

## The White Paper on the Future of Europe’s Impact on the EU Danube Economies

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**Abstract:** The paper is realised in order to demonstrate the EU multilevel integration’s hypothesis across the Danube EU Member States. The analysis is focused on four important economic indicators (GDP, unemployment, inflation and government gross debt) and covers 2012-2021. The analysis follows three steps: comparative analysis, regression analysis and forecasting analysis, as well. The Danube Member States were grouped on three integration levels, according to the French President’s opinion. The paper succeeds in demonstrating that the Member States grouping on different integration levels is not a scientific approach. It is only a political decision able to support the leadership of the greater Member States’ economies.

**Keywords:** Integration levels; economic disparities; Danube economies.

**JEL Classification:** R10; R11; R12

### 1. Introduction

On March 2017, Angela Merkel affirmed that some Member States achieve faster economic speeds than others. Moreover, president François Hollande pointed out that unity across the EU is not the same to uniformity. As a result, differences regarding integration between Member States will become real. (European Commission, 2017)

Seven Danube economies are Member States: Germany, Austria, Slovakia, Hungary, Croatia, Romania and Bulgaria. Moreover, three of them (Austria, Germany and Slovakia) are members of the Euro area, too.

The surface, the nominal GDP and population are different between Danube economies. (International Monetary Fund, 2017) The economic development in these countries varies a lot (see Table 1).

**Table 1. GDP per capita (USD)**

Country	World rank	GDP/capita
Germany	17	41902
Austria	14	44498
Slovakia	40	16498
Hungary	54	12778
Croatia	44	13095
Romania	63	9465
Bulgaria	75	7368

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The best rank in the world economic top has Austria, while Bulgaria faces to the worst (75). The gap between the top and the bottom GDP/capita is more than 6:1.

In order to decrease socio-economic disparities and to support cohesion, the European Commission proposed EU Strategy for the Danube Region in 2010. This document was approved by the Council in 2011.

The analysis in this paper is focused on pointing out the contradiction between the theory of different integration levels across the EU and the effects of the EUSDR on Danube Member States' economies.

## **2. Literature Overview**

Many specialists from the above countries focused on interesting researches regarding specific socio-economic aspects across the Danube basin.

A distinct approach is that based on the idea of Europeanization of the Danube Region. The book analyzed the EUSDR as a challenge of globalized locality, in order to create a functional macro-region in the region. A distinct part of the book realized a comparative analysis between EUSDR and other regional initiatives in the region. The analysis in the book is completed to specific national studies from Hungary or Slovakia. Moreover, the strategy on Baltic Sea region is proposed as good practice to the Danube region, as well. (Ágh, Kaiser & Koller, 2011)

A complex analysis of the Danube region covers geographical description, internal cooperation/integration, demographic features, analyses of employment and unemployment, economy, foreign investments and trade, energy and environment management. The authors propose three scenarios for future development in the region. The first scenario is that of successful integration of all countries from the region. The second scenario is more restrictive and is focus only on Central European cooperation. The last scenario is the pessimistic one and is based on lack of cooperation and integration as result of the disputes and conflicts between the countries of the Danube region. (Gál, Lux & Illés, 2013)

From the Romanian point of view, EUSDR is analyzed from a more optimistic approach. The analysis starts from the progress made since this strategy was adopted. All the eleven thematic Priority Areas of the strategy were covered by concrete actions and examples, as a result of the European Commission's cooperation to the Danube economies. Finally, a real success not only for Romania represent the stakeholders at national and regional level in Danube countries. (Sirbu, 2013)

Other research was focused on the connection between productivity and social effects. The analysis starts with the capital and labor productivity in Austria, Bulgaria, Germany, Croatia, Hungary, Republic of Moldova, Romania, Serbia, Slovakia and Ukraine. These two economic indicators are connected to other three: the income distribution, the level of human development and the sustainability of the economic processes. The main conclusion of the analysis is that productivity would be much lower if economic activity were scaled by its social implications. (Mihai, 2015)

A specific study is focused on the impact of the EUSDR on rural areas in Eastern Croatia. The paper starts from the idea that a correct implementation of the EUSDR would connect all interested stakeholders in realising common actions able to support sustainable development in rural areas. On the other hand, the

paper points out examples of successful European and Croatian civil society organizations and activities and experiences able to develop the rural areas in Croatian Danube region. (Demonja & Fabijanić, 2017)

A different and atypical analysis of the Danube region is that related to the real estate transfer tax. A historical introduction in the paper is followed by the assumption that the real estate transfer tax reflects more general public policies and preferences. The study is focused on Czech Republic. The main conclusion of the study is that the real estate transfer tax represents conceptually more a political than a fiscal instrument. (Pelikánová & Jánošíková, 2018)

All the above approaches to the Danube region's socio-economic development are pertinent examples of the differences between the Member States from the region.

### **3. Research Methodology**

Under the hypothesis of three integration levels, EU covers Germany, France and Benelux (first level), the other economies from Euro area (second level) and the rest of Member States (third level).

For the Danube Member States, the above hypothesis leads to the following clusters: Germany (first level of integration), Austria and Slovakia (second level), Hungary, Croatia, Romania and Bulgaria (the third level).

The analysis in the paper is focused on four economic indicators: GDP growth rate, unemployment rate, inflation rate and government gross debt as percentage of GDP.

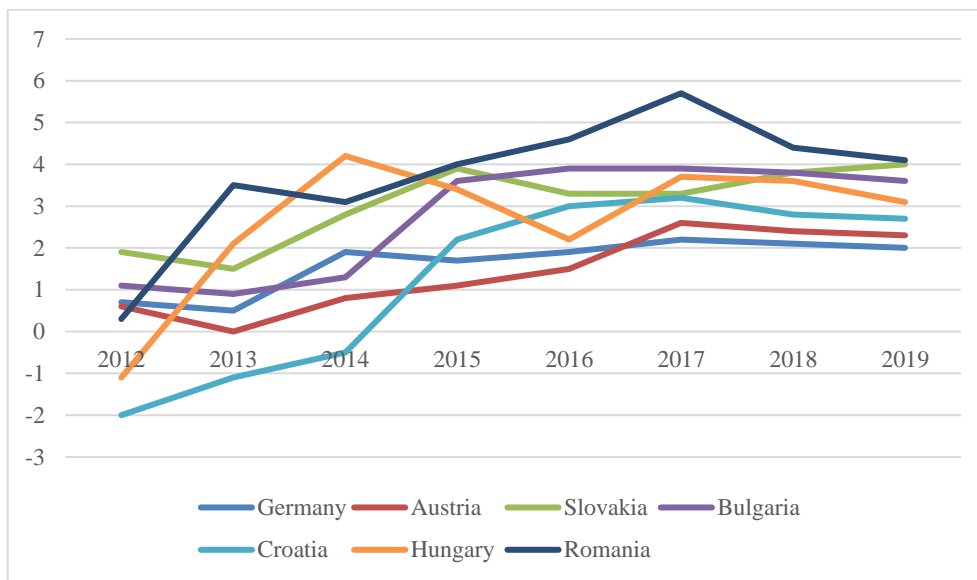
The analysis is realized on three steps: a comparative analysis regarding the above economic indicators across the Danube Member States, a regression analysis in order to quantify the economic disparities and a forecast procedure based on IBM-SPSS software.

The analysis cover 2012-2019 and 2020-2021 (under forecasting procedure) in order to point out the economic performances at the end of the present financial perspective. This period was chosen in order to take into account the economic recovery, the impact of Brexit on EU's economy and the economic trends until the implementation of the new financial perspective. As a result, the analysis uses EU27, not EU28.

The analysis is supported by the last official statistical data. (European Commission, 2017b)

### **4. To a Danube Region with Three Integration Levels?**

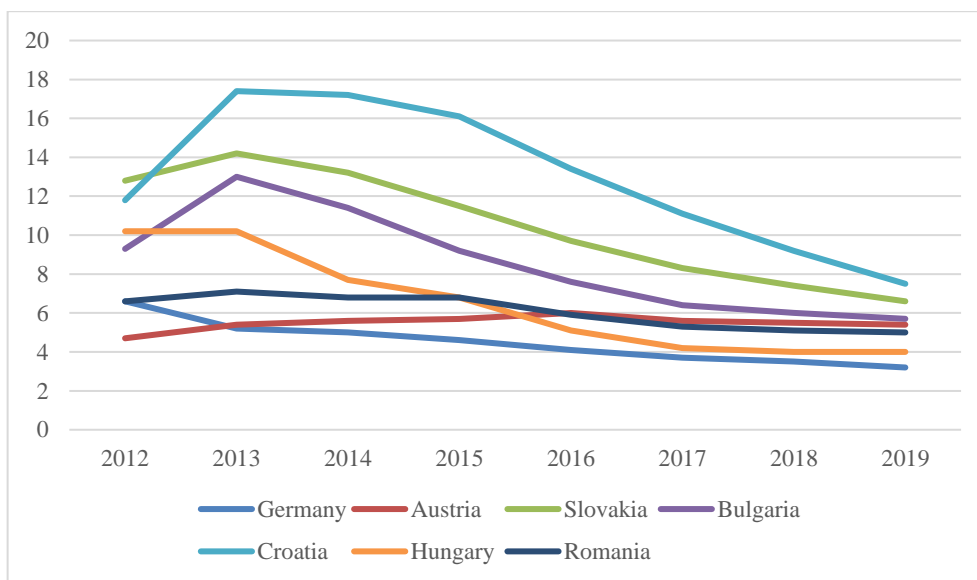
The economic growth's trend varies a lot between the analyzed countries. 2017 brought greater gap between these countries as a result of the Romanian economy's best performance. The gap between the higher GDP growth rate (in Romania) and the lowest one (in Germany) in 2017 was 2.6:1 (see Figure 1).



**Figure 1. GDP's trend (%)**

The official short-term forecasts present a decrease in the disparities between Member States in 2019, when the gap will achieve 2.05:1.

The country from the first level of integration faced to the lowest GDP growth rate in 2017 (2.2%). The cluster from the second integration level have an average GDP growth rate of 2.95%, while the third cluster achieved a GDP growth rate of 4.03% in the same year.



**Figure 2. Unemployment's trend (%)**

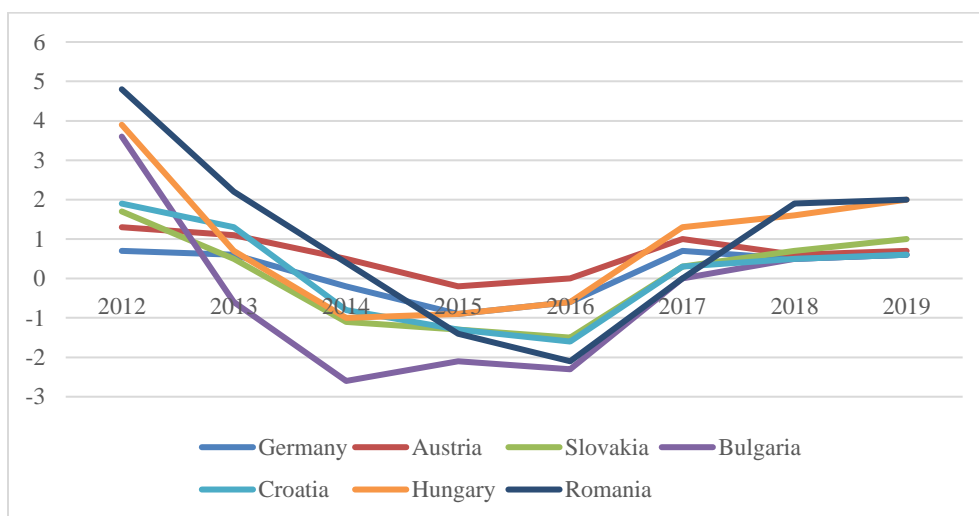
It is no doubt that the unemployment rate across the Danube Member States has a positive trend. It decreased continuously during 2015-2017 and will continue to decrease at least for the next two years (see Figure 2).

The first integration level succeeded in achieving the lowest unemployment rate in 2017 (3.7%). Austria and Slovakia faced to higher unemployment rates (5.6% and 8.3%) even that they are members of Euro area, as well. The countries from the third level of integration faced to rates between 4.2% (in Hungary) and 11.1% (in Croatia). As a result, the gap between the best and the worst unemployment rates is 0.33:1. The good news are those which point out that the disparities regarding unemployment rates will decrease on short time to 0.43:1.

All the above seven economies passed from inflation to deflation and again inflation (see Figure 3). 2017 brought a regrouping of the positive inflation rates inside a relative little gap.

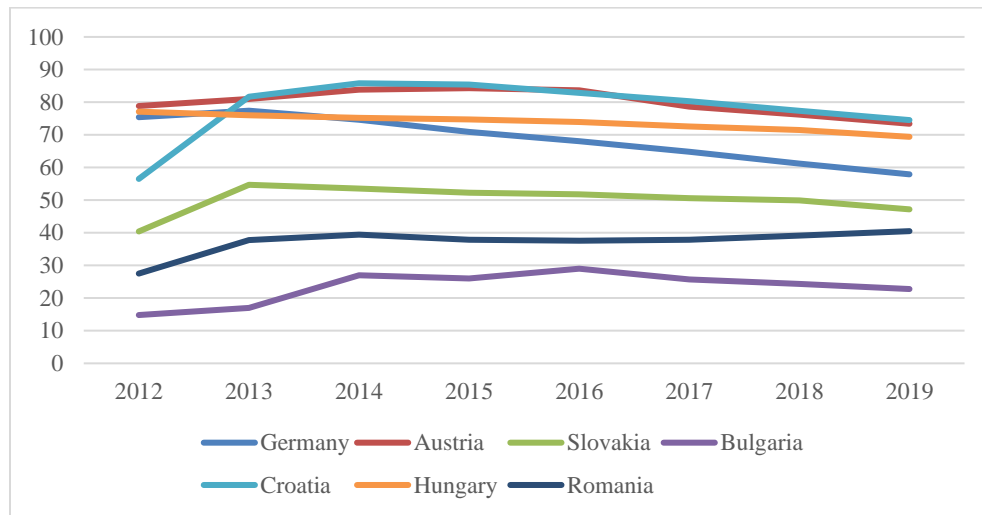
Under this economic indicator the best situation is across the third group of countries which present the lowest inflation rates. They are followed by the two countries from the second integration level and at least by Germany.

The short-term forecasts present two clusters. First is formed by Romania and Hungary which will faced to the highest inflation rates in 2019. They are followed by the other five countries which will face to inflation rates between 0.6% and 1.0% in the same year.



**Figure 3. Inflation's trend (%)**

The government gross debt had a fluctuant trend during 2012-2016 in all seven analyzed countries. During 2017-2019, the forecasting procedures point out a decrease in gross debt, excepting Romania (see Figure 4).

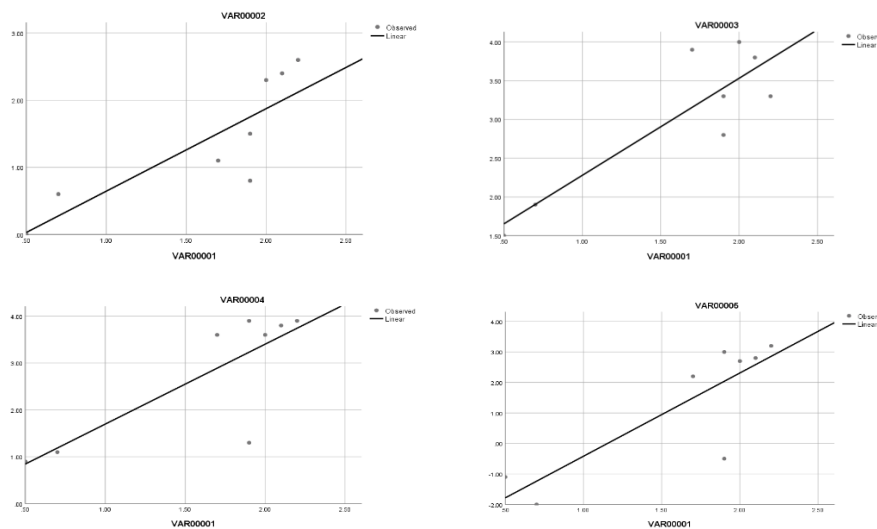


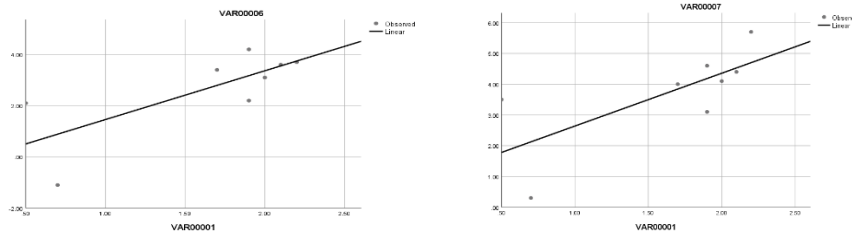
**Figure 4. Government gross debt's trend (% of GDP)**

According to Figure 4, Bulgaria and Romania had the lowest gross debt in 2017, while Germany faced to an average percent across the seven countries.

At this moment, the above analysis is not enough to support the idea of dividing the Danube economies into three levels of integration.

In order to quantify the economic disparities between the Danube economies, the regression analysis is usefully. The notation in the Figure 5 are: VAR00001 as Germany, VAR00002 as Austria, VAR00003 as Slovakia, VAR00004 as Bulgaria, VAR00005 as Croatia, VAR00006 as Hungary and VAR00007 as Romania. The economic performances of the countries from the second and third integration levels are compared to those from Germany in order to quantify the disparities. The analysis respects ANOVA conditions.

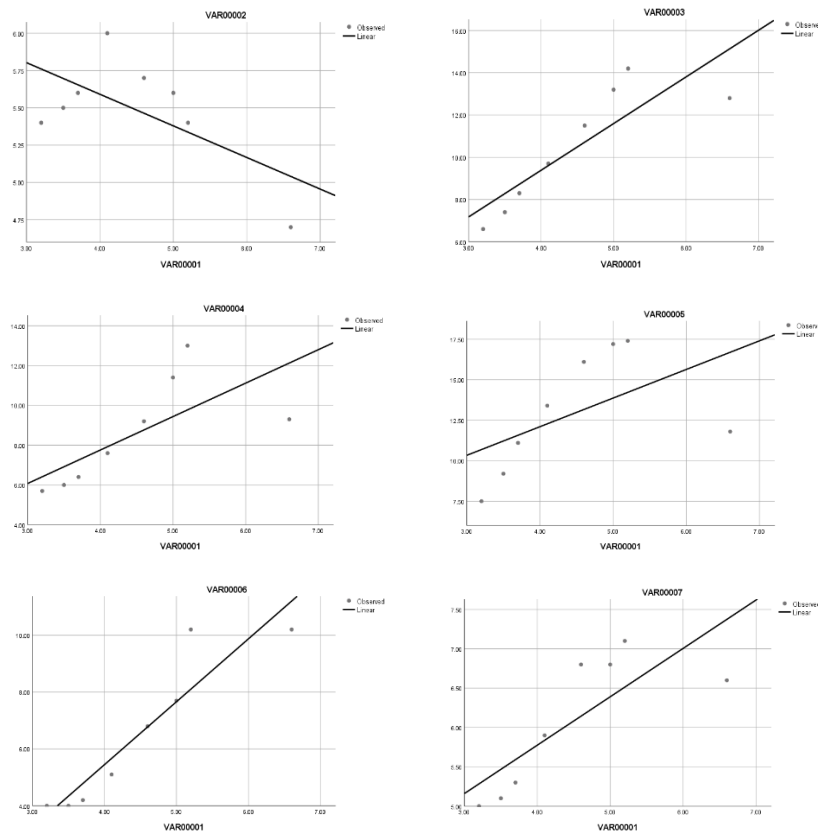




**Figure 5. GDP disparities across Danube economies vs Germany (%)**

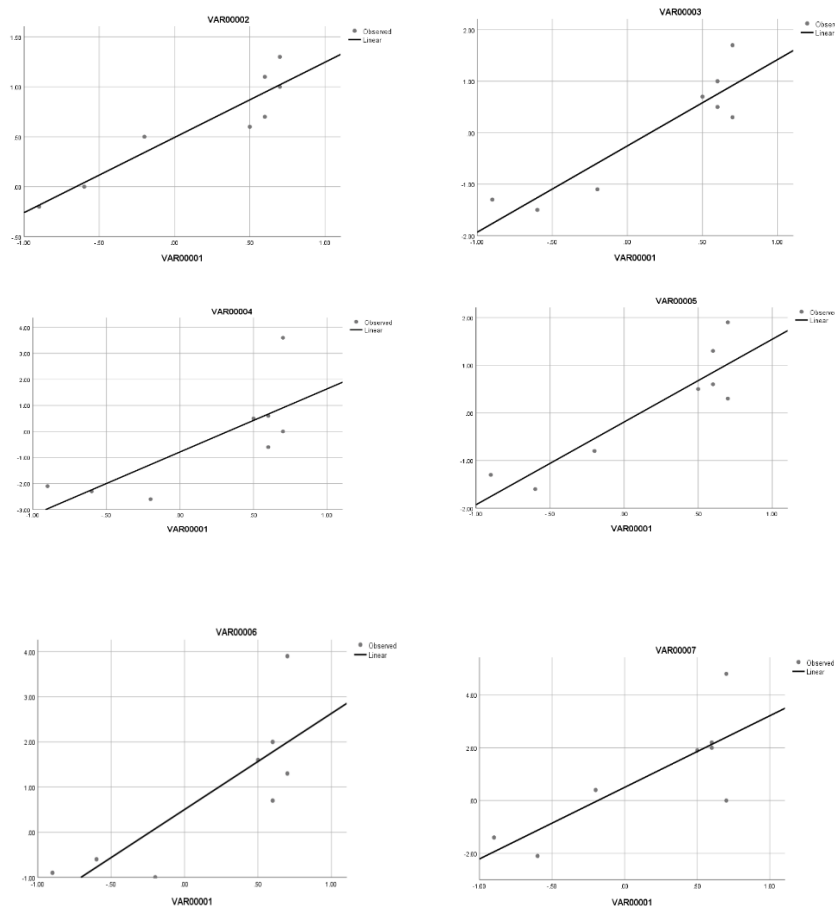
According to Figure 5, the lowest disparities regarding GDP growth rate are achieved by Romania and Hungary, even that they belong to the third level of integration.

Austria faces to an atypical unemployment trend compared to the other five analysed economies. Hungary seems to be better correlated to German economy under this indicator. On the other hand, Austria and Slovakia, which belong to the second integration level, present opposite situations regarding unemployment. The gap between the unemployment rate levels in these countries will be lower in 2019 (see Figure 6).



**Figure 6. Unemployment disparities across Danube economies vs Germany (%)**

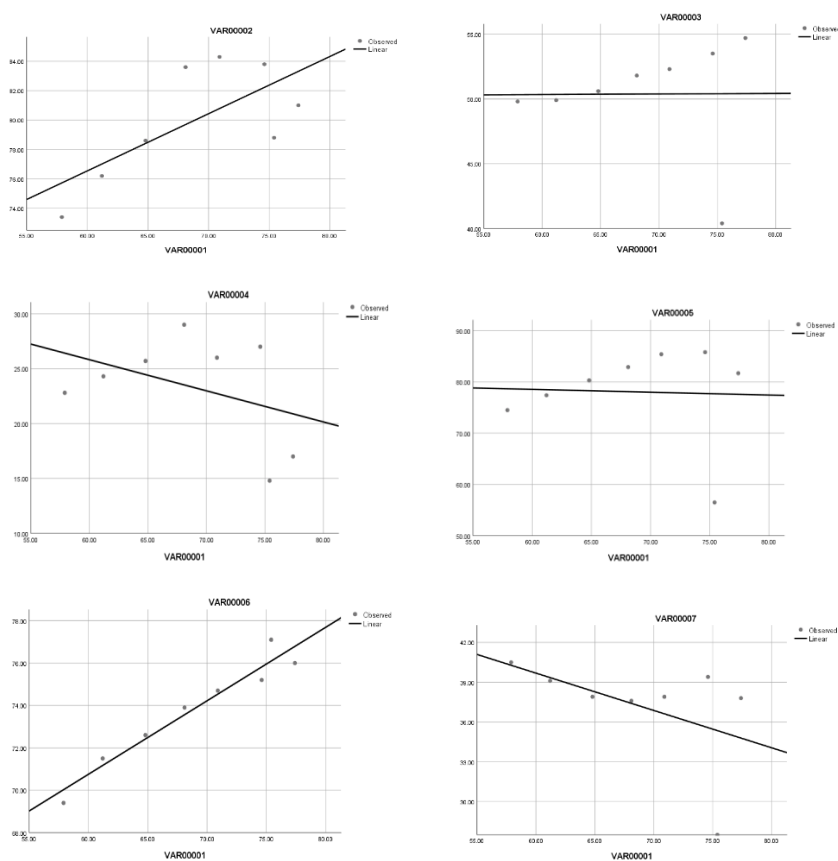
The common characteristic of the inflation's trend in analysed countries is that the disparities between annual rates will increase at the end of the period (2019). Austria seems to be most correlated to Germany under this indicator (see Figure 7).



**Figure 7. Inflation disparities across Danube economies vs Germany (%)**

The government gross debt represents an indicator able to point out the great disparities between the analysed seven economies. Again, Hungary and Romania present better correlation to the German economy (see Figure 8).





**Figure 8. Gross debt disparities across Danube economies vs Germany (%)**

**5. Conclusion**

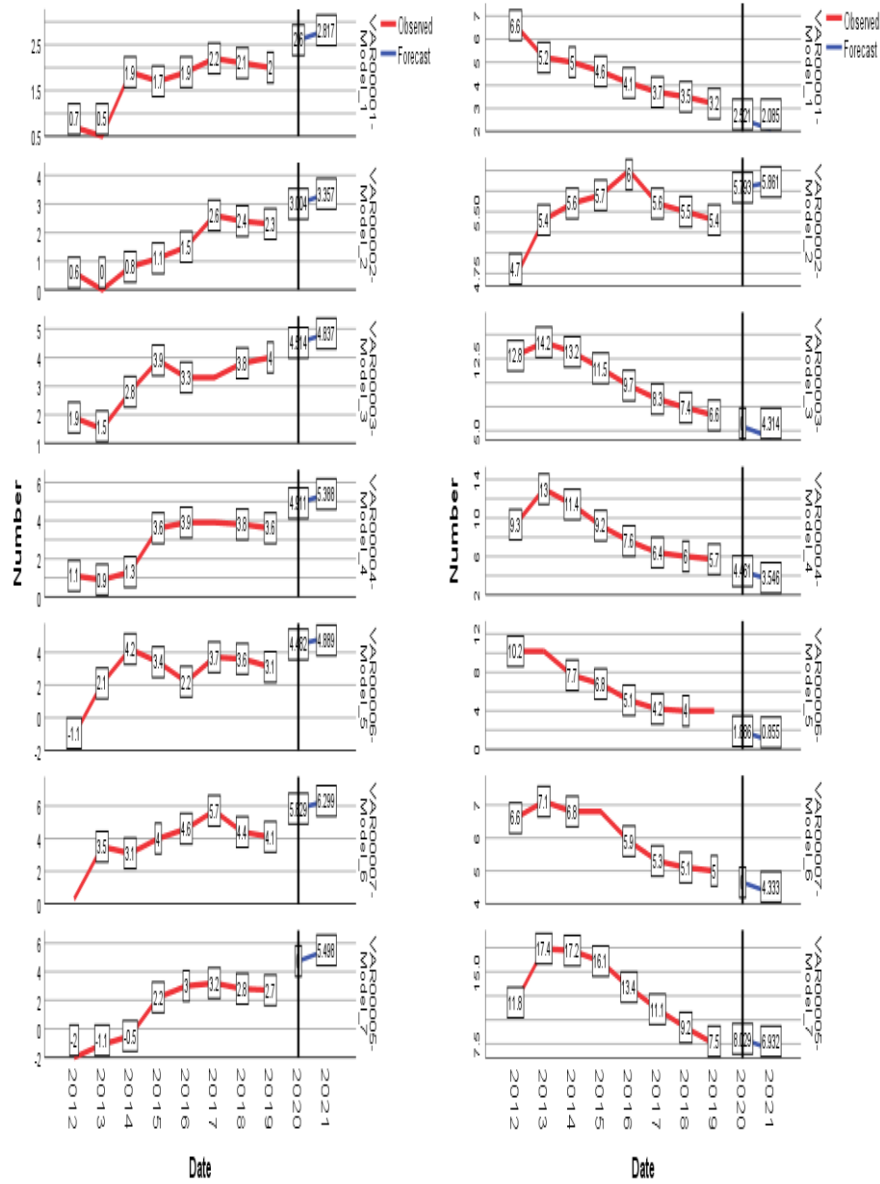
In order to have a scientific point of view on the three integration levels' approach, the analysis uses short term forecasting procedures during 2020-2021. The limit of this interval is important because it represents the beginning of a new financial perspective (see Figure 9).

All Danube Member States will achieve positive GDP growth rate during the forecasting period. The economies from the third level of integration will succeed to achieve the greater ones. They will be followed by Austria and Slovakia from the second level. The last economy, Germany, will face to the lowest GDP growth rate.

Six countries (excepting Austria) will decrease their unemployment rates during 2020-2021. The contradiction between Austria and Slovakia (which will reduce its unemployment rate) is evident. Croatia will have the lowest unemployment rate in 2021, followed by Germany.

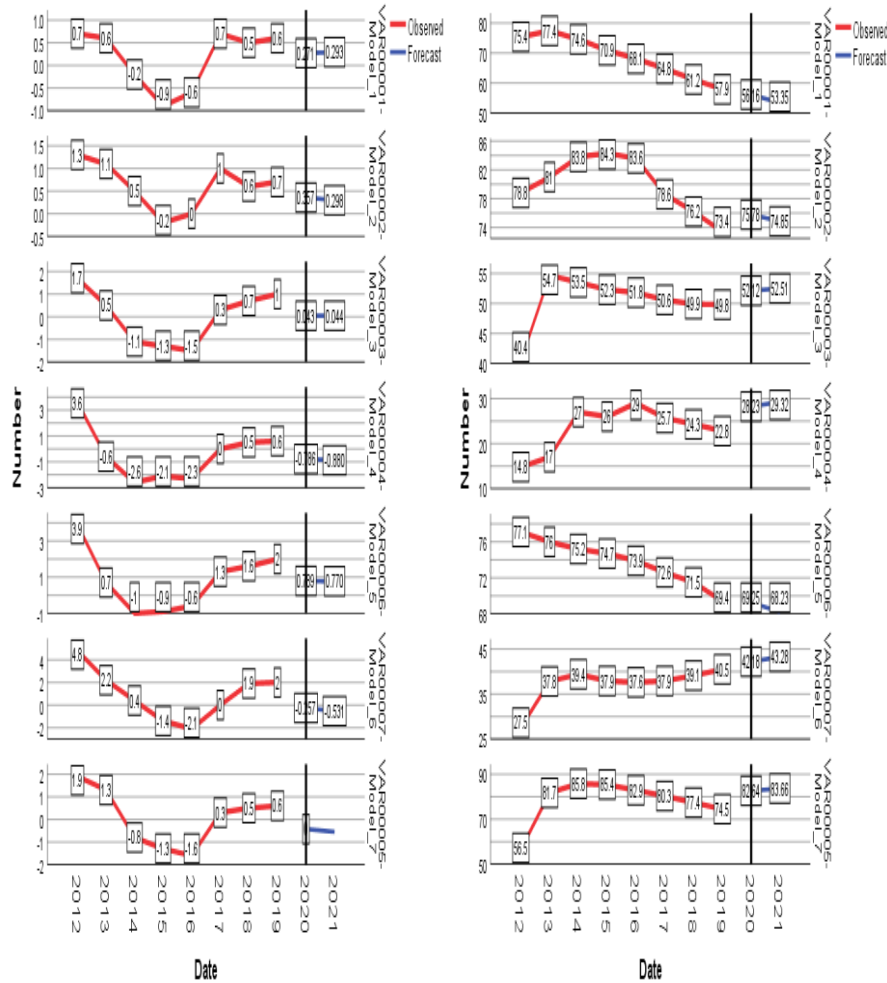
Inflation rate has a fluctuant trend across these economies. The main idea is that Germany will face to higher inflation rates during the forecasting period, even that it belongs to the first integration level.

Finally, the government gross debt analysis is not able to support the three integration levels' approach. Romania will face to an increase in its gross debt as percentage of GDP.



GDP's forecasting

Unemployment forecasting



Inflation's forecasting

Gross debt forecasting

**Figure 9. Forecasted indicators during 2020-2021 (%)**

The analysis in the paper focused on main economic indicators able to support an adequate conclusion. The analysis of the official data, the use of the official forecasts and the computing of author's forecasted procedures don't lead to the conclusion that the EU has to be reorganized according to the idea of different integration levels.

This approach is just a justification for the greatest EU economies to take control on the regional organization. The Danube Member States represent a good example in arguing the need of a more integrated EU, not a multilevel one.

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