The catching up process in CESEE countries

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Institutional quality and sustainable economic convergence
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European Central Bank
• Successful convergence and its foundations in the past

• Short outlook for future catching up

• Problem that need to be addressed

• Opportunities that need to be seized
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Successfull convergence of CESEE…

Convergence of GDP per capita

at PPP in % of EA-19

Source: IMF.
...promoted by macro-stabilization

Nominal convergence

Inflation
regional averages, in % year-on-year

Policy rates
regional averages, in % year-on-year

Source: Eurostat, Bloomberg, WIIW.
…deeper economic integration
Participation in global value chains
in 2014, index from 0 (worst) to 100 (best)

Revealed comparative advantage in medium high-tech goods
in 2014, values above 1 indicate a comparative advantage

Source: ECB COMPNET.

...deeper economic integration (cont.)
…and a sound fundament of human capital

Population aged 25-34 having completed tertiary education

Source: European innovation scoreboard.
...and institutional development

Governance indicators

Estimate of governance (ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance)

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Crisis only put a temporary brake on convergence

**Convergence Between CESEE EU Member States and the Euro Area**

**Historic GDP growth differential**

Year-on-year change in %

**Simulated convergence paths**

*per capita GDP at PPP in % of Euro area (EA-12)*

Sources: OeNB, IMF.
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Institutional gaps can explain differing country paths to a certain extent.
Institutional gaps can explain differing country paths to a certain extent (cont.)
Wide variation in infrastructure quality

Infrastructure Gap Index

Sources: WDI, EIA, IRF, Eurostat, and IMF staff calculations.
Note: Infrastructure Gap Index calculates the gap between a country’s infrastructure and that of an average EU member. In the following areas’ railway density, motorway density, installed capacity for power generation, phone lines and cellular subscriptions, broadband internet connections, and air transport passengers. The index value ranges between 50 to -65 with a value of zero reflecting EU-28 average.

Source: IMF Article IV Consultation of Serbia, 2017
Strength of Public Investment Management by Institution

Implementation

Planning

Allocation

Source: FAD PIMA database; IMF staff calculations.

Source: IMF Article IV Consultation of Serbia, 2017
Emigration is still a topic, especially in countries with higher gaps in income and institutional development.

### Average migration intentions by country

**Share of individuals with the intention to emigrate (in %)**

- **Albania**: 17.0%
- **FYR Macedonia**: 12.0%
- **Bulgaria**: 10.0%
- **Total**: 9.0%
- **Bosnia and Herzegovina**: 8.0%
- **Hungary**: 7.0%
- **Poland**: 7.0%
- **Serbia**: 6.0%
- **Croatia**: 5.0%
- **Czech Republic**: 4.0%
- **Romania**: 3.0%

*Source: OeNB Euro Survey (2014).*
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Way forward: Innovation

R&D spending in the public sector

Source: European innovation scoreboard.
Way forward: Innovation (cont.)

R&D spending in the private sector

Source: European innovation scoreboard.
Way forward: Climbing up the technology ladder

Exports of medium and high technology products

Source: European innovation scoreboard.
Way forward: Green economy

Energy efficiency

Gross inland consumption of energy divided by GDP (in kg of oil equivalent per 1 000 EUR)

Source: Eurostat.
Back-up slides: Remittances
Main remittance sending countries

Sending regions of remittances

Sending countries of remittances: Top-10 remittance sending countries to CESEE

Shares in total amount that come from top 10 countries

Source: Bilateral Remittance Matrix 2015 (version Oct. 2016), World Bank