TOWARDS A NEW GROWTH MODEL IN CESEE: CONVERGENCE AND COMPETITIVENESS THROUGH SMART, GREEN AND INCLUSIVE INVESTMENT

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Agenda

- The need for a new growth model for CESEE
- Elements of a new growth model
- How is the region positioning?
- COVID impact on CESEE
- Concluding remarks
The Need for a new growth model in CESEE

• Post-accession convergence based on the combination of low labour costs, the role of exports, and the capital inflows intermediated through foreign direct investments

• Conditions have changed post financial crisis. CESEE countries had recovered from the downturn by 2014 and have shown a robust cyclical upswing, but potential growth slowed down significantly
  • More sluggish investment activity
  • Lower TFP growth
  • Bottlenecks on labour markets

• Need to revisit current economic model a move towards a more innovation and knowledge-based growth model to propel economic convergence
Elements of a new growth model

- Innovation
- Digital technologies
- Climate change mitigation
- Skills, labour & social inclusion
More investment in intangibles needed to replace technology import with more home-grown innovation.

Intangibles share for corporate investment and GDP p.c.

CESEE - Active innovators by sector, 2019

- Innovation activities concentrated in large firms and manufacturing
- Innovation adoption still strong role
- Some persistent weaknesses in innovation systems incl. financing

Firms seizing potential of digital technologies but digitalization adds to labour market challenges.

**Implementation of digital technologies**
Share of firms in per cent

- **Partially**
- **Fully**

Source: EIB EIBIS 2019.

**Strategies to cope with skill gaps in current workforce**
Share of firms in per cent

- Relocated or outsourced processes
- Automated processes
- Increased recruitment activity
- Improved remuneration packages or non-monetary benefits
- Increased training for current staff

Source: EIBIS special digitalization and skills survey (2018)
Green transition will require major industrial transformation.

**Energy intensity measures as total energy consumption relative to GDP**

Kgoe pper EUR 1000

**Average share of building stock meeting high energy efficiency standards**

Share of firms in per cent

Source: Eurostat.

Source: EIB EIBIS 2019.
Limited availability if skills has increasingly become bottleneck. Stepping up training efforts will be needed.

Share of firms reporting skill constraints, by productivity performance and country group

Note: Categories refer to the dynamics in firms’ productivity performance for three country groups in the EU (CE=Central and Eastern Europe, WN=Western and North Western Europe, SE=Southern Europe). They dynamics are attributed to firms based on total factor productivity data available from 2011 to 2016. Productivity leaders are in the top quintiles of productivity levels by year in all observations. Firms catching up to the frontier started elsewhere in the distribution but arrived at the productivity frontier. Firms in the third category improved their ranking during the period of observation. Firms in the fourth category are stable (i.e. their last ranking is equal to the first). The firms in the fifth category worsened their position and those in the last position are stable at the bottom over the observation period.
COVID is unprecedented shock to the region. Reemphasizes need for new growth model.

Operations of European Supply chains relative to full capacity

In per cent

Forecasted change in real GFCF 2020

In per cent

Source: Shippeo
Note: Index based on live operation status data for more than 3000 plants and warehouses in Europe and thousands of associated transportation flows.

Source: OECD, European Commission.
Concluding remarks

- Revisiting economic models needed to continue economic convergence process

- Progress in innovation and digitalization but catch-up needs remain

- Transition towards zero-Carbon economy by 2050 to require major transformation in CESEE

- Labour market challenges requires comprehensive response to address structural bottlenecks and focus on skills for competitiveness post-COVID

## COVID policy responses with a focus on structural issues

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<th>Training &amp; redeployment</th>
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Source: OECD, IMF, EIB ECON.