



COLUMBIA | SIPA

Center on Global Economic Governance

CEEC's Part in Europe and the Global Economy

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GOVERNANCE

Outline of Presentation

- Global Economy
- Europe
- Central and East European Countries (CEECs)
 - Initial Conditions
 - Convergence?
 - Which measures make sense?
 - Political Factors
 - Czech-Slovak Comparison
- Crossroads?

Global Economy

- Ongoing GDP growth and optimistic forecasts despite possible trade war
- Optimistic upward revisions of forecasts include Europe – main trading partner of CEECs

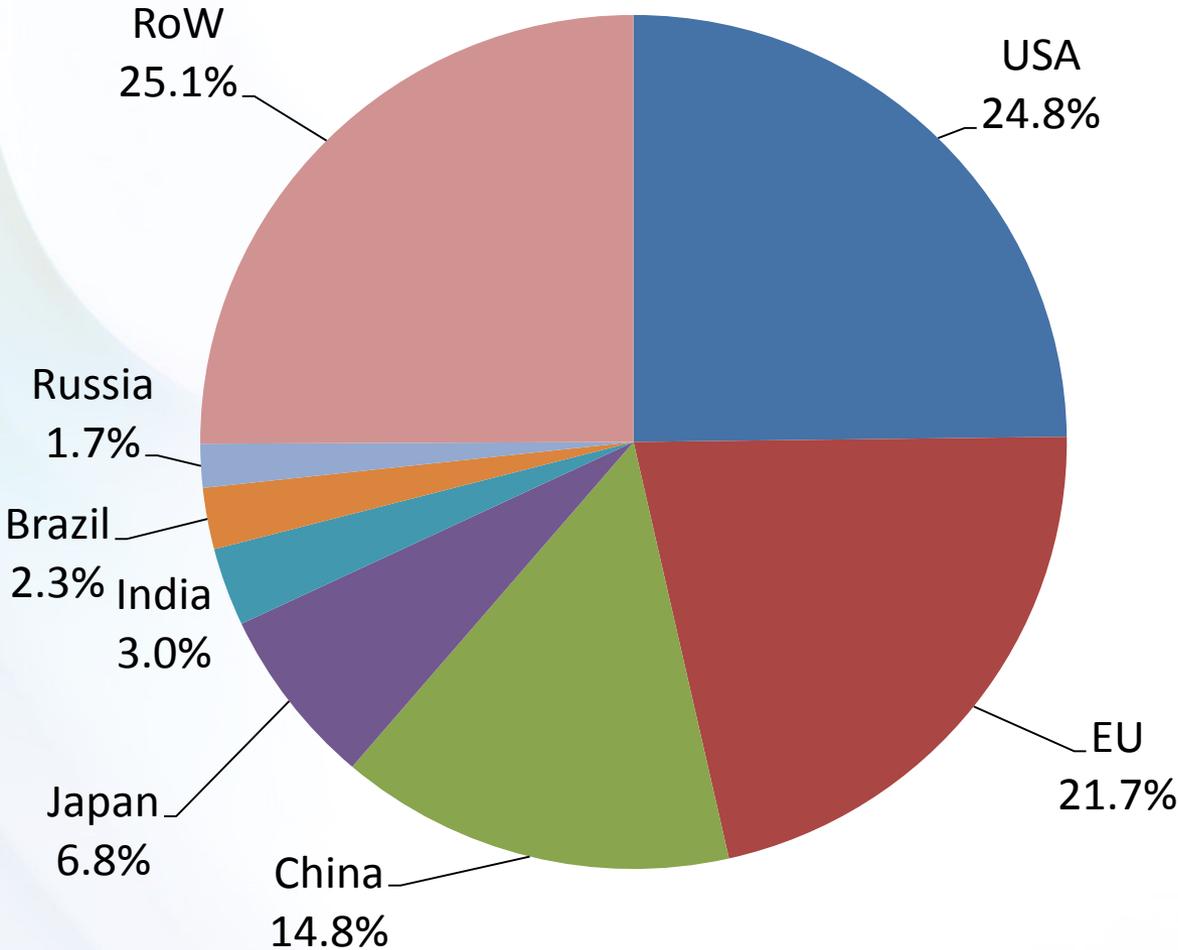
Output Growth: Record and Forecasts

	2013	2014	2015	2016	2017
World	3.4	3.5	3.4	3.2	3.7
<i>Advanced economies</i>	1.3	1.9	2.1	1.7	2.3
USA	1.7	2.4	2.6	1.5	2.3
Japan	2.0	0.3	1.2	0.9	1.8
Euro area	-0.2	1.2	2.0	1.8	2.4
Germany	0.6	1.6	1.5	1.9	2.5
France	0.6	0.6	1.3	1.2	1.8
<i>Emerging and developing countries</i>	5.0	4.6	4.2	4.4	4.7
China	7.8	7.3	6.9	6.7	6.8
India	6.5	7.2	7.9	7.1	6.7
Brazil	3.0	0.5	-3.7	-3.5	1.1

Forecast for 2018 and 2019. Source: IMF – World Economic Outlook Update – Jan 2018

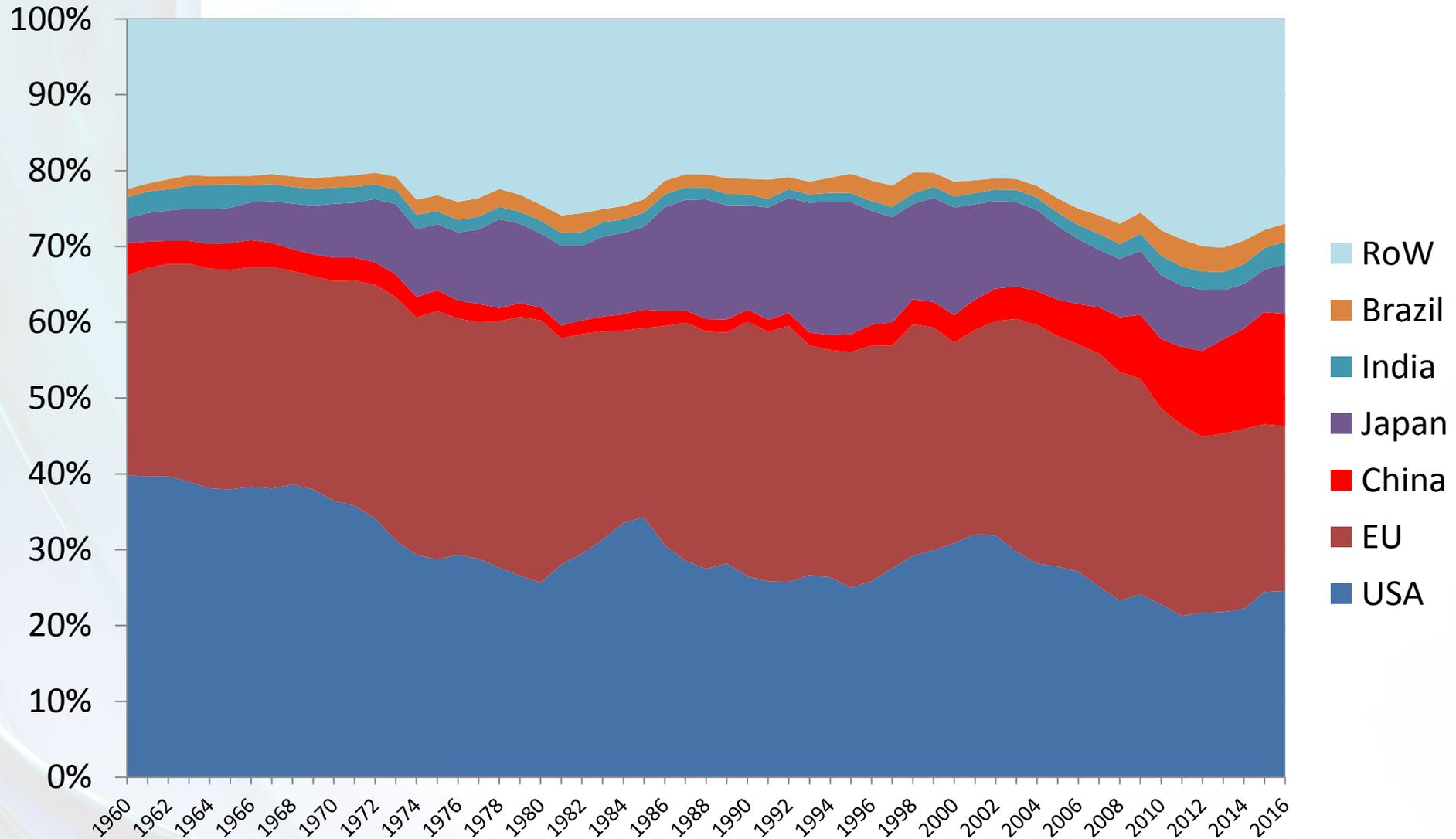
Structure of World Economy in 2016, %

Based on GNI in USD and current prices



Structure of World Economy since 1960s

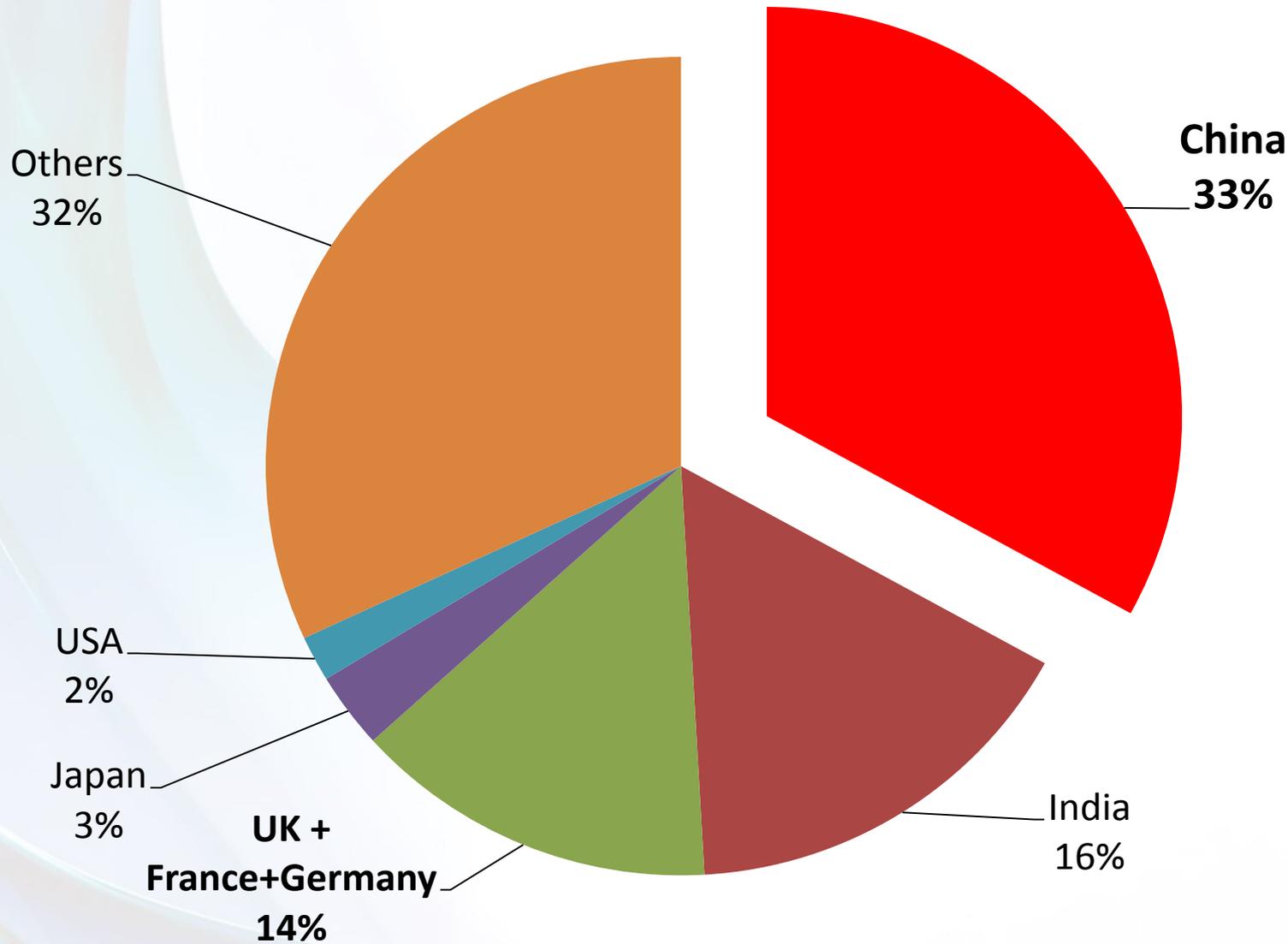
Based on GDP in USD and current prices



Source: WDI

History or Future of Global Economy?

Shares of global GDP in 1820

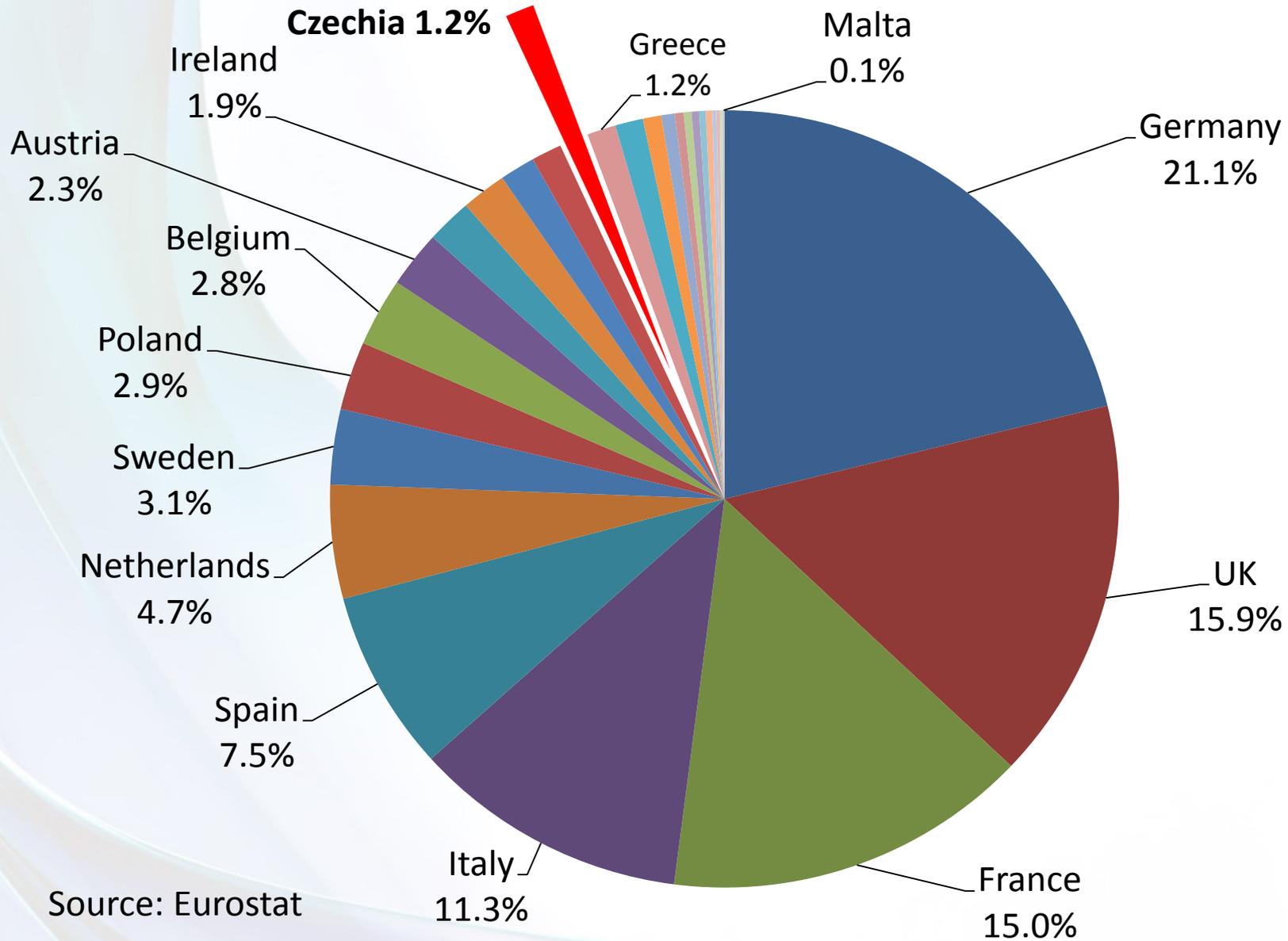


Source of estimates: Maddison project

Europe

Relative Economic Role of EU Member Countries

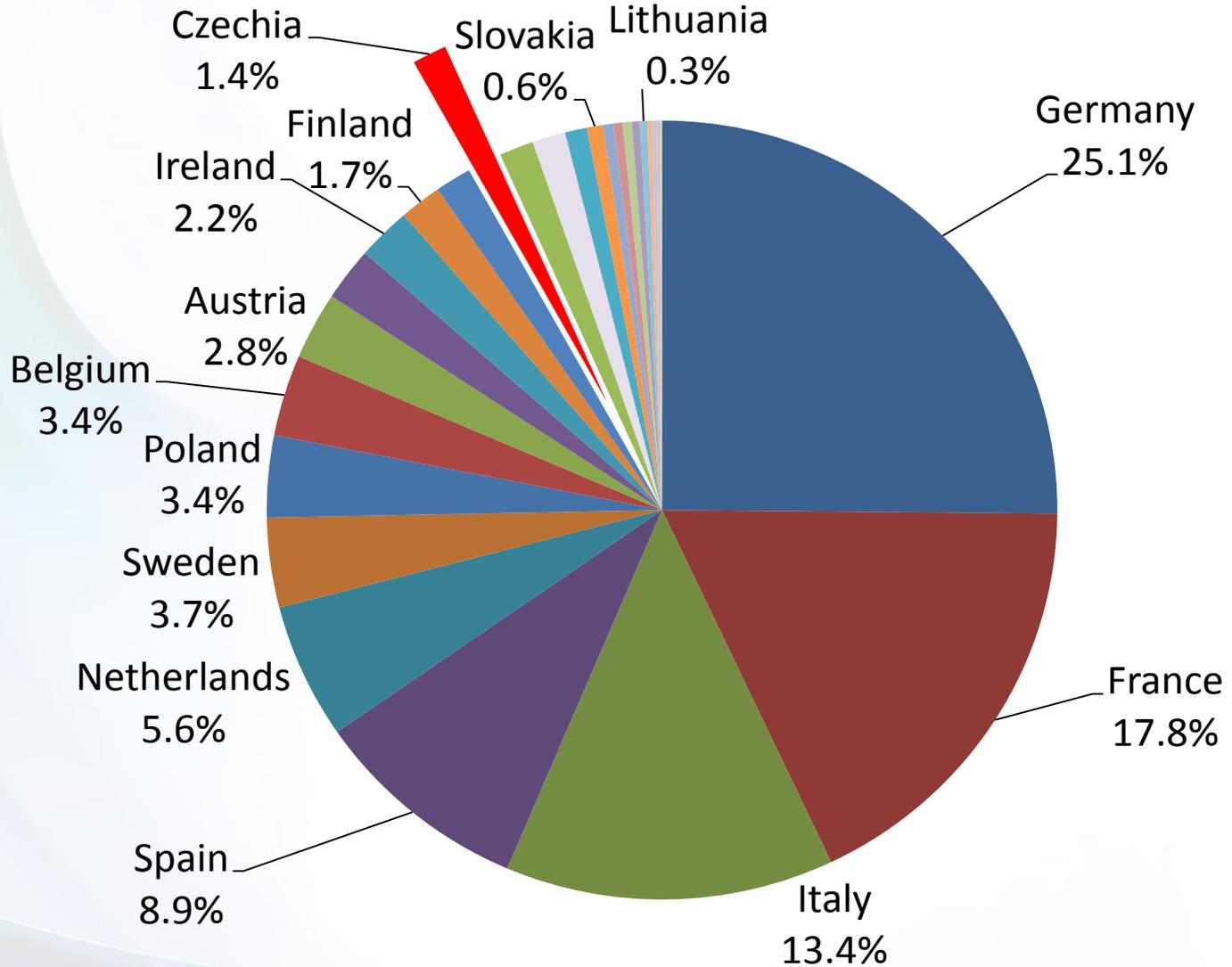
EU 28 = 100, GDP in 2016 at market prices



Source: Eurostat

Relative Economic Role of EU Member Countries

, GDP in 2016 at market prices – without the UK – “post-Brexit” EU



Source: Eurostat

Main Challenges

- Completion of single market
- Governance and effectiveness of policies
- Possible trade war

CEECs

Main Features

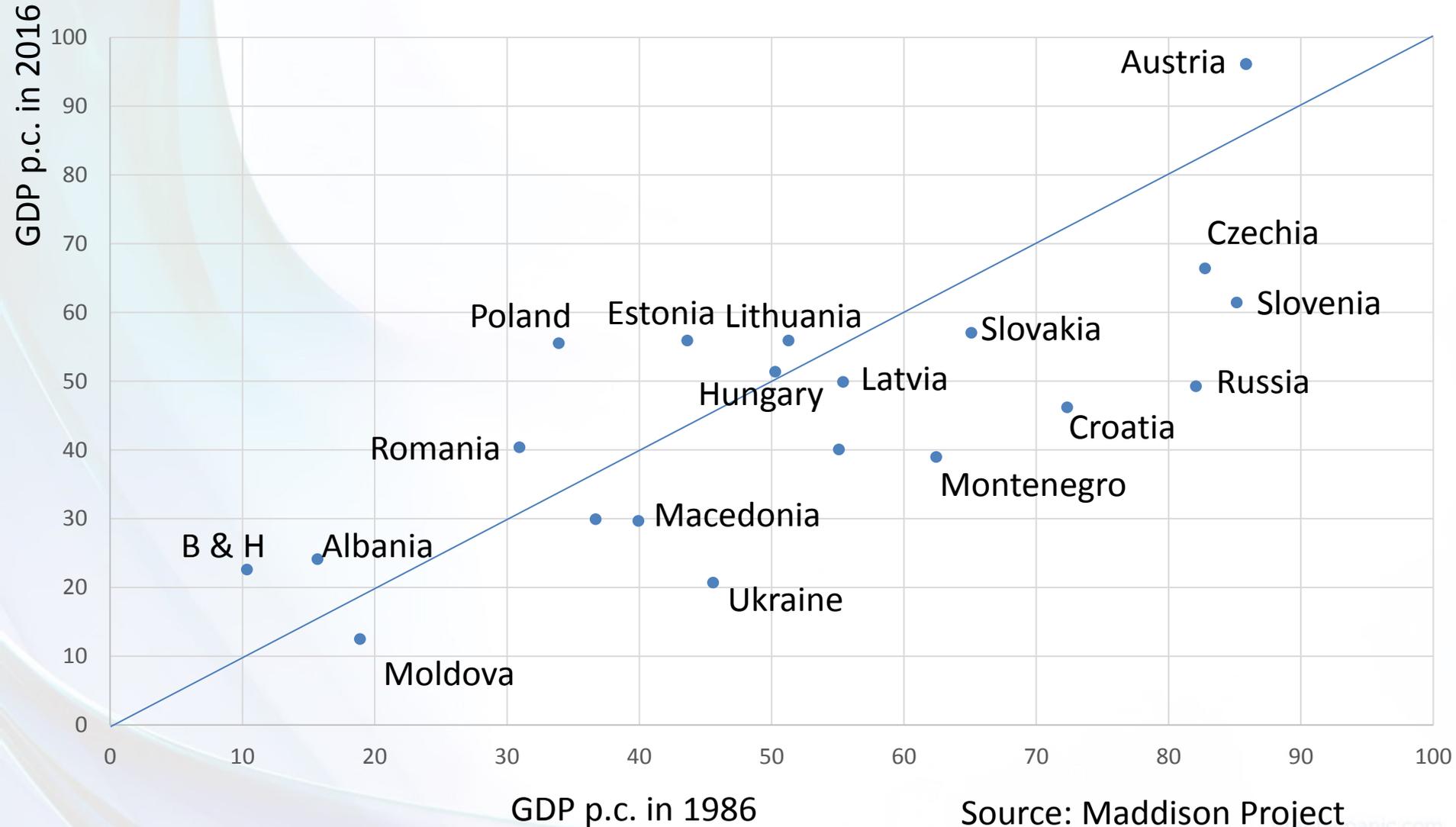
- Transition
- Importance of initial and “terminal” conditions
 - Decades of central planning
 - Geography
 - Education
 - FDI
 - EU destination

Main Risks

- Governance and effectiveness of own and EU/EMU policies
- Domestic political risks (enhanced by the ascent of nationalism and Russia-sponsored efforts)
- Indirect effects of possible global trade wars

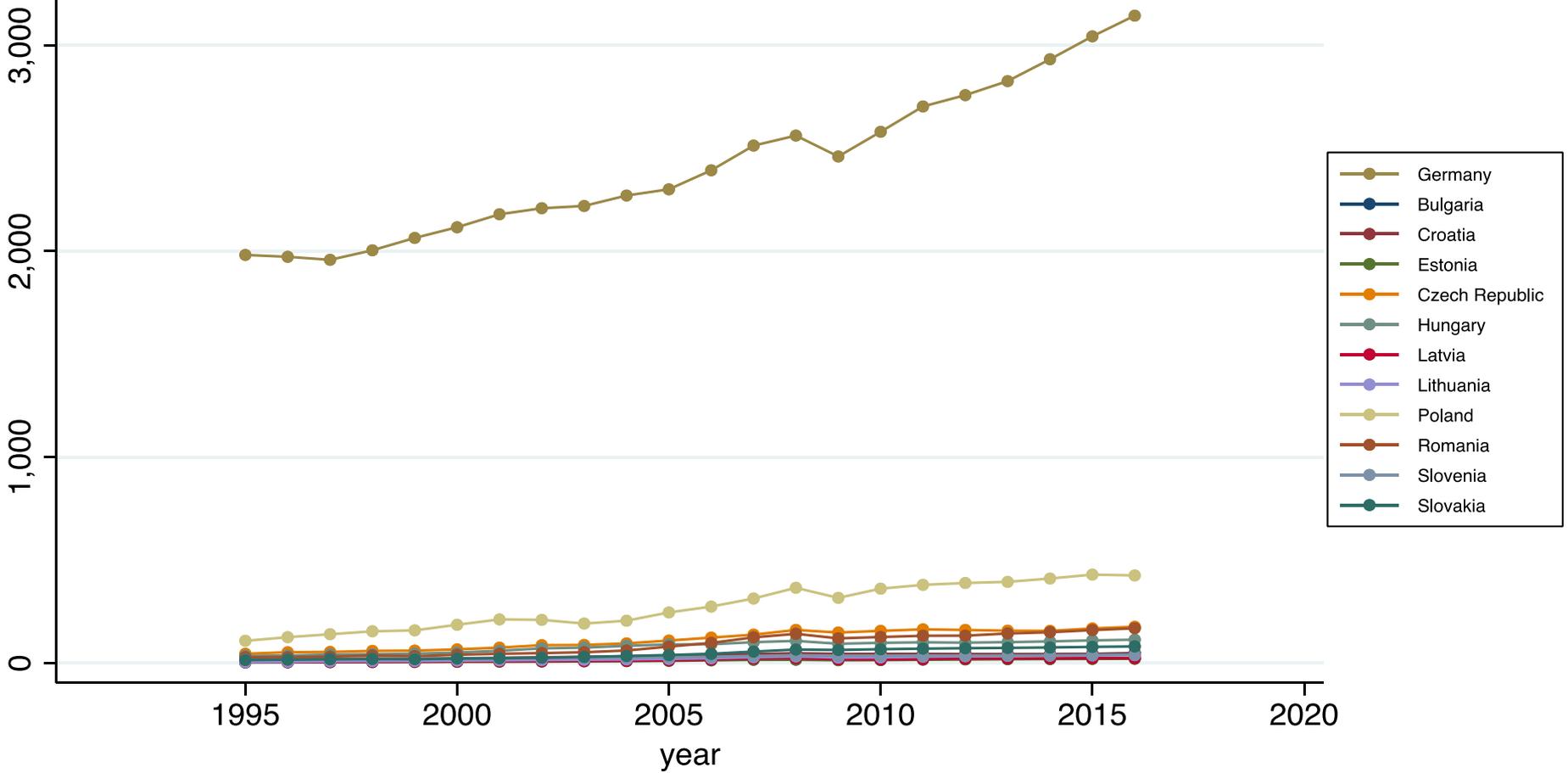
Relative Position of CEECs - 1986-2016

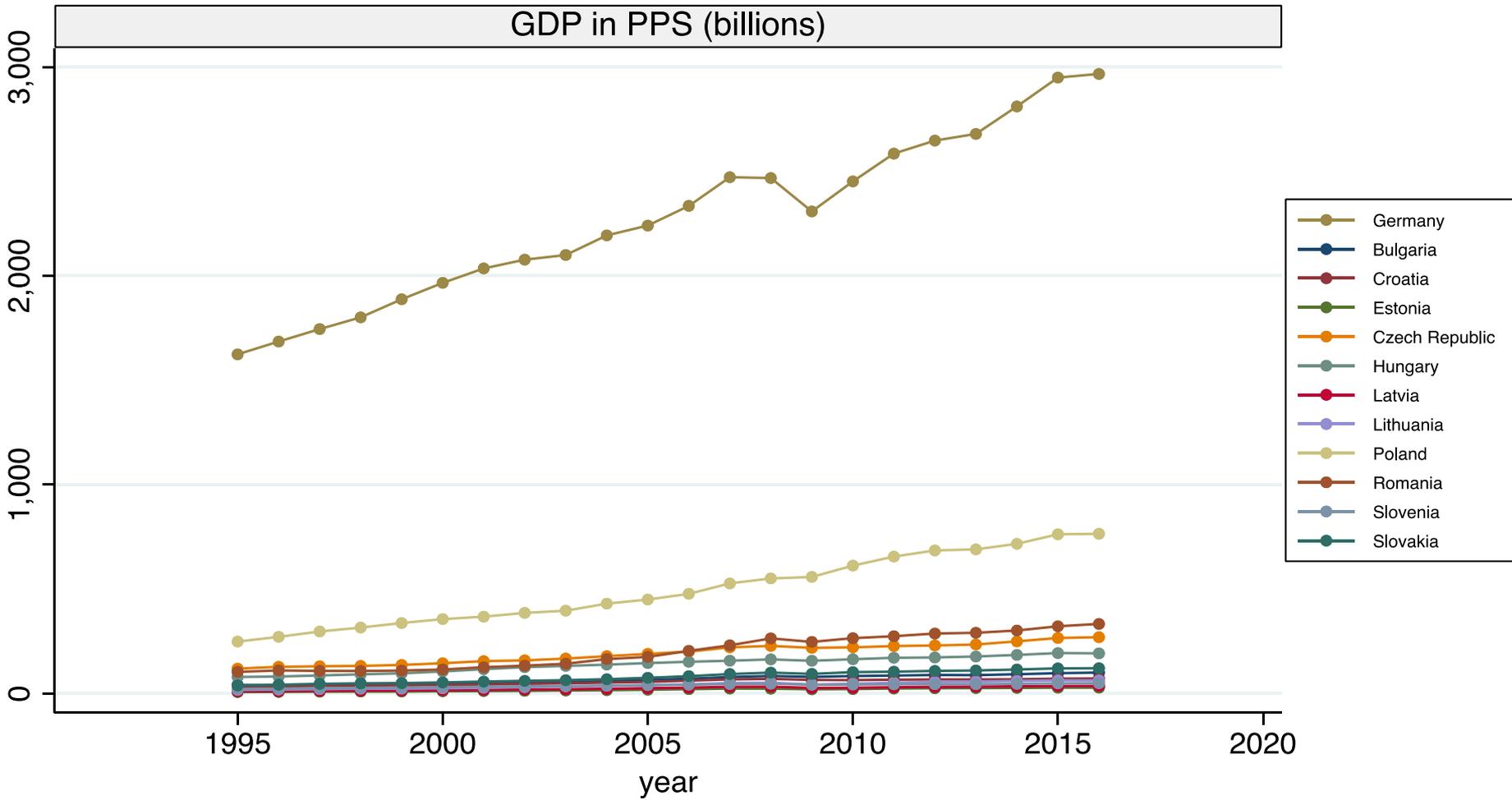
German GDP p.c. = 100



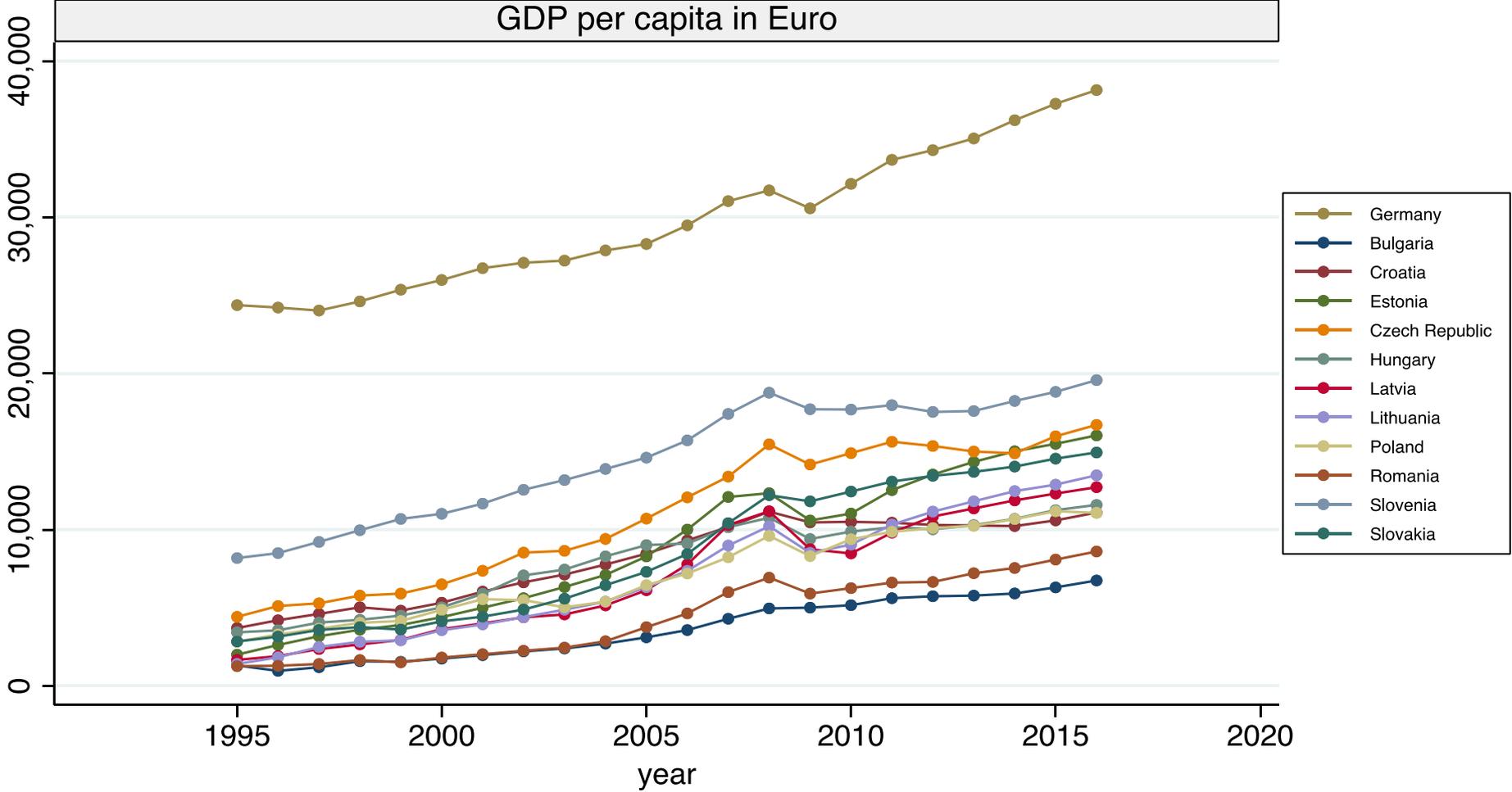
Source: Maddison Project maddisonproject.com

GDP in Euro (billions)

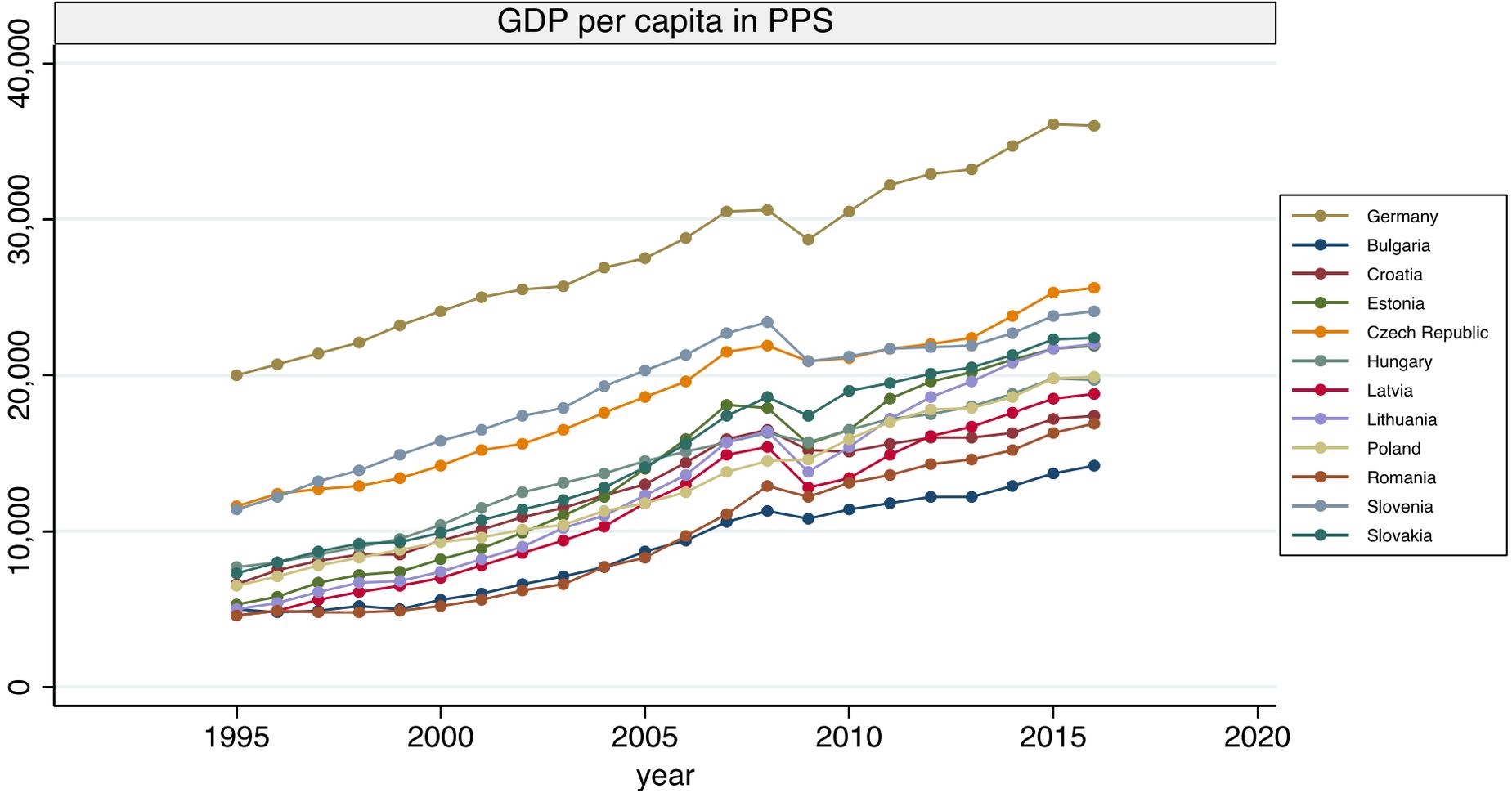




GDP per capita in Euro



GDP per capita in PPS



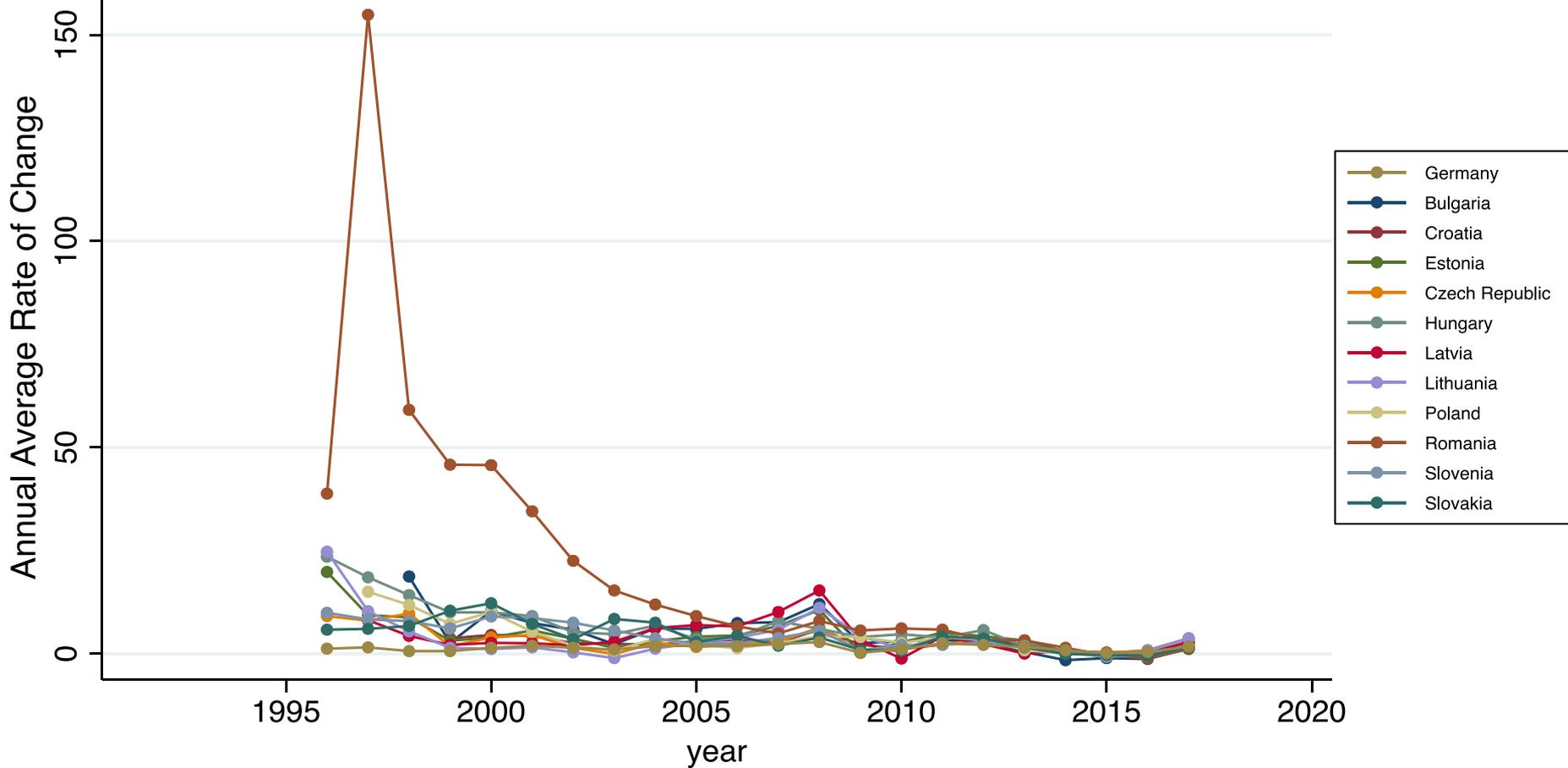
Catching-up Overview

Average Annual GDP Growth Rates 1995-2017, in %

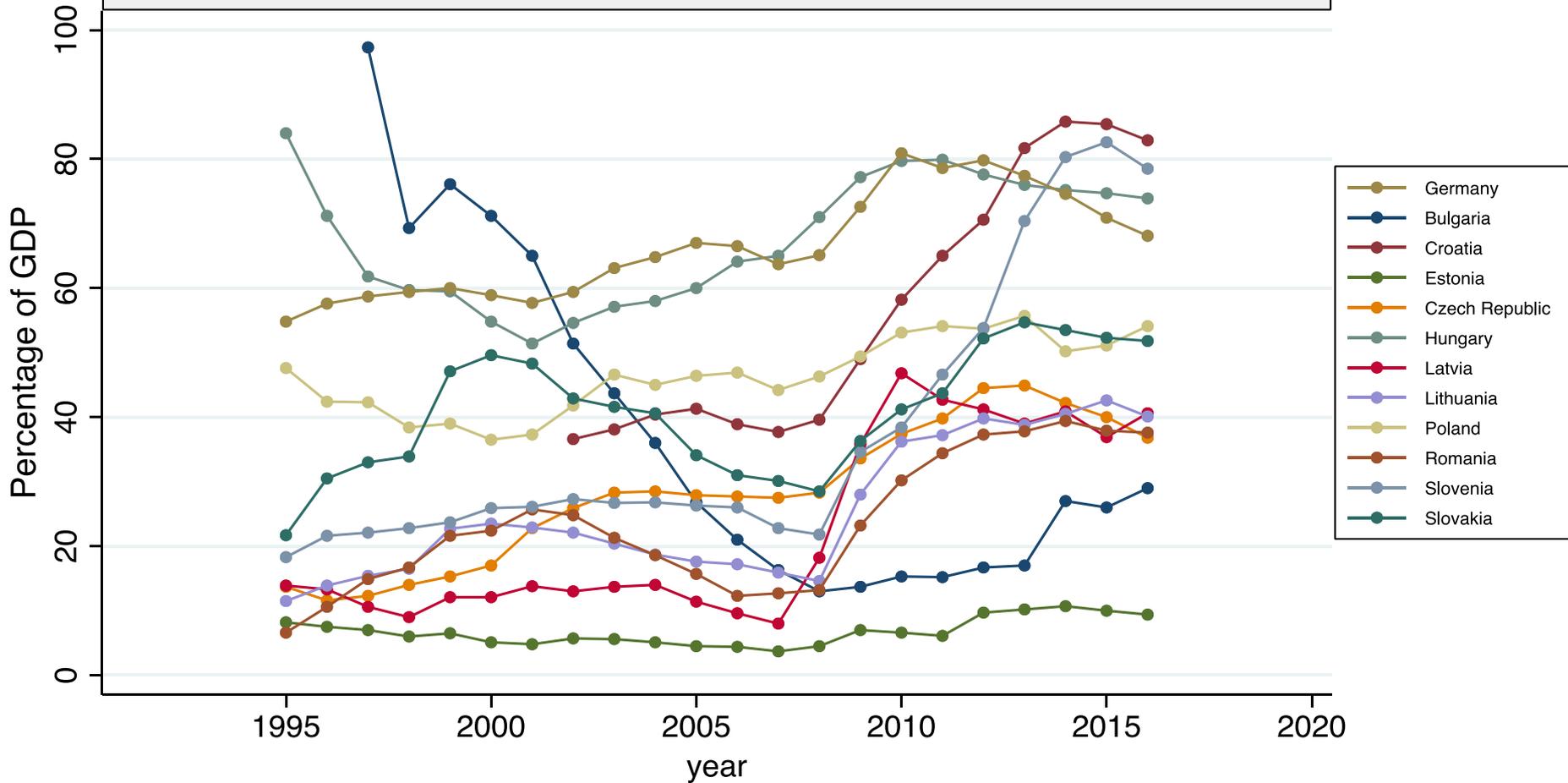
	1995-00	2000-05	2005-10	1995-08	2008-12	1995-12	2013-17
Bulgaria	0.23	5.49	2.69	3.63	-0.77	2.58	2.66
Czech Republic	1.84	4.09	2.70	3.49	-0.19	2.61	2.90
Estonia	6.68	7.94	0.00	6.64	-0.92	4.81	2.70
Hungary	2.94	4.16	-0.18	3.10	-1.26	2.06	3.18
Latvia	5.20	8.23	-0.68	6.46	-2.94	4.17	2.80
Lithuania	4.54	7.79	1.02	6.30	-1.48	4.42	3.02
Poland	5.41	3.08	4.72	4.66	3.03	4.27	3.20
Romania	-0.38	5.72	2.51	3.66	-1.23	2.49	4.46
Slovakia	3.40	4.91	4.70	5.08	1.19	4.16	2.98
Slovenia	4.33	3.63	1.79	4.31	-2.14	2.75	2.46
NMS-10	3.38	4.31	3.09	4.29	0.68	3.43	3.04
EU-27	2.84	1.8	0.9	2.32	-0.23	1.71	1.77
Memo: Differ. NMS-EU conv. rate, in pp	0.54	2.51	2.19	1.97	0.91	1.72	1.28

Source: *Dobrinsky, R. and Havlik, P., 2014 and Eurostat*

Harmonised Index of Consumer Prices

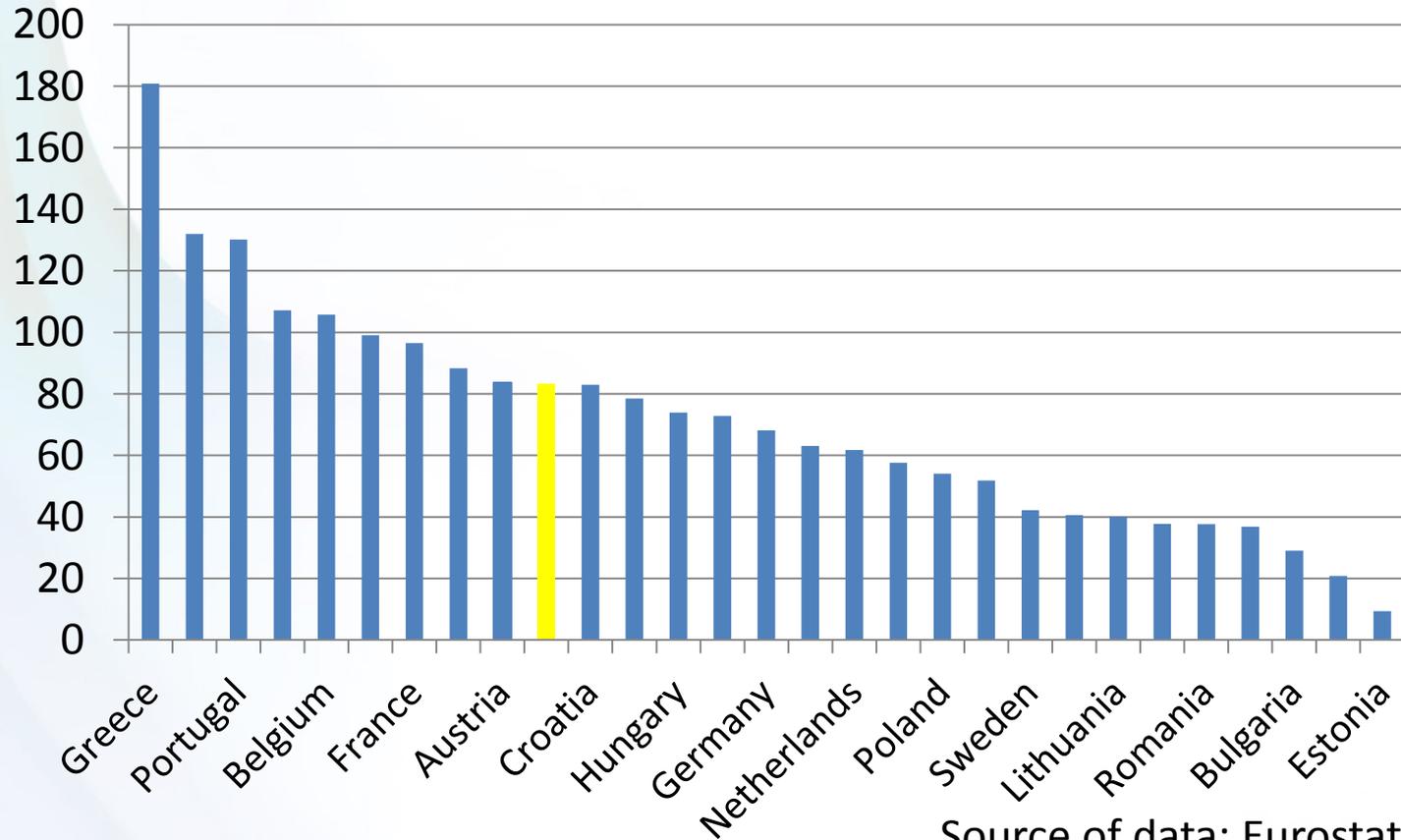


Government Consolidated Gross Debt



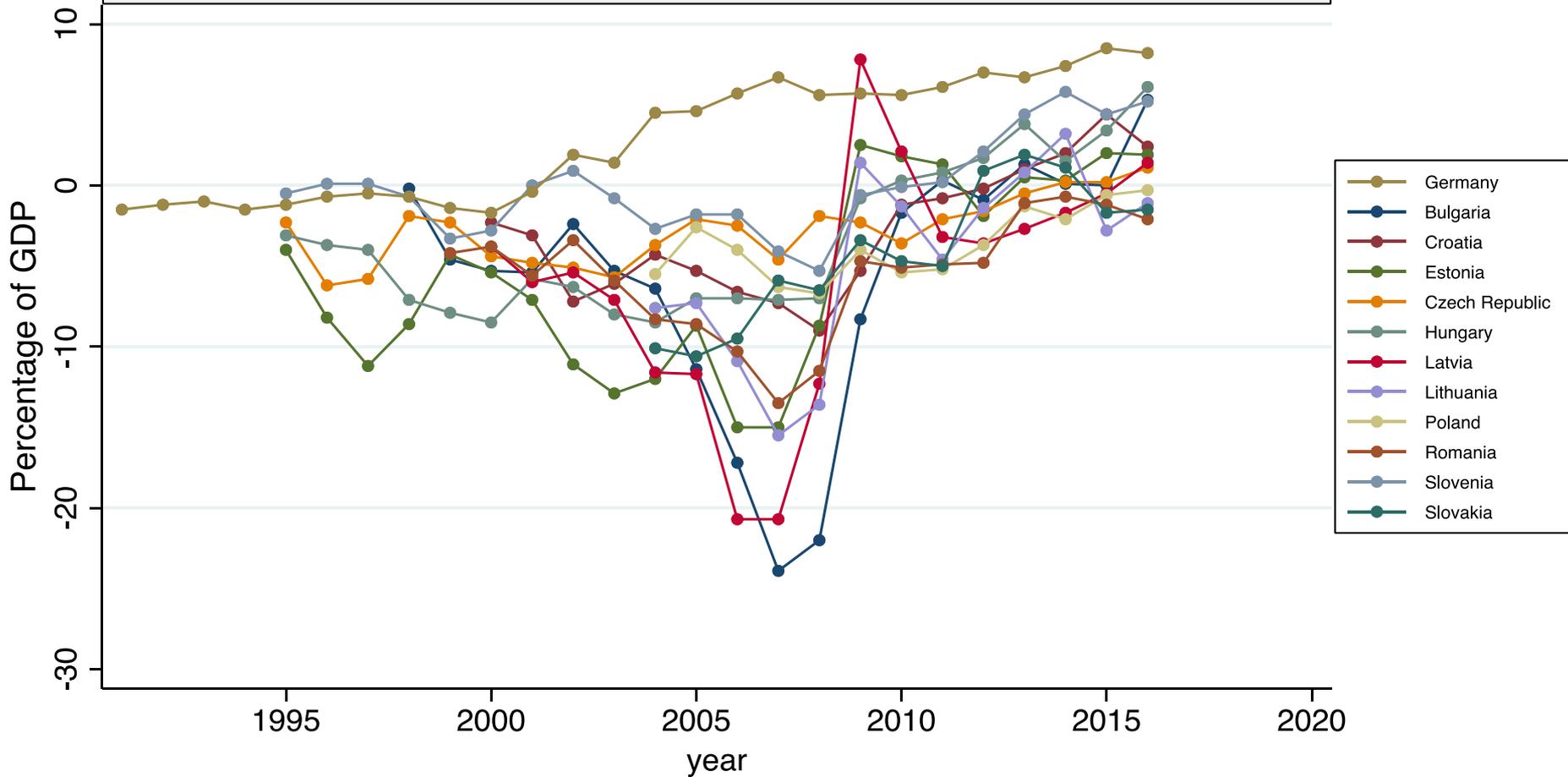
Public Debts of EU Countries, 2016

General govt. gross debt (% of GDP)

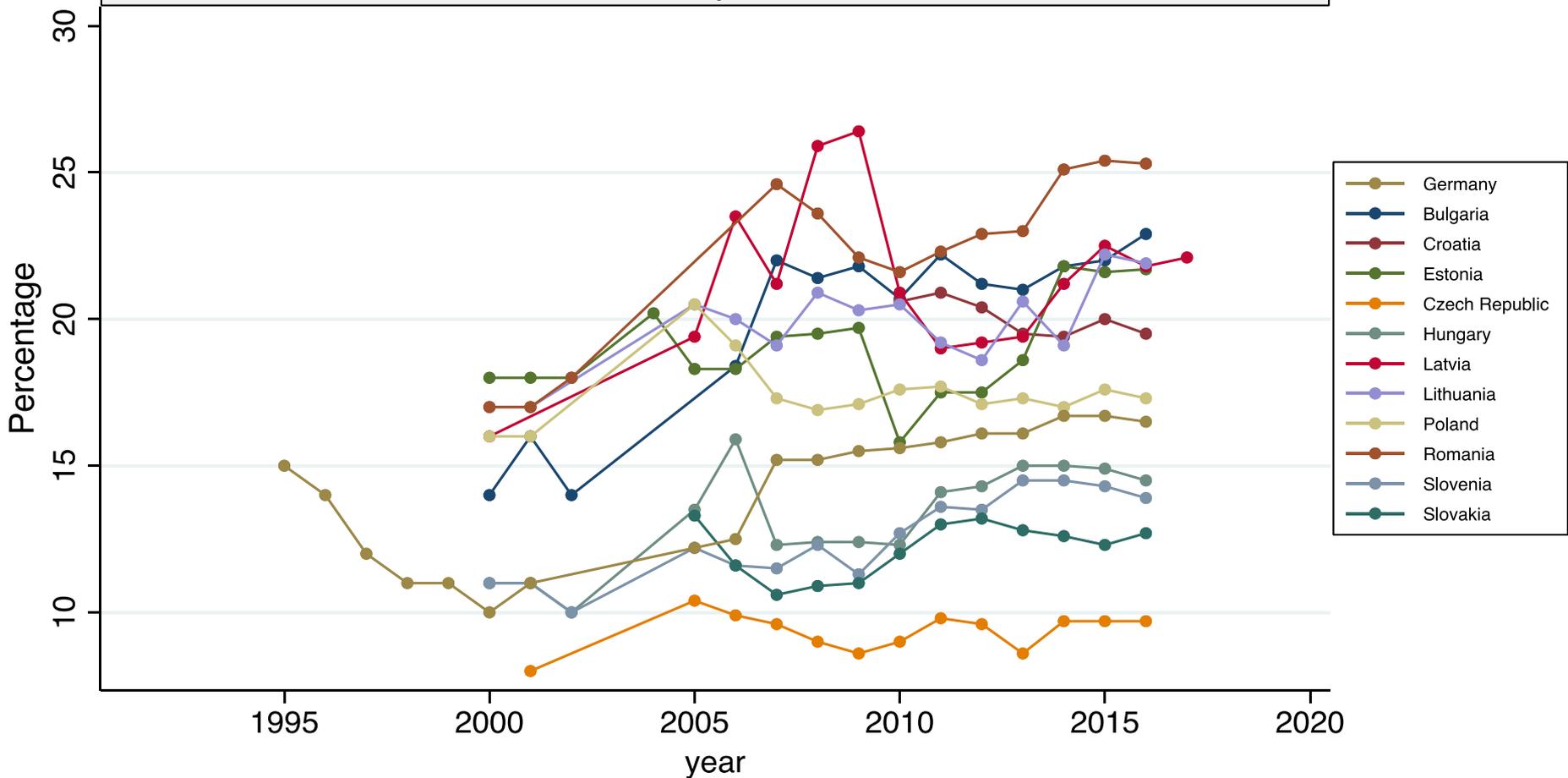


Source of data: Eurostat

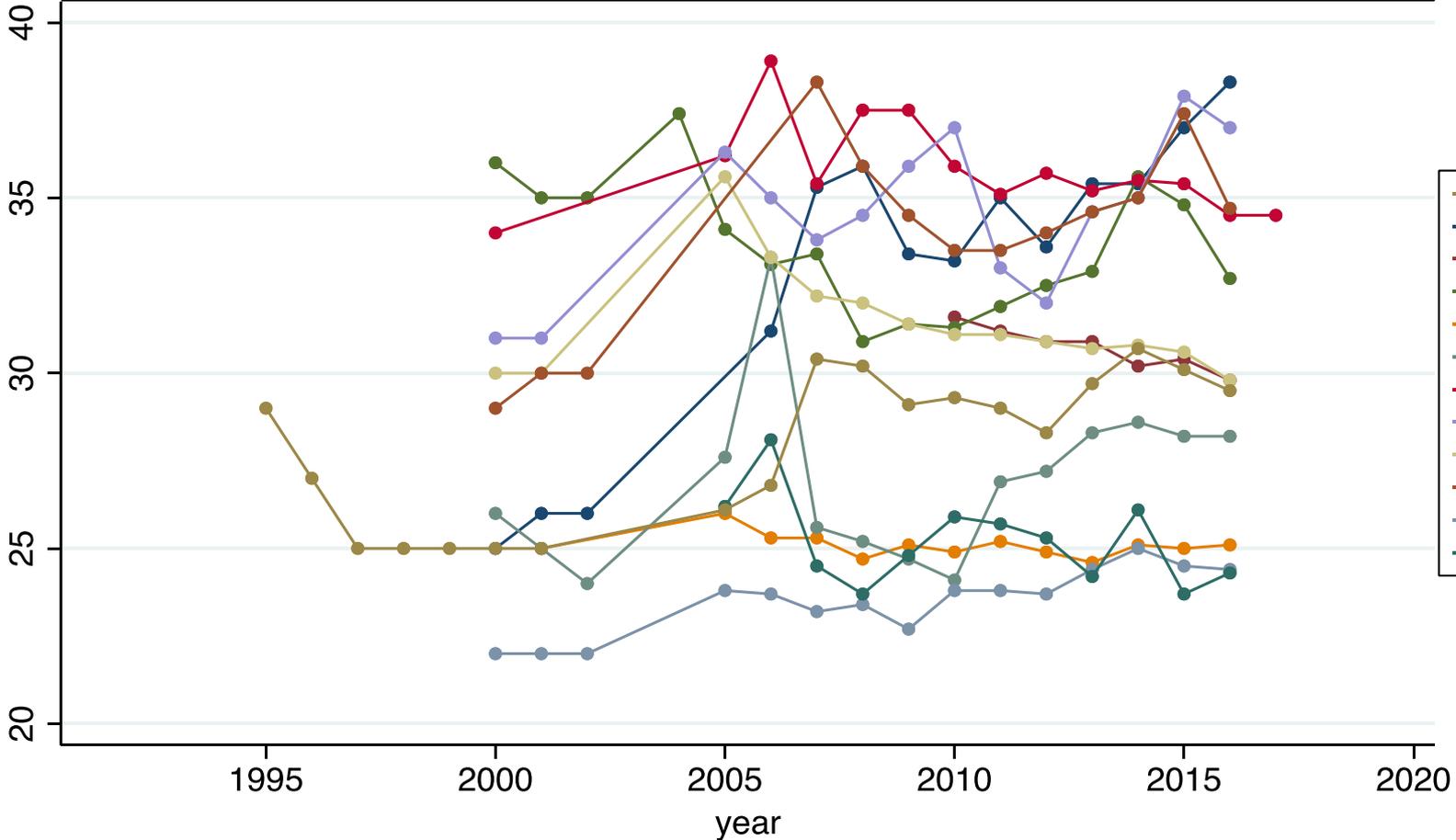
Current Account Balance



Poverty Rate

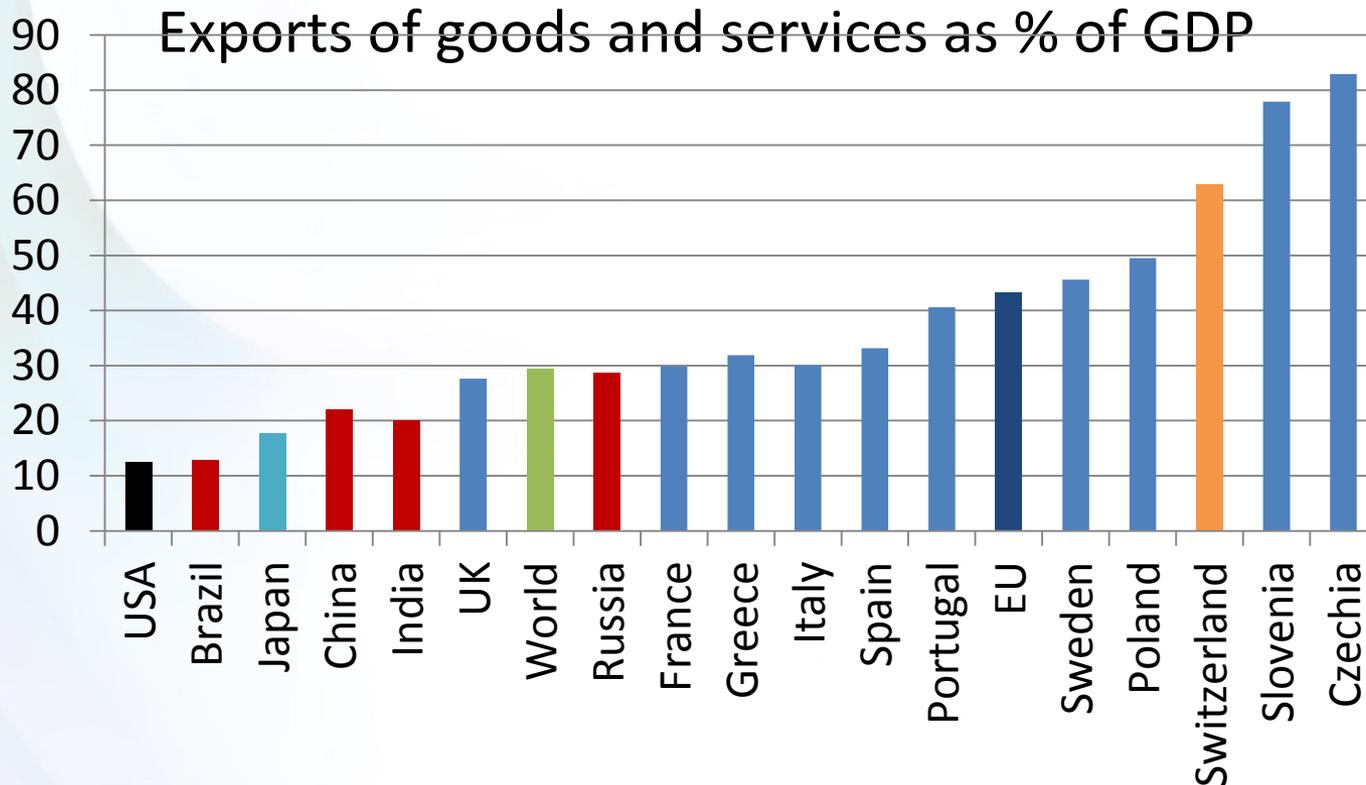


Gini Coefficient



- Germany
- Bulgaria
- Croatia
- Estonia
- Czech Republic
- Hungary
- Latvia
- Lithuania
- Poland
- Romania
- Slovenia
- Slovakia

Openness: Exports to GDP Ratio, 2015



Source: WDI

GDP share of labour compensation (%)

	2001	2007	2013
Bulgaria	35.3	32.7	40.4
Croatia	48.0	47.4	48.2
CzechRepublic	38.6	39.5	40.6
Estonia	44.6	45.5	46.5
Latvia	40.3	43.9	41.2
Lithuania	37.9	42.4	39.2
Hungary	44.5	45.9	43.9
Poland	42.1	36.4	37.1
Romania	41.1	36.6	31.5
Slovenia	50.9	49.0	50.5
Slovakia	39.2	35.4	37.3
Average (weighted)	42.0	39.3	38.8
Germany	52.3	47.7	50.8

Source: Podkaminer, 2015; Annual Macroeconomic Data

Other Measures of Wage and Efficiency Differentials

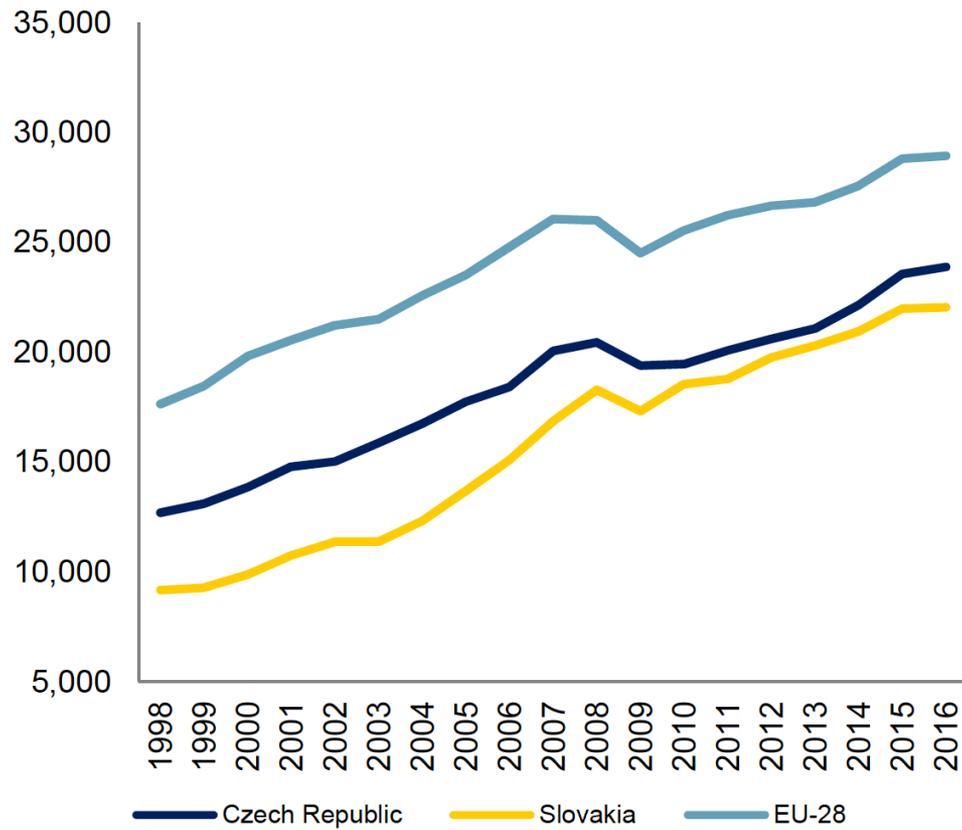
- Average labor cost differential within firm (Skoda/VW = $1/3$; EU banks and CEEC subsidiaries also large)
- Big Mac – Czech/Austria = $1/2$ (Ashenfelter and Jurajda)
- Efficiency of capital and labor allocation (Gorodnichenko et al.)
 - CEEC/EU = 0.9
 - CEEC/Germany = 0.8

Other CEEC Features

- Migration to old member states
 - Doctors to Germany
 - Workers to Britain (Brexit)
- Lower average quality of capital stock
 - Share of machinery and equipment that is perceived to be state-of-the-art: 35% in NMS v. 45% in EU average (EIB)

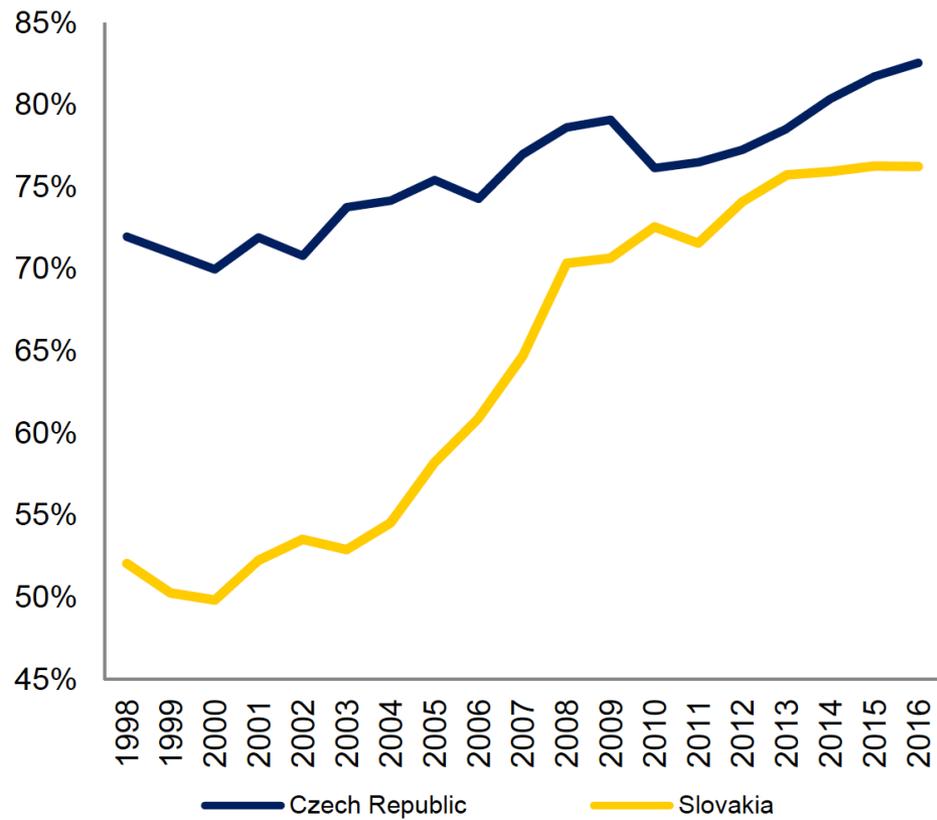
Czech-Slovak Comparison

Figure 1: **GNI per capita (in PPS)**



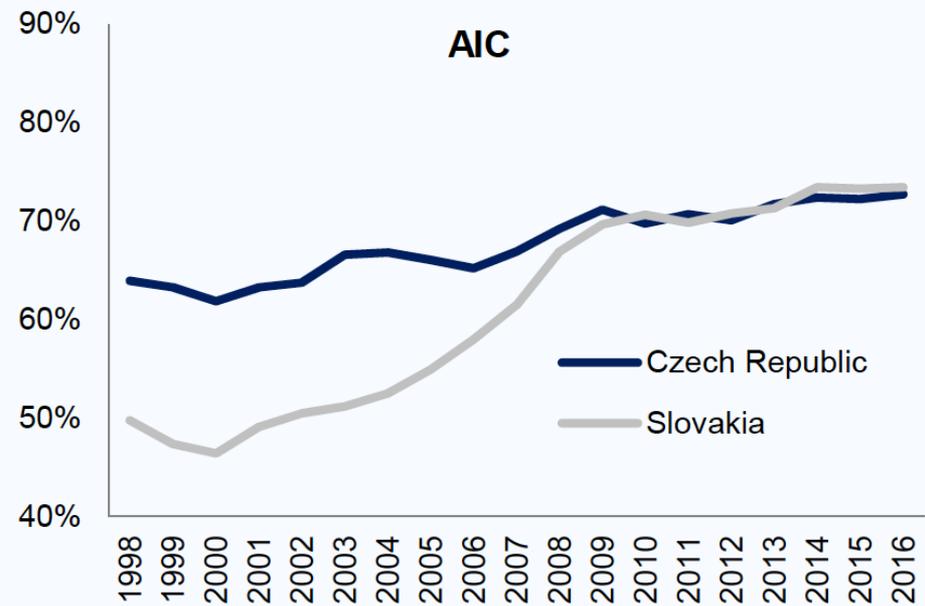
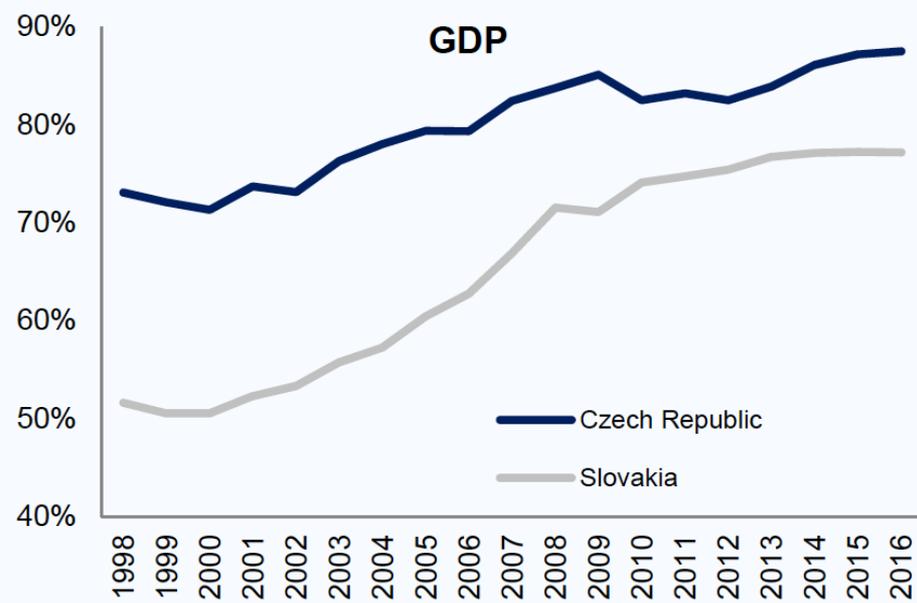
Source: AMECO, own calculations

Figure 2: **GNI per capita (PPS) as % of EU-28**



Source: AMECO, own calculations

Figure 5: National account aggregates per capita as % of EU-28 (PPS): 1998-2016

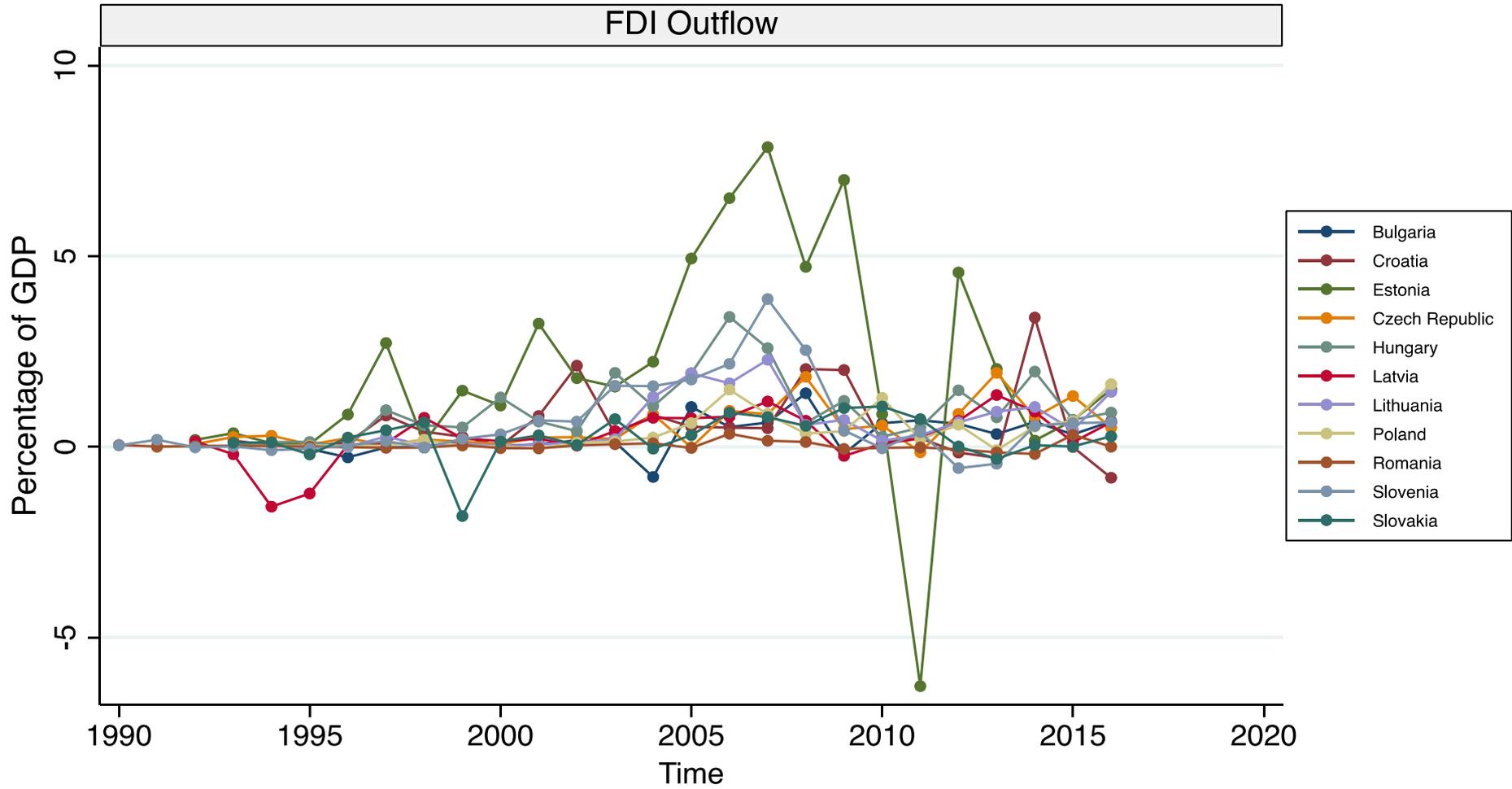


Europe and CEECs at a Crossroads

- Can Europe
 - Stay together and continue integration (single market; policy coordination)
 - Sustain economic growth and raise innovation (digital technology, AI, robotization, ...)
- Will CEECs
 - Remain within EU and speed up convergence with EU
 - Diversify export destination and raise value added of exports
 - Increase quality of education
 - Avoid authoritarianism

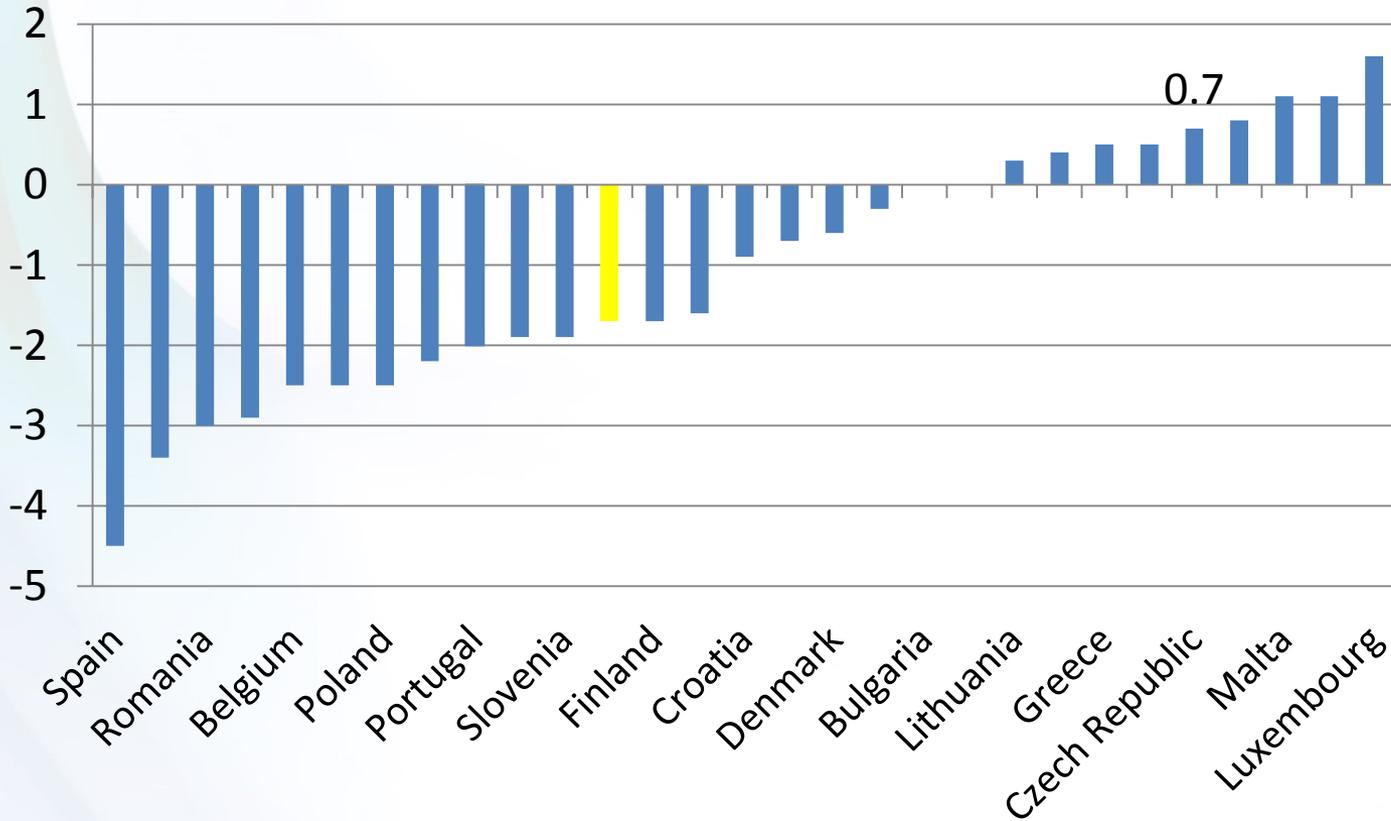
Thank you

FDI Outflow



General Government Deficit/Surplus

EU Countries, 2016, % of GDP



Source of data: Eurostat

