

## EU's Enlargement vs Global Crisis

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**Abstract:** The paper deals with the idea that the global economic crisis' challenges for the EU economy are too powerful and the enlargement process has to be very carefully managed. Even that there are five candidate countries and an acceding country, the socio-economic situation across the EU27 and, especially, across the Euro area are not able to support new entrances as Member States. The analysis in the paper is based on the latest official data and is supported by pertinent statistical tables and diagrams. The main conclusion of this analysis is a pessimistic one. We consider that the main objective of the EU27 is to survive and to support a real economic recovery, nowadays. The enlargement has to continue only after the above objectives' achievement.

**Keywords:** economic recovery; global crisis; macroeconomic forecasts

**JEL Classification:** O52; O57; R11

### 1 Introduction

The economic recovery process continued across the EU in 2012. During the first semester of 2012, the domestic demand decreased as a result of the global economy's slowed down. The same processes continued in the second semester of that year. Moreover, the unemployment and the regional disparities increased, as well. The official forecasts talk about a small economic growth in 2013 (0.4% in the EU and 0.1% in Euro area), which will be far away from the world average (3.3%). Even that the forecasted economic growth rates will increase in the EU and the Euro area in 2014, the difference from the world average will maintain high (see Figure 1).

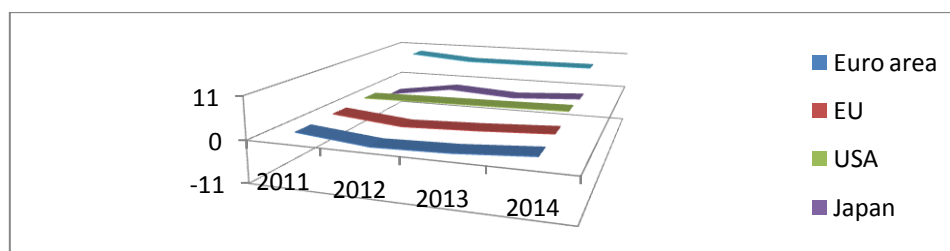


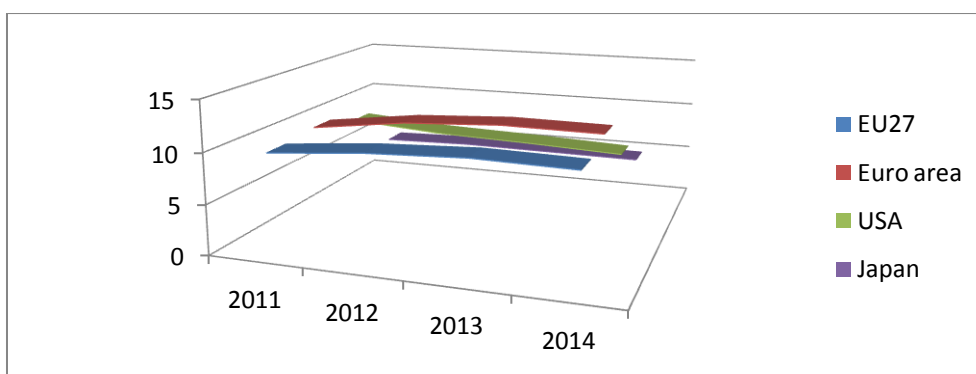
Figure 1. Forecasted economic growth rates in the world (%)

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*Source: Personal contribution using Eurostat, 2012*

Unfortunately, the main global competitors of the EU will achieve higher growth rates during the period of forecasting.

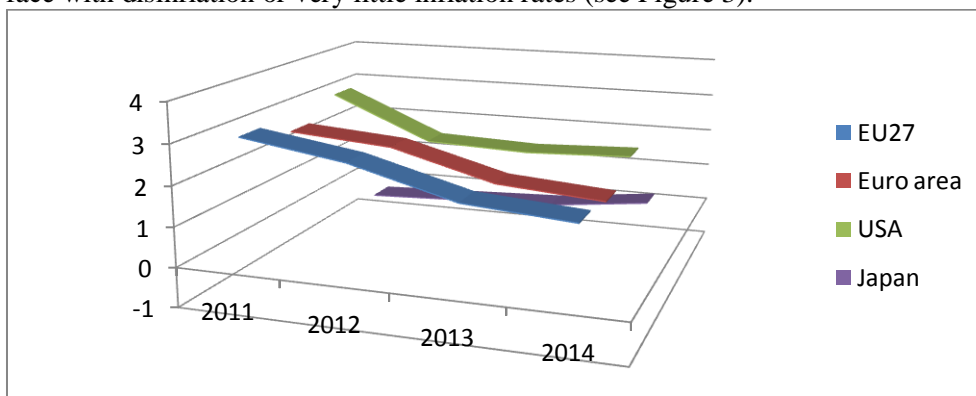
The worst situation is that connected with the unemployment rate, which will persist to be two marks across the EU27 and the Euro area during 2012-2014. USA and Japan will face with unemployment rates less than 8% (the first) or 5% (the second) during the same time period (see Figure 2).



**Figure 2. Forecasted unemployment rates in the world (%)**

*Source: Personal contribution using Eurostat, 2012*

According to the inflation rate, a better situation will be achieved in the Euro area, where the annual average rates will be lower than in the EU27 during 2012-2014. USA will face with average annual inflation rates of about 2%, while Japan will face with disinflation or very little inflation rates (see Figure 3).



**Figure 3. Forecasted inflation rates in the world (%)**

*Source: Personal contribution using Eurostat, 2012*

## **2 Other Researches in this Topic Area**

The latest researches in this topic area can be divided into two great components. First is that connected to the economic distortions across the European economy. A very important economic dilemma is that connected to the internal and external imbalances, especial in the Euro area. In order to solve this problem, are necessary great efforts, even that some progresses were achieved. These progresses were focused on the imbalances' reduction (Vogel, 2011).

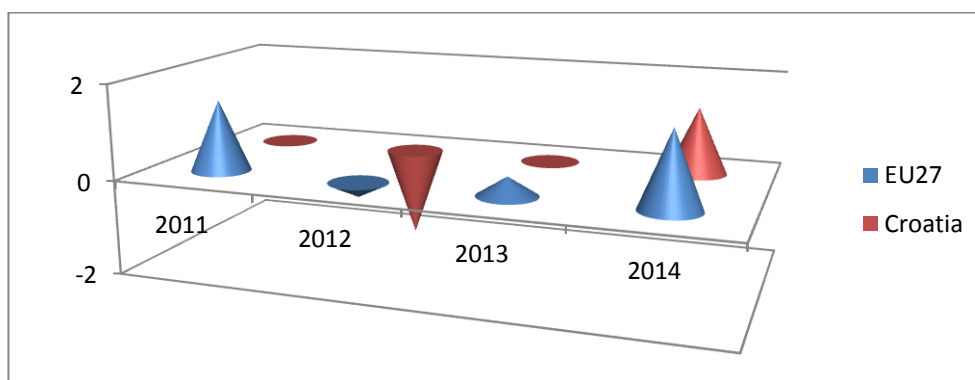
The main economic instruments used to decrease the imbalances are the wages and the unit labour costs' decreases. These measures had a good impact on current-account deficits if they were followed by an increase in the labour productivity (Darvas, 2012). As a result of the global crisis impact, the price competitiveness support a change of the resources' uses (Ruscher, Wolff, 2012). Moreover, the increase of the unemployment and the contraction of the output will have a negative impact on the wages and prices' trends (Dong, 2012).

Some specialists are more pessimistic and consider that a real economic recovery will start at the beginning of 2015. They use as argue the fact that a lot of the Member States' economies are more vulnerable to the crisis' challenges (Bech, Gambacorta & Kharroubi, 2012).

The second component of this specific research area is that which analyses the economies of the candidate countries. An interesting approach is that connected to the evolving legal practice of EU enlargement. It is focused on the latest two Member States as well as to the candidate states from the Western Balkans and Turkey. A distinct part of this analysis covers Croatia, which is waiting to sign its adhering treaty (Inglis, 2010). The importance of the economic stability in the acceding and candidate countries represents the theme of an important study of the European Central Bank. This study covers Croatia, Iceland, the Former Yugoslav Republic of Macedonia, Montenegro and Turkey. The main conclusion of the study is: "While economic activity remained robust in most EU candidate countries, challenges for the bank-based financial sectors stemmed from (i) high or rising credit risk (ii) unhedged borrowing in foreign currencies and (iii) strains related to the euro area debt crisis which is impacting the EU candidate countries via a number of channels" (ECB, 2012).

### 3 The Economies of the Acceding and Candidate Countries under the Global Crisis' Impact

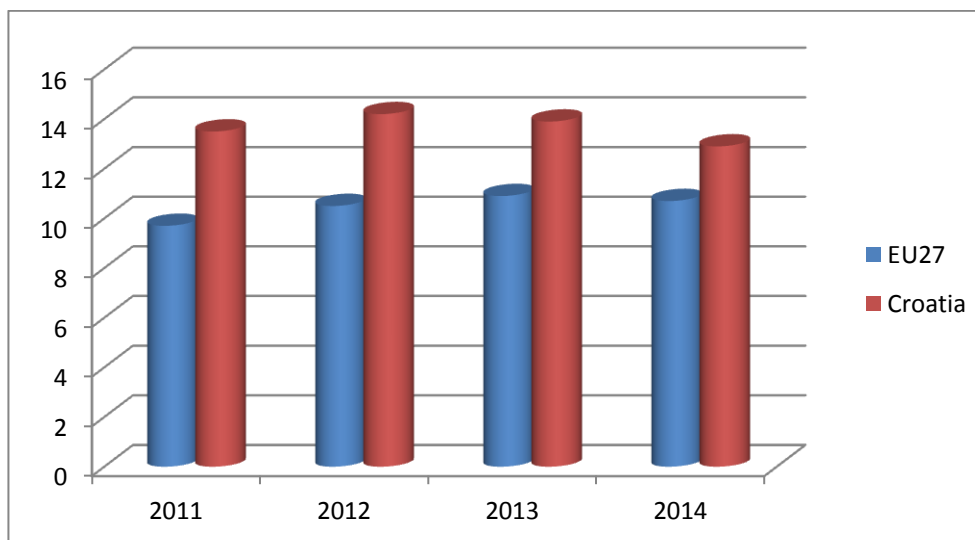
Croatia is the only acceding economy to the EU on short time. This means that its economic indicators are closed to the EU average. Using the GDP growth rate, we can observe that Croatia achieved lower rates than the EU27 during 2011-2012. Moreover, the forecast talk about lower rates in 2013 and 2014 (see Figure 4).



**Figure 4. GDP growth rates in the EU27 and Croatia (%)**

*Source: Personal contribution using Eurostat, 2012*

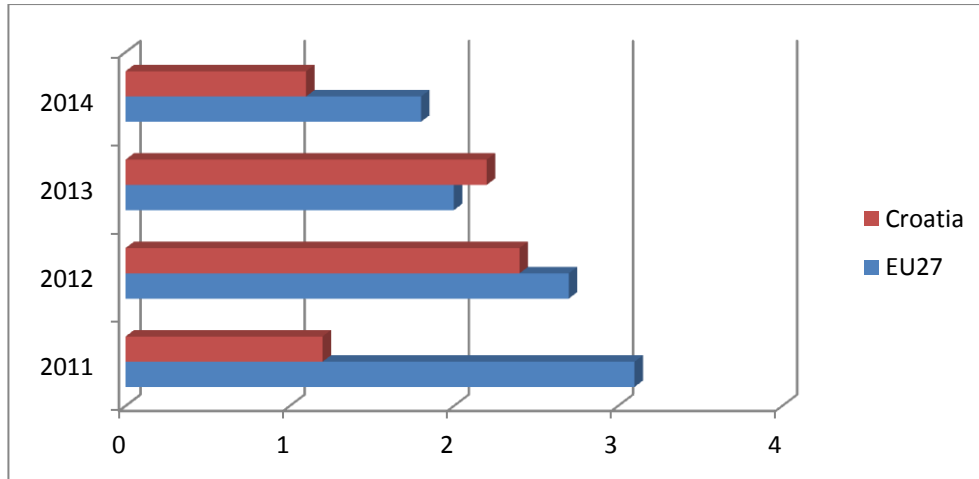
Moreover, the unemployment rate is another indicator which has negative trend. During 2011-2012 and the forecasted period, the unemployment rate is higher than the EU27 average (see Figure 5).



**Figure 5. Unemployment rates in the EU27 and Croatia (%)**

*Source: Personal contribution using Eurostat, 2012*

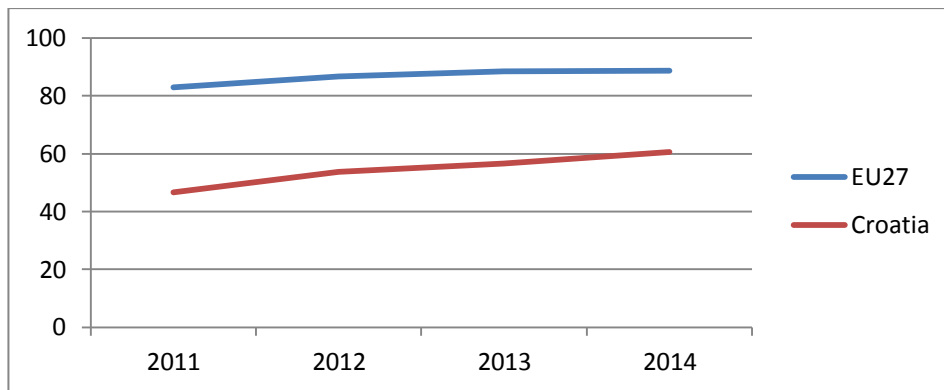
On the other hand, Croatia has better situation connected to the inflation rate and the government debt. The inflation rate increased during 2011-2012, but the forecasts show an important decrease for the next two years. As a result, the inflation rate in 2014 will be lower than in 2011 (see Figure 6).



**Figure 6. Inflation rates in the EU27 and Croatia (%)**

*Source: Personal contribution using Eurostat, 2012*

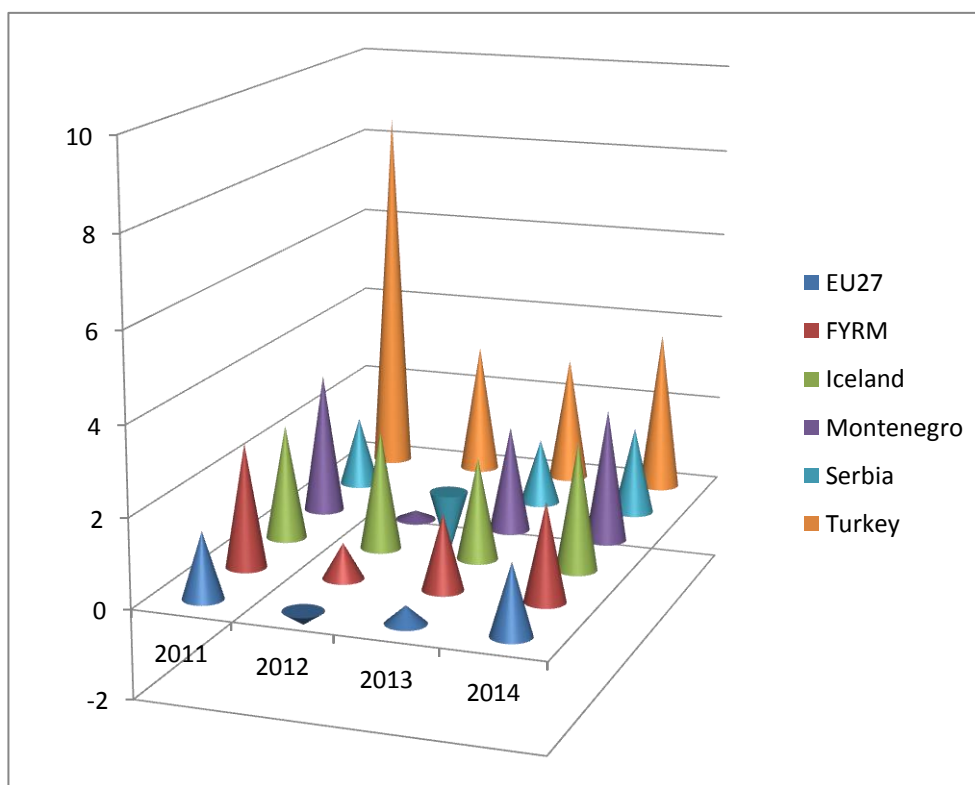
An element which is able to support the economic development in Croatia is the relative low government debt. Even that it increased during 2011-2012, and will increase in the next two years, its value as % of GDP is still acceptable (see figure 7).



**Figure 7. Government debts in the EU27 and Croatia (% GDP)**

*Source: Personal contribution using Eurostat, 2012*

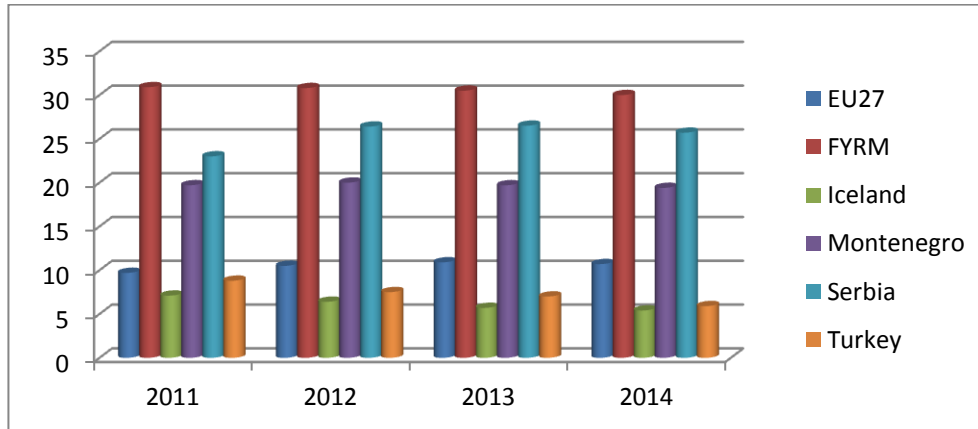
There are five candidate countries which succeeded to achieve GDP growth rates greater than the EU27 during 2011-2012, excepting Serbia in 2012. The forecasted growth rates are greater than the EU27 average, as well (see Figure 8).



**Figure 8. GDP growth rates in the EU27 and the candidate countries (%)**

*Source: Personal contribution using Eurostat, 2012*

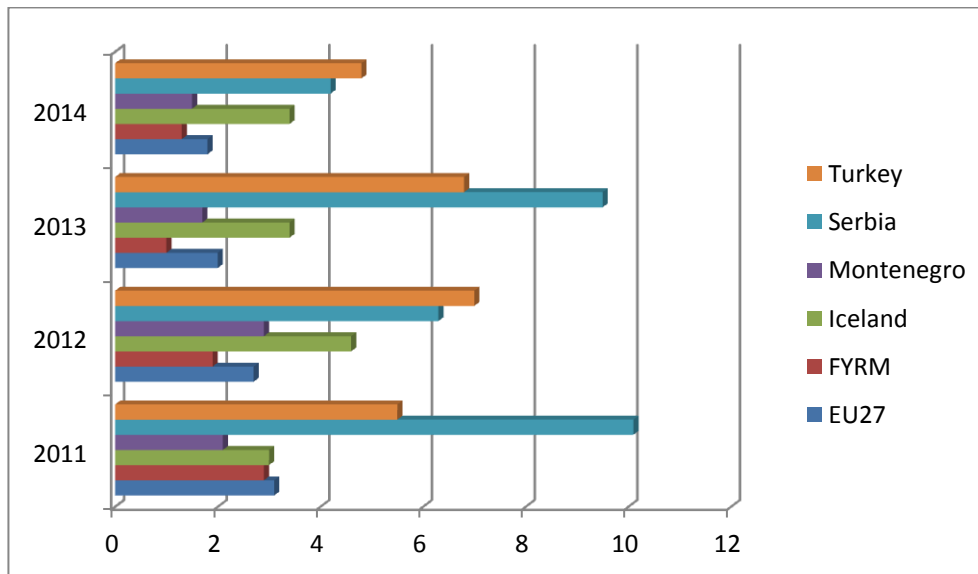
A different situation is that connected to the unemployment rate. Iceland and Turkey achieved unemployment rates lower than the EU27 average during 2011-2012. The same situation will be in 2013 and 2014. On the other hand, Serbia, Montenegro and FYRM have higher unemployment rates and are far away of a significant decrease (see Figure 9).



**Figure 9. Unemployment rates in the EU27 and the candidate countries (%)**

*Source: Personal contribution using Eurostat, 2012*

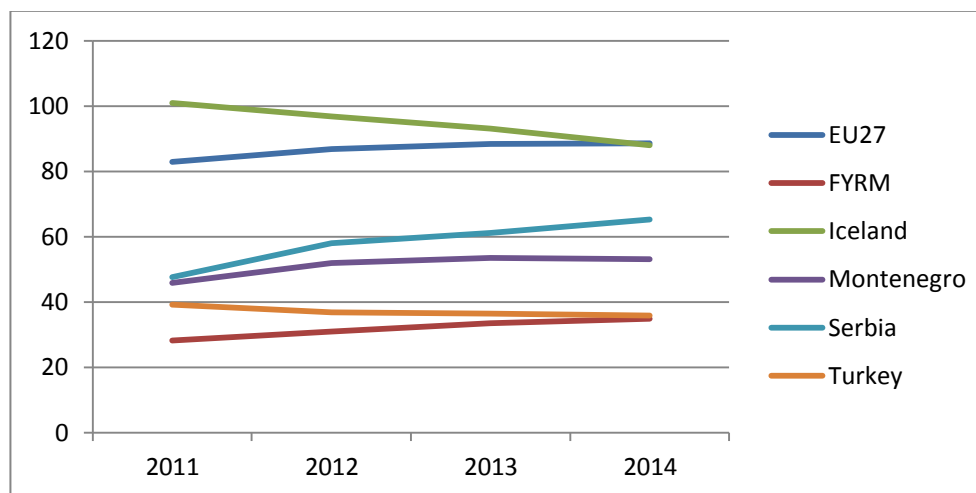
A similar situation is that connected to the inflation rate. Three candidate countries have higher inflation rates, while FYRM and Montenegro succeeded in achieving inflation rates lower than the EU27 average (see Figure 10).



**Figure 10. Inflation rates in the EU27 and the candidate countries (%)**

*Source: Personal contribution using Eurostat, 2012*

An interesting situation is that connected to the government debt. Iceland is the only candidate country which will achieve the same government debt as the EU27 average in 2014. The other four candidate countries had and will have lower government debts than the EU27 average during 2011-2014 (see Figure 11).



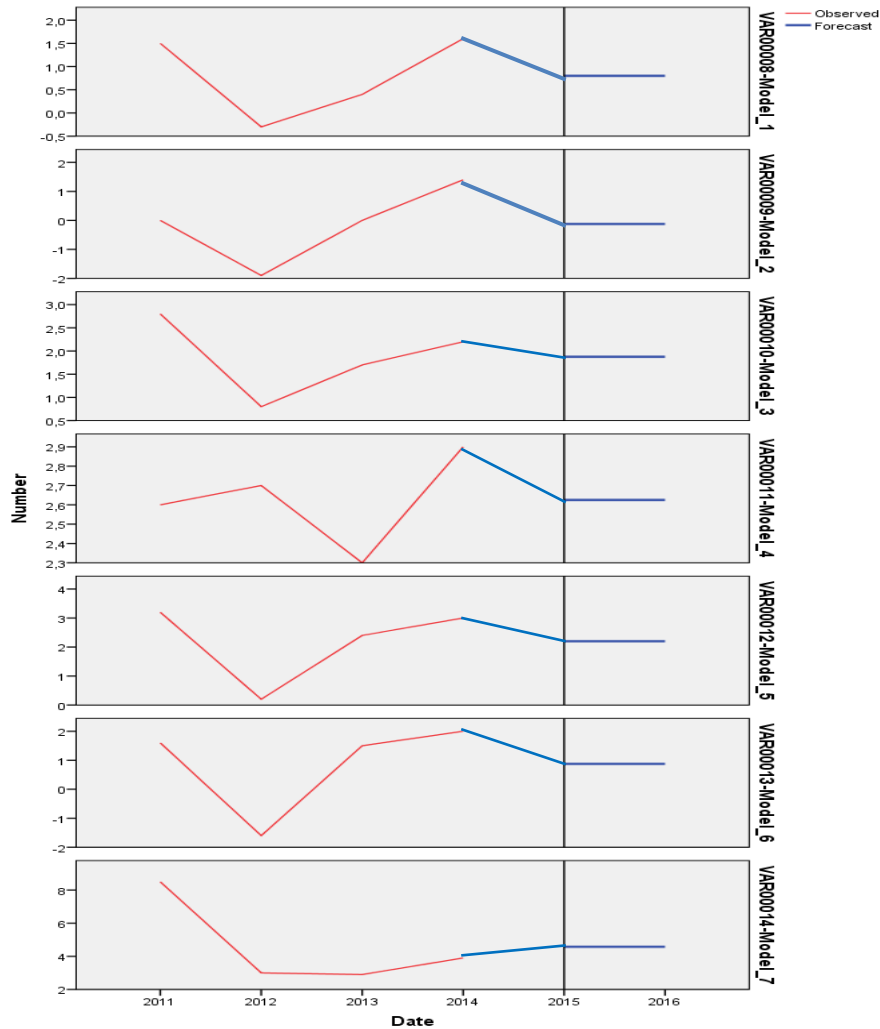
**Figure 11. Government debts in the EU27 and the candidate countries (% GDP)**

*Source: Personal contribution using Eurostat, 2012*

#### **4. Is Cohesion a Realistic Target on Short and Medium Terms for the Candidate Countries?**

A new step in this analysis is to realise a new forecast, in order to observe if the cohesion process can be achieved by the candidate countries. As a result, we used a dedicated soft (SPSS19) and ARIMA model in order to forecast the main macroeconomic indicators during 2015-2016. According to GDP, the forecast is positive only for four candidate countries, which will be able to achieve annual growth rates greater than the EU average (FYRM, Iceland, Montenegro and Turkey). Even that Croatia is the acceding country, it will not be able to realise high economic growth rates (see Figure 12).

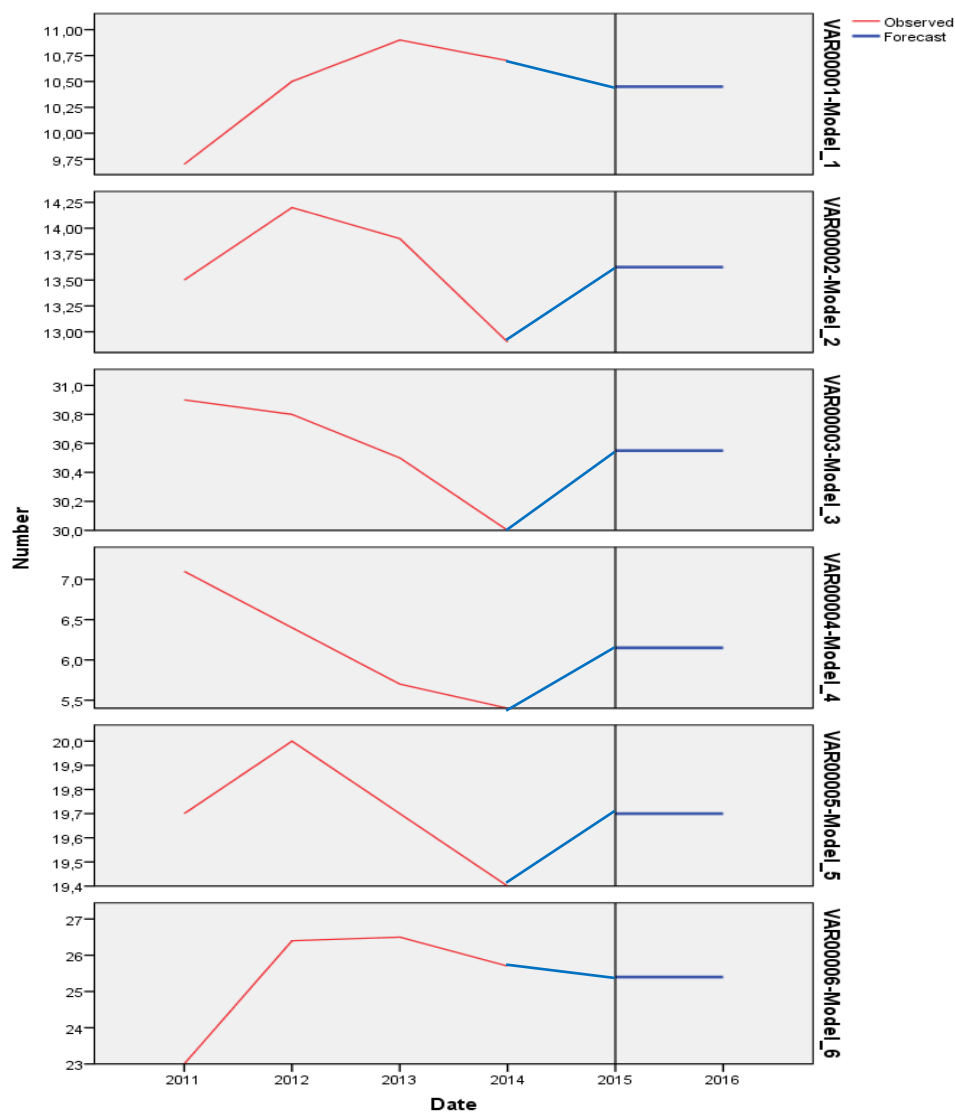




**Figure 12. GDP growth rate forecast (%)**

*Source: Personal contribution*

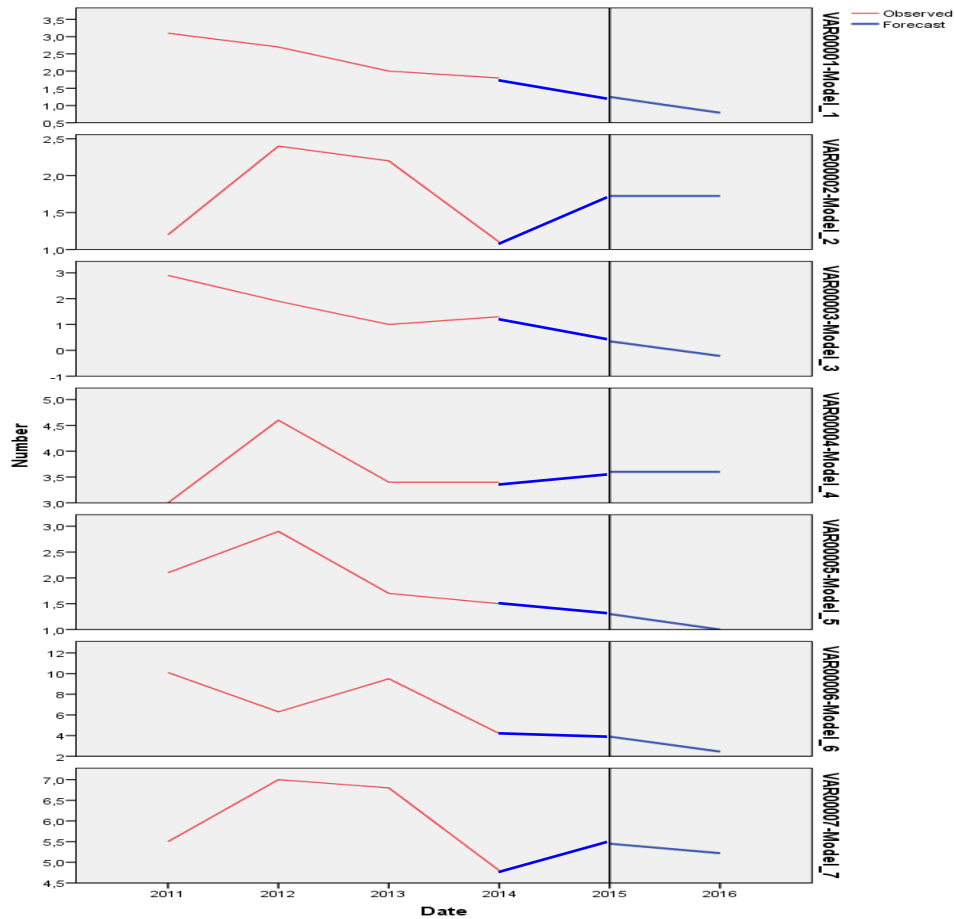
There are great disparities connected to the forecasted unemployment rates in the candidate countries, as well. A single candidate country will be able to obtain annual unemployment rates lower than the EU average (Iceland) (see Figure 13).



**Figure 13. Unemployment rate forecast (%)**

*Source: Personal contribution*

Only FYRM will have a lower inflation rate than the EU average during 2015-2016. Some candidate countries will maintain high inflation rates: Iceland and Turkey. Another group will face with average inflation rates of about 1-2% (see Figure 14).



**Figure 14. Inflation rate forecast (%)**

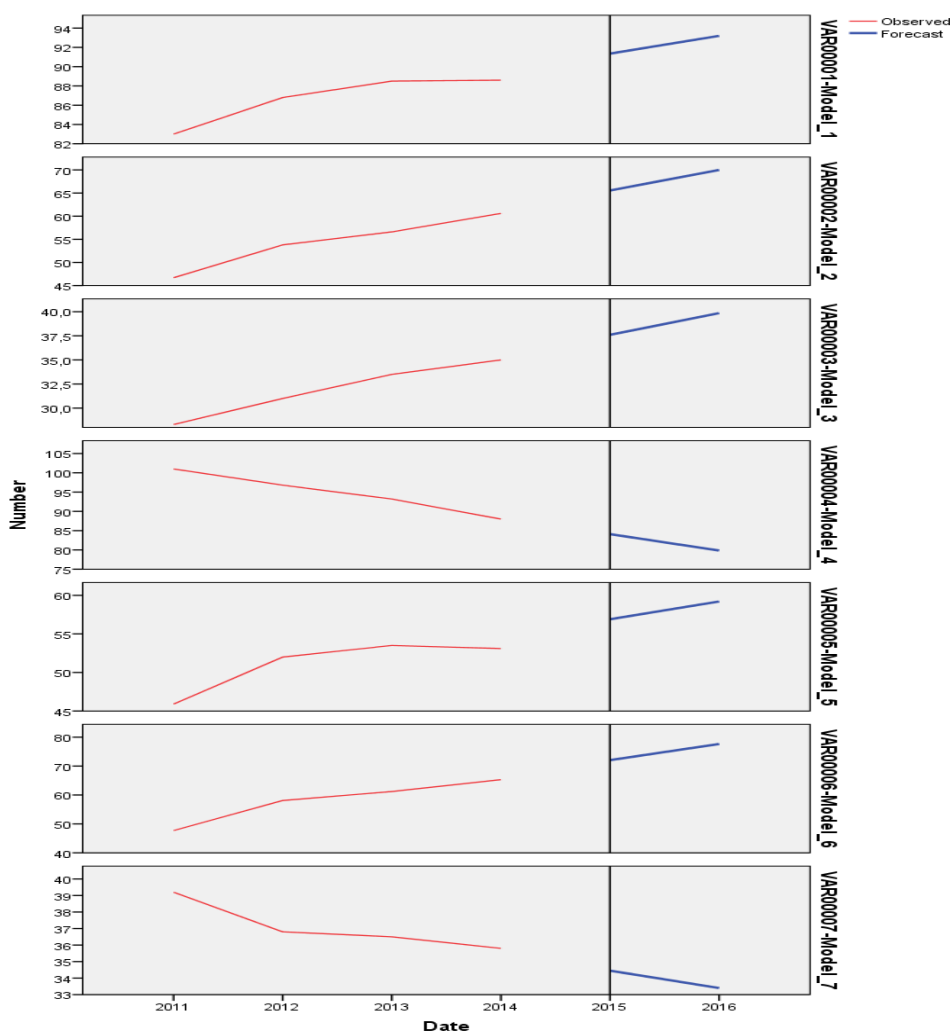
*Source: Personal contribution*

Last but not the least, the government debt is a very important indicator to describe the potential resources of economic growth. A high government debt has a restrictive impact on the future economic growth. The good news is that all candidate countries will achieve lower government debts than the EU average. Turkey will have the best position, with a government debt of only 33.5% of GDP (see Figure 15).

## 5. Conclusions

EU economy as a whole is far away to a sustainable development model. There are great disparities between the Member States and at regional level. The disparities

are greater across the Euro area. The official forecasts talk about a small recovery process during 2015-2016.



**Figure 15. Government debt forecast (%)**

*Source: Personal contribution*

The acceding and candidate countries present greater disparities, as well. There is not a single country which will be able to achieve the same economic development as EU at the end of the forecasted period.

Moreover, the disparities between this group of countries and the EU average will increase. This is why the enlargement of the EU on short and medium term is not a good solution.

EU needs time in order to finish its economic recovery and to return to sustainable economic growth. The enlargement has to be realised after these.

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