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

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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

GDP per capita growth, 2000-07 (percent)

Above 30 percent
0 percent
Below -30 percent

GDP per capita, (percent of EU15 average)

CE5
Baltics
SEE EU
SEE non-EU

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

2007

2013
EU-NMS’s have ⅛ of EU28 GDP; but contribute ¼ of EU28 GDP growth
Current account deficits in CESEE have adjusted...
But share of EA18 exports going to NMS has increased further.
The New Member States have been an important source of labor.
Including in the post-crisis period

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

Change in share of employees from NMS, 2007-14 (pp)

Change in unemployment rate, 2007-14 (pp)
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.
Much less room for further increases in employment rates. Productivity increase will be key.
Productivity has increased, but remains relatively low
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

Real GDP, 2000-15
(index, 2000=100)
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Real GDP, 2000-15
(index, 2000=100)

- Japan: +12%
- USA: -11%

Per working age population
Working age population will shrink faster than overall population
Working age population will shrink faster than overall population

Demographic trends 2016-30

Population change < working age population change

Population change > working age population change
As a result ageing will weigh on per capita economic growth...

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