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AN ANALYSIS OF ECONOMIC CHANGES IN THE COUNTRIES OF CENTRAL AND EASTERN EUROPE** BELONGING TO THE EUROPEAN UNION IN THE YEARS 2003-2014

Abstract: Economic changes in the Eastern bloc countries which currently belong to the European Union can be characterized as incredibly strong and important. In the process of catching up with the general development, some problems have been reduced. Unfortunately, other issues are starting to increase. The main aim of the present review is to show changes of the period 2003-2014 in major economic areas of these countries and also to point out potential sources of economic issues in the future.

Keywords: Central and Eastern Europe; European Union; integration process; economic changes.

1. INTRODUCTION

It has been a quarter of a century since the fall of communism and start of state transformation in the post-socialist European countries which underwent enormous changes and became an integral part of the European economy. Eleven countries of Central and Eastern Europe, which once were behind the Iron Curtain, are now (2015) European Union member states. The Czech Republic, Estonia, Lithuania, Latvia, Poland, Slovakia, Slovenia

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** When using the concept of countries of the Eastern-Central Europe belonging to the European Union I mean Bulgaria, Croatia, the Czech Republic, Estonia, Lithuania, Latvia, Poland, Romania, Slovakia, Slovenia and Hungary.

and Hungary entered the EU 1st May, 2004; Bulgaria and Romania 1st January, 2007, and Croatia 1st of July, 2013. Most of the listed countries have been a European Union member states. What is more, five of those countries entered the eurozone. Slovenia was the first to introduce Euro (1st January, 2007), then followed Slovakia (1st January, 2009), Estonia (1st January, 2011), Latvia (1st January, 20014) and Lithuania (1st January, 2015). It is worth noting that the last three countries decided on entering the eurozone immediately after the economic crisis of 2008 (Cieślik et al. 2015, pp. 123-162).

The aim of the present review is to compare major economic indicators of these countries as well as the statistics within the EU; it is also expected to point out economic changes that occurred in these countries after the EU's extension to the East in 2004 and potential sources of economic troubles in the future. The analysis is based merely on Eurostat data and refers to the period of 2003-2014.

2. ANALYSIS OF CHANGES OF SELECTED ECONOMIC INDICATORS IN CENTRAL AND EASTERN EUROPEAN COUNTRIES BELONGING TO THE EUROPEAN UNION IN THE YEARS 2003-2014

As it is commonly known countries of Central and Eastern Europe are characterized by a significantly lower level of prosperity when compared with the 'Old 15'. Since the difficult transformation period in the 90's, these countries made great progress in approaching Western economies. In the years 2003-2013, the highest GDP per capita in relation to the EU average was recorded in Romania and Lithuania, respectively 77% and 52%. In Latvia, Poland, Estonia, Slovakia and Bulgaria, GDP increased by around 40%. The lowest recorded increase was noted in Hungary, the Czech Republic (for 6%) and Croatia (for 9%); Slovenia recorded a small decrease of 1.2% (fig. 1).

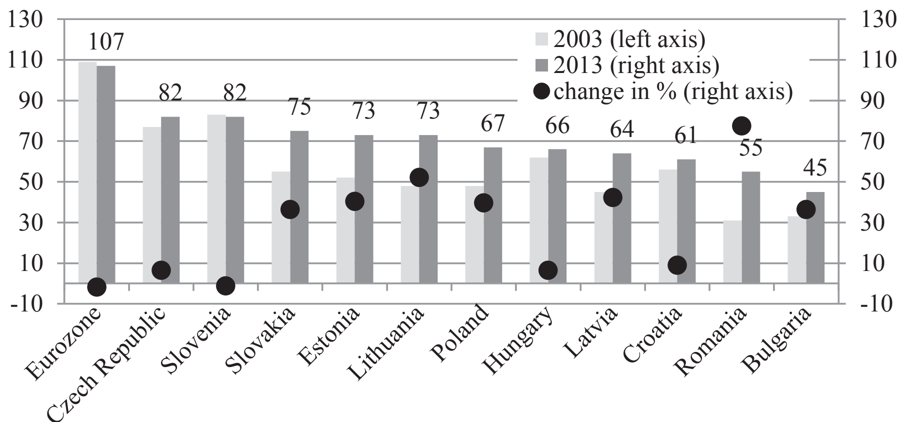


Fig. 1. The comparison of GDP in the countries of Central and Eastern Europe belonging to the EU in the years 2003 and 2013 (the percentage of the EU average on the left axis), and the change of the statistics in the period 2003-2013 (in%, on the right axis)

Source: self-reported data on the basis of Eurostat, 2015b.

Despite that, the differences still prevail as significant. It must be remembered that only after a few years of the Central and Eastern countries having entered the EU and gotten access to the shared market, the strong economic crisis appeared. The crisis significantly influenced the process of catching up. Looking from a broader perspective of time, it is noted that some Central and Eastern European economies have shown a faster rate of development than Western economies (tab. 1). Therefore, it can be expected that in the next few decades, the process of catching up will be successfully continued.

Tab. 1. The average economic growth level in the Central and Eastern European countries belonging to the EU in selected periods in the years 1997-2014 (annually, in %)

	17 years	18 years	6 years	5 years	5 years
on average in the years	1997-2014 excluding 2009	1997-2014	1997-2002	2003-2007	2010-2014
EU 28[1]	2,1	1,6	2,6	2,5	0,9
Estonia	6,2	4,6	7,1	8,4	3,8
Latvia	6,1	4,6	6,3	9,8	2,7
Lithuania	6,0	4,5	5,4	8,7	3,5
Slovakia	4,4	3,7	3,0	7,2	2,6
Poland	4,3	3,9	3,9	5,1	3,1
Romania[2]	4,2	3,3	2,9	6,6	1,4
Bulgaria	3,6	2,9	2,5	6,3	1,2
Hungary	3,3	2,5	4,6	3,5	1,2
Slovenia	3,3	2,5	4,1	4,8	0,2
Czech Republic	2,6	2,1	1,3	5,5	1,0
Croatia[3]	1,9	1,1	b/d	4,8	-1,1

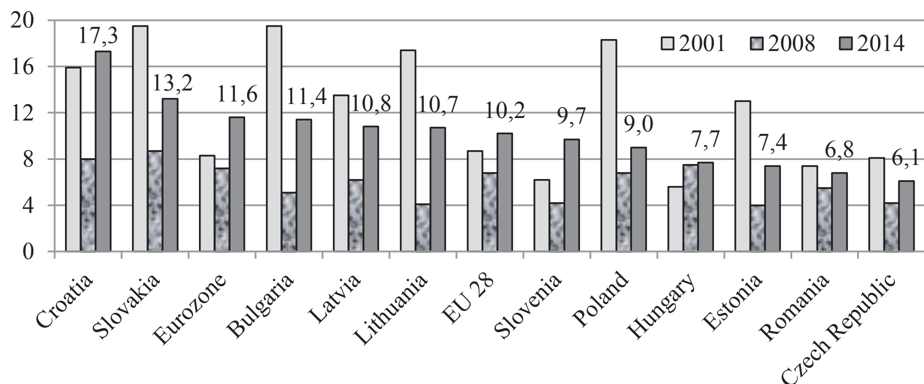
[1] data from the period 1997-2002 refers to 27 countries of the EU (excluding Croatia)
[2] Romania – data since 1999
[3] Croatia – data since 2003

Source: own calculations on the basis of Eurostat, 2015i.

In the last 18 years (1997-2014), among analyzed countries, the fastest development was seen in the Baltic countries. Excluding the economic crisis of 2009, Baltic countries had two decades of average economic growth of 6%, which is three times higher than the EU average (tab. 1). In comparison with the majority of Western economies, the difference in the pace of economic development is even greater as significantly higher statistics of economic growth in new EU countries increase the EU average.

The economic growth in the Central and Eastern European countries belonging to the EU in the period 2000-2007 amounted annually to the average of 5.8%. Not only did it provide a significant growth of income, but it also contributed to creation of new work

places; this was essential in the face of restructurization and fall of many state-based companies in transforming economies. Especially at the beginning of the 21st century, the majority of these countries had a double-digit unemployment rate, whereas in Poland, Slovakia, Bulgaria and Lithuania – the rate amounted to almost 20% (fig. 2).



* data from 2008 shows a selected month in 2008, in which a given country had the lowest unemployment rate.

Fig. 2. Unemployment rate in the Central and Eastern European countries belonging to the EU in 2001, 2008* and 2014 (in%)

Source: self-reported data on the basis of Eurostat, 2015m.

The improvement of the situation in the following years enabled the countries to limit the difficulties and achieve a similar unemployment rate as 'Old 15'. In 2008, the unemployment rate in Estonia, Slovenia, Czech Republic, Bulgaria, Romania and Lithuania decreased to only 4-5%, in Poland and Latvia went up to 6%, in Croatia, Hungary and Slovakia – 7.5-9%, whereas the average in the EU amounted to 7%; this means that in 8 of the selected countries, the unemployment rate was lower than the average rate in the entire EU (Eurostat, 2015). The unemployment rate increased due to the crisis, but still, at the end of 2014, 6 out of 11 Central and Eastern European countries had lower unemployment rate than the average of the EU (fig. 2).

It must be remembered that, although the faster economic growth means more work places, increase of wealth, prospective development, stability and credibility, better conditions of maintaining foreign policy, it also means dangers of higher inflation (as a result of lower competition and the growth of debt), dependency and deterioration of credit capacity. All of that may contribute to the decrease of development possibilities or higher instability due to the strong influence of the foreign capital. It is especially dangerous for the Eastern bloc economies which, for a long time, were far from Western tendencies and free access to western financial markets. Thanks to that (or because of that – these countries' debt is increasing and they become more and more dependent on Western capitals; they become a victim of globalization and dynamic development of international financial markets), these countries have lower debt and lower prices. While aiming at reducing the gap and becoming economic partners, the Central and Eastern economies forget about the risk (or they do not appreciate the risk) of fast and dynamic economic changes; the significantly lower stability and credibility place them in a different category. As a result, these countries

do not possess Western economic indicators (for example, within the debt) – it may not be significant in the times of prosperity, but becomes painfully executed in the times of worse economic situation or the risk growth.

Indeed the price level in Central and Eastern countries is significantly lower than in Western economies. In most cases, it oscillated on the level of 70% of the average price level in the EU. However, the Bulgarian prices oscillate on 49% of the European average. The level of prices in Poland and Romania is slightly higher – respectively 56% and 54% of the EU average (fig. 3).

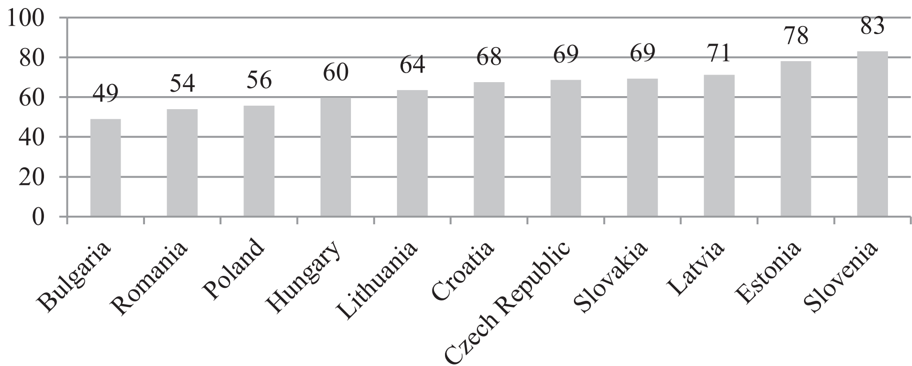


Fig. 3. Comparative price levels of final consumption in the Central and Eastern European countries belonging to the EU in 2013 (in%, EU 28=100)

Source: self-reported data on the basis of Eurostat, 2015a.

It must be remembered that the current EU average (28) is significantly lower than the EU average (15) before the Eastern enlargement. The group of poorer Central and Eastern countries greatly lowered the EU average in price levels. That is why, the level of prices in these countries is even more different from the price levels in Western countries. It is important mainly because disproportion in prices is vanishing in time; although such disproportion will never disappear fully, the process of 'leveling prices' in the EU will be in progress, especially in the case of products which are easy and cheap to transport. Before extending the EU to the East, leveling was about lowering some prices in the most expensive countries and increasing them in poorer countries, as the process was about adjusting to the price level in the richer part of the previous 'Old 15'. Currently, adjusting prices does and will take place mainly in Central and Eastern countries; as a result, the income will be lowered as well as competition of these economies (the higher the prices and salaries, the higher the fall of competition). Thus, the conclusion is simple. Prices in Poland and neighboring countries will be rising faster than in Western Europe as long as they are not adjusted to the EU average and, continuing, to the Western prices. What is more important, the process does and will happen in all EU countries, no matter if the countries are or are not in the eurozone. This phenomenon does not have any connection with introducing euro – contrary to the popular belief shared by common people and politicians who are skeptical towards economic reforms. Indeed, introducing euro may slightly accelerate the price convergence, especially because of the rounding effect; however, statistics show that the scope of this phenomenon has so far been small. The process of fading of disproportion in prices

is a result of creating a shared market; the process would appear also without the eurozone. This is a natural phenomenon in the times of globalization, observed all around the world.

It must be noted, that the process of converging prices in the Central and Eastern countries increases the pace of economic growth. That is why inflation is much higher in countries which have the fastest development and in the periods of the highest economic growth – data found in tab. 1 and tab. 2.

Currently (May 2015), due to post-crisis issues in a lot of Western Europe countries and economic stagnation in the majority of the 'Old 15', inflation is low also in the rest of EU countries (there are even instances of deflation) – tab. 2.

Tab. 2. Inflation rate (HICP) Annual average rate of change in the Central and Eastern European countries belonging to the EU in selected periods in the years 2003-2014 (annually, in %)

	on average in the years 2003-2008	2008	on average in the years 2009-2014	2014
eurozone (19)	2,4	3,3	1,5	0,4
Czech Republic	2,6	6,3	1,5	0,4
Latvia	8,0	15,3	1,6	0,7
Bulgaria	6,9	12,0	1,7	-1,6
Slovenia	4,0	5,5	1,7	0,4
Slovakia	4,8	3,9	1,8	-0,1
Croatia	3,2	5,8	1,9	0,2
Lithuania	3,9	11,1	2,4	0,2
Poland	2,4	4,2	2,5	0,1
Estonia	5,0	10,6	2,7	0,5
Hungary	5,5	6,0	3,3	0,0
Romania	9,3	7,9	4,3	1,4

Source: own calculations on the basis of Eurostat, 2015f.

Before the crisis, when the economic situation around the world was much better, inflation in a lot of Central and Eastern countries significantly exceeded the inflation level on the West. In the period 2003-2008 in Bulgaria, Latvia and Romania it reached on average 7-9% annually, and in the majority of analyzed countries it maintained a level twice as high as the inflation in eurozone (2.4%) – tab. 2. Exceptionally high double-digit inflation appeared during the period of prosperity overheat in the middle of 2008 in Baltic states – it reached at the time almost 12% in Estonia, 13% in Lithuania and 18% in Latvia (Eurostat, 2015).

Central and Eastern European countries entered the market economy with relatively low public debt. Strangely, this is one of the few advantages of the previous political system.

Unfortunately, 25-years of fiscal expansion in some countries and the 2008 crisis greatly affected public financial state of some of them and, as a result, these countries, reached a similar level of public debt as Western countries. The public debt of Croatia at the end of 2014 amounted to 85% of GDP, which practically is the average of the EU. Slovenia and Hungary have a slightly lower debt of 80.9% and 76.9% of GDP respectively – fig. 4. Although in other countries the debt is lower, in the majority of them it amounts to 40-50% of GDP; such result, in the case of countries of lower credibility, is not a good result after all. Slightly lower debt can be found in Bulgaria (27.6% of GDP) and Estonia, which has the lowest public debt among all EU countries – 10.6% of GDP.

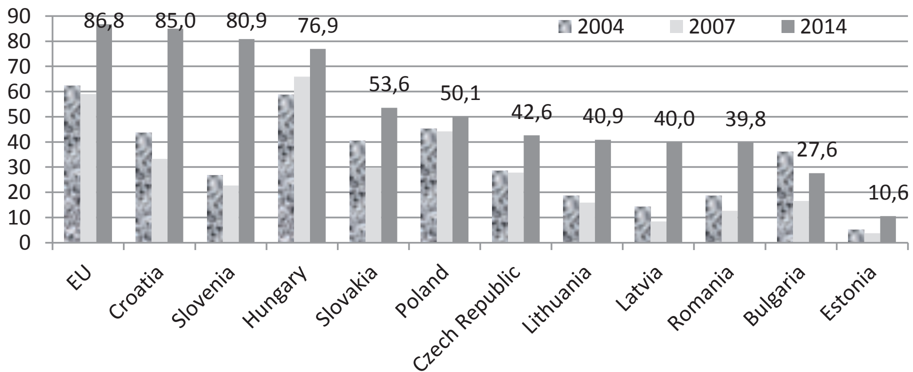


Fig. 4. The comparison of public debt in countries of Central and Eastern Europe belonging to the EU in 2c004, 2007 and 2014 (in% of GDP)

Source: self-reported data on the basis of Eurostat, 2015d.

It must be noted that the public debt of the majority of these countries has increased to the present state only recently as a result of the crisis in 2008 (fig. 4). The highest growth in the last 7 years (2007-2014) was recorded in Latvia (almost four times), Slovenia (2.5 times), Romania and Estonia (2 times), Latvia and Croatia (1.5 times). In Poland, although the public debt has been kept on a relatively stable level, 153 billions of PLN taken from OFE (*Polish open pension funds*) greatly helped in lowering the debt at the end of 2014. Moreover, Poland and Hungary had the highest public debt just before the crisis among the countries in the region. Furthermore often high deficit of the public finance sector does not allow for reduction of the debt – although it is successfully realized in other countries, thanks to fiscal discipline, consolidation of public finances and fast pace of economic growth. Estonia and Bulgaria are among these countries. In the last 12 years, Estonia had surplus in public finance for 8 years – on average on the level of 1.5% of GDP. None of the remaining 9 Central and Eastern countries had surplus for the last 12 years (Eurostat, 2015). And although the average in such extreme economic conditions does not reflect the issue, it is worth examining closely the strength of the expansion characterizing the fiscal policy in the majority of the Central and Eastern countries in the last 12 years (fig. 5).

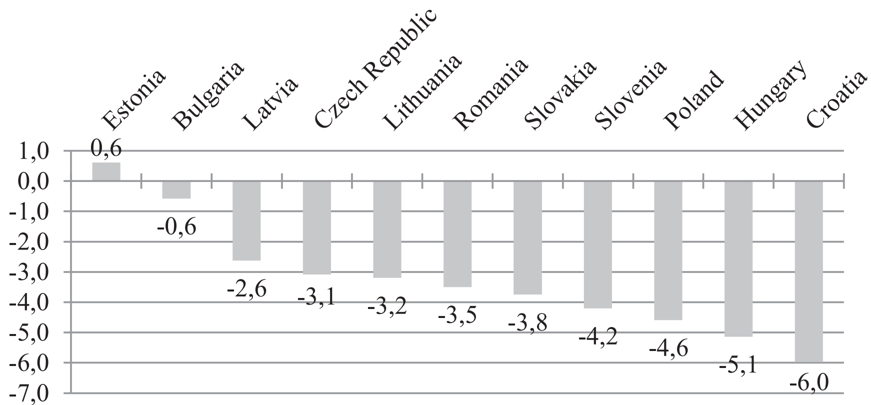


Fig. 5. Average deficit level of the public finance sector (general government) in countries of Central and Eastern Europe belonging to the EU in the years 2003-2014* (annually, in % of GDP)

* data for Croatia for the period 2011-2014

Source: self-reported data on the basis of Eurostat, 2015c.

Apart from Estonia and Bulgaria, with the former closing the annual budget with surplus of 0.6% of GDP, and with the latter closing the budget with a small deficit of 0.6% of GDP annually, all remaining countries had deficit in public finance every year over the last 12 years on the level of 3-4% of GDP (fig. 5). The worst balance in finances of those countries belongs to Croatia (on average on the level of 6% of GDP) and Hungary (5.1% of GDP). The third worst country is Poland – with the annual deficit of 4.6% of GDP. It must be highlighted that this result is significantly worse than, for example, Baltic states which economies encountered worse results of the 2008 crisis (fig. 5).

Fiscal over-expansion and exceeding established limits of deficit and public debt are reflected in the EU members' Excessive Deficit Procedure – EDP (Treaty on EU, 2012, article 126, Protocol No 12, 2012), which disciplines governments in their fiscal policy in order to increase their flexibility, hence limit disadvantages of resigning from monetary policy in the currency union. Presently (May, 2015), 11 out of 28 EU member states undergo the excessive deficit procedure, including three countries from the Central and Eastern Europe: Croatia, Poland and Slovenia (apart from them, also Cyprus, France, Greece, Spain, Ireland, Malta, Portugal, Great Britain). It is worth noting that Estonia (and Sweden) belongs to a very small group of EU countries, which have never had EDP imposed on them (European Commission, 2015). Tab. 3 includes information on the amount of imposed EDPs on Central and Eastern European countries and the duration.

Tab. 3. Periods of imposed EDP in Central and Eastern European countries (on the 15th of May, 2015)

	date of issuing EDP	date of closing EDP
Bulgaria	3.07.2010	22.06.2012
Croatia	21.01.2014	ongoing
Czech Republic	5.07.2004 2.12.2009	3.06.2008 20.06.2014
Estonia	–	–
Lithuania	7.07.2009	21.06.2013
Latvia	7.07.2009	21.06.2013
Poland	7.07.2009	ongoing*
Romania	7.07.2009	21.06.2013
Slovakia	5.07.2004 2.12.2009	3.06.2008 20.06.2014
Slovenia	2.12.2009	ongoing
Hungary	5.07.2004	21.06.2013

* On the 13th of May, 2015 the European Commission issued an official motion to the EU Council to close EDP for Poland

Source: self-reported data on the basis of European Commission, 2015b.

The size of fiscal expansion is strictly connected with the level of country's interventionism. Four countries with the highest annual deficit of the public financial sector in the last 12 years – Croatia, Hungary, Poland and Slovenia, are in the top five countries of Central and Eastern Europe with the highest influence of the country in its economy, which is measured by the relation of income and expenses to GDP (tab. 4).

Lithuania was characterized by the lowest scale of influence of the public financial system on economy in the last 12 years (2003-2014). Lithuania's public income amounted to 31.2% of GDP, and public expenses amounted to 34.9% of GDP. In general, the lowest level of public income and public expenses with respect to GDP was found in the countries which, in the past years (especially before the crisis), developed quickly – this includes, apart from Baltic states, also Romania, Bulgaria and Slovakia – data from tab. 1 and 4. In some countries, due to the crisis, there was a significant increase in public expenses at the end of 2008 which, with connection of the decreased GDP, caused high increase of expenses with relation to GDP. It was especially visible in Baltic states, where the growth of public expenses went up even to 46% of GDP (which confirms high percentage of standard deviation in tab. 4). Although in this case it was a transition phase (for 2-3 years), in Slovenia the phase was more solid (and it still prevails). The change of income in relation to GDP was much lower (lower S(x)) in the analyzed period. In the very critical year of 2009, Estonia greatly increased its relation of income to GDP (up to 43.8%) as it was known then the data from 2009 would be used for convergence scheduled for 2010 – all of that to enter

the eurozone in 2011. Estonia's success in consolidating public finances in such critical year deserves recognition.

Tab. 4. Total general government revenue and expenditure in Central and Eastern European countries (in% of GDP)

	general government revenue			**general government expenditure**		
	2014	**on average in the years 2003-14**	**S(x)**	**2014**	**on average in the years 2003-14**	**S(x)**
EU (28)	45,2	44,3*	1,5%	48,1	47,9*	3,9%
eurozone (19)	46,6	45,1*	2,1%	49,0	48,4*	4,0%
Lithuania	34,3	31,2	3,3%	34,9	34,3	11,5%
Romania	33,4	33,0	3,1%	34,9	36,5	7,3%
Latvia	35,5	34,4	3,9%	36,9	37,1	9,4%
Estonia	39,4	38,4	6,1%	38,8	37,8	9,7%
Bulgaria	36,4	36,9	6,2%	39,2	37,4	5,0%
Slovakia	38,9	36,0	4,3%	41,8	39,8	5,8%
Poland	38,6	39,4	3,1%	41,8	44,0	3,0%
Czech Republic	40,1	39,4	3,0%	42,0	42,5	5,3%
Croatia	42,3	41,7	1,3%	48,0	46,5	3,0%
Slovenia	45,0	43,4	2,4%	49,8	47,6	9,6%
Hungary	47,6	44,7	4,5%	50,1	49,8	1,8%

* in the case of the EU and eurozone it is an average for the period 2006-2014

Source: own calculations on the basis of Eurostat, 2015j; Eurostat, 2015k.

It is worth noting that Eastern bloc countries have high level of foreign debt although the period of easy access to foreign sources financing is relatively short. These countries came to the fore when it comes to developing countries which have the highest level of foreign debt in relation to GDP (World Bank, 2015). Romania, the Czech Republic and Poland, although they recorded lowest foreign debt of all the aforementioned countries, reach the external debt of around 60% of GDP (tab. 6).

In case of other countries, the public debt is significantly higher and oscillates around 80-110% of GDP; in Hungary and Latvia it amounts to 130% of GDP. Taking into consideration to relatively high level of foreign debt in those countries, high level of opening these economies, strong dependency on foreign capital and continuous need of foreign capital, the risk of being cut off of external financing sources must be pointed out (in the case of countries which are not in eurozone – 6 out of 11 included countries – where, additionally, this issue increases the risk of currency crisis).

Tab. 6. Gross external debt and foreign exchange reserves in Central and Eastern European countries (bn USD and% of GDP, 2014)

	total reserves (includes gold)			gross external debt	
	bn USD	**% GDP**	**% gross external debt**	**bn USD**	**% GDP**
Hungary	42.0	30.6	23.1	182.0	132.7
Latvia	3.2	10.1	7.9	40.7	127.6
Slovenia	1.0	2.1	1.8	56.2	113.8
Croatia	15.4	27.0	27.2	56.7	99.0
Estonia	0.4	1.7	1.9	22.9	88.6
Bulgaria	20.1	36.1	41.4	48.7	87.3
Slovak Republic	2.6	2.6	3.2	82.3	82.5
Lithuania	8.7	18.1	28.0	31.2	64.8
Poland	100.5	18.3	28.3	354.7	64.7
Czech Republic	54.5	26.5	43.6	125.1	60.9
Romania	43.2	21.7	37.7	114.5	57.5

Source: self-reported data on the basis of The World Bank 2015.

Low inflation, returning to economic growth, relative stabilization of public finances in most of the countries in connection with improvement of international financial markets and exceptionally low interest rates have already resulted in the increase of trust for economies of Central and Eastern Europe. All of that also contributed to the flow of capital and the improvement in availability of foreign financing sources, which is expressed in current ratings of these countries (tab. 5).

Tab. 5. Ratings for Central and Eastern European countries (May 2015)

	S&P	**Fitch**	**Moody's**
Bułgaria	BB+	BBB-	Baa2
Chorwacja	BB	BB	Ba1
Czechy	AA-	A+	A-
Estonia	AA-	A+	A1
Litwa	A-	A-	Baa1
Łotwa	A-	A-	A3
Polska	A-	A-	A2
Rumunia	BBB-	BBB-	Baa3

Continue tab. 5

	S&P	Fitch	Moody's
Słowacja	A	A+	A2
Słowenia	A-	BBB+	Baa3
Węgry	BB+	BB+	Ba1

Source: self-reported data on the basis of CountryEconomy.com, 2015.

These effects are most visible in the case of Baltic states, which have their ratings being increased by well-known rating agencies: Standard&Poor's, Fitch and Moody's. The above-mentioned is reflected in low and lowering profitability of government bonds of the majority of included countries (fig. 6).

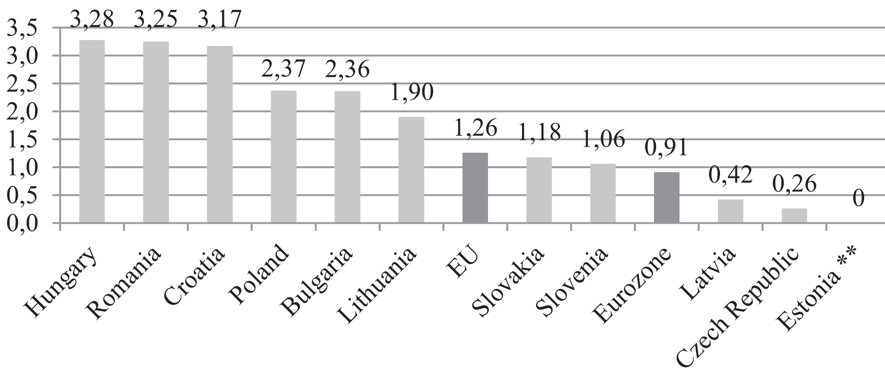


Fig. 6. Long term government bond yields in Central and Eastern European countries (in%, April 2015*)

* in the case of the EU average – the data is from January, 2015; eurozone – March, 2015 and Lithuania – December, 2014

** due to low public debt in Estonia, its government bonds market is relatively poorly developed; Estonia does not issue obligations with 10-year maturity period, which is the subject of the aforementioned statistics and the Maastricht criteria.

Source: self-reported data on the basis of Eurostat, 2015g.

Such profitability proves that investors are interested in a given economy; it also proves its trustworthiness and subjective risk. Profitability is significant in terms of a country's availability on foreign financing sources, their cost, creditworthiness and possibilities of economic development. Profitability of Czech government bonds is worth noting – in April 2015 it amounted only to 0.26% and was the lowest in the EU (fig. 6). It is compared to profitability of the following government bonds: Danish, Finnish, Austrian and Dutch; Czech government bond rates are slightly higher than those from Germany, which are currently characterized with the lowest profitability (0.12%) (Eurostat, 2015). Latvian government bonds are also characterized with very low profitability, especially after taking into consideration recent economic breakdown in the country. These results are significantly better than the average

of eurozone and the EU (fig. 6). Relatively low profitability can be found in Slovenia and Slovakia – it oscillates between the averages of eurozone and the EU. Profitability of other countries is significantly higher – 2-3%. From the time perspective, such result may seem attractive – 3 years ago, profitability of 10-year-old Polish government bonds amounted to 5% and previously, in the period 2003-2012, it oscillated at 5-7% (Eurostat, 2015h). However, taking into consideration current exceptionally low interest rates around the world (Poland included), improvement of situation on international financial markets and profitability of government bonds close to zero, profitability of 2.37% seems relatively high. It must be remembered that, unfortunately, it is reflected in the amount of interest rates from obligations which is paid by the Treasury; that means several times higher costs of maintaining Polish public debt than Czech or Latvian debt (profitability of Polish government bonds is ten times higher than Czech and five times higher than Latvian), but also Slovenia or Slovakia (profitability of Polish government bonds is two times higher than those two countries – fig. 6). It amounts to billions of zlotys as the cost of maintaining public debt in Poland amounted to 34.5 billion zloty in 2014 (in 2012 and 2013 it exceeded 42 billion zloty, mainly due to higher interest rates (Ministerstwo Finansów, 2015; Ministerstwo Finansów, 2014; Ministerstwo Finansów, 2013).

Central and Eastern countries, since the moment of changing political state, made enormous progress in economic development, stabilized their economies and proved their credibility in terms of foreign capital. Unfortunately, these countries are still immensely different from Western economies. It will take a few decades for them to achieve similar wealth, stability, credibility and economic structure. More courage, consequence and determination will be required to catch up with the West in this rapidly changing world – the world in which it is becoming more and more difficult for weaker countries with limited finance and investment possibilities, hence limited access to new technologies which generate prosperity.

3. CONCLUSIONS

The past 25 years was a period of enormous economic transformations and successful approaching of the countries of the previous Eastern bloc to Western economies. Even though most of them proved high rate of economic development in the past years, they are still lagging behind the West in terms of productivity and prosperity. This fast development helped to decrease the unemployment rate, which was enlarged in the 90's due to privatization and the collapse of ineffective state-owned businesses. On the other side, dynamic development speeds up the process of price convergence – in the majority of analyzed countries, the prices are still very much different from the EU average; all of that leads to weakened competition, bigger debt, worse creditworthiness, poorer development possibilities. The ongoing obliteration of prices carries risk of increase of salaries with no increase of efficiency in the countries tired of poorer conditions and no real perspective of significant improvement; all of them could lead to lower competition, employment, investment. The previous economic system greatly limited their access to foreign financial sources and delayed the process of debt. Before entering the European Union, public debt of all analyzed countries from the Central and Eastern countries (excluding Hungary) was significantly lower than of the „old 15". Public debt of these countries, in most cases, is still one of the lowest in the EU despite the high rate

of debt due to the 2008 crisis. Budget deficits which often appear in the period of prosperity, and the increasing scope of public financial system's influence over the economy may be problematic for the future economic development. Significantly lower credibility and the lack of stability of entering economies result in lower creditworthiness, which means higher costs of borrowed capital and also limited access to such capital. In critical situation that also causes higher possibility of bankruptcy due to cutting off external financial sources or limited access to such sources. It is crucial because all analyzed countries of Central and Eastern Europe have relatively high foreign debt and are strongly dependent of foreign capital. Only 5 out of 11 countries can count on instant help coming from the European Central Bank thanks to the eurozone membership.

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