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EUROPA > European Commission > Enlargement > Library > Enlargement Weekly

Contact | Search
What's new? | Site map | Index | FAQ

<< HOME

ALL ABOUT...

Enlargement
Candidate countries
Negotiations
Financial assistance
Communication strategy

USEFUL INFORMATION

Who does what?
Public opinion
Events
Library
Research Bulletin
Links

>> E.U in the world

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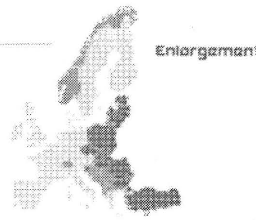
WEEKLY NEWS
Newsletter arc
Subscribe

Enlargement Weekly - 02 September 2003



Welcome to Enlargement Weekly. This weekly bulletin provides an overview of where European Union enlargement has got to, who's doing what in the EU, in the institutions and candidate countries, and how the main challenges are being met.

UPS AND DOWNS IN EURO PARITY FOR PROSPECTIVE MEMBER STATES

Over the nearly five years that the Euro has been in existence, the exchange rates for the currencies of the candidate countries and acceding states have fared very differently - with some strong rises in value, and some even stronger declines.

A new report from Eurostat, the EU's statistical service, shows that since the introduction of the euro on 1 January 1999, the Lithuanian litas has performed best, rising 35%. But that is largely because it was pegged to the US dollar from 1994 to January 2002, and consequently rose as the dollar rose against the Euro. Since February 2002 the Litas has been pegged to the Euro, at a fixed rate of LTL 3.4582/€1.

Lithuania is one of the countries that has operated a currency board regime - the system in which a country's currency is irrevocably fixed against a foreign currency, and where the base money stock is totally financed by foreign reserves, which more or less precludes offering lines of credit to private financial institutions experiencing short-term liquidity problems.

By contrast, the second-best performance came from the Czech koruna, which has risen 11% over the same period, but under a managed floating exchange rate regime, where the exchange rate is determined by foreign exchange supply and demand, but with the Czech central bank avoiding all excessive fluctuations in its currency. The increase recorded was 3% in 2000, and almost 10% during 2001. In the course of 2002, it rose by 1.22% over the year as a whole, peaking in June 2002 at a rate of 29.267 CzK to 1 euro before falling back. During the first six months of 2003, the CzK has hovered around 31.5 CzK to 1 euro.

The only other currency to have risen over the period is the Slovakian koruna, up by 4%, also under a managed float regime. But the rise is on the basis of a depreciation that bottomed out in June 1999 at a rate of 45.33 SKK to 1 euro - which was a year-on-year fall of almost 15%. Since then, the Slovakian currency regained 1.9% of its value in 1999, lost 3.5% in 2000, appreciated again by 2.7% in 2001, rallied a further 3.1% over 2002 (despite some turbulence mid-year), and since the third quarter of 2002 it has stabilised at around 41 SKK to 1 EUR.

Some currencies are now worth the same against the Euro as they were in January 1999. The Bulgarian lev has officially been unilaterally tied to the euro since 1999, under a currency board regime that halted the dramatic depreciation of the mid-1990s. The rate was 1 955.8 lev to 1 euro until July 1999, when the lev was divided by 1,000, giving birth to the new lev, which has a fixed rate of 1.9558 to 1 euro.

Similarly, the Estonian kroon has remained precisely in line with the Euro, since it has been directly linked to it under a currency board regime, at a fixed rate of 15.6466 EEK to 1 euro.

The Cypriot pound has retained its value consistently under a fixed parity band regime (a central exchange rate and a fluctuation band, with automatic intervention by the central bank to prevent the exchange rate from moving outside the band). The Cypriot pound was unilaterally linked to the ECU on 1 January 1992 at a central rate of 0,585274 CYP to 1 ECU, with a band of 2.25%. With the introduction of the euro on 1 January 1999, the Cypriot pound was tied to the euro at the same central rate as before, and although the band was widened to 15% on 1 January 2001, the currency has remained close to its central rate.

The Latvian lats is at the same level against the Euro as it was at the start of 1999, but after some strong fluctuations. Under a traditional fixed parity regime against the SDR (predominantly the US dollar, the pound sterling and the Japanese yen), with 1% fluctuation band, it saw steady growth to 2001 (except for some turbulence in 1998). But in 2002 it fell by 9.4% against the euro, and the first six months of 2003 have confirmed this downward trend, with another fall of 5.4%.

The Maltese lira also has the same value now as when the Euro came into being, but again with shifts up- and downwards. It is linked under a fixed parity regime to a basket of currencies (currently the euro (70%), the US dollar and the pound sterling), so in 2000 and 2001, it appreciated by 1.9% and 2.0% respectively against the euro. But it dropped by 4% in 2002, and it has fallen by around 2% over the first six months of 2003.

There are losers too among the future member states. The Hungarian forint is down 5% over the period. Hungary abandoned its crawling peg system in September 2001, replacing it with a fixed parity regime against the Euro, at 282.36 forints to 1euro, with a 15% band each side of the central rate. 1999 and 2000 saw limited devaluation of the forint against the euro, 2001 and 2002 saw it appreciate by 8.1% and 3.8% respectively, and during the first six months of 2003, it has fallen by 11.4%

The Polish zloty is down 9% over the period. Poland had a crawling peg system until April 2000, with the zloty linked to a basket of currencies (in which the Euro was 55%), but since then an independent floating regime has been in place. With the zloty floating freely on the foreign exchange markets, it appreciated by around 8% in 2000 and 10% in 2001, but it fell by around 13% in 2002, and by a further 10.2% during the first six months of 2003.

The Slovenian tolar has suffered even more, falling 19% over the period under a managed float regime. In fact the tolar has depreciated steadily against the ECU/euro during the second half of the 1990s, falling from 156.46 to 230.16 tolars to the European currency between the end of 1994 and the end of 2002 - a fall of 32%. During this period, the devaluation was around 5% per year, although in 1998 and 2001 the Slovenian currency only depreciated by 1.0% and 2.4% respectively against the euro. Since the end of 2002, the tolar has been relatively stable, dealing at around 230 SIT/EUR. It has depreciated by only 1.6% against the euro between 1 January and 30 June 2003.

The most dramatic depreciations have taken place in Romania and Turkey, where the currencies have lost well over half of their value against the euro, falling by 66% and 77% respectively.

Romania has adopted a "managed float" exchange rate regime. With inflation still very high (29.1% in May 2002 and 18.4% in May 2003), the leu is losing value against other currencies every year. The leu has therefore fallen from a rate of 3 384 lei to 1 ECU at the end of 1995 to 35 135 ROL to 1 euro at the end of 2002, a drop of 90.4%. Whilst the percentage rate of depreciation of the Romanian currency was over 25% a year between 1996 and 2000, it was down to around 13% in 2001. Depreciation of the leu did, however, pick up again in 2002 as it fell by almost 21% against the euro. A certain stabilisation seems to have set in during 2003, as the depreciation of the leu against the euro was only 6.7% over the first six months of 2003.

In Turkey, the exchange rate regime changed in February 2001 from a crawling peg regime to an independent floating regime. This took place following the financial crisis suffered by the country at this time, which obliged the monetary authorities to allow the Turkish currency to float. The whole of the 1990s was a period during which the Turkish lira depreciated against the ecu/euro. Whereas 3,394.6 TRL bought 1 ECU at the end of 1990, 624,267 were required at the end of 2000, a fall of 99.5%. In 2000 and 2001, the TRL saw its value fall by 12.8% and 50.8% respectively against the euro. The pace of depreciation slowed down, however, in 2002, with the devaluation being around 27%. During the first three months of 2003, the TRL continued to fall against the euro, to bottom out at 1,864,000 TRL to 1 euro at the end of March, which is 6.8% down on the December 2002 rate. Since then, the TRL has rallied a little, reaching a rate of 1,618,000 TRL to 1 euro at the end of June, which represents an increase of almost 7.4% on the December 2002 rate.

SLOVAKIA BEGINS DISCUSSIONS ON REGIONAL DEVELOPMENT

EU negotiations with Slovakia on regional development programmes for 2004-2006 started on 29 July in Bratislava. €1.1 billion will be allocated to Slovakia under the EU Structural Funds and some € 0.6 billion under the Cohesion Fund. The overall objective is to bring about growth, competitiveness and employment, while trying to iron out regional imbalances through a growth pole approach. The talks are examining the plans drafted by the Slovak authorities and submitted to the EU in March. The European Commission, which is negotiating with Slovakia, is aiming to agree a high level of co-ordination between the programmes and the different aspects of assistance they represent.

Already, before the talks started, European Regional Affairs Commissioner Michel Barnier wrote to Pal Csaky, Slovak Deputy Prime Minister, setting out the Commission's position on how Structural Funds and the Cohesion Fund should be used in Slovakia. "The Plan represents a sufficient basis for the negotiations that lie ahead. It is very important that the European programmes in Slovakia are a success. It therefore is all the more important that we reach an early agreement so that implementation on the ground can begin as soon as possible, taking into account that eligibility of expenditure under these programmes starts on 1 January 2004", he said.

Through four Operational Programmes, the Structural Funds will concentrate on business infrastructure and business development, transport and environment infrastructure, multifunctional agriculture and rural development, and education, training and active labour market policies. One of the programmes for Bratislava will focus on business services, infrastructure and tourism. The other will focus on training and lifelong learning measures. The Cohesion Fund will concentrate on transport infrastructures and environment.

Slovakia has four cohesion regions, comprising 8 sub-regions and 79 districts. Three regions are eligible for aid under the principal EU assistance instrument ("Objective 1" – for development and structural adjustment of regions whose development is lagging behind), and the Bratislava region is eligible for assistance under Objective 2 (regions with structural problems whose socio-economic conversion is to be supported) and 3 (modernising systems of training and promoting employment).

PASSY REFLECTS ON TWO YEARS OF BULGARIAN DEVELOPMENT

Looking back during the summer over two years of foreign policy since the formation of the current Bulgarian government, foreign affairs minister Dr Solomon Passy claimed to have turned into a reality the Bulgarian dream of rapid integration into the Euro-Atlantic family.

Since 2001, he said, the EU has recognised Bulgaria as a functioning market economy, recognised 2007 as a date for EU accession, and 2004 as a date for completing negotiations, and promised €1,500 million euros in pre-accession assistance.

Over the same period, NATO has invited Bulgaria to join the North Atlantic Alliance, and the NATO Council has signed the accession protocol and admitted Bulgaria to the bodies of the North Atlantic Alliance. Now "Bulgaria is indeed no more than a step away from full membership of the Alliance, and we expect to achieve this objective in a matter of months: at the NATO Summit in Istanbul in May 2004."

The process, claimed Passy, has been assisted by the nation's "keen political reflex" after 9/11 and the subsequent crises in Afghanistan and Iraq, which made integration "irreversible", he said. and finally put the country onto "the fast track".

At the same time, Bulgarians have acquired a new self-confidence among other nations, Passy said, boosted by recognition in other quarters too – from the visit of Pope John Paul II (which "lifted the stigma of unjust accusation which had overshadowed Bulgaria's image over the last 20 years") to Bulgaria's new position as "an important European voice in the UN Security Council speaking its own mind", and to the country's efforts to promote infrastructure development in the Balkans.

And the confidence is shared, according to the foreign affairs minister. Since June 2001, Bulgaria's credit rating has been raised on nine occasions by various international agencies, as the economic indicators have improved, and the USA and Japan have also recognised Bulgaria as a functioning market economy.

FISCHLER TELLS ICELAND ABOUT ENLARGEMENT

On a visit to Iceland on August 10, EU Agriculture and Fisheries Commissioner Franz Fischler Fischler said that with the accession of ten new countries next year the EU is on the verge of opening a new chapter in its history: "It marks the reunification of a continent previously torn apart by war, and it extends the democracy, stability, and prosperity that characterises EU membership to the ten new members who will be joining it on 1st May next year." An EU of 25 members makes it all the more important to define clear objectives, ambitions and administrative structures. The Convention on the Future of Europe has presented a proposal for a new EU treaty with a real set of options. "The task now lying ahead for the inter-governmental conference, starting in October, is to prepare a constitution for the half a billion citizens of an EU-25 that inspires confidence in the European ideal, and creates a European Union that is fully accessible for, and accountable to, all its citizens", he said. During his visit, he met Icelandic President Olafur Grimsson and Fisheries Minister Árni M. Mathiesen, and discussed in particular fisheries policy and especially the importance of conservation, the ongoing global trade negotiations in the WTO and the future of the European Union.

Speaking on trade, Fischler said: "The EU clearly recognises that fisheries are a fundamental basis of the Icelandic economy. Iceland is the European Union's second largest supplier of fish and fishery products, and in 2002, it exported fish and fishery products to the EU to the value of □1 billion. Iceland also benefits from substantial preferential tariff access to the EU market, following the 1972 Trade Agreement between the two parties. And, at each successive enlargement, these concessions were extended, as will again be the case next year, when the EU expands from 15 to 25 members." And Iceland also benefits from the so-called Pan-European Cumulation: "This means", he went on, "that you can buy raw material from all other parties in the EEA (including the European Union), the Baltic States and Central and Eastern European countries, and, having worked on it, export the processed product to the European Union at a preferential zero duty rate."

And in a direct allusion to current discussions in Iceland on its own future, he remarked: "There is one last point that I would like to make on the future of the EU, and it has to do with the possibility of Iceland joining in the coming years. I am aware that this debate is ongoing in your country, particularly with the arrival of the new member states. And, although it of course remains up to the Icelandic people to decide, I am sure that you too would benefit from the many opportunities that the EU has to offer. It is undoubtedly an exciting time to be 'European', and coming myself from a country that only joined in the last enlargement 8 years ago, I think it is safe to say that Austria has not looked back."

Enlargement news in brief

Farmers falling outside social security arrangements in future member states?

Large numbers of farmers appear not to be covered by adequate social security arrangements in the candidate countries, according to a new report, "Social security systems and demographic developments in agriculture in the CEE candidate countries". Prepared by the Network of Independent Experts in the CEE Candidate Countries and the Institute for Agricultural Development in Central and Eastern Europe, the report provides an overview of the agricultural social security systems and their impact on agrarian structural change. But they often do better on pensions than they might otherwise expect, it says. While agricultural incomes are lower than average incomes, the pension benefits "tend to be only roughly linked to incomes, if at all", and there is an effective subsidisation of pension arrangements that amounts to a de facto transfer to agriculture. This, however, could in turn create new vulnerability for farmers as cost-cutting social security reforms under way in many countries may reduce the size of the state budget contribution.

Meanwhile, structural unemployment in agriculture is "one of the major political challenges in the candidate countries", and the report insists on the importance of the possible contribution of social security arrangements in general in reducing this problem. Given the relatively low educational levels of those in the farm sector, a link between income support policies and training and capacity building might be pursued, it suggests. But it warns that in some countries, the age structure of farmers is such that encouraging them into off-farm employment is simply not realistic. Encouragement to farmers to take up early retirement through incentives in the social security system might be an alternative, provided it led to an accelerated restructuring of the sector.

Assessing the economic effects of accession

The most uncertain component of the immediate transfers from the EU to the acceding states are related to the project-related funds, their disbursement and fiscal implications, because of co-financing requirements, according to a new report from the Austrian think-tank, WIIW, "Consequences of EU Accession: Economic Effects on CEECs". But looking further ahead, the study foresees the formation of new coalitions within the enlarged European Union in the longer-run negotiations over the Financial Framework for 2007-2013. And it assesses the trade-off decisions new member states will face between fast versus delayed entry to European Monetary Union. This "will shape the constraints within which the conduct of fiscal and monetary policy will have to take place", and is likely to dominate the medium-run growth prospects of the new members upon accession.

Lisbon targets "more difficult in enlarged EU"

The Lisbon strategic goal of "becoming the most competitive and dynamic economy" may be more difficult to achieve in the enlarged EU, simply because in most cases the average EU starting base is statistically lowered by the fact that most acceding countries are less well placed vis-à-vis the Lisbon targets than the existing member states, says a new study from the European Commission, "Key structural challenges in the acceding countries: The integration of the acceding countries into the Community's economic policy co-ordination processes". The report aims to be a first step towards integrating the acceding countries, after enlargement into the multilateral surveillance conducted by the EU Council of Ministers. It assesses the challenges faced by the acceding countries with regard to the Lisbon goal and the Broad Economic Policy Guidelines, and identifies possible priorities for structural reforms in those countries.

The report remarks that while enlargement in a medium- to long-term perspective is set to enhance the prospects for growth of the EU economy, progress, and the speed of structural change, "have not been consistently strong across all countries and areas". Achieving real convergence with the EU and enhanced resilience to possible future shocks will depend on the scope and pace of progress in the implementation of the structural reform agenda, it insists. As regards the Lisbon and Stockholm targets for employment rates, the total employment rate in an EU-25 would have been some 1.5 percentage points lower than in the EU-15 in 2001 (62.6% compared with 64%) – and the same is true across other key employment indicators. Challenges facing labour markets in the acceding countries "are often more severe", the report says.

The acceding countries also "face more severe problems than the present member states as regards their efforts at reform intended to strengthen competition in several product markets, including the need to enhance the general business environment, to lower barriers imposed by market entry and exit mechanisms, and to reduce significantly sectoral or ad hoc state aid". And in many acceding countries, the administrative capacity of the public sector "also needs to be urgently enhanced", since "many segments of the public sector are perceived as remaining highly inefficient, which creates obstacles to the operation and growth of businesses." The regulatory burden on business, implementation and design of judicial reforms, and quality and administrative capacity of the central and local public sectors are flagged up as particular areas of concern. Financial markets in the acceding countries also "continue to be underdeveloped". And for public finances, "there is a need in many acceding countries to reassess the structure of budget revenue and expenditure in order to foster a growth-enhancing environment providing sufficient space and incentives for private sector development."

Enlargement Mini-Briefs

- Latvia's Ministry of Foreign Affairs has been urging Latvian citizens living abroad to participate in the September 20 referendum on EU accession. 38 polling stations have been set up in 29 countries abroad. And citizens unable to visit the polling station on the day of referendum are being asked to vote by post. Meanwhile, Latvian leaders, including president Vaira Vike-Freiberga and prime minister Einars Repse, have publicly declared their support for the country's membership of the Union. See
- The Estonian non-governmental movement "Yes to the European Union" is distributing 52,000 information posters, postcards and outdoor advertisement stands throughout Estonia in the run-up to the September 14 referendum. The head of the movement, Aivar Roop, said the pre-referendum campaign would convey a very clear "Yes" message, with slogans such as "Choose a more Prosperous Future!" and "Choose Good Friends!". Danish Prime Minister Anders Fogh Rasmussen lent his support to a "yes" vote in Estonia when he visited the country during August, offering reassurance that Estonia would

not lose its identity as an EU member state. Meanwhile, the latest polls show that seventy percent of the election-age population is planning to take part in the referendum, with 69 percent of likely voters in favour and 31 per cent against accession – EU support strongly up on July figures.

- Turkish President Ahmet Necdet Sezer signed off during August on the package of reforms to curb the military's influence, ensure better safeguards for freedom of speech and stamp out torture. The package was welcomed by a declaration from the EU Presidency. The EU said it "reflects the continuing Turkish commitment towards meeting the Copenhagen political criteria." The ten acceding states, Bulgaria and Romania, and Iceland, Norway and Liechtenstein also aligned themselves with the declaration.
- Ukraine wants to upgrade its links with the EU from the current Partnership and Co-operation Agreement to and Association Agreement – such as the candidate countries have with the EU, according to Ukrainian deputy minister for Foreign Affairs Oleksandr Chalyi. European Enlargement Commissioner Günter Verheugen, responsible for coordinating the "Wider Europe" dossier, will visit the country on 11-12 September.

Agenda

See also the new "Enlargement events calendar" on the DG Enlargement web site at http://europa.eu.int/comm/enlargement/events/calendar.htm. This gives a run-down of public events related to the enlargement of the EU taking place in al current and future member states.

(note: now that acceding states take part in Council meetings and EP and ESC plenaries, these will from now on be listed in this calendar)

Date	Event
September 2003	
Monday 1 - Wednesday 3	▪ European Enlargement Commissioner Günter Verheugen visits Estonia
Monday 1 - Thursday 4	▪ 6th international symposium and exhibition on environmental contamination in central and eastern Europe and the Commonwealth of Independent States, Prague
Tuesday 2	▪ European Parliament plenary session debates cohesion policy, Strasbourg ▪ European Parliament debates request for consultation of the Economic and Social Committee on health and safety at the workplace in the accession countries, Strasbourg ▪ EU Council of Ministers working group on enlargement meets, Brussels
Wednesday 3	▪ European Parliament plenary session debates the European Convention, with EP President Pat Cox, Commission President Romano Prodi, Council President-in-Office Gianfranco Finì and Convention Chairman Valéry Giscard d'Estaing
Wednesday 3 - Thursday 4	▪ Informal meeting of the defence ministers from the EU member states and the acceding states
Wednesday 3 - Friday 5	▪ European Enlargement Commissioner Günter Verheugen visits Latvia ▪ Informal meeting of telecommunications ministers from the EU member states and the acceding states, Viterbo, Italy
Thursday 4	▪ European Parliament plenary session debates

	enlargement and cultural diversity, Strasbourg
Friday 5	▪ European Budget Commissioner Michaele Schreyer takes part in television discussion on perspectives for the enlarged Europe, Bonn
Friday 5 - Saterday 6	▪ Informal General Affairs and External Relations Council, Riva del Garda ▪ Informal Health Council, Milan ▪ David Byrne, European Commissioner for Health and Consumer Protection attends informal meeting of health ministers from the EU member states and acceding states, Milan
Friday 5 - Sunday 7	▪ European Commission President Romano Prodi and External Relations Commissioner Chris Patten attend the "Gymnich" informal meeting of foreign affairs ministers from the member states and acceding states, Riva del Garda, Italy
Tuesday 9	▪ Hildegard Puwak, Romanian minister for European integration, speaks on the final stage of the preparations for EU accession, CEPS, Brussels
Thursday 11	▪ David Byrne, European Commissioner for Health and Consumer Protection visits Lithuania
Friday 12	▪ David Byrne, European Commissioner for Health and Consumer Protection visits Latvia
Friday 12 - Saterday 13	▪ Informal meeting of the ministers of economic and financial affairs of the EU member states and the acceding states, Stresa, Italy ▪ Informal meeting of the ministers of justice and home affairs of the EU member states, the candidate countries and the acceding states, Rome
Sunday 14	▪ **Referendum** in Estonia on EU accession
Monday 15	▪ David Byrne, European Commissioner for Health and Consumer Protection visits Estonia
Thursday 18	▪ European Enlargement Commissioner Günter Verheugen visits Switzerland
Saturday 20	▪ **Referendum** in Latvia on EU accession
Saturday 20 - Tuesday 23	▪ Informal meeting of the ministers of agriculture of the EU member states and the acceding states, Taormina, Italy
Monday 22 - Tuesday 23	▪ European Enlargement Commissioner Günter Verheugen visits Korea ▪ Competitiveness (internal market, industry and research) Council, Brussels
Monday 22 - Thursday 25	▪ European Parliament plenary session, Strasbourg
Wednesday 24 - Friday 26	▪ European Enlargement Commissioner Günter Verheugen visits Japan
Friday 26	▪ Franz Fischler, European Commissioner for Agriculture, Rural Development and Fisheries visits Switzerland
Monday 29 - Tuesday 30	▪ General Affairs and External Relations Council, Brussels ▪ Agriculture Council, Brussels

2004

May 2004

Saturday 1st	▪ Entry into force of the accession treaty (according to conclusions of General Affairs Council, 18.11.02)

ENLARGEMENT WEEKLY is prepared for the Information Unit of the Enlargement Directorate General of the European Commission. As part of its communication strategy on enlargement, the Commission makes this bulletin publicly available. Comments are welcome and should be addressed by e-mail to enlargement@cec.eu.int.

TOP