

wiiw Spring Seminar 2021

Brave New World?
The economic and political challenges
facing Eastern Europe after COVID-19

Wednesday, 5 May 2021

Venue: Online

Programme

10:45 – 11:00 **Welcome Addresses**

Hannes Swoboda, President, wiiw

Robert Stehrer, Scientific Director, wiiw

11:00 – 12:30 **Keynote Address: Goeconomic Challenges and the Future of Europe: What it will take to make the EU and the euro stronger players in the age of global power competition in a post-COVID-19 World.**

Daniela Schwarzer, Executive Director for Europe and Eurasia, Open Society Foundations (OSF)

12:30 – 13:30 Break

13:30 – 14:30 **Economic Forecasts and Medium-Term Outlook for Eastern Europe**

Richard Grieveson, Deputy Director, wiiw

Olga Pindyuk, Economist, wiiw

14:30 – 15:00 Break

15:00 – 16:00 **Post-COVID-19 Shortening of Value Chains: Is near-shoring an option?**

Branimir Jovanovic, Economist, wiiw

16:00 – 16:30 Break

16:30 – 18:00 **Panel Discussion: Eastern Europe in the 2020s**

Moderator: *Mario Holzner, Executive Director, wiiw*

Stephanie Eble, Regional Resident Representative, Office for the Western Balkans, International Monetary Fund (IMF)

Velina Tchakarova, Director, Austrian Institute for European and Security Policy (AIES)

Ivan Vejvoda, Permanent Fellow at the Institute for Human Sciences (IWM)

18:00 End of seminar

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Brave New World? The economic and political challenges facing Eastern Europe after COVID-19

Over the last year, the COVID-19 pandemic has fundamentally upended political, economic and social life in Europe. Although most of Central, East and Southeast Europe (CESEE) managed the first wave of the pandemic fairly well, the winter months were extremely tough for a lot of the region. Measures taken to restrict the spread of the virus have resulted in previously unthinkable restrictions on personal freedom, CESEE's worst economic downturn since the transition recessions of the early 1990s, and serious pressure on the region's often under-funded health and social security systems.

The worst may be over, but both the short- and medium-term outlook is highly uncertain. In this context, wiiw is organising its 2021 Spring Seminar, gathering some of the leading experts in the field to explore the potential difficulties facing CESEE in the coming years, and to consider how to meet them.

Coming out the crisis, it is likely that many things will change. Some of these may even be positive. The pandemic caused large swathes of economic life to be moved online in a matter of days, delivering a potentially game-changing boost to the digital economy, an area where parts of CESEE are already quite advanced. Increased nervousness about extended supply chains could lead big Western firms to 'near-shore' more production to CESEE. The pandemic fallout caused a short-term rapid increase in the size and role of the state in the economy in much of CESEE, with potentially long-term consequences. Maybe most importantly, the crisis has also revealed that--when deemed necessary--unprecedented fiscal resources can be pooled and quickly mobilised. This has important implications for other current and future challenges, not least the climate crisis.

Nevertheless, the potential negative implications of the COVID-19 pandemic and its aftermath should not be underestimated. As emergency fiscal support is withdrawn, firms will face bankruptcy and many workers will be forced to look for other jobs. The digital shock should

over time create a large number of better paid jobs in the region, but the transition costs for workers could be severe. If bond markets become less willing to finance debt issuance, CESEE countries could be forced into another post-2008 style cycle of damaging fiscal austerity. The social costs of the crisis, not least in terms of mental health, are potentially huge.

Beyond all of this lie deeper questions for the region, which existed before COVID-19 and have certainly not gone away. In some EU member states in CESEE, independent institutions are facing their most serious threat since the collapse of communism. The Western Balkans has repeatedly struggled to achieve a strong and sustained pace of economic convergence with the EU, and accession to the bloc still looks to be many years in the future. Russia's relations with the EU meanwhile are as strained as ever, with negative knock-on effects for countries in between such as Ukraine. CESEE in general is exposed to wider geopolitical and geo-economic tensions, owing to both its high reliance on foreign trade to drive growth, and because of its history as a geopolitically contested zone. The euro area economy—by far CESEE's most important trading partner and source of capital inflows—will receive a major boost from the EU fiscal response to the pandemic, but it is far from clear that it will break out of its longer-term low-growth trajectory reinforced by too-tight fiscal policy. Finally, the massive expansion of central banks balance sheets since 2008 has gone much further in the current crisis. While this is clearly necessary and has prevented much worse economic and social outcomes, exiting this policy as the recovery takes hold could be fraught with risks, including for CESEE.