Online CASE CPI

The online CASE CPI is an innovative measurement of price dynamics in the Polish economy, which is entirely based on online data. The index is constructed by averaging prices of commodities from the last four weeks and comparing them to average prices of the same commodities from four weeks prior. The index is updated weekly. For more information on our weekly online CASE CPI, please visit: http://case-research.eu/en/online-case-cpi.

The latest read-out of Online CASE CPI shows that the decline in consumer prices in Poland observed in May was only temporary and they have continued to rise throughout June. The most pronounced was an increase in prices of goods and services in "Housing" category (1.7%) which was mostly attributed to the rise of prices of main utilities (i.e.., heating and electricity). Other categories with notable price increases included "Clothing" (0.5%) and "Food and beverages" (0.3%). Within the former, the highest increase was observed among alcoholic beverages which were 3.4% more expensive compared to previous month.

Our Weekly Online CASE CPI



Monthly CASE Forecast for the Polish Economy

Every month, CASE experts estimate a range of variables for the Polish economy, including future growth, private consumption, investments, industrial production, growth of nominal wages, and the CPI.

CASE economic forecasts for the Polish economy
(average % change on previous calendar year, unless otherwise indicated)

	GDP	Private consumption	Gross fixed investment	Industrial production	Consumer prices
2021	4.1	4.5	3.3	7.5	3.5
2022	4.0	4.5	6.5	5.9	3.3

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