

Central European Update

Poland

The ruling party in Poland is advocating coupling the referendum for acceptance of the EU Constitution with the upcoming presidential elections in 2005. The argument for this is that the candidates' positions with regards to the constitutional treaty would give Polish citizens a clearer idea of their post-election agendas. Meanwhile, the political opposition has strongly criticized the government for betraying the national interests by signing the EU constitution and vowed to block its ratification.

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On 30 June the Polish Central Bank raised interest rates by 50 basis points to combat increasing inflationary pressures in the economy. Although anticipated, the increase was nearly double that of what was forecasted.

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According to the Polish Defense Ministry, NATO is planning to increase investment in Poland from 20 million zlotys (5.36 million U.S. dollars) in 2003 to 593 million zlotys (159 million US dollars) in 2004. Additionally, Poland and Greece signed a defense agreement on 29 June to boost military cooperation.

The Czech Republic

President Vaclav Klaus formally accepted the resignation of Vladimír Špidla from his post as Prime Minister, just days after he resigned as head of the Social Democratic Party. Špidla decided to step down from both posts after he narrowly survived a vote of no confidence as party leader following criticism for his party's dramatic defeat in the European Parliament elections in June. Intensive talks are being held on forming a new government. The Social Democrats have named Interior Minister Stanislav Gross interim party leader. Though he is expected to be the next prime minister, Gross still needs to be officially appointed by President Klaus. The outgoing Prime Minister Vladimír Špidla will temporarily take over control of the Ministry of Justice. The post of Justice Minister is vacant, as no one had been appointed to succeed Karel Cermak who resigned earlier in June.

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After relying on compulsory military service for many years, the Czech Republic similarly to Slovakia and Hungary, is in the process of replacing it with profes-

sional armed services. The new plan will include the creation of recruiting centers with the aim of improving the image of the military, especially among the young males, most of whom have tended to regard military service as an imposition.

Slovakia

On 30 June the Slovak Central Bank unexpectedly cut key interest rates. The Central Bank was concerned with the strength of the Slovak currency, the crown, which has recently been trading at record highs against the euro, its main reference currency. The move intends to compensate for the adverse effect that the strong crown is having on Slovakia's terms of trade. The Slovak crown has been under strong pressure to appreciate due to heavy inflows of foreign direct investment. Foreign investors have been attracted to Slovakia's favorable business climate, political stability and the recent accessions into both the EU and NATO.

Hungary

Having visited San Francisco, the Silicon Valley and Washington D.C. earlier last week, Hungarian Prime Minister Péter Medgyessy

concluded his 5 day visit of the USA in New York, meeting with investors, as well as young Hungarian professionals. As a result of Medgyessy's visit, the U.S. government has reaffirmed its support of investment in Hungary and also agreed to review the visa issues for Hungarian citizens.

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The World Federation of Hungarians (MVSZ) has collected 200,000 signatures on a petition aimed to initiate a binding referendum on dual citizenship for ethnic Hungarians in neighboring countries. The referendum is expected to be held in the fall. The stated reason for dual citizenship is to ease communication between Hungary and ethnic Hungarians living in neighboring non-EU countries after Hungary joins the Schengen regime in late 2006.



Featured photo: Prague, Czech Republic

Baltic States Update

Latvia

According to official figures that the Bank of Latvia released on 30 June, the economic growth in Latvia in the first quarter of 2004 was 8.8 percent, compared to the same period in 2003. This makes the country the fastest growing Baltic economy. Meanwhile, economic growth in Estonia soared by 6.8 percent year-on-year in the first quarter of this year, while the Lithuanian economy, by 7.7 percent. These statistics rank the three Baltic states among the fastest growing economies in the EU.

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Estonia

On 27 June, Estonia joined the ERM2, an exchange rate mechanism for EU countries that are not taking part in the monetary union. This key step links the kroon to the euro and brings Estonia a step closer to adopting the euro, which will happen in 2006 at the earliest. Estonia's finance minister said 28 June that this move is likely to boost the country's economy.

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The Estonian Maritime Administration's seafaring center announced the introduction of a single Russian-Estonian-Finnish system for

tracing the movement of ships in the Gulf of Finland. The system is designed to increase the security of seafaring and reduce pollution. It allows for gathering and conveying information to coast services and ships on vessels' movement and their possession of dangerous cargo.

Lithuania

Lithuania's former president Valdas Adamkus won a second term with 52.2 percent of the vote in a runoff election Sunday against ex-Prime Minister Kazimira Prunskiene. The pro-Western Adamkus served previously as president from 1998-2003, and laid the groundwork for Lithuania's membership in NATO and the EU.

Southeast European Update

Croatia

After receiving official EU candidate status in June, Croatia believed it had made sufficient progress to receive a "clear signal" on NATO membership at the Istanbul summit, which ended on 29 June. Zagreb was praised for its reforms and its cooperation in the extradition of war criminals to The Hague, but it was given no concrete timeline for accession beyond the statement that NATO's doors "remain open". It is fair to assume that both the achievements and the problems associated with the April 2004 NATO enlargement will determine the Alliance's readiness for a future expansion.

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On 29 June, the Hague-based war crimes tribunal sentenced former Croatian Serb rebel leader Milan Babic to 13 years in prison for his role in killing and persecuting Croats between 1991 and 1992. Babic surrendered in November 2003 and on 28 January this year, after a plea agreement he reached with prosecutors, he pleaded guilty on one count of crimes

against humanity. Babic was tried in connection with the murder of more than 200 people and the imprisoning and inhumane treatment of several hundred more.

Bulgaria

Defense Minister Nikolai Svinarov said on 24 June that the United States pledged to donate 10 armored jeeps and a fully equipped ambulance to the third Bulgarian contingent in Iraq. Svinarov made this statement when he visited the 61st Stryam Mechanized Brigade to attend the ceremony, at which the third infantry battalion of 485 servicemen was seen off to Iraq.

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President Parvanov announced that he will summon the Consultative Council for National Security to



Featured photo: Sofia, Bulgaria

discuss Bulgaria's role in international peacekeeping and reconstruction missions. The attention will be focused not only on Sofia's specific contributions to the Afghanistan and Iraq campaigns, but also on the option of creating a separate fund within the budget, allocated for funding international operations. The challenge that the proposal poses is that the creation of such a fund should not increase the current defense spending, which accounts for 2.6% of GDP, one of the highest percentages among NATO members.

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At a conference on Bulgaria's membership in NATO, Deputy Prime Minister Plamen Panayotov urged U.S. investors to participate in the tenders for 11 priority defense projects for a total of about 1 billion U.S. dollars. Those projects are associated with the modernization of the Bulgarian armed forces and the revival of the defense industrial base. American investment in Bulgaria currently ranks sixth in the country, pre-

ceded by countries that have much smaller economies, such as Austria and Greece.

Romania

Romania will hold the rotating presidency of the U.N. Security Council in July 2004. It was elected by the General Assembly on 23 October 2003, as a non-permanent member of the Council for a two year mandate starting from 1 January 2004. The mandate is entrusted to Romania in a very dynamic period and the country's stated goals are to actively and constructively aid the efforts to ensure global security, prosperity and development. It also hopes to contribute to enhancing the internal cohesion and coherence of the Council. In order to achieve those goals, Romania plans to draw upon its experience as a member of the Security Council during the Kuwait-Iraqi crisis and its subsequent practice in participation in international peacekeeping, stabilization and reconstruction operations in Kosovo, Bosnia Herzegovina, Afghanistan, and Iraq.

Other Developments

NATO Summit Outcomes

At the NATO summit in Istanbul on 28 and 29 June, the heads of state and government of the member countries agreed to expand the Alliance's presence in Afghanistan and to assist Iraq with the training of security forces. The participants also adopted measures to improve NATO's operational capabilities and decided to conclude the SFOR operation in Bosnia and Herzegovina, but maintain a robust KFOR presence in Kosovo.

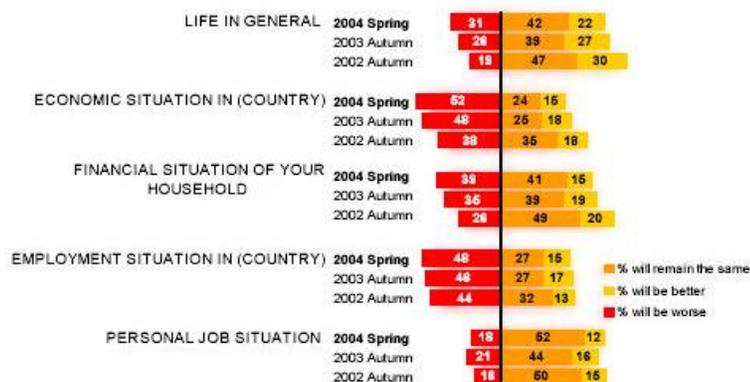
EU 25 Unemployment

According to a recent report by the Statistical Office of the

European Communities, the unemployment rate in the enlarged EU was 9.0% in May 2004, down from 9.1% in April. Twelve member states recorded an increase in their unemployment rate over a year, eleven a decrease and two remained the same. In May 2004, the lowest rates were registered in Cyprus, Luxembourg and Austria (4.2%) and the highest in Poland (18.9%), Slovakia (16.4%), and Lithuania (11.5%). The largest relative decreases in unemployment from April 2003 to April 2004 were observed in Estonia (10.4% to 9.1%), Lithuania (13.0% to 11.5%) and Cyprus (4.5% to 4.2%).

Expectations for the year to come

Accession Countries



Featured chart: Eurobarometer of the European Commission—Public opinion in the 10 new EU members and the 3 candidate countries on EU matters.

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