COMPARATIVE ECONOMIC ANALYSIS: EURO-ADOPTING VERSUS NON-EURO EU COUNTRIES

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Abstract

This paper analyses the macroeconomic evolution of the EU member states that have adopted the euro, compared to those that continue to use national currencies, with a specific focus on the Central and Eastern European countries during the period 2018–2024. Using a mixed-methods approach and data provided by Eurostat, the European Central Bank (ECB), and the International Monetary Fund, we examined a series of key indicators: interest rates, inflation, GDP per capita, public debt, and foreign direct investment (FDI).

Eurozone countries benefit from significant macroeconomic advantages, largely due to access to monetary tools such as the Pandemic Emergency Purchase Programme (PEPP) and the Transmission Protection Instrument (TPI), both implemented by the ECB. These mechanisms helped stabilize financial markets, reduce interest rate volatility, and ensure effective transmission of monetary policy, especially during crises like the COVID-19 pandemic. PEPP, launched in March 2020, aimed to mitigate serious risks to the euro area economy by purchasing public and private sector securities. TPI, introduced in 2022, supports monetary policy transmission by allowing the ECB to purchase sovereign bonds from member states that meet certain criteria, helping to prevent unjustified market fragmentation. In contrast, non-euro countries like Romania and Poland, without access to these tools, have experienced more severe inflation and higher borrowing costs. The results show that the position of countries after joining the euro area varies from one state to another; however, signs of stabilization in macroeconomic indicators can be observed following euro area accession.

Keywords: *non-euro countries, interest rates, inflation, GDP, FDI, convergence, monetary policy.*

1. Introduction

For EU countries aiming to join the euro area in the future, the experience of states that have already undergone this transition provides valuable policy insights. Achieving a successful accession requires thorough preparation, which includes meeting both nominal and real convergence criteria, along with the implementation of essential structural reforms. These steps are vital for ensuring macroeconomic stability and maximizing the long-term benefits of eurozone membership[1].

Analysis begins from the premise that euro area membership offers a stabilizing framework for absorbing macroeconomic shocks, particularly during periods of crisis. In contrast, non-euro states—while retaining monetary sovereignty—tend to experience greater volatility in core economic indicators. The study examines the trajectory of indicators such as GDP, inflation, interest rates, and public debt across various EU countries between 2018 and 2024, focusing on euro area members (Slovenia, Slovakia, Lithuania, Latvia, Croatia) and non-euro states (Romania, Hungary, Poland, Bulgaria).

This study utilizes a comparative framework grounded in a mixed-methods approach to examine the macroeconomic evolution of euro-adopting countries versus Central and Eastern European EU member states that have yet to adopt the common currency during the 2018–2024 period. The core of the methodology is quantitative, focusing on the collection and comparative analysis of key macroeconomic indicators such as long-term interest rates, inflation (HICP), GDP per capita (relative to the EU average), public debt, and foreign direct investment (FDI). The data were obtained from institutional sources, Eurostat, the European Central Bank (ECB), and the International Monetary Fund (IMF).

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[1] N.F. Campos, F. Coricelli, *Why Did Some Countries Adopt the Euro Early?, in Economic Policy,* **2015**, *30*(82), 107-155.

2. Economic convergence trends in non-eurozone states

Under the Maastricht convergence criteria, a candidate country's long-term interest rate must not exceed the average of the three best-performing EU Member States in terms of price stability by more than two percentage points (European Commission, Convergence Report, 2022, p. 45). For the reference period of June 2023 to May 2024, the benchmark countries were Denmark (2.6%), the Netherlands (2.8%), and Belgium (3.1%), resulting in a reference threshold of 4.8%.

Between 2018 and 2024, long-term interest rate trends revealed a clear disparity between Eurozone countries and those outside the monetary union. Member states such as Lithuania, Slovenia, and Slovakia maintained rates below 1% until 2021, whereas countries like Romania, Poland, and Hungary consistently registered higher rates—reaching levels between 3% and nearly 8% during the inflationary surge of 2022. This divergence can be attributed not only to differing inflation levels but also to investor perceptions of sovereign creditworthiness and institutional reliability. The European Central Bank's (ECB) highly accommodative monetary policies provided critical support for eurozone economies, helping to shield them from global financial turbulence and reinforcing the euro's role as a stabilizing factor. In contrast, non-euro states were compelled to raise interest rates significantly to fight inflation, which led to higher borrowing costs and increased macroeconomic uncertainty.

The trajectory of long-term interest rates is influenced by expectations surrounding inflation, assessments of sovereign risk, and the perceived credibility of monetary authorities. According to research by Lane and Milesi-Ferretti (2007) and Égert[2] (2012), non-euro countries tend to face higher risk premiums due to factors such as exchange rate volatility, underdeveloped financial markets, and institutional shortcomings. These studies also found that heightened macroeconomic instability—particularly in inflation and interest rates—discourages foreign direct investment and elevates borrowing costs in countries outside the euro area.

From 2018 to 2021, most EU countries enjoyed relatively low inflation and modest interest rates, supported by global accommodative monetary conditions. However, the economic shock of the COVID-19 pandemic in 2020 led to a sharp contraction across Europe, with Eurozone GDP falling by 6.3%.

Table 1. Long-term interest rate

COUNTRY	2018	2019	2020	2021	2022	2023	2024
Romania	4,73	4,35	3,89	3,63	7,49	6,63	5,79
Bulgaria	0,89	0,43	0,25	0,19	1,53	3,34	2,94
Poland	3,2	2,35	1,5	1,95	6,05	5,74	4,97
Hungary	3,06	2,47	2,23	3,06	7,57	7,27	6,1
Lithuania	0,31	0,31	0,22	0,16	0,61	3,68	3,23
Latvia	0,9	0,34	0,06	0	2,27	3,13	2,7
Croatia	2,17	1,29	0,83	0,45	2,7	3,55	3,02
Slovenia	0,84	0,43	0,01	0,02	1,77	3,34	2,97
Slovakia	0,96	0,46	0,01	0,01	1,71	3,34	2,98

Source: Eurostat

[2] B. Égert, *The Impact of Debt on Long-Term Interest Rates: An Empirical Analysis*, OECD Economics Department Working Papers 2012, no. 919.

Although a partial recovery took hold in 2021, it was uneven. Supply chain disruptions and rising energy prices paved the way for the inflation surge of 2022. During this period, Hungary, Romania, and Poland recorded long-term interest rates exceeding 6% alongside double-digit inflation. By comparison, Eurozone countries, while also impacted, benefitted from more favourable financing conditions due to ECB interventions. In Romania's case, the absence of eurozone membership became especially costly during 2022–2023, as elevated interest rates and currency depreciation magnified inflationary pressures on consumers and businesses. Without access to ECB monetary tools, policy adjustments were more burdensome and less effective.

By 2023, with inflation reaching its peak, European monetary policy began to shift. Non-euro countries enacted aggressive rate hikes to manage inflation expectations, while the ECB began pivoting toward stabilization[3]. As inflation eased across the region in 2024, interest rates also began to decline, particularly in Romania (5.1%), Hungary (6.1%), and Poland (5%), signaling restored investor confidence and a more stable macroeconomic environment.

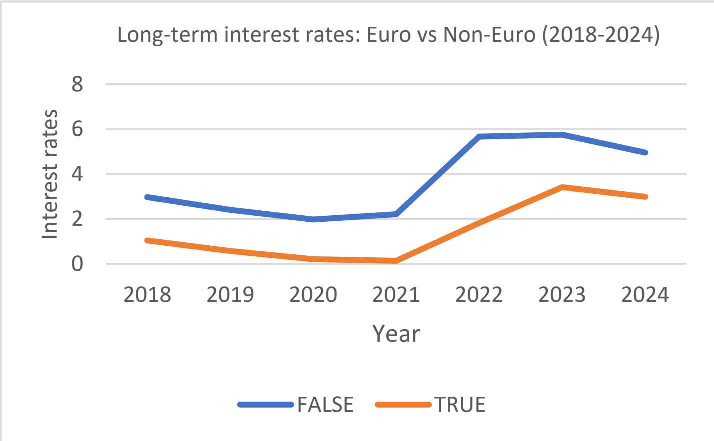

Chart no.1 Long-term interest rate: Euro vs non-Euro (2018–2024)

A notable structural gap between euro area and non-euro area countries was already observable in 2018. Romania recorded one of the highest long-term interest rates—around 4.7%—while Bulgaria, Hungary, and Poland posted significantly lower values of approximately 0.89% and 3.1%, respectively. This divergence reflects a combination of heightened inflation and elevated perceived risk in developing economies. In contrast, Eurozone countries such as Lithuania, Latvia, Slovakia, Slovenia, and Croatia, operating under a unified monetary system, benefited from substantially lower interest rates—often below 1%. These lower rates stemmed from the European Central Bank's (ECB) ultra-accommodative policies, including near-zero rates and quantitative easing measures.

Across most countries, long-term interest rates declined in line with the global economic slowdown and continued accommodative monetary conditions. The trend was particularly evident in Central and Eastern Europe, where weakening external demand, subdued inflation, and falling industrial output contributed to lower interest rates. For example, Romania's rate decreased to approximately 3.9%, Poland reached 1.5%, and Hungary dropped to 2.3%. Bulgaria's rate fell to around 0.7%. Meanwhile, euro area countries occasionally reported near-zero or even negative rates, as seen in Lithuania and Slovakia—demonstrating both ECB policy effects and the stabilizing role of the euro during economic crises.

By 2021, the global economy began a slow recovery, yet the effects of the COVID-19 pandemic continued to strain public finances and labour markets. As restrictions eased and vaccination campaigns progressed, many countries experienced a partial rebound in demand and industrial activity. This recovery was uneven as inflationary pressures began to resurface due to supply chain bottlenecks, soaring energy prices, and base effects.

In this shifting context, long-term interest rates in non-euro countries began to adjust upward. Although still low by historical standards, early signs of monetary tightening emerged in response to rising inflation. In

[3] P.R. Lane, *The ECB's Monetary Policy during Inflationary Episodes*, in ECB Econ. Bull. no. 1-6/2023.

Romania, rates inched up to 3.7%, reflecting a cautious stance by the National Bank of Romania. Hungary's rate rose to 3%, while Poland remained at a relatively low 2%, signalling a more delayed policy reaction. Bulgaria remained stable at 0.5%, consistent with its euro-peg framework.

The year 2022 marked a significant inflection point. Inflation surged to multi-decade highs as a result of post-pandemic demand recovery, ongoing supply disruptions, and geopolitical instability, notably Russia's invasion of Ukraine. The combined factors amplified inflationary pressures and led to a significant increase in long-term interest rates. Romania reached approximately 7.4%, Hungary hit 7.5%, and Poland climbed to 6%—figures indicative of both worsening inflation expectations and active monetary tightening.

Although not part of the Eurozone, Bulgaria's currency board arrangement—anchoring its exchange rate to the euro—helped to contain interest rate increases, which rose modestly to 1.6%, reflecting lower perceived monetary risk. Meanwhile, euro area nations recorded a more moderate increase. Lithuania and Latvia saw rates approach 0.6%, while Croatia (preparing for euro adoption in 2023) reached 2.7%. Slovakia and Slovenia also rose to 2–2.3%. These developments illustrate the Eurozone's more coordinated and stable response mechanisms, even in times of crisis.

In 2023, inflation peaked across much of Europe, pushing long-term interest rates to their highest post-pandemic levels. Central banks responded with aggressive monetary tightening to rein in inflation expectations and restore price stability. Romania's rate declined slightly to 6.6%, down from 7.4%, suggesting inflation had reached its apex. Hungary's rate stayed elevated at 7.3%, while Poland stabilized around 5.9%. The figure remained high, indicating continued price pressures and investor caution.

Bulgaria, still under the currency board regime, saw its rate rise further to 3.4%, remaining below the levels seen in floating-rate economies but highlighting inflation-related concerns and regional vulnerabilities. Within the Eurozone, Croatia, Slovenia, and Slovakia reached 3.2–3.4%, and Lithuania and Latvia approached 3.6–3.7%.

One critical factor differentiating Eurozone countries was the limited degree of market fragmentation—thanks to tools like the ECB's Transmission Protection Instrument (TPI). Countries such as Italy and Spain benefited from these mechanisms, which curbed volatility and ensured continued access to affordable financing—advantages that non-euro countries could not access.

In the latter half of 2023, inflation gradually began to ease, aided by softening demand and the normalization of supply chains. Monthly inflation rates declined in Romania, Hungary, and Poland, although year-end levels remained above central bank targets. Economic activity slowed, particularly in sectors sensitive to interest rates, such as real estate and construction. SMEs reported tighter credit conditions and reduced investment appetite due to persistently high borrowing costs.

Thus, 2023 marked the start of a disinflationary phase, accompanied by new structural challenges: maintaining fiscal discipline amid rising debt costs, addressing labour shortages, and combating stagnant productivity growth. For non-euro countries, this environment reinforced the vulnerabilities of maintaining independent monetary policy in small, open economies. Exchange rate volatility and susceptibility to global capital flows increased their exposure to international shocks. In contrast, euro-adopting nations benefited from greater financial integration and the stabilizing influence of the ECB.

By 2024, inflation in most countries had aligned closer to the ECB's target, enabling a gradual shift toward monetary easing. Eurozone GDP growth moderated to 1.8%, signalling a more balanced economic outlook. Countries like Bulgaria and Croatia made notable progress toward convergence, increasingly aligning their monetary frameworks with ECB standards.

The general trend toward declining interest rates reflected improved inflation expectations and a normalization of market sentiment. Romania's rate fell to 5.1%, Hungary's to 6.1%, and Poland's to 5%. Bulgaria decreased to 2.8%, while Eurozone nations such as Slovakia, Croatia, and Slovenia recorded rates around 3%. Lithuania and Latvia maintained rates between 3.2% and 3.3%. Although still higher than pre-2018 levels, this downward correction pointed to a gradual return to post-crisis stability.

Lower and more stable interest rates in Eurozone countries reflect strong market confidence in the ECB's policy credibility and collective framework. For candidate countries, euro adoption may help reduce borrowing costs and enhance macroeconomic stability, provided fiscal discipline is maintained. In contrast, the more volatile rate environment in non-euro states underscores vulnerabilities linked to national currency fluctuations and political risk.

Table 2 GDP at current market prices (2005-2023)

COUNTRY	2005	2010	2015	2018	2019	2020	2021	2022	2023
EU	100	100	100	100	100	100	100	100	100
BULGARIA	38	45	48	52	54	55	57	62	64
POLAND	52	63	69	71	73	76	77	80	80
ROMANIA	36	53	57	70	72	73	73	75	80
LITHUANIA	54	61	75	81	83	88	89	89	86
LATVIA	52	54	65	70	71	72	71	72	71
CROATIA	57	61	61	64	65	65	70	73	76
HUNGARY	61	65	68	67	67	74	74	77	78
SLOVENIA	82	85	85	87	88	89	90	92	93
SLOVAKIA	62	72	76	73	73	76	77	80	80

Source: Eurostat

Public debt remains one of the most closely monitored indicators of fiscal sustainability in the European Union. Typically expressed as a percentage of GDP, general government gross debt reflects a country’s total financial obligations, including those of central and local governments and social security systems. According to the Maastricht convergence criteria, sustainable public debt should not exceed 60% of GDP.

In 2005, the countries under analysis showed significant divergence from the EU average. Romania and Bulgaria, reflecting low income per capita and limited economic activity, were at the bottom of the scale, with GDP levels around 36–38% of the EU average. Hungary, Poland, and Slovakia occupied a middle tier, registering between 50% and 60%. Although still below 65%, countries such as Lithuania, Latvia, and Croatia displayed relatively stronger economic positions.

Between 2005 and 2023, Central and Eastern European countries underwent a notable process of economic convergence toward the EU average, measured by GDP per capita at current prices. This indicator reveals how closely these emerging economies have come to matching the economic output and living standards of more advanced EU members.

At the start of the reference period, many countries were still significantly below the EU average. Romania and Bulgaria had the lowest GDP per capita levels at 36% and 38%, respectively. Poland, Hungary, and Slovakia ranged from 52% to 62%. Slovenia (82%) and Lithuania (54%) were comparatively better positioned, benefiting from early structural reforms and institutional readiness. Slovenia’s strong initial standing signalled its rapid future alignment with euro area standards.

By 2010, the impact of EU accession became more pronounced. Romania made a substantial leap from 36% to 53%, while Bulgaria improved to 45%. Poland and Slovakia reached 63% and 72%, respectively, and Lithuania climbed to 61%. Slovenia further strengthened its lead, reaching 85%.

The convergence trend continued in 2015. Romania rose to 57%, and Bulgaria to 48%, gradually closing the gap. Poland (69%), Lithuania (75%), and Slovakia (76%) approached the 70–75% range, reflecting a consistent upward trend among Eastern European economies. Latvia and Croatia also surpassed the 65% threshold, supported by strengthening macroeconomic fundamentals. Growing household consumption, expanding exports, and well-utilized EU funding contributed to this stage of convergence.

Leading up to the pandemic, many of these economies experienced rapid growth. Romania’s GDP per capita rose to 70% in 2018 and 72% in 2019, while Bulgaria followed with 52% and 54%. Lithuania continued its upward trajectory, reaching 81% in 2018 and 83% in 2019. Slovakia remained stable at around 73%, and Slovenia advanced to 88%. These gains were underpinned by increased employment, improved productivity, and strong investments in infrastructure, particularly in digital and transportation sectors.

Although the COVID-19 pandemic in 2020 disrupted economic activity across Europe, convergence indicators held relatively steady. Romania remained at 73%, and Bulgaria inched up to 55%. Poland climbed to 76%, while Lithuania reached an impressive 88%. Latvia and Slovakia maintained their positions, reflecting resilience supported by sound macroeconomic policies and swift governmental responses. Despite sharp declines in real GDP, nominal values remained stable due to inflation adjustments and EU financial assistance.

By 2022, Romania had reached 75% of the EU average, and in 2023, it exceeded the symbolic 80% threshold—its highest level in the observed period. This achievement brought it on par with Poland and Slovakia, which also reached 80%. Bulgaria continued its gradual progress, reaching 64%. Lithuania and Slovenia posted some of the highest convergence rates at 86% and 93%, respectively. Hungary advanced to 78%, and Croatia reached 76%, boosted by tourism recovery and EU-funded investment programs.

Numerous studies (*e.g.*, Buiter *et al.*, 2010; European Fiscal Board, 2020) emphasize that public debt should be evaluated not just in terms of its absolute level, but also by considering its trajectory and a country's fiscal resilience. Bulgaria's consistently low debt levels reflect the strength of its fiscal institutions, whereas the rising debt in Romania and Hungary, as highlighted in the analysis, is associated with higher borrowing costs and diminished investor confidence.

Table 3. General government gross debt (% of GDP)

COUNTRY	2018	2019	2020	2021	2022	2023
EU	79,8	77,6	89,5	86,7	82,5	80,8
BULGARIA	22,3	20	24,4	23,8	22,5	22,9
POLAND	48,9	45,7	56,6	53	48,8	49,7
ROMANIA	35,3	35,2	46,6	48,3	47,9	48,9
LITHUANIA	34,1	35,1	45,9	43,3	38,1	37,3
LATVIA	36,8	36,7	44	45,9	44,4	45
CROATIA	73,3	71	86,5	78,2	68,5	61,8
HUNGARY	70,2	65,4	80,1	76,8	73,5	72,9
SLOVENIA	70,1	65,6	79,8	74,7	69,9	67,8
SLOVAKIA	48,1	48	59,7	61	57,8	56,3

Sources: Eurostat

In 2018, the EU's average public debt stood at 79.8% of GDP, indicating a relatively stable environment in the aftermath of the financial crisis. Among Central and Eastern European countries, Bulgaria recorded the lowest debt-to-GDP ratio at 22.3%, reflecting its prudent fiscal approach. Romania's debt was a moderate 35.3%, while Poland and Slovakia posted figures of 48.9% and 48.1%, respectively—both below the Maastricht threshold. On the other hand, Hungary, Slovenia, and Croatia had higher debt levels of 70.2%, 70.1%, and 73.3%, aligning more closely with the EU average.

In 2019, public debt levels across the EU remained relatively unchanged. The average debt ratio declined slightly to 77.6%. Bulgaria further improved its position, reducing its debt to 20%, maintaining a significant lead in fiscal discipline. Romania held steady at 35.2%, and Poland edged down to 45.7%, reflecting continued economic growth and stable fiscal management.

The year 2020 marked a turning point, as the COVID-19 pandemic prompted governments to significantly increase public spending. The EU's average debt ratio rose sharply to 89.5%. Croatia and Slovenia saw their debt increase to 86.5% and 79.8%, respectively. Hungary's debt climbed to 80.1%, while Slovakia neared the Maastricht ceiling at 59.7%. Romania's debt increased to 46.6%, and Poland's rose to 56.6%, both still within manageable ranges. Bulgaria, however, maintained remarkable fiscal discipline, with a debt level of just 24.4%, the lowest in the region.

In 2021, with the acute phase of the pandemic behind, many countries began returning to more normal fiscal paths. The EU average declined slightly to 86.7%. Romania's debt rose to 48.3%, driven by ongoing deficits and recovery expenditures. Hungary and Slovenia remained at elevated levels—76.8% and 74.7%, respectively. Poland began fiscal consolidation, lowering its debt to 53%, while Bulgaria continued to outperform with a low ratio of 23.8%, reinforcing its image as one of the EU's most fiscally responsible countries.

By 2022, a general trend of fiscal consolidation emerged across the EU, lowering the average debt ratio to 82.5%. Croatia and Slovenia reduced their debts to 68.5% and 69.9%, respectively. Slovakia declined to 57.8%, and Hungary to 73.5%. Romania, however, recorded a slight increase to 47.9%, signalling limited adjustment. Poland posted a similar level at 48.8%, while Bulgaria maintained its lead with just 22.5%. Lithuania and Latvia also remained below the 45% mark, at 38.1% and 44.4%.

By 2023, debt levels across the region had largely stabilized, albeit still above pre-pandemic levels. The EU average settled at 80.8%. Romania's public debt inched up to 48.9%, still below the EU average but suggesting the need for renewed fiscal discipline. Hungary and Slovenia remained elevated at 72.9% and 67.8%, while Croatia made further progress, lowering its debt to 61.8%. Poland remained just under the Maastricht limit at 49.7%. Bulgaria once again held the lowest position in the EU, with a debt ratio of 22.9%, underscoring the long-term advantages of its conservative fiscal policy.

Regarding inflation, the price stability criterion stipulates that inflation must not exceed the average of the three best-performing EU Member States by more than 1.5 percentage points (European Commission, ECB Convergence Reports). For the reference period June 2023 – May 2024, this threshold was set at 4.3%.

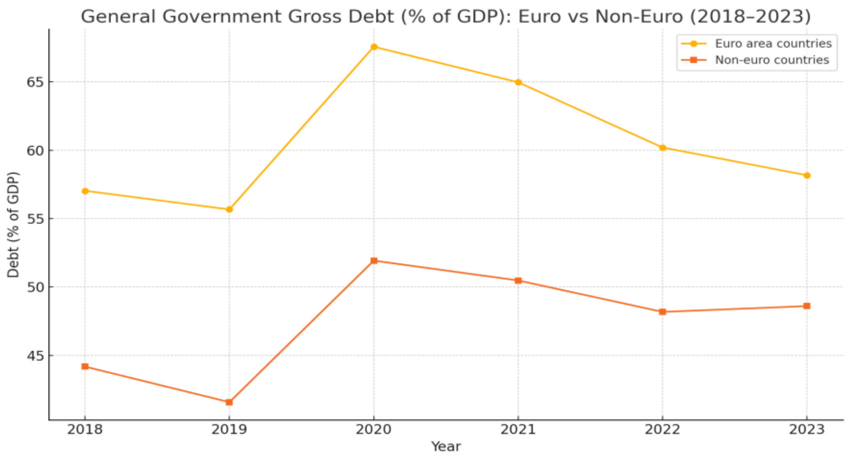

Chart no.2. Average debt by euro status (2018–2023)

Between 2018 and 2021, the relationship between public debt and interest rates was weak, with an insignificant correlation ($r < 0.2$). This suggests that during this period—characterized by historically low interest rates and highly accommodative monetary policies—the level of public debt had little influence on market perceptions of fiscal risk. In essence, expansionary monetary conditions muted the traditional link between sovereign debt and borrowing costs.

The correlation between debt levels and interest rates increased significantly, reaching 0.35 by 2023[4]. This change reflects the impact of rising inflation and the subsequent tightening of monetary policy. As interest rates climbed, markets began to reprice fiscal risk more sharply, with highly indebted countries facing steeper borrowing costs. In this context, interest rates once again became sensitive to sovereign debt levels.

From 2018 to 2021, the European Central Bank (ECB) and national central banks in Central and Eastern Europe pursued ultra-loose monetary policies that effectively „decoupled" interest rates from fiscal

[4] T. Laubach, *New Evidence on the Interest Rate Effects of Budget Deficits and Debt*, in J. Eur. Econ. Assoc. 2009, 7(4), p. 858–885.

fundamentals. This environment temporarily insulated governments from the usual market pressures associated with rising debt.

After 2022, the return of inflation and the normalization of monetary policy reinstated the link between debt and financing costs. Countries with high debt levels started to experience higher interest rates, highlighting the renewed importance of fiscal sustainability in assessing sovereign risk and investor confidence.

The next index analysed is HICP inflation and reveals the process by which the effective consumption of the population (AIC) is converted into a common currency (the primary currency of exchange) as well as the way these values are adjusted to consider the price differences that exist between countries (the primary index of price levels).

Table 4. HICP Inflation (annual average 2018-2024)

COUNTRY	2018	2019	2020	2021	2022	2023	2024
BULGARIA	2,6	2,5	1,2	2,8	13	8,7	5,2
POLAND	1,2	2,1	3,7	5,2	13,2	10,9	6,1
ROMANIA	4,1	3,9	2,3	4,1	12	9,7	7,6
LITHUANIA	2,5	2,2	1,1	4,6	18,9	8,7	0,9
LATVIA	2,6	2,7	0,1	3,2	17,2	9,1	1,3
CROATIA	1,5	0,8	0,1	2,7	10,7	8,4	4
HUNGARY	2,9	3,4	3,9	5,2	15,3	17	5,5

Sources: Eurostat

Between 2018 and 2024, annual inflation trends across selected Central and Eastern European countries exhibited considerable volatility, shaped by both global shocks and domestic macroeconomic dynamics. Using HICP data, this evolution reveals key inflection points and policy reactions throughout the region.

In 2018, inflation remained relatively moderate and stable, with most countries recording rates between 1% and 4%. Romania and Poland stood out, posting higher inflation rates of 4.1% and 1.2%, respectively. Latvia, Lithuania, and Croatia hovered between 2% and 3%, while Hungary registered 2.9%.

By 2019, inflation remained manageable. Bulgaria's rate fell to 2.5%, Poland experienced a slight increase to 2.1%, and Hungary climbed to 3.4%. Romania continued its upward trend at 3.9%. These developments reflected rising domestic demand alongside robust economic growth and limited external inflationary pressures.

The outbreak of the COVID-19 pandemic in 2020 disrupted this relative stability. Lockdowns and plummeting demand caused inflation to fall sharply in most countries. Latvia and Croatia recorded near-zero inflation (0.1%), while Lithuania reached 1.1%. Romania and Hungary, however, maintained higher rates—2.3% and 3.9%, respectively—due to supply-side constraints and expansive fiscal measures.

In 2021, inflationary pressures began to re-emerge as economies rebounded. Romania recorded 4.1%, while Hungary and Poland rose to 5.2%. Lithuania surged to 4.6%. These increases were driven by rising commodity prices, persistent supply chain disruptions, and recovering consumer demand, signaling the need for eventual monetary tightening.

A sharp inflation shock unfolded in 2022, largely fueled by the energy crisis stemming from Russia's invasion of Ukraine. Inflation rates reached double digits across the region: Hungary hit 15.3%, Lithuania 18.9%, Latvia 17.2%, Romania 12%, and Poland 13.2%. Currency depreciation, rising wages, and broader second-round effects exacerbated price pressures. In response, central banks initiated monetary tightening, leading to higher long-term interest rates.

By 2023, inflation began to decline, though it remained elevated. Hungary peaked at 17%, while Lithuania and Latvia fell to 8.7% and 9.1%, respectively. Romania's inflation eased to 9.7%, while Bulgaria and Poland stabilized around 8.7% and 10.9%. This downward trend reflected the delayed effects of tighter monetary policy, cooling demand, and partial stabilization of supply chains. Persistent structural challenges—such as labor market rigidity and rapid wage growth—continued to slow disinflation. As a result, purchasing power declined, as inflation outpaced real wage growth, and high interest rates limited access to credit for households and businesses, keeping the cost of living under pressure.

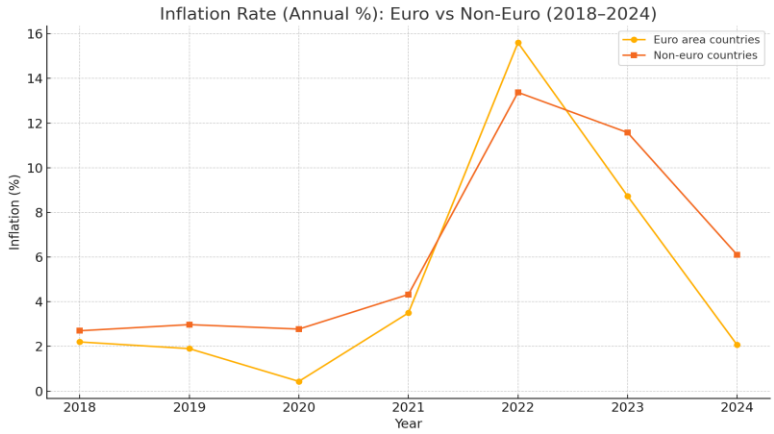

Chart no.3. Average inflation by euro status (2018–2024)

Looking ahead to 2024, inflation appears to be moderating significantly. Projections indicate that Lithuania and Latvia will drop below 2%, to 0.9% and 1.3%, respectively. Hungary is expected to fall to 5.5%, Romania to 7.6%, and Bulgaria to 5.2%. These improvements point to a broader return to price stability, supported by the cumulative effect of monetary tightening and fewer external disruptions.

Foreign Direct Investment continues to serve as a key indicator of a country's economic appeal, signalling investor confidence in its institutional strength, macroeconomic stability, fiscal prudence, and long-term growth prospects. In emerging European economies – both within and outside the euro area – FDI inflows have fluctuated considerably over the past six years. These variations have been shaped by internal reform efforts, external shocks, and the evolving monetary and fiscal environment.

Table 5. FDI by country (2018–2023)

COUNTRY	2018	2019	2020	2021	2022	2023
BULGARIA	76,5	78	76,1	68,2	59,9	58,6
POLAND	51,2	52,8	48,9	42,5	40	41,9
ROMANIA	45	46,1	41,1	41,4	38,3	36,4
LITHUANIA	49,5	50,6	50,1	50,7	49,2	48,2
LATVIA	56,2	58,4	57,5	65,7	62,9	63,6
CROATIA	59,8	60,5	54,4	53,6	63,6	50,1
HUNGARY	57,3	59,6	56,3	54,7	51,6	49,8
SLOVENIA	52,1	54	49,3	50,2	48,7	47,9

Sources: Eurostat

In the years leading up to the pandemic, most Central and Eastern European countries experienced relatively high and stable levels of FDI. Bulgaria stood out as a regional leader, with FDI index values exceeding 76 in both 2018 and 2019 – underscoring its image as a fiscally disciplined and institutionally reliable investment destination. Latvia, Croatia, and Hungary also demonstrated strong investor appeal, with FDI indices ranging between 58 and 61. Meanwhile, Poland, Slovakia, and Slovenia consistently attracted FDI in the 50–55 range, supported by EU membership, competitive labor costs, and integration into pan-European supply chains.

Despite strong macroeconomic growth and impressive GDP performance, Romania recorded comparatively lower FDI values – 45 in 2018 and 46.1 in 2019. This disparity revealed underlying structural weaknesses such as bureaucratic inefficiency, inadequate infrastructure, and regulatory unpredictability. These persistent issues hindered Romania's ability to translate economic momentum into sustained investor interest.

The onset of the COVID-19 crisis in 2020 triggered a widespread contraction in FDI throughout the region. Heightened uncertainty, disrupted supply chains, and postponed investment plans caused either capital flight or stalled projects. Although Bulgaria maintained its regional leadership, its FDI index fell slightly to 76.1. Countries such as Croatia, Slovenia, Hungary (56.3), and Poland (48.9) experienced steeper declines.

Romania was particularly vulnerable, with its FDI index dropping to 41.1. The decline underscored the fragility of its investment climate when faced with external shocks. Rising public debt and widening fiscal deficits further undermined investor confidence, raising concerns over the country's economic resilience and governance quality.

As recovery efforts gained traction in the post-pandemic period, some countries saw partial rebounds in FDI. Latvia and Croatia reported notable improvements, reflecting renewed investor interest in relatively more agile and well-managed economies. In contrast, Romania and Poland continued to lag, with FDI levels at 41.4 and 42.5, respectively – despite recovering GDP and a more stable debt outlook.

This disconnect highlighted a critical insight: quantitative indicators of recovery, such as GDP growth, are not sufficient to attract foreign investment. Instead, qualitative factors – such as legal clarity, policy consistency, good governance, and institutional strength – played a decisive role. Countries that failed to address these structural challenges struggled to regain investor confidence, even amid improving macroeconomic conditions.

In 2022, a new wave of challenges emerged. Inflation surged, interest rates rose, and geopolitical risks intensified following Russia's invasion of Ukraine. These factors reshaped investor sentiment, increasing risk aversion and raising the cost of capital. Romania's FDI index declined further to 38.3, reaching one of its lowest levels during the period. In contrast, Bulgaria, Latvia, and Croatia maintained relatively strong FDI performance – ranging between 59.9 and 63.6 – thanks to stronger institutions, clearer policy communication, and more robust fiscal governance.

Across the region, elevated inflation and rising long-term interest rates eroded investment profitability. Investors became increasingly cautious, shifting capital away from economies perceived as unstable or mismanaged.

Although inflation began to ease in 2023, FDI inflows continued to decline in many countries. Romania dropped to 36.4 – the lowest among its regional peers. Poland, Hungary, and Slovenia also saw reductions in their FDI indices. Notably, even Eurozone members like Slovakia and Slovenia were not immune, suggesting that while euro adoption provides some stability, and sound macroeconomic fundamentals remain the key driver of investor decisions.

The persistent decline in FDI reflects deeper concerns. Fiscal consolidation has been slow, interest rates remain high, and inflation, though declining, continues to exceed central bank targets. Repeated shifts in fiscal policy, populist spending measures, and inconsistent regulatory frameworks have further eroded investor confidence – particularly in non-euro area countries.

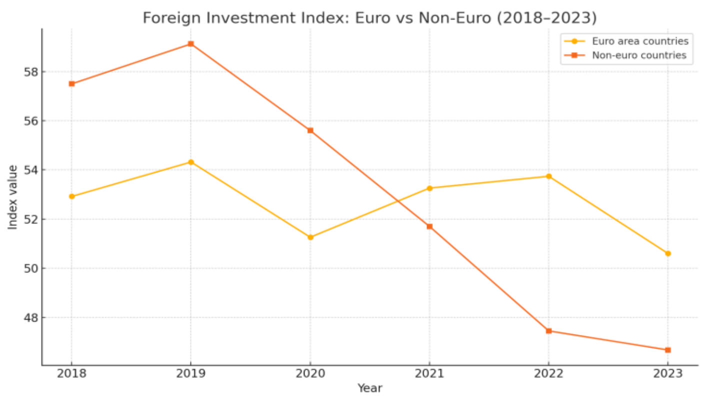

Chart no.4. Foreign Investment index Euro vs Non-Euro (2018-2023)

Euro area countries appear to be attracting more stable and sustained outward investment, thanks to higher investor confidence, monetary stability provided by the Euro and lower risk perception. Non-euro countries have seen clear declines in investment from 2020-2021, suggesting greater vulnerability to external shocks and possible problems of investment attractiveness.

3. Conclusions

The experience of euro-adopting countries shows that membership in the euro area contributes to lower and more stable long-term interest rates, more efficient monetary policy transmission, and greater resilience to external shocks. These benefits are especially evident during crises such as the COVID-19 pandemic and the inflationary shock of 2022. The remarkable performance of certain non-euro nations, such as Poland and Romania, economic instability and higher perceived risk position them marginally beneath eurozone countries. The lack of the euro may adversely affect investor confidence and financing conditions. Membership in the Euro area appears to promote enhanced economic convergence via increased integration and macroeconomic discipline.

Non-euro nations can attain comparable levels, albeit with increased work and heightened susceptibility to external shocks. Differences fade over time, but the euro area remains a strategic advantage for moving closer to the European average.

Countries outside the Eurozone had more unpredictable and higher rates of inflation, signifying weaker monetary policy transmission and greater susceptibility to external shocks.

Eurozone nations gained from ECB stability, resulting in a more rapid stabilization of inflation following the 2022 shock. This study indicates that euro membership may offer a partial safeguard against inflation, particularly in a post-crisis environment.

While all countries in Central and Eastern Europe have moved closer to the EU average in terms of GDP per capita, the pace and sustainability of convergence vary. Slovenia, Lithuania, and Slovakia have maintained consistent progress, while Romania and Bulgaria have advanced more unevenly, often held back by structural and institutional weaknesses.

The comparative analysis shows that euro area countries consistently benefit from lower risk premiums and greater investor confidence, even during periods of geopolitical tension and financial stress.

For countries aiming to adopt the euro, the key takeaway is that nominal convergence alone is not sufficient. Successful accession depends on structural reform, institutional strengthening, and a credible commitment to fiscal and monetary discipline. When these conditions are met, euro adoption can serve as a powerful catalyst for long-term stability and sustained convergence.

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