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Notes for Session 3 on: Consequences for Europe's Periphery and the European Neighbourhood

Summary of argument.

1. Growth and convergence prospects of emerging European countries inside and outside the EU after the crisis (both 2008-09 and Eurozone)

- Growth of potential output indeed permanently lower than pre-crisis: 2-4 per cent growth of output per worker, on average, between 2013 and 2023; declining to 1-2 per cent, 2024 and 2035.
- The primary drivers of this down-break in growth *potential* (as opposed to growth compared to the 2004-08 boom) are not so much lower capital inflows as:
 - End of productivity catch-up after the collapse of communism, which raised TFP growth above normal levels during first decade of transition;
 - Stagnation of reform in most countries since mid-2000s, with reversals in some (particularly some new EU members) since 2011.
- The crisis has contributed to reform stagnation/reversals by leading to a sharp decline in support for the market system. This already happened by 2010 – before the Eurozone crisis – though the consequences began to be felt during 2011 and particularly 2012-13.

2. Long-run impact of the Eurozone crisis on the region: Four potential effects:

- EU accession: unlikely to have an impact. All transition countries that are candidates or potential candidates will continue to want to join ASAP. (Turkey is a special case, but probably was so even before the crisis).
- Euro accession. Unlikely to affect set of countries that eventually join, but may affect the preferred timing of new joiners.
- Banking union: good for EU members that join, but do not help the financially integrated “outs”. (and may in fact aggravate home-host problems there)
- The EU as an “anchor” of reform. Will continue to function through the formal negotiation process, but less well outside this process. Although the main causes for the lack of reform are anchored in *domestic* political economy; the attraction of EU institutions and norms as a way of pulling the process forward will have declined. This makes the work much harder for domestic reformers.

References:

EBRD Transition Report 2013: *Stuck in Transition?* (forthcoming, launch on November 20, 2013).