

Integration into the European Union is a chance for candidate countries to catch up with the average income level in the current member states. This study shows economic impact of Turkey's membership on foreign trade between EU countries and Turkey and also shows impact on EU budget. To gauge the effect of Turkey's accession the gravity model of trade was used. It has been estimated that the trade effect of membership implies 60% increase in trade volume. The dynamic model find out that shared EU membership could lead to 5% increase in trade every year for next ten years and it could represent 1% annual growth rate of Turkey's GDP. Economic impact of growth in EU exports to Turkey will be rather small, more important for current EU members are consequences of Turkey's integration on EU budget. The estimated cost of subsidies for Turkey lies between 0.09% and 0.23% of EU's GDP assuming current financial framework. The total subsidies will amount up to 5.5% of Turkish GDP. These results suggest that EU membership, particularly its effect on trade and EU budget, could lead to large economic gains for the new member states with some costs for current EU members.