Challenges & policies to attain sustainable economic convergence in CESEE countries

Debora Revoltella
Director, EIB Economics Department

Frankfurt am Main, 5 Oct 2017
Convergence so far: strong investment growth, but also a strong correction

Saving, investment and current account balance in cohesion economies (% GDP)

Net international investment position (% GDP, 4-qtr moving sum)

Source: EIB/ECON calculations based on Eurostat.

Note: Annual data, last record 2017 based on EC Spring forecast. Private balance stands for the private saving minus private investment balance.
Investment recovery, but strong dependency from the EU Funds cycle

Real gross fixed capital formation contributions by asset type, (% yoy)

Domestic and EU funded public investment in CESEE-EU (% GDP)

Source: EIB/ECON calculations based on Eurostat and ECB data.

Note: CESEE-EU: Estonia, Latvia, Lithuania, Czech Republic, Hungary, Poland, Slovakia, Slovenia, Bulgaria, Croatia, Romania.
Companies in CESEE invest less in intangible assets (R&D in particular) than the rest of the EU, and there is room for optimizing allocation of resources.

**Investment areas**

Evolution of the dispersion in the marginal product revenue of capital (MRPK) and the marginal product revenue of labour (MRPL) over the period 2000-2014. 3 groups of EU countries.

*Source: EIB/ECON calculations based on Orbis and EIBIS*
Foreign-owned firms: they invest and innovate more

Share of firms investing

Share of machinery that is state of the art

Innovation activity

Share of building stock that is energy efficient

Base: all CESEE firms

Source: EIB/ECON calculations based on EIBIS
Lack of skilled staff and uncertainty are the key barriers to firm investment & aging and outward migration critical for municipalities

Firms: Long term barriers to investment

Municipalities: Drivers of demographics

Base: CESEE average of all firms (data not shown for those who said not an obstacle at all/don’t know/refused)

Q. Thinking about your investment activities in country#, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

Source: EIB/ECON calculations based on EIBIS and EIB Municipality Survey
Budget and length of approval process as main obstacles to infrastructure investment. Short term orientation of policies

CESEE: Long term investment barriers

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>Share of municipalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget (EU)</td>
<td>20%</td>
</tr>
<tr>
<td>Debt Ceiling</td>
<td>40%</td>
</tr>
<tr>
<td>Access to external finance</td>
<td>60%</td>
</tr>
<tr>
<td>Technical capacity</td>
<td>80%</td>
</tr>
<tr>
<td>Coordination</td>
<td>60%</td>
</tr>
<tr>
<td>Length of approval process</td>
<td>20%</td>
</tr>
<tr>
<td>Political and reg. stability</td>
<td>20%</td>
</tr>
</tbody>
</table>

Change of public expenditure composition 2007-2016, (difference in percentage points)

Base: All municipalities.

Q. To what extent is each of the following an obstacle to the implementation of your infrastructure investment activities?

Source: EIB/ECON calculations based on EIB Municipality Survey and AMECO
Policy conclusions

• Do not waste the opportunity!
  • good policies
  • proper planning and prioritization
  • long term views
  • focus on competitiveness