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CEE and CIS Economies: Uncertain Prospects of Economic Convergence

Economic convergence analysis

- Various meanings of convergence and benchmarks
- GDP per capita in current intern. $, in PPP terms
- As % of Germany’s GDP per capita in PPP terms
- WEO database, October 2014
- Former communist economies in CEE and CIS (except Kosovo) presented in three subgroups: 11 NMS, 5 Western Balkan, 12 CIS
Barriers of convergence: demand factors

• Slower growth of the world economy
• Stagnation in Western Europe
• Stagnation and security risks in the Eastern neighborhood
Long-term growth arithmetic based on the neo-classical growth theory

- Declining domestic labor resources (due to demography and net outward migration)
- Constraints on investment financing
  - Increase in national saving rates? What about fiscal consolidation?
  - Return to higher import of saving?
- Total factor productivity (regress in economic reforms)
Emerging and developing Europe: saving-investment imbalance, % of GDP

Source: IMF WEO database, April 2014
Gross national saving, % of GDP: interregional comparison, 2001-2013

Source: IMF WEO database, April 2014
National reform agenda

- Modernization of excessive welfare state
- Labor market flexibility
- Education reform
- Fiscal consolidation
- Return to privatization
- Business and investment climate
- Governance, rule of law, corruption, organized crime, etc.
European dimension

- Importance of similar reforms in all EU member states, especially in large continental economies
- Deepening of the Single European Market (services, infrastructure)
- Banking Union
- Strengthening fiscal and macroeconomic discipline
Global agenda

- Completing the Doha Development Round
- Financial sector reform
- Macroeconomic policy coordination
- Climate change policy