THE IMPACT OF ECONOMIC AND FINANCIAL INTEGRATION ON ECONOMIC GROWTH

BERNARD KARAMANAJ

THESIS SUBMITTED FOR THE DEGREE OF MASTER OF SCIENCE IN BANKING AND FINANCE

EPOKA UNIVERSITY

JANUARY 2017

APPROVAL PAGE

Student Name and Surname : Bernard Karamanaj
Faculty : Faculty of Economics and Administrative Sciences
Department : Banking and Finance
Thesis Title : The Impact of Economic and Financial Integration on Economic Growth
Date of Defense : ....

I certify that I have read this study that is fully adequate, in scope and quality, as a thesis for the degree of Science in Banking and Finance.

Assoc. Prof. Dr. Ugur ERGUN
Supervisor

I certify that this thesis satisfies all the legal requirements as a thesis for the degree of Master of Science in Banking and Finance.

Assoc. Prof. Dr. Ugur ERGUN
Head of Department

EXAM BOARD OF THESIS

Thesis Title	:	The Impact of Economic and Financial Integration on Economic Growth.
Author	:	Bernard Karamanaj
Qualification	:	Master of Science
Date	:	27 January 2017

Members

Assoc. Prof. Dr. Uğur Ergün	……………………….
Asst. Prof. Dr. Urmat Ryskulov	……………………….
Asst. Prof. Dr. Abdulmenaf Sejdini	……………………….

THE IMPACT OF ECONOMIC AND FINANCIAL INTEGRATION ON ECONOMIC GROWTH

ABSTRACT

European market is seen from non-members countries as opportunity to reinforce the various sectors of the economy, removing barriers for products, services, inputs, etc. allowing the introduction of new firms in international markets. This study examines the role of the economic and financial integration on economic growth. Data regarding nine developing European member countries is obtained from International Monetary Fund database for the period spans from 1990 to 2004 the period before membership and the period after membership 2005 to 2015. Gross Domestic Product Import, Export, Foreign Direct Investment, Consumer Price Index, Exchange rate are selected as proxies for economic growth. Empirical findings indicate that trade liberalization leads to the removal of barriers for products and factors of production and facilitates the introduction of new firms in various markets national, leading to an increase in competition that will lead to lower costs for consumers who will have more choice and will be able to consume more goods and higher quality. Also based in all the countries of this study, it is a good thing for Albania to join UE because there will be different profits for our country.

Keywords: *import; export; consumer price index; foreign direct investment;*

INTEGRIMI EKONOMIK DHE FINANCIAR DHE RRITJA EKONOMIKE

ABSTRAKT

Tregu evropian është parë nga vendet jo-anëtare, si mundësi për të përforcuar sektorë të ndryshëm të ekonomisë, duke hequr barrierat për produktet, shërbimet, inputet, etj dhe për të lejuar futjen e firmave të reja në tregjet ndërkombëtare. Ky studim shqyrton rolin e integrimit ekonomik dhe financiar në rritjen ekonomike. Të dhënat në lidhje me nëntë vendet e zhvilluara anëtare evropiane është marrë nga databas-i i Fondit Monetar Ndërkombëtar duke përfshirë periudhën nga viti 1990 deri në vitin 2004, periudhën para anëtarësimit dhe periudhën pas anëtarësimit nga viti 2005 deri në vitin 2015. Prodhimi Vendor Bruto, importi, eksporti, investimet e huaja direkte, Indeksi i Çmimeve të Konsumit dhe kursi i këmbimit janë zgjedhur si përfaqësues për rritjen ekonomike. Gjetjet empirike tregojnë se liberalizimi i tregtisë të çon në heqjen e barrierave për produktet dhe faktorëve të prodhimit dhe lehtëson futjen e firmave të reja në tregjet e ndryshme ndërkombëtare, duke çuar në një rritje të konkurrencës që do të çojë në kosto më të ulët për konsumatorët të cilët do të kenë më shumë mundësi zgjedhje dhe do të jenë në gjendje të konsumojnë më shumë mallra me cilësi më të lartë. Gjithashtu bazuar në të gjitha shtetet e marra në këtë studim, është një gjë e mirë që Shqipëria të futet në bashkimin europian sepse do të ketë përfitime të ndryshme për Shqipërinë.

Fjalët kyçe: *importi; eksporti; indeksi i çmimeve të konsumit; investimet e huaja direkte;*

DEDICATION

I would like to dedicate this thesis to the memory of my late father who couldn’t wait to see me graduated. I hope I made you feel proud of me. And I can’t avoid mentioning my mother for her unconditional support. Thank You!

ACKNOWLEDGMENTS

Special thanks to Assoc. Prof. Dr. Ugur Ergun, who assisted me in preparation of the thesis. It was his motivation and our tireless work that made this thesis successful.

DECLARATION

I hereby declare that this Master's Thesis titled "The Impact of Economic and Financial Integration on Economic Growth" is based on my original work except quotations and citations which have been duly acknowledged. I also declare that this thesis has not been previously or concurrently submitted for the award of any degree, at Epoka University, any other University or Institution.

Bernard Karamanaj
January 27, 2017

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

EEC :European Economic Community

EU :European Union

FDI :Foreign Direct Investment

WTO :World Trade Organization

CPI :Consumer Price Index

IMP :Import

CHAPTER 1

INTRODUCTION

1.1 Introduction

The European Union was born as the desire to reconstruct Europe after the catastrophic events of World War II as goodwill to prevent the outbreak of similar conflicts in the future. The European Union is a union of several European countries established with the objective of free movement of goods. In the beginning it was founded by a small number of countries but now there are 28 member states that have transferred part of their sovereignty and the legislative authority to the EU, Albania is a candidate. European integration should be seen not only as a process that allows us to eliminate the boundary between the richest countries in Europe enabling free movement and residence without time limit. European integration is building democracy and market economy, the loose movement of goods, loose movement of capital, loose movement of services, and loose movement of labor. Albania's aspirations to join Europe revived since the early '90s, shortly after the collapse of the communist regime. It is quite significant that the Albanians, the idea of change was handed over by number joining the big European family. The only way to break the tragic isolation and deep economic backwardness was Europe. Albanians saw and still see Europe as the end of their sufferings, to integration in the European Union it is one of the biggest challenges of the past 20 years. Albania to join the EU must meet a series of conditions and each of them requires a great economic cost. In June 1993 Copenhagen European Council established objectives that served as criteria for all candidate countries to the European Union.

These criteria, which were political and economic must also fulfill by Albania to become an EU member (criteria which ensures freedom, justice and security in the country). The reason why I chose this theme are heard numerous debates just turn on the TV, every day on the street, in cafes, because the issue of membership is the most discussed topic of the Albanians. Despite the great desire to become part of the EU, there are big questions about what awaits us if we join in EU. Trying to find an answer I chose some states that resemble our state's history, to make a connection to how they were before and after membership became part of the EU. Comparing economic indicators and pretending to do a parallel between Albania and the state that resembles more.

Effects on economic growth are divided into direct and indirect effects. The effects of the first group can be measured more easily when we do quantitative determinations, while indirect effects, those effects considered related to the impact of this process in different sectors of the economy, the effects on the allocation of resources and income redistribution effects and wealth. The effects on growth are medium and long term, and the European integration produces a medium-term positive effect on economic growth through the impact of the investment process. Among the direct effects of the integration of the range of effects on trade diversification, the change of direction of foreign trade from a partner country in terms of another country; the effects on the balance of payments; effect on government revenues; Effects on consumer protection, etc. The effects of the changes are the indirect effects of the negative impact on the manufacturing sector, employment, trade, etc. Such are the effects on allocation of resources and reallocation of income; effects on trade links; effects on improving the country's competitive position in the international stage; lowering the cost of trade, etc. Primary intention of this paper is to analyze and examine the effects of integration of Albania and the beneficial that EU can provide for Albania. Also studying and analyzing states that became part of the EU in 2004 had to provide an overview of the effects that the EU has brought to these countries economically.

1.2 Albania and European integration

Albania's integration in the European Union is the key word of any discussions concerning these years. Economic integration is a process that reduced trade barriers to facilitate trade between regions or nations. Removing trade barriers comes with costs and benefits, depending on the degree of integration and the level of cooperation between the member regions or nations. In a situation where market imperfections exist yet, recent empirical studies have found that "the rate of production is higher when trade barriers and trade costs are relatively low" (Bernstein and Weinstein, 2002).

States identify the benefits and costs before applying in the economic integration program, to see if their needs consistent with this program and whether it is worth to apply. The effects on growth are medium and long term and European integration produces a medium-term positive effect on economic growth through the impact "of the investment process to increase physical capital".

International trade relations, more than ever, representing the path to raising living standards and welfare of the nation, the issues that are or should be the ultimate goal for any country. Exports, considered the engine of the economy of a country. They stimulate the expansion of productive activities, create opportunities for increasing income levels, encourage increased investment in production technology and therefore encourage the development of competition, which becomes an incentive for the reduction of production cost, stimulate innovation, impact on growth productivity and improving quality. The sectored structure of exports of goods in Albania remained highly concentrated in 2012, when total exports accounted for by minerals, fuels and energy (36%), textiles and clothing foot (29%) and construction materials and metals (19%). (Redek, T., Memaj, F., Prašnikar, J., & Trobec, D. 2012).

Through imports, the country get possibility for purchasing the goods for which it has no comparative advantages, which are cheaper than it can devote himself to produce them.

Foreign capital flows play a key role in national economies through positive externalities they generate - the transfer of technology, the possibility of creation of new jobs, managerial and organizational skills, stimulating the growth of economic growth.

Albania, as most of the countries of Central and Eastern Europe is trying with all means to be part of the EU, probably influenced by the fact that all these countries have had a long and painful transition. After a period of difficult country in 1997 and sustainable economic growth for nearly a decade and desirable fiscal performance in recent years, the Albanian economy is an economy largely based on agriculture and services, although agriculture is very fragmented, uncompetitive and only a tiny fraction of the its fair to deliver goods on the market because the bulk of production is used for personal consumption.

There is a perception according to which a country's size and the state of his technology will be important factors in determining the effect of integration (Campbell & Hopenhayn; 2002). According to this perception, Albania will have integration problems since it is a small country with a limited domestic market.

To predict how our country will be affected by the process, I have chosen to analyze two countries that have similarities with Albania, seeing the conditions in which are before and after integration.

Two main political pillars are the base for Slovenia’s reform process: first, it related to policies aimed at macroeconomic stabilization and liberalization of the internal and external. Secondly, it was associated with structural and institutional reform, financial sector, privatization of state enterprises and enterprise sector reform, public services, pension and tax system (the similarity with Albania).

Slovenia inherited from ex-Yugoslavia an ownership structure of the companies, that was special, that was based on self-management and in particular institutional organization and state property. (Albania but also other countries entered the transition with an ownership structure dominated by state.)

Gradually transition management compared with running big bang had a main advantage, it was that the countries who attended the second direction, accompanied by consequences of shock economy, leading in many cases to great decrease on overall product and rising unemployment and social instability as a result, in the end we will be on doubt for the reforms undertaken (as Albanian case).

Repeated delays on privatization, slow capital and entry of low, the weakness of the banking sector and the high costs of domestic production compared with the Czech Republic, Hungary, Slovakia and Poland narrowed more range of comparative advantages of Slovenia in the second half of the year 1990 (similar situation with Albania).

Poland chose a direction with shock therapy to go from communist regime and central planning to trade economy. (Albania attended shock therapy)

As we see, both Poland and Slovenia have succeeded in their way to European integration and beyond. This leads me to say that Albania will succeed too.

1.3 Reflection

Individuals are those who continue to support most of all the idea of integration. Benefits that Albanians attribute to EU membership are very high and often unrealistic. This comes from a lack of information on costs arising from the membership of Albania into the EU. The EU accession would mean socially the end of post-communist transition. Representatives of the industry sectors that produce raw materials for export mainly in the mining sustainable industry expressed their willingness to Albania's EU integration. It is broadly accepted that EU membership is an important opportunity for states still not members of the Union to ensure sustainable economic growth, mostly through the expansion of commercial ties and access to funds for infrastructure improvements. However, it must be recognized that our economy is yet too weak and unable to compete in European markets while its products are of low quality due to lack of technology, but also poor infrastructure.

The integration of the country will have good profits, but simultaneously will also be unavoidable cost to be paid by the Albanian society. The main expected benefit of this process is the greater accessibility of Albanian exports to foreign markets, promote competition and efficiency improvements related to that taken together in the long run will lead to the strengthening of the economy.

While some of the costs will be: greater exposure of the Albanian economy as does the integration of interdependent markets and thus collisions more quickly followed; Loss of income changes that come from a "protected economy" in an open and competitive economy; Losses in the agricultural sector will be threatened by foreign products, etc..
This process is associated with positive effects as well as negative on the economy of countries that commit to integrate into the European Union. In the short term, this process is associated with negative effects for which there have been no study to demonstrate or measure the negative consequences that our country will face. This will bring a big disappointment to population, but will also be a major cost to the budget of the state.

1.4 The advantages of membership of Albania in EU

Initiated by the experience of 9 states that I have taken in the study, we can say that Albania's EU entry would raise exports of Albania will raise competition, opportunities for advanced technologies, to increase effectiveness and efficiency.

1.4.1 Advantages of unique currency Euro

The prevailing opinion, as in academic and political circles is that the advantages of euro zone, at least for a short period are very visible especially in countries where the human development and aspirations for EU entry is great. Entry into the monetary union leads to the use of the same currency and exchange parts and so the interest rate will be eliminated.

1.4.2 Reduction of transaction costs

The realities of all these years of transition have shown a growing preference in the use of strong EUROPAINT citizen's currencies and the US dollar, which, in mass Ney, has resulted in a partial economy. Tangible advantage of a unilateral euro zone is to reduce transaction costs. These costs, although in themselves are unprofitable for banks' balance sheets, impact so terribly great the economy of strongly importing counties and where as more and more policies fiscal austerity lead businesses to transparency of their financial capital through the channels and legal ways (Meyer, K. E. 2001).

1.4.3 Reduction of interest rate

Rapid reduction of partisan interest rate will stimulate investment and growth will have a positive impact on fiscal policy, with significant cost reduction of public debt. Naturally, the greatest advantages will be felt in countries where the central bank pursues a policy of real interest rates. A claim by opponents of euro zone biased is that the process does not lead to a decline in interest rates in the long and medium term, because the removal of domestic currency, although it leads to the removal of cash risk loans (Maudos, J., & De Guevara, J. F. 2004). They can raise the risk of default. This is because the depreciation is not available as a instrument to increase the capacity of domestic producers to compete. As a result, interest rates for credits local businesses currently can be frozen on the balance sheet.

1.4.4 Reduction of exchange rate fluctuations

If using a single currency would avoid costs that represent the jarring of the exchange rate for the economy. A continuous jarring of the exchange rate of a currency price brings instability, insecurities among investors, high investment costs and a rise in the current account deficit. Some concerns about exchange rate did not adapt as a result of inflationary inertia after conversion of domestic currency into euros. This will make inflation more difficult to control.

Eurozone demands a combination of inflation and monetary aggregates, as set out in the monetary policy regime of the European Central Bank. Monetary union would remove pressure on the exchange rate and for that reason the achievement of price stability will be more reliable. Being that comes in a currency that operates with a much broader market; the exchange rate of the currency will not affect the operation of the internal market forces.

1.5 Disadvantages of using the common currency euro

Euro zone analyzed as occurrences, in addition to the advantages SHOULD Considered in detail the other side of the coin, its spending in the economy and monetary system of the country. The literature discuss the shortcomings of the application of a single currency, the institution that I have study more continuity risks of its functions is the Central Bank (Cukierman, A., Miller, G. P., & Neyapti, B. 2002).

The elimination of the role of the Central Bank
Home of the Bank of Albania said that is the only institution in the Republic of Albania holding the responsibility for the conception, drafting, adoption and implementation of monetary policy. This policy is designed in view of achieving the main objective of the Bank of Albania: reaching and maintaining the stability of prices. If someone thinks that an application for the single currency will be "eliminate" almost all of its basic functions. Through Eurozone country admits the loss of independence poly.

1.5.1 The loss of the right of "seignior age"

Since the time of feudalism, was the right of the ruler of a country (seigneur hence the word seignior age) to issue coins in circulation. He can put a money value is higher than the value of the melted metal or less metal imprinted with the same value. In this case the cost of production of coins was less than the nominal value stamped on and the difference called "seignior age". So seignior age value is the difference between the cost of typographic (paper and ink) spent effectively to print and put into circulation banknotes, and the value of the exterior, so that it’s numerical written on banknotes. It is the power of putting into circulation banknotes with a face value many times higher than the personal value they have, and consequently obtained a profit from currency sovereignty.

When the European Central Bank to buy good press currencies using the currency that it has paid very little, it gains a unique purchasing power. Not only that, the Central Bank to officially release coins with a ridiculous price (very low), set in the Balance LIABILITIES typographic not spend actually cost (paper and ink), but the numerical value written on coins and bills. Seignior age in this way back in the liability for the Bank, and therefore is not taxable and avoids paying taxes.

Nowadays, with the introduction of paper money, the cost of its production is incomprehensible against its nominal value. As a result of income from seignior age are too high.

Objectives of the Study:

-To analyze related theoretical views on integration, integration periods before and after for: Estonia, Lithuania, Malta, Hungary, Slovenia, Cyprus, Slovakia, Poland and Latvia.

- To explore the role of economic integration on economic growth.
- To provide beneficial implications for Albania which aims to join European Union?

1.6 Conceptual Framework

Deger and Emsen (2006) examined the connection between FDI and economic increase in the 27 economies in transition during the 1990-2002 by distinguishing of Central Eastern Europe and Central Asia Western country through panel data regression analysis. By the evaluated outputs, they observed that FDI have positive impacts on the economies in transition.

Erçakar and Yılgör (2008), analyzed the long-term link among FDI and economic increase in the 19 selected countries, using data for the period 1980-2005 through panel unit root exam and co-integration test panel. While the results of the panel unit root test show that FDI and GDP do not have a unit root, the results of co-integration test panel check a long-term link among FDI and GDP.

With a sample of 31 countries was analyze the causal relationship between foreign direct investment (FDI) and the GDP. The resulte is that FDI has a lasting impact on GDP, while GDP has no impact on FDI. This finding can be interpreted as evidence that FDI has an impact on GDP through the transfer of knowledge and adoption of new technology (Hansen, H., & Rand, J. 2006).

With regard to emerging studies on the relationship between FDI it showed that FDI has a positive impact on overall economic growth. The relationship between foreign direct investment (FDI) and economic growth has motivated a voluminous empirical literature focusing on both industrial and developing countries. Stock endogenous and neoclassical growth models provide the basis for most of the empirical work on FDI and economic growth relationship. The relationship is studied by explaining the four main channels: (i) the determinants of FDI, (ii) the determinants of growth, (iii) the role that multinational firms have in host countries, and (iv) the causality between the two variables. A large number of empirical study on the role of FDI in host countries suggests that FDI is an important source of capital, meets domestic investment private, it is usually associated with new jobs and increase technology transfer, and promotes overall economic growth in host countries (Chowdhury, A., & Mavrotas, G. 2006).

(Najarzadeh, R. and Maleki, M. 2005). These authors showed that export growth rate has positive effect on GDP and investment. Also that economic growth has positive impact on exports and domestic investment.

Munasinghe, M., Sunkel, O., et al(2001) have done a study using panal data from Venezuelan plants. They state that the study in Morocco and Venezuela, noted that the participation of foreign capital has the highest increase productivity.

Balasubramaniam et al. (1999) use data on a sample of 46 developing countries. Their analysis shows that FDI is more productive in countries that have pursued export promotion policies in place of import substitution.

Sarkar (2000) showed only countries with an average level of development. A significant positive relationship between exports and economic growth established. In his study Dritsakis (2004) analyzed the relationship between economic growth, investment and exports in the case of Romania and Bulgaria and the results show a co-integration relationship is between three variables. Also, he demonstrates that exports and investment have a positive effect on real GDP.

Gokal and Hanif (2004) employed diverse economic theories in order to discover the linkages between inflation and economic growth of Fiji. The findings revealed a scrawny negative relationship exists between CPI and GDP.

Ahmed and Mortaza (2005) investigate the relationship between CPI and GDP of Bangladesh. The result indicated a threshold at level 6 percent of inflation for the economy of Bangladesh. The empirical proof shows a long run negative correlation between CPI and GDP.

Yuhong, Li and et. al. (2010) conducted an analysis of co-integration with data of the import, export and economic, and the results show that the increase of imports greatly promoted China's economic growth, while export it becomes a reverse.

Hussain M and Saaed A.(2014) examined the connection of exports, imports and economic growth in Saudi Arabia, using annual data for the period 1990- 2011. Causality and Co-integration test were employed in the empirical analysis. Both Trace and show the maximum eigenvalue of integration cooperation in the 5% level of the importance pointing to the fact that the variables have a long run. There was a unidirectional causality exists between exports and imports. But the result of causality between exports and imports and economic growth, and economic growth has been statistically insignificant.

1.7 Research Model

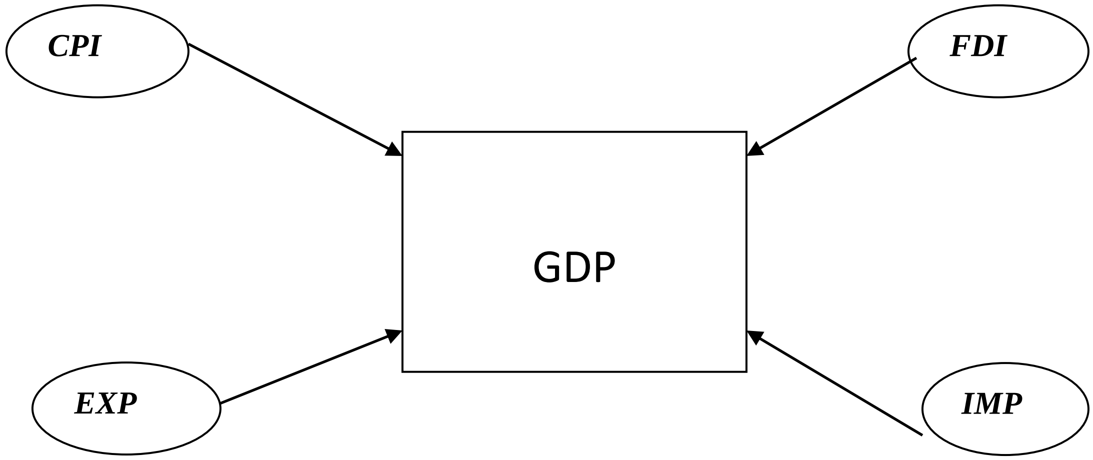
This thesis is based on four hypotheses to test the significance and relation among the independent macroeconomic variables (import, export, FDI and CPI) and the dependent variable GDP. Is there any relation between macroeconomic variables listed above and GDP?

Hypothesis 1: whether there is a positive or negative relation between the import and GDP.

Hypothesis 2: whether there is a positive or negative relation between CPI and GDP

Hypothesis 3: whether there exist a positive or negative relation between export and GDP.

Hypothesis 4: whether there exist a positive or negative relation between FDI and GDP.


CPI
FDI
GDP
EXP
IMP

CHAPTER 2

LITERATURE REVIEW

2.1 Slovenia before the membership

Transition’s dimensions make Slovenia’s experience unique. On the other hand, its position in the region, geographical features and population characteristics of an economy coming from a centralized system to a market economy, and the country's aspirations towards the European Union make this model interesting and worthwhile to be studied. Slovenia faced parallel transitions from a regional economy in a national economy and by being part of the Federal Republic of Yugoslavia in an independent and aspiring to join the European Union. Before 1991, Slovenia was part of the Federal Republic of Yugoslavia had two significant impacts on the Slovenian reform concept and accompanying processes. During the first decades of independence, Slovenia was part of a unique socialist market system where the transition reforms began in the late 1980s, resulting in the collapse of the Yugoslav Federation. As part of a larger federation, Slovenia was forced to watch the patterns of development of the Federation. During 1980s the contradictions between these models and the development aspirations of Slovenia developed as part of the Yugoslav Federation began to increase.

Two main political pillars are the base for Slovenia’s reform process: first, it related to policies aimed at macroeconomic stabilization and liberalization of the internal and external. Secondly, it was associated with structural and institutional reform, financial sector, privatization of state enterprises and enterprise sector reform, public services, pension and tax system (the similarity with Albania).

Three, distinctive features of transition in Slovenia, three distinguishing features that characterize the transition in Slovenia compared with other countries that went from communist regime and central planning are: - Slovenia chose a direction with gradual transition - (Albania attended shock therapy) – Transition of Slovenia from a planned economy to a market economy was accompanied by a transition from an regional economy to a national economy (different experience from Albania) - Slovenia inherited from ex-Yugoslavia an ownership structure of the companies, that was special, that was based on self-management and in particular institutional organization and state property. (Albania but also other countries entered the transition with an ownership structure dominated by state.)

Gradually transition management compared with running big bang had a main advantage, it was that the countries who attended the second direction, accompanied by consequences of shock economy, leading in many cases to great decrease on overall product and rising unemployment and social instability as a result, in the end we will be on doubt for the reforms undertaken (as Albanian case).

Gradualist politicians of transition feel that this direction will allow them to re-allocate some economic activities and jobs between firms and industries, in case of bringing the loss of them all. The last decade brought a great achievement for Slovenia, while it was on the list of candidate countries to the EU was the highest rate of economic growth. Moreover, after the initial stabilization of macroeconomic indicators, its high rates of growth were achieved without significant macroeconomic imbalances during the 90s, and almost the same can be said for social and political developments. However, gradualist policies are an option only for well-off economies and can’t be an alternative to many other transition economies. Is clear that economic resistivity, social and political reform process has been a clear benefit for gradualism in Slovenia.

After independence, Slovenia inherited a difficult economic situation, both in terms of hyper-inflationary situation as well as external debt. Macroeconomic stabilization and market liberalization were absolute needs and priorities of the first period of transition in

Slovenia. Market liberalization reforms and macroeconomic stabilization were activated in 1993 to undertake structural and institutional reforms. These reforms have to do with monetary policy, fiscal revenue and trade policy.

The main objectives of the Slovenian fiscal policy were to balance fiscal accounts and the creation of fiscal environment capable of promoting economic growth. Reforming the institutions of public finance in 1991 brought an improvement in the fiscal situation, and increased the effectiveness of tax collection and improved control of public spending. Together they created the basis for Slovenia's transition to a market economy and provided support for monetary policy in stabilizing the economy.

2.1.1 Monetary policy during the early transition

As Rojec, M., &Jaklic, A. (2002) said-Slovenia's monetary policy had two main areas: the introduction of the new currency Slovene Tolari, to identify different from the former Federal Republic of Yugoslavia; and stabilize prices. Achievements before effective monetary policy can be seen in 1995, when Slovenia had a currency of its own to consolidate the market when foreign currency reserves had begun to rise and the inflation rate was firmly in control. These 9 results before the reform in monetary policy made in 2003 and later Slovenia had a balance of payments improved significantly, lowering interest rates and an agreement with the International Monetary Fund about the stability of the banking sector.

Revenue policy issues are important for macroeconomic stabilization, employment and competitiveness of exports for small countries like Slovenia. Since Slovenia gained independence established institutional mechanisms in which collective agreements are based apparatus to determine salary and where legislation plays an important role. Three-party social agreements between the government, unions and employers create a uniform mechanism for adjusting wages. However, these agreements have not been enough to control the growth of wages. Index’s wage has changed several times, starting from monthly and quarterly adjustments depending on changes to the prices lower and partial and ex post to ex ante. After these developments, an important decision taken in 1997 to index the wages once a year, and the replacement of the method of evaluation ex post to ex ante in 2001, according to the Index of Consumer Prices Up in 1996, wage policy in Slovenia did not support many of stabilization policy. The continued rise in wages of workers adversely affected the competitiveness of the country's exports. Despite the decline in induced employment due to the transition, the growth of real wages to employees brought labor productivity growth. As a result of a new indexation mechanism in 1997, wage growth slowed. Placing control of wage growth in the public sector remains a target to be achieved in the future. Slovenia is interested to develop an open policy towards other countries, because of the trade policy of the small geographic size, aiming at developing exports policies that promote export. Since 1991 the share of foreign trade in GDP is significantly improved. Slovenia's main trading partners are and will remain the European neighboring countries, mainly EU members. Slovenia undertook a series of reforms and trade policies aimed at re-orient strategy of subsidizing imports with export-oriented strategy. Since winning independence, Slovenia has followed some reforms trading (reduction of customs duties, the elimination or reduction of non-tariff barriers) in order to increase the degree of openness of the economy with the international economy, and the rise of institutional mechanisms to ensure competitiveness of local products. Today Slovenia is a member of the WTO and the EU member states.

2.2 After the membership

Slovenia joined the EU in 2004. The case of Slovenia based on two main directions, can be considered unique in the list of countries who are candidates for EU membership: first, was the country with the most developed economy in the region realizing 70% of the GDP of the countries of the EU and secondly, it was in such develop conditions that could be managed transition without much difficulty and capturing the reforms that led to the EU quantitatively and qualitatively (Trauner, F. 2009). These led Slovenia to had a lower level of enthusiasm for unlimited access to the EU (reverse case with Albania), and at the same time be more concerned about the measures that should be undertaken and had very confident about the possibilities and capacities that had to achieve. Repeated delays on privatization, slow capital and entry of low, the weakness of the banking sector and the high costs of domestic production compared with the Czech Republic, Hungary, Slovakia and Poland narrowed more range of comparative advantages of Slovenia in the second half of the year 1990 (similar situation with Albania).

Although foreign capital has created new companies in Hungary and later in the Czech Republic and Slovakia, multinational companies operating in the region trying to avoid Slovenia, despite its high level of development and favorable geographical position (Rojec, M., & Jaklic , A. 2002). The comparative advantages of Slovenia based on the structural development of Slovenia, high quality of products exported, utility networks and trade created earlier and the geographical position began to have a smaller effect on foreign investors because the latter are working in countries such as Hungary, they started offering products and services at the same quality but lower prices. Moreover, many high- tech companies chose to cast their regional products in other countries of Central Europe. Although Slovenia was able to maintain a share of the German market with its exports, unable to reach the levels of exports to Hungary and the Czech Republic and Slovakia, this grew rapidly.

Reasons that emphasized the importance of the accession of Slovenia to the EU, are similar to those of a number of other countries of Central and Eastern Europe.

- First, a series of economic arguments speak in favor of membership such as free trade in products, in conditions when used trade protection provisions and products of the EU in terms of free trade rules. Also, new members of the EU become part of the internal market of the EU contributing to economic growth and structural improvements. Finally, trade between the new countries, which was met with bilateral and sectored obstacles, will be totally free at the time of accession.

- Secondly, they hope to receive a greater development on economy, social and security forces, a stable legal framework and strong democratic institutions. This factor was very important for Slovenia, especially with regard to reasons related to state security.
- Third, EU membership will reduce barriers to employment.
- Fourth, access to financial resources the EU has always been a driving force for EU membership candidate for a variety of locations. Slovenia again due to the high level of development and the strengthening of its currency did not consider this as the most important factor, but certainly was interested to benefit from the EU capital.
- Fifth, a big importance had the fact that only membership can solve the problem of Slovenia if this will depend on the decisions of Brussels, where countries not members of the EU do not have this opportunity. Since 2004, when Slovenia joined the EU, its fortunes are determined not only by environment re-expansion of the EU but also from actions taken by policymakers in their place.

EU entry brought Slovenia and its neighbors in the region opportunities for growth and economic development in a high degree; the opportunity to expand in neighboring markets; achieving benefits through integrated products (production chain in neighboring countries).

2.3 Poland before the membership

Polish application for membership in the European Union began on April 8, 1994. Taking a positive assessment from the European Commission, Poland was invited to talk on its accession in Luxembourg on 12 to 13 December 1997. The negotiations ended on December 13, 2002 and the accession treaty was signed on 13 April 2003. Once completed ratification procedures, Poland joined the EU on 1 May 2004 along with nine other countries.

Poland had a stable macroeconomic situation, which grew due to foreign demand. After its deceleration in 2001, Poland experienced a recovery in 2002. Real GDP grew by only 1.4% versus 1% in 2001. Fixed continuous investments are considerably reduced. Real GDP grew by 2.2% and then 3.8%. The recovery was driven mainly by exports. While in

2002 inflation was too low. Fiscal deficit and debt, along with high unemployment, were the main economic challenges for the Polish authorities. The unemployment rate had reached almost 20% in 2002, while the employment rate stood at 51.5%. At the end of 2002, 76% of GDP was produced by the private sector (Preston, C. 1998).

2.4 After the membership

Poland is the Member of the European family since 2004 after negotiations with the EU for 15 years, since 1989. Poland began its foreign reform policy with the objective on entering EU and NATO. First Polish that expressed the interest to enter the EU was the Polish prime minister, Tadeusz Mazowiecki, in a speech he delivered at the European Parliament in February 1990. Compared with the ten countries that have passed the communist regime in the past and which joined the EU in 2004, Poland has benefited the most. According to statistics, the country has 56 billion pound development received funds for the period (2007-2013) Which were used for the construction of hundreds of kilometers of road, wastewater sanitation, gardens, school and sports center. Additionally, to Poland is allocated 60 billion pounds in the framework of the European Union budget (2014-2020).

On the other hand Polish farmers continue to receive tens of billions of pounds as agricultural subsidies from Brussels. This is a precious help for Poland from the EU.
The Polish Economy also is delighting the receiving support from exports "explosive" that mainly go to EU Countries. A year before accession, Poland recorded an annual GDP of 130 billion pounds while in 2013 the figure went to 305 billion pounds. Meanwhile, GDP has increased from 44 Percent of the average of the European Union to 67 percent today. As anticipated this index score will be 74 percent in 2020 (Preston, C. 1998).

When the economy is growing, is also tourism. Poland attracts with its natural beauties and cultural heritage, especially the Germans. About 16 million German tourists visited Poland in 2013, according to statistics. Tourists that visit Poland are also from Britain and America. The country has used 50 million euro (EU Funds) for the promotion of cultural activities, special main countries of Poland in Europe also in the cow soft, India and Japan. While the state allocates 10 million euro every year in this aspect, Poland eagerly await the 2015-2020 European aid.

If in 2004 Poland showed 20% unemployment, this figure is halved. Despites numerous debates that may exist regarding the entry of Poland into the EU, what matters and to be as an example is that Polish society has adapted quickly and in admirable way the western standards both in terms of working as well as in the manner of behavior. Poland is the sixth largest country on EU and it plays an increasingly important role in European affairs.

2.5 Cyprus before the membership

The Republic of Cyprus with a population of about 750 thousand inhabitants (the Greek Cypriots about 77%, Turks 18%, other 5%) joined the EU in 2004, when the EU had to avoid regional isolation in this area considered difficult, but also for economic benefits, perhaps with the intention of keeping distance from Turkey.

Cyprus has always maintained close economic relations, social and political relations with the EU. According to a recent report by the EU to its relations with Cyprus it is based on the Association Agreement 1973. The two sides have had a meeting to see where Cyprus has applied to join the European Economic Community (EEC) in 1962. This decision came with the consent of both Greek and Turkish Cypriot members required by the constitution of Cyprus.

After relations improved between EU and Cyprus, Greek Cypriots applied for membership on 4 July 1990, because of the dispute between Greece and Turkey Cyprus membership lasted until 2004.

2.6 After the membership

Wages in Cyprus are higher than the EU average wages. Agriculture is less important than in the past. Cyprus exports textile and raw materials such as iron, chromium and plaster. Tourism represents 12% of GDP. This speaks positively, with an increase of 15% and a gross of 1.8 billion euro. European Union since 2006, with programs for North Cyprus has secured a 400 million euro support. Although Cyprus is in the EU, its integration policy has been leaning more towards the Israel Lebanon and Syria than with Europe; is a politically and economically disoriented (played two standards development), however, to support France in 2006 it was added to the French-speaking list. Since Cyprus gained the status member of the EU, analysts have always regarded as suspicious in the European family, with time have approached different interests friendship as Serbia (Milosevic at that time) of sanctions Westerners, who used the island for operations its financial and likewise with the Russians, who know, Cyprus has for years developed a model based economy and pattern options "Cypriot".

Cypriot preference has been the implementation of business development model with low taxes, accompanied by a compliance audit of the banking sector is weak, unlike the economic standards of the EU countries (Nugent, N. 2000). Application of this policy is to attract as much capital from abroad, a policy that led to failure warning years ago. To drop out of this situation, the first time the Cyprus government has requested international assistance, as banks were partially nationalized and uncontrolled, were completely speculative abuses. Increasing public debt threatened the economy and lost control of the state, which brought chaos to the present time. Worsening European Union and International Monetary Fund agreed to give Cyprus a grant of 10 billion euro, a solution to overcome the crisis in this country with less than 800 thousand inhabitants, located in the key position of European developments, the easily enriched by the development of the Cyprus informal economy. As a result has significantly weakened popular belief to the banking sector and the government of Cyprus. In this context, Cyprus will have a difficult time ahead to try and restore the confidence that has been lost. Government austerity measures created and deepened the crisis by increasing the level of unemployment.

Analysts predicted that if euro zone tries at all costs to keep Cyprus in the monetary union, it can cause other countries in crisis to reduce savings and efforts to consolidate budgets (Nugent, N. 2000). Such a development would put into question the entire architecture of the Euro zone rescue and credibility in the rest of the world. The current crisis in general and the Cyprus crisis is passing the rest of Europe that the European Union is failing defending the interests of its citizens. If Cyprus will be forced to leave the euro zone, the confidence of investors in the world to the monetary union will be deeply shocked.

2.7 Hungary before membership

The sequence of reforms in Hungary was similar discussion as in other countries at the beginning of the transformation period. Hungary was unique in the fact that its communist party had begun before the fall of the regime reforms. Hungarians then naturally believed it was not necessary to pursue radical reforms. There was a general belief that slow reforms could lead to the same results with lower cost. On the other hand, proponents of shock therapy have no confidence in the government's ability to establish a market economy. Consequently, the first period of the Hungarian transformation is often described as gradualist, but there are always problems with the definition of gradualism. Some of the Hungarian measures - especially bankruptcy law - can be seen as too radical. Most authors like Holman R, 2000 consider the development in the first half of 1990 in Hungary as gradual. Many of the important steps and needed direction to the market were already taken or at least were prepared. In 1991, when 90% of all prices have already been liberalized, deregulated economy was in part, and Hungary had a huge surplus of money in circulation and their exchange rate was relatively healthy. The Hungarian economy was suffering from macroeconomic imbalances. The government had three main tasks - to keep the country's credit worthiness, reduce inflation and increase the public deficit. The last of these tasks has been one of the most requested because the communist regime had fallen, problems with public finances deteriorated. The Hungarian government has continued with reforms of the business and financial sector at the same time. Steps have been taken to improve the legal system, for privatization to improve competition policy, and above all in the field of bankruptcy. A source very tough young man was in force from the beginning of 1992. If a company was unable to pay its debts within 90 days, she called to initiate bankruptcy proceedings themselves. The law has been in force for 18 months, and went bankrupt by 5000 subjects (Holman, 2000). These entities together have created 10% of the Hungarian GDP (Nestor, Thomas, 1995). This bankruptcy procedure was in fact a method of privatization at the same time because about 500 large companies that had gone bankrupt were transferred to private ownership under (Nestor, Thomas, 1995). Hungary's economic results in this period have been positive. If the country is a case of a gradual reform, then gradualism proved unable to avoid recession transformation. Hungary has fallen by a similar or deeper than other countries of Central Europe. The unemployment rate was relatively high. Inflation has had a higher rate steadily. The positive side was the relatively high level of foreign capital that had entered the country. It was once its roots in previous liberalization because foreign investors were familiar with the situation in Hungary. At the same time appeared the current account deficit. In 1994, the Hungarian economy was faced with a difficult situation with inequality. The government deficit reached 8.4% of GDP, public debt was 88% of GDP, the current account deficit stood at 9.5% of GDP, inflation was 18.8% and the unemployment rate around 11%. Level of inequalities was critical. Holman (2000) writes that the IMF put Hungary among the three most vulnerable economies in the world. The government wanted to reduce public finance deficit and the trade balance and increase competition in the economy. By the mid-1990s, foreign institutions were banned from holding more than 25% in a Hungarian bank, without a special permit. This rule was abandoned after 1995 and all major Hungarian banks privatize ended in the hands of European financial institutions from 1997 (Hanley, Eric, Lawrence King and Istvan Toth Janos. 2002). Hungary had problems in the currency at the beginning of the new century. Hungary had to face growing difficulties in the beginning of the new century. First, the Hungarian government had created the notorious problems in the fiscal area, which government spending were to blame. In 2002, public sector wages were increased by 12 to 13 percent. Trade was another source of instability because of its deficit was huge. At the beginning of the new century, the trade deficit decreased to 6 to 8 percent, as was caused by the slowdown of the European economy, but also the fall of competitiveness resulting from the increase in wages. The central bank has been concerned about inflationary pressures stable and answered with a monetary limit. In summer, the inflation targeting system was introduced, and the currency became fully convertible. In general, the central bank shifted its emphasis from controlling the exchange rate to inflation targeting, but equality fluctuations central areas were still valid. This means that the central bank tried to hit two targets (inflation rate and exchange rate) with a single tool - interest rates. This task is made even more complicated with the free movement of capital. On the other hand, the Hungarian authorities decided to regulate the currency when inflation was falling and pressure on the nominal exchange rate was expected to be lower. The government began a slight devaluation of the central parity against the euro in June 2003. After analysis year after year the EU announced in 2002 that Hungary had passed the Copenhagen criteria - among other things, this meant that the economy was seen as a well-functioning market economy.

2.8 After membership

The country joined the EU in 2004. But the problem with the high inflation that we mentioned earlier caused a negative trend in the growth of debt in foreign currency continued in the coming years. This development was important, especially for families who often take loans in Swiss francs or euros. This development was mainly caused obviously by high inflation and the fact that interest rates in Hungary were higher than in developed countries. This dangerous trend of borrowing was creating problems not only if the exchange rate was stable. We should note that government deficits mentioned above are not expressed in rising government debt (in our time). But both of these negative trends as in foreign debt and rising government debt have caused serious problems of the Hungarian economy in the second half of the 2000s. You may notice that similarly to other countries of Central Europe, Hungary also suffers from transformation recession. The slow pace of reforms (gradualism) did not help to avoid a recession, and a visible slowdown occurred after 1995 also. But the overall trend is positive. The Hungarian economy was able to achieve growth of about 3 or 4 percent after the transformation to overcome recession. Meanwhile, GDP per person has followed a similar trajectory. Indicator has declined at the beginning of the transformation process, despite the pace of reforms. In 1995, it reached the pre-recession level and has grown steadily in the coming years. It almost doubled compared to 1989 by the end of 2004.

2.8.1 Economy structure

Significant changes took place in the role of government in the economy. We can see a striking development in Hungary, where the role of government actually increased in the early 1990s. During the 1990s, the trend was generally decreasing in countries of Central Europe. That changed in the new millennium, when the government has increased in all countries. At the same time, changes in the structure of the economy was made. The industry was quite low in Hungary at the beginning of the transformation and even had a slight increase during the period. Similar to other countries in the region, the share of agriculture had declined in Hungary. And the last part of the services sector had always been high and has remained high level throughout the period of transformation.

2.8.2 Inflation

Inflation was relatively low in Hungary during the first decade of transformation. An important part of the consumer goods in baskets already been liberalized before 1990, and therefore the Hungarian politicians had not carried out the immediate price liberalization. But Hungarian inflation was comparatively high in the coming years. It is partly caused by monetization. The fall in inflation can be seen only in the late 1990s. Even then consumer prices rose more than 5% in a year. The arithmetic average for the period between 1990 and 2003 amounted to about 18%.

2.8.3 Unemployment

Hungary was not spared the increase in unemployment in the first years of transformation even though the country was in fact behind a more gradual approach. Within a few years, unemployment has reached its maximum - about 12% of the workforce, as it declined gradually. This is in contrast with the development in the Czech Republic, where the unemployment rate was minimal until 1997. At that time, however, the unemployment rate in Hungary was already in steady decline. It should be noted that in both these countries, the unemployment rate was very low in comparison with other post-communist countries.

2.8.4 External connection

Hungarian exports fell by nearly a quarter, which was much less than in some other countries. The country has generally followed the path of international trade liberalization as other countries of the eastern bloc. In 1990, lashes quota tariffs on consumer goods were abolished. Hungarian trade was quickly re-oriented towards western markets. Germany became Hungary's main trading partner, as it was for other countries of Central Europe. The Hungarian economy was deeply integrated into the global economy. The share of exports and imports to GDP rose from 60% in the first half of 1990 to more than 160% before the recent economic crisis. The flow of foreign direct investment is the second aspect of international relations and we have already mentioned that Hungary had a good position to start in this field. This led to a relatively high inflow of FDI in the first years of transformation, and Hungary was one of the leaders among the post-communist countries. Economic problems between the first decades have resulted in increased privatization efforts and the installation of stimulus investments.

These measures eased the highest inflow of FDI in the second half of the 1990s. In general, the role of foreign entities in the Hungarian economy is growing. The major investors came from Germany and the US. Companies with foreign capital have been already generated 47% of all sales, 29% of employment and 60% of exports in 1996. The export figure rose to 73% in 1997 (Berend, 2009). The stock of FDI corresponded to a third of Hungarian GDP in 1998.

2.9 Malta before membership

As a new mini-state with no independent military ambitions beyond survival, and in an era when spreading rapidly advancing technology, it was necessary to Malta been obtained different ways to develop and support its economy. Efforts to establish an industrial base have been partially successful. By the mid-1980s in an effort by a command economy based on import substitution and "bulk purchase", weakened capacity of the economy to generate sustainable growth. Locally produced goods were generally uncompetitive and poor quality. They survived only thanks to high protectionist barriers. Malta was required to open its economy. On the one hand, she needed to free sources of raw materials, and on the other hand is necessary to gain access to a much wider market for goods and services. However, such an expansion would expose an economy that will be difficult to cope without consistent investment in infrastructure and human capital of the country. Tourism was seen as a clear path for the development of Malta after independence, an area where the island has had a comparative advantage, its history, the weather and the sea. But also the tourism product requires serious investment. The high pace of economic activity in 1990 can be traced to a change in policy orientation which, together with a favorable international environment, accelerated the process of Malta. A comprehensive program has been initiated structural adjustment disorder including prices, privatization and financial liberalization and trade. These market-oriented policies encouraged greater involvement of the private sector and unleashed a new entrepreneurial spirit by reinforcing trends in the structure of production for many service activities. During the 1990s, the leaders of the GDP growth alternated between domestic demand and external. In the first half of the decade, growth was mainly driven by domestic demand, mainly through higher government spending and investment by public enterprises. In 1997 and 1998, the government's commitment to reduce the fiscal deficit brought down domestic demand, which was offset by the contribution of foreign demand to economic growth. This model was reversed again in the next two years, with growth driven by domestic demand again. Overall, private consumption was the highest contributor to GDP growth in the second half of 1990. Job creation remained positive during 1990, albeit at a gradually declining scale. From an average of 1.5% in the first half of 1990, employment growth slowed to 0.8% in the second half. Fiscal policy has undergone a substantial re-orientation during the 1990s. Tax reforms essentially transformed system of direct and indirect taxes, and implemented a progressive shift towards consumption taxes with a broad base. The fiscal position has deteriorated significantly in most of the 1990s. Public expenditures have increased significantly in part due to higher investment spending, after the government launched a series of projects for infrastructure long overdue. However, the highest increases were due to actual expenditure reflecting increased losses subsidies to public enterprises, increase social benefits and pensions and a higher law of public sector salaries. On the other hand, income growth has lagged behind because the policy reversals which took place in a space of three years and as a result of political uncertainty. In 1998, the general government deficit stands at around 9¾% of GDP. Despite various attempts at consolidation, reduction of the fiscal deficit was not sustainable. Although expansionary fiscal policies contributed to the increase, it is important cause imbalances, mostly constant deficit and the accumulation of public debt, which later aggravated structural weaknesses and has contributed to the continued slow growth. At the beginning of the new century, negative external shocks hit the electronics industry and tourism - two important economic activities for Malta. Expansion of economic subject since 2001 has been as a result of supported entirely by domestic consumption. Average growth of private spending was around 1% between 2001 and 2005, well below historical trends, consumers struggling with low disposable income caused by higher taxes and weak conditions in the labor market. Consumer spending grew real government at an average rate of about 2%, reflecting structural rigidities in the fall of public service wages and social spending. However, investment growth has been negative in the same period. Net exports, meanwhile, displayed a weak point in the economy. A drop in exports in key sectors - electronics and tourism were compensated almost entirely by a similar decline in imports. Employment growth averaged 0.8%

between 2001 and 2005, while the unemployment rate rose to 7.5%. Model employment shifted away from public sector to private sector. Government employment fell by a tenth over the past ten years, but was more than compensation from employment in the private sector. To a large extent, the results of the weakening labor market are a legacy of rapid wage growth that occurred in the first half of 1990. This was particularly the case at the low end of the wage scale, where unemployment is more pronounced. External demand has suffered as a result of adverse cyclical developments at the international level. Opening and small size of the Maltese economy inevitably implies a high degree of dependence on international trade. Deprived of natural resources, Malta imports almost all of its needs. Also, small domestic market presents an obstacle to the sustainability of the majority of operations, making exports a prerequisite. As a result, the Maltese economy is vulnerable to global economic developments, while its small size prevents diversification and thus creates a less dominant economic sector. In fact, the causes of deterioration in exports since 2001 can be traced primarily to tourism and production, especially the electronics industry. The decline of tourism coincided with geopolitical uncertainty caused by the events of 11 September and the cyclical downturn in the EU economy. Tourism accounts for about a quarter of GDP and is extremely sensitive to geopolitical uncertainty. The number of tourists visiting Malta has fallen between 2001 and 2003, although the figures have improved somewhat in the next two years. However, visitors to Malta are 4% less than those in 2000, while per capita spending by tourists have fallen in 2004 and 2005. Perhaps most important it is the product of domination by a single operator in the electronics sector, which accounts for more than half of total industrial production and exports. Weak domestic demand was a result of soft market conditions of work and insufficient growth of disposable incomes. As discussed earlier, the increase in employment between 2001 and 2005 was on average a little more than half that recorded in the early 1990s. In addition, during the seven years 2005 the tax burden has increased by about 10 percent and in 2005 stood at 35¼% of GDP.

2.10 After membership

One of the fears about EU membership brought during the pre-accession debate, was the possibility of a large influx of EU citizens who can destabilize the labor market. Many citizens in the EU had a similar fears about a possible influx from Eastern Europe, and a transition period seven years was negotiated during which Member States had the possibility of putting restrictions on the free movement of persons from the new member states. Malta and Cyprus argued that considering their size had no opportunity to their citizens destabilize the labor market of the EU in this way, and got the EU to agree that this transitional period will not apply to them. Malta went a step further, however, argued that any flow of unexpected employees EU for Malta have the potential to destabilize the small market of labor, and to convince the EU that it should maintain its system of work permits and the ability to set restrictions on the free movement of persons for seven years prior to accession. These measures have hardly been addressed, and the labor market in Malta has remained very stable over the years of membership. In fact, Malta is one of only five member states whose unemployment rate has always remained below 8% since May 1, 2004. If expansion was a great achievement for all new member states and the European Union as a whole, the new state of Malta has offered the promise of a coherent identity and accelerates development.

2.11 Lithuania before membership

The collapse of the central planning system in 1991 requires a difficult transition to a market economy. The reforms during the transition period focused on price liberalization, privatization small scale and the creation of a national currency. Part of military goods production fell sharply, there has been a diversification of the supply chain and industrial restructuring, and open up the economy to foreign trade. Lithuania has experienced significant political and economic since regaining political independence in 1990. Major economic reforms were made during the period from 1991 to 2000, including price liberalization and privatization of small and medium enterprises. The national currency was implemented in 1992-1993 which allowed control of national inflation through monetary policy. During the period of 1991-1995 the reforms concentrated on liberalizing prices and small-scale privatization. Restrictive monetary policies were protected by the adoption of the currency board regime in 1994. Currency board system was updated in 2002, when Lithuania moved from the US dollar to Euro. Progress in market reforms was reinforced by privatization of large industrial and financial companies, from year 2000 to 2005. (Černiauskas and Dobravolskas, 2011).

2.12 After membership

The history of economic development of Lithuania based on the inputs from international monetary fund has been a decline in the period 1990-1995 and then increased from 1997 continued to grow even after a member of the European Union made in 2004, focusing from the global economic recession 2008-2009. Lithuania's GDP has increased since the entry into the European Union by the end of 2008. Lithuania had a large drop in GDP in 2009 to 2011. In 2011 Lithuania strengthened economically again. In terms of other indicators such as imports, exports, FDI, also have large fluctuations being set up here occasionally declining.

2.12.1Unemployment

Even that Lithuania has strong recent economy, Lithuania still barge some problems. Informal economy creates an unequal field for firms and the economy, the informal economy is huge. The problems created by the financial crisis have also yet to be recovered. The crisis led to the loss of a large number of jobs in the construction sector and those jobs are unlikely to return. This has increased the discrepancy between ability and structural unemployment, which is estimated at 10-12% (Ebeke and Everaert, 2014). The fiscal deficit fell in 2010. In 2011 economy of Lithuania had a great expansion in the country: the GDP growth rate was the second highest in the EU after Estonia. Recovery continued yet in Lithuania. Lithuania and its economic growth depended largely on exports.

2.13 Slovakia before the membership

Slovakia is a country in central Europe and is surrounded by the Czech Republic, Austria, Hungary and Ukraine. Slovakia is a continental republic.

Slovakia is agrarian-industrial state. The greatest incomes are realized by the industry and tertiary activity, although agriculture is the oldest economic branches. In January 1993, Slovakia has passed a transition from a centrally planned economy to a free market economy, this process as some observers say, was slowed in the 1994–1998 period because of fiscal policies and the crony capitalism of Prime Minister Vladimír Mečiar's government. During Meciar's term economic growth and other fundamentals improved steadily but also public and private debt and trade deficits rose, and privatization was uneven. Real annual GDP growth peaked at 6.5% in 1995 but declined to 1.3% in 1999 (Smith, A. 1996). There were some expectations about the economic growth in the early 2000s, despite recession in key export markets. In 2001 policies of structural reform and macroeconomic stabilization led to spiraling unemployment. Unemployment from 19.2% in 2001 has fallen to 9.8% or 13.5% in September 2006. Domestic demand boosted economic growth to 4.1% in 2002. Exports increased in 2003. Exports increased by 4.2% and in 2004 they increased 5.4%, despite a decline in household consumption (Porter, M. E. 2000). In 2005 from multiple reasons GDP growth went to 6%. It was a decrease of headline consumer price inflation from 26% in 1993 to an average rate of 7.5% in 2004 (Dunford, M., & Smith, A. 2000).

2.14 After the membership

On 1 May 2004 Slovakia joined the European Union and 29 March 2004 NATO forces. So in 2004 Slovakia became an EU member state and adopted the euro at the beginning of 2009. Bratislava, its capital, is the largest financial centre in Slovakia.

Slovakia's highest gross domestic product growth rates referred to as the Tatra Tiger since GDP grew strongly from 2000 until 2008 – reporting 10.4% growth in 2007. In this year, Slovakia obtained the highest GDP growth among the members of EU, with the record level of 14.3% in the fourth quarter. In 2009, the first quarter the fall of GDP was -5.7% but in the 2010 first quarter the GDP growth was a 4.8% (Okáli, I., Morvay, K., Frank, K., Gabrielova, H., Jeck, T., & Sikulova, I. 2009). In 1990 the industry and construction contributed 49% of GDP while in 2010 there was a decries in 35.6% of GDP.

Agriculture accounted for 2.7% of GDP in 2010 (compared to 6.9% in 1993) and occupied about 3.5% of the labor force (down from 10.2% in 1994). In Slovakia over 40% of the land is cultivated. In 2011, it amounted to 43.3% of GDP and it is still expected to grow to over 50% in 2012-2013. Based on budget planning for 2010-2012 the deficit target for the Slovak government was 5.5% of GDP, but the final result was however 7.7% of GDP. If we talk in nominal terms, the public deficit was 1.5 billion euro higher than budgeted. Negative factor that dominate was the lack of tax revenues from the total amount of 637 million budget euro. And 2012 provides a deficit at 4.7% of GDP.

Nowadays GDP of Slovakia still grows faster than the average of EU, in period 2005-2011we had the highest growth of GDP (Slovakia GDP), about 38.3%, between all EU countries. GDP growth was 2.4% in 2014 and a year after Slovakia's economy grew 3.6%. . As of March 2016, the unemployment rate was 10.2%.

2.15 Latvia before membership

In 1991 the Latvian economy was the largest drop since left Latvia by the Soviet Union. From 1991 until 1993 the Latvian the GDP declined. A very important task after this crisis was the recovery of the economic structure and achieving monetary stability. From 1993 to 1995 Latvia applied a tax system in order to increase the surplus to balanced losses. After many attempts revival of Latvia's economy began to grow in 1998 when they sit down barriers between Latvia and 15 EU countries. It launched the free movement of goods enabling this growth in exports to Latvia. In 2000 Latvian exports grew quite doing trade with 27 countries in the EU. From 1998 to 2003 Latvia tried to revive the country by adapting to EU standards and norms in order to be part of it.

2.16 After membership

When Latvia joined Europe had rapid economic growth and recession, encouraged by various factors. The greatest economic crisis of 2008 in the EU happened in Latvia. By year (2008-2010) the total GDP fell. Though the GDP grew up again in, Latvia's economy was very weak and had to recover after the crisis. After 2011 the economy of Latvia had a gradual economic growth and stability. (Skribane and Jekabsone, 2013).

Latvia's economy has a very low percentage in the industry and this is a major obstacle to economic growth. In 1990 Latvia's economic structure was not more focused on services, while after EU accession this thing changed. Service industries had the major part in the economic structure. In 2000 Lithuania grew up economically by focusing on service sector growth, and then in 2007 it spread to other sectors such as transport and communications also in construction and trade services. This strong economic growth came as a result of increased domestic demand. Latvia should develop the manufacturing sector because it is the most undeveloped state of the EU regarding this issue.

Latvia must modernize production technologies policy to have a rapid growth in the economy. Advantage of Latvia of entre in EU was the increased share of the service sector, thus increasing exports. The big disadvantage is considered low level of productivity that Leetonia has, which makes the country not competitive and have greater growth of imports than exports in terms of manufacturing industry.

2.17 Estonia before the membership

Estonia in the 1980s left the communist regime and gained independence in 1991 becoming a state with capitalist economy. In 1994, it became one of the first countries in the world to adopt a flat tax, with a uniform rate of 26% regardless of personal income.

The personal income tax rate was reduced from 26% to 21% between 2005 and 2008. In the second half of the 1990s, Estonia was the one that received more foreign investment per capital in comparison with other countries of Central and Eastern Europe. In June 1992, instead of rubles Estonia decided its currency that was easily converting. Estonia has quickly followed the Europe-15, its GDP per capital had grown from 34.8% of the EU-15 average in 1996 to 65% in 2007. Estonia in 2006 was one of the fastest growing economies in the world marking the greatest growth rates over 10% in year.

2.18 After the membership

The Government of Estonia decided to adopt the euro as its official currency, and finalized the design of Estonian euro coins in late 2004.The replacement of the current coin to the euro took place on 1 January 2011, and became the 17th euro zone member state.

Estonia continued economic growth with significant rate as in 2000 GDP grew by 6.4% and in 2004 when Estonia entered into the European Union the rates were doubled (Janicki, H. P., & Wunnava, P. V. 2004). In 2007 GDP grew by 7.9%. It had increase in taxes for tobaccos and gas, electricity, fuel, cost of employment and also external pressures. So, in 2008, GDP grew only 0.1%. The government made a supplementary negative budget. The revenue of the budget was decreased for 2008 by EEK 6.1 billi1on and the expenditure by EEK 3.2 billion.

By mid-2013 the average monthly salary of Estonia was €976 (15,271 croons, US$1,328). Estonia in terms of energy is regarded as an independent place because it covers 90% of energy needs with locally mined oil shale. And 9% of primary energy production consists of alternative energy sources such as wood, peat, and biomass. Estonia imports needed petroleum products from Western Europe and Russia. The key sectors of this economy are telecommunications, textiles, oil shale energy, chemical products, banking, services, food and fishing.

Estonia was deemed in 2009 as one of the worst economies in the world in terms of the annual rate growth of GDP because in 2008 after a long period of growth it suffered a decrease in GDP for more than 3% and it went up - 9,4%. Latvia has a higher current deficit account and inflation than Estonia, and the GDP is higher than in Lithuania and Latvia. In late 2008, Estonia donated funds for the salvation of Latvia. Estonia's public debt that was borrowed by partners was 3.8% and the state reserve was 10% of GDP. So, Estonia became one of the donor countries. But in 2009 the economy did not go very well for Estonia.

In 2008 the GDP of Estonia decreased, respectively: 1.4%, 3% and more than 9% at the end of the year even though the Prime Minister of Estonia aimed GDP growth reaching greater rate of growth that were ever seen of the year 2022. So in early 2009 the Estonian economy had a decrease of 15.1% (Schimmelfennig, F., & SCHOLTZ, H. 2008).

Today four main trading partners that influence Estonia and which are an example in terms of development are Finland, Russia, Sweden and Germany. The economy's overall output has depressed a low domestic and foreign demand. If we compare Estonia with the entire EU countries, Estonia economy reached the highest decrease in industrial production with 33.7% drop.

As a lesson for Estonia the financial crisis of 2008 caused a big effect on the Estonian economy transformation since 2009. During 2010 the rate of unemployment fell significantly by 10%, and in 2011 GDP growth rate was 8%. It was the country that had the worst year for unemployment among all of other countries, which rose from 3.9% in May 2008 to 15.6% in May 2009 (Tvaronavičiene, M., Grybaite, V., & Tvaronavičiene, A. 2009). But the Estonian economy was the most promising economy in long terms prospects in Europe.

2.19 Summary

Slovenia inherited a difficult economic situation after independence and the main objectives of the Slovenian fiscal policy were to balance fiscal accounts and the creation of fiscal environment capable of promoting economic growth. After membership the Slovenia based on two main directions, can be considered unique in the list of countries who are candidates for EU membership: first, was the country with the most developed economy in the region of the EU and secondly, it was in such develop conditions that could be managed transition without much difficulty. The profits that Slovenia had after enter in EU free trade in products, in conditions when used trade protection provisions and products of the EU in terms of free trade rules, EU membership had reduced barriers to employment. They hope to receive a greater development on economy, social and security forces, a stable legal framework and strong democratic institutions. This factor was very important for Slovenia, especially with regard to reasons related to state security.

Poland before the membership has had a stable macroeconomic situation, which grew due to external demand. Poland had a slowdown in 2001, but it lasted until 2002 and Poland experienced a recovery. An invaluable aid for Poland from the EU was subsidies from Brussels. The Polish economy is mainly supported by exports go to EU countries. Poland had economic benefits after joining the EU and tourism.

The Republic of Cyprus with a population of about 750 thousand inhabitants (the Greek Cypriots about 77%, Turks 18%, other 5%) joined the EU in 2004, when the EU had to avoid regional isolation in this area considered difficult, but also for economic benefits, perhaps with the intention of keeping distance from Turkey. Cyprus has always maintained close economic relations, social and political relations with the EU. Cyprus exports textile and raw materials such as iron, chromium and plaster. Tourism represents 12% of GDP. The profits that Cyprus get from European Union were the programs for North Cyprus has secured a 400 million euro support. Cyprus has for years developed a model based economy and pattern options "Cypriot".

Before the membership the Hungarian economy was suffering from macroeconomic imbalances. In 1991, when 90% of all prices have already been liberalized, deregulated economy was in part, and Hungary had a huge surplus of money in circulation and their exchange rate was relatively healthy. (Holman, 2000). Hungary joined the EU in 2004. But the problem with the high inflation that we mentioned earlier caused a negative trend in the growth of debt in foreign currency continued in the coming years. This development was important, especially for families who often take loans in Swiss francs or euros. The profits that Hungary get from EU was the role of foreign entities in the Hungarian economy.

The high pace of economic activity in 1990 can be traced to a change in policy orientation which, together with a favorable international environment, accelerated the process of Malta. This market-oriented policy encouraged greater involvement of the private sector and unleashed a new entrepreneurial spirit by reinforcing trends in the structure of production for many service activities. During the 1990s, the leaders of the GDP growth alternated between domestic demand and external. In the first half of the decade, growth was mainly driven by domestic demand, mainly through higher government spending and investment by public enterprises.

Lithuania has experienced significant political and economic since regaining political independence in 1990. Major economic reforms were made during the period from 1991 to 2000, including price liberalization and privatization of small and medium enterprises. (Černiauskas and Dobravolskas, 2011). The history of economic development of Lithuania based on the inputs from international monetary fund has been a decline in the period 1990-1995 and then increased from 1997 continued to grow even after a member of the European Union made in 2004, focusing from the global economic recession 2008-2009. Lithuania's GDP has increased since the entry into the European Union by the end of 2008. Lithuania had a large drop in GDP in 2009 to 2011. In 2011 Lithuania strengthened her economy again. In terms of other indicators such as imports, exports, FDI, also have large fluctuations being set up here occasionally declining.

In January 1993, Slovakia has passed a transition from a centrally planned economy to a free market economy, this process as some observers say, was slowed in the 1994–1998 period because of fiscal policies and the crony capitalism of Prime Minister Vladimír Mečiar's government. During Meciar's term economic growth and other fundamentals improved steadily but also public and private debt and trade deficits rose, and privatization was uneven. Real annual GDP growth peaked at 6.5% in 1995 but declined to 1.3% in 1999 (Smith, A. 1996). Slovakia's highest gross domestic product growth rates referred to as the Tatra Tiger since GDP grew strongly from 2000 until 2008 – reporting 10.4% growth in 2007. In this year, Slovakia obtained the highest GDP growth among the members of EU, with the record level of 14.3% in the fourth quarter. In 2009, the first quarter the fall of GDP was -5.7% but in the 2010 first quarter the GDP growth was a 4.8% (Okáli, I., Morvay, K., Frank, K., Gabrielova, H., Jeck, T., & Sikulova, I. 2009).

In 1991 the Latvian economy was the largest drop since left Latvia by the Soviet Union. From 1991 until 1993 the Latvian the GDP declined. A very important task after this crisis was the recovery of the economic structure and achieving monetary stability. From 1993 to 1995 Latvia applied a tax system in order to increase the surplus to balanced losses. After many attempts revival of Latvia's economy began to grow in 1998 when they sit down barriers between Latvia and 15 EU countries. When Latvia joined Europe had rapid economic growth and recession, encouraged by various factors. The greatest economic crisis of 2008 in the EU happened in Latvia. By year (2008-2010) the total GDP fell. Though the GDP grew up again in, Latvia's economy was very weak and had to recover after the crisis. After 2011 the economy of Latvia had a gradual economic growth and stability. (Skribane and Jekabsone, 2013).

Estonia's economy has been increased significantly as in 2000 GDP increased by 6.4%, and double after its accession to the EU in 2004 (Janicki, H. P., & Wunnava, P. V. 2004). In 2007 GDP grew by 7.9% and it was a rise in the cost of labor, electricity, alcohol, fuel, taxes on tobacco and gas, and also external pressures. The prime minister's goal for Estonia was to achieve a GDP per capital of the five highest in the EU for 2022.

But in 2008 the GDP of Estonia had a decrease, respectively by: 1.4%, more than 3% and more than 9% at the end of 2008. (Schimmelfennig, F., & SCHOLTZ, H. 2008). Estonian economy further declined by 15.1% at the beginning of 2009 when compared with all countries of the European Union it reached the highest fall of industrial production in the economy with 33.7%.

CHAPTER 3

DATA AND METHODOLOGY

3.1 Data

In the study macroeconomic indicators (GDP, Trade Balance (Import ,Export), FDI, CPI, Exchange rate) are used for countries such as Albania and other countries in the region such as Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia for the year 1990 to 2015. I have obtained data from international monetary fund and data are annual. For the countries of the region are presented in graphical form, while GDP data for Albania are presented descriptive data for each macroeconomic indicators and Panel Least Square regression model for the two periods 1997-2004 and 2004-2015.

3.2 Methodology

In this study is being used descriptive statisics and panel regression. Method used is called panel least squares. The least squares method is a mathematical regression analyze that finds the best fit line for a dataset, so in this way is provided a visual demonstration of the relationship between the data points. Descriptive statistics are the coefficients of the short narrative summarizing a set of data, which can be either a population or a sample representative of the entire population. In the case of the present study are obtained data that represent the whole population, for countries identified above and for the periods before (1997-2004) and after (2004-2015) their integration into the EU.

Descriptive statistics explain the central tendency and measures of variability, or spread of the phenomenon studied.

Analyze of the panel data is a statistical method, widely used in epidemiology, in social sciences, and Econometrics, which deals with two and more dimensions which differ in time, so the data series that otherwise referred panel data, measuring the data in different periods of time as in the case study where we have two time periods from year 1997 to 2015 (Levin, A., Lin, C. et al 2002).While, for the construction of regression model GDP is considered as the dependent variable, while import, export, FDI, CPI as independent variables.

Regression Model

$GDP = C + X_1 \mathit{CPI} + X_2 \mathit{EXPORT} + X_3 \mathit{FDI} + X_4 \mathit{IMP}$ + □

GDP - Represents the gross domestic product GDP = C + I (FDI) + G + (EXP-IMP) dependent variable

X_{1}- The constant coefficient C

CPI- Independent variable consumer price index

X_{2}- The export ratio

EXPORT -The independent variable of exports

X_{3}- Ratio of foreign direct investment

FDI- Independent variable FDI

X_{3}- The coefficient of imports

IMP- Independent variable import

□- Standard error

CHAPTER 4

EMPRICAL ANALYSIS

4.1 Descriptive Analysis

TABLE 4.1 Descriptive Data Of Macroeconomic Indicators For The Period 1991-2004 (Growth Rates)

	GREXP	GRFDI	GRCPI	GRGDP	GRIMP
Mean	12.99202	46.74681	6.824735	9.460562	13.57825
Median	12.66378	15.78185	5.662066	7.631356	12.81014
Maximum	51.72363	516.1665	24.61813	34.30461	36.07937
Minimum	-21.14711	-76.99193	-1.145753	-10.34727	-13.73975
Std. Dev.	14.39637	105.1931	5.584535	10.03683	12.73231
Skewness	-0.004969	1.911359	1.427472	0.581593	-0.217695
Kurtosis	2.851565	7.617923	4.897517	2.693023	2.159635
Jar-Bera	0.066395	107.8151	35.25381	4.341713	2.687333
Probability	0.967347	0	0	0.11408	0.260887
Sum	935.4257	3365.771	491.3809	681.1605	977.6338
Sum Sq. D.	14715.14	785656.7	2214.279	7152.392	11509.93
Obs.	72	72	72	72	72

TABLE 4.2 Descriptive dtat of macroeconomic indicators for the period 2005-2015 (Growth Rates)

	GREXPORT	GRFDI	GRCPI	GRGDP	GRIMP
Mean	9.266684	116.5875	2.903094	4.81631	7.211343
Median	11.8537	0.039404	2.62088	5.397624	9.191055
Maximum	44.08079	4710.45	15.43052	44.07221	44.33239
Minimum	-30.60011	-1444.468	-2.096998	-26.44043	-41.39384
Std. Dev.	17.84897	650.9403	2.898075	13.61595	19.09382
Skewness	-0.38775	4.785346	1.359289	0.044034	-0.611797
Kurtosis	2.447676	32.13483	6.462248	2.782801	2.819633
Jarque-Bera	3.323699	3448.267	71.05202	0.201415	5.608945
Probability	0.189788	0	0	0.904197	0.060539
Sum	815.4682	10259.7	255.4723	423.8353	634.5982
Sum Sq. D.	27716.95	36863921	730.6988	16129.29	31717.93
Observations	88	88	88	88	88

4.2 Panel regression analysis

TABLE 4.3 ARDL panel regression result for first period

Dependent Variable: GRGDP

Method: Panel Least Squares

Sample (adjusted): 1997 2004

Periods included: 8

Cross-sections included: 8

Total panel (balanced) obser: 64

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GRGDP(-1)	0.289823	0.105088	2.757911	0.0078
GRIMP	0.409912	0.164467	2.492373	0.0156
GRCPI	-0.533397	0.230759	-2.31148	0.0244
GREXPORT	0.0427	0.13504	0.316203	0.753
GRFDI	-0.007469	0.008054	-0.92734	0.3576
C	5.201366	1.900098	2.73742	0.0082
R-squared	0.605056	Mean dependent var		9.99743
Adjusted R-squared	0.571009	S.D. dependent v		10.42461
S.E. of regression	6.827847	Akaike info crit		6.768956
Sum squared resid	2703.931	Schwarz cr.		6.971351
Log likelihood	-210.6066	Hannan-Quinn criter.		6.84869
F-statistic	17.77124	Durbin-Watson stat		2.061972
Prob(F-statistic)	0			

The table above presents a regression model where GDP (1997-2004) is considered as dependent variable, while Imports, Exports, FDI, and CPI as the independent variable. Builted model is important where F = 17:17, p <0:05. Adjusted R Square as the coefficient of determination shows the value 12:57. This shows that 57% of the GDP variance explained by the explanatory variables Imports, Exports, FDI, and CPI

The resulting bond between the two variables is expressed by means of this equation:

GDP = 5.201366 - 0.533397*CPI* +0.0427*EXPORT* -0.007469*FDI* +0.409912*IMP* + □

The interpretation of explanatory variables:

CPI - Consumer price index is found significant at 5% siginificance level since corresponding p-value is 0.0244.The results indicates a significant negative impact of consumer price index on GDP during our sample period.

Export - Export is not found significant at 5% siginificance level since corresponding p-value is 0.753.The results indicates a non significant impact of exports in GDP during our sample period.

FDI – FDI is not found significant at 5% siginificance level since corresponding p-value is 0.3576. The results indicates a non significant impact of foreign investment in GDP during our sample period.

Import - Import is found significant at 5% significance level since corresponding p-value is 0.0156. The results indicates a significant positive impact of import on GDP during our sample period.

TABLE 4.4 ARDL panel regression result for second period

Dependent Variable: GRGDP

Method: Panel Least Squares

Sample: 2005 2015

Periods included: 11

Cross-sections included: 8

Total panel (balanced) observations: 88

Variable	Coefficient	Std. Error	t-Stat.	Prob.
GRGDP(-1)	0.269723	0.059384	4.541996	0
GRIMP	0.610975	0.073987	8.257884	0
GRCPI	0.323902	0.287173	1.127897	0.2627
GREXPORT	-0.00564	0.081023	-0.06966	0.9446
GRFDI	-0.00127	0.00934	-1.3547	0.1792
C	-2.46799	0.86555	-2.85135	0.0055

R-squared	0.845386	Mean dependent var	4.81631
Adjusted R-squared	0.835958	S.D. dep. var	13.6159
S.E. of regression	5.514741	Akaike info criterion	6.31847
Sum squared resid	2493.814	Schwarz criterion	6.48738
Log likelihood	-272.013	Hannan-Quinn criter.	6.38652
F-statistic	89.67059	Durbin-Watson stat	2.28214
Prob(F-statistic)	0		

The table above presents a regression model where GDP (2004-2015) is considered as dependent variable and Imports, Exports, FDI, and CPI as independent variables.

Builted model is important where F = 90, p <0:05. Adjusted R Square as the coefficient of determination indicates a value 0.84. This shows that 84% of variance explained by the explanatory variable GDP Imports, Exports, FDI, and CPI

The resulting bond between the two variables is expressed by means of this equation:

$GDP = -2.46799 + 0.323902\mathit{CPI} - 0.00564\mathit{EXPORT} - 0.00127\mathit{FDI} + 0.610975\mathit{IMP} + \square$

The interpretation of explanatory variable:

CPI – Consumer price index is not found significant at 5% siginificance level since corresponding p-value is 0.2627. The results indicates a non significant impact of CPI in GDP during our sample period.

EXPORT- Export is not found significant at 5% siginificance level since corresponding p-value is 0.9446. The results indicates a non significant impact of exports in GDP during our sample period.

FDI– FDI is not found significant at 5% siginificance level since corresponding p-value is 0.1792. The results indicates a non significant impact of foreign investment in GDP during our sample period..

IMP - Import variable is found significant at 5% significance level since corresponding p-value is 0. The results indicates a significant positive impact of import on GDP during our sample period.

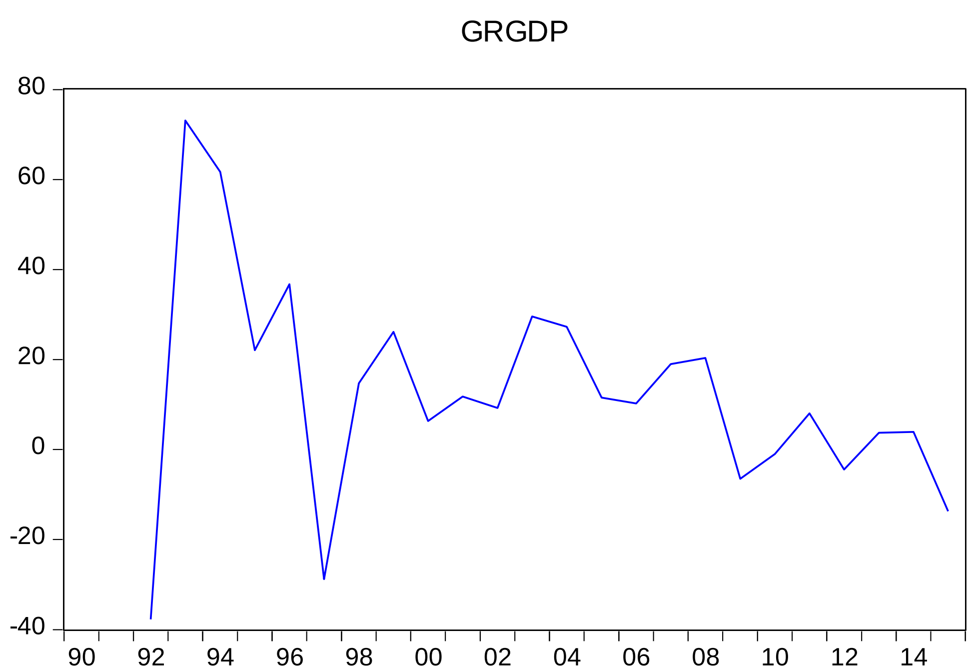


FIGURE 4.1 GDP 1991-2015 (growth rate)

The figure above shows growth rate of GDP over years. As shown in the graphic from the period 1992 to 1994 have a significant increase growth rate in GDP, which starts to decrise in 1995 and in 1997 suffered a decline due to civil war in our coutry and economic turmoil. After 1997 there are up and downs and in 2008 the big crisis.

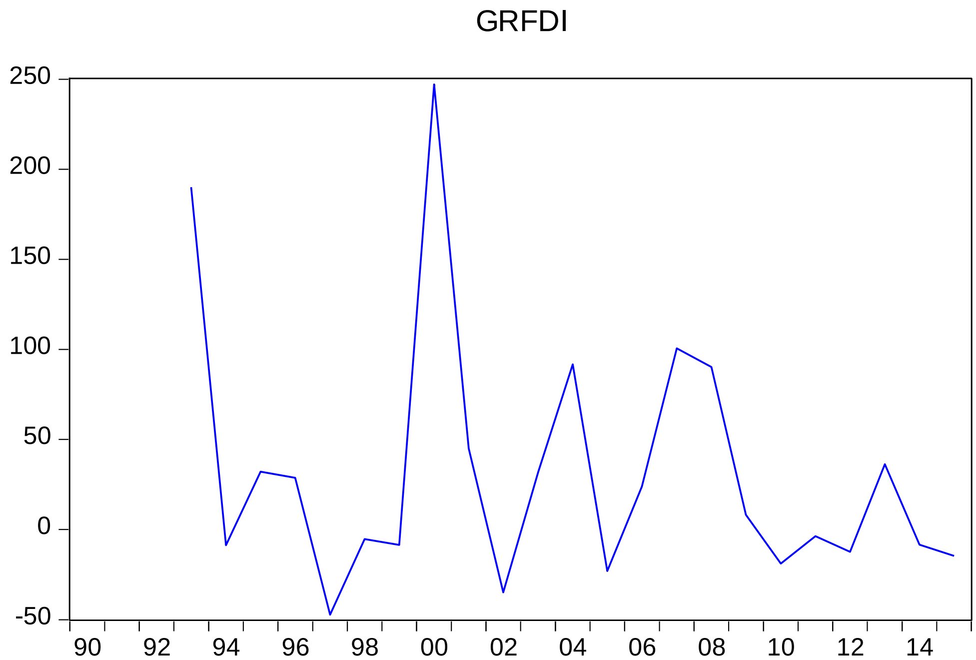


FIGURE 4.2 FDI 1991-2015 (growth rate)

As shown in the grafic the growth rate of FDI had suffered deep ups and downs. The peak of growth rate of FDI is reached in the year 2000 to 2001. After this year once sits once rises slightly.

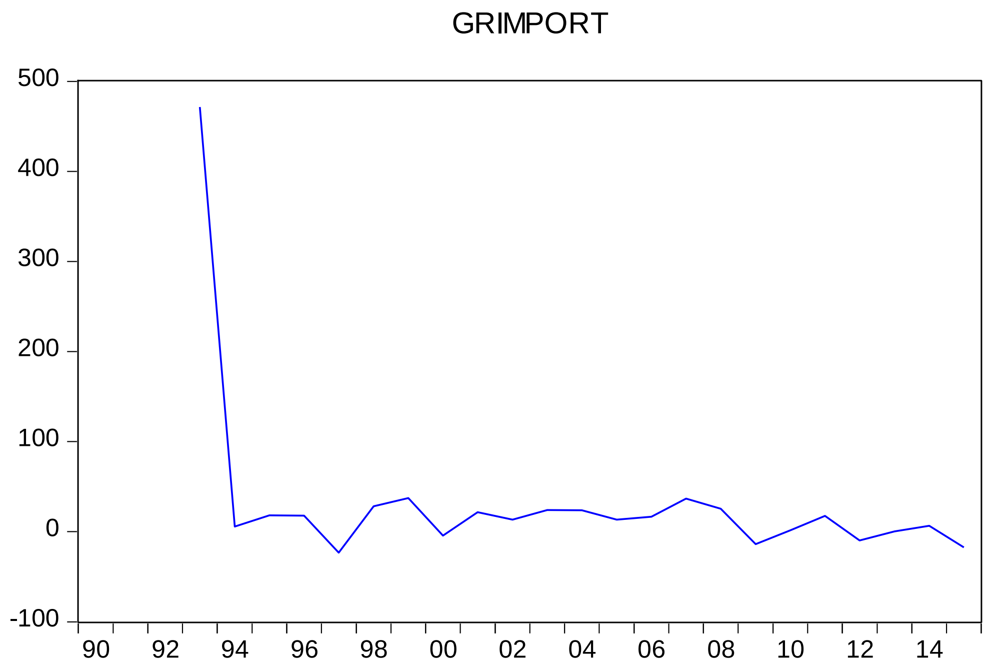


FIGURE 4.3 Import 1991-2015 (growth rate)

As shown in the figure of growth rate of IMPORT, it has suffered minor ups and downs.

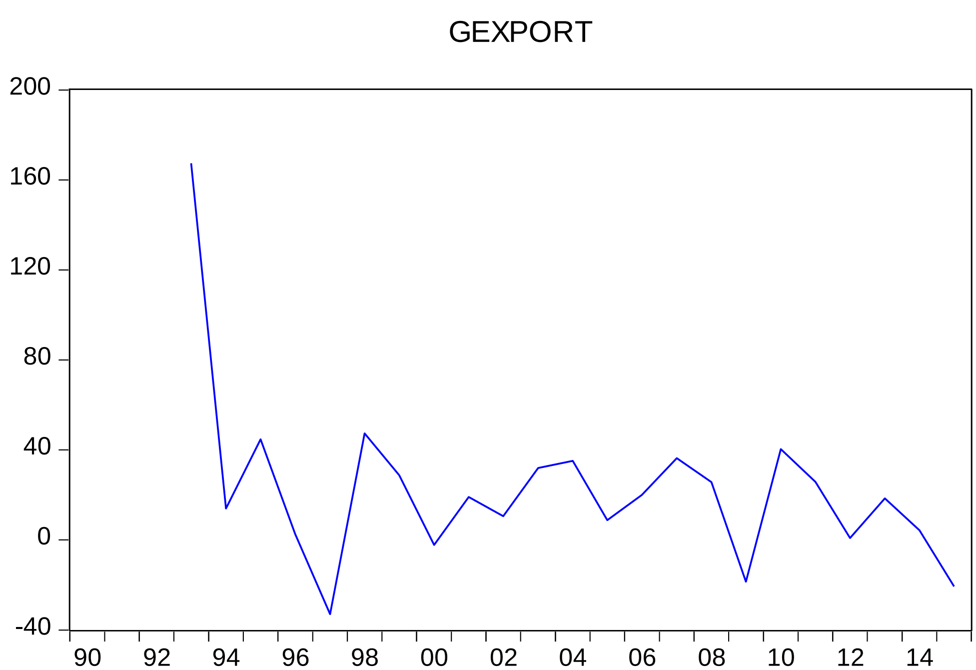


FIGURE 4.4 Export 1991-2015 (growth rate)

As shown in the grafic growth rate of EXPORT some time has raised and some time has decreased. The biggest decreased is in the year 1997 due to civil war and in the year 2008 because of the world crisis.

CHAPTER 5

CONCLUSION

5.1 General Conclusion

Hypothesis 1 is accepted for two periods because there is a ($p = .008 <.05$) indicating a significant positive impact of imports in GDP, this means that there is a significant positive relation between import and GDP.

Hypothesis 2 is accepted for period 1997-2004, because there is a corresponding p-value 0.0244, the result indicates a significant negative impact of consumer price index on GDP. This means that there is a significant negative relation between CPI and GDP.
Hypothesis 2 is denied for period 2004-2015, because corresponding p-value is 0.2627. The result indicates a non significant impact of CPI in GDP during this sample period. This mean that there is no significant relation between CPI and GDP.

Hypothesis 3 is denied for two periods becaose ther is a p values ($p = .75> .05$) indicating a no significant impact of exports in GDP for period 1997-2004, and corresponding p-value 0.9446 for period 2004-2015. This means that there is no a significant relation between export and GDP.Hypothesis 4 is denied for two periods corresponding p-value is 0.3576 for period 1997-2004 and for period 2004-2015 is 0.1792. The results indicates a non significant impact of foreign investment in GDP, this means there is no significant relation between FDI and GDP.

The results show that only import has a strong connection with the GDP in both periods before and after integration in Europe. While CPI has a strong connection with GDP only before entering in EU, but after entering into the European integration this variable becames insignificant for GDP.

Trade liberalization leads to the removal of barriers for products and factors of production and facilitates the introduction of new firms in various markets national, leading to an increase in competition that will lead to lower costs for consumers who will have more choice and will be able to consume more goods and higher quality.

The crisis of 2008 touched the 9 countries studied in this paper. Slowing their GDP. Poland chose a direction with shock therapy to go from communist regime and central planning to trade economy. (Albania attended shock therapy)

Two main political pillars are the base for Slovenia's reform process: first, it related to policies aimed at macroeconomic stabilization and liberalization of the internal and external. Secondly, it was associated with structural and institutional reform, financial sector, privatization of state enterprises and enterprise sector reform, public services, pension and tax system (the similarity with Albania).

5.2 Limitation

At the conclusion of this paper I would like to express my concern about the limitation of literature and research in terms of identifying the consequences that would bring full integration of the Albanian economy.

5.3 Recommandation

My recommendation is that needs to be made detailed studies and measured the costs in order to identify the problems that Albania will have more and boost investment to solve these problems in order to be prepared.

REFERENCES

Ahmed, S., & Mortaza, M. G. (2005). Inflation and economic growth in Bangladesh: 1981-2005. Research Department, Bangladesh Bank, Dhaka, Bangladesh.

Balasubramanyam, V. N., Salisu, M., & Sapsford, D. (1999). Foreign direct investment as an engine of growth. Journal of International Trade & Economic Development, 8(1), 27-40.

BEREND, I., T. (2009). From the Soviet Bloc to the European Union. Cambridge University Press. I

Bernstein, J. and D. Weinstein (2002). ‘Do endowments predict the location of production?. Evidence from national and international data’, Journal of International Economics, f. 55-76.

Campbell. J and Hugo. A, (2002). Market Size Matters, Hopenhayn NBER Working Paper No. 9113

Černiauskas, G. and A. Dobravolskas (2011) “Emerging of Market Economy in Lithuania (1990-2010)”, Intellectual Economics, Vol. 5, No. 3.

Chowdhury, A., & Mavrotas, G. (2006). FDI and growth: What causes what?. The World Economy, 29(1), 9-19.

Cukierman, A., Miller, G. P., & Neyapti, B. (2002). Central bank reform, liberalization and inflation in transition economies—an international perspective. Journal of Monetary Economics, 49(2), 237-264.

Değer, M. K. &Emsen, Ö. S. (2006).Foreign direct investments and economics growth relationships in transition economies: panel data analysis. Cumhuriyet University,Journal of Economics and Administrative Sciences, 7(2), 121-137.

Dritsakis, N. (2004) "Exports, investments and economic development of pre-accession countries of the European Union: an empiricalinvestigation of Bulgaria and Romania", Applied Economics,Taylor and Francis Journals, vol. 36(16), 2004.

Dunford, M., & Smith, A. (2000). Catching up or falling behind? Economic performance and regional trajectories in the “New Europe”. Economic Geography, 76(2), 169-195.

Ebeke, C. and G. Everaert (2014), “Unemployment and Structural Unemployment in the Baltics”, IMF Working Paper, No. 14/153

Erçakar, M. E. &Yılgör M. (2008).The relation between foreign direct investments and gross domestic products in developing countries: panel unit root test and panel co-integration test applications. International Capital Flow and Emerging Markets Symposium, 24–27 April 2008, Balıkesir, Turkey.

Gokal, V., & Hanif, S. (2004). Relationship between Inflation and economic growth. Economics Department, Reserve Bank of Fiji,

Hanley, Eric, Lawrence King and Istvan Toth Janos. 2002. “The State, International Agencies, and Property Transformation in Postcommunist Hungary.” American Journal of Sociology.

Hansen, H., & Rand, J. (2006). On the causal links between FDI and growth in developing countries. The World Economy, 29(1), 21-41.

Holman, R. (2000). Transformace české ekonomiky. Praha: Centrum pro ekonomiku a politiku.

Hussain M and Saaed Afaf (2014)”Relationship between Exports, imports, and economic growth in Saudi Arabia: 1990-2011. Evidence from cointegration and Granger causality analysis” Journal of Emerging Trends in Economics and Management Sciences (JETEMS) 5(3):364-370.

Irina Skribane and Sandra Jekabsone (2013) “STRUCTURAL CHANGES IN THE ECONOMY OF LATVIA AFTER IT JOINED THE EUROPEAN UNION” Vol. 7, No. 1(15), p. 29–41

Janicki, H. P., & Wunnava, P. V. (2004). Determinants of foreign direct investment: empirical evidence from EU accession candidates. Applied economics, 36(5), 505-509.

Lavigne, (1999)

Maudos, J., & De Guevara, J. F. (2004). Factors explaining the interest margin in the banking sectors of the European Union. Journal of Banking & Finance, 28(9), 2259-2281.

Meyer, K. E. (2001). Institutions, transaction costs, and entry mode choice in Eastern Europe. Journal of international business studies, 32(2), 357-367.

Munasinghe, M., Sunkel, O., Miguel, C. D., Munasinghe, M., Sunkel, O., Miguel, C. D., ... & Ramírez Alfaro, J. (2001). The sustainability of long-term growth: socioeconomic and ecological perspectives. The sustainability of long-term growth: socioeconomic and ecological perspectives (No. P01-128). PNUD, New York, NY (EUA)..

Najarzade,R and Maleki,M(2005)" The effect of FDI on economic growth with emphasis on exporting countries" Journal of Economic Research of Iran, the seventh year, No.23.

NESTOR, S., THOMAS, S. (1995). Systematic Privatization and Restructuring in East Central Europe. In Hardt J.P., Kaufman R.F., Sharpe M.E. (ed.). East-Central European Economies in Transition. Armonk.

Nugent, N. (2000). EU enlargement and 'the Cyprus problem'. *JCMS: Journal of Common Market Studies*, *38*(1), 131-150.

Okáli, I., Morvay, K., Frank, K., Gabrielova, H., Jeck, T., & Sikulova, I. (2009). Economic development of Slovakia in 2008. Bratislava: Institute of Economic Research of Slovak Academy of Sciences.

Porter, M. E. (2000). The global competitiveness report 2000 (Vol. 198). A. Warner, & J. Sachs (Eds.). New York: Oxford university press.

Preston, C. (1998). Poland and EU membership: Current issues and future prospects. *Journal of European Integration*, *21*(2), 147-168.

Redek, T., Memaj, F., Prašnikar, J., & Trobec, D. (2012). Albania: two decades of economic development at a glance. Albania: The Role of Intangible Capital in Future Growth, 4-59.

Rojec, M., & Jaklic, A. (2002). Integration of Slovenia into EU and global industrial networks: review of existing evidence.

Sarkar, A.(2000) "A Model of Brokers' Trading, with Applications to Order Flow Internalization", Review of Financial Economics, 11, nr. 1

Schimmelfennig, F., & Scholtz, H. (2008). EU Democracy promotion in the European neighbourhood political conditionality, economic development and transnational exchange. European Union Politics, 9(2), 187-215.

Smith, A. (1996). From convergence to fragmentation: uneven regional development, industrial restructuring, and the ‘transition to capitalism’in Slovakia. Environment and Planning A, 28(1), 135-156.

Trauner, F. (2009). From membership conditionality to policy conditionality: EU external governance in South Eastern Europe. Journal of European Public Policy, 16(5), 774-790.

Tvaronavičiene, M., Grybaite, V., & Tvaronavičiene, A. (2009). If institutional performance matters: development comparisons of Lithuania, Latvia and Estonia. Journal of Business Economics and Management, 10(3), 271-278.

Yuhong Li, Zhongwen Chen & Changjian San (2010), Research on the Relationship between Foreign Trade and the GDP Growth of East China— Empirical Analysis Based on Causality, Modern Economy, Vol. 1, pp. 118-124.

http://www.imf.org/external/index.htm