The Economic Development of the Visegrad Four in the Last 15 Years in the European Union

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Abstract
The Visegrad Four reflects the efforts of the countries of the Central European region to work together in a number of fields of common interest within the all-European integration. This paper focused on an examination of the economic development of the Visegrad Four as the Czech Republic, Hungary, the Republic of Poland and the Slovak Republic. With the most important economic indicators I presented the development of the four countries in the last 15 years in the European Union. I used secondary statistics for comparative analysis. I ranked the countries under examination based on the result.

Keywords: *economic indicators; Visegrad Four; EU.*

Jel Code: *C10; F63; O10*

1. Introduction

In 1991 after the fall of communism and the disintegration of the USSR, three of the Eastern block nations institutionalized a policy of coordination and laid the foundation of their transition from totalitarian regimes to free, pluralistic and democratic societies. The central motif of the integration was the desire to intensify mutual cooperation and friendship among the three Central European states. In the wake of disintegration of Czechoslovakia in 1993, the Visegrad Group has since then been comprised of four countries, as both successor countries, Czech Republic and Slovak Republic, are members of the Visegrad Group. Their agreement was formalized as the Visegrad Declaration and Visegrad Four (V4) name (Poók, Pence, 2004).

Czech Republic, Hungary, Poland and Slovakia (Figure 1) have always been part of a single civilization sharing cultural and intellectual values and common roots in diverse religious traditions, which they wish to preserve and further strengthen. The

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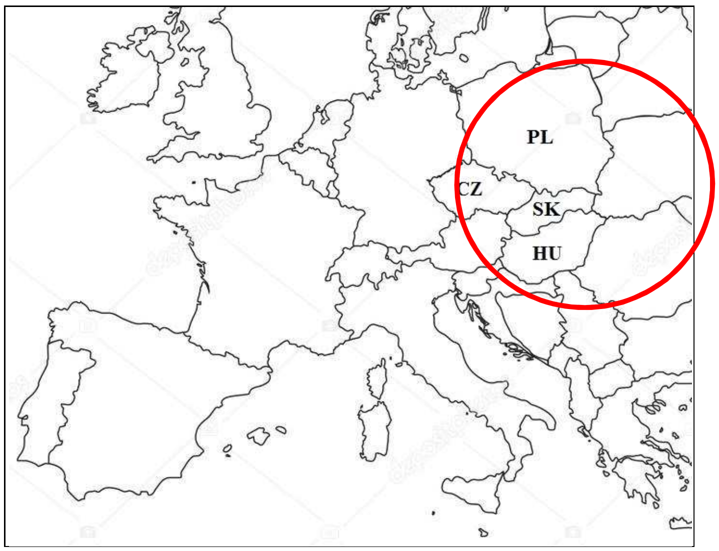
similarity of the situation that has evolved over the past decades has determined for these four countries convergent basic objectives (Visegrad Declaration, 1991)

Figure 1: Visegrad Four's countries



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Countries of V4 underwent major changes in economy, politics and society more than in the last 25 years (Negacz, 2011). Since the fall of the Iron Curtain in the year 1989, the V4 have gone through a significant phase of transformation during which they have reformed their economic system from a centrally planned economy to the market economy used in Western European countries (Martiš, 2012). This process of transition was not a simple one (Theil, 2001).

From 1995 the implemented economic policies focused mostly on the transition from a centrally planned to a market economy. On average, all four countries experienced positive economic growth, negative balance of payments, a higher increase in consumer prices and quite a high number of unemployed inhabitants. The restructuring of the economy and industry with the implementation of essential reforms were among the results in the individual countries (Spišáková, Pétrová, 2011). The Visegrad Declaration led to a continuation of free trade agreement among the four signatories; trade increased with Western Europe; however, it decreased with other former communist countries, and declined considerably with the former Soviet republics (Baylis, 1994).

Later, one of the main goals of the V4 economic policy was adhering to the Copenhagen criteria and entering the EU. The economic and monetary policy of the V4 has also been oriented towards accepting the European currency and entering the Eurozone (Brokešová, Vachálková, 2016). One of the requirements which have to be met before joining the organization is the ability to prosper fully within the common competitive market. The V4 needed to transform their economies and at the same time adapt to market conditions in unified Europe. Adaptation processes in economy, regulations and institutions which accompanied negotiations before the accession to the EU, influenced countries' development and defined its direction (European Commission, 2008). The V4 jointly submitting their applications for EU membership (Shea, Stefes, 2002). In 2004 the V4 have joined the EU. All the activities of the Visegrad Group are aimed at strengthening stability in the Central European region. The participating countries perceive their cooperation as a challenge and its success as the best proof of their ability to integrate also into such structures, such as the EU (Visegrad Declaration, 2004).

After 2009, during the financial crisis, the economic policy of the V4 was oriented towards stabilizing public finances, stabilizing the financial system, supporting economic growth via investments, more efficient use of Eurofunds, higher support for small and medium-sized enterprises and involving the private sector in areas of research (Spišáková, Pétrová, 2011).

Research methodology

This paper focuses on an examination of the economic development of the V4 with the most important economic indicators between 2000 and 2015 in the EU.

Economic growth measured as an increment of GDP, inflation rate measured as changes in the price level, balance of trade measured as balance of international payments and unemployment rate measured as the ratio of unemployed to the economically active population represent tools for macroeconomic analysis and offer systematic and objective information regarding the countries' economic development. In Kaldor's Magic Square (1971) these indicators represent peaks (Brokešová, Vachálková, 2016).

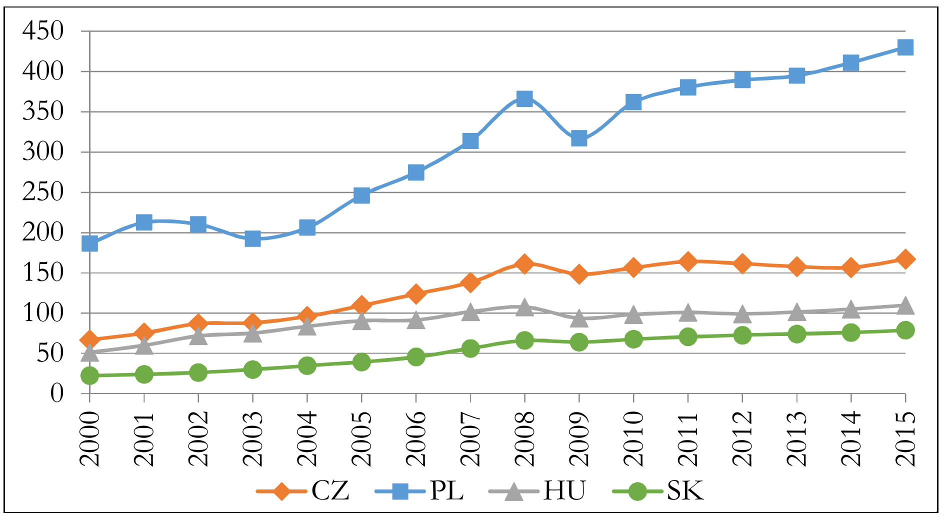
I make comparison on the most important economic indicators with secondary statistics – Hungarian Central Statistics Office – for comparative analysis. I rank the countries under examination based on the result.

Results and Discussions

V4 is the 5th largest economy in Europe and 15th in World. In 2000 Poland's GDP was the highest and Slovakia's was the lowest (Figure 2). During 15 years GDP increased significantly. In 2015 total GDP of V4 was 785.5 billion euros, which is 5.3 % of the EU 28. Germany's GDP was more than 3,000 billion euros, while Malta's was 9.3.

The 2004–2008 period can be characterized by an above-average GDP. This development is caused significantly by the liberalization of trade with the EU membership (Gogoneață, 2012).

Figure 2: GDP in current prices, in billion euros (2000-2015)



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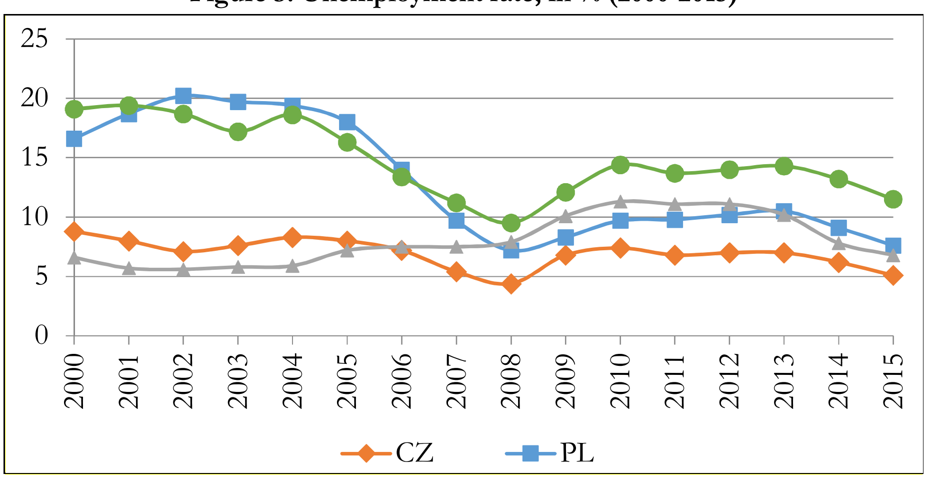
In Central and Eastern Europe Czech Republic has one of the most developed industrialized economies among the emerging democracies. As a fraction of the GDP, the Czech public debt is among the smallest ones in Central and Eastern Europe. Moreover, unlike many other post-communist countries, an overwhelming majority of the household debt is denominated in the local Czech currency. The credit portion of the financial crisis didn't affect the Czech Republic much. However, as a large exporter, the economy was sensitive to the decrease of the demand in Germany and other trading partners. In 2015 Czech GDP growth was the highest growing in Europe. Investment was the main driver of growth as well as gradually rising domestic and external demand.

The 8th biggest economy in the European Union is Poland. Poland's industrial base combines coal, textile, chemical, machinery, iron, and steel sectors. Investors tend to choose Poland because of its location at the heart of continental Europe, part of the trans-European road network, within the Schengen zone. Poland's 38 million consumer market is one of the biggest in Europe. Poland was the only country in the EU to avoid recession during the financial crisis. Poland's growth has been based on dynamic exports, strong internal demand, productivity improvements, foreign direct investment, and the inflow of EU funds. This growth was supported a stable banking system and low level of public debt. Poland didn't implement austerity but rather boosted domestic demand through Keynesian policy of tax cut, and foreign-assistance funded public spending. In all, the Polish economy has been growing steadily for the past 26 years, a record high in the EU. Such growth has been exponential, the most impressive performance in Central Europe. In 2010 the Polish economic growth rate was one of the best results in Europe.

Slovakia (Tatra Tiger) is an attractive country for foreign investors mainly because of its low wages, low tax rates and well educated labour force. GDP growth driven by both net trade and domestic demand. Growth accelerates further helped by the gradual pick-up in foreign demand.

In 2000 Hungary's unemployment rate of the population aged 15-64 in V4 countries was the lowest (Figure 3). In 2015 Czech Republic's rate was the lowest. In 2015 total rate of V4 was on average 7.8 %, in EU 28 was 9.6 %. Germany's rate was the lowest, 4.7 %, while Greece's rate was the highest, 25.1 %.

Figure 3: Unemployment rate, in % (2000-2015)



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Unemployment represents the most significant problem for macroeconomic stability, especially in Poland and Slovakia during the 2000–2005 period when the rates reached 18 to 20 %. In all V4 public sector employment is highly correlated with the economic cycle expect of Poland, as employment is not related to the economic cycle (Bilka, Bodľa, 2012).

In 2016 Czech Republic has the lowest unemployment in the EU. In Czech Republic labour is cheap. However this doesn't fully explain the country's low unemployment because such as Hungary and Poland have even lower labor costs. Czech Republic owes its success to factory jobs. Assembly plant jobs have been relatively easy to create because they are cheap and government incentives have made Czech Republic attractive to global manufacturing companies. The Central European country's manufacturing industry accounts the largest proportion of its economy compared with others in the EU, and represents more than a third of all employment. The production of cars such as Toyota, Peugeot, Citroën, Škoda, and Hyundai, is a crucial cog in Czech economy. However high wage growth is a pressing concern. Wages are rising because of labor shortages, which prevents the economy from growing even faster. Like many countries, Czech Republic also faces an aging population. Red tape and bureaucratic obstacles make it difficult for companies to hire foreign workers. Obvious risk to dependence on assembly-line jobs is looming: automation. Czech Republic faces the most widespread risk of job losses from automation in the group, along with neighboring Slovakia, a similarly factory-heavy economy (Nelson, 2017).

Figure 4 shows the import in V4 countries. In 2000 in Poland's import was the highest and Slovakia's was the lowest. During 15 years GDP of V4 increased significantly. In 2015 total import of V4 was 455,792 million euros, which is 9.6 % of the EU 28.

Major imports of V4 are machinery and equipment, transport equipment, fuels and lubricant, chemicals. China may displace the US among Poland's principal non-EU export destinations in the longer term, although the US fully appreciates the potential of Poland as a trade partner. The upward trend in import business was stimulated by increased deliveries for the automobile industry as well as the electronic home entertainment sector, along with growing purchases of crude oil. Major import partners of V4 are Germany, as well as China, Russia, Japan, the UK and the US.

Figure 4: Foreign trade product – import, in million euros (2000-2015)

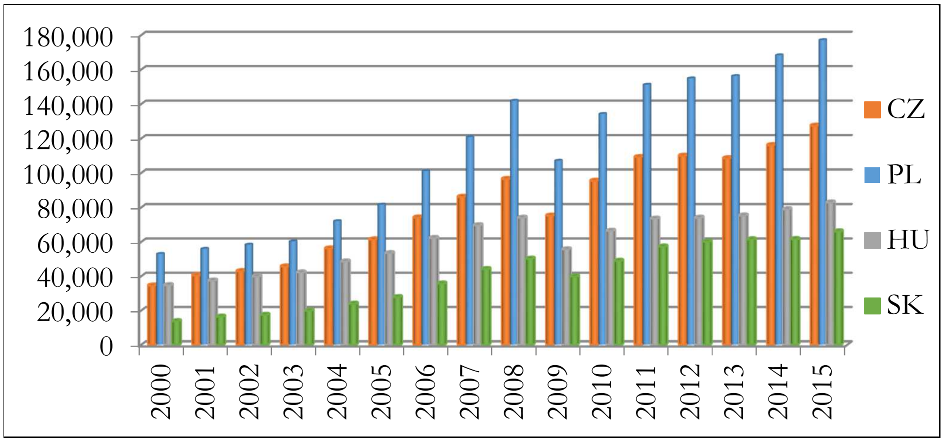

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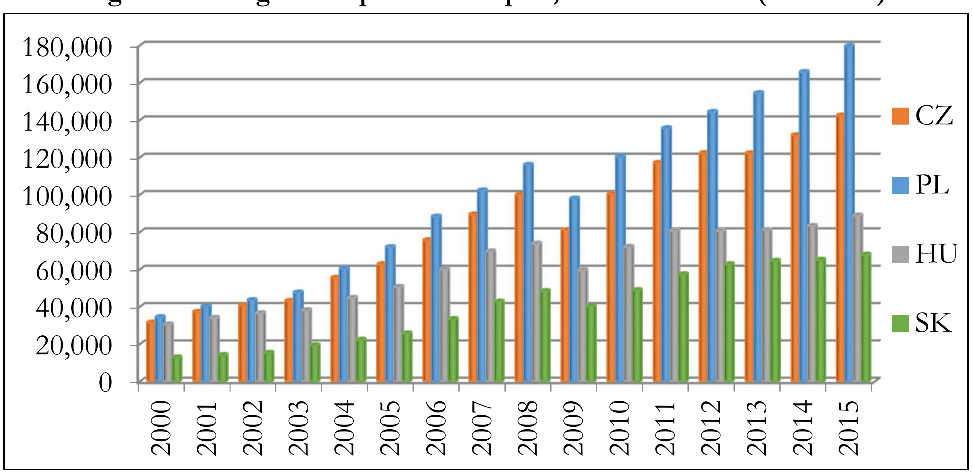
Figure 5 shows the export in V4. In 2000 in Poland's export was the highest and Slovakia's was the lowest. During 15 years GDP of V4 increased significantly. In 2015 total export of V4 was 478,588 million euros, which is 9.9 % of the EU 28.

Figure 5: Foreign trade product – export, in million euros (2000-2015)



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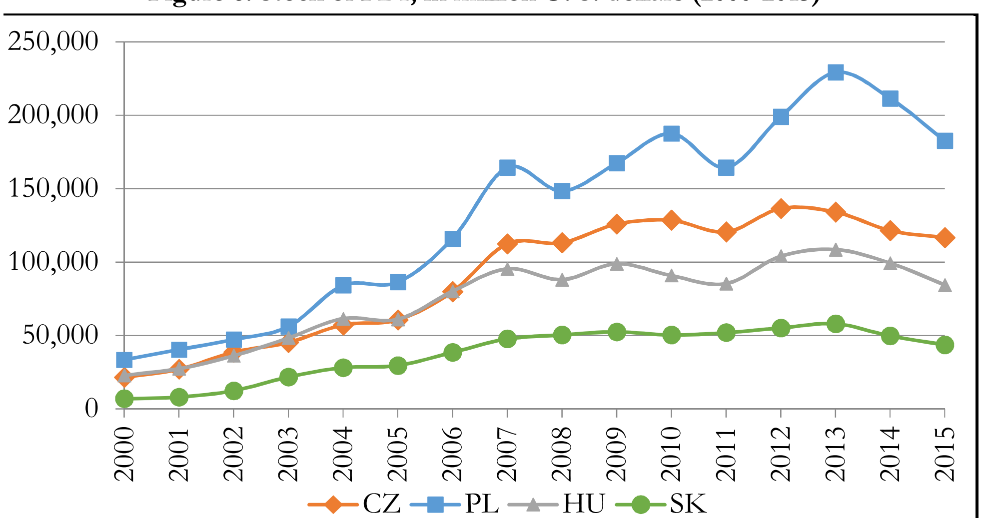
V4 have significantly increased their export potential, particularly in comparison with other old member states, while their incomes converge to advanced EU countries (Schreier, 2015). An exceptionally high level of participation in foreign trade simultaneously creates a very strong dependency on the external environment (Pokrivčáková, 2006; Šikulová, 2007). With the onset of the worldwide recession and because of the decline of the goods and services export from the V4, most of the countries suffered from imported recession (Sivák, Staněk, 2011).

From 2000 foreign trade turnover of V4 increased multiple-fold. The biggest parts of Slovakia's and Czech Republic exports are vehicles, machinery and electrical equipment, base metals and chemicals and minerals. Moreover Poland is a net exporter of processed fruit and vegetables, meat, and dairy products, vehicles, aircraft, vessels, as well as Hungary's export more are agricultural products, textiles, iron and steel and wine. With trading with Asia becoming more prominent.

Main export partners of V4 are EU countries, as well as V4 among themselves. Germany is the most important trading partner for the V4. Poland stands out a bit from the other three countries of the region as the size of its domestic market makes it possible to rely more on domestic demand rather than external demand.

Figure 6 shows stock of the FDI in V4 countries. In 2000 Poland's FDI was the highest and Slovakia's was the lowest. In 2015 total FDI of V4 countries was 429,319 million U. S. dollars, which is 5.5 % of the EU 28.

Figure 6: Stock of FDI, in million U. S. dollars (2000-2015)



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FDI as a vehicle of acceleration of economic growth has contributed to the narrowing of the performance gap between the V4 grouping and the "old" EU member states. The scale of investment incentives offered to foreign investors by individual countries played an important part in attracting FDI. The companies are attracted by cheap and skilled labor here. Foreign investors from the old EU member states relocated part of their activities primarily in manufacturing industry to the new member states. This trend has most notably manifested in the case of automotive industry, which gained a dominant position in the V4. In terms of the FDI structure, the V4 countries attracted to a great extent privatization investment. The impact of FDI on the economic growth manifested itself primarily in the increase of total investment volume in fixed capital of a given country and consequently in the rise of capital stock, which along with an increase in the total factor productivity had a significant influence on the real GDP growth rate across the V4.

Table 2 shows ranking of V4 based on previous economic indicators.

Table 2: Ranking of countries

Indicator	**CZ**		**PL**		**HU**		**SK**	
	Rank							
	2000	**2015**	**2000**	2015	**2000**	**2015**	**2000**	**2015**
GDP	2	2	1	1	3	3	4	4
Employment rate	1	1	4	3	3	2	2	4
Unemployment rate	2	1	3	3	1	2	4	4
Export	2	2	1	1	3	3	4	4
Import	3	2	1	1	2	3	4	4
Modus	2	2	1	1	3	3	4	4
Average	2,00	1,60	2,00	1,80	2,40	2,60	3,60	4,00

Source: own editing based on KSH data

Conclusions

In 1991 the V4 had a similar initial economic situation. V4 have overcome significant changes during the last two decades in economic, social and political fields alike. In addition to the process of transformation taking place during the 1990's, they were also significantly affected by their entering the EU, and by the global financial crisis. The economic development of the countries has shown non-standard tendencies (Brokesová, Vachálková, 2016).

The ranking of V4:

1. Czech Republic,
1. Poland,
2. Hungary,
3. Slovakia.

The dynamics of development vary from one country to another. Typical features of V4 are the high share of industry in GDP and strong attachment to Germany. Germany has a significant influence on V4 trade. Mutual economic cooperation and trade between the V4 countries is growing. The companies are attracted by cheap and skilled labor here.

In 2015 GDP of V4 was 5 % of EU 28. The variability of the main macroeconomic indicators is significant in the V4 between 2000 and 2015. The economic environment did not show all of the characteristics of macroeconomic stability (Ducháčková et al., 2009; Mankiw, 2002; Ozturk, 2009).

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