

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

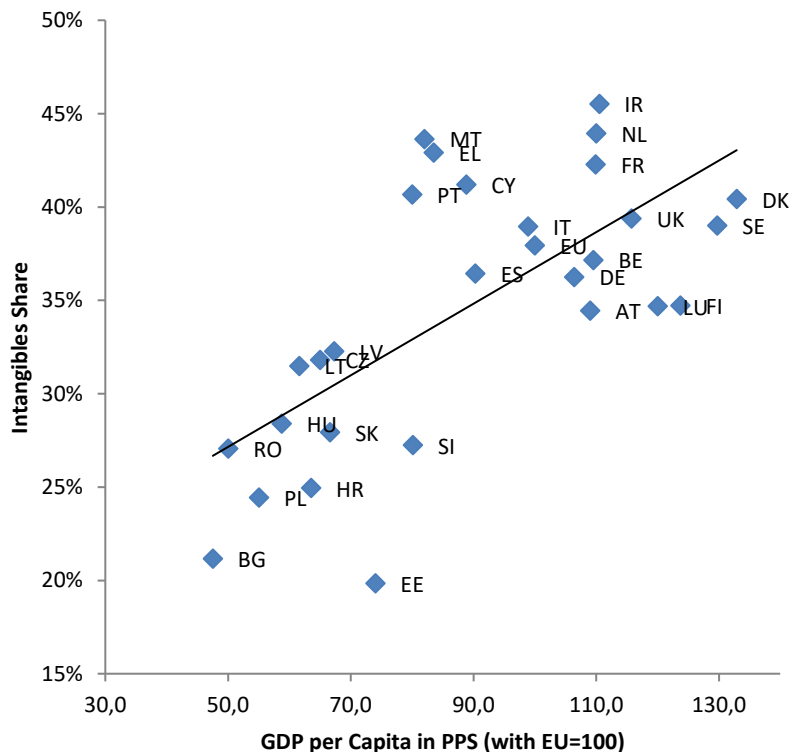
Digital
technologies

Climate
change
mitigation

Skills, labour &
social
inclusion

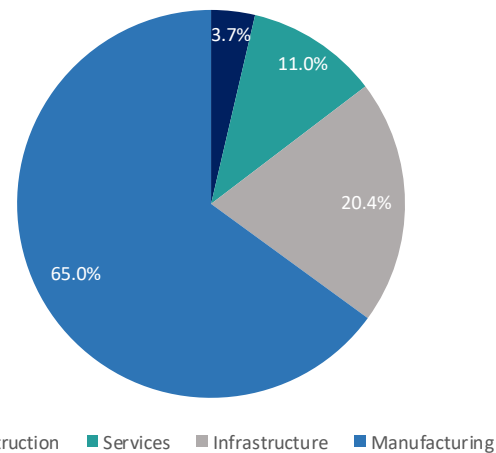
More investment in intangibles needed to replace technology import with more home-grown innovation.

Intangibles share for corporate investment and GDP p.c.



Source:: EIB Investment Survey, Eurostat.

CESEE - Active innovators by sector, 2019



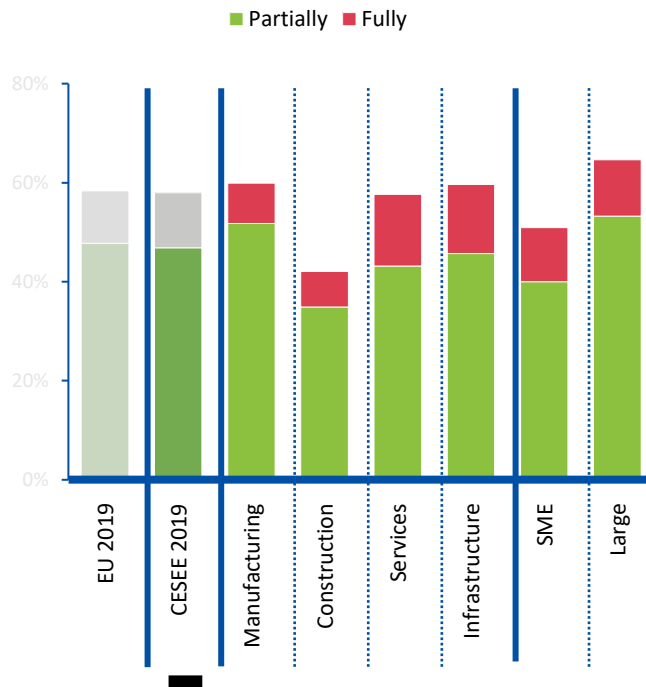
Source:: EIB Investment Survey 2019.

- 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

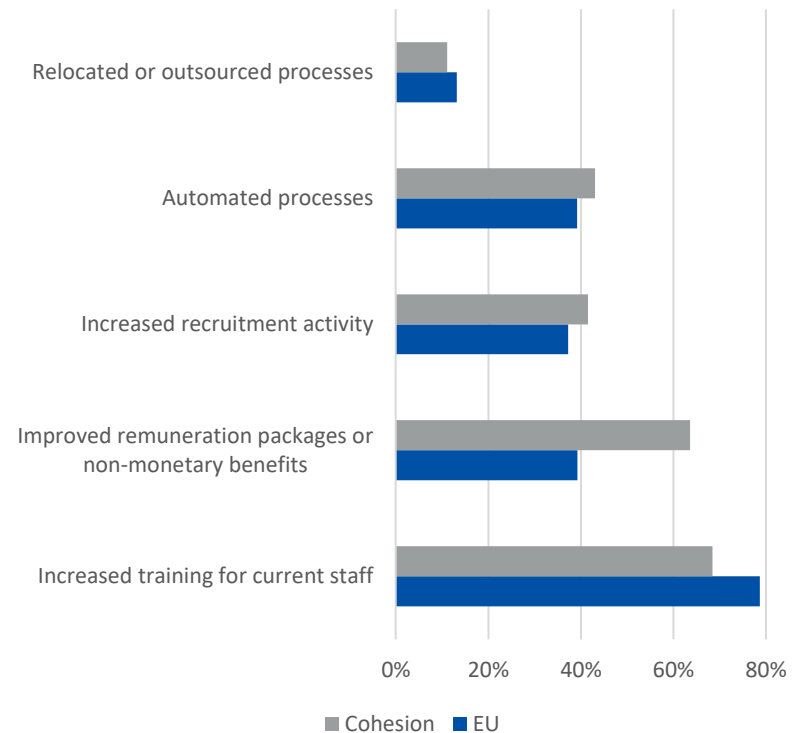
Share of firms in per cent



Source: EIB EIBIS 2019.

Strategies to cope with skill gaps in current workforce

Share of firms in per cent

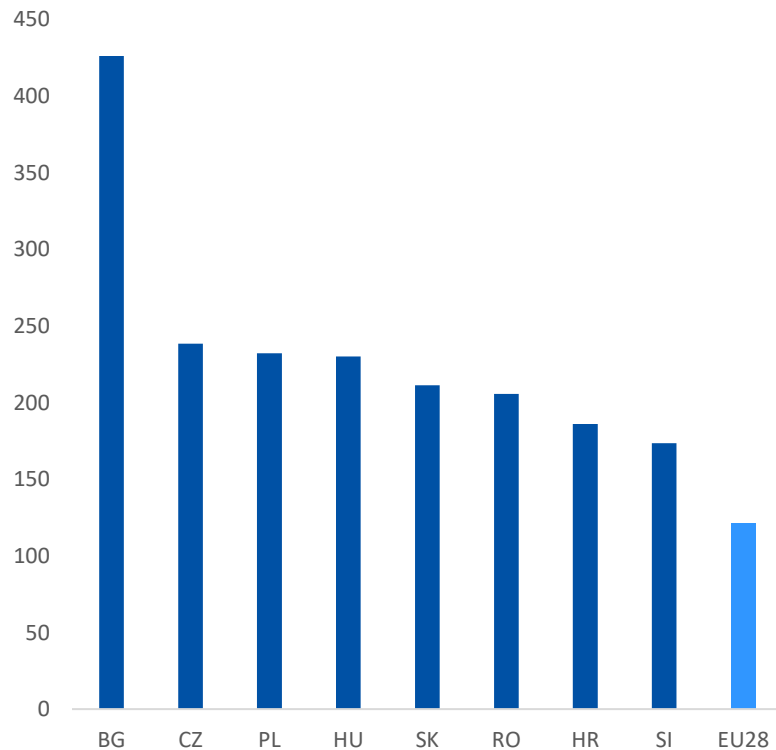


Source: EIBIS special digitalization and skills survey (2018)

Green transition will require major industrial transformation.

Energy intensity measures as total energy consumption relative to GDP

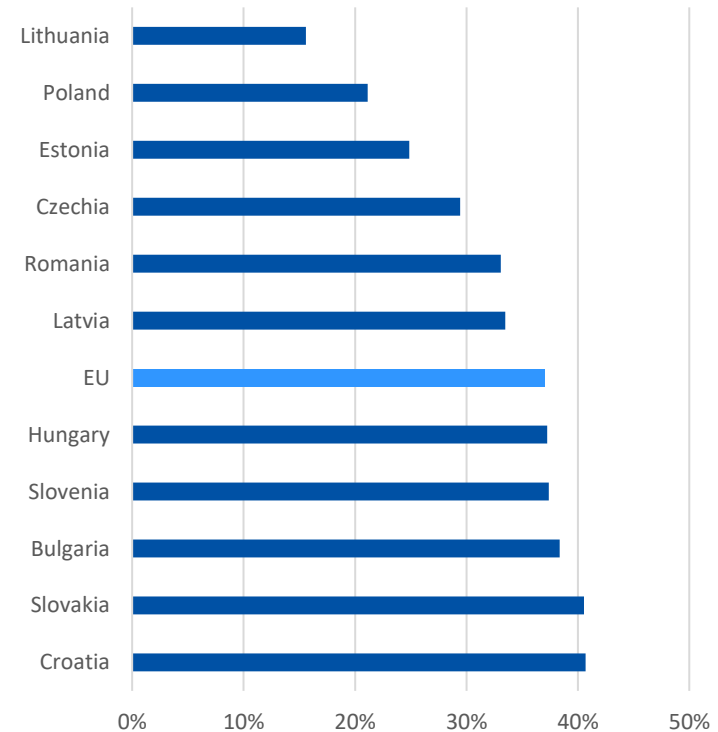
Kgoe pper EUR 1000



Source: Eurostat.

Average share of building stock meeting high energy efficiency standards

Share of firms in per cent

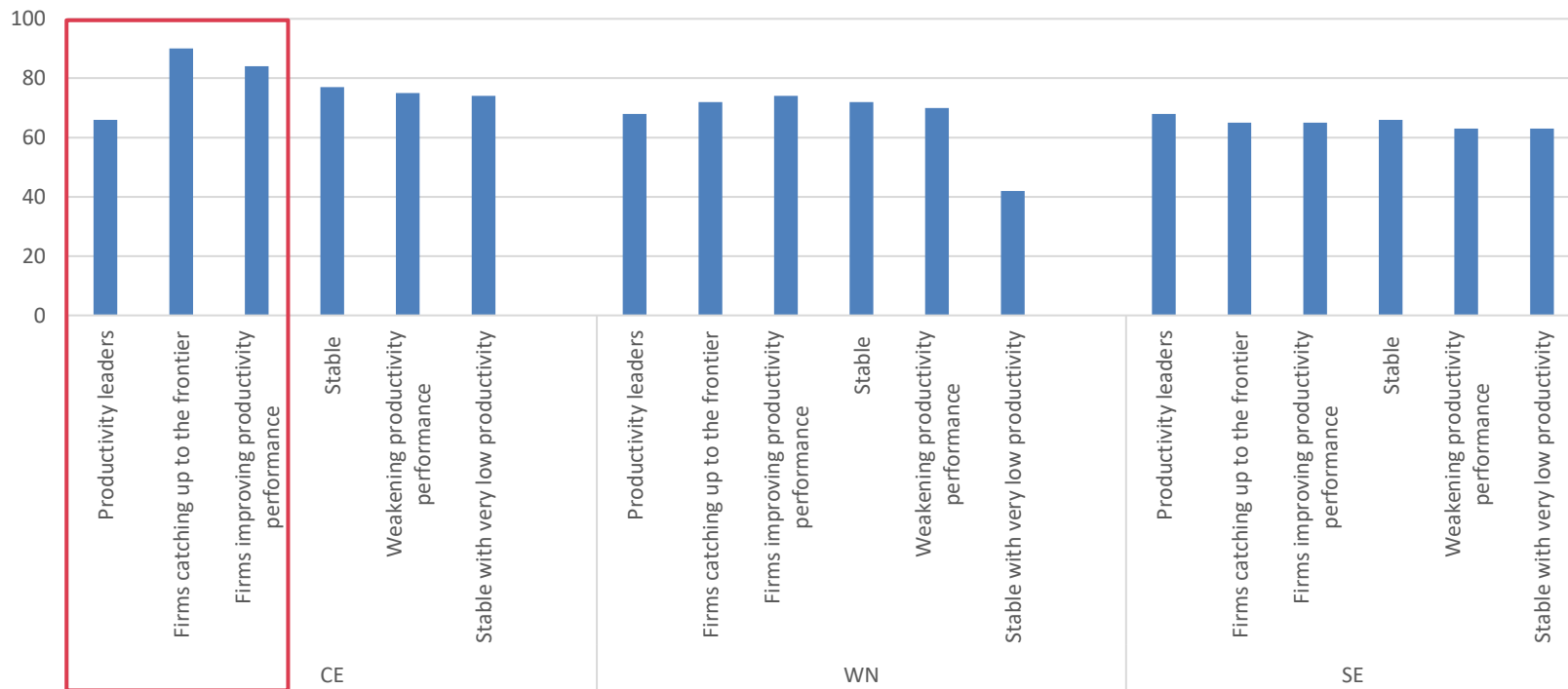


Source: EIB EIBIS 2019.

Limited availability of skills has increasingly become a bottleneck. Stepping up training efforts will be needed.

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

Share of firms in per cent



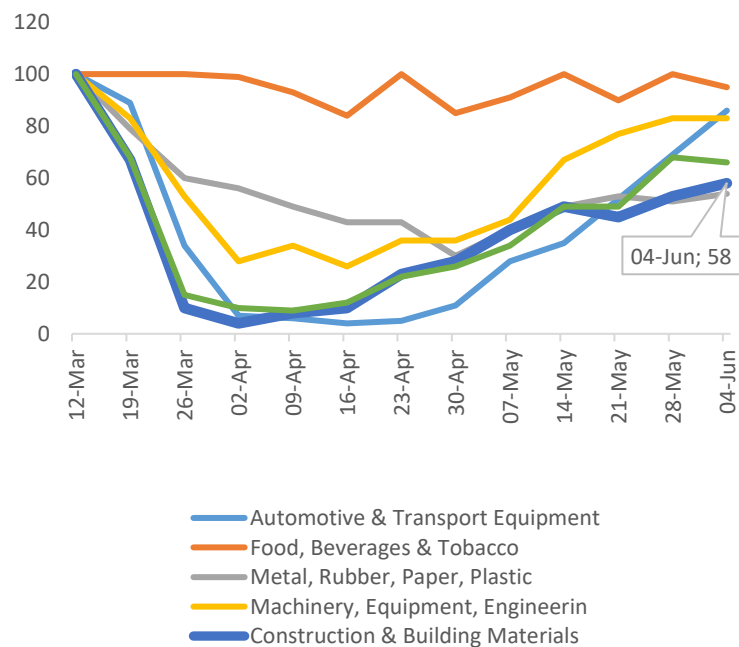
Source: EIBIS 2016-2018, Orbis.

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

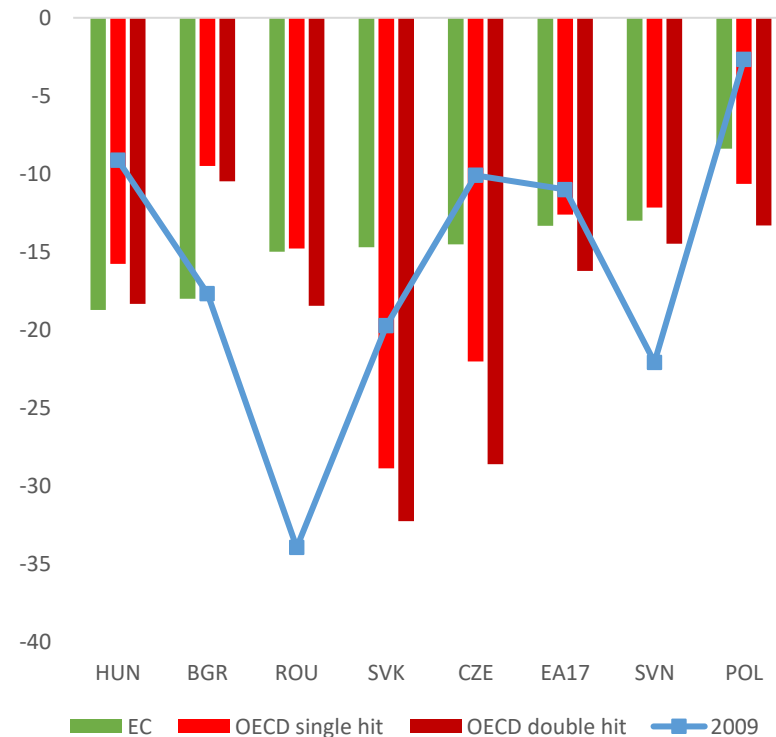


Source: Shippeo

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

Forecasted change in real GFCF 2020

In per cent



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

	Digitalisation/ telework	Innovation	Training & redeployment	Other (e.g. support for green projects)
BG				
HR				
CZ				
EE				
HU				
LV				
LT				
PL				
RO				
SK				
SI				

Source: OECD, IMF, EIB ECON.