

30 YEARS OF TRANSITION

(and 26 years of Transition Reports)

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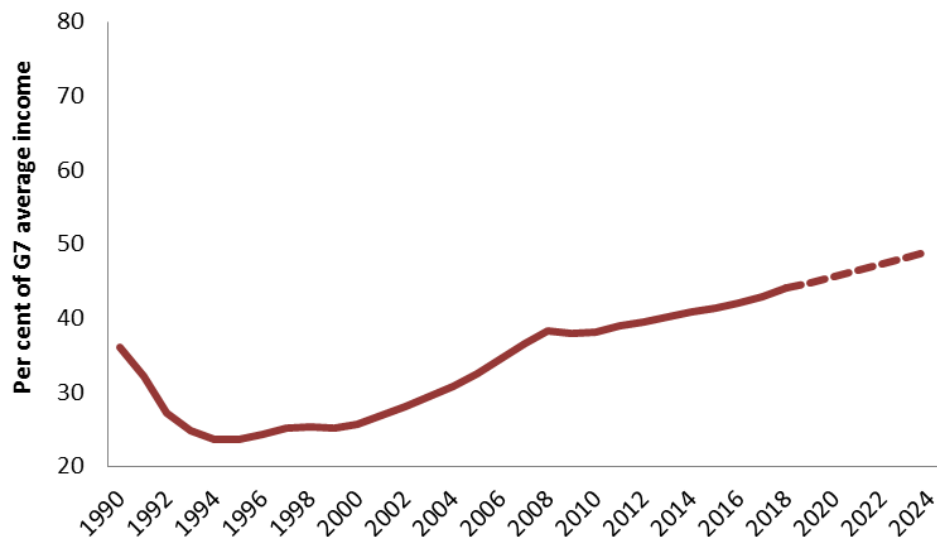
Achievements of the past 30 years



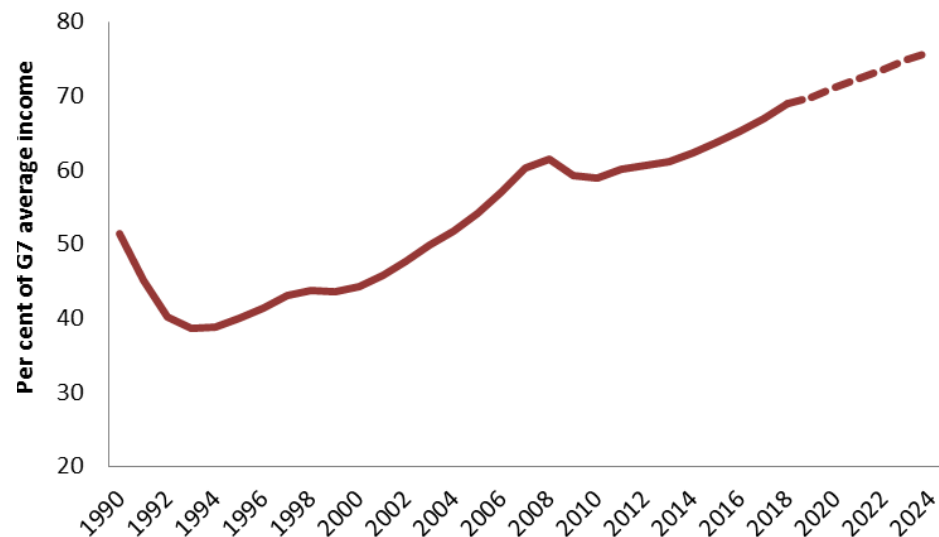
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Impressive convergence since the 1990s

Average per capita income at PPP in Emerging Europe and Central Asia, % of G7



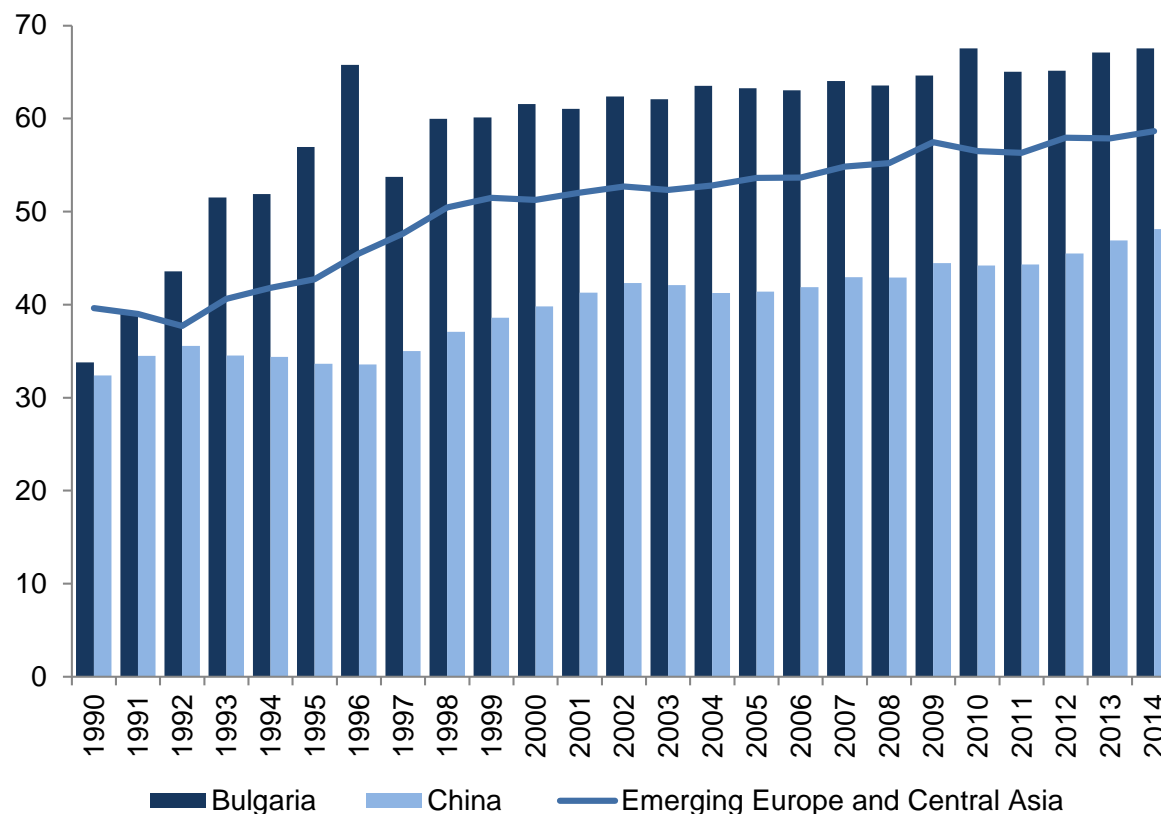
Average per capita income at PPP in Central Europe, % of G7



Fast shift towards services

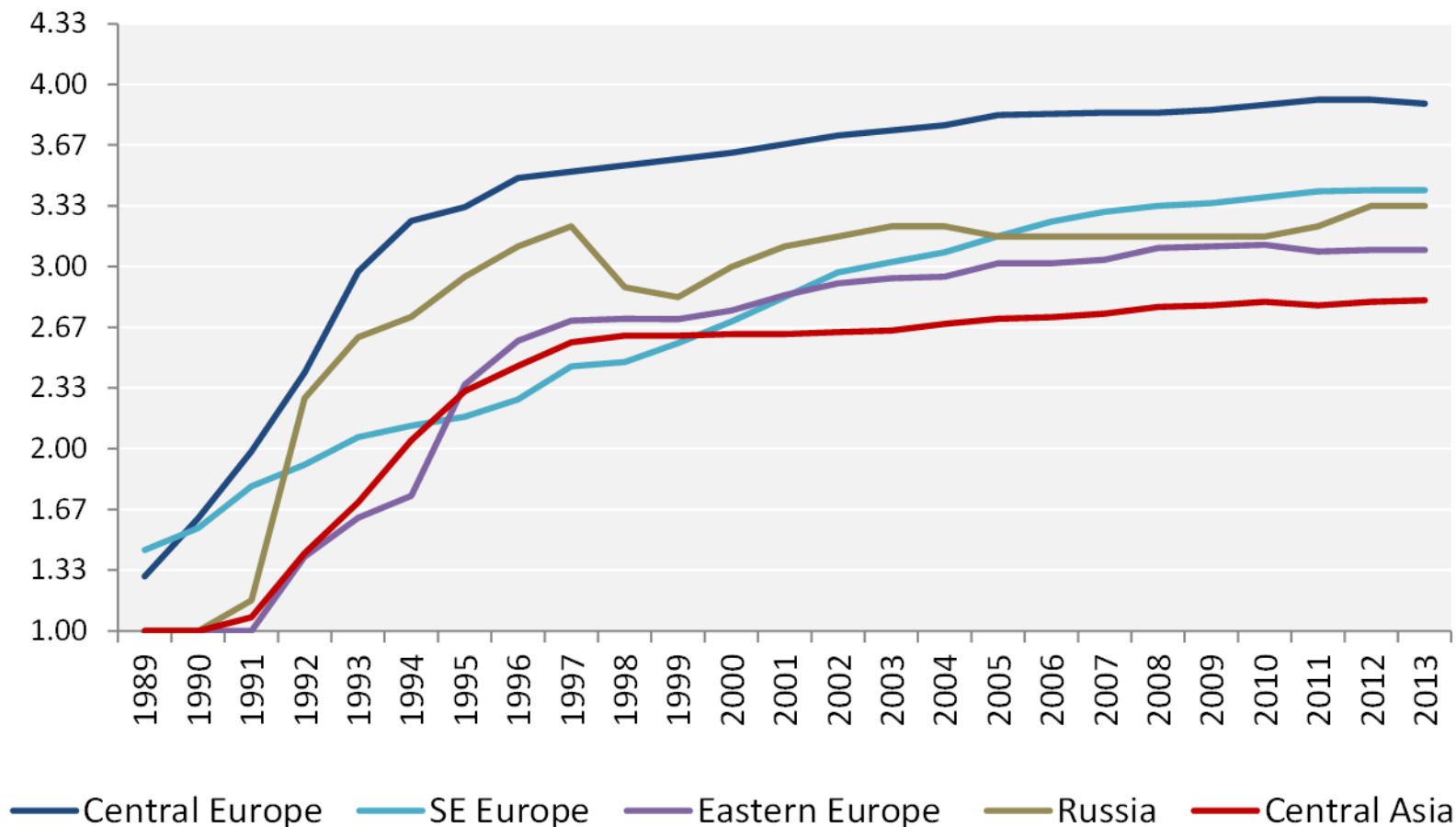
While many other EMs, including China, have been undergoing this transformation from similar services-to-GDP ratio (35-40%), the pace in Emerging Europe was unique

Share of services in GDP, %



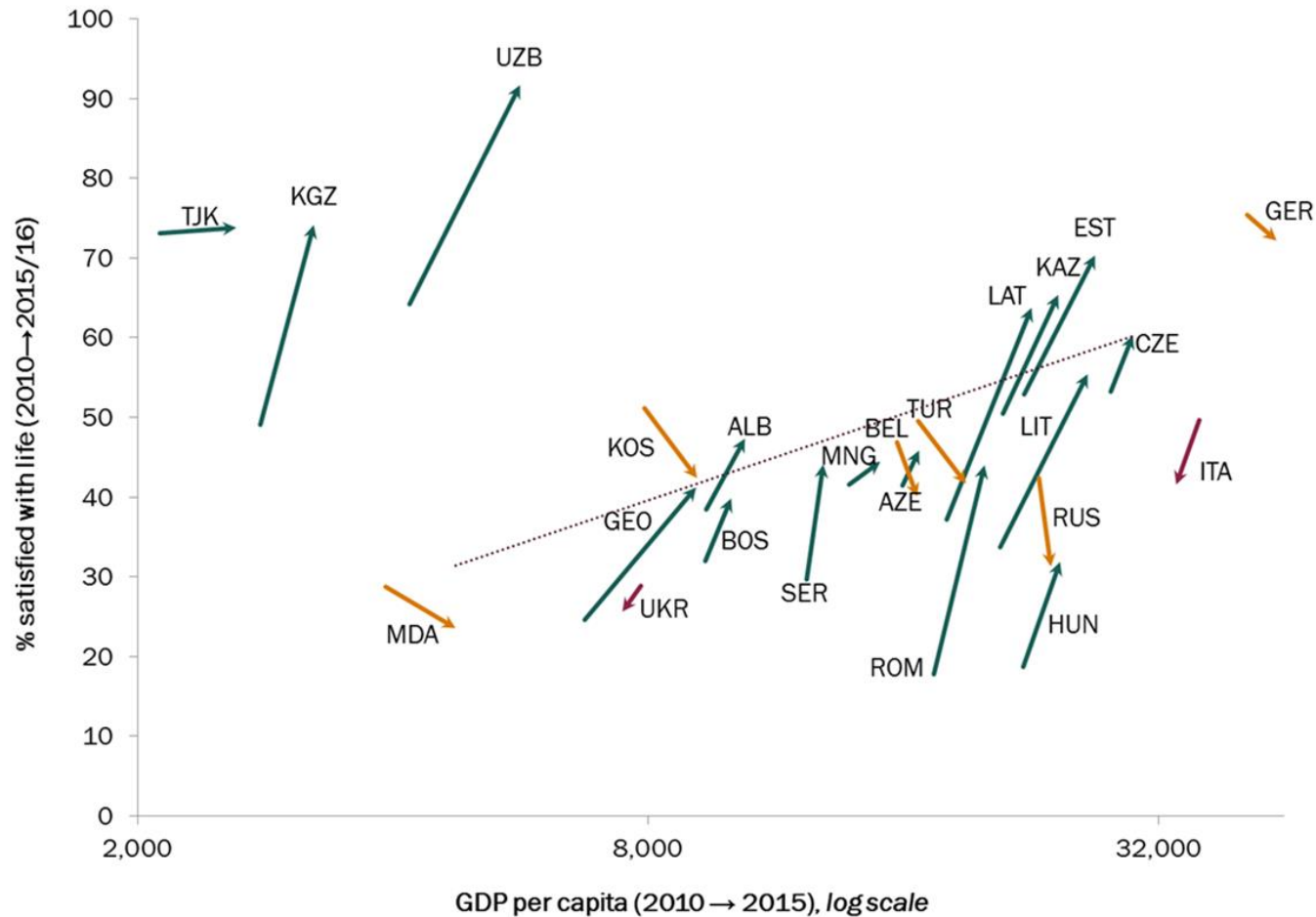
Rapid market liberalisation reforms in the 1990s

Average transition indicator, 1 to 4.33 scale



It took 25 years to close the “happiness gap” with comparable economies

Change in life satisfaction and change in GDP per capita



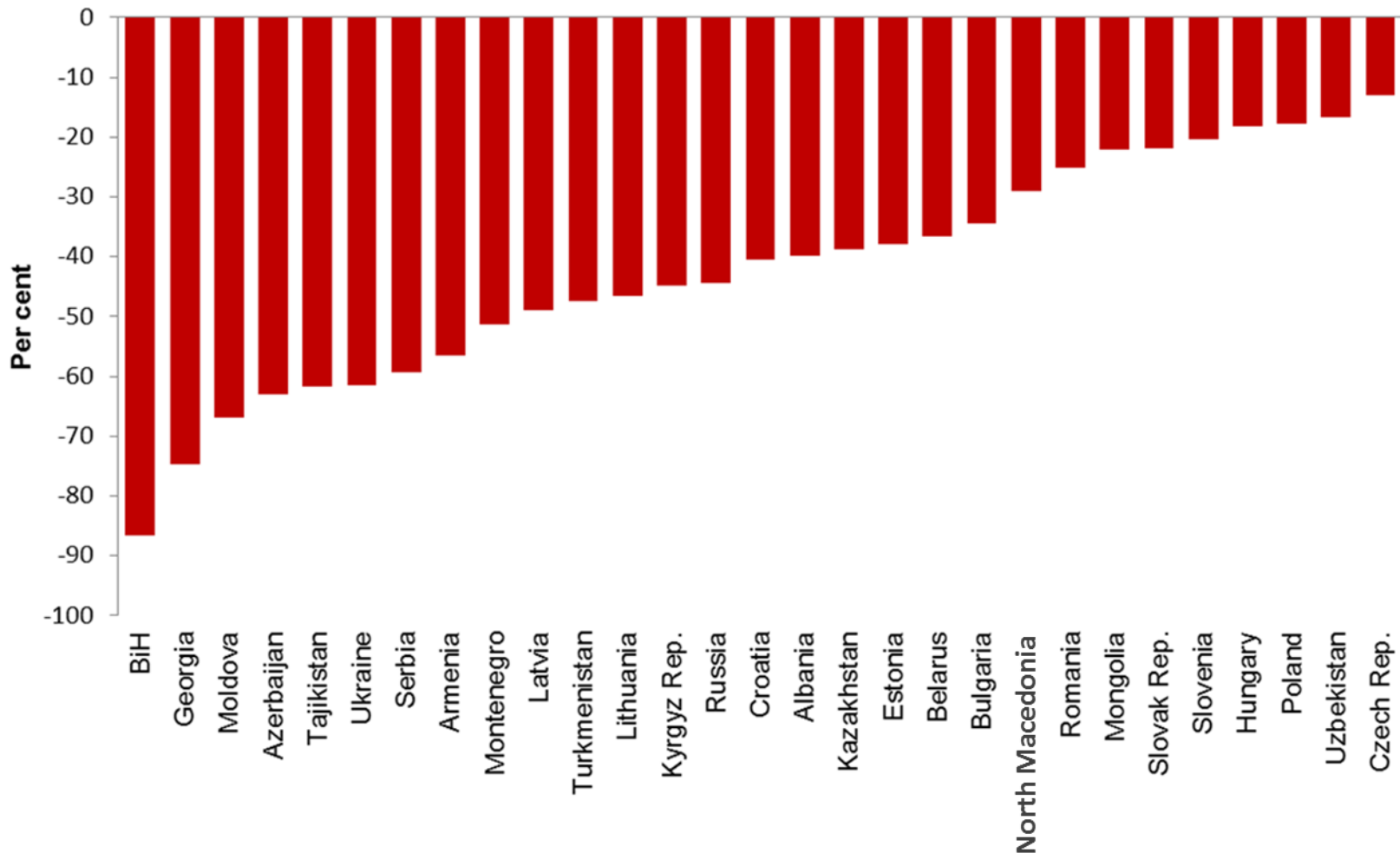
Transition has not been painless
and not everybody benefitted equally



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Initial reforms coincided with deep transition recession, from -10% Czech Rep. to -70% Central Asia

Cumulative contraction in real GDP during the transition recession



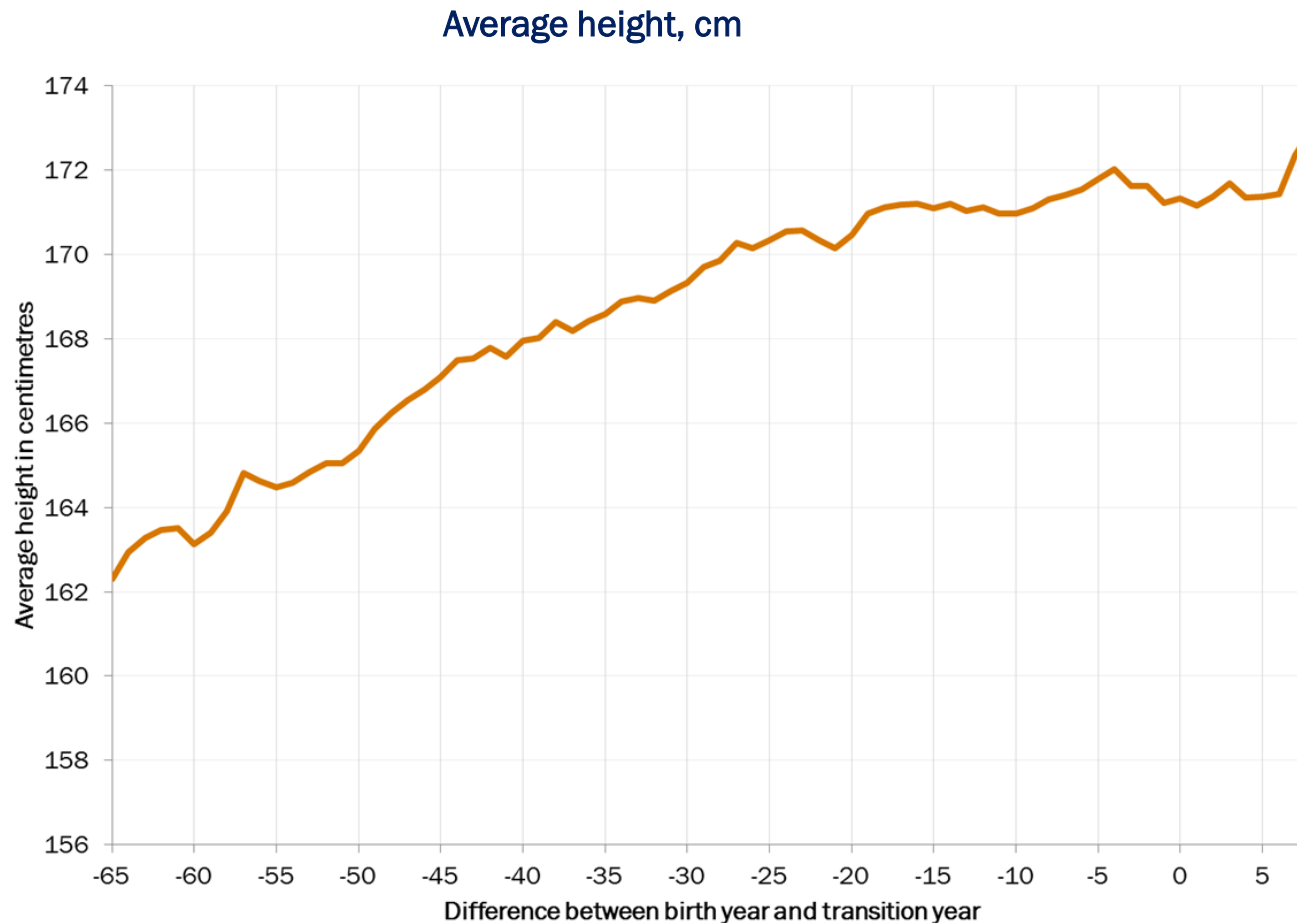
Structural shifts accompanying price liberalisation caused significant economic hardship



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People born around the year of price liberalisation are 1cm shorter

Only 1/3 is due to drop in average income (Adsera et al., 2019)



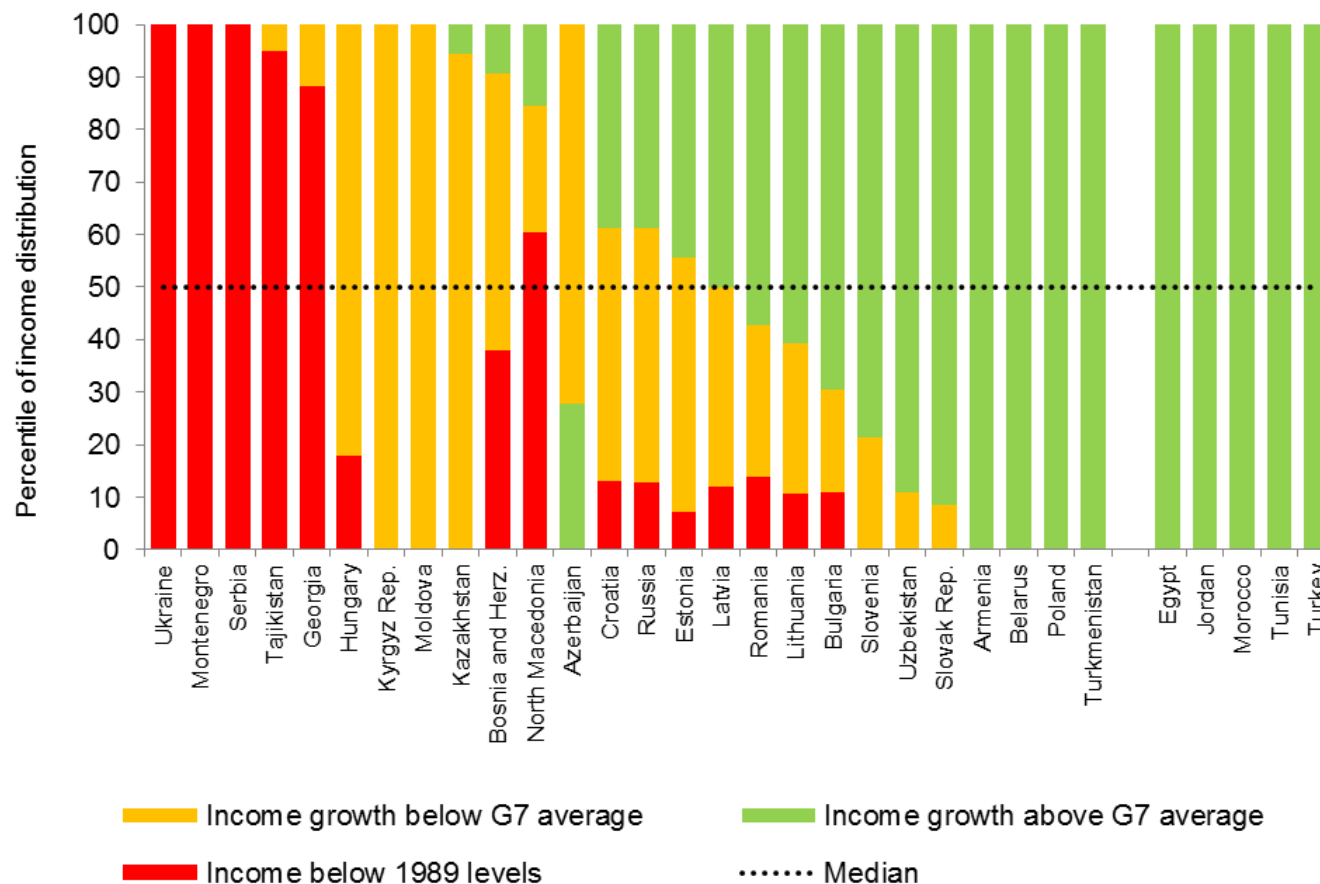
Uneven distribution of gains from transition



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44% of population experienced income convergence between 1989-2016 at a personal level

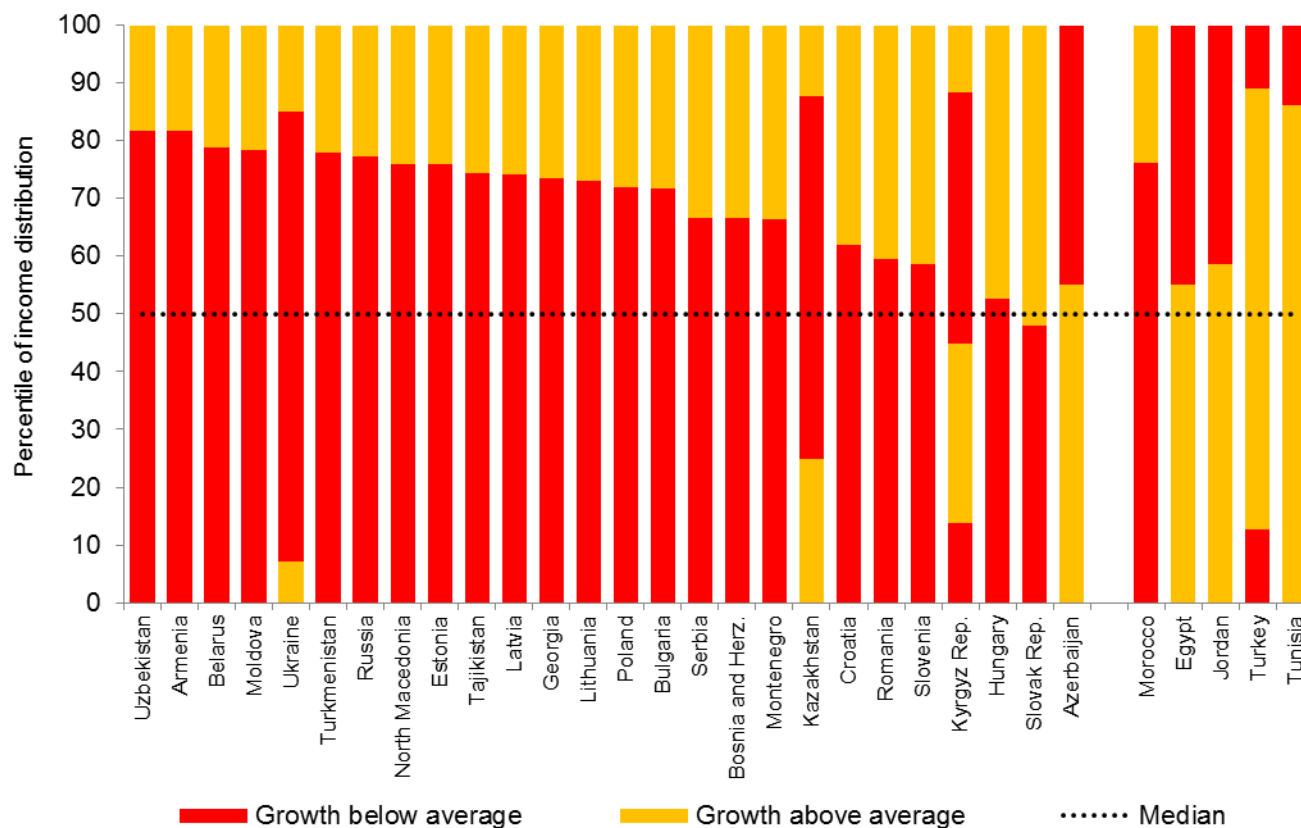
Percentiles of the population with income growth above/below the G7 average, 1989-2016



Source: EBRD (2016) based on data from World Bank Povcal database, IMF and UN. Data for each percentile are based on linear extrapolation of averages for each decile.

Uneven distribution of gains from transition

Percentiles of the population with above/below-average income growth (1989-2016)



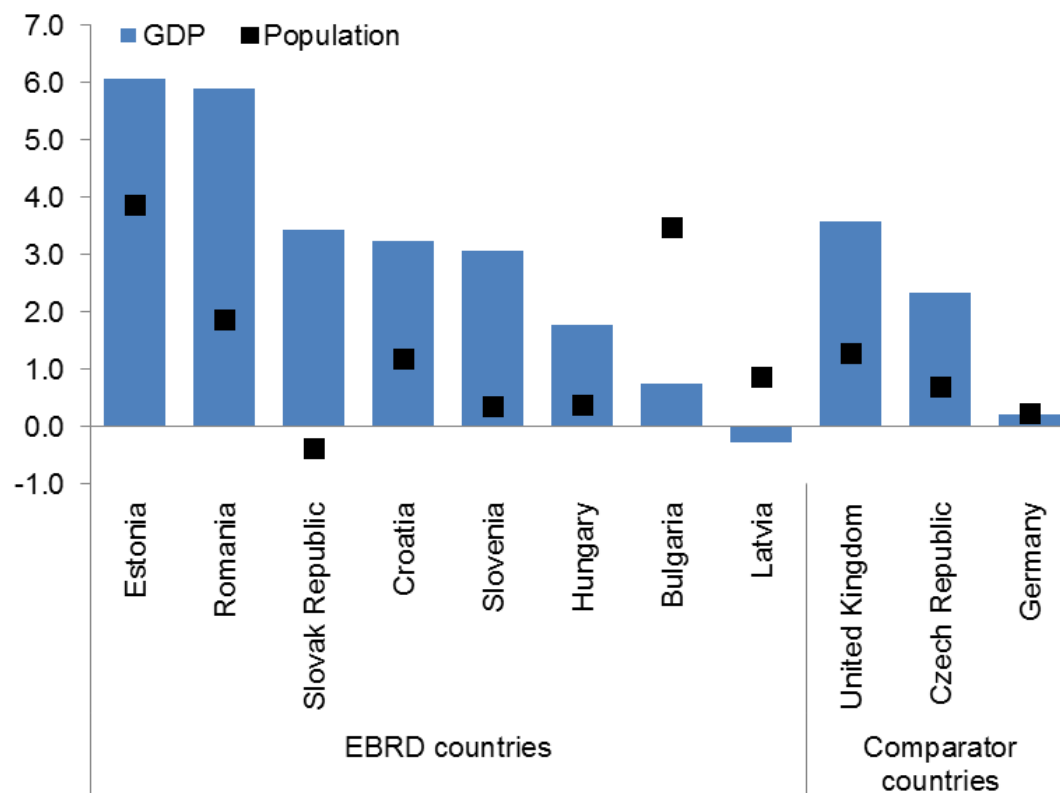
Growing divide between cities and rural areas



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Technological shifts favour large urban agglomerations

Change in GDP share and population share of the largest city's metropolitan area, 2000-2017
(Percentage points)

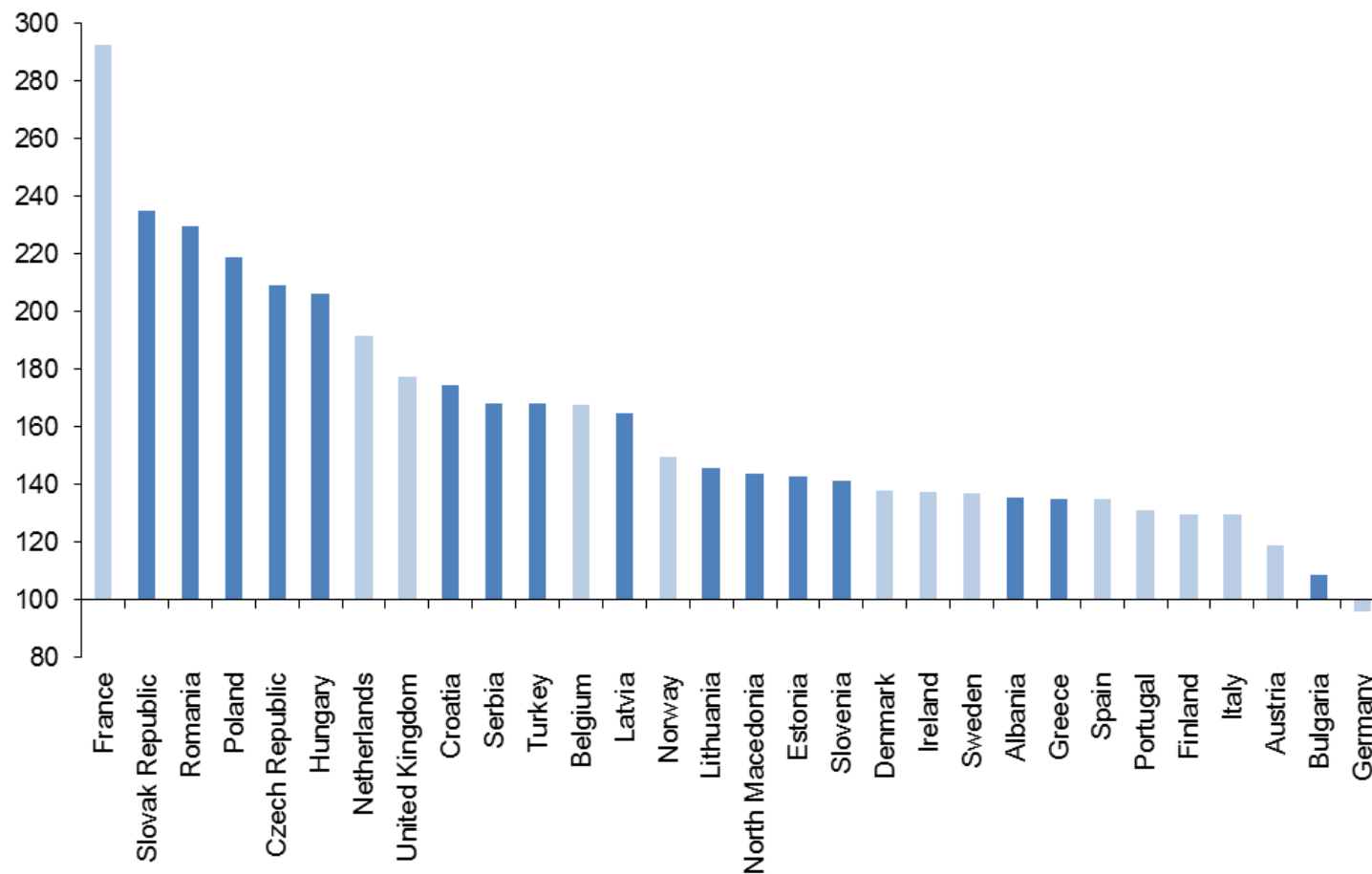


GDP per capita is also significantly higher in large cities than elsewhere in the country



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GDP per capita in the largest city's metropolitan region, 2017
(National average=100)



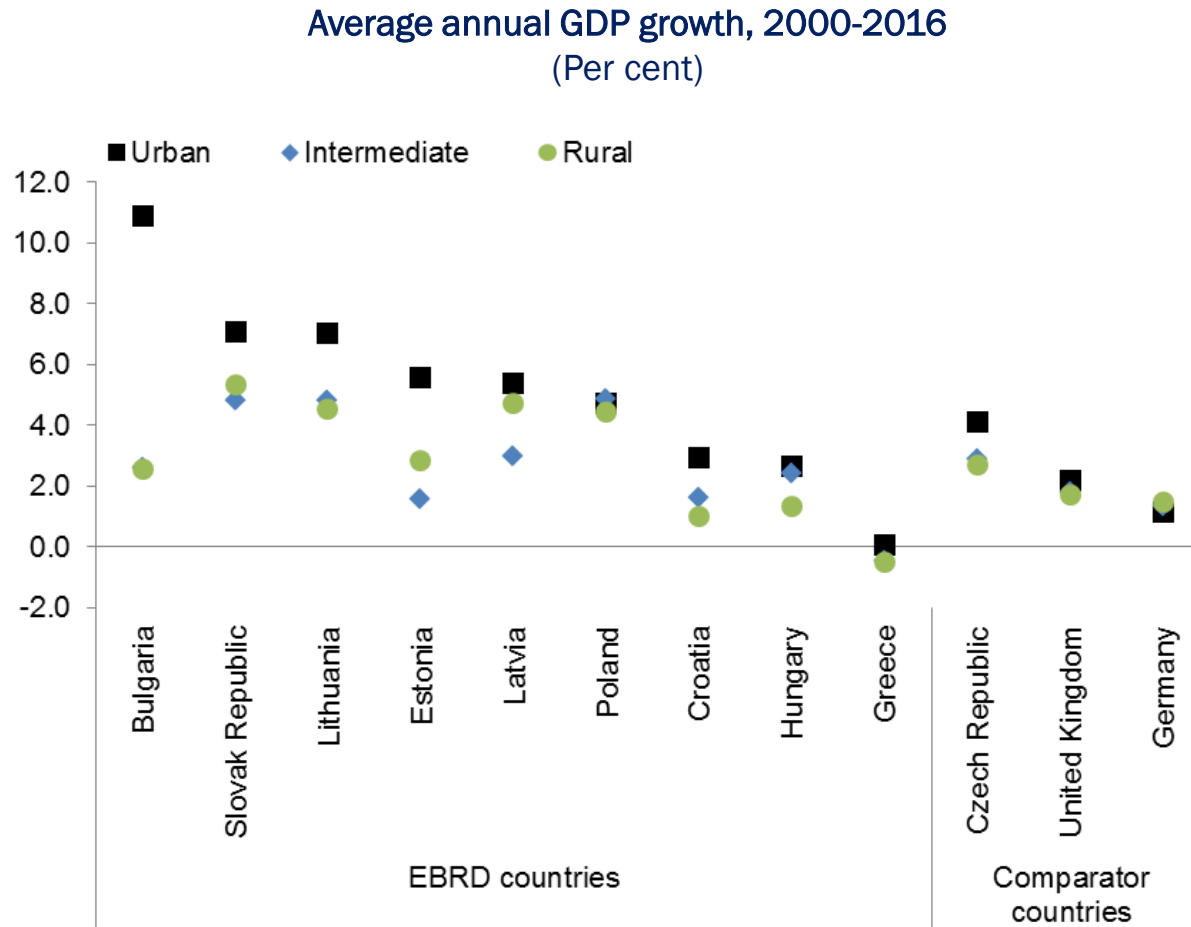
Sources: Liveable Cities Report (2019). Eurostat and authors' calculations.

Notes: 2016 data for Ireland, France, Croatia, Italy, Latvia, Lithuania, the Netherlands, Norway, North Macedonia and Albania.

Widening gap in economic fortunes of large cities vs. small ones and rural communities



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Sources: Liveable Cities Report (2019). OECD Regions at a Glance 2016 and authors' calculations.

Notes: 2000-2015 data for Croatia, Greece, Latvia, Lithuania, Poland and Germany.

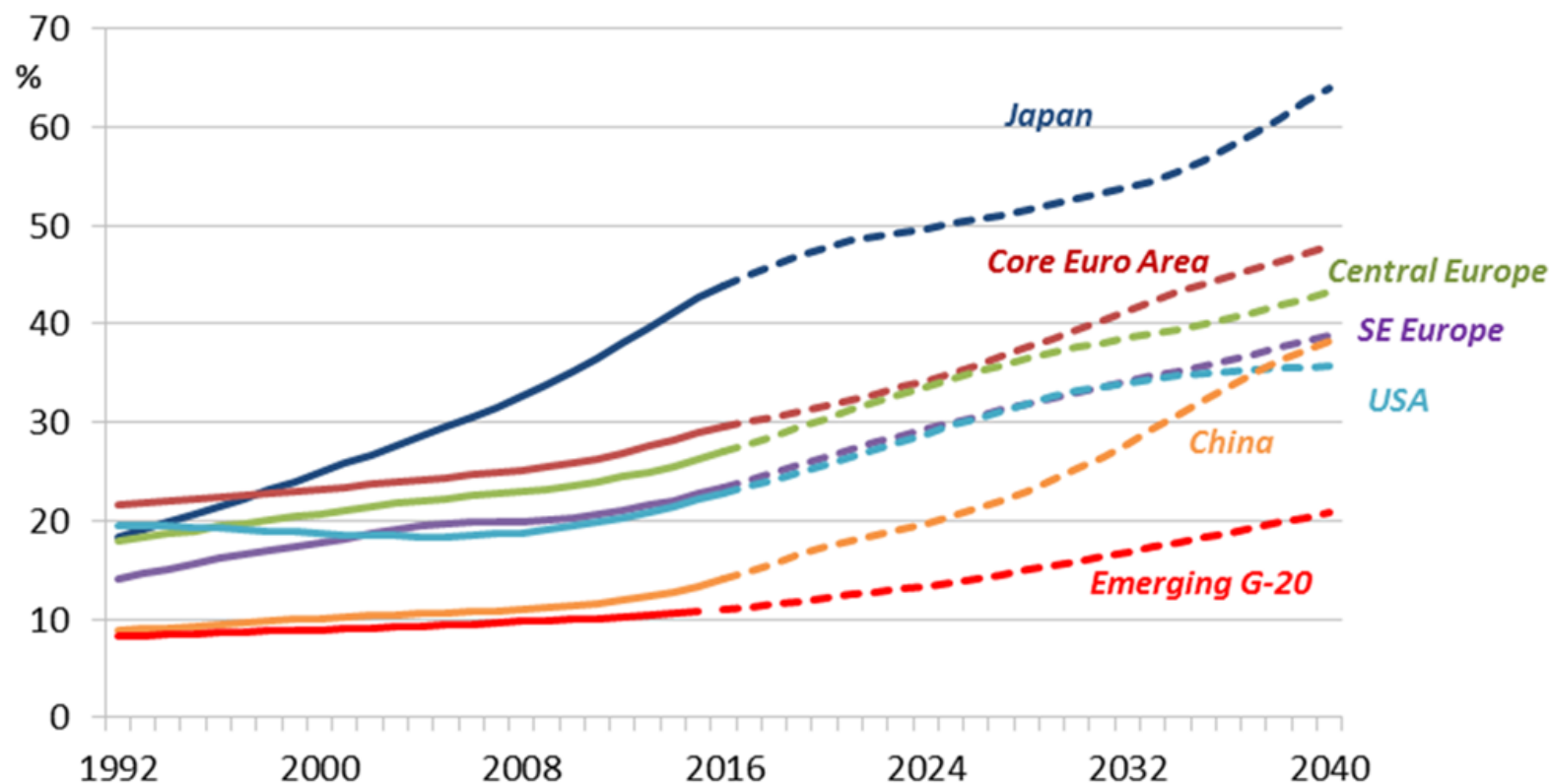
Challenges: Demographics and emigration



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Getting old before getting rich

Old-age dependency ratio, %

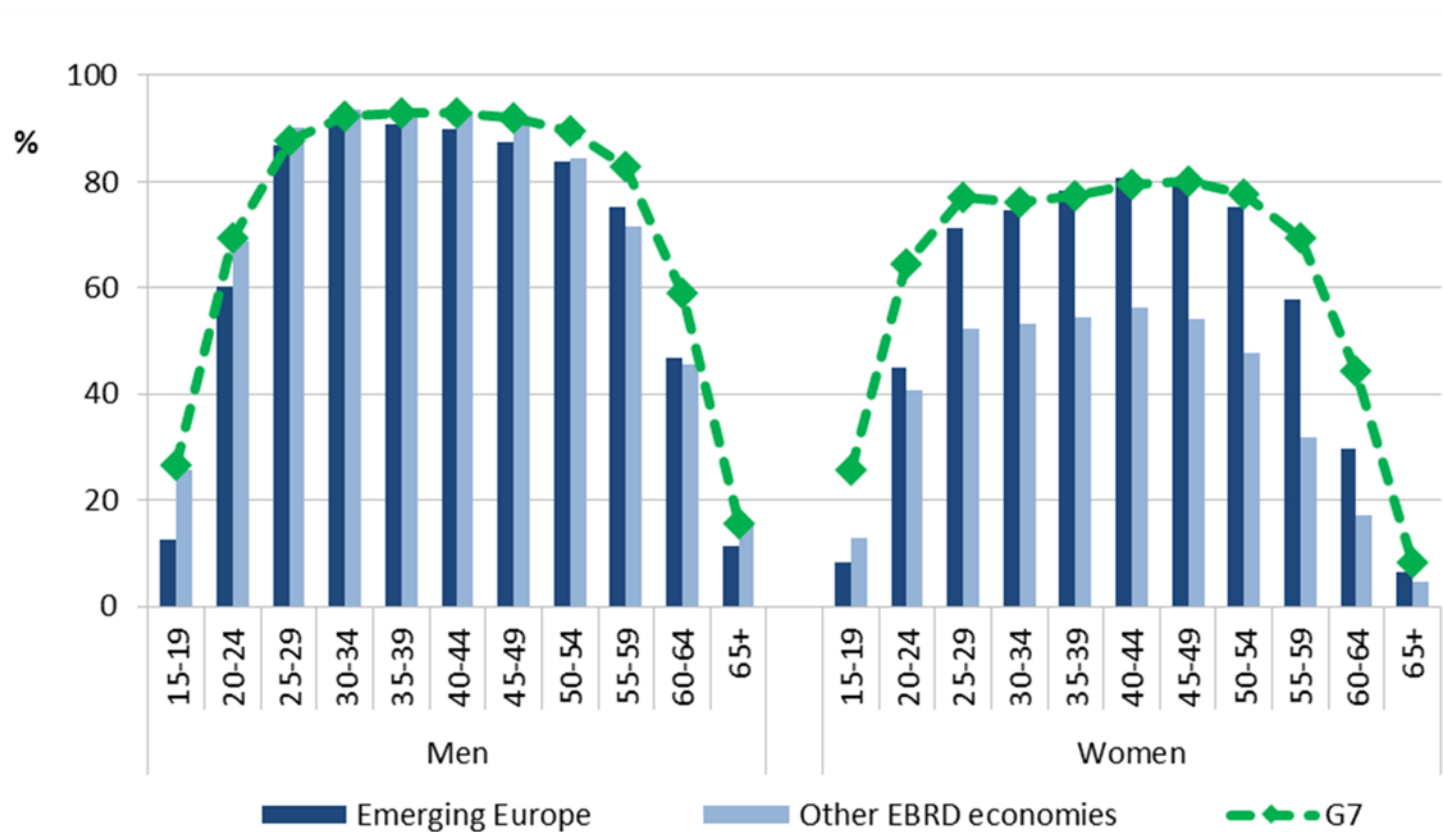


Labour force participation among the older has remained relatively low

G7 labour force participation among those aged 50-64: 68% in 1997 → 74% in 2017

EBRD regions: 56% in 1997 → 60% in 2017

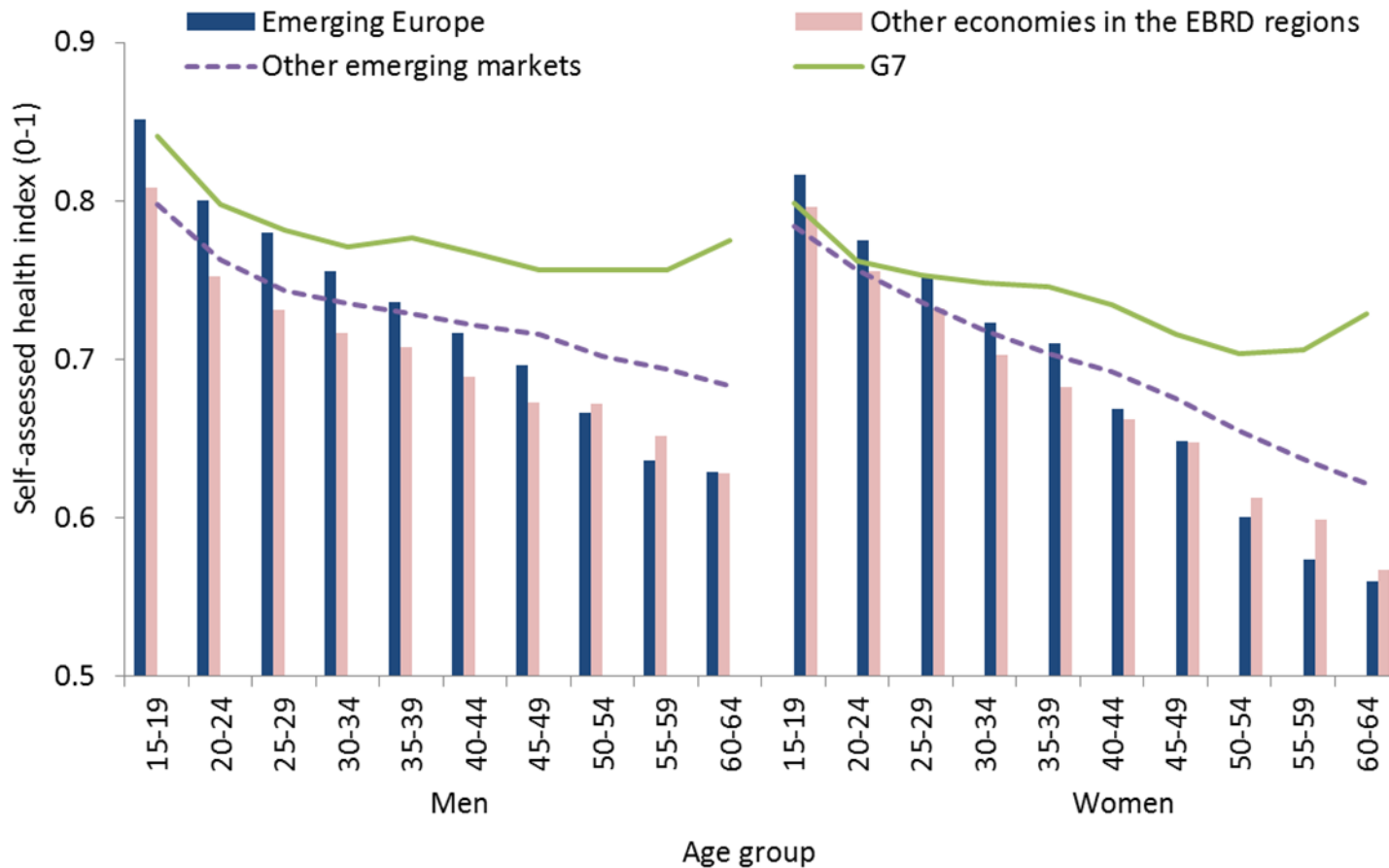
Labour force participation rates decline with age faster in the EBRD regions than in G7 economies



Improvements in health care are much needed to facilitate longer working lives in EBRD regions

Mirroring declines in labour force participation – in particular, for males aged 50+

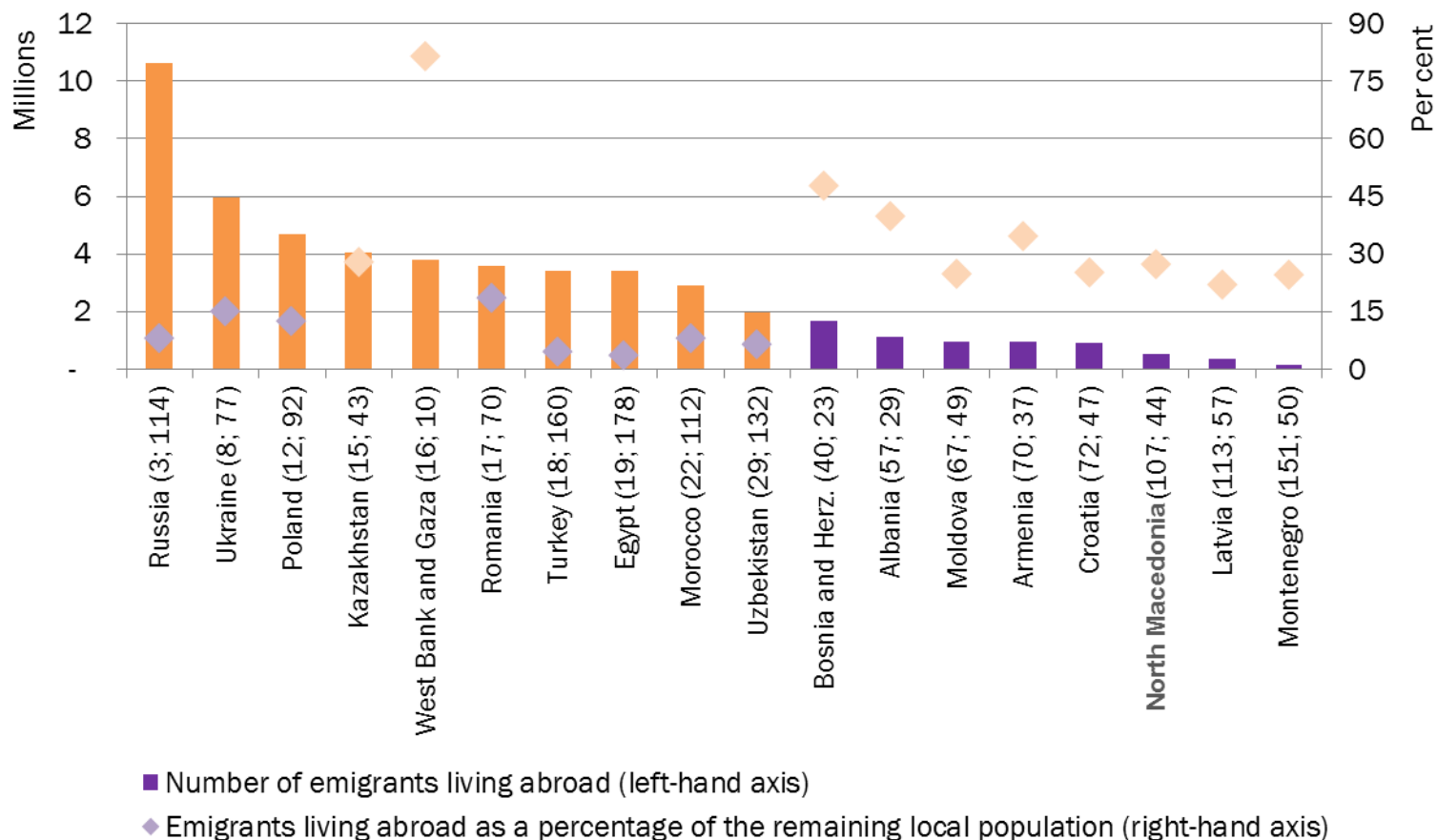
Self-assessed health declines rapidly with age in the EBRD regions



International migration has been on the rise, globally and in the EBRD regions

Today 10% of people born in the EBRD regions live outside their country of birth / citizenship

Top ten countries of origin of migrants in the EBRD regions

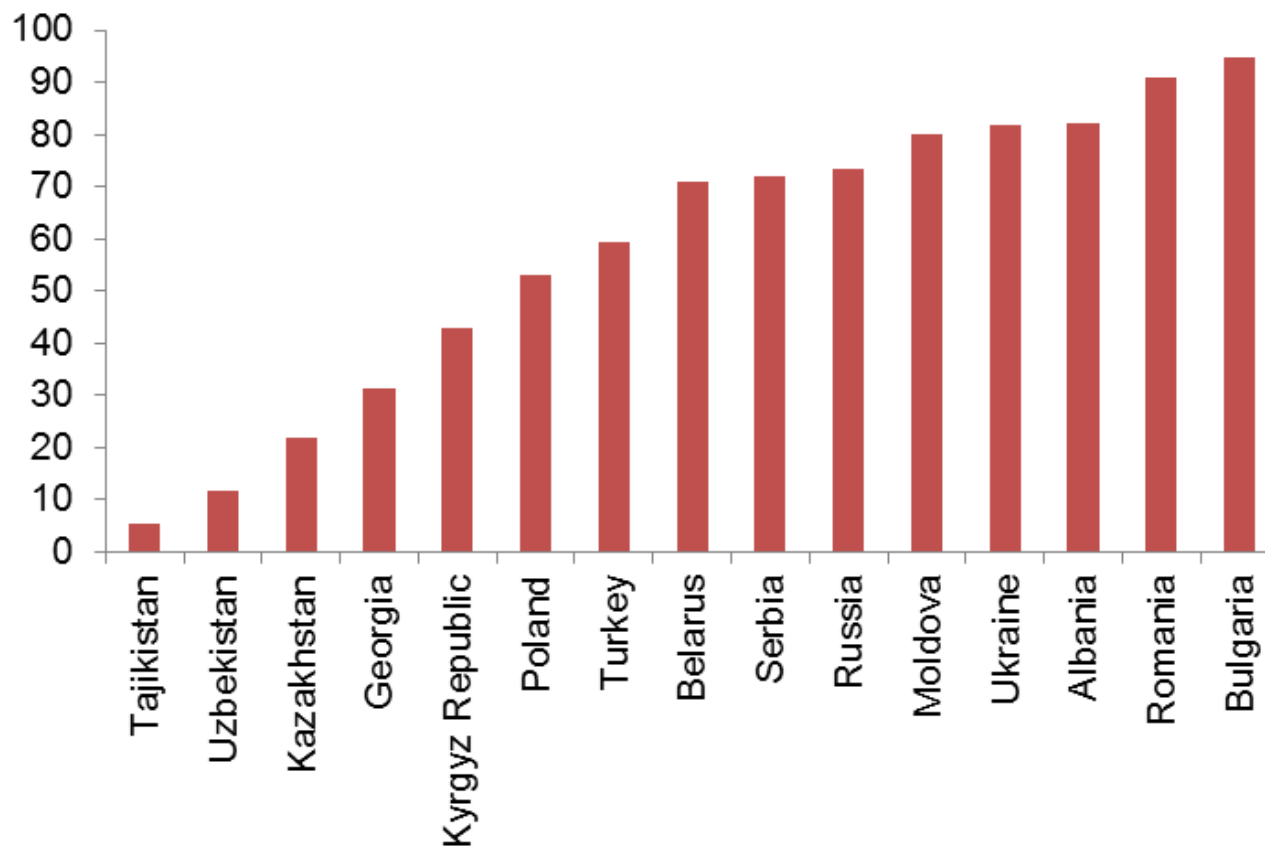


Population decline results in fiscal imbalances, higher cost of providing public services, reduces property values



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Share of cities with falling populations, 2000-2012
(Per cent)



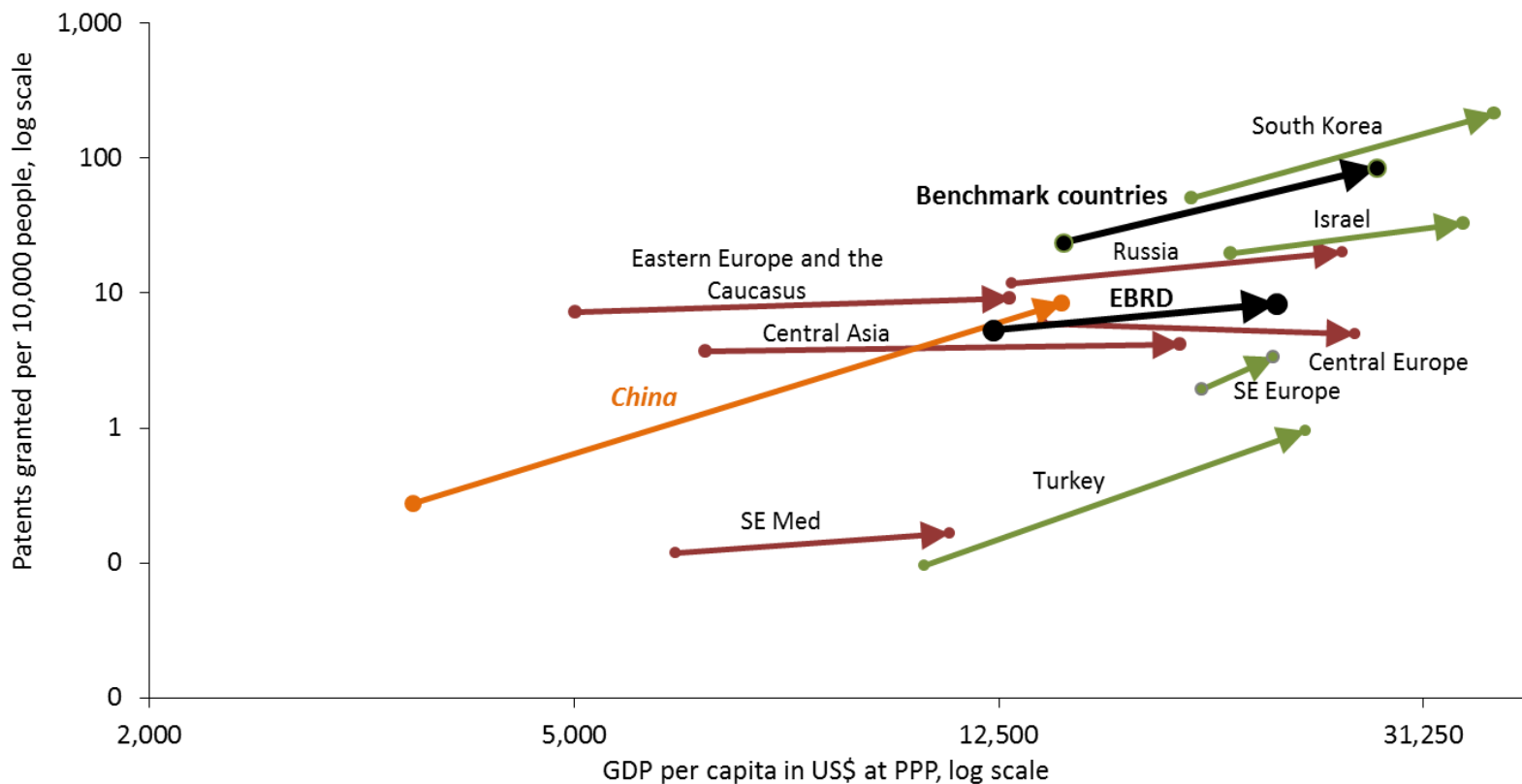
Challenges: Finding new sources of growth



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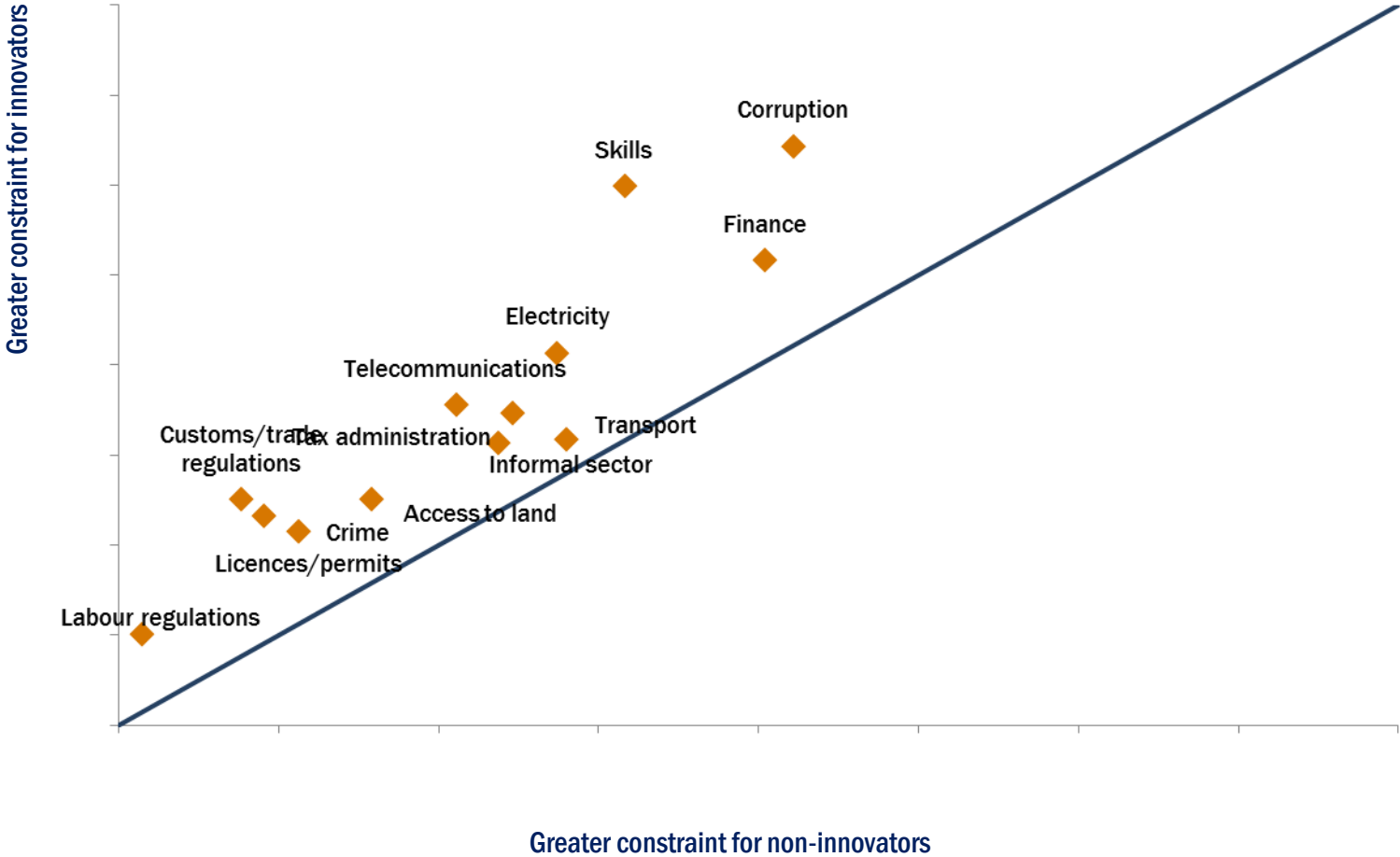
Growth has been relatively 'innovation-light'

Changes in GDP per capita and patents granted, 2002-15



Innovative firms are more sensitive to the business environment

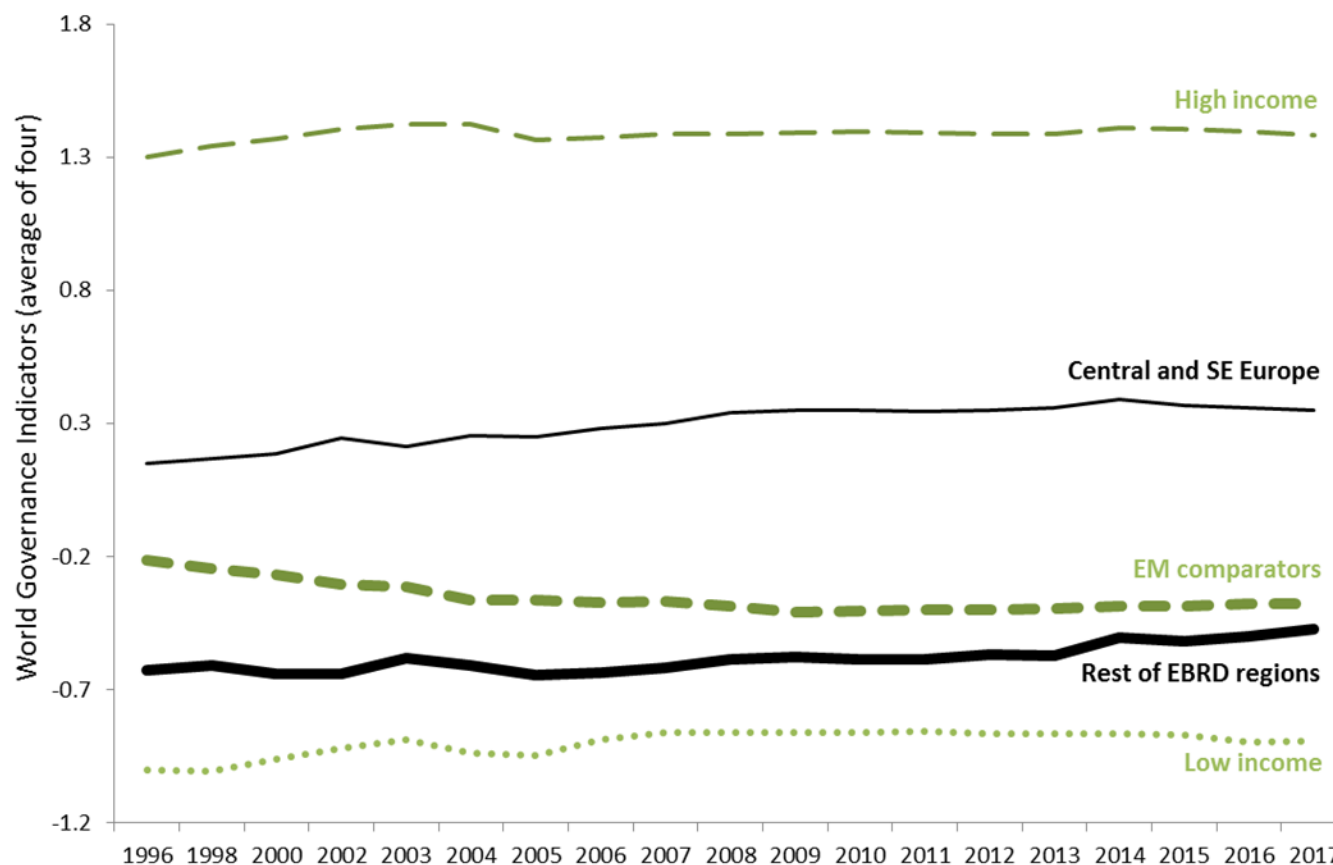
Innovation and perception of constraints to doing business



Source: Enterprise surveys. The chart shows example for Eastern Europe, the Caucasus, Central Asia and Russia. The pattern is similar in other countries.

Improvements in the quality of institutions in CESEE relative to global average have slowed down

Improvements in the quality of economic institutions in Central and SE Europe have slowed down



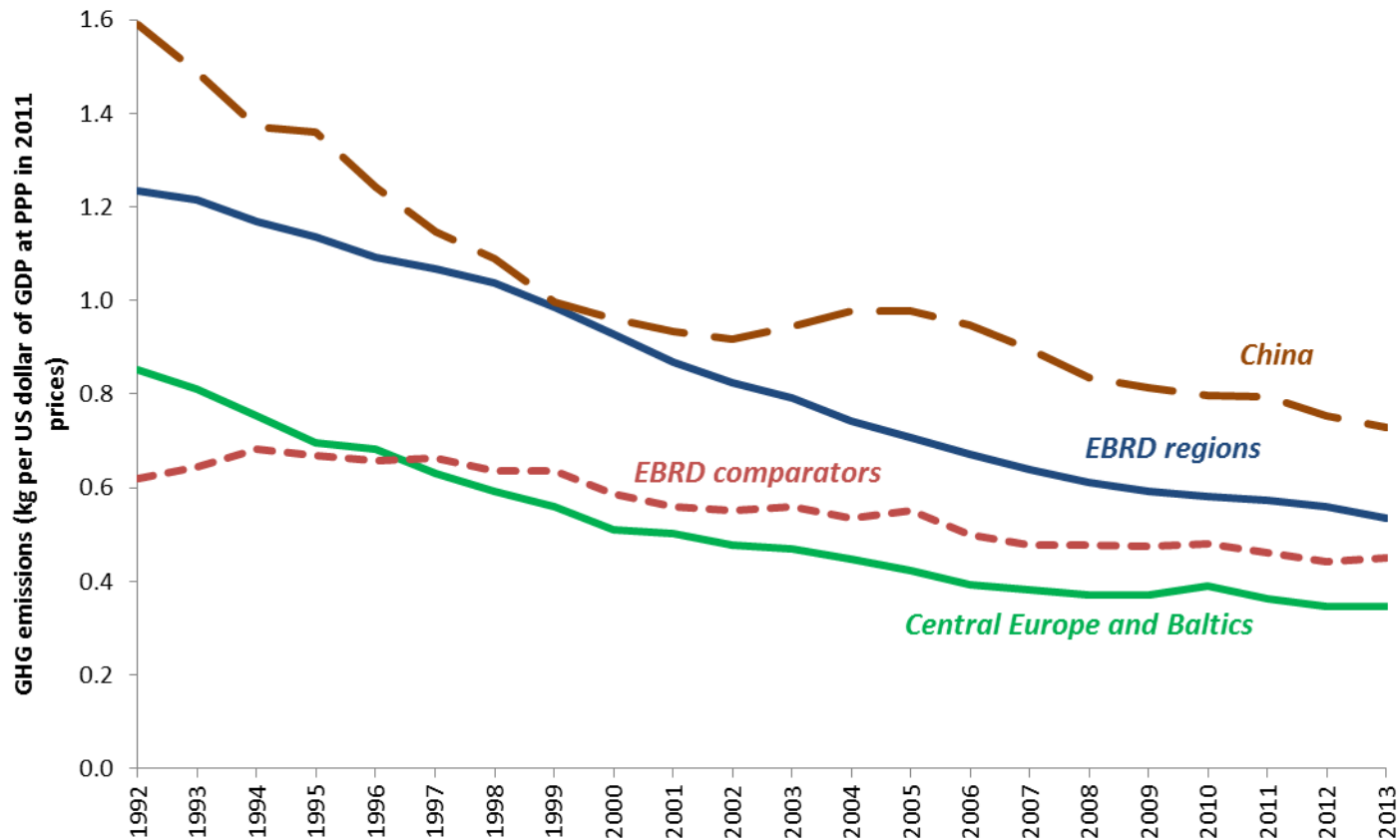
Challenges: Low carbon transition



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Despite major improvements, EBRD economies remain ~ 25% more polluting than comparators

Greenhouse gas emissions per US dollar of GDP



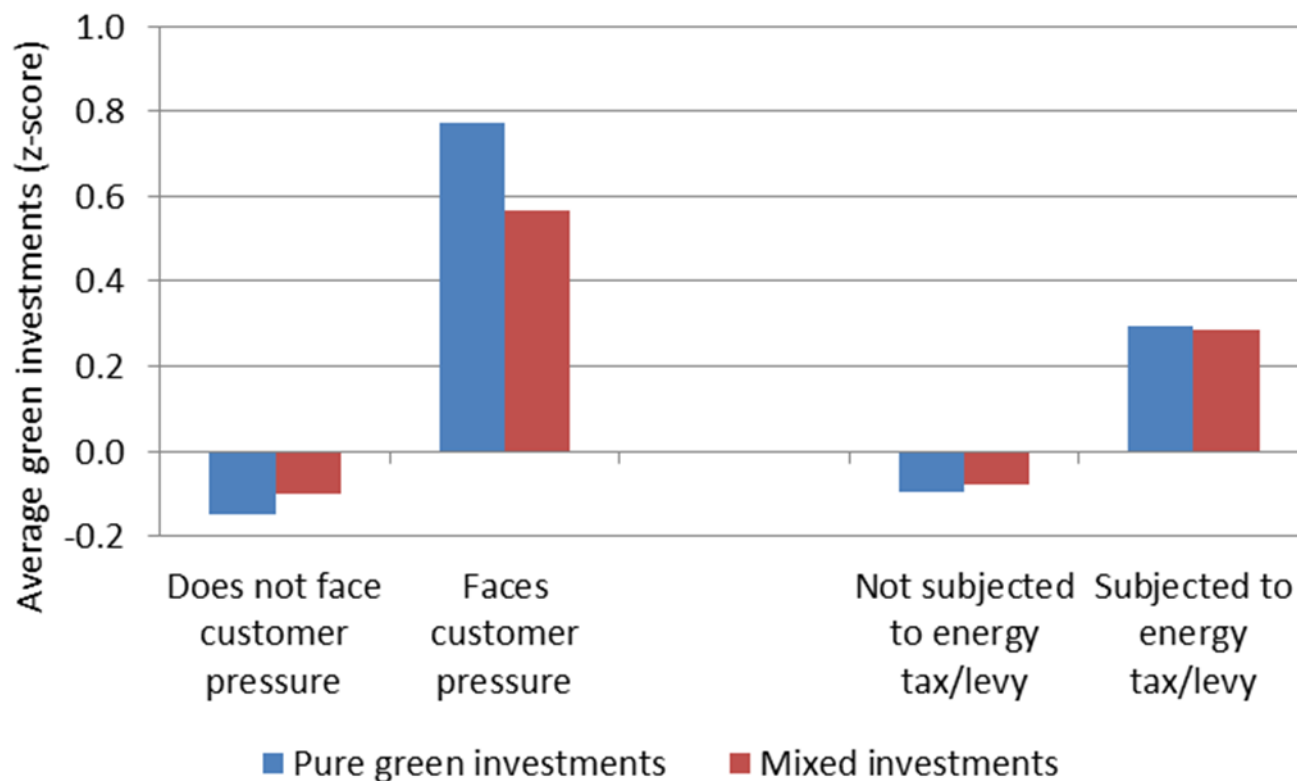
Firms that face customer pressure, higher energy costs are more likely to make green investments



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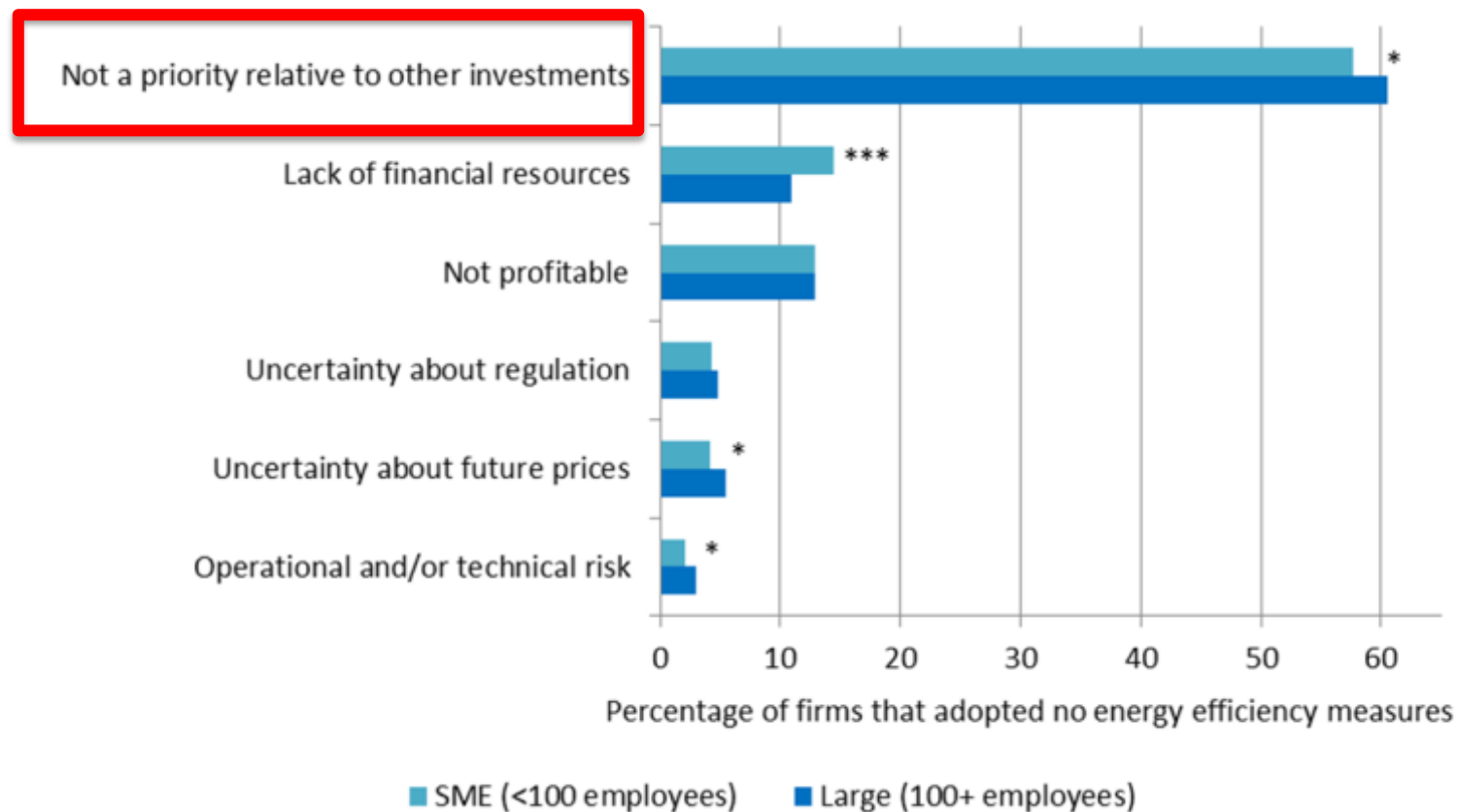
Examples of pure green investments: Green energy generation on site, energy management, waste minimisation, recycling and waste management, pollution control measures, water

Customer pressure, energy taxes boost green investments



Investment in energy efficiency is not viewed as a priority

Reasons for not adopting energy efficiency measures vary



- The region entered the 1990s with relatively strong skills but weaker governance
- Considerable improvements in governance, yet slower progress (or even reversals) in the last decade – the **“governance gap” with respect to advanced economies is almost as large as it was**
- This is more problematic than before: **Good governance matters more for innovation-led growth**
- Will the **demographic challenge** and **transition to low carbon economy** provide impetus for further reforms?