

Central, East and Southeast Europe: Economic Convergence and Future Challenges

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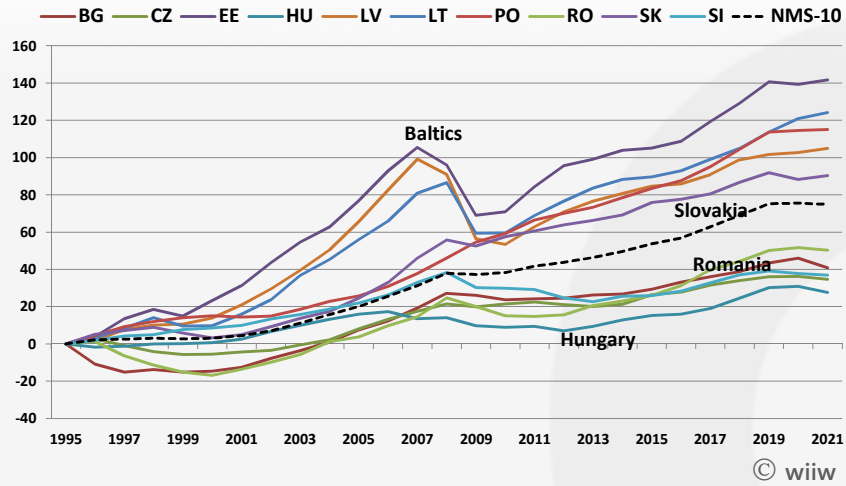
The Vienna Institute for International Economic Studies
(wiiw)

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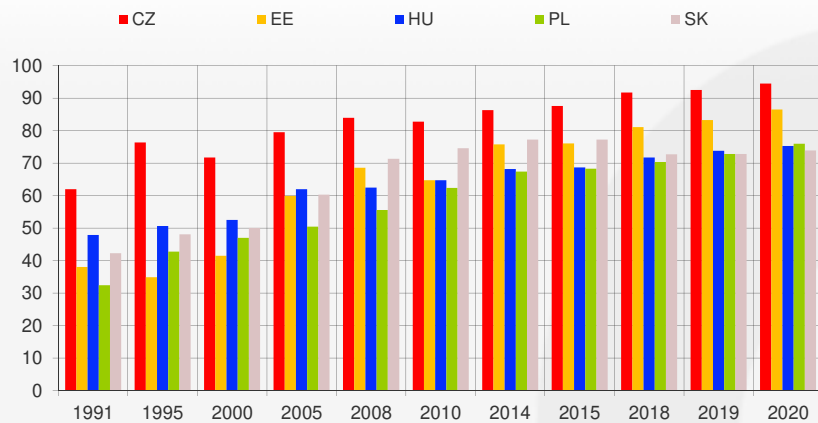
Topics covered

- Convergence in progress ?
- Examples and illustrations
- Brexit, COVID-19 and other challenges
- The new EU budget 2021-2027
- A new or adjusted growth model needed ?
- Conclusions

Uneven GDP growth convergence, index 1995=100, differences to EU average, in percentage points

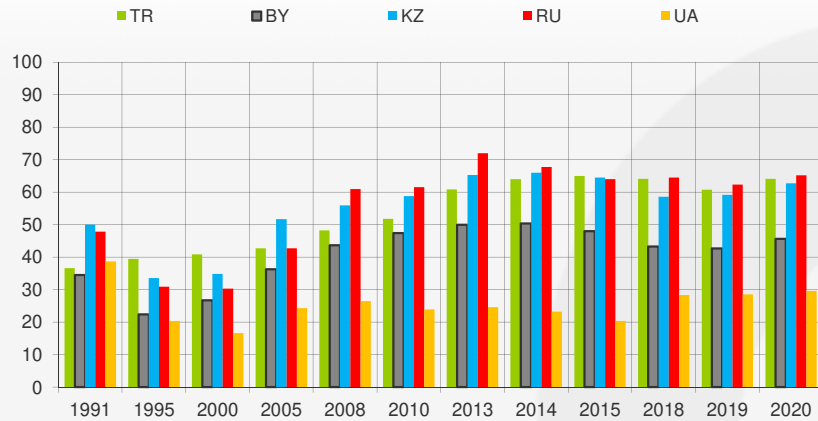


Income convergence in selected new EU member states: real per capita GDP (at PPP), EU average = 100



Source: wiiw estimates and forecasts.

Income convergence in selected EU neighbours, real per capita GDP (at PPP), EU average = 100



Source: wiiw estimates and forecasts.

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What is in the cards for CESEE's future ?

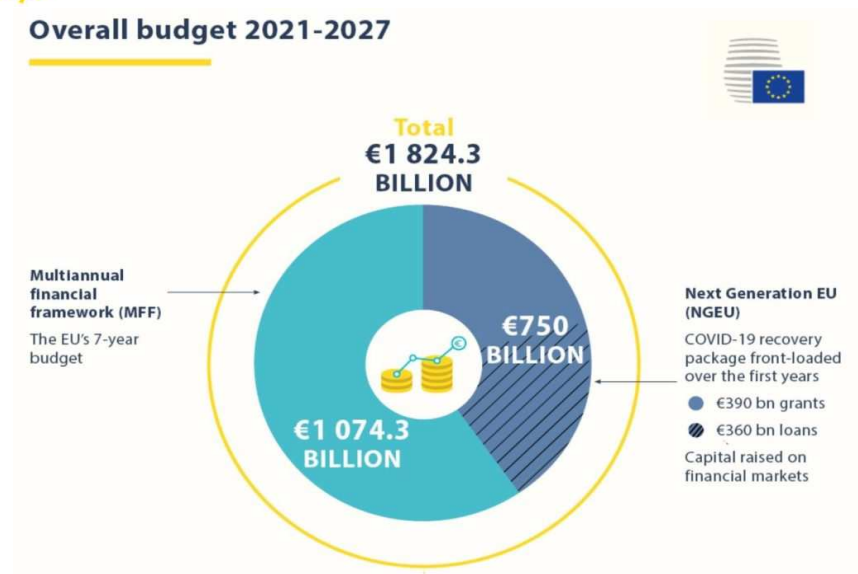
- Pre-2008/09 convergence model was based on:
 - belief in the power of institutional convergence (Washington Consensus and the takeover of EU 'acquis communautaire')
 - capital (FDI) inflows induced modernisation and restructuring
 - democracy agenda: EU values and institutions
- Challenges after the (post-2008) crisis:
 - backlash in political stability and eroding reform support
 - build-up (and burst) of longer-term structural imbalances
 - evidence of weaknesses of EU-level governance structures
 - questions of sustainability of EU integration and enlargement strategies
 - Brexit and its consequences

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Next EU budget 2021-2027: how much, where and to whom ?

- United Kingdom's departure from the EU in 2020 leaves a financing gap of €75 billion for the next EU budget
- The EC proposed annual budget of 1.07% of the 27 EU member states' gross national income (GNI)
- Net contributors (AUT, NDL, DNK, SWE) wanted to pay no more than 1% of GNI
- Agriculture, regional funds and – possibly – transfers to some CEEs (Hungary and Poland) can be most affected by cuts
- Yet EU budget issues require a unanimous vote: no deal ?

Overall budget 2021-2027



New EU recovery and resilience facility 2021-2024 for tackling the COVID-19 crisis: how much, where and to whom ?

- COVID-19 emergency funding of EUR 673 bn of which:
 - Grants (EUR 313 bn) and loans (EUR 360 bn)
- Digitalisation (20%) and climate change (Green deal: 37%)
- Italy, Spain, Poland and Greece will get most ...
- Plus a new budget for 2021-2027 (EUR 1087 bn) equals to 1.8% of EU GNI instead of 1.1% in the regular budget
- **But:** the new budget is linked to the observance of „EU values“ (rule of law – Hungary, Poland) and may be vetoed !

Recent convergence slowdown and growth prospects: what is in the cards for CESEE's future ?

- A new/adjusted growth strategy/convergence model ?
 - Less (foreign) credit financing
 - FDI directed to the tradable sector
 - Instruments of industrial policy, re-industrialization *)
- German-CEE supply chain cluster: can it be copied by SEE ?
 - The role of history and geography (AT, CZ, HU, PL, SK)
 - Who can play German role in SEE ?
 - What about Eastern Neighbourhood ?
 - What are the implications ?

*) For a new reform initiative by a group of leading economists see:
<http://bostonreview.net/class-inequality/suresh-naidu-dani-rodrik-gabriel-zucman-economics-after-neoliberalism>

A “New Normal” ? The region is back on track to convergence, but is it sustainable ?

- The EU-CEE region is catching up again
- Economic convergence has resumed
- The catching-up process will continue

BUT

- Convergence is not expected to resume in Russia
- EU and Russian neighbourhoods in turmoil: growth prospects adversely affected
- But the COVID-19 crisis changed almost everything !
- Countries dependent on tourism and autoindustry suffer most

Thank you for your attention!

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Country codes

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CZ	Czech Republic	RS	Serbia
EE	Estonia	RU	Russia
HR	Croatia	SI	Slovenia
HU	Hungary	SK	Slovakia
KZ	Kazakhstan	TR	Turkey
LT	Lithuania	UA	Ukraine
LV	Latvia	XK	Kosovo
CESEE	Central, East and Southeast Europe		
CIS	Commonwealth of Independent States		
EU-CEE	European Union – Central and Eastern Europe		
WB	Western Balkans		

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