

Convergence of the EU new members states: Past, Present and Future



NBP-OeNB CEEI/CFEE Conference
Warsaw, October 16, 2015

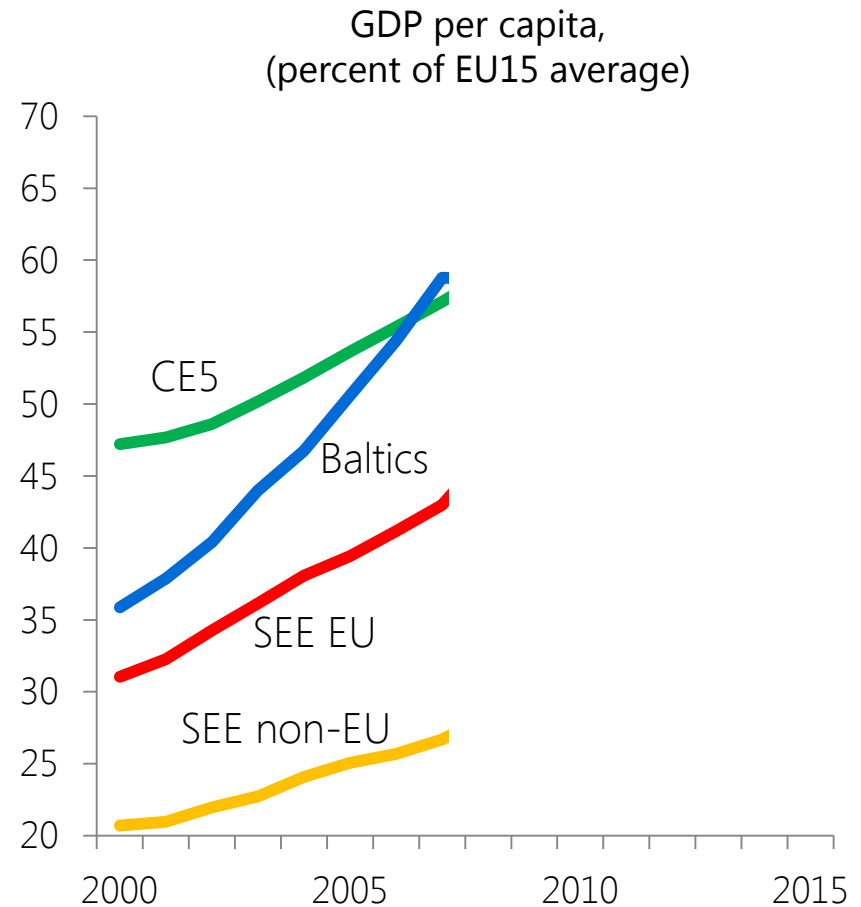
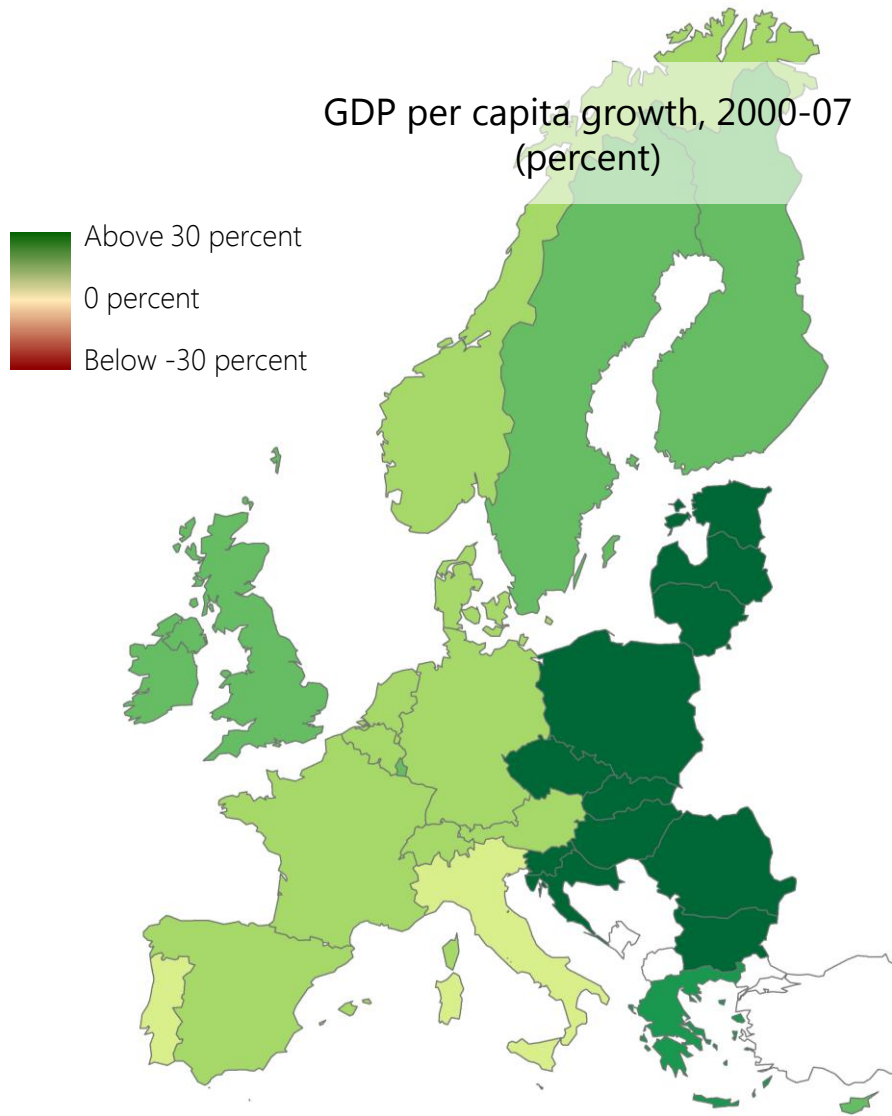
Bas B. Bakker
Senior Regional Resident Representative
for Central and Eastern Europe

EU New Member States: Past and Present

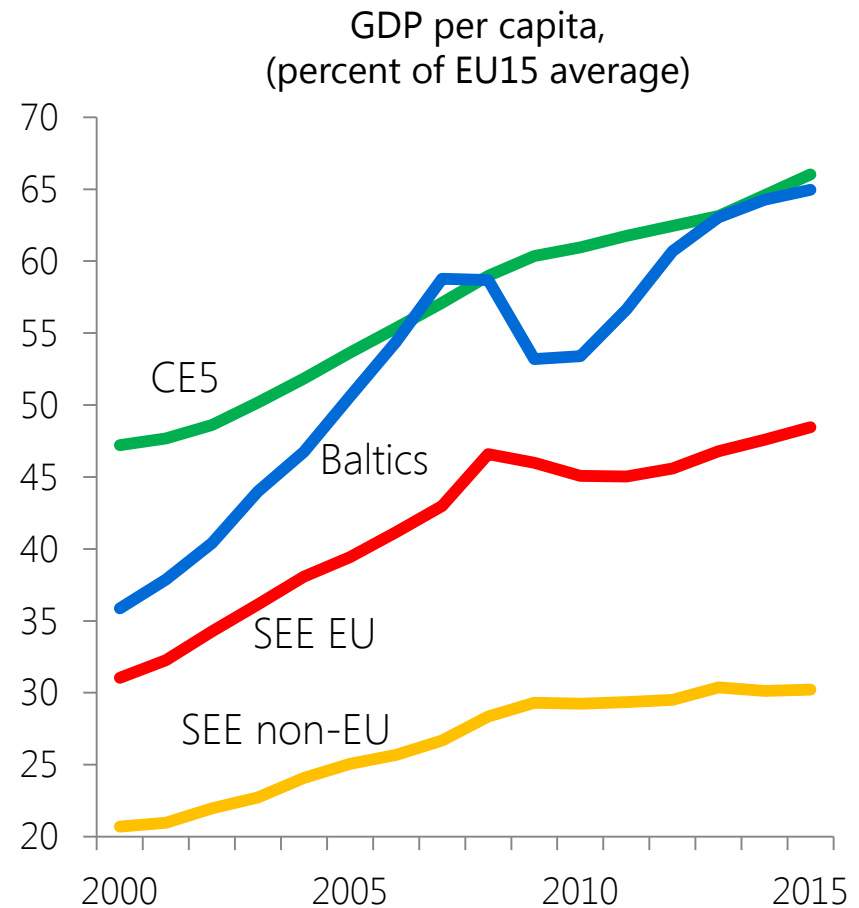
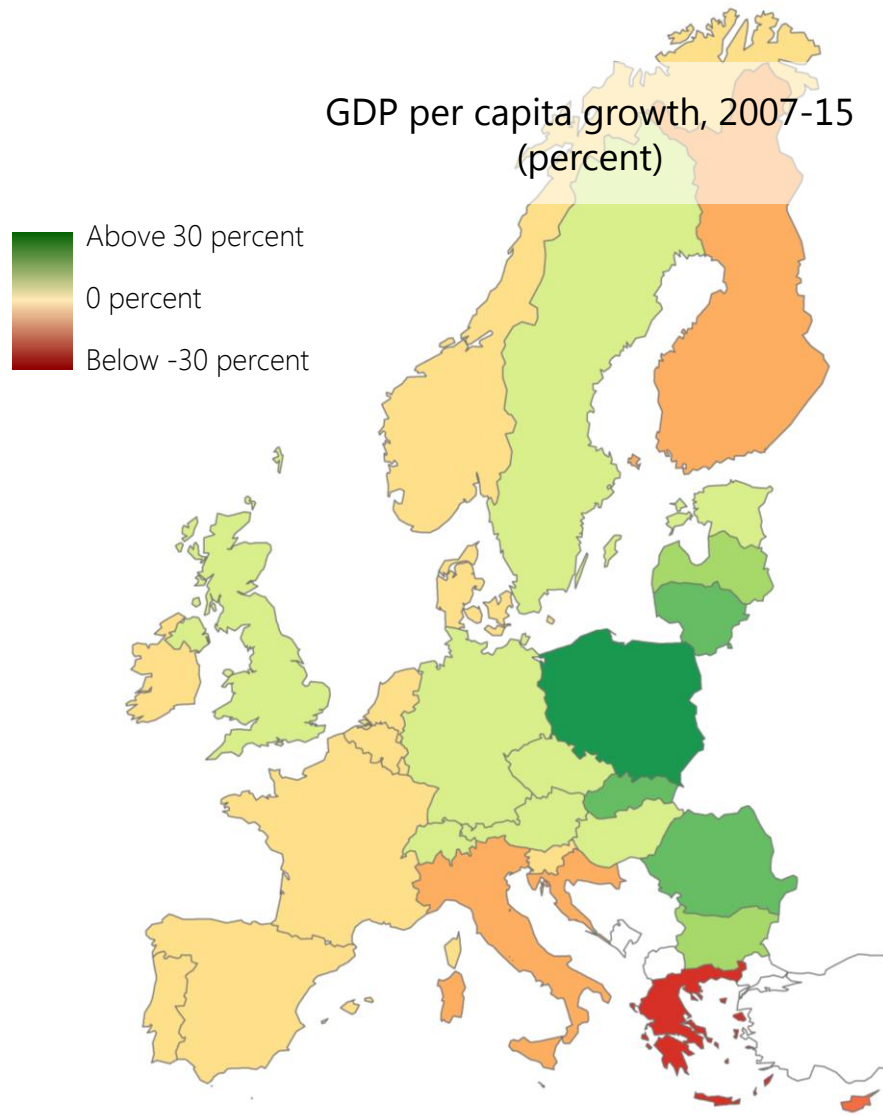


- Continue to converge with Western Europe
- Important export market for Western Europe
- Source of labor for Western Europe

Pre-crisis, CEE was growing fast-- catching up with Western Europe



Post crisis, growth has been weaker, but convergence has continued.

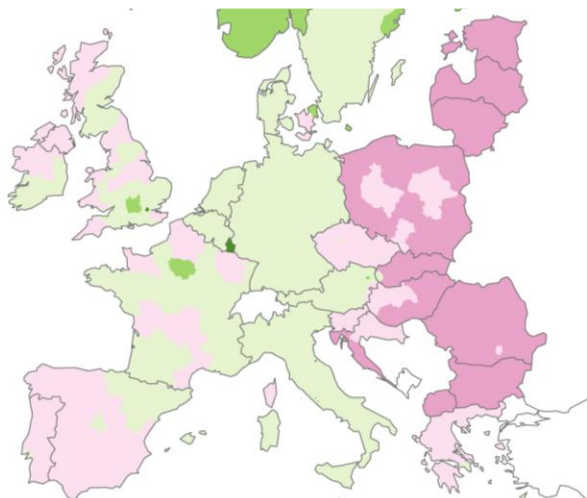


There is no longer a clear divide in income levels between East and West

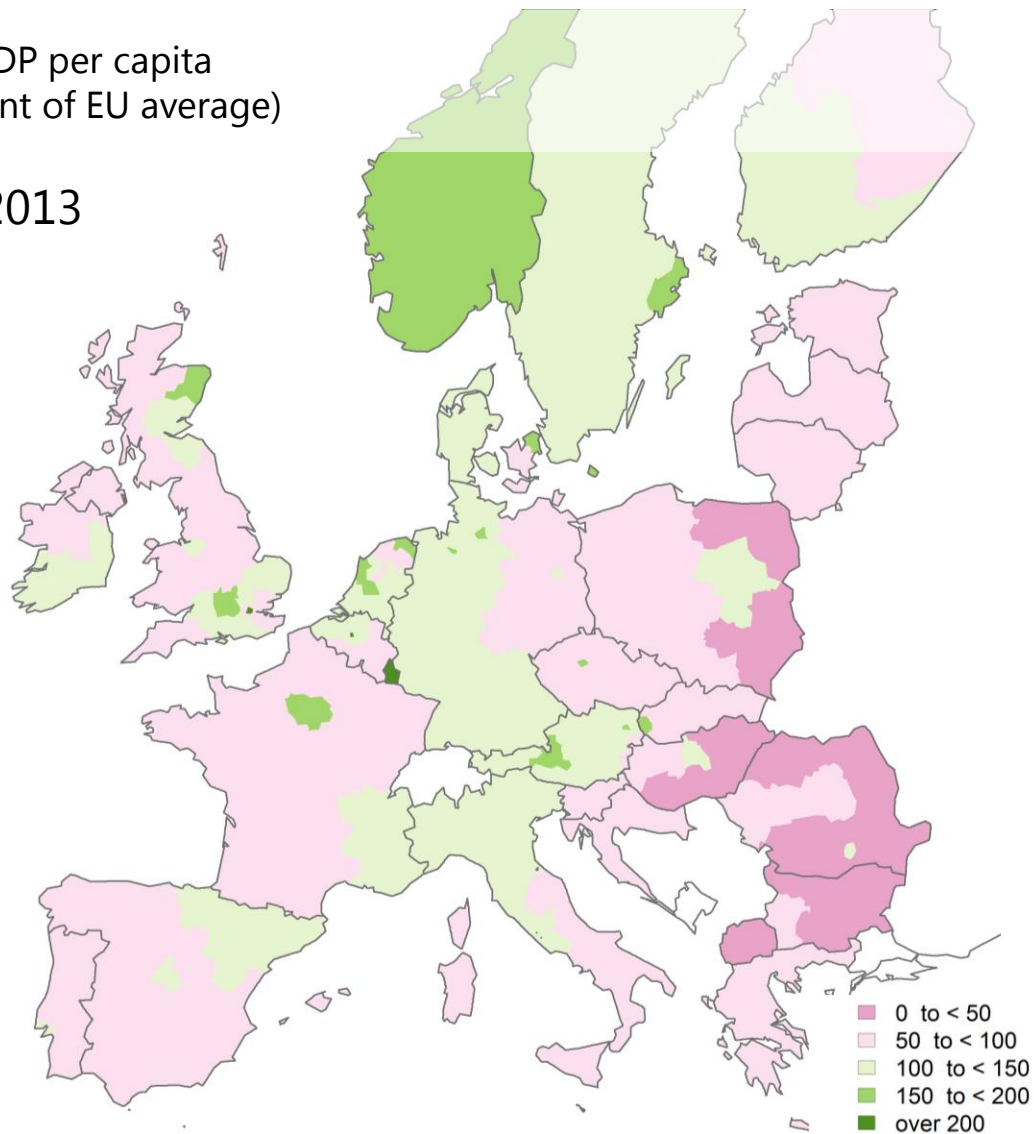


GDP per capita
(percent of EU average)

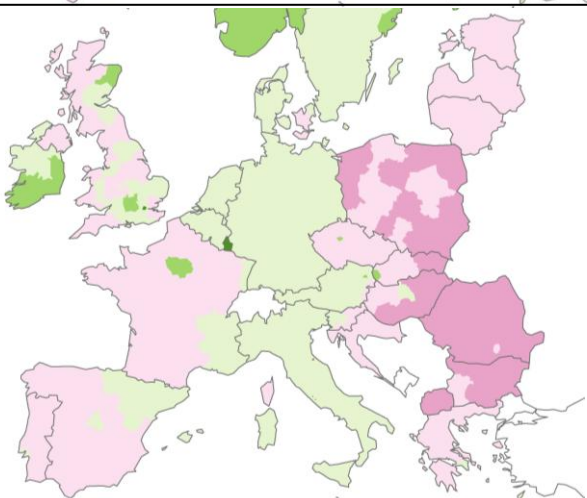
2000



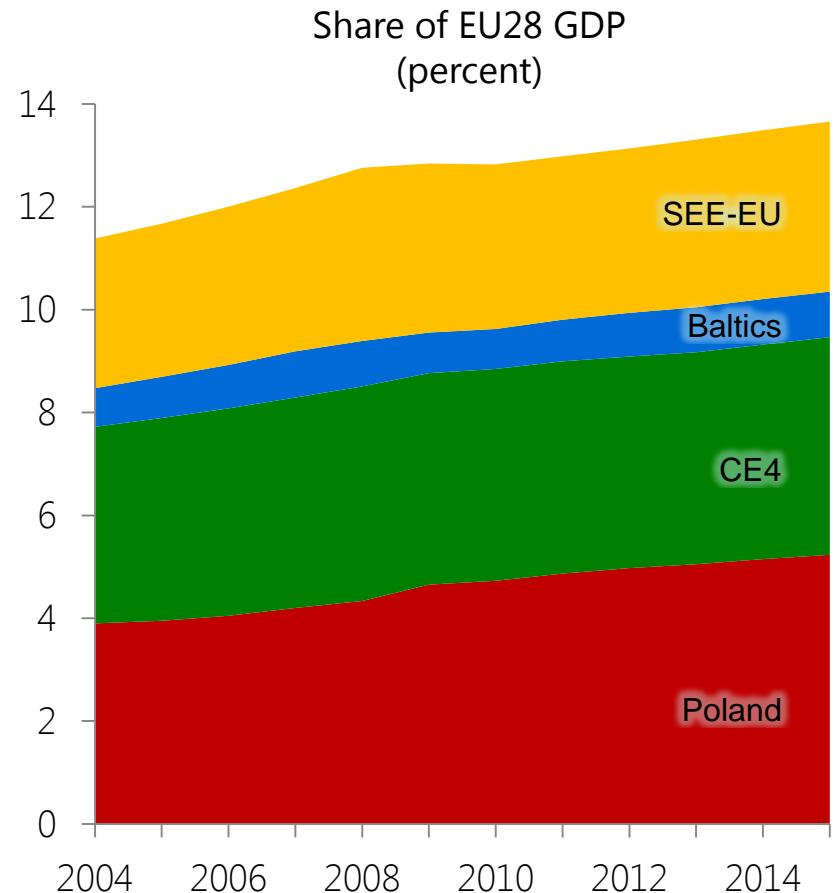
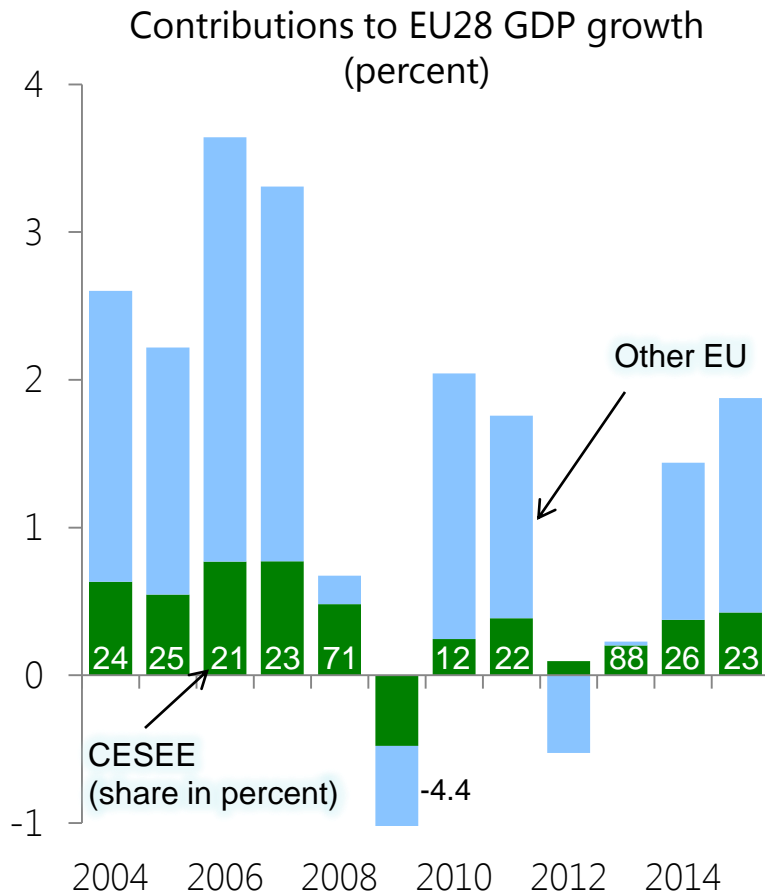
2013



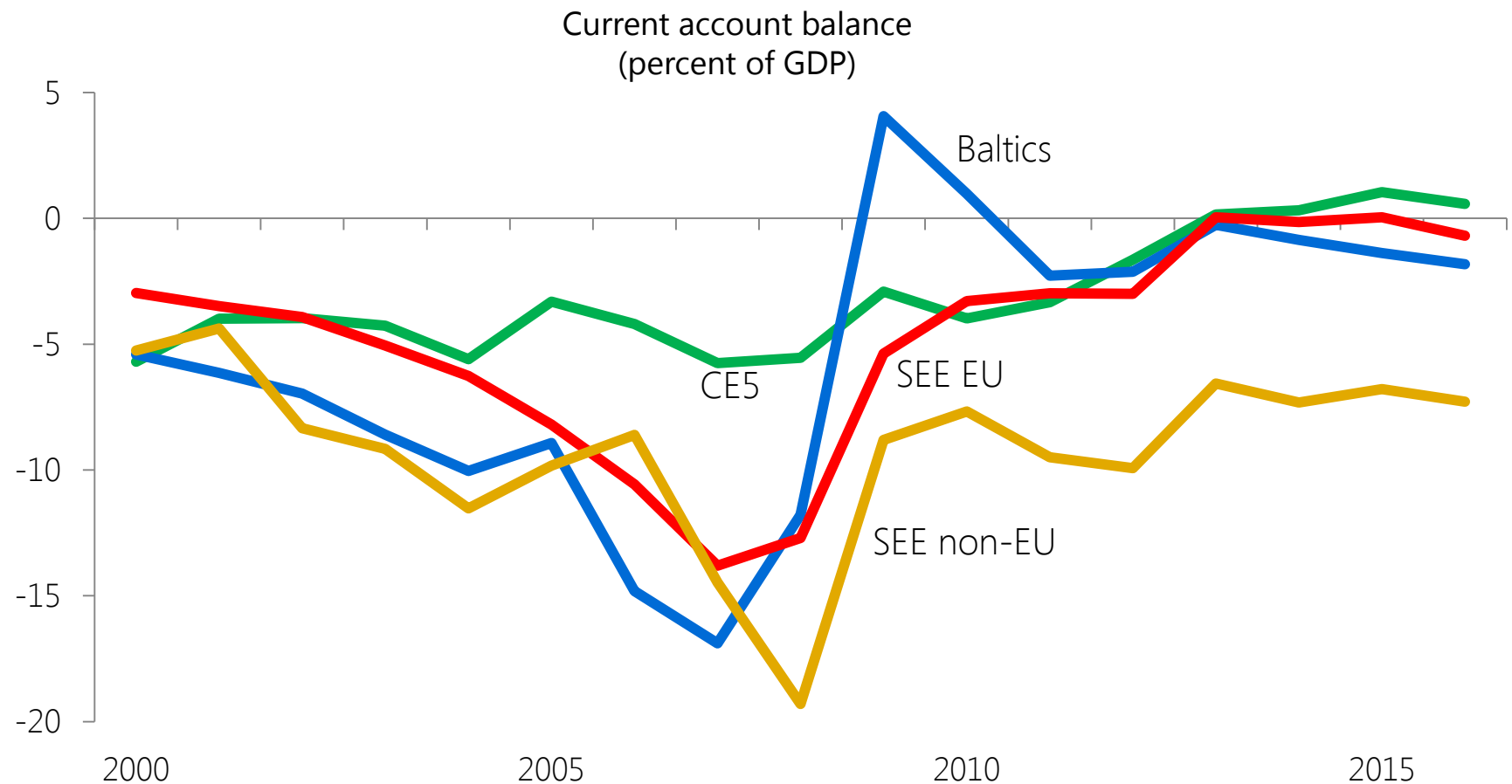
2007



EU-NMS's have $\frac{1}{8}$ of EU28 GDP; but contribute $\frac{1}{4}$ of EU28 GDP growth



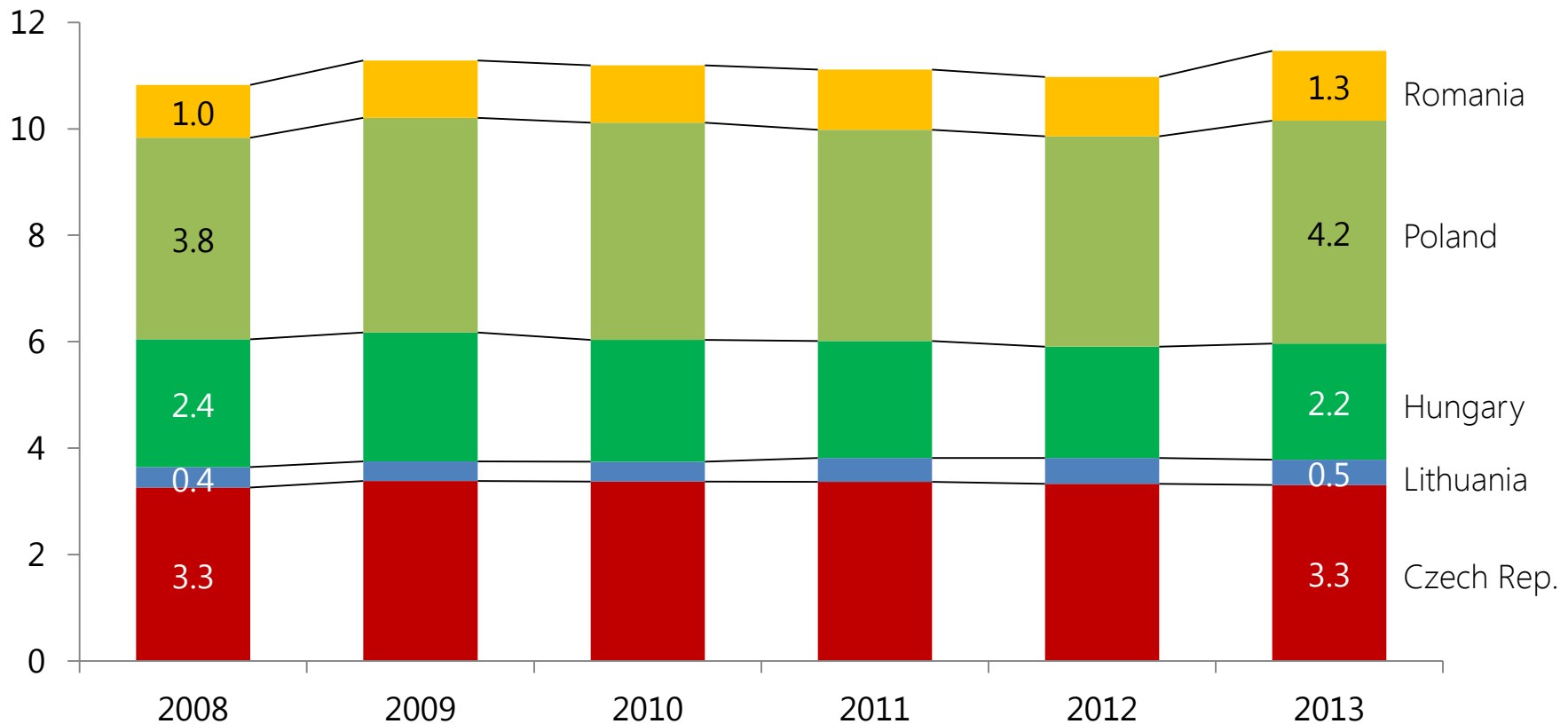
Current account deficits in CESEE have adjusted...



But share of EA18 exports going to NMS has increased further



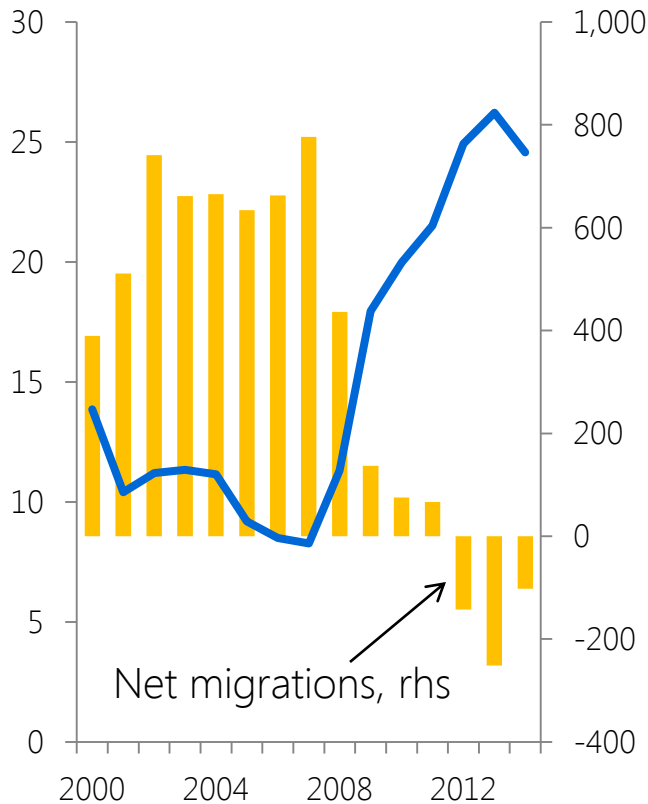
NMS share of EA18 exports of goods and services
(percent)



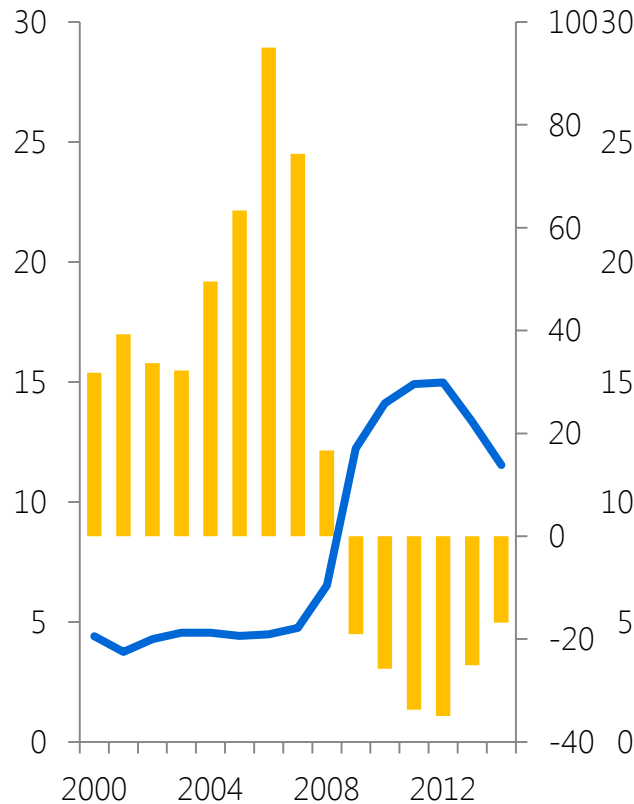
The New Member States have been an important source of labor



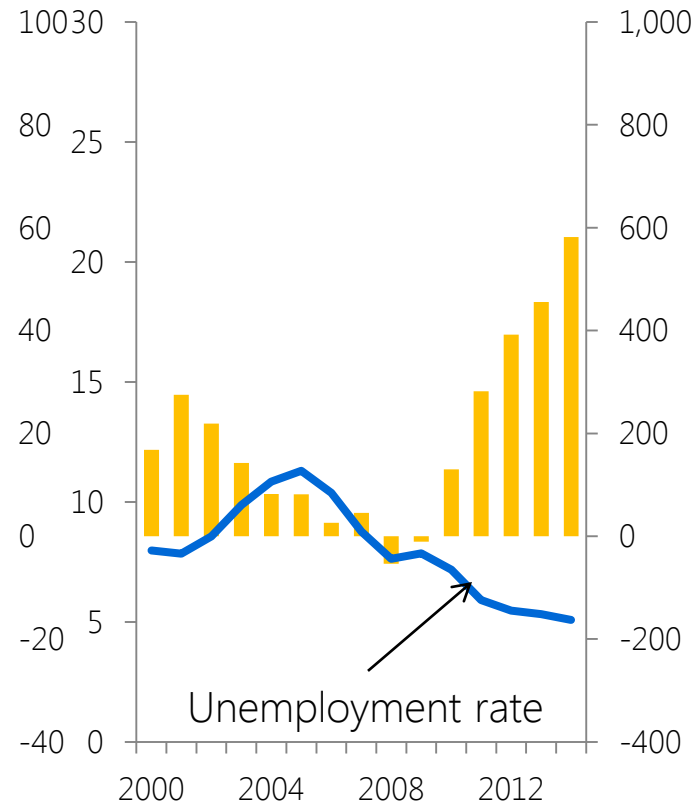
Spain



Ireland



Germany



Including in the post-crisis period



Labor migration from CESEE and unemployment rate in recipient country, 2000-14



EU New Member States: The Future

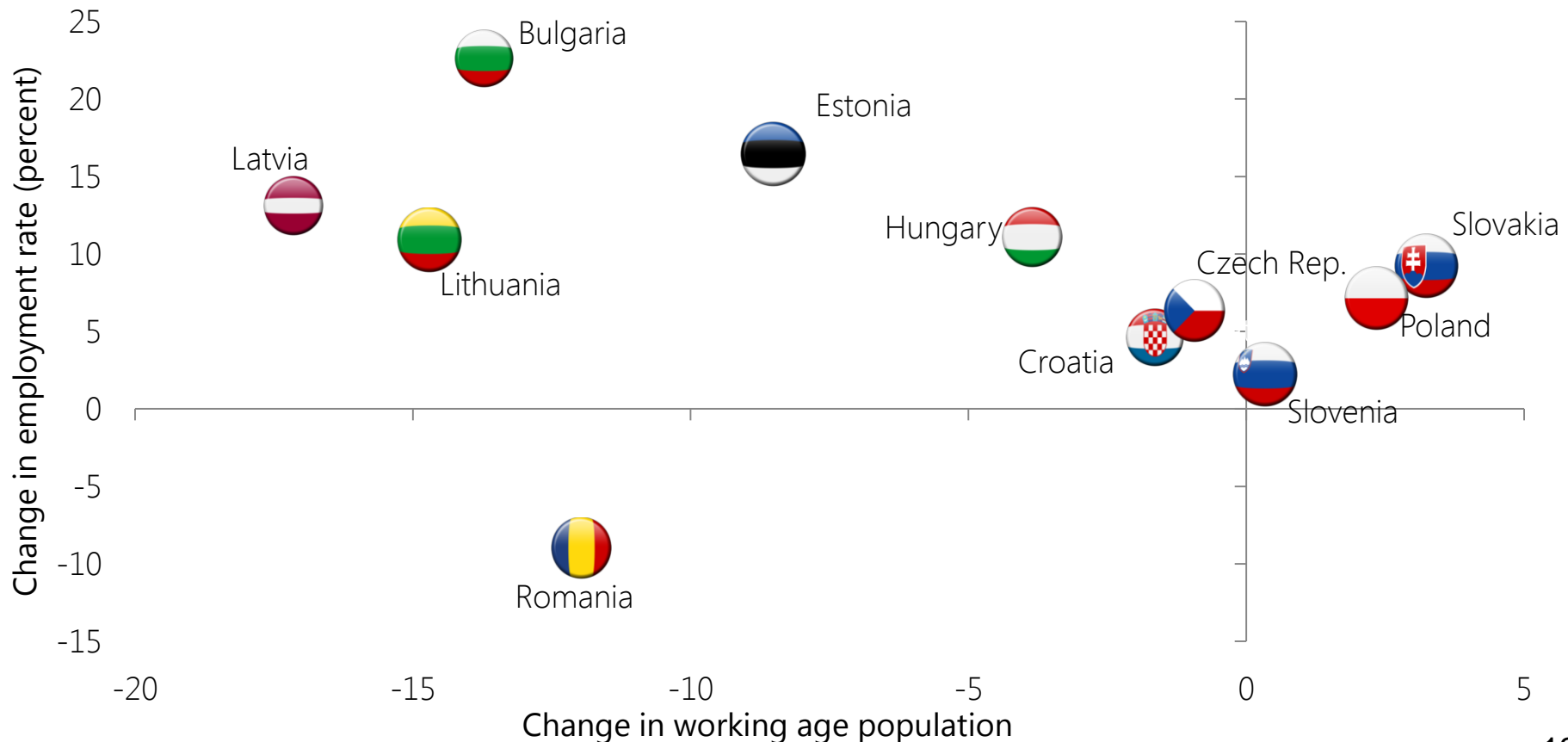


- Will convergence continue?
- What will be the impact of aging?

In the past decade and a half, employment rates have increased sharply—particularly in countries where working age population declined

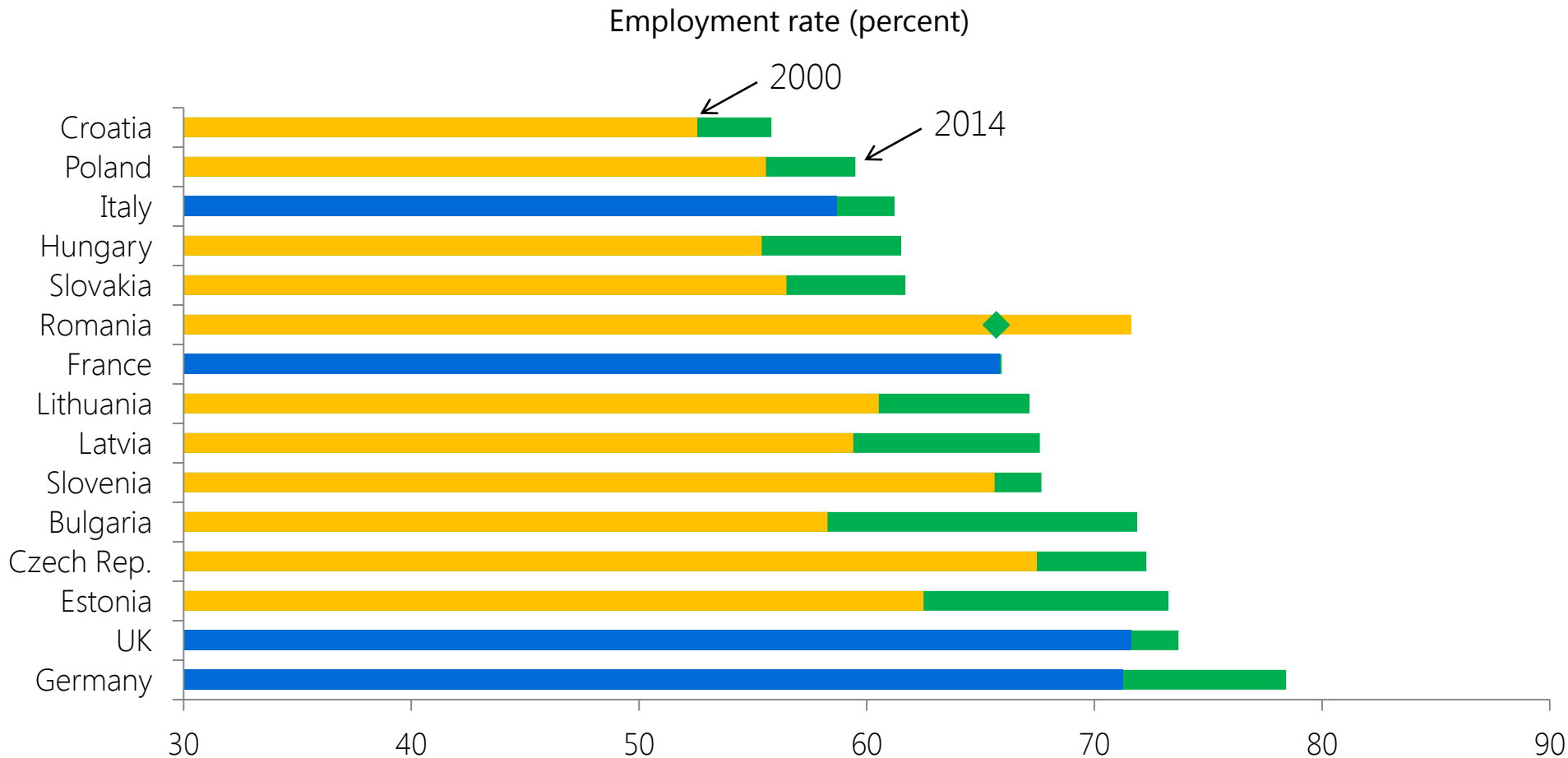


Employment and demographics, 2000-14



Note: 2001-14 for Croatia

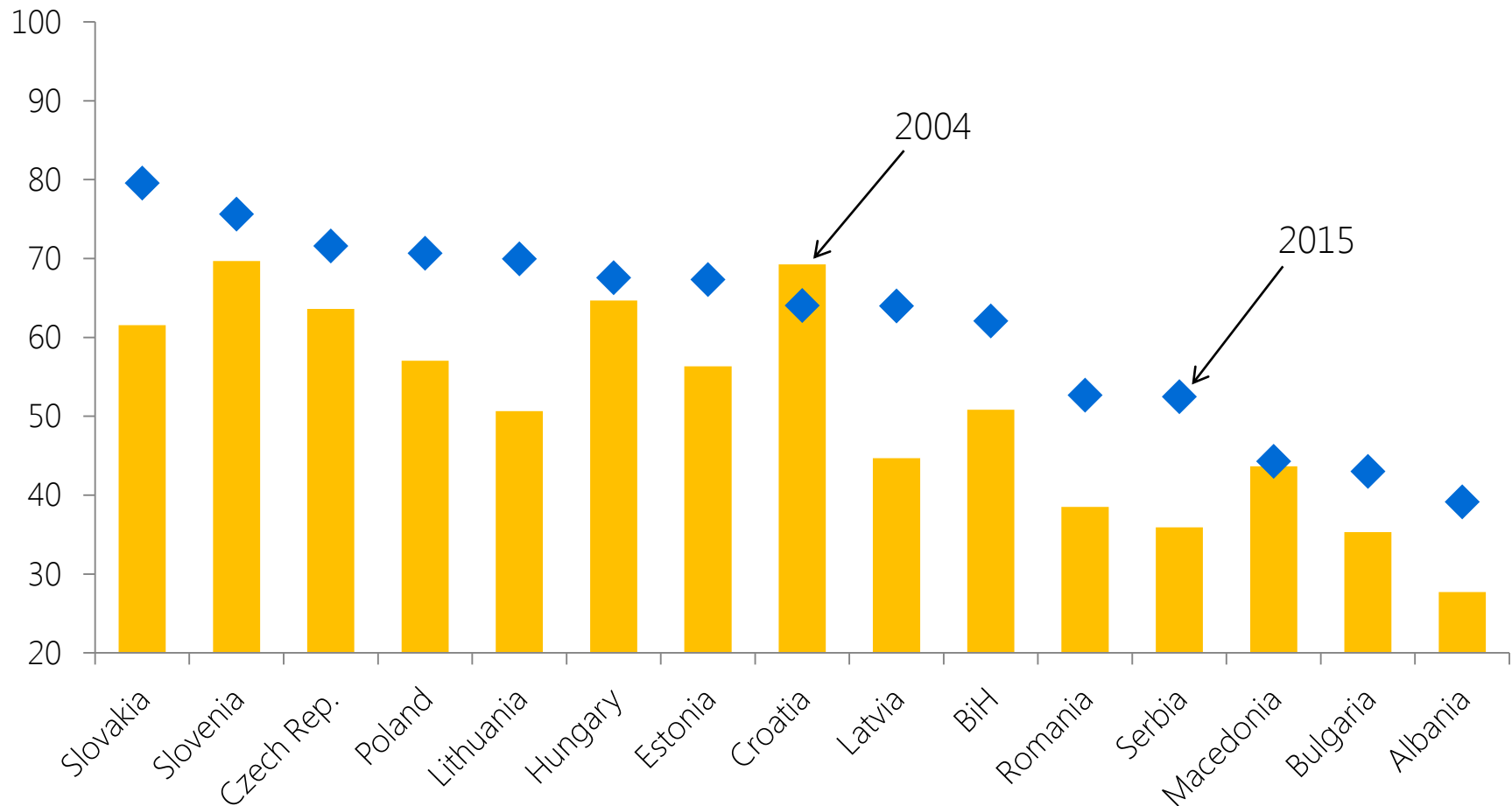
Much less room for further increases in employment rates. Productivity increase will be key.



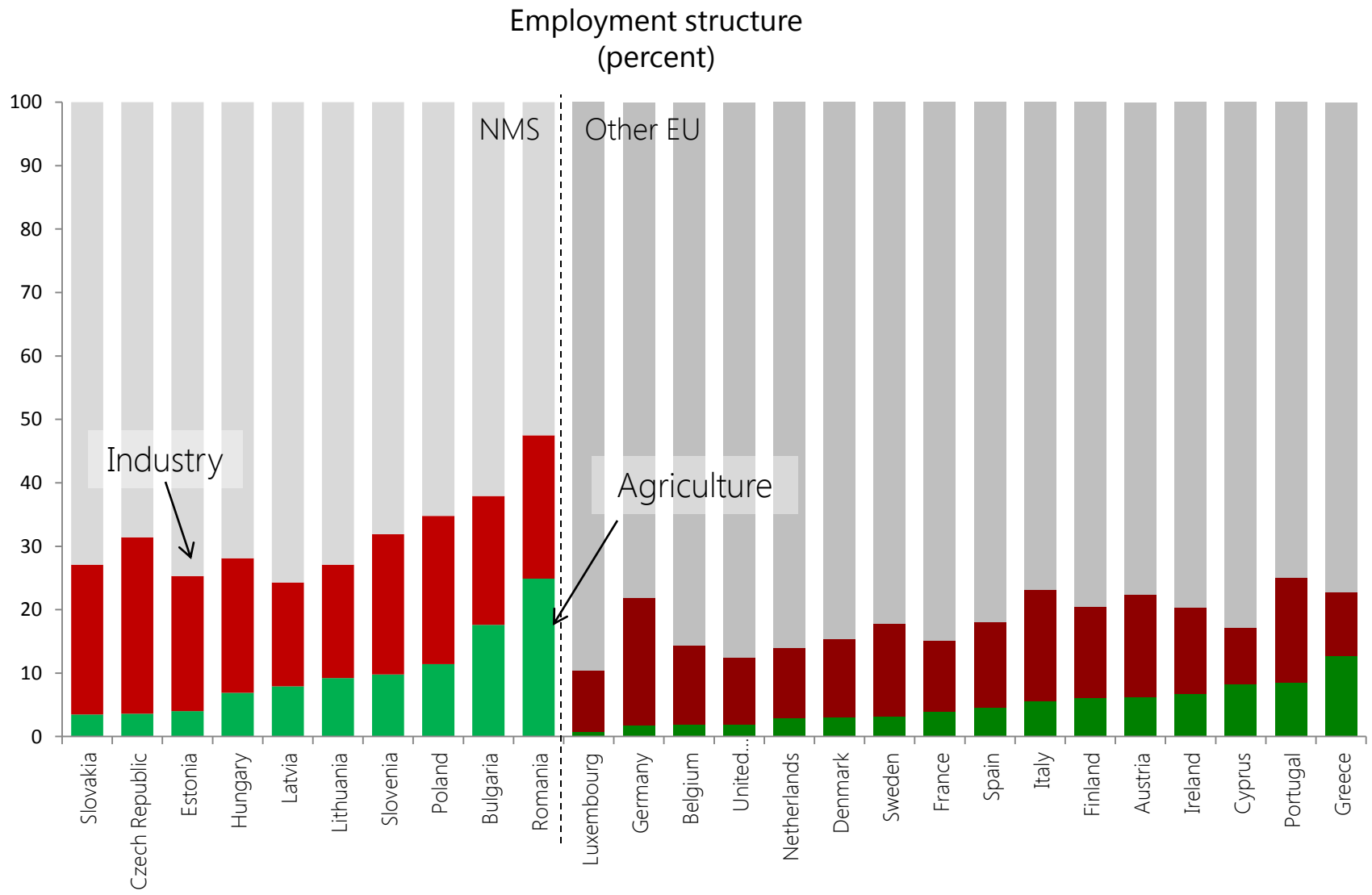
Productivity has increased, but remains relatively low



Labor productivity
(percent of labor productivity in Germany)



Productivity could benefit from further structural transformation

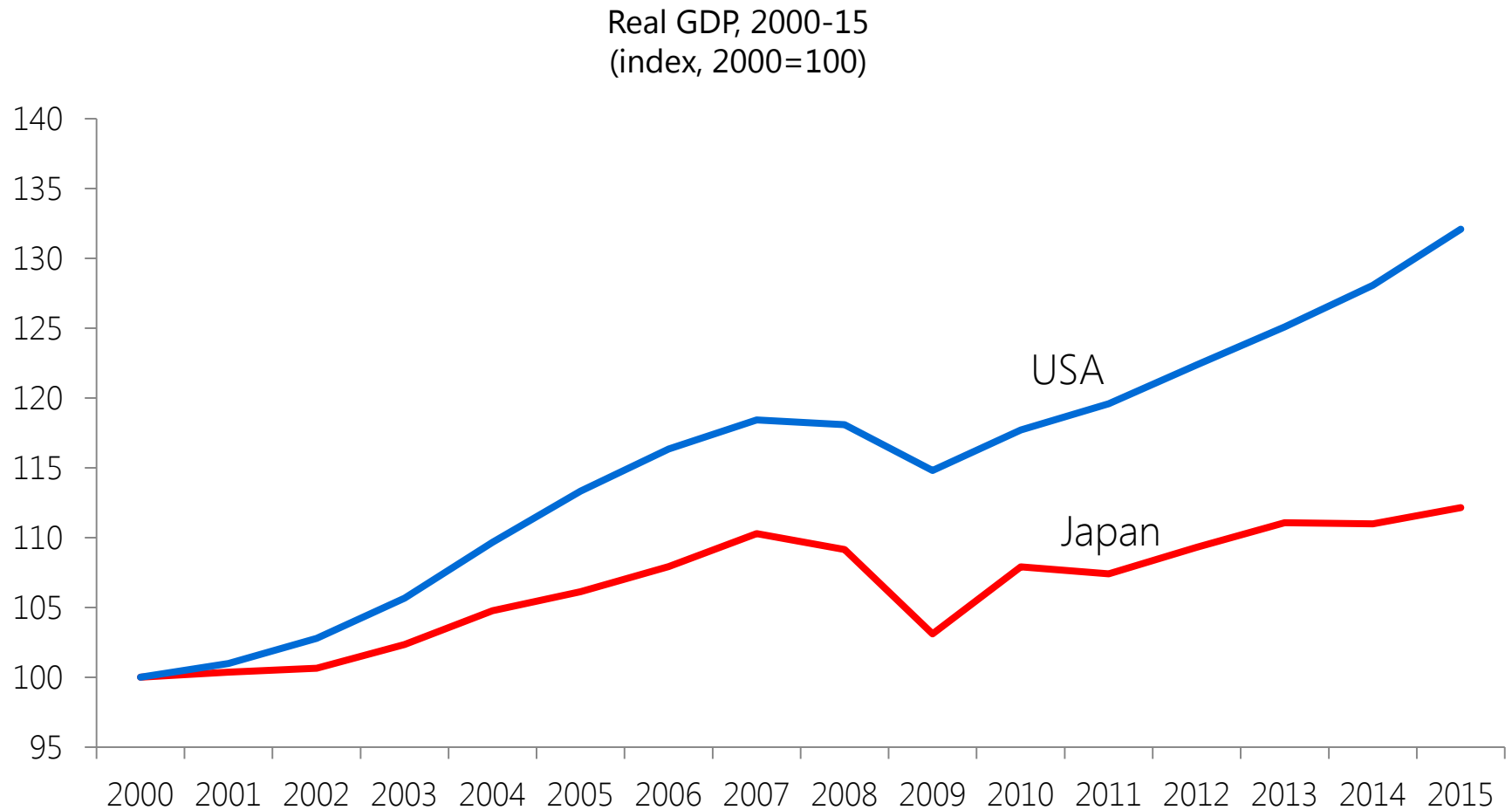


Aging will be strong headwind for per capita GDP growth

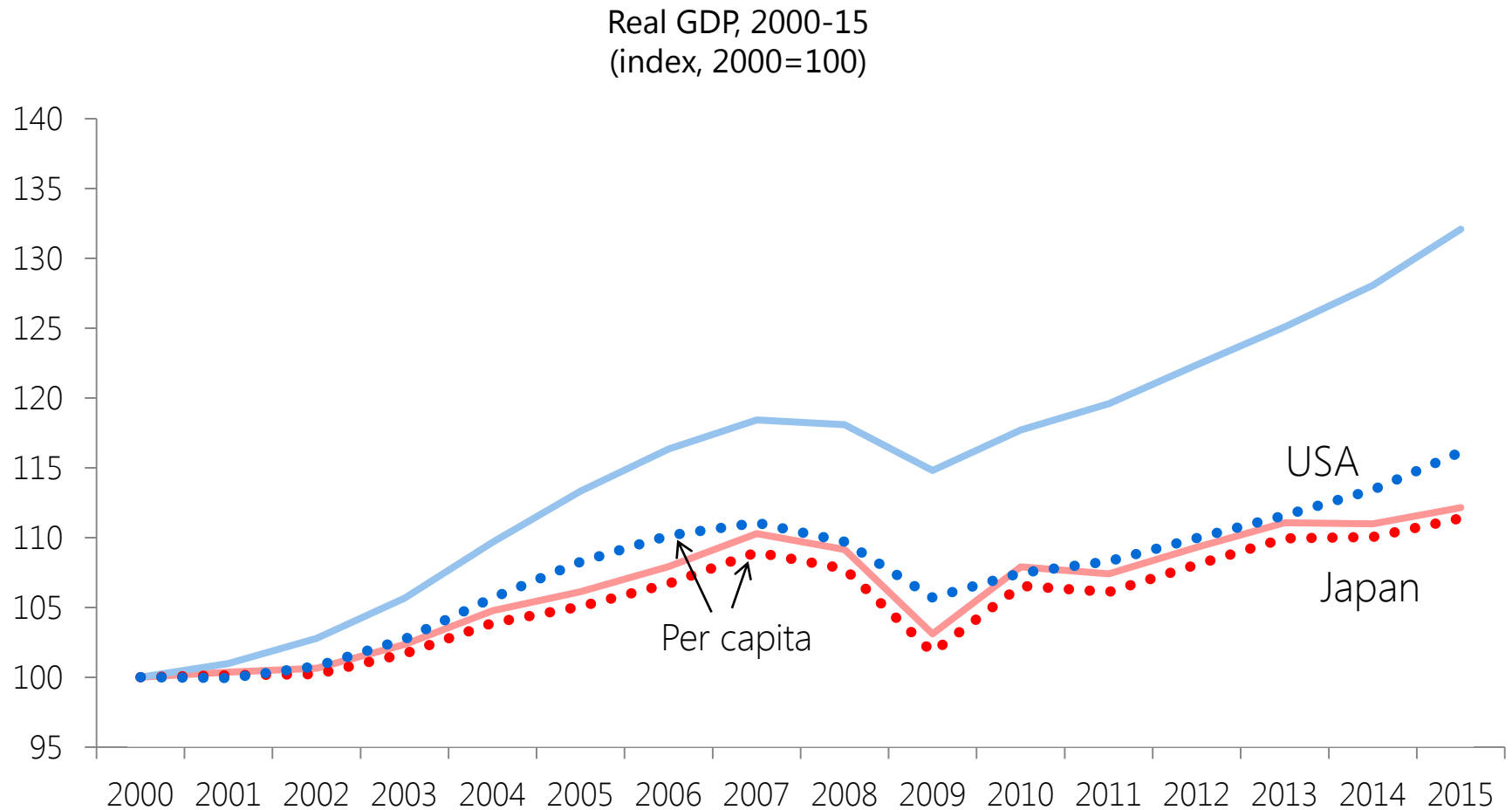


- Population will shrink
 - → will reduce GDP growth
- Working age population will shrink even faster
 - → will reduce GDP *per capita* growth

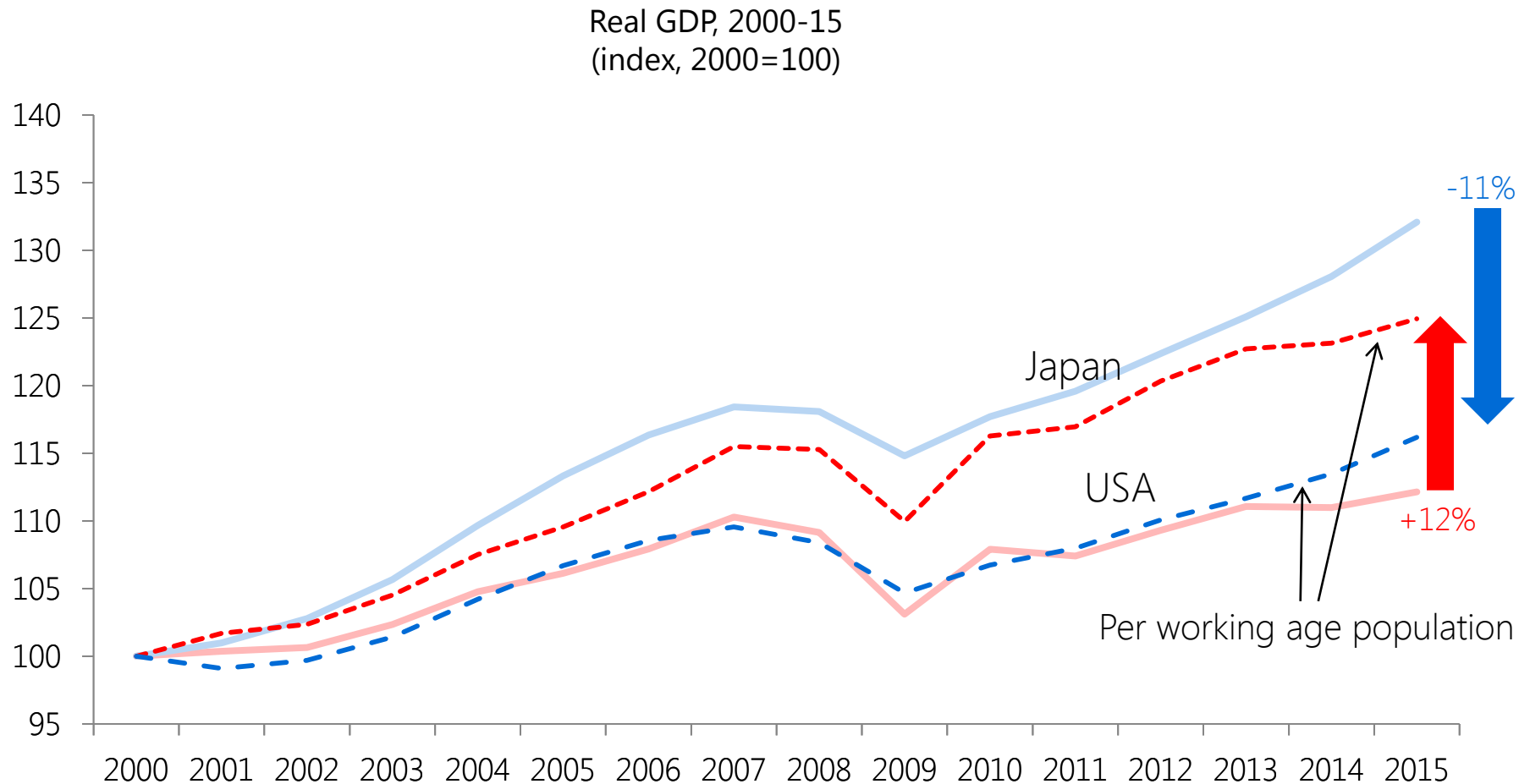
To grasp the impact of aging, compare Japan and the US



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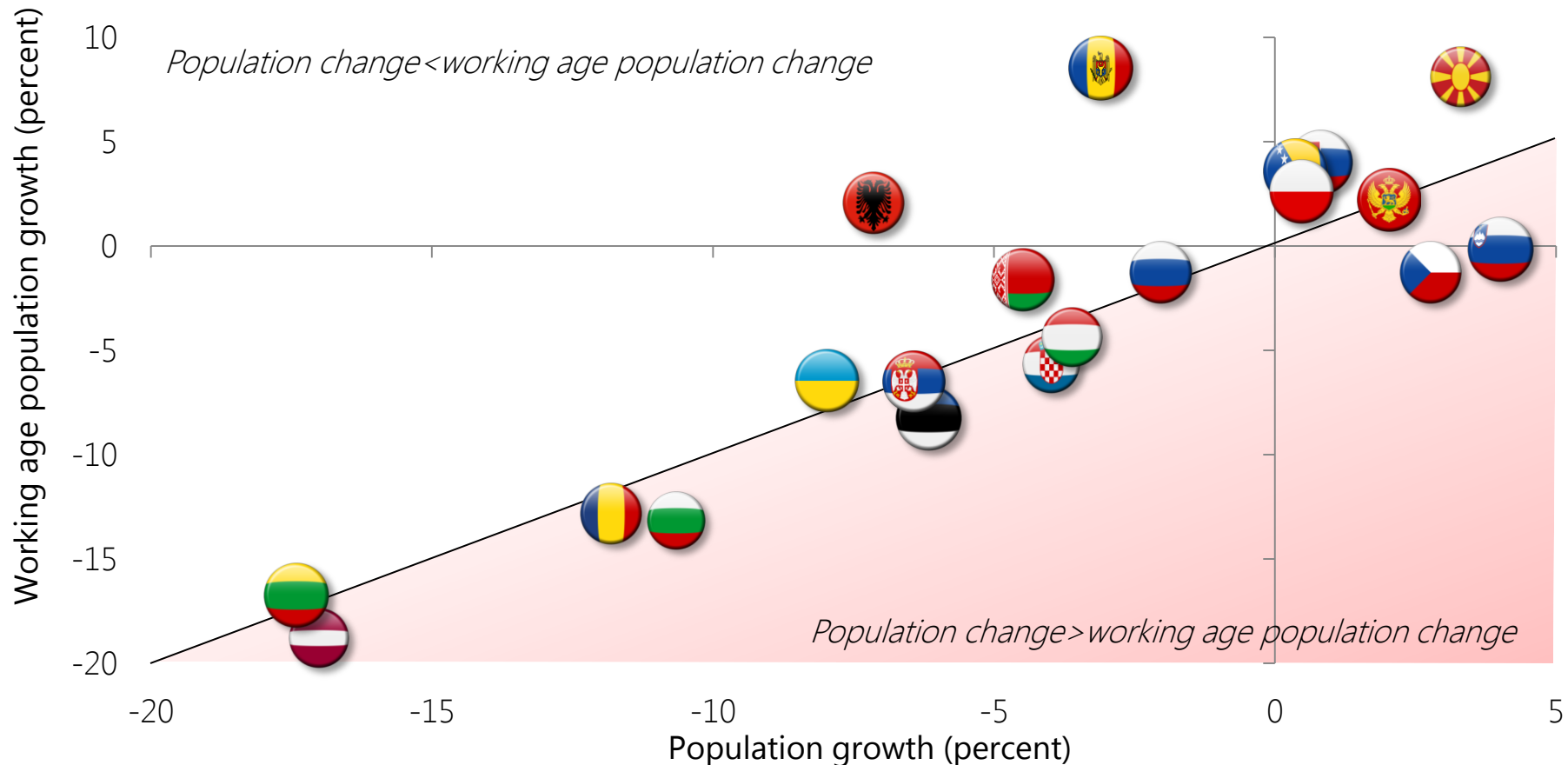
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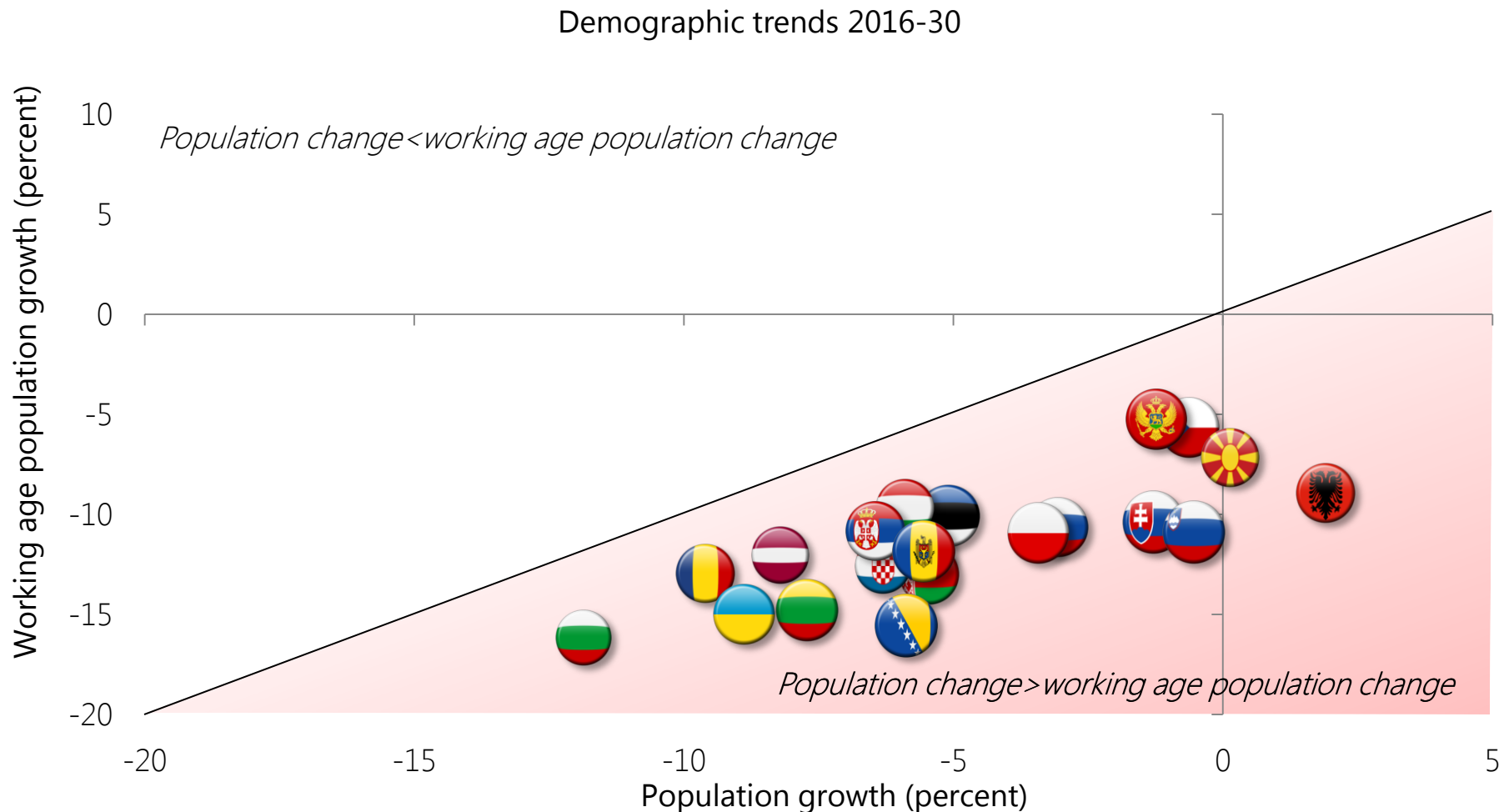
Working age population will shrink faster than overall population



Demographic trends 2000-15



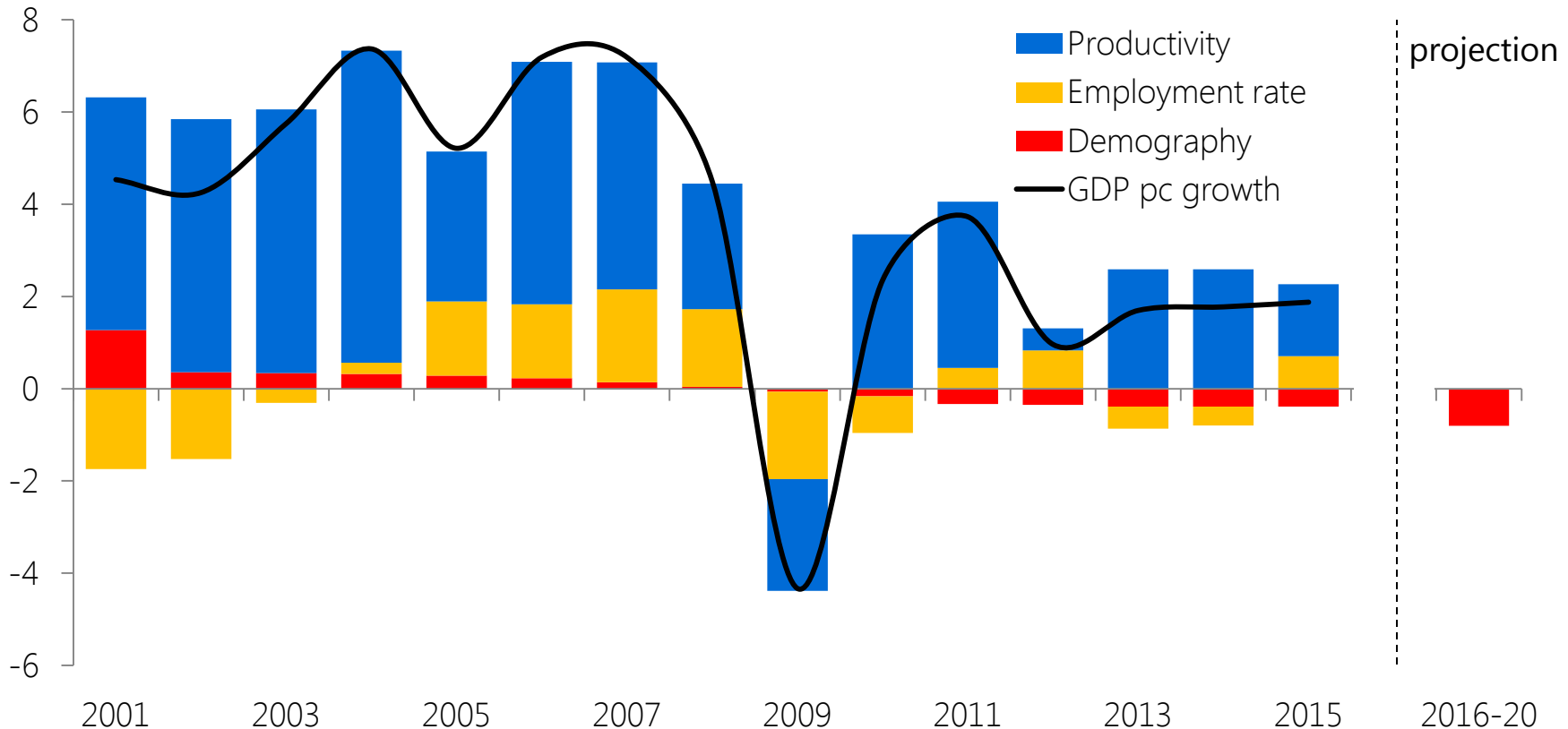
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As a result ageing will weigh on per capita economic growth...



CESEE: Real GDP per capita growth decomposition (percent)



Note: excludes Kosovo, Montenegro and Russia

Taken everything together, overall GDP growth may remain modest at best.



- Assume 2¼ percent annual labor productivity growth in 2016-20, the same as in 2011-15
- Assume no change in employment rate
- Average annual GDP *per capita* growth will be around 1½ percent only!
- Average annual GDP growth will be around 1 percent only!



Thank you