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Assessing the Economic Criteria for EU Membership

September, 2005

Progress Report 2005



Objective of the presentation

Explaining how the EU Commission assesses Turkey's progress in the economic fields towards meeting the Copenhagen requirements in the current year.



Setting the stage:

Economic Criteria (Copenhagen 1993)

- Stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities
- Existence of a functioning market economy
- Capacity to cope with competitive pressure and market forces within the Union
- Ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union
- Constraints: absorption capacity of the EU



First criterion:

Existence of a functioning market economy

Subcriteria:

- broad consensus about the essentials of economic policy
- macro-economic stability, including adequate price stability and sustainable public finances and external accounts;
- equilibrium between demand and supply by the free interplay of market forces; prices, as well as trade, should be liberalised;
- significant barriers to market entry (establishment of new firms) and exit (bankruptcies) should be absent;
- the legal system, including the regulation of property rights, should be in place, and it should be possible to enforce laws and contracts;
- the financial sector should be sufficiently well developed to channel savings towards productive investment.



Second criterion:

Capacity to cope with competitive pressure and market forces within the Union

Subcriteria:

- the existence of a functioning market economy, with a sufficient degree of macro-economic stability for economic agents to make decisions in a climate of stability and predictability;
- a sufficient amount, at an appropriate cost, of human and physical capital, and future developments in this domain;
- state of progress in enterprise restructuring
- the proportion of small firms, partly because these tend to benefit more from improved market access, and partly because a dominance of larger firms could indicate a greater reluctance to adjust.
- The extent to which government policy and legislation influence competitiveness through trade policy, competition policy, state aids, support for SMEs, etc.;
- The degree and pace of trade integration a country achieves with the Union before enlargement.



Methodology

- Turkey team monitors the Turkish economy on a daily basis
- Regular ‘reality-checks’, including via:
 - Half yearly economic forecasts (discussed with SPO, Treasury, CBRT,...)
 - Assessment of the Pre-accession Economic Programme (discussed at the Economic and Financial Committee with Member States + Candidates) – every year
 - Assessment of the Fiscal Notification – every year
 - Subcommittee, Enhanced Economic Dialogue - annually
 - Various meetings (for example IMF-WB Annual, ad hoc)



Specific fact-finding

- Dialogue with government bodies: SPO, Treasury, CBRT, various ministries.
- Dialogue with Private Sector, i.a. TUSIAD, TOBB, IKV, etc..
- Dialogue with Member States Delegations and business
- Dialogue with International Financial Institutions + Cross-Checks
- Dialogue with employers and trade unions



Direct input

- Turkish administration reports
- European Commission Delegation in Ankara reports



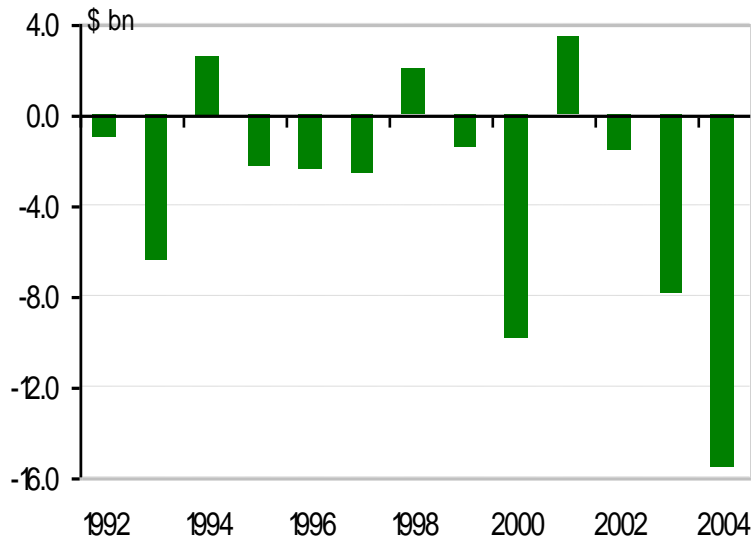
Some food for thoughts on hot topics in 2005

- (i) External vulnerability
- (ii) Fiscal vulnerability
- (iii) Structural and institutional reform agenda
- (iv) Broad consensus in society on economic policy

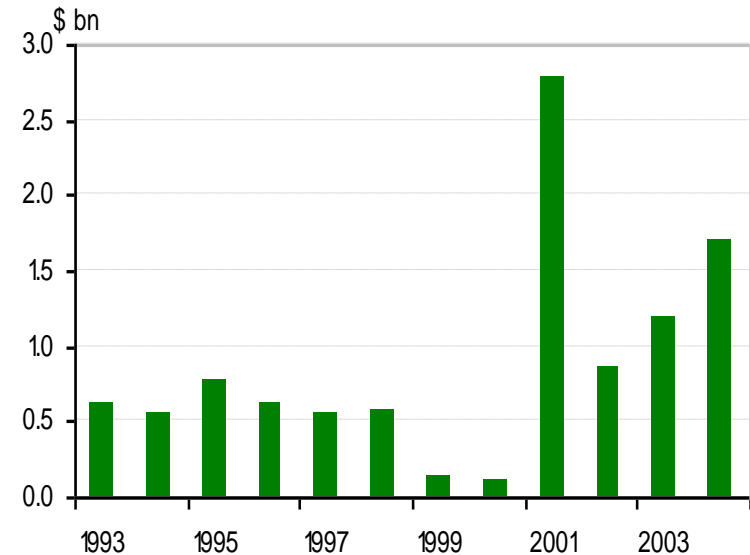


(i) External vulnerability

Current account, US\$bn



FDI, US\$bn



- External financing needs rise, FDI stays low
- Surging growth in domestic demand and the large local market should attract locally-oriented FDI.

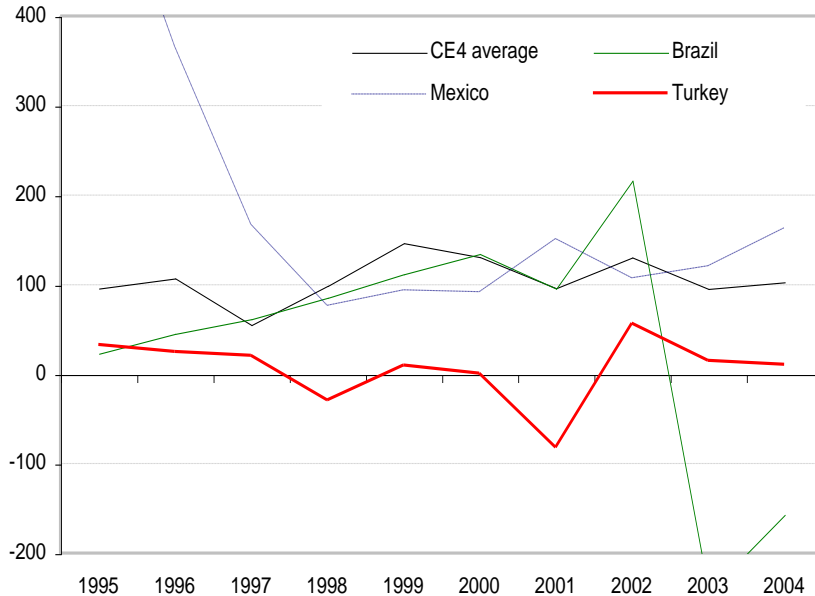
Source: CBRT



(i) Comparing the FDI/CA cover

The CE-4, Brazil and Mexico, Turkey FDI / CA 1995-2004

Average FDI/CA, %



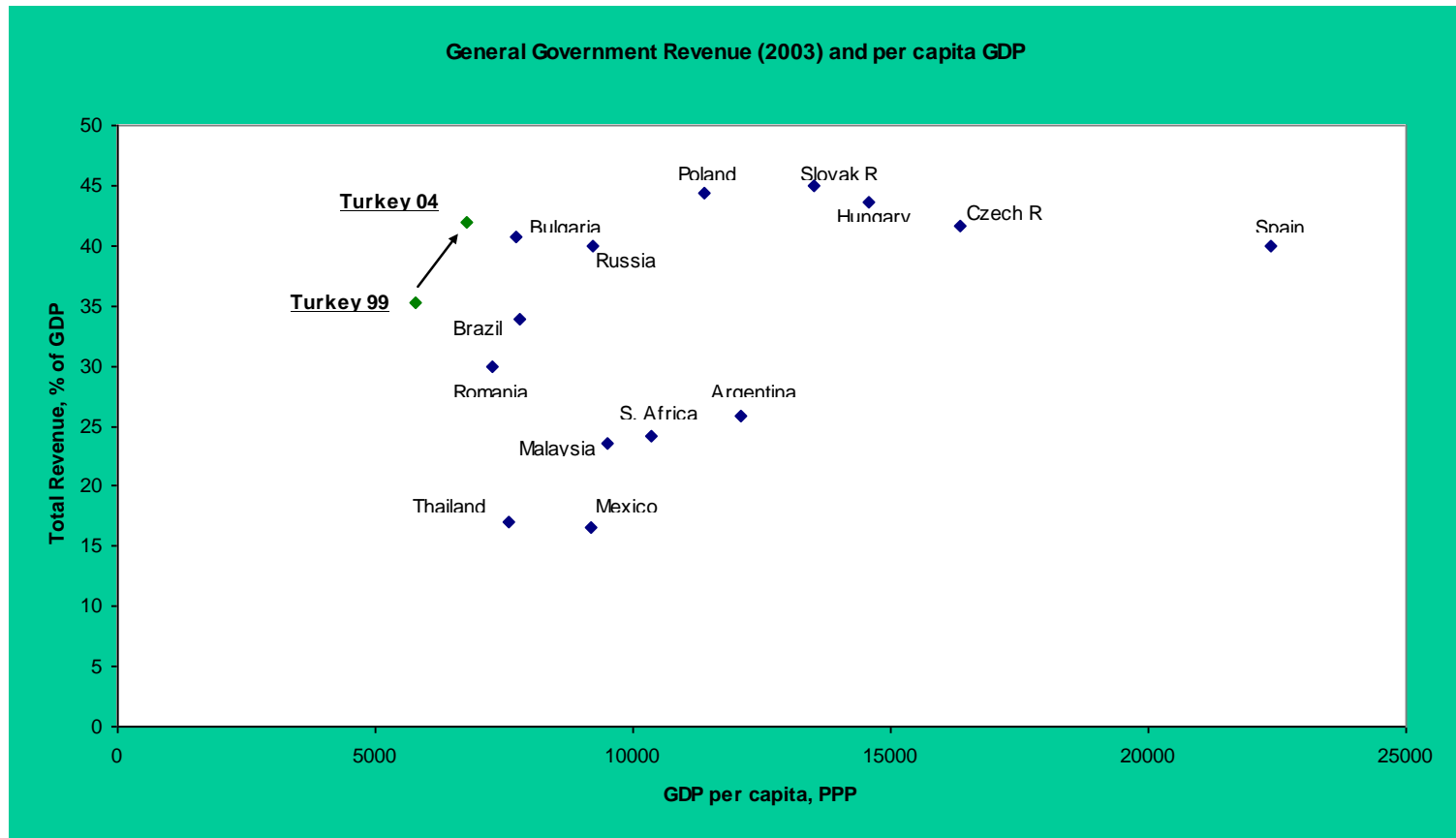
	FDI/CA ratio, average 1993-2004	Total FDI 1993-2004 (bn US\$)
Mexico	167	158
Czech Republic	134	43
Hungary	98	33
Slovakia	84	13
Brazil	58	195
Poland	38	22
Turkey	4	10

NB: Brazil FDI cover swings negative because of the shift to current account surplus in 2002, and a slowdown in capital inflows.

- Turkey has very low FDI coverage of its current account deficit compared to competing countries.



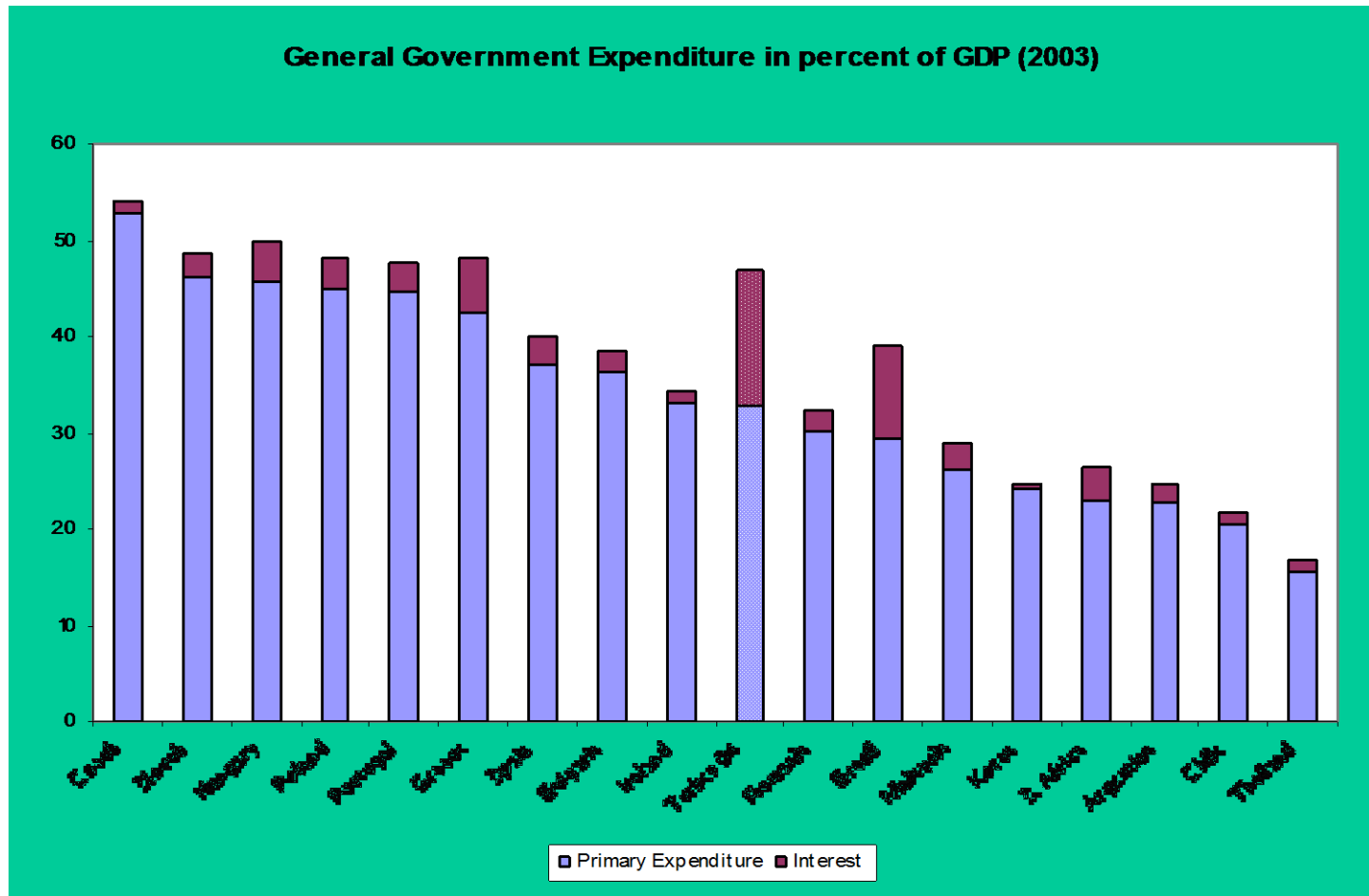
(ii) Fiscal vulnerability



The tax burden has risen, as fiscal consolidation has mainly relied on tax increases...



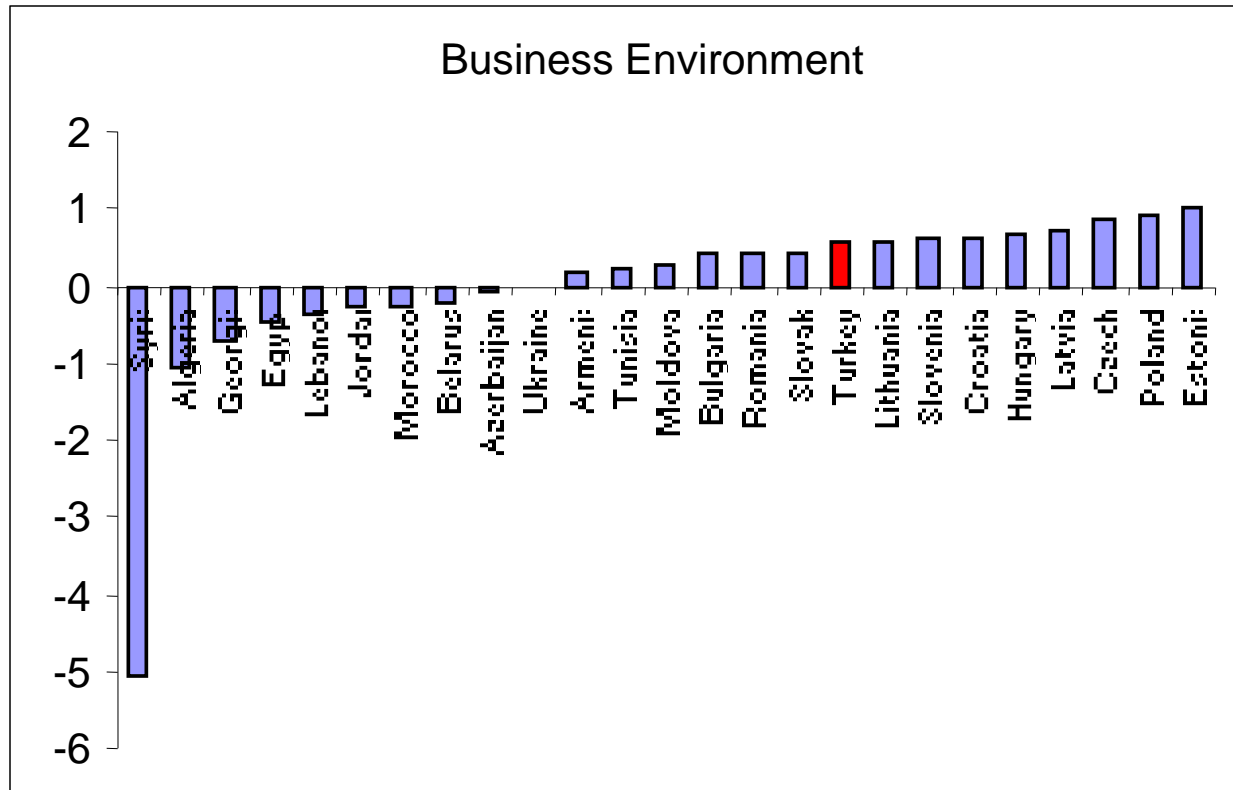
(ii) Fiscal vulnerability



•...so that efficiency gains in public expenditures should be actively sought, to meet spending pressures and make room for lower taxes

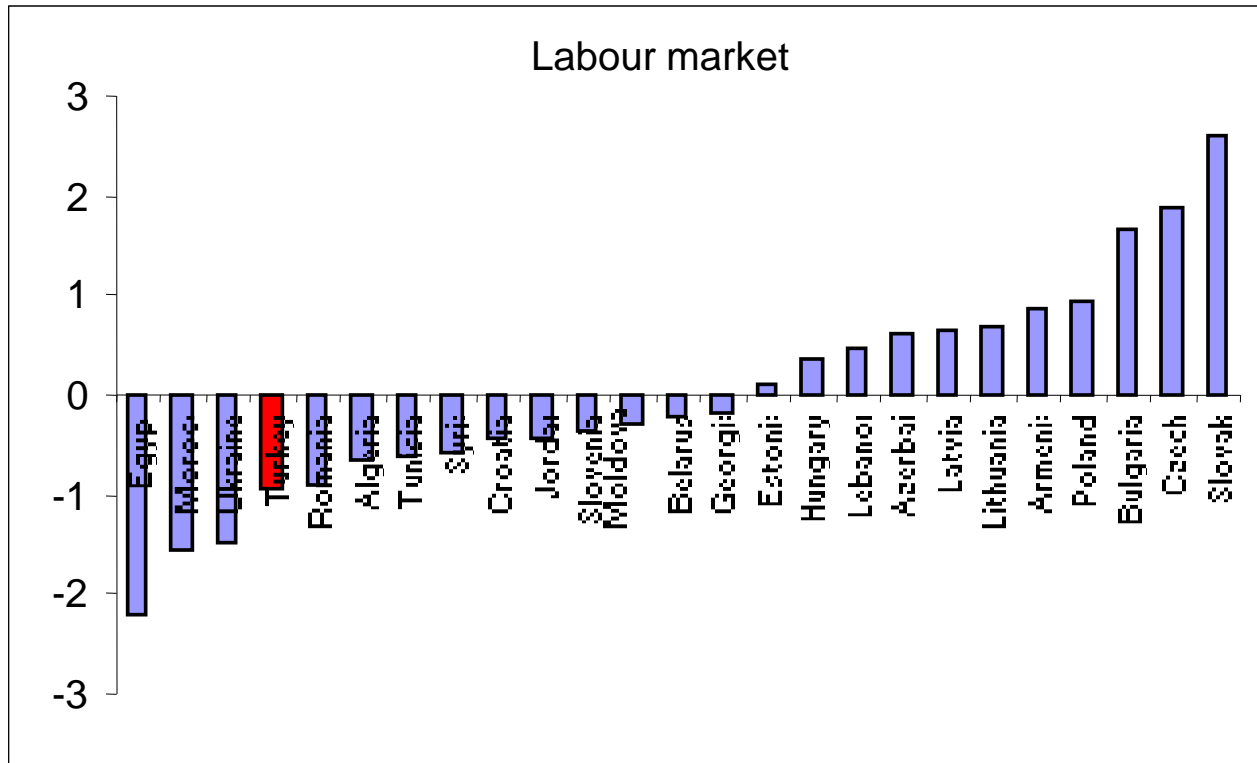


(iii) Structural and institutional reform



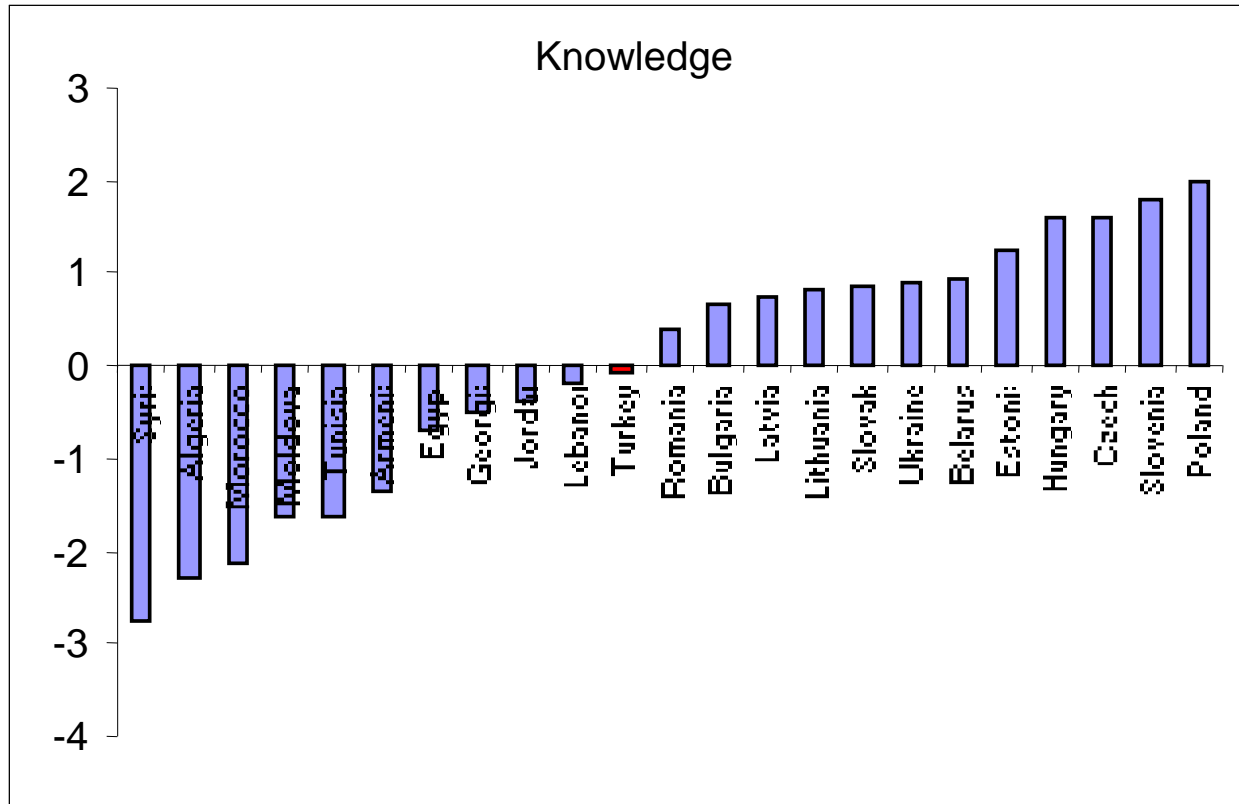


(iii) Structural and institutional reform



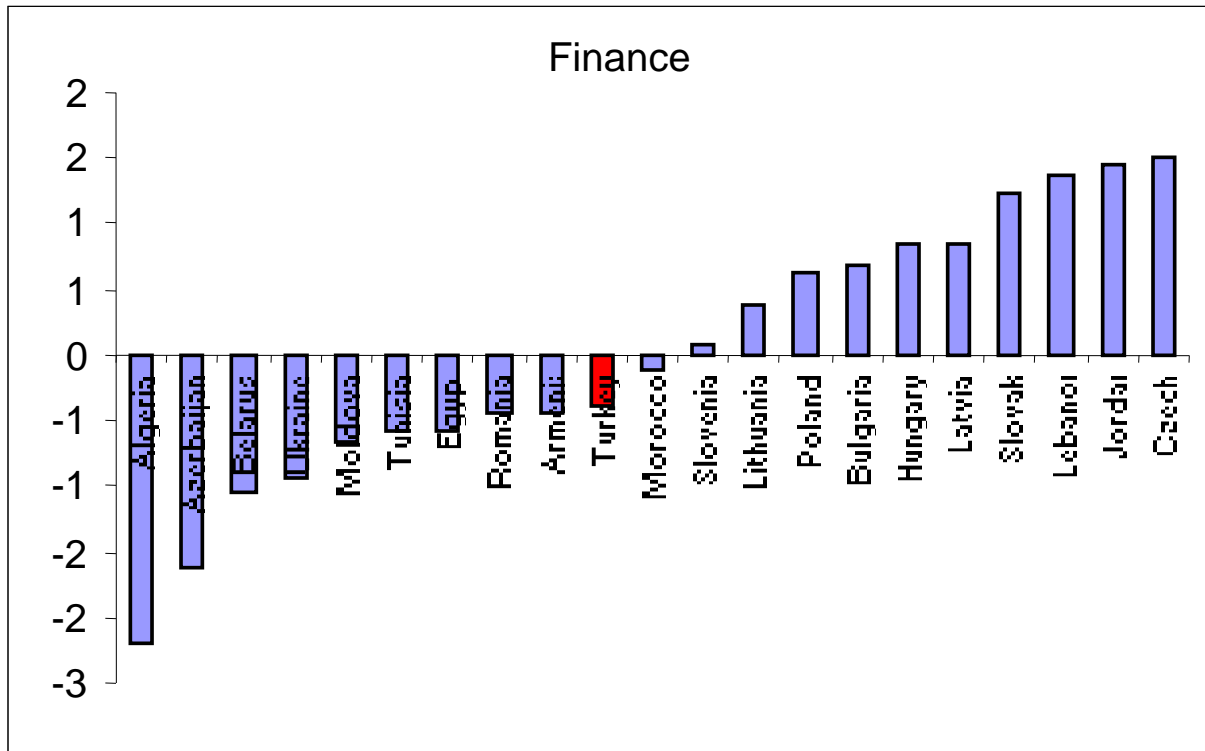


(iii) Structural and institutional reform





(iii) Structural and institutional reform





(iii) Structural and institutional reform

	Acquis complementary to economic management	Development agenda beyond the Acquis
Low economic cost	<ul style="list-style-type: none"> • Sound medium -term fiscal framework (accession to euro zone) • Competition policy and State Aids • Liberalization of services (infrastructure / financial services) • Financial system supervision • Financial control and auditing • Corporate transparency 	<ul style="list-style-type: none"> • Labour market flexibility • Privatization • Deepening of capital markets
Potentially high economic cost	<ul style="list-style-type: none"> • Alignment with CAP (transition cost/post accession benefits) • Environmental protection • Adoption of product and safety standards 	<ul style="list-style-type: none"> • Tax reform • Managing contingent liabilities of public sector • Public enterprise restructuring • Improving efficiency of public administration • Education • Social protection • Regional policy