NARROWING THE GAPS: 30 YEARS AFTER TRANSITION STARTED AND 14 YEARS AFTER THE ENLARGEMENT – WHERE ARE WE ON CONVERGENCE?

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ECONOMIC CONVERGENCE

GDP/cap

Convergence of some CEE countries to "old" EU level

ENTRY CRISIS

Slovenia
Czech R.
Estonia
Slovakia
Latvia
Bulgaria

ENTRY
CRISIS

ratio
Speed of convergence:
Lithuania, Estonia, Latvia, Slovakia, Bulgaria Romania, Poland, Czech Republic, Hungary, Croatia, Slovenia

Remarcable economic convergence

% of "old" EU

Bulgaria 23.3
Czech R. 49.6
Estonia 47.5
Croatia 32.9
Latvia 37.7
Lithuania 40.1
Hungary 34.4
Poland 32.9
Romania 25.5
Slovenia 58.2
Slovakia 44.2

GDP/capita in 1995
GDP/capiata in 2016
Relatively rapid convergence before the entry to EU, speeding in the years following the enlargement, and slowing down of convergence since the crisis;

It seems that economic structure is not something which can be determined by CEE countries due their small size, linkages of foreign trade, capital flows, particularly related to FDI, and economic policy of European Commission;

The CEE have lost all economic attributes of a country: borders, economic system, fiscal and monetary policy: they have become totally dependent regions.

The speed of economic convergence depends on the starting position and robustness of social and political changes; the better the initial position and the softer the political transition the slower the convergence
# Changes in the GDP Structure 1995-2016 in „New“ and „Old“ Europe

<table>
<thead>
<tr>
<th>Sector</th>
<th>„New“</th>
<th>„Old“</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, ....</td>
<td>7.4</td>
<td>3.0</td>
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<tr>
<td>Industry</td>
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<td>22.4</td>
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<tr>
<td>Manufacturing</td>
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<tr>
<td>Construction</td>
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</tr>
<tr>
<td>Trade, transport, tourism</td>
<td>18.2</td>
<td>19.6</td>
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<td>Information.....</td>
<td>2.7</td>
<td>4.2</td>
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<tr>
<td>Finance and insurance</td>
<td>3.8</td>
<td>3.7</td>
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<tr>
<td>Real estate</td>
<td>6.7</td>
<td>7.5</td>
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<tr>
<td>Profesional, scientific..</td>
<td>4.6</td>
<td>7.1</td>
</tr>
<tr>
<td>Public sector.....</td>
<td>12.9</td>
<td>13.2</td>
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<tr>
<td>Arts, entertainment...</td>
<td>2.3</td>
<td>2.4</td>
</tr>
</tbody>
</table>
Three quarters of foreign trade of »new« members with EU

Increased integration after revival in 2012

**Shares of CEE imports from and exports to EU29**

- **Imports**
- **Exports**

[Graph showing the percentage of CEE imports from and exports to EU29 from 2002 to 2016]
The CEE countries form two groups: extremely neoliberal (BG, RO, Baltic countries) with the share of public expenditure in GDP below 40 percent and more social democratic countries with shares closer to the EU average but far away from Scandinavian countries.
Activity rates in 2016 are in four countries higher than in EU28, in three countries far below, and in four on the level EU28 average.

Unemployment rate in seven EU countries significantly exceeds EU average, in four is significantly lower.
Enormous emigration has accompanied low natural growth of population; Baltic countries lost a quarter of population since transition, only three CEE countries achieved modest increases of population since transition and crisis.
INFLOW OF FOREIGN CAPITAL: WHO OWNS THE WEALTH OF CEE COUNTRIES?

Net foreign investment position (FDI, portfolio, other)

% of GDP

- Bulgaria 74.1
- Croatia 86.8
- Latvia 66.3
- Lithuania 45.3
- Hungary 88.9
- Poland 69.2
- Romania 60.7
- Slovakia 45.8
- Estonia 48.1
- Czech R. 46.3
- Slovenia 37.7
- Net debt 2000
- Net debt 2013

Net of GDP: 32.8
24.3
28.8
34.5
69.8
31.8
22.0
11.6
22.8
INCOME DISTRIBUTION

Share of labor in the »primary distribution“ of income in most CEE countries is extremely low, and share of capital extremely high if compared with EU averages; Slovenia is a noted exception.
Inequality in Baltic countries, Bulgaria and Romania is much higher than in EU28 while some socialist heritage has been retained in Višegrad group and Slovenia.

Inequality Coefficients (top20/bottom20 and top10/bottom10)
»PRIMARY DISTRIBUTION« OF INCOME AFFECTS INCOME INEQUALITY
CEE countries lack research and innovation, Slovenia is an exception but even in Slovenia number of patents is only half of the EU level. Research depends on FDI and starting position; more FDI, less patents.