



6th Annual NBP Conference on the Future of the European Economy

“Crystal Ball” Panel
Prospects for economic growth in Central Europe

Dimitar Bogov

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CEE made significant transformation in the 90's

Driven by:

- ▶ the internal energy of the people ready to take the burden to transform their countries and improve living standard in the long run;
- ▶ IMF structural adjustment programs;
- ▶ EU integration;



Several Recent Reports of IFI's send warning signals

- ▶ EBRD Transition Report 2013: Stuck in Transition?
- ▶ 25 Years of Transition Post-Communist Europe and the IMF; Regional Economic Issues – Special Report, 2014, Roaf et al.
- ▶ IMF Regional Economic Issues, Central, Eastern, and Southeastern Europe How to Get Back on the Fast Track, May 2016.



The main message

Reforms stalled at early 2000's

There were signs of reform fatigue



Reasons:

- ▶ Big reforms, or the low hanging fruits were already picked;
- ▶ CE countries became normal economies in which reforms are incremental, they need to balance politically between different interest groups;
- ▶ No EU accession incentive;
- ▶ No IMF conditionality;
- ▶ Early 2000's were a boom period with excessive liquidity worldwide;



Then came Global Financial Crisis

- ▶ After Global Financial Crisis in 2008 CE economies were more focused on crisis management rather than structural reforms
- ▶ Potential growth was reduced and convergence slowed down



Challenges ahead

- ▶ Lower potential growth and slower convergence are now a new normal
- ▶ To increase labor supply with aging population and outward emigration to more developed EU countries

Questions

- ▶ How can CEE increase potential growth?
- ▶ How to stop emigration to more advanced EU?
- ▶ Is immigration from less developed countries an opportunity?



Challenges ahead (continued)

- ▶ Savings rate are still low
- ▶ Public debt is high
- ▶ Need to foster private investments

Questions

- ▶ How to make institutional reform that increases efficiency and return on capital?
- ▶ How to attract foreign investors in developing domestic infrastructure?



Challenges ahead (continued)

- ▶ Global limitations – “new normal = new mediocre”

Questions

- ▶ How does it impact the growth outlook in CEE?



Challenges ahead (continued)

- ▶ CEE countries rank below advanced Europe on a number of structural and institutional characteristics according to the OECD ranking
- ▶ They are particularly weak in institutions and contracts, business regulation, innovation, human capital

Questions

- ▶ How to improve institutions in CEE?
- ▶ Can CEE create favorable environment for digital industries, for innovation?



Panel

- ▶ Arup Banerji, Regional Director for the EU Countries, The World Bank
- ▶ Hans Peter Lankes, Managing Director, Corporate Strategy, European Bank for Reconstruction and Development
- ▶ Jan Švejnar, James T. Shotwell Professor of Global Political Economy, Director, Center on Global Economic Governance, Columbia University