30 YEARS OF TRANSITION (and 26 years of Transition Reports)

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Achievements of the past 30 years

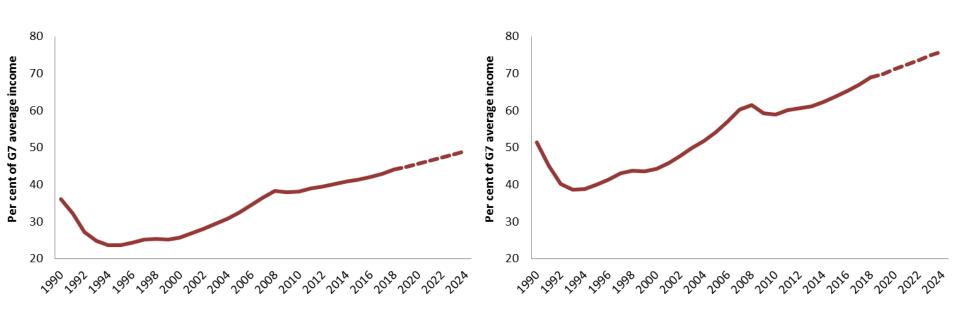


Impressive convergence since the 1990s



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

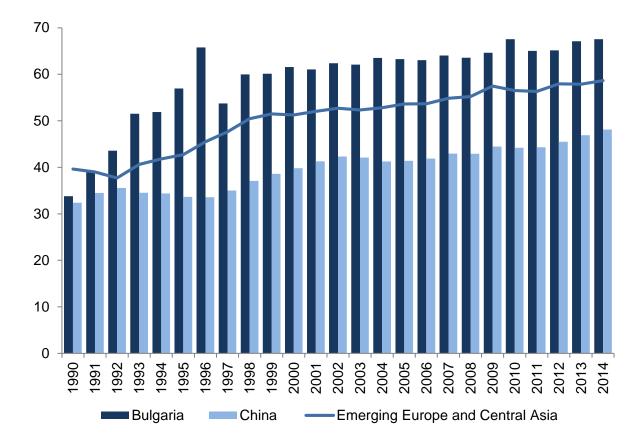
Average per capita income at PPP in Central Europe, $\% \mbox{ of } G7$



Fast shift towards services



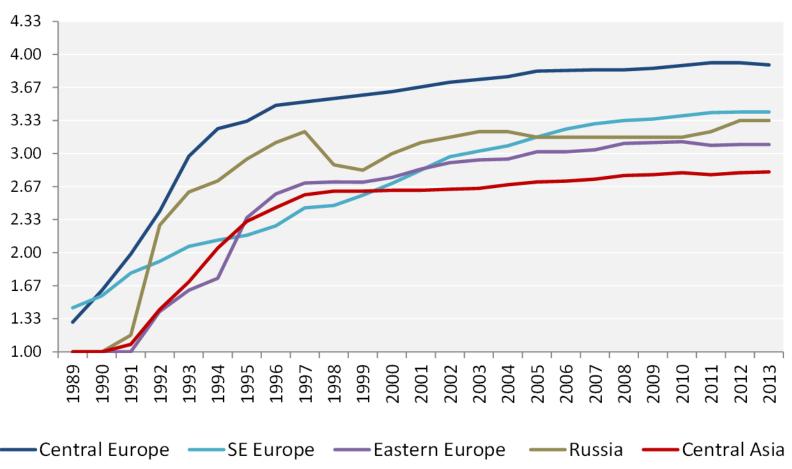
While many other EMs, including China, have been undergoing this transformation from similar services-to-GDP ratio (35-40%), the pace in Emerging Europe was unique



Share of services in GDP, %

Rapid market liberalisation reforms in the 1990s

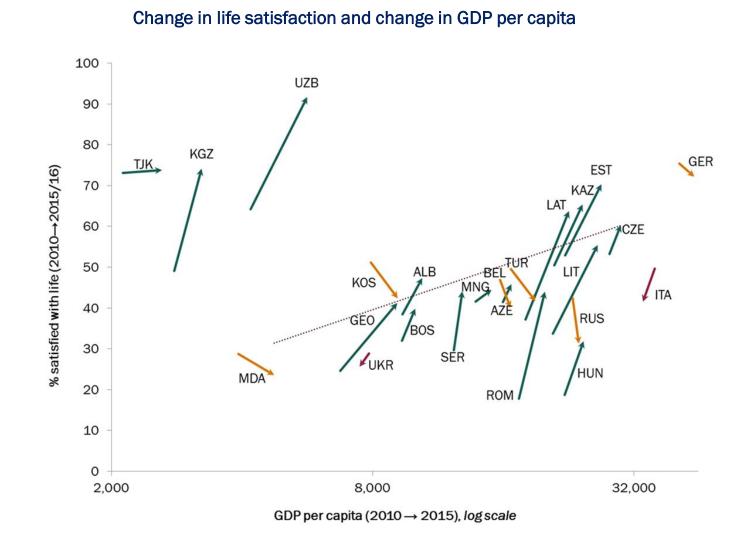




Average transition indicator, 1 to 4.33 scale

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





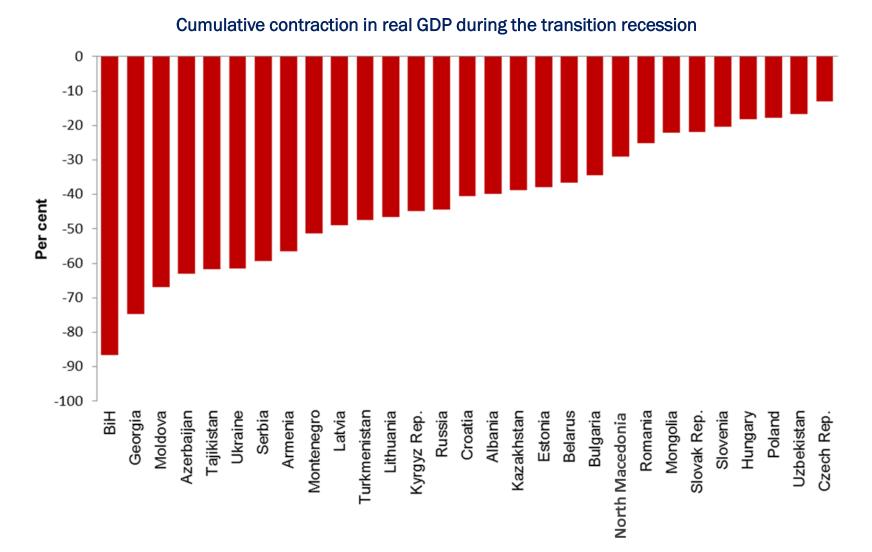
Source: EBRD Life in Transition Surveys and authors' calculations.

Transition has not been painless and not everybody benefitted equally



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



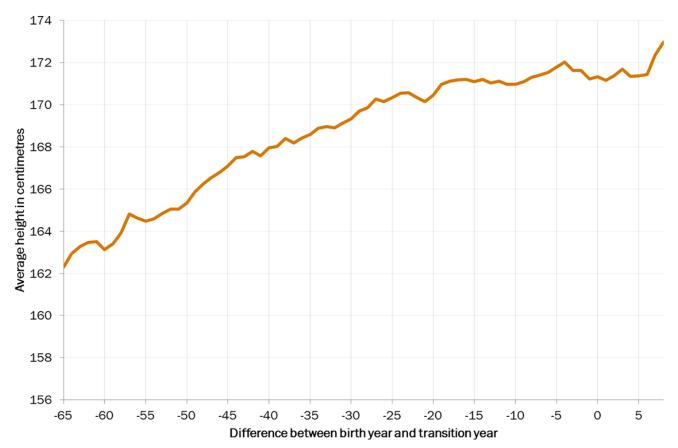


Structural shifts accompanying price liberalisation caused significant economic hardship



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)



Average height, cm

Uneven distribution of gains from transition

Income below 1989 levels



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

100 90 80 Percentile of income distribution 70 60 50 40 30 20 10 0 Bulgaria Georgia Poland Egypt Jordan Serbia Croatia Russia Estonia Tunisia Turkey Ukraine North Macedonia Latvia Turkmenistan Morocco Montenegro Tajikistan Hungary Moldova Kazakhstan Azerbaijan Romania Lithuania Slovenia Uzbekistan Slovak Rep. Armenia Belarus Kyrgyz Rep. Bosnia and Herz. Income growth below G7 average Income growth above G7 average

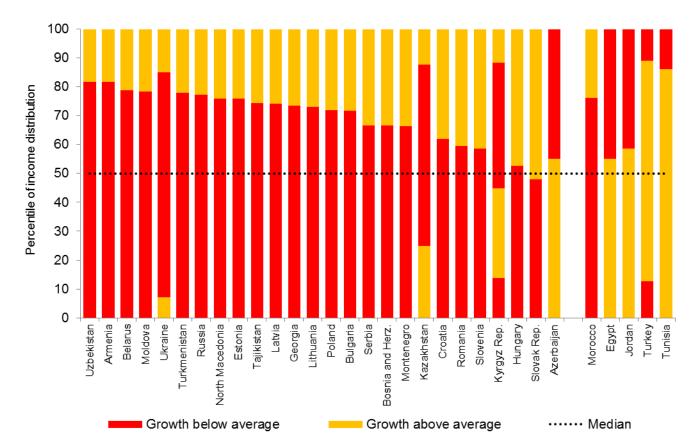
Percentiles of the population with income growth above/below the G7 average, 1989-2016

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.

······ Median

Uneven distribution of gains from transition





Percentiles of the population with above/below-average income growth (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.

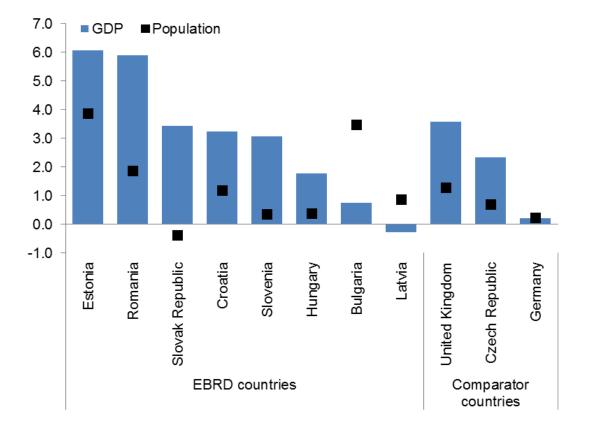
Growing divide between cities and rural areas



Technological shifts favour large urban agglomerations

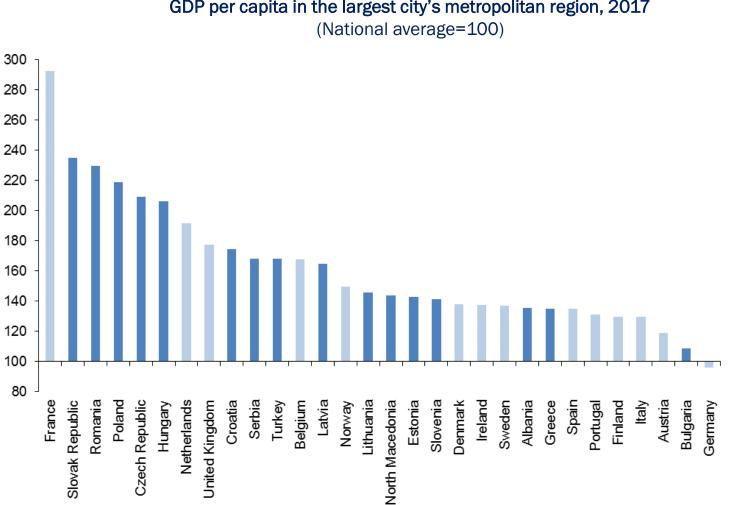


Change in GDP share and population share of the largest city's metropolitan area, 2000-2017 (Percentage points)



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





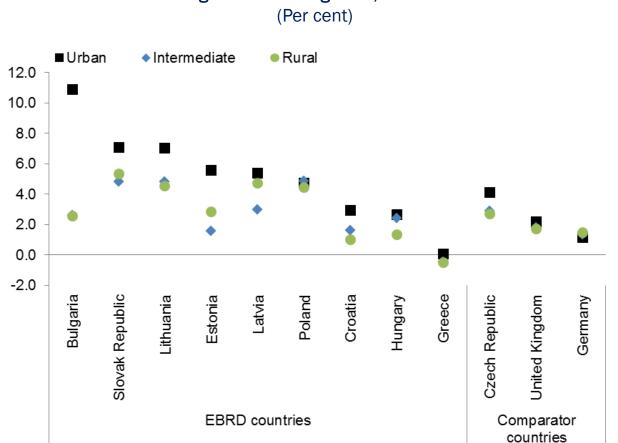
GDP per capita in the largest city's metropolitan region, 2017

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





Average annual GDP growth, 2000-2016

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

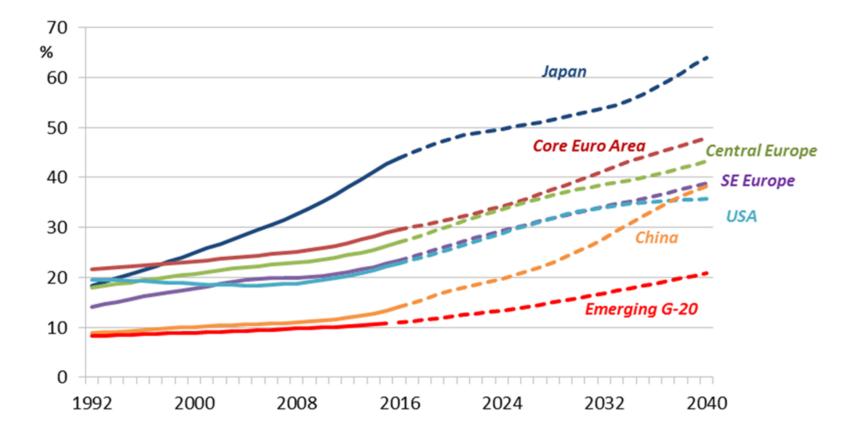


Getting old before getting rich



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Old-age dependency ratio, %



Source: World Bank, United Nations projections and authors' calculations. Old-age dependency ratio is the ratio of population aged 65 and above to those aged 15-64. Projections are based on the median scenario.

Labour force participation among the older has remained relatively low



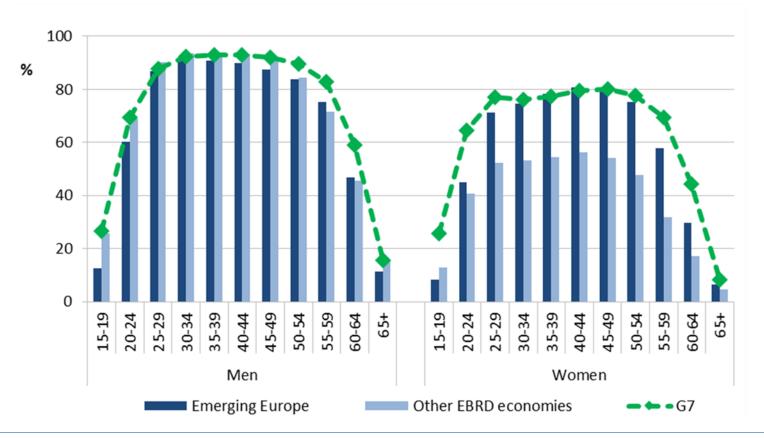
G7 labour force participation among those aged 50-64:

68% in $1997 \rightarrow 74\%$ in 2017

EBRD regions:

56% in 1997 \rightarrow 60% in 2017

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



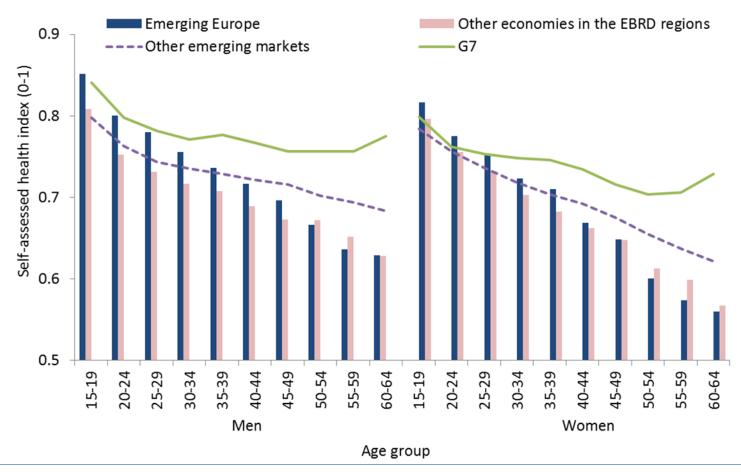
Source: ILO and authors' calculations. Data for 2017 or latest available.

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

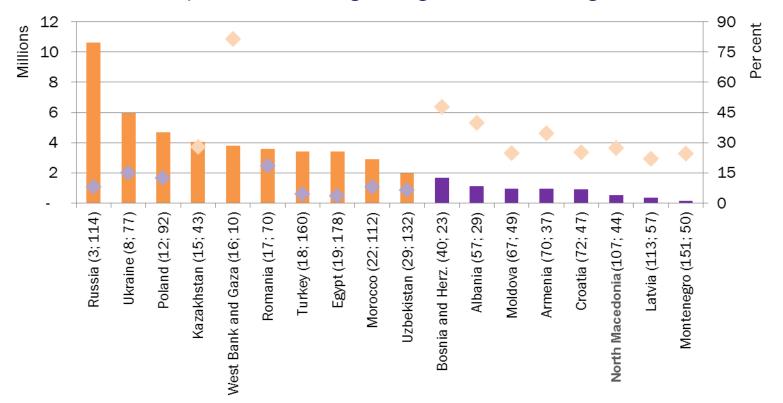


Source: Gallup World Poll and authors' calculations. Emerging markets refer to all economies with GDP per capita above US\$ 1,100 at market 27 exchange rates that are not advanced economies based on the IMF definition.

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



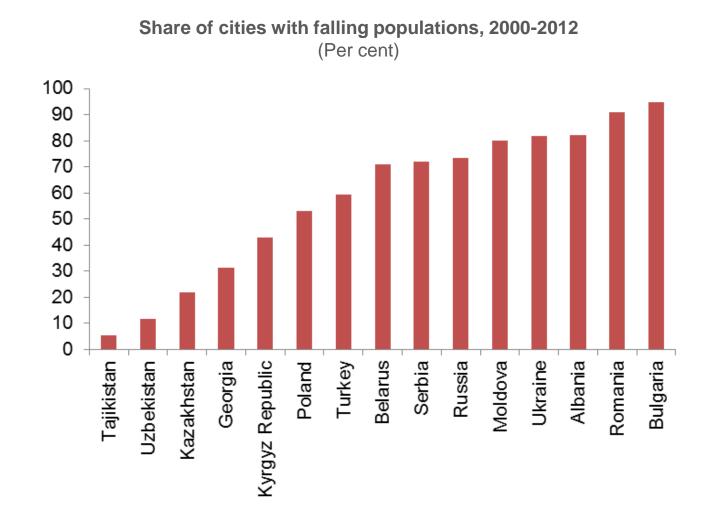
Top ten countries of origin of migrants in the EBRD regions

Number of emigrants living abroad (left-hand axis)

• Emigrants living abroad as a percentage of the remaining local population (right-hand axis)

Source: UN DESA (2017) and authors' calculations. Data for 2017. Migrant refer to foreign-born / foreign citizens. Positions of each country in the global rankings by number of emigrants and as a percentage of the local remaining population are in parentheses.

Population decline results in fiscal imbalances, higher cost of providing public services, reduces property values European Bank for Reconstruction and Development

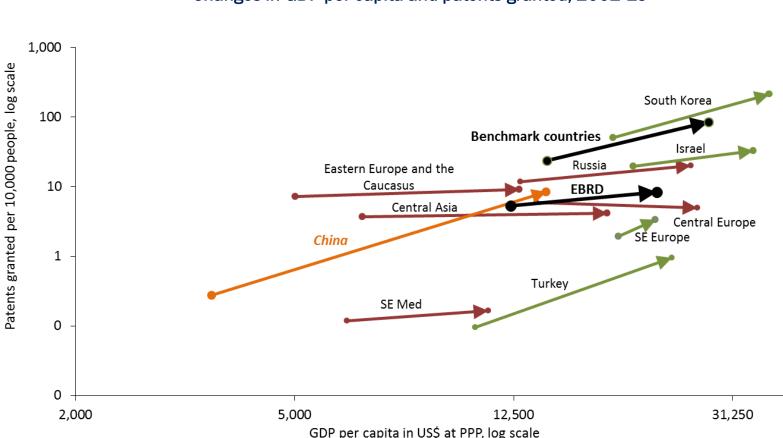


Challenges: Finding new sources of growth



Growth has been relatively 'innovation-light'

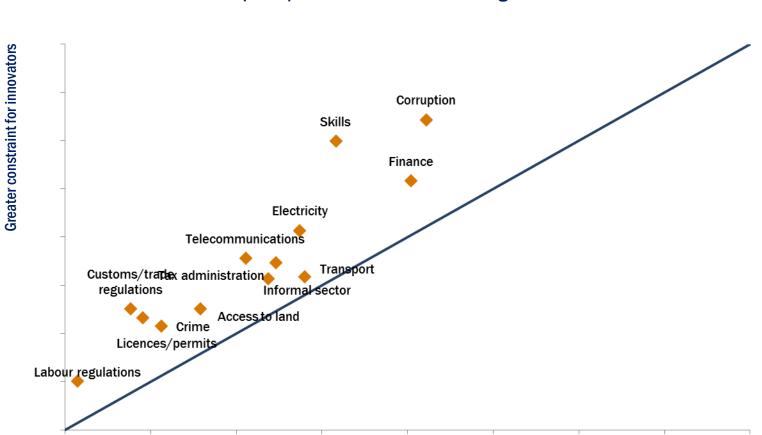




Changes in GDP per capita and patents granted, 2002-15

Source: EBRD (2017) based on WIPO based on the location of filing entity. Larger diamonds represent the average for the EBRD regions. Larger circles represent the average for China, Israel and South Korea.

Innovative firms are more sensitive to the business environment



Innovation and perception of constraints to doing business

Greater constraint for non-innovators

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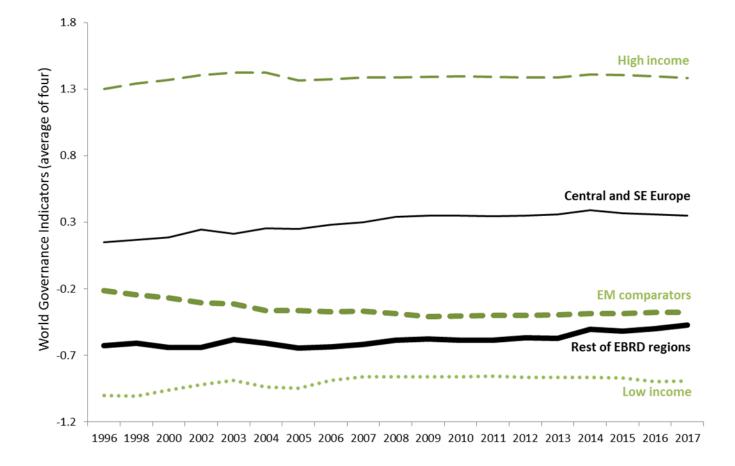
Source: Enterprise surveys. The chart shows example for Eastern Europe, the Caucasus, Central Asia and Russia. The pattern is similar in other countries.

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



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



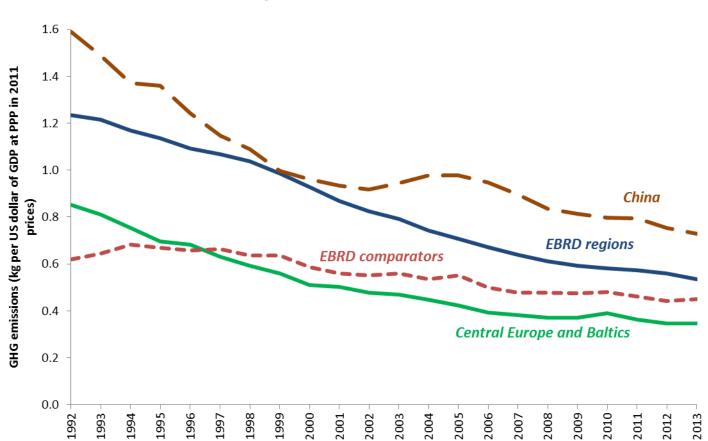
Source: World Bank, IMF and authors' calculations. Quality of economic institutions is captured by the average of the Worldwide Governance Indicators of control of corruption, rule of law, regulatory quality and government effectiveness.

Challenges: Low carbon transition



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





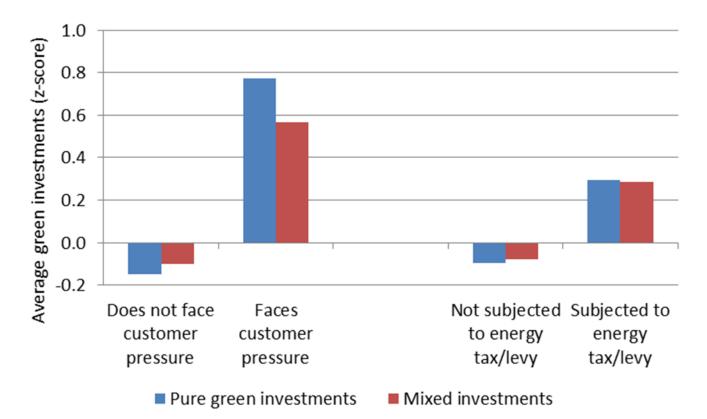
Greenhouse gas emissions per US dollar of GDP

Source: World Resources Institute and authors' calculation.

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



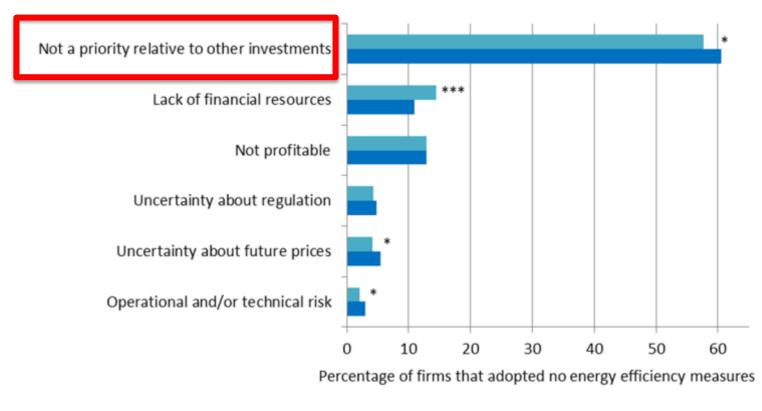
Examples of pure green investments: Green energy generation on site, energy management, waste minimisation, recycling and waste management, pollution control measures, water



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



SME (<100 employees)</p>

Large (100+ employees)

TRANSITION REPORT 2019-20
BETTER GOVERNANCE,
BETTER ECONOMIESSource: EBRD-EIB-WBG Enterprise Surveys and authors' calculations. *** denotes statistically significant difference
between average answers by smaller and larger firms.





- 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?