

“The Mystery of Low Productivity Growth in Europe”  
8<sup>th</sup> Annual NBP Conference on the Future of the European Economy (CoFEE)  
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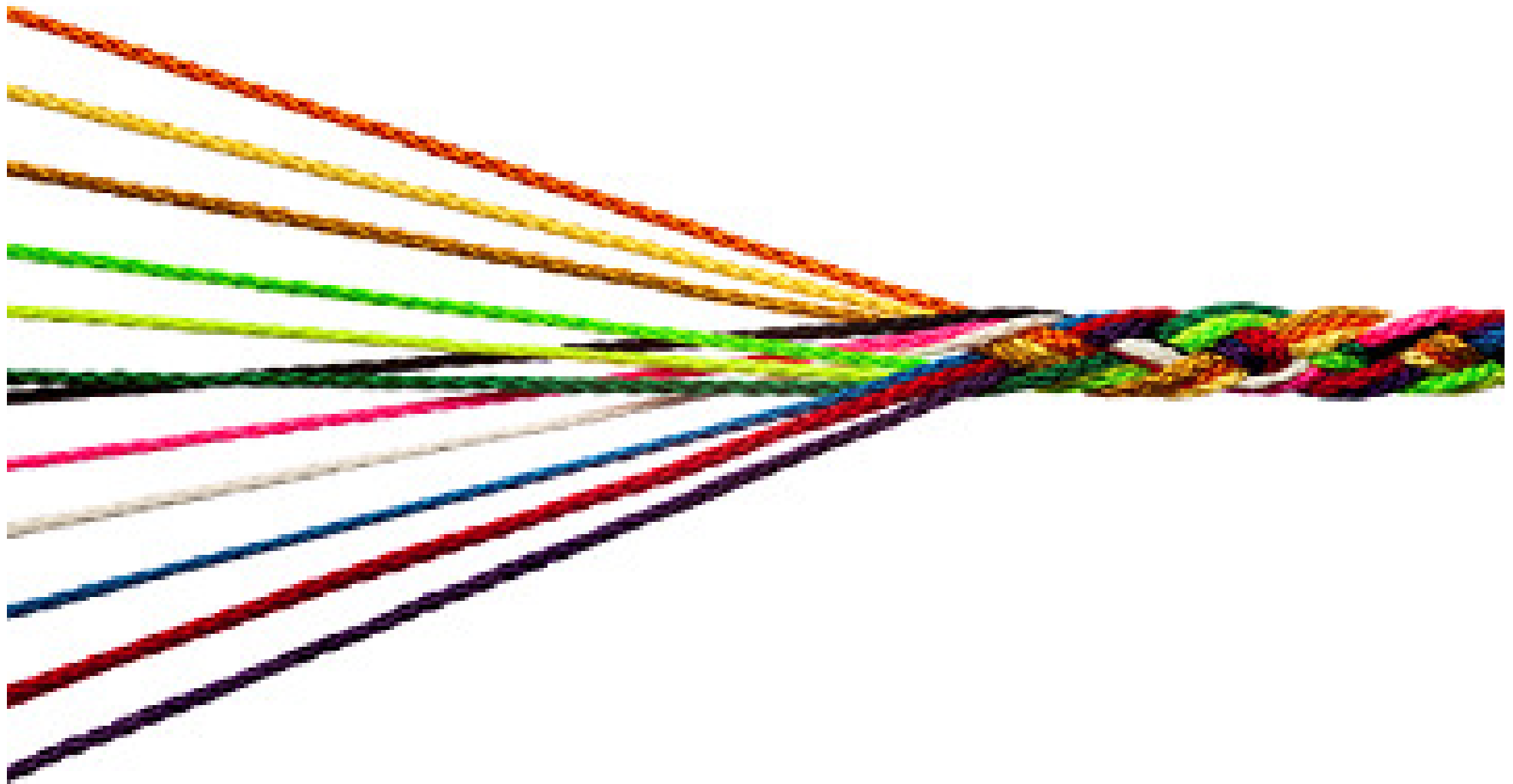
*“Crystal Ball” Panel:  
For Central Europe, the Future Is Bright or Back to the Stone Age?*

# Economic Catch-Up in Central and Eastern Europe. Post-Transition Lessons and Perspectives



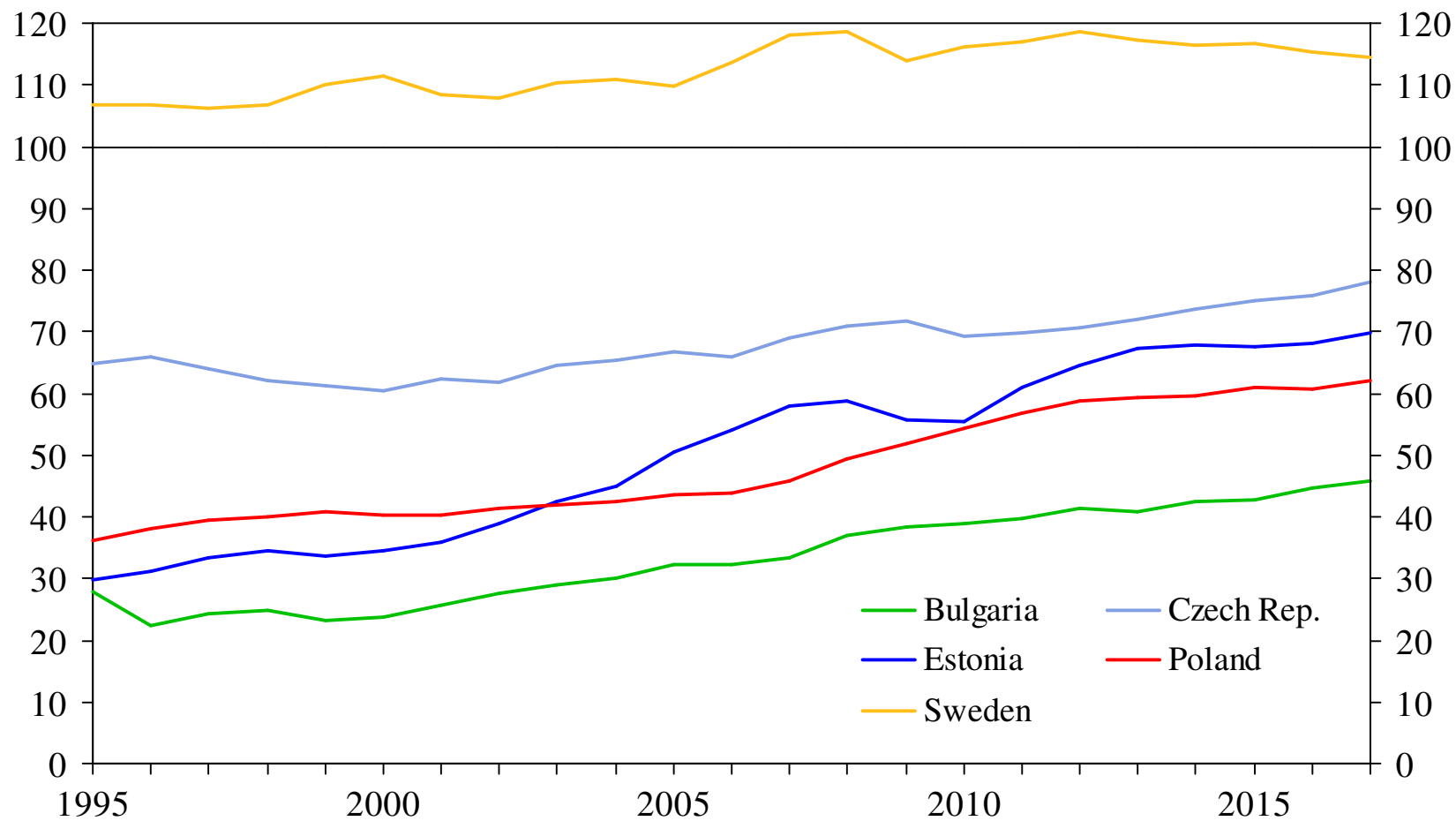
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*All viewpoints personal!*



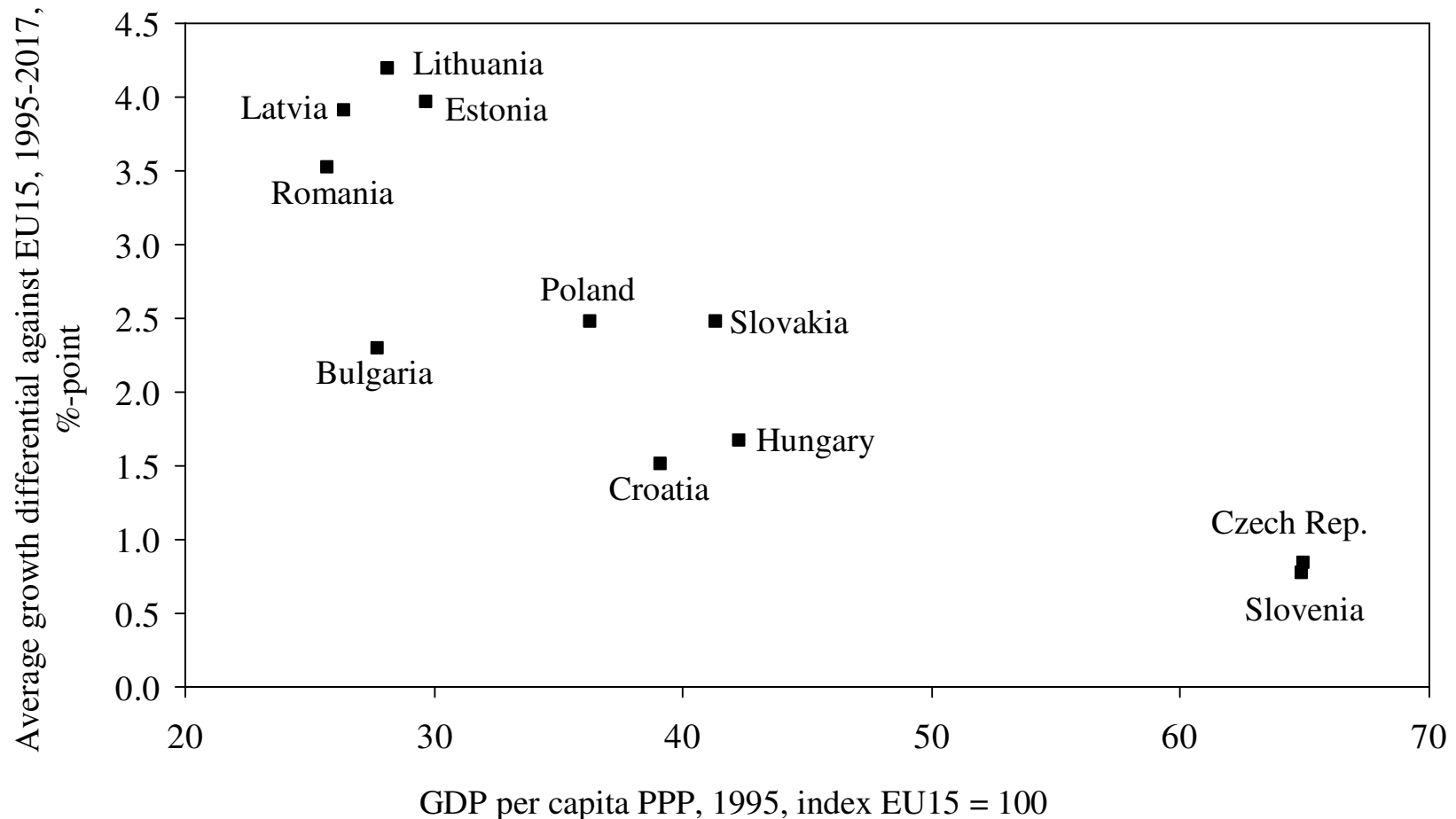
# Convergence 1995-2017

Figure 1: GDP per capita PPP for selected CEE countries, EU15 = 100



Source: Ameco (HVG NPR)

Figure 2: Beta convergence for the CEE countries



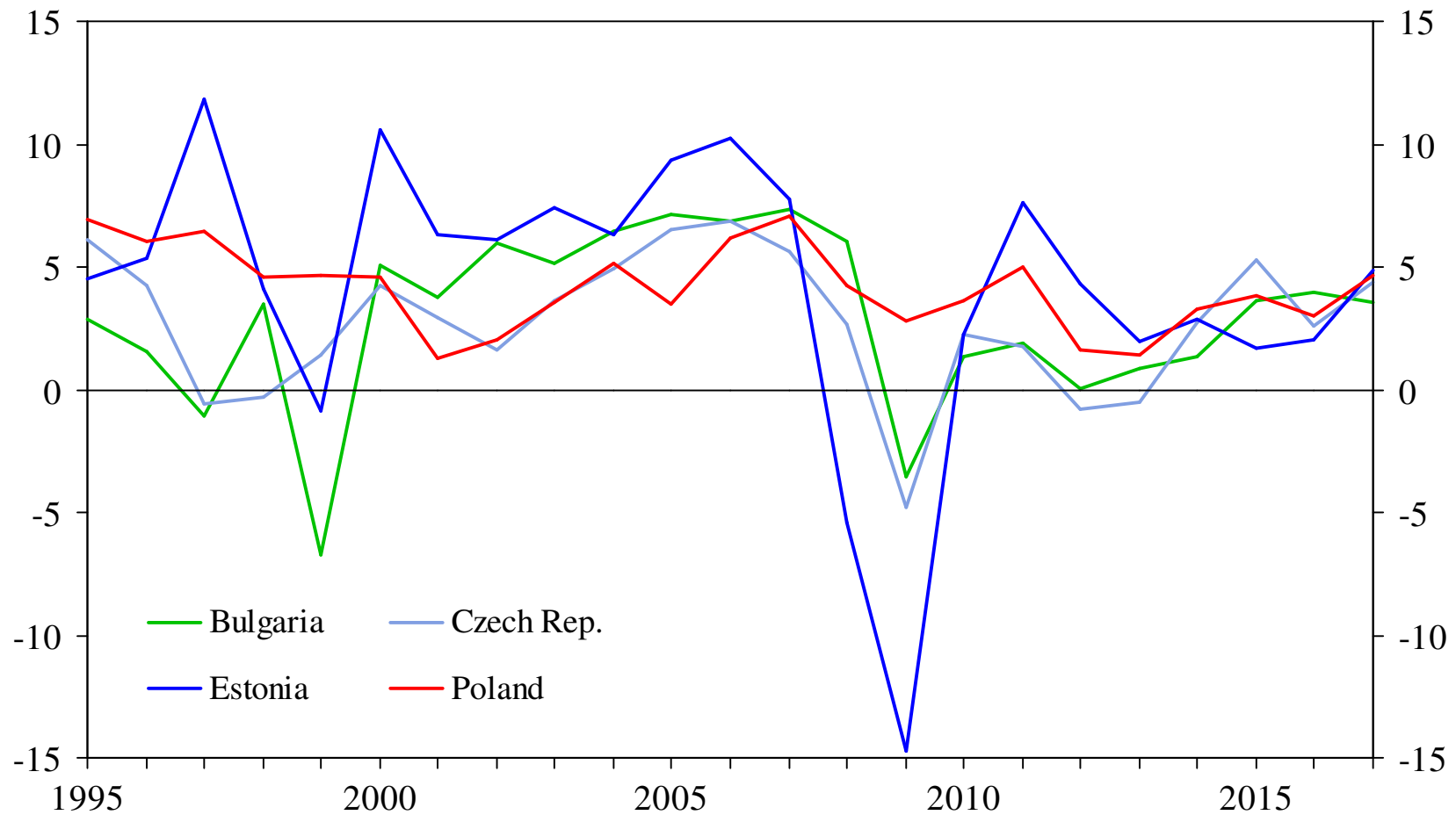
Source: Ameco (HVG NPR)

Beta convergence for CEE countries 1995-2017 → estimated  $\beta = 3.2\%$

[Stæhr, K. (forthcoming) “Økonomisk vækst, produktion og (manglende) konvergens i transitionslandene.” [Economic growth, production and (absent) convergence in the transition countries], *Nordisk Østforum*]

## Strong business cycles

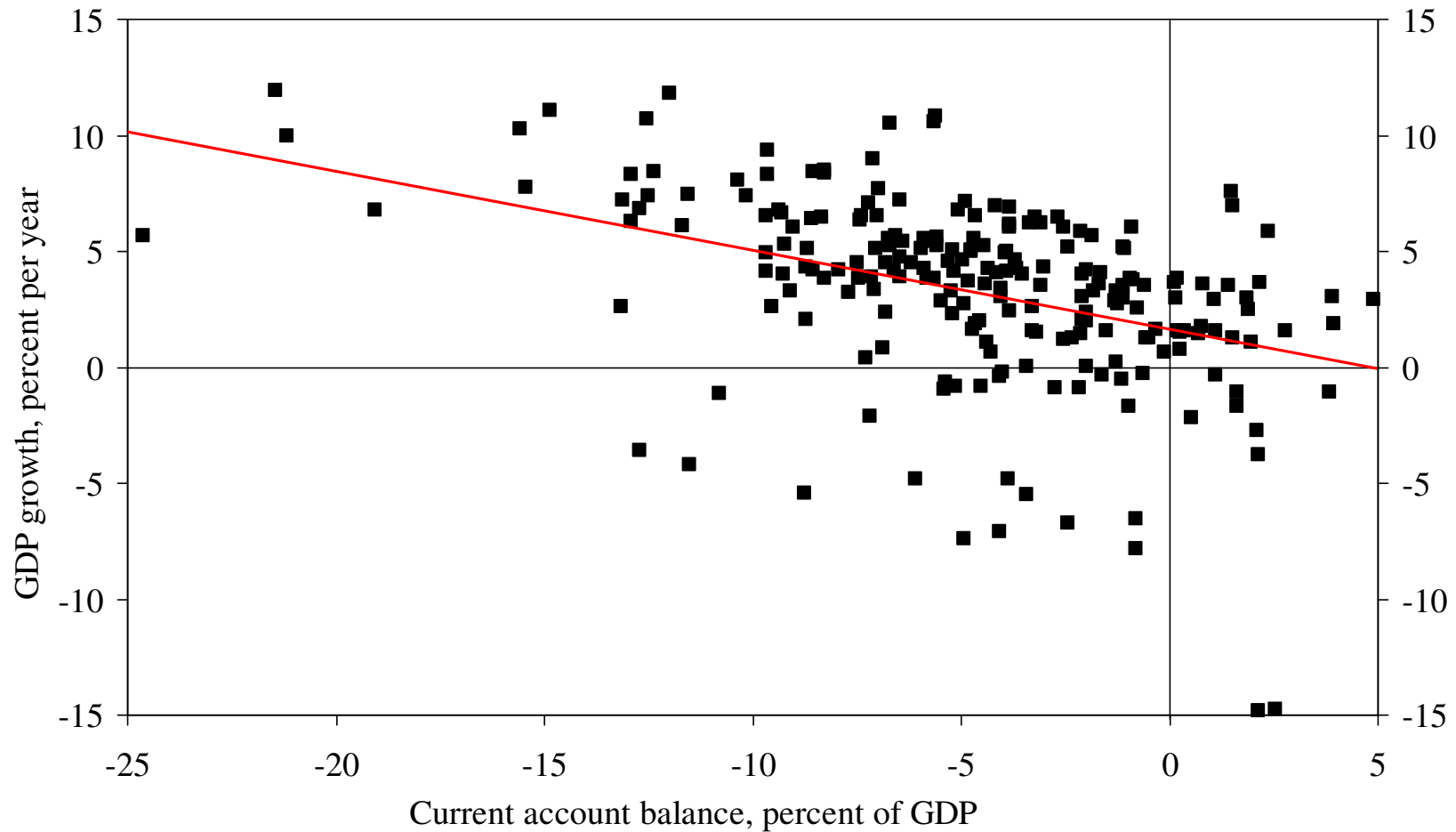
Figure 3: GDP growth for selected CEE countries, percent per year



Source: Ameco (OVGD)

... but heterogeneous effects across the CEE countries

Figure 4: Current account vs. GDP growth for the CEE countries



Source: Staehr (2018, p. 6)

[Staehr, K. (2018): “Capital flows and growth dynamics in Central and Eastern Europe”, *Post-Communist Economies*, vol. 30, no. 1, pp. 1-18.]

Table 1: Labour productivity growth, within and between sectors

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<i>Estonia</i>												
Productivity change	4.8	4.3	6.2	5.5	6.7	4.0	6.1	-3.9	-5.2	7.9	2.9	1.5
MR/F within	6.7	3.0	7.5	7.6	6.4	5.4	6.9	-5.0	-5.8	7.2	1.9	1.5
MR between	-2.0	1.2	-1.3	-2.1	0.3	-1.3	-0.8	1.2	0.6	0.6	1.0	0.0

Source: Kuusk *et al.* (2017, p. 40)

Interpretation → demand boom at times “pressing” employment into less productive sectors (construction, retail)

[Kuusk, A., K. Staehr & U. Varblane (2017): “Sectoral change and productivity growth during boom, bust and recovery in Central and Eastern Europe”, *Economic Change and Restructuring*, vol. 50, no. 1, pp. 21-43.]

## The Middle Income Trap (MIT)

Modest GDP growth in most CEE countries after the global financial crisis ( $\geq 2010$ )

- Catch-up vis-à-vis the USA halted
- Latin America, some Asian countries
- (Upper) middle income countries in Europe such as Greece and Portugal

“Traps”

- Education
- Innovation
- Infrastructure
- Governance

[Staehr, K. (2015): “Economic growth and convergence in the Baltic states: caught in a middle income trap?”, *Intereconomics*, vol. 50, no. 5, pp. 274-280.]



Table 2: Growth accounting: decomposition of output growth **2010-2016**

	Output growth	Contributions			
		Employment	Capital	Utilisation	TFP
EU15	1.25	0.25	0.37	0.68	-0.04
Bulgaria	1.79	-0.62	1.30	0.83	0.28
Czech Rep.	1.81	0.24	1.15	0.72	-0.29
Estonia	3.06	0.68	1.15	1.50	-0.27
Croatia	-0.16	-0.96	0.47	0.47	-0.14
Latvia	2.29	-0.14	1.22	2.16	-0.96
Lithuania	3.23	0.26	1.55	1.57	-0.16
Hungary	1.73	0.74	0.73	0.82	-0.56
Poland	3.10	0.13	2.12	0.68	0.16
Romania	2.32	-0.60	1.57	0.49	0.87
Slovenia	0.86	-0.24	0.25	0.67	0.18
Slovakia	2.96	0.38	1.55	1.71	-0.68
CEE average	2.09	-0.01	1.19	1.06	-0.14

*Notes:* Annual averages for 2010-2016. Output growth is average annual growth in percent. The annual contributions of employment, utilisation, capital and TFP are in percentage points. The CEE average is the unweighted average.

Source: Levenko et al. (forthcoming, Table 5)

[Levenko, N., K. Oja & K. Staehr (forthcoming): “TFP growth in central and eastern Europe before, during and after the global financial crisis”, *Post-Communist Economies*]



# Distributions

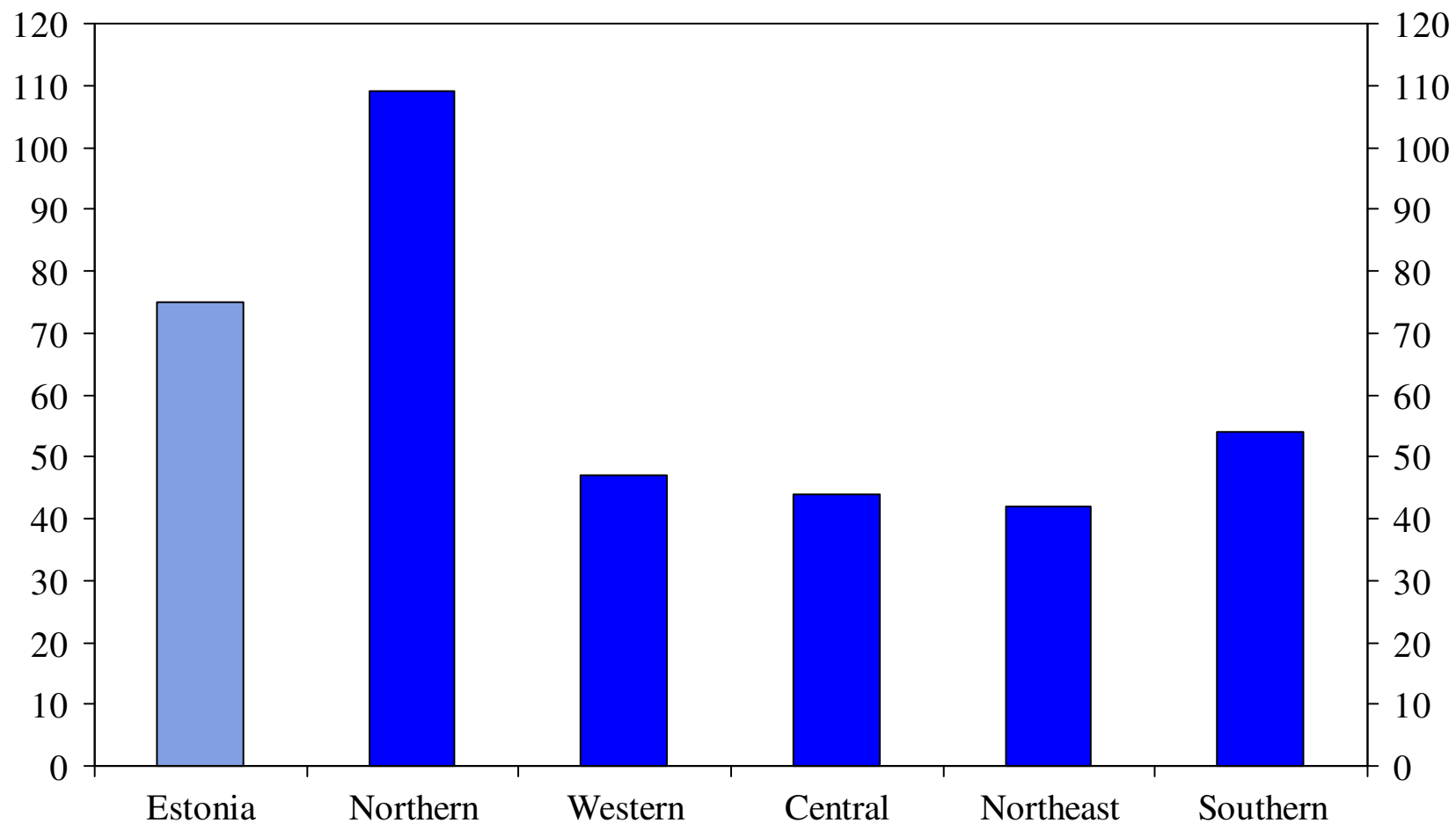
Macroeconomic data are averages over distributions 😊



Risk overlooking important distributions

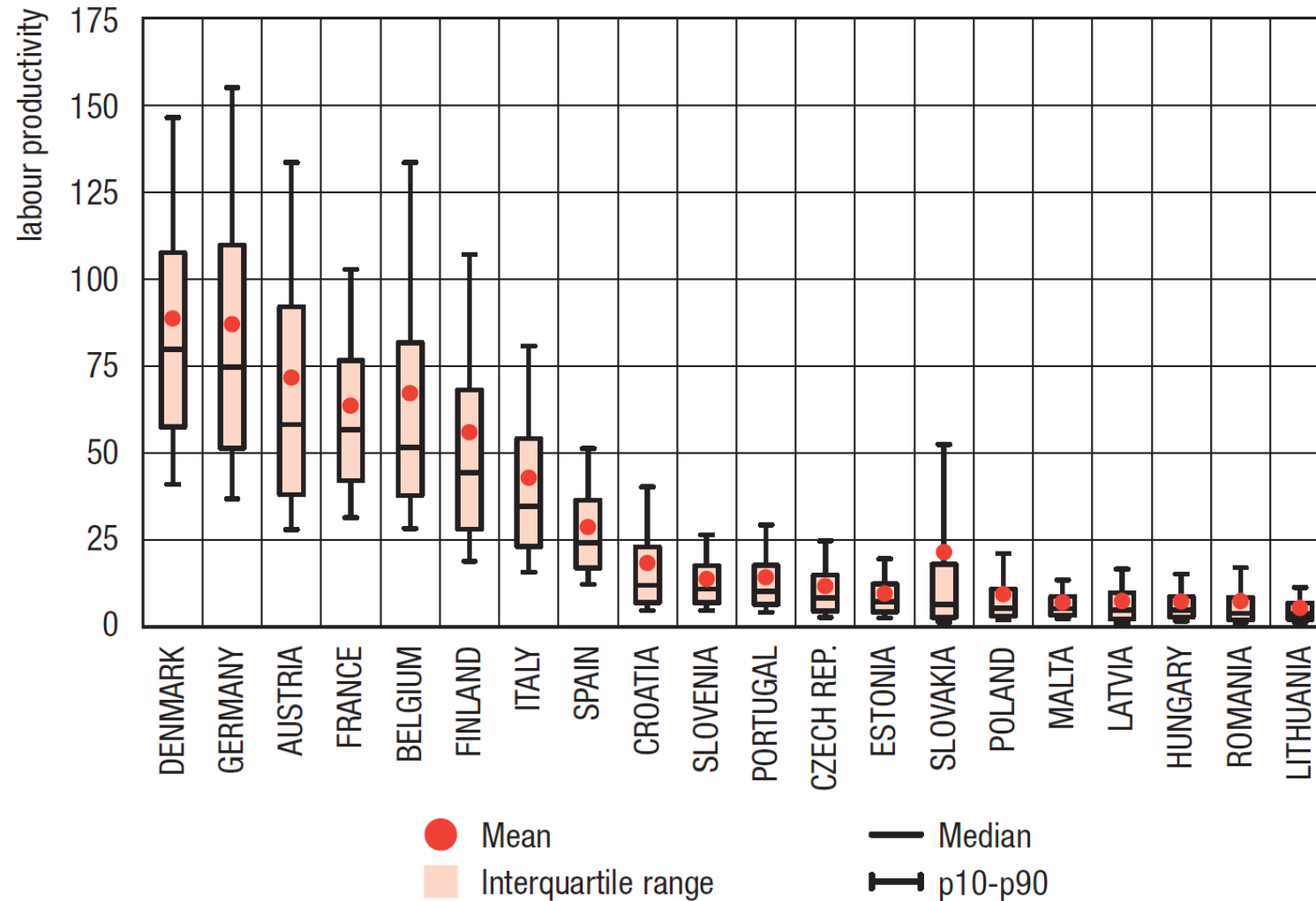
- Regional income
- Firm productivity
- Household income

Figure 5: Regional GDP per capita PPP (NUTS3), in percent of EU28 average, Estonia, 2016



Source: Eurostat (*nama\_10r\_3gdp*)

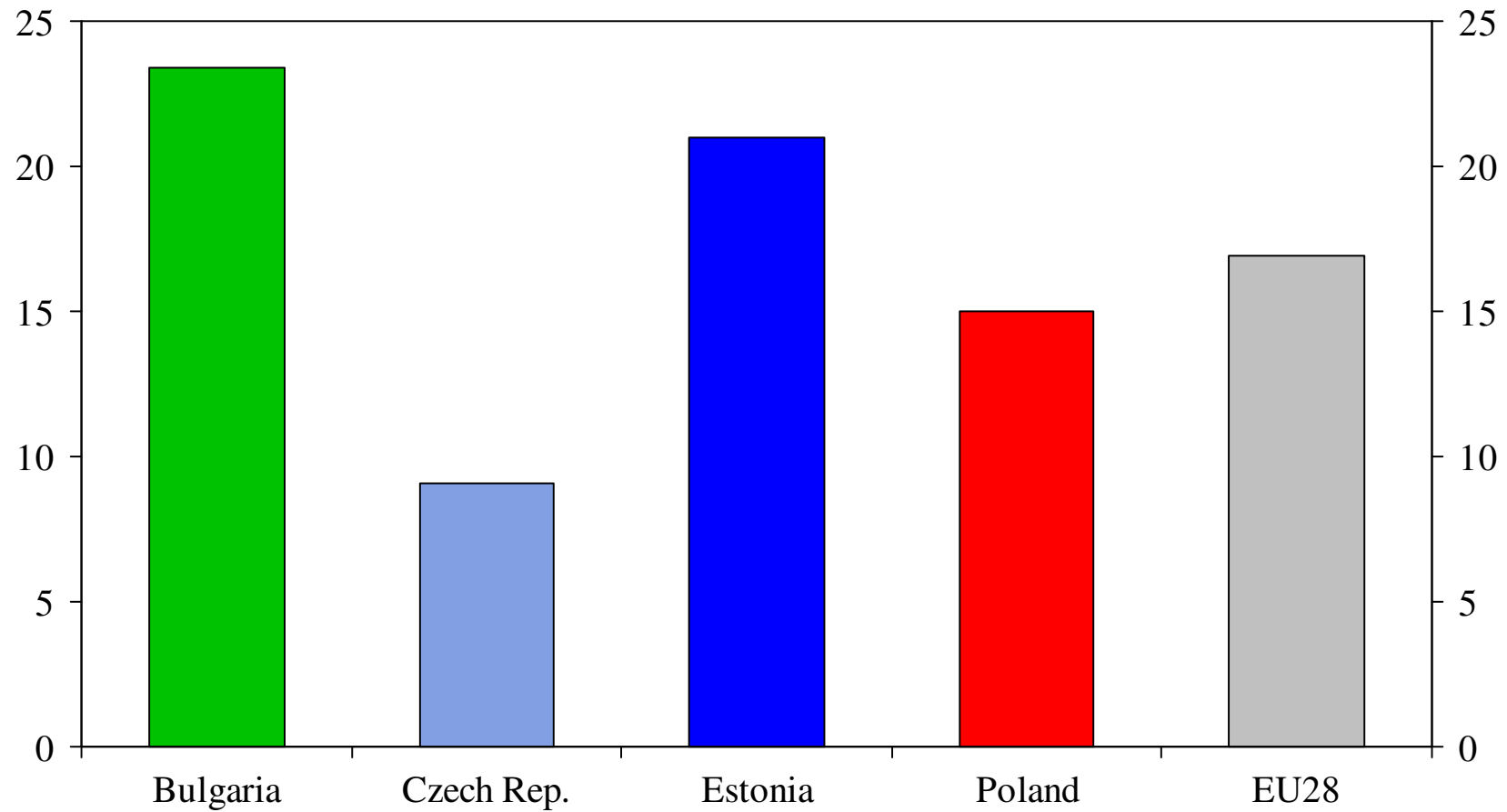
Figure 6: Labour productivity distribution across countries, CompNet data



Source: Valdec & Zrnc (2017, p. 12)

[Valdec, Miljana & Jurica Zrnc (2017): “Microeconomic aspects of productivity developments during the great recession in Croatia – the CompNet productivity module research results”, Surveys S-22, Croatian National Bank.]

Figure 7: Share of households at risk of poverty, 2017



Source: Eurostat (*ilc\_li02*)

Economically marginalised households → productivities, opportunities



# Lessons from 20+ years of convergence

Finish convergence in next 20 years?

- Growth in highly productive firms
  - Innovation systems, enterprise support
  - Education, incl. management, education at highest levels
  - Size of companies
  - Internationalisation
  
- Business conditions
  - Infrastructure
  - Governance (corruption, IT)

[Moral-Benito, Enrique (2016): “Growing by learning: firm-level evidence on the size-productivity nexus.” Bank of Spain, Documentos de Trabajo, no. 1613]

[Bartelsman, E., Haltiwanger, J. & S. Scarpetta (2013): “Cross-country differences in productivity: the role of allocation and selection.” *American Economic Review*, vol. 103, no. 1, pp. 305-334]



- Inclusion
  - Invest in people (education, health)
  - Activate people (social policy, health and addiction)
  - Minimum wages
  - Regional priorities → development, mobility (housing costs)
  
- Avoid boom-bust cycles
  - Fiscal policy
  - Credit and capital flows (exchange rate policy, financial sector)



**Last slide**

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*All viewpoints personal!*