

Economy of Central Europe

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Introduction

As far as the Central European economies are concerned, they have been gaining footing in recent years. First of all I need to mention that the countries have transformed from raw materials suppliers of the European countries to be an important part of the automobile industry. This change has been possible by developing manufacturing capabilities.

Though the change is highly encouraging but at the same time region has created over-dependency on few countries and sectors. Example Czech Republic's trade has become focused towards Germany and its growth is related to automobile sector. The extent of this dependence can be understood from the fact that Czech Republic exports to Germany account to nearly 29.68% of its total exports which is more than 4 times the second closest trading partner. While imports from Germany, account to 25.8% of its total imports.¹

In recent years, the Central European economies have increased their intra-EU trade, for instance between 2003 and 2013, countries like Czech Republic, Hungary, Poland, and Slovakia more than doubled their intra-EU exports. For Poland there was an increase from euro 35.4 billion in 2002 to euro 113.8 billion in 2013 (Eurostat, 2014).

In the end of 2014, growth in central Europe had been impacted by geo-political factors like the Ukraine crisis.

¹ To learn more about trade in the Czech Republic visit: <https://atlas.media.mit.edu/en/profile/country/cze>

The European Union has a great deal of influence for the Central European economies, it determines the present and the future prospects as well. (Serbos, 2008, p.97) Now the EU has 28 member states. Hungary joined on 1 May in 2004. With the entry of 9 other countries, this has been the biggest enlargement in the EU's history.

The single market was the EU's first achievement, completed in 1993. Companies are able to sell their goods anywhere and professional services can be offered in any member state. The single market has led to increased competition of business resulting in lower prices and a greater choice of goods and services. The objective of the EU is to enhance competitiveness in the world market.

In the EU 6 million jobs were created between 1999 and 2003. The aim is to raise the employment level, guarantee equal opportunities and encourage job-creating investments. (European Commission, 2014)

The EU has established a comprehensive framework for environmental protection, and EU participates in a lot of international environmental programs. The EU's objective is to involve the public in protecting the environment. (Convention PECL, 1998) These made huge effects of the Central European economies as well.

Human rights, democracy and the rule of law are the EU's core values. Since 1992, all agreements on trade and co-operation contain a clause on safeguarding human rights. Beside financial help, the EU promotes economic growth which can be noticed in Central Europe too. (Accession criteria, n.d.)

As part of this document, I look into some of the central European economies and attempt to analyse the future prospects for the region.

Central European economies

The region is home to various economies which though situated very closely but differ in their policies and have their own set of strengths and weaknesses. While some of these economies are part of the Eurozone, others are yet to adopt it. I look into some of these economies namely, Czech Republic, Hungary and Poland.

In connection with the Central European economies, needs to mention about the globalisation, what is a basic of the case. Three major institutions were established after the 2nd World War. Firstly, The World Bank, which aim is to provide low-cost loans for developing countries. Secondly, The International Monetary Fund (IMF), which objective is to maintain the value of currencies and to ensure the stability in exchange rates. Thirdly, The World Trade Organisation (WTO), which goal is to lower taxes on imported goods.

The object of globalisation is to solve different economic, social, political, cultural and environmental problems in the world and also in Central European economies. Some of the most important issues are the following: optimal regulation of markets, reducing income and wealth inequalities, protecting the worker's rights, major environmental problems, addressing health issues. (D&B Global Economic Outlook, 2013)

Czech Republic

The country is recovering from record long recession. The recovery is fuelled by the increase in exports which have become attractive thanks to the weakening of currency koruna. Manufacturing and household consumption is boosting the growth. In Sept 2014, retail sales grew by 6.2% when compared to the previous year. (Ponikelska, 2014)

The central bank measures to set a cap on koruna near 27 have really helped in increasing business confidence and provided stability. Economic growth is attributed to increasing household consumption and development of inventories for production activities.

Though the economy is moving towards stability; a lot is left to be desired. Country's economy is exposed to external factors esp. foreign demand and mainly its trade with Germany. Germany is the largest trade partner of Czech Republic and the trade between two accounts to roughly \$ 77 billion. Measures are required to diversify exports.²

Country needs to focus on infrastructure development. This should involve improving connectivity between the cities by developing high speed rail links and highways. Construction projects are delayed and generally run out of deadlines. Example: Highway link between Prague and south Germany is still not complete even after 16 years. (Nixon, 2014)

² To learn more about trade in the Czech Republic visit: <https://atlas.media.mit.edu/en/profile/country/cze>

Though low cost manufacturing has worked out for the country in recent years but efforts are required to keep up the momentum. For this, country needs to invest in research institutions and attract specialists. However this is a challenge being a small populous nation. To meet these requirements there is a need to improve educational institutions, infrastructure and capital to fund research projects.

With increase in business confidence and growing demand, the economy is expected to grow.

Hungary

Hungary is showing positive signs of growth. In January 2015, the number of people in employment was up by 180,000 year on year. Hungarians bought 20% more cars in 2014 compared to 2013. (Eddy, 2015)

But despite the above growth indicators, country faces possible economic impact due to Ukraine crisis, weakening of euro, oil prices among others. Government has also been in the news for all the wrong reasons like taking populist measures of cutting household energy bills, interference in judiciary and central bank. Also, there are many instances where corruption and misappropriate allocation of funds has been observed.

In order to generate revenue, government has imposed extraordinarily high taxes on various sectors like banking, retail, energy and telecom which have got the foreign investors concerned about the discriminatory policies. This had badly impacted the investors' confidence and triggered FDI outflow. (Simon, 2014)

All these are concerning signs for businesses. Government is taking measures to improve the economy. There are plans to phase out foreign currency mortgages and correcting the bank tax. In addition, government plans to raise wages.

However the economy is expected to be benefited with improvements in EU's economy. European commission along with government plans to invest in improvement of small and medium enterprises as part of the "Economic Development and Innovation Operational Programme". This would help provide the necessary funding to create jobs, support start-ups, carry out research activities and promote renewable resources of energy. (European Commission, 2015)

Poland

Poland has been growing for quite some time now. Since 1989, country has shown tremendous improvement in the economy. Example: Country's GDP per capita more than doubled during the period while exports stand close to \$250 billion which is more than 25 times the exports figure in 1989. Since joining EU, unemployment has decreased from 20% in 2003 to 13.4% in 2013. (Gotev and Kokoszczynski, 2014)

This growth has been possible because of country's focus on integration with EU, development of educational institutions and infrastructure. Country's market oriented reforms have really helped. The domestic market is strong and has helped the country survive the global recession of 2008–2009. (Piatkowski, 2015)

The country has the opportunity not only to continue with current growth figures i.e. GDP growth of 2.6% per year but also to accelerate it and possibly become third largest manufacturer in the EU. (Radio Poland, 2015) But in order to sustain this growth country must focus on driving innovation and research and carry out development of remote areas.

The country needs to adapt to renewable energy but the mining of coal and coal power plants needs to be phased out gradually as they currently employ sizable population and account for 90% of the power generated in the country. This growth is expected to continue and would only be benefited by the EU recovery. Country has secured 82 billion euro in the EU budget for 2014-2020.

The future of Central European economy

Adoption of euro currency to take time

Central European economies like Czech Republic and Poland have shown reservations in their plans to join the euro. In Poland, the support for joining currency is low. Around 68% of the Poles do not want to join the euro. (Swidlicki, 2014) Also government lacks 2/3 majority required in parliament to make such a constitutional change.

Other central European countries are not eager either. Euro area looks fragile and the area is at risk of falling into deflation. Keeping this in mind, ministry of finance and the Czech national

bank realise that the country would need time to adopt the euro. (Ležatka and Zimmermann, 2014)

Shared vision for EU energy union to create energy security

Though regional economies are yet to join Eurozone but they do share EU's energy union vision. The goal is to create energy alternatives, the need of which has mainly been felt after the Ukrainian crisis. The region plans to increase clean energy based power. Poland has taken up initiatives towards formulation of energy union and looks forward to development of efficient network. Tusk, prime minister of Poland has suggested that EU pay 75% of the bill for gas infrastructure. (Gotev, 2014)

Working towards research based growth model and business friendly environment

For continued growth the region needs to change its approach and focus on research and development; creating high quality products and services. Creating business friendly environment with favourable policies and access to capital will help. Efforts are required to improve infrastructure and educational institutions. (Bogdan, 2015) The region needs to work on removing regulations and control and instead promote investment and provide tax incentives.

The region needs to liberalise its market and encourage privatisation and competition. Some sectors like telecom, postal services would benefit greatly by this change.

Creating domestic sources of capital

The region needs to decrease over-dependence on foreign funds but instead create domestic sources of capital which would require encouraging savings. Currently citizens' lack saving habits as a result of government funded education, health care and pension.

Having mentioned above, the region has lot of growth potential. It has access to low wage and highly skilled work force. By focusing on innovation, research and harnessing this potential, the region can move towards development of high quality products and services. The region

also needs to diversify and reduce over-dependence on particular sectors and trading partners. By providing access to capital, easing regulations and control, region can become attractive to the investors.

Finally, I suppose that in the future Central Europe will be more successful, and will improve a lot.

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