



OESTERREICHISCHE NATIONALBANK

EUROSYSTEM

Discussion of the World Bank Group's

Falling Long-Term Growth Prospects: Trends, Expectations, and Policies

Presented by Franziska Ohnsorge

Vienna, June 13 2023

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Food for discussion

1. A word of caution on potential growth estimates
2. Focus: Boosting (de-)growth?
3. Focus: Robust investment (bill)?
4. Focus: Neglected aspect of aging?
5. Focus: Closing the circle in CESEE

“The good news is that addressing these priorities [

- eliminating extreme poverty,
- reducing inequality,
- **boosting growth** or
- combating climate change]

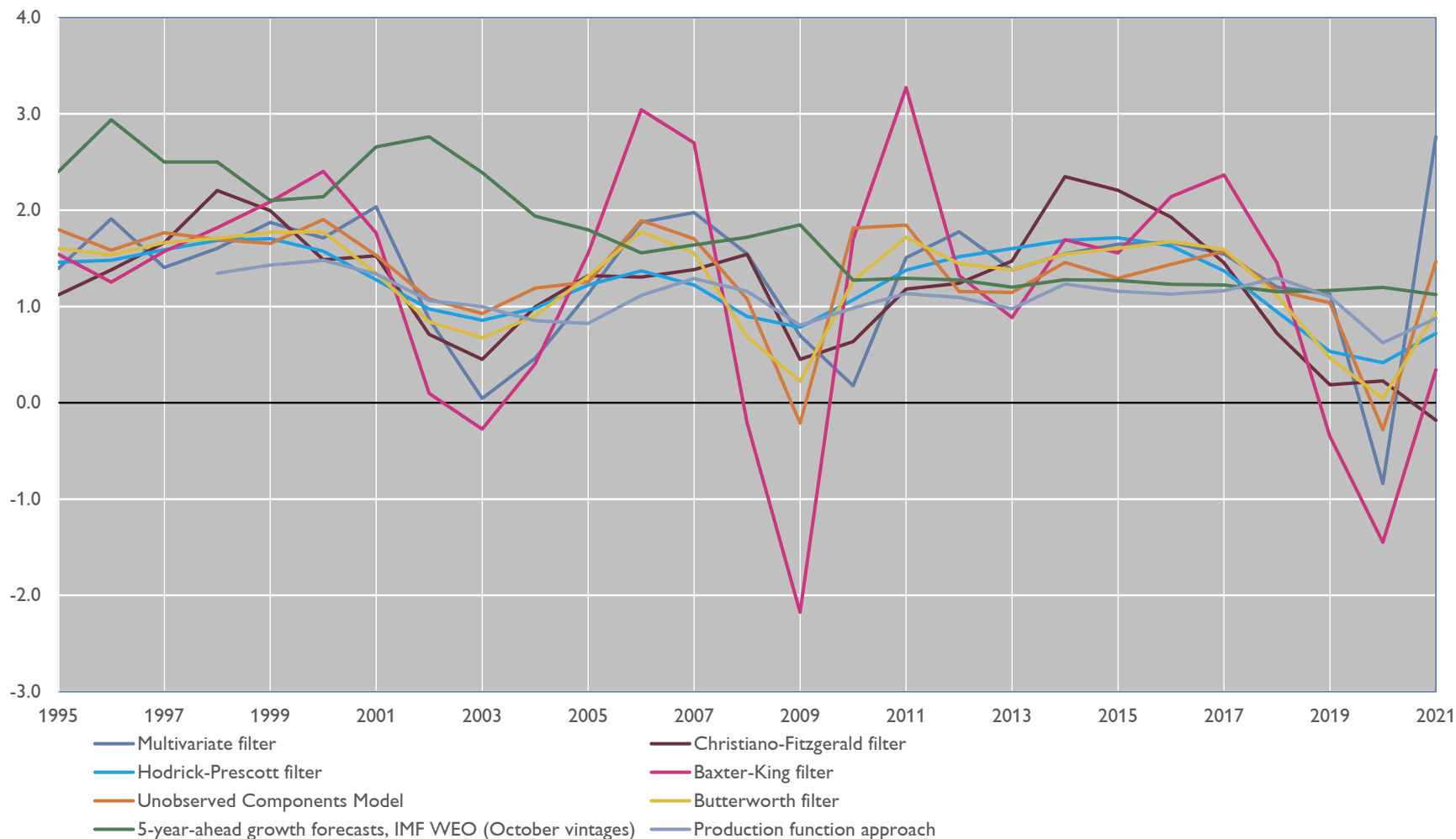
requires the same recipe: sustained and **robust investment** and **productivity growth.**’

Source: Kose & Ohnsorge 2023, p. o.4

WB database provides a large variety of potential GDP growth estimates...

Potential GDP growth estimates: Germany

%, p.p. (std.)

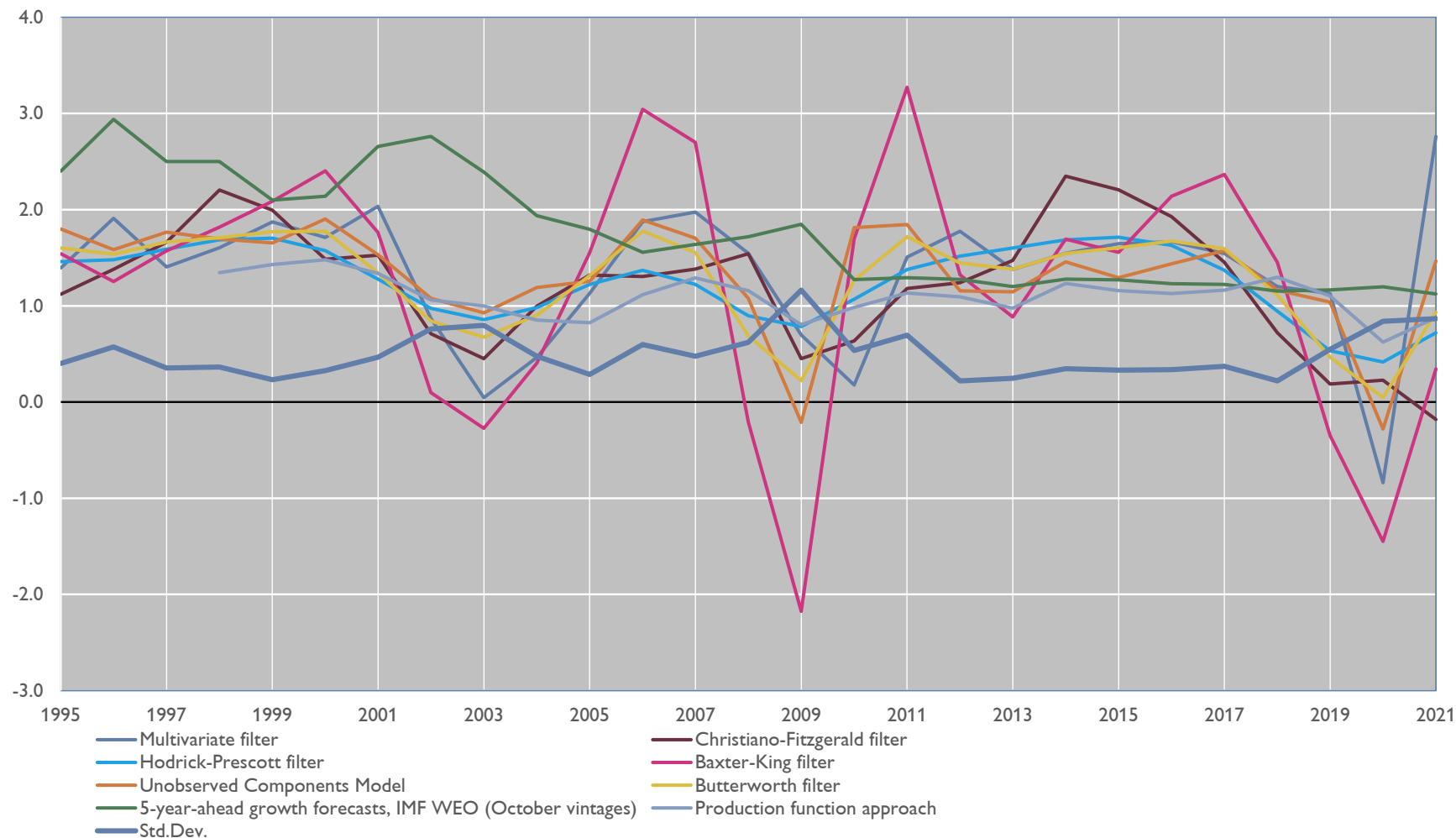


Source: World Bank Potential growth database.

...more or less homogeneous over time

Potential GDP growth estimates: Germany

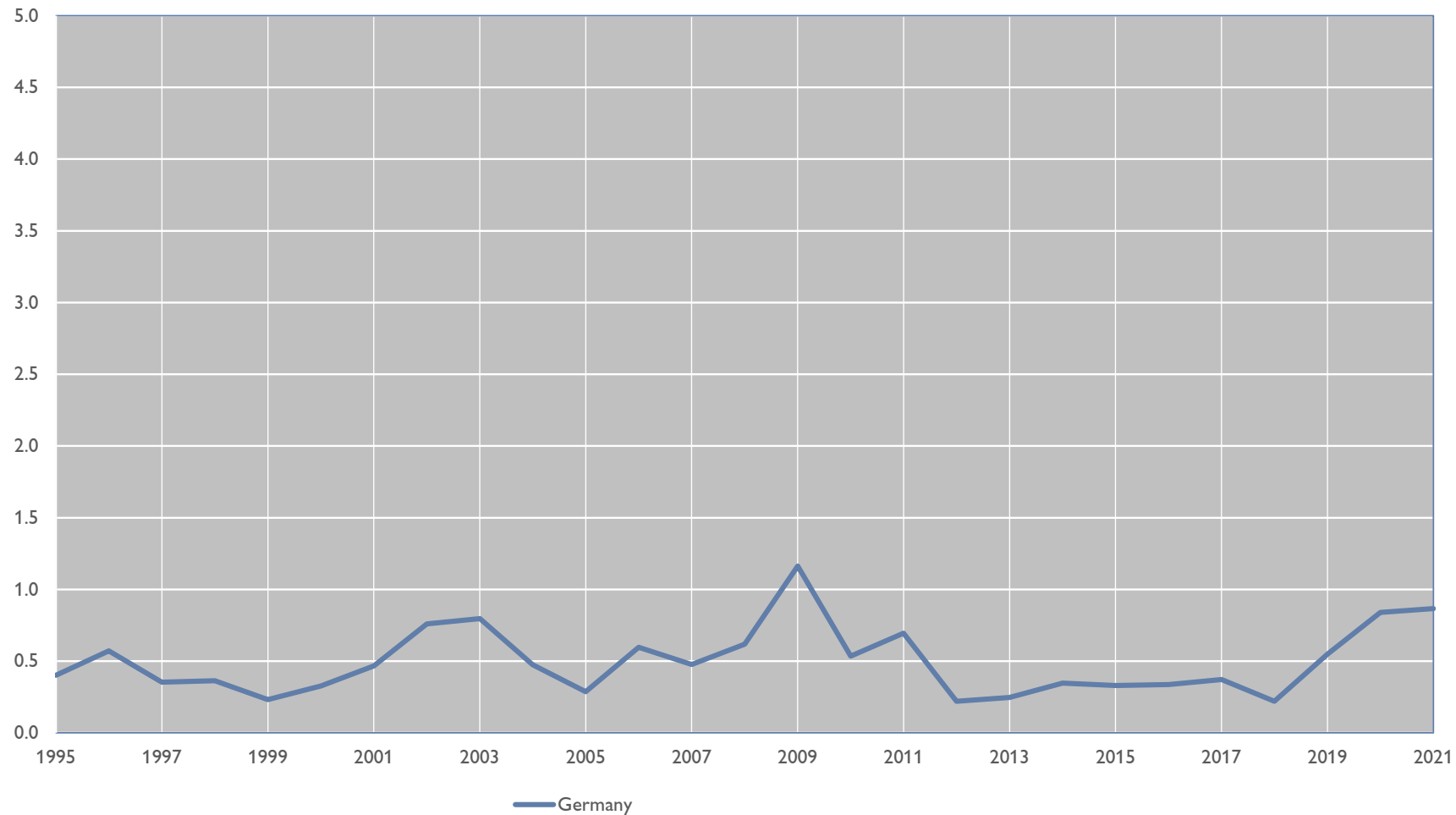
%, p.p. (std.)



Dispersion rises especially in crisis episodes

Standard deviation of available potential growth estimates in CESEE

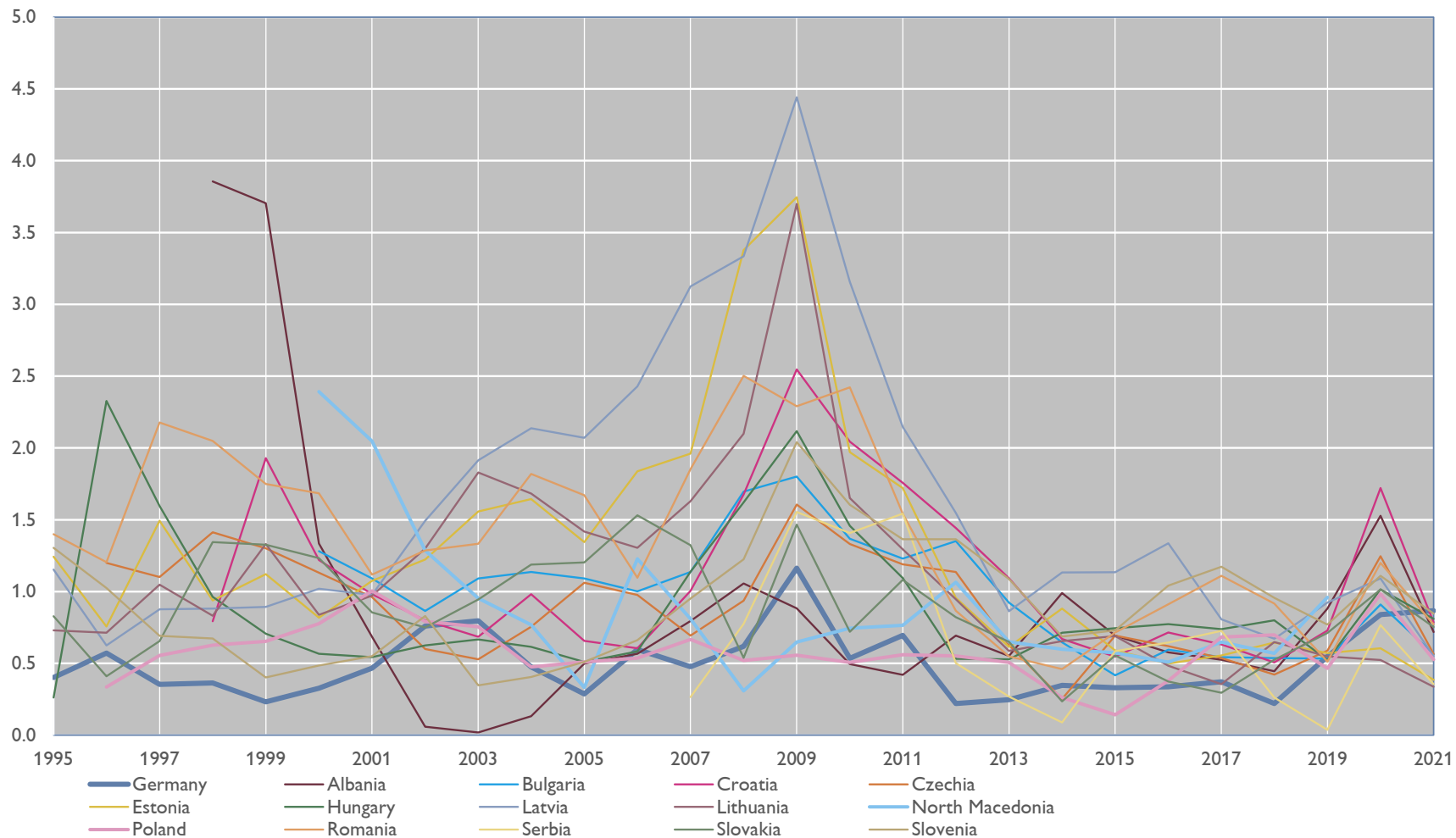
Percentages points



CESEE countries in particular require a well-considered indicator choice...

Standard deviation of available potential growth estimates in CESEE

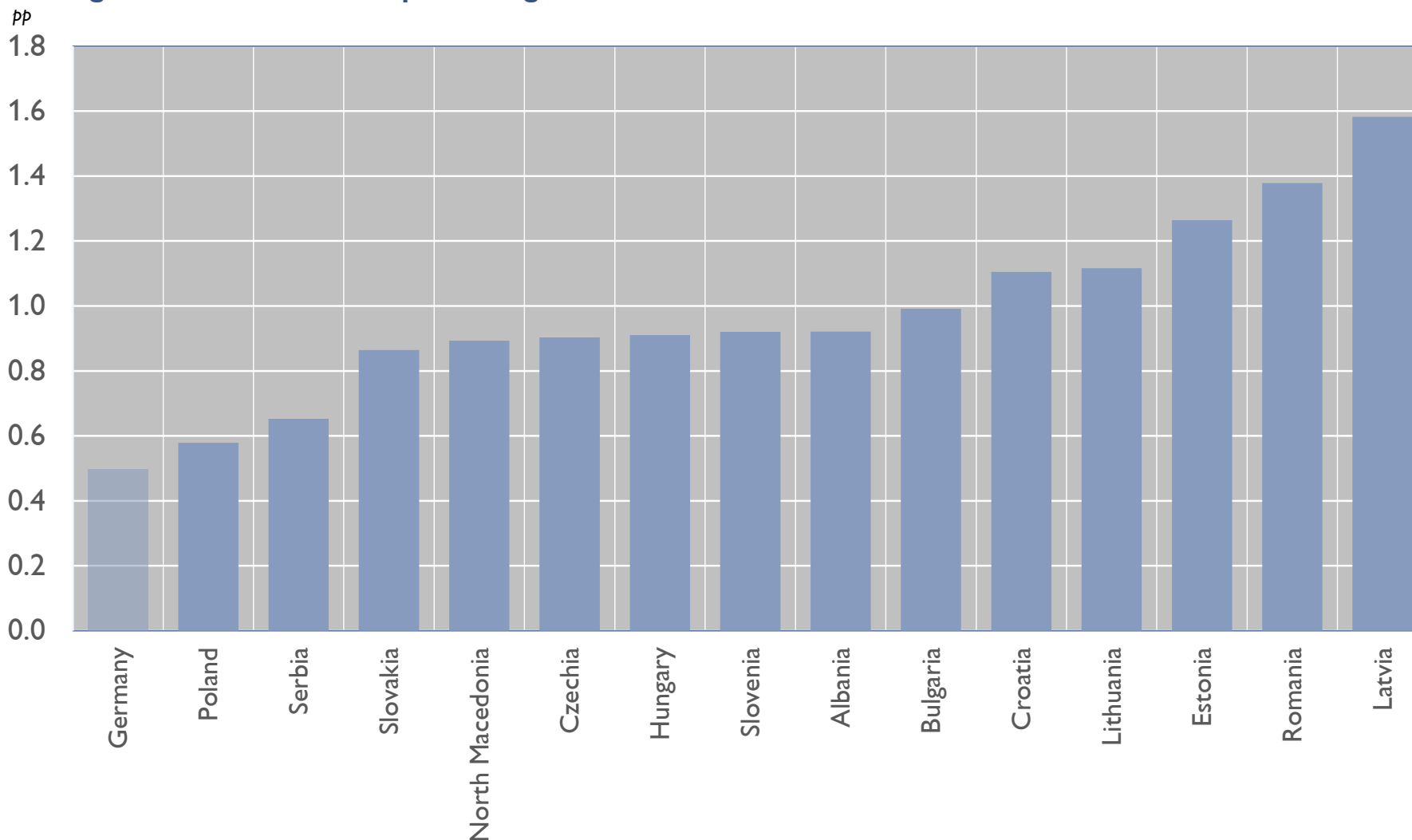
Percentages points



Source: own calculations based on WB's Potential growth database.

...due to a wide range of potential growth estimates for most CESEE

Average standard deviation of potential growth estimates



Squaring the circle? Degrowth or decoupling?

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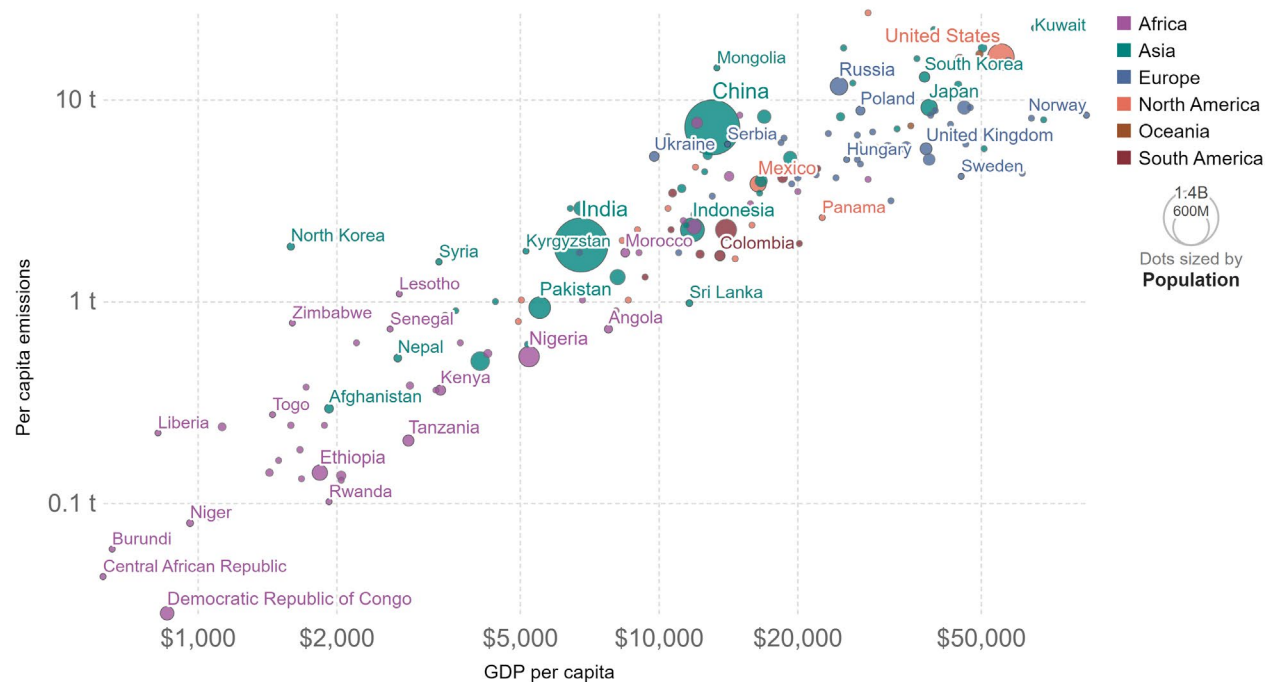


Source: Kose & Ohnsorge 2023, p. o.4

Squaring the circle? Degrowth or decoupling?

CO₂ emissions per capita vs GDP per capita, 2018

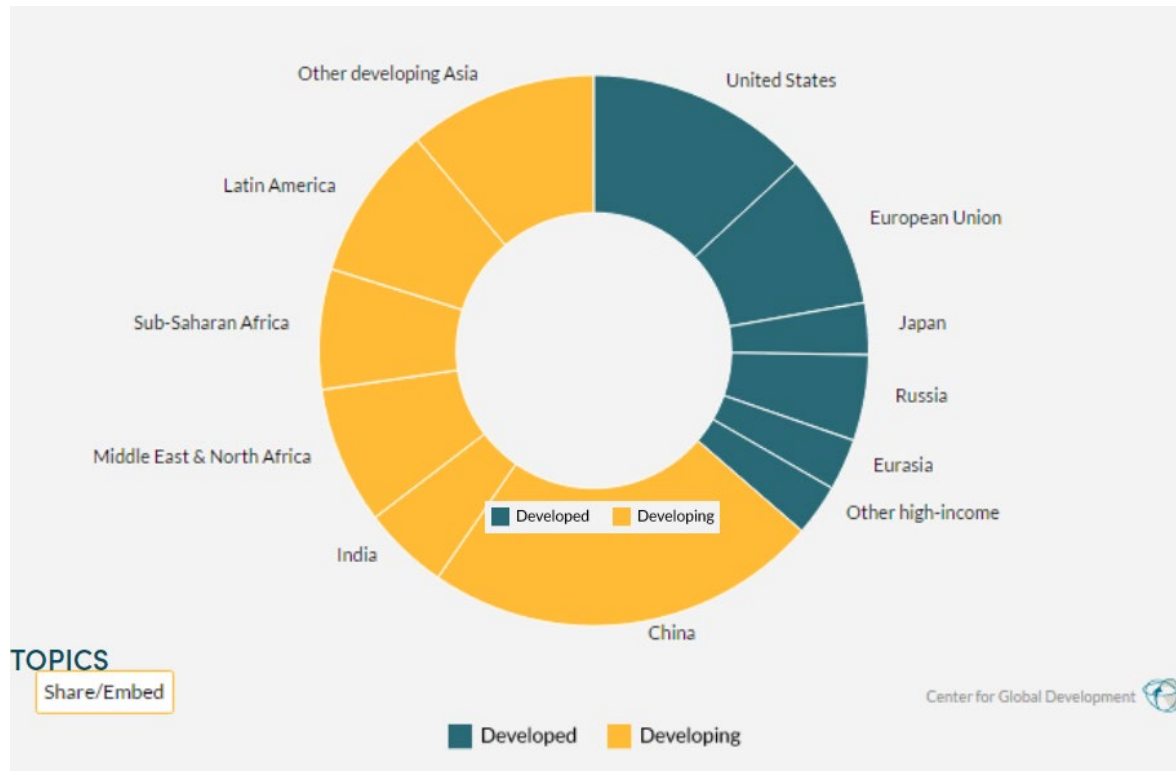
This measures CO₂ emissions from fossil fuels and industry¹ only – land use change is not included.



Source: Our World in Data based on the Global Carbon Project; Maddison Project Database 2020 (Bolt and van Zanden, 2020)
 Note: GDP figures are adjusted for inflation.
 OurWorldInData.org/co2-and-greenhouse-gas-emissions • CC BY

1. Fossil emissions: Fossil emissions measure the quantity of carbon dioxide (CO₂) emitted from the burning of fossil fuels, and directly from industrial processes such as cement and steel production. Fossil CO₂ includes emissions from coal, oil, gas, flaring, cement, steel, and other industrial processes. Fossil emissions do not include land use change, deforestation, soils, or vegetation.

Worldwide distribution of CO₂ emissions

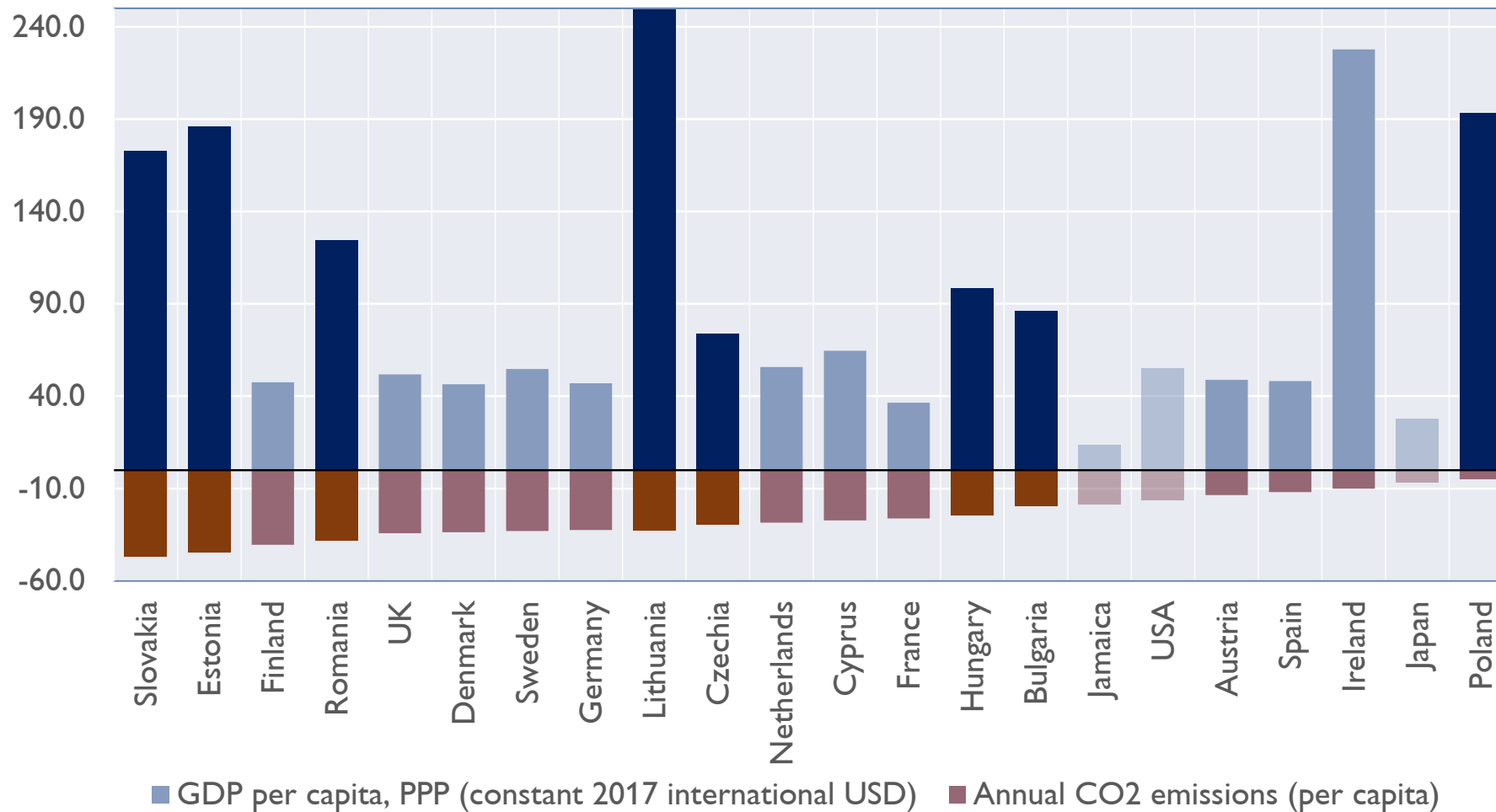


Source: Center for Global Development
<https://www.cgdev.org/media/developing-countries-are-responsible-63-percent-current-carbon-emissions>

Some good examples of decoupling in the past, several in CESEE

Decoupling of territorial CO2 emissions and GDP per capita growth: Change from 1990 to 2019

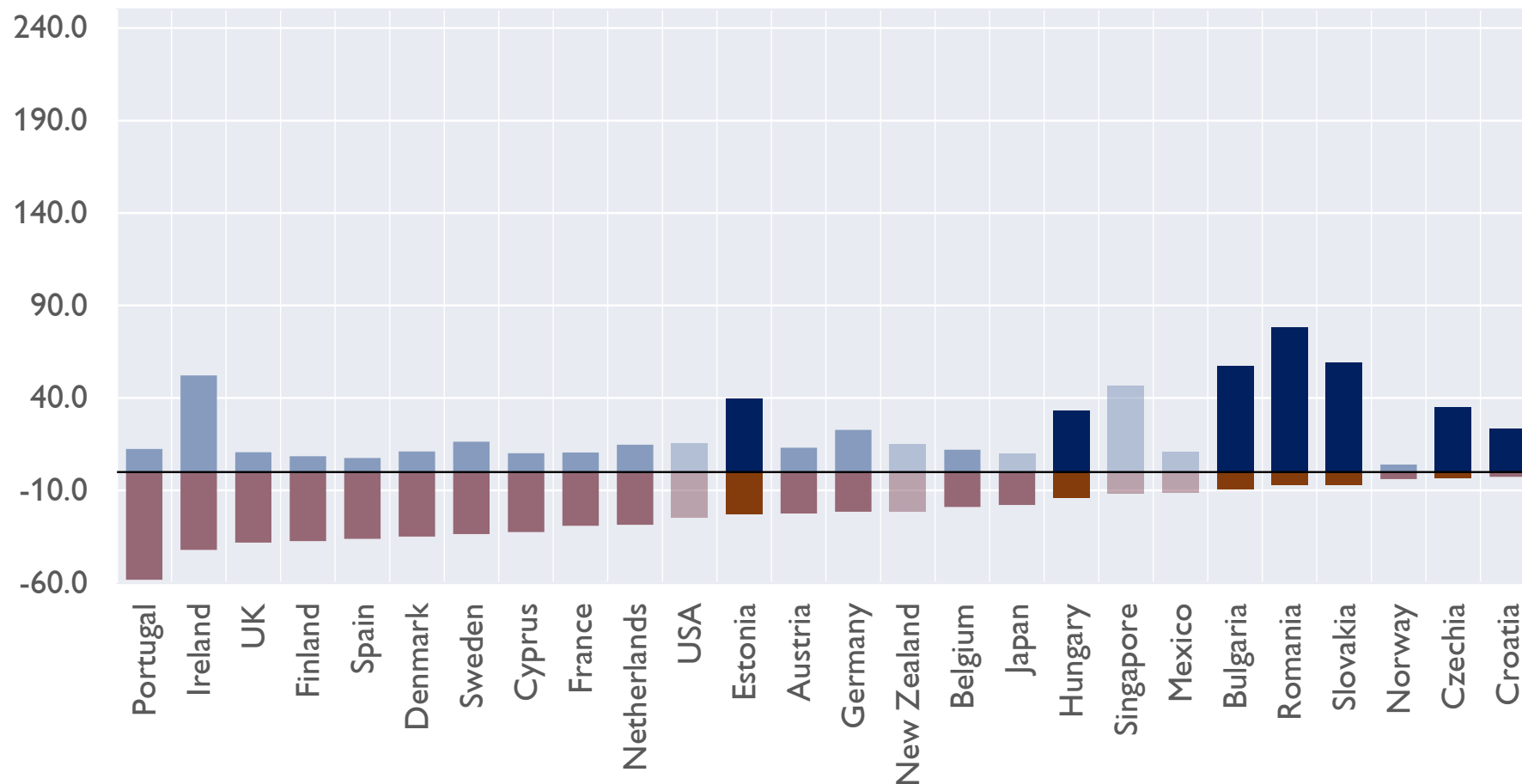
% change between 1990 and 2019



But is it really a sustainable and imitable trend?

Decoupling of territorial CO2 emissions and GDP per capita growth: Change from 2005 to 2019

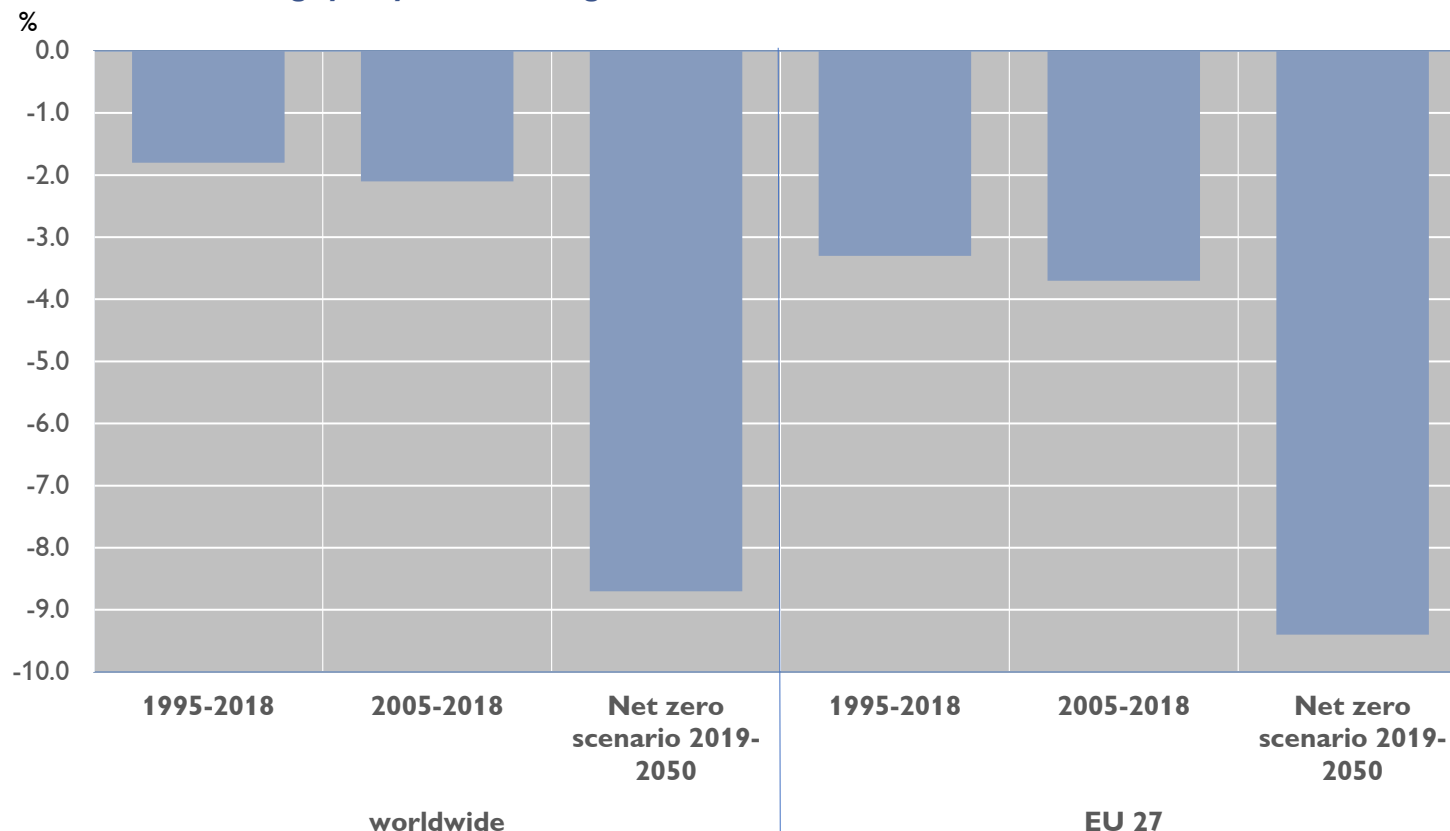
% change between 2005 and 2019



A Herculean task or where will the seams burst?

$$CO_2 \text{ emissions} = \text{population} * \frac{GDP}{\text{population}} * \frac{\text{energy demand}}{GDP} * \frac{CO_2 \text{ emissions}}{\text{energy demand}}$$

CO₂/real GDP, average yearly rates of change worldwide and in the EU 27

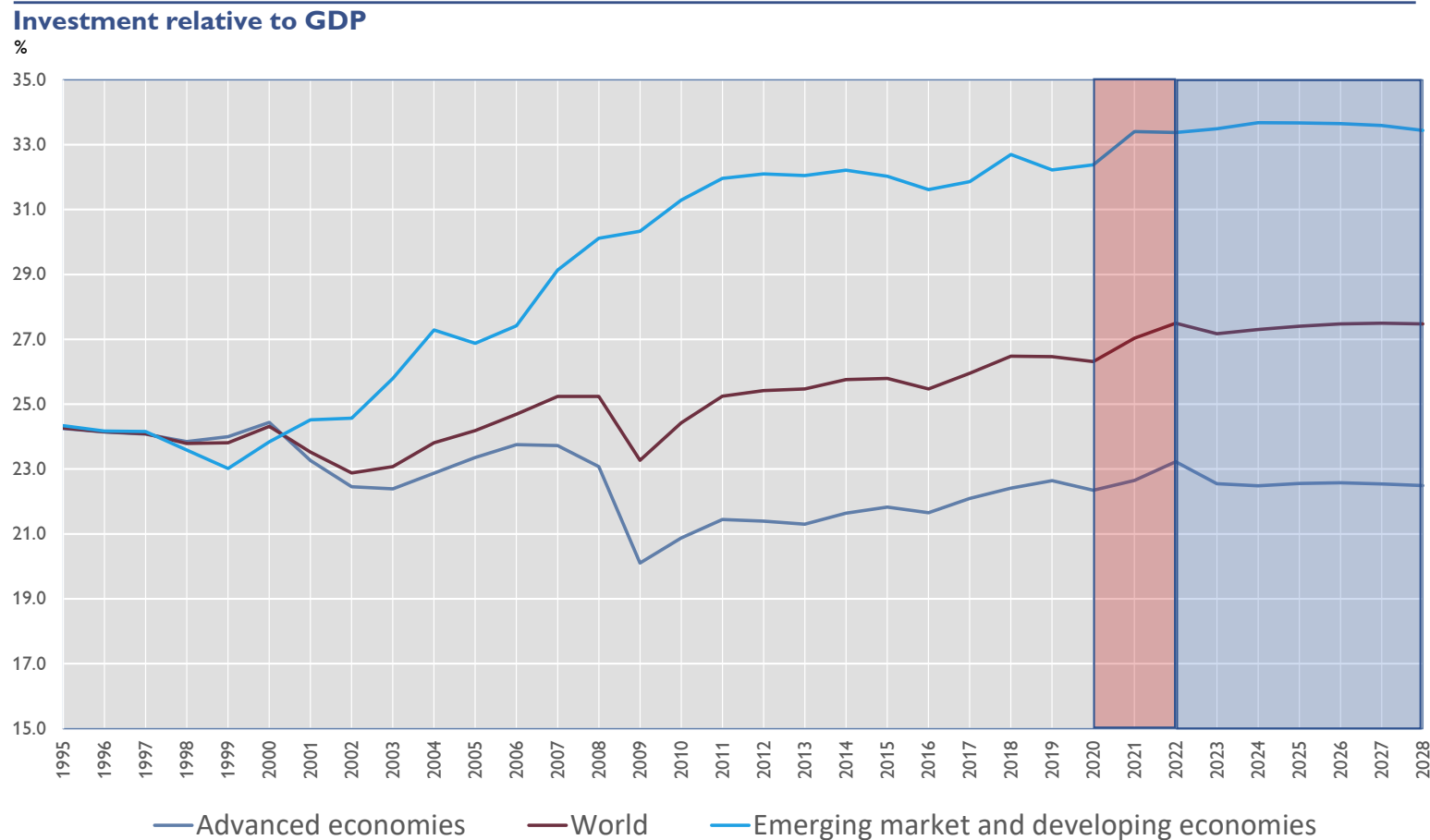


Robust investment? The air seems out of the post pandemic investment balloon

“The good news is that addressing these priorities [

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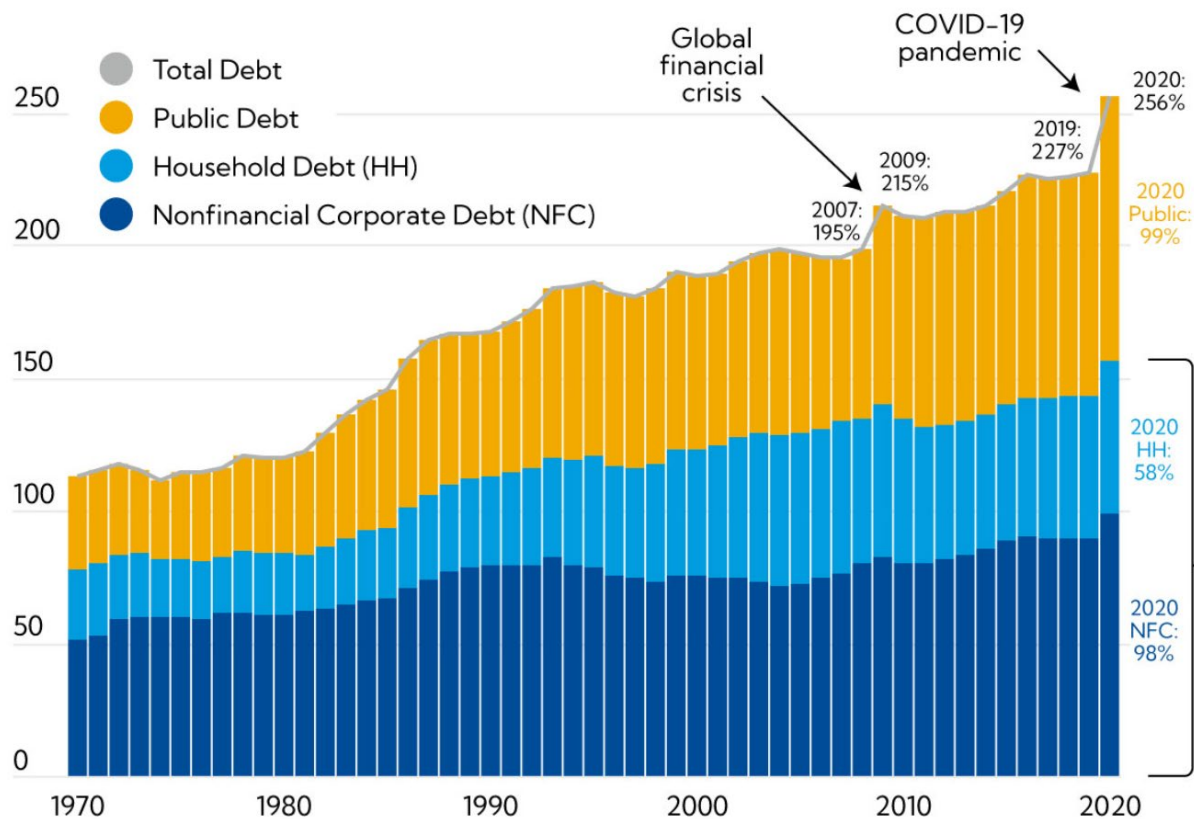


Source: IMF WEO.

Source: Kose & Ohnsorge 2023, p. o.4

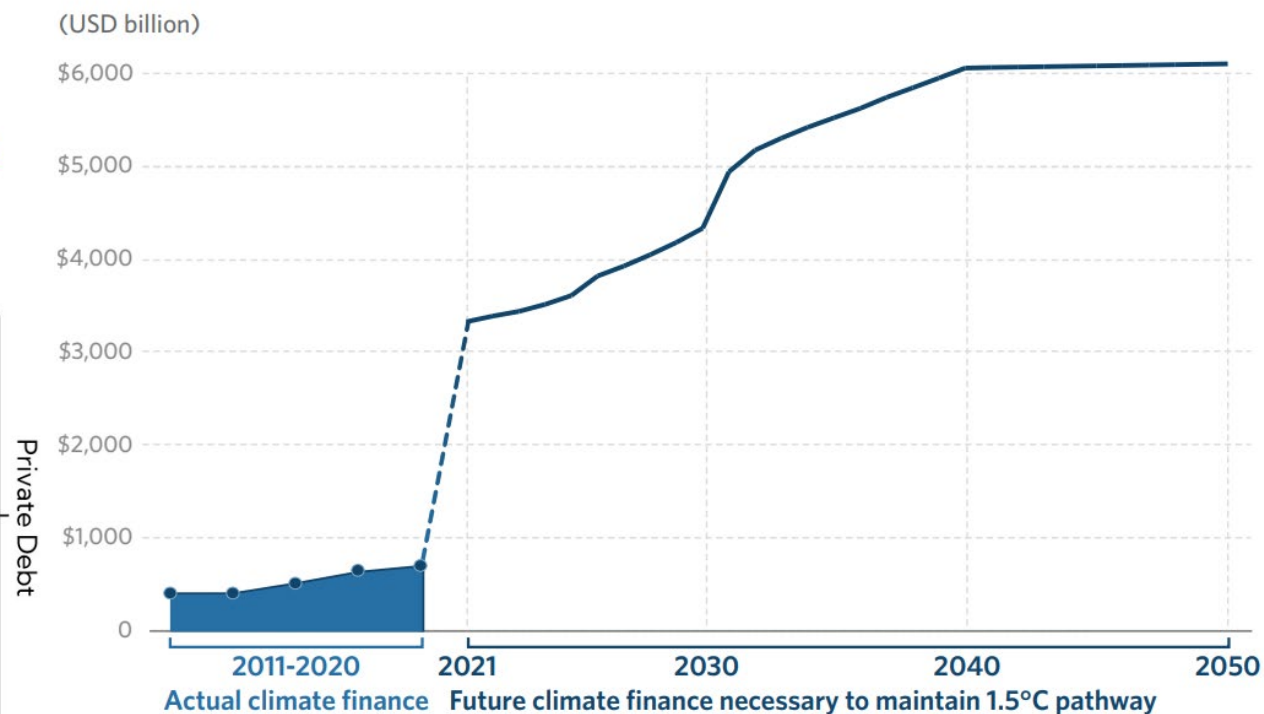
Who will finance the (climate) investment needs?

Global debt at record high (% of GDP)...



Source: IMF
[Global Debt Reaches a Record \\$226 Trillion \(imf.org\)](https://www.imf.org/en/press/2021/04/29/global-debt-reaches-a-record-226-trillion)

...yet climate finance flows nowhere near estimated investment needs



Source: IMF
[Global Debt Reaches a Record \\$226 Trillion \(imf.org\)](https://www.imf.org/en/press/2021/04/29/global-debt-reaches-a-record-226-trillion)

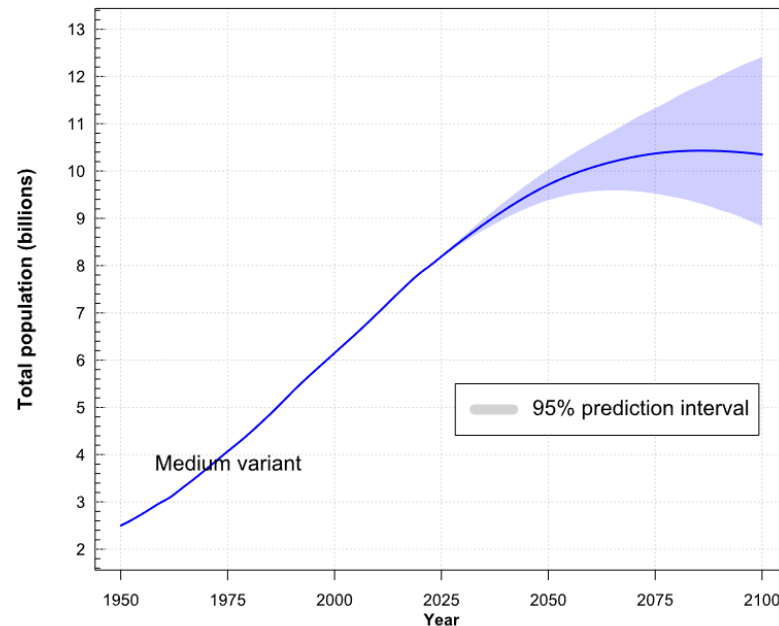
Productivity growth? One neglected aspect of the aging world

“The good news is that addressing these priorities [

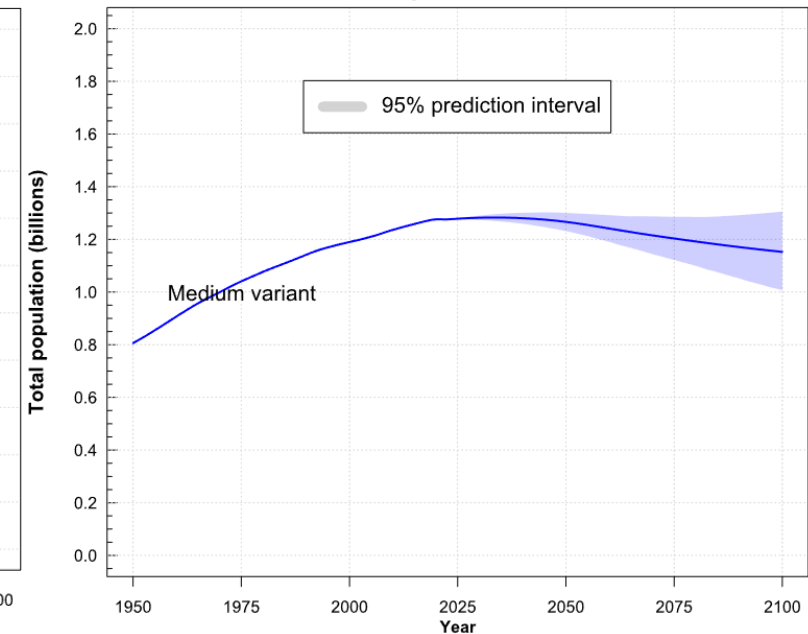
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Population projections
World



More developed regions



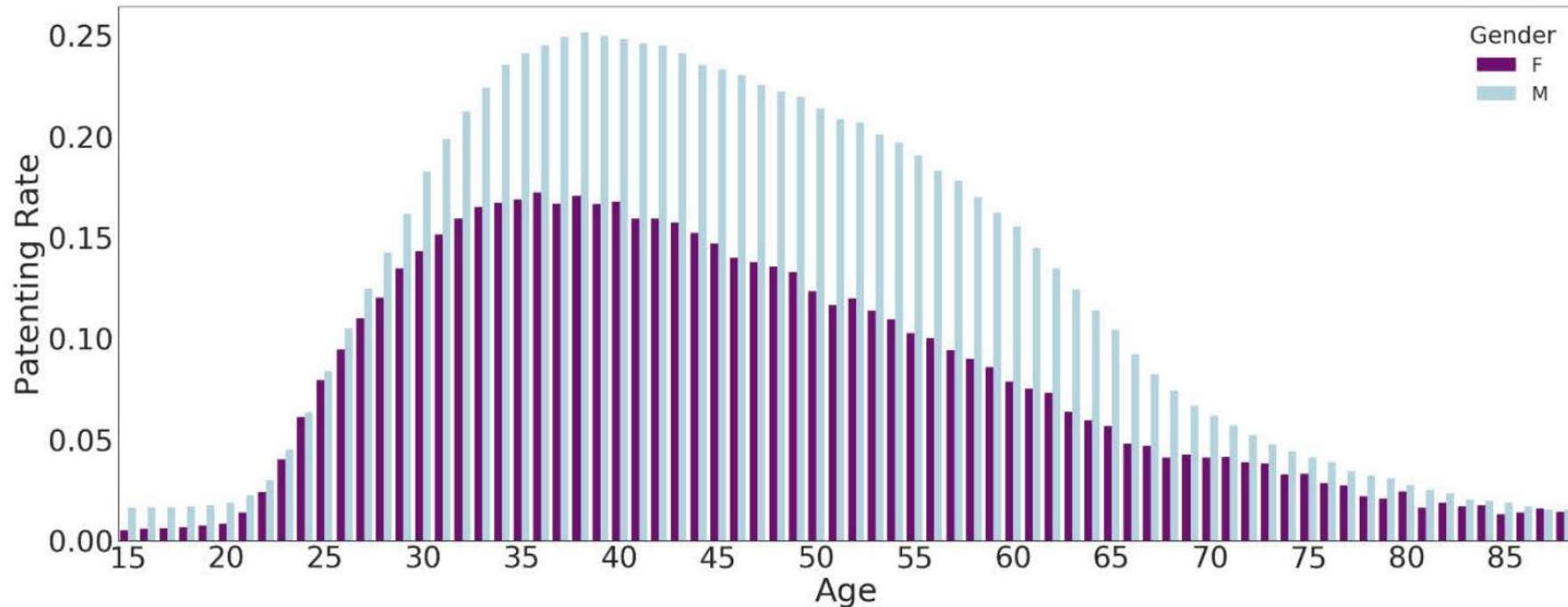
Source: UN, Population Division

[World Population Prospects - Population Division - United Nations](#)

Source: Kose & Ohnsorge 2023, p. o.4

Creative destruction much less likely in greying societies?

Patenting activity by age and gender (normalized patents per year per inventor)

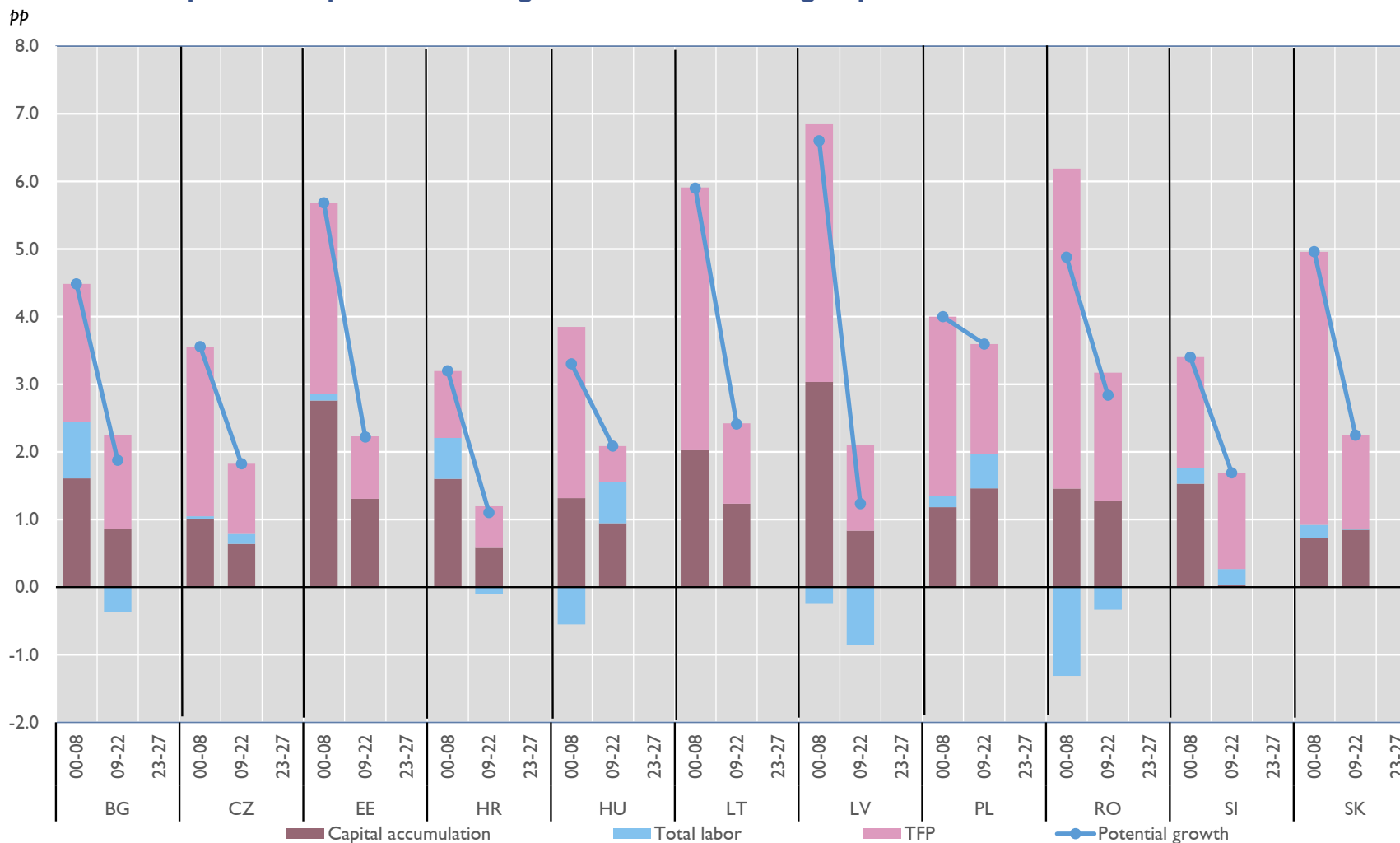


Note: the databases comprises approximately 1.2 million U.S.-resident inventors patenting between 1976 and 2017
 Source: Kaltenberg et al (2021)
[w28769.pdf \(nber.org\)](https://www.nber.org/papers/w28769)

- People’s creative thinking peaks in their late 30s/early 40s
- Yet young people much more likely to come up with „disruptive inventions“, i.e completely novel and discipline-changing

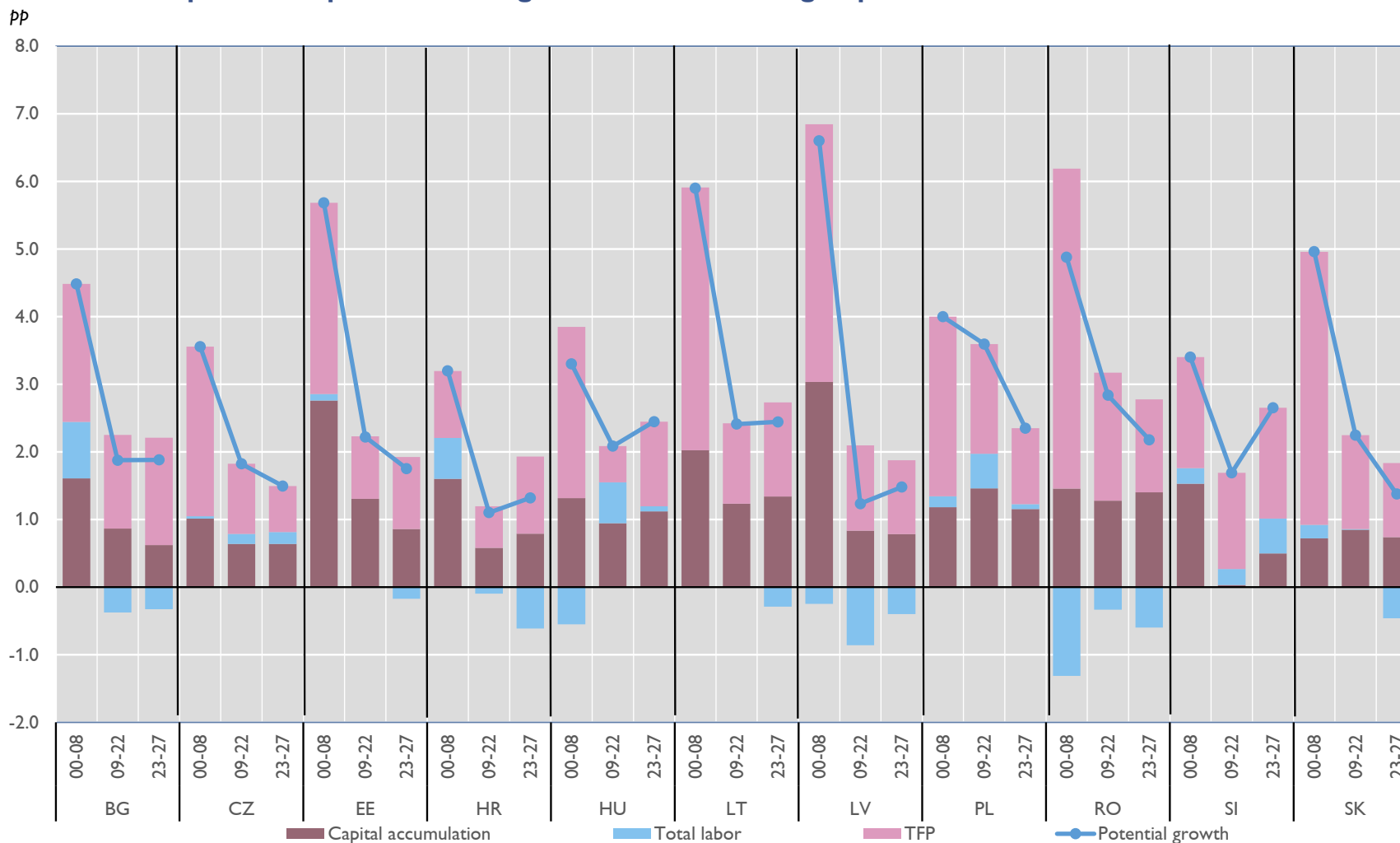
Case in point - CESEE: marked slowdown in potential GDP growth mainly due to TFP...

Factor decomposition of potential GDP growth in a Cobb-Douglas-production function framework



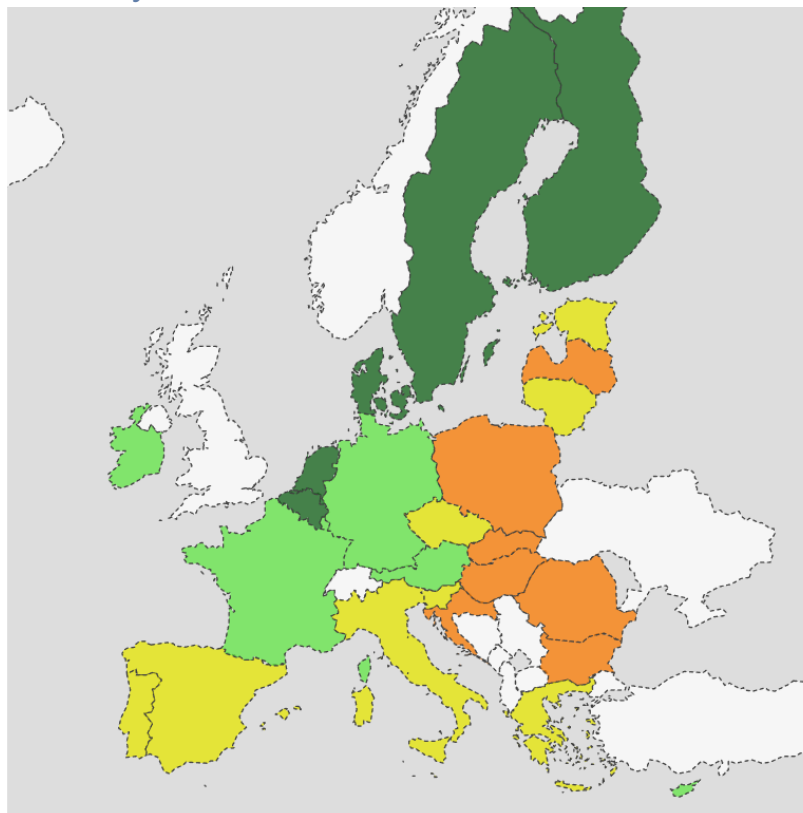
...no reason for exuberant optimism in the near future

Factor decomposition of potential GDP growth in a Cobb-Douglas-production function framework



CESEE lagging behind in terms of innovation...

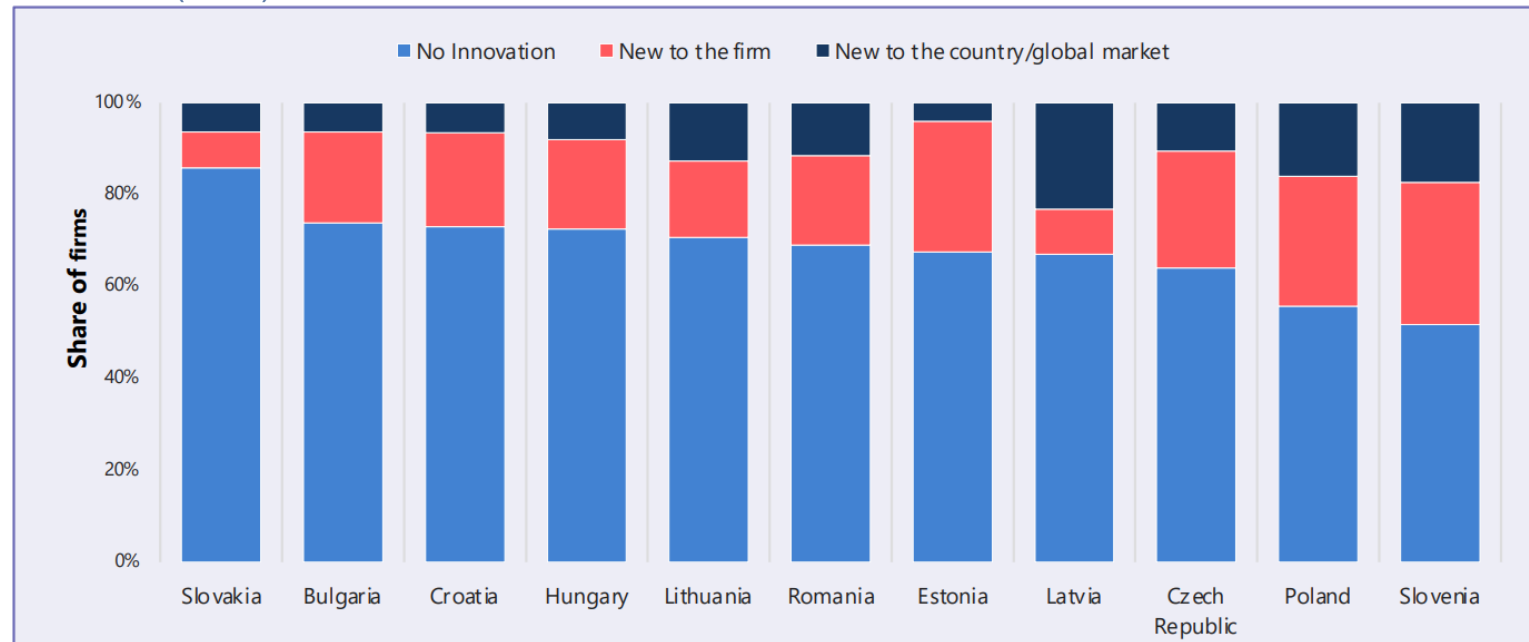
Summary innovation index



Legend:
■ Innovation leader
■ Strong innovator
■ Moderate innovator
■ Emerging innovator

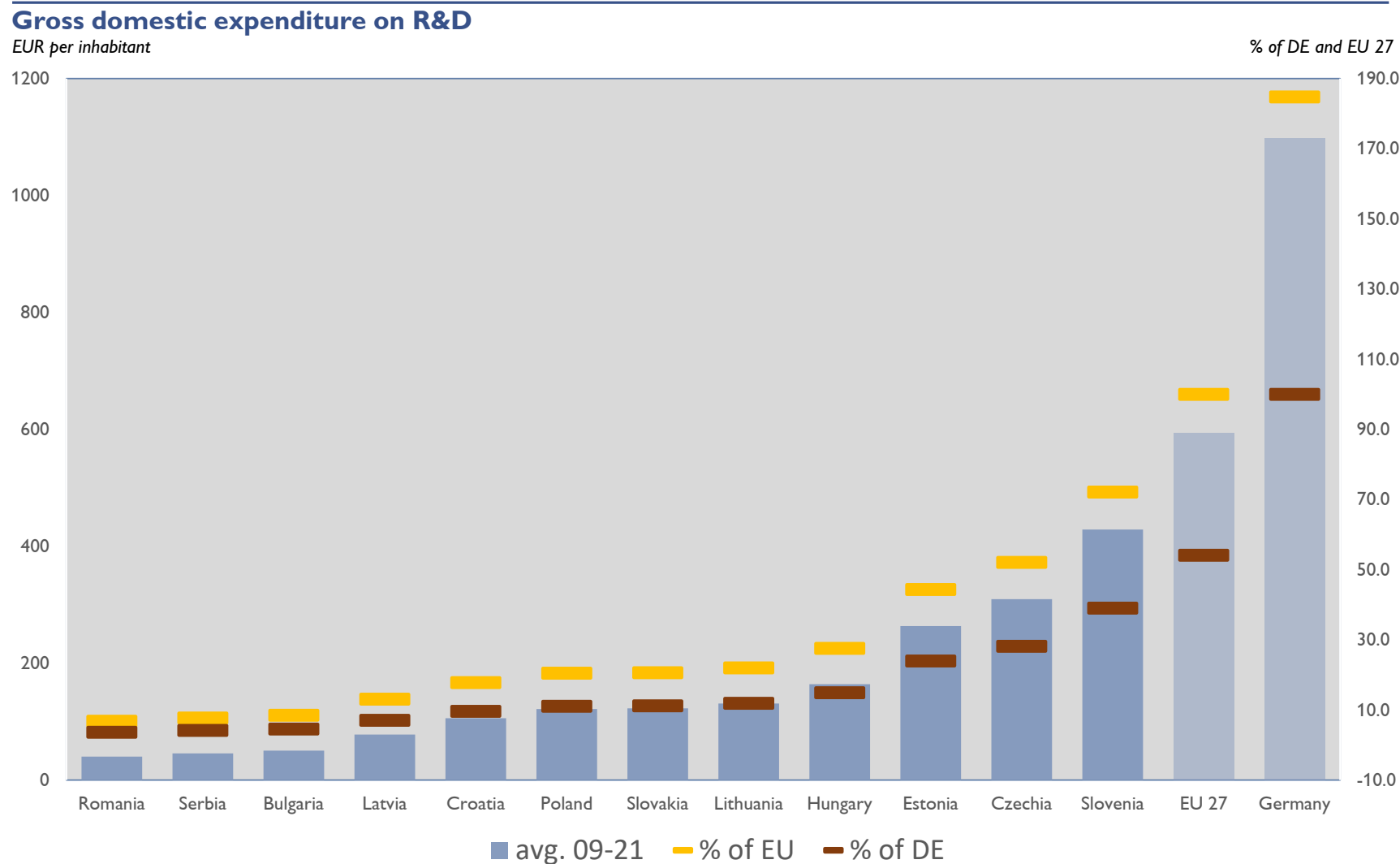
Source: European Innovation Scoreboard 2022

Share of (non-)innovative firms in CESEE

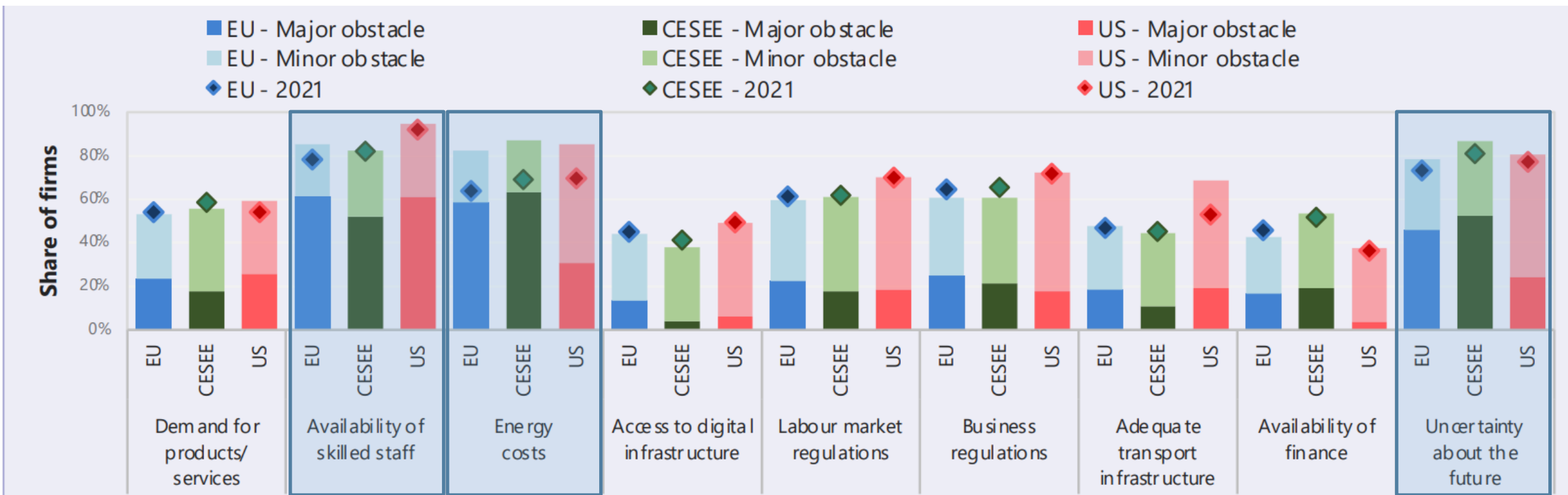


Source: EIB Investment Survey 2022

One crucial reason: low investment in intangible assets



Long-term barriers to investment



Source: EIB Investment Survey 2022

...and here the circle closes

Policy Priorities

Policies to Improve Potential Growth

Structural policies

- Accelerate investment growth, including for green projects; upgrade investment climate and implement institutional reforms to facilitate private investment and attract FDI
- Implement education and health reforms to improve human capital
- Reform policies to increase female labor force participation
- Reduce cross-border trade costs, including through trade facilitation
- Support the diffusion of digital technologies by investing in ICT infrastructure and updating regulatory frameworks

Macroeconomic and financial policies

- Establish and maintain transparent and rules-based macroeconomic and financial policy frameworks
- Implement fiscal rules and medium-term budget frameworks to ensure fiscal sustainability
- Set up frameworks to undertake pro-active financial sector regulation and supervision

Global cooperation

- Accelerate progress towards the goals of the Paris Agreement
- Promote a rules-based and open trade, finance, and investment climate
- Expand financing and build capacity to promote growth in low-income countries

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Thank you for your attention

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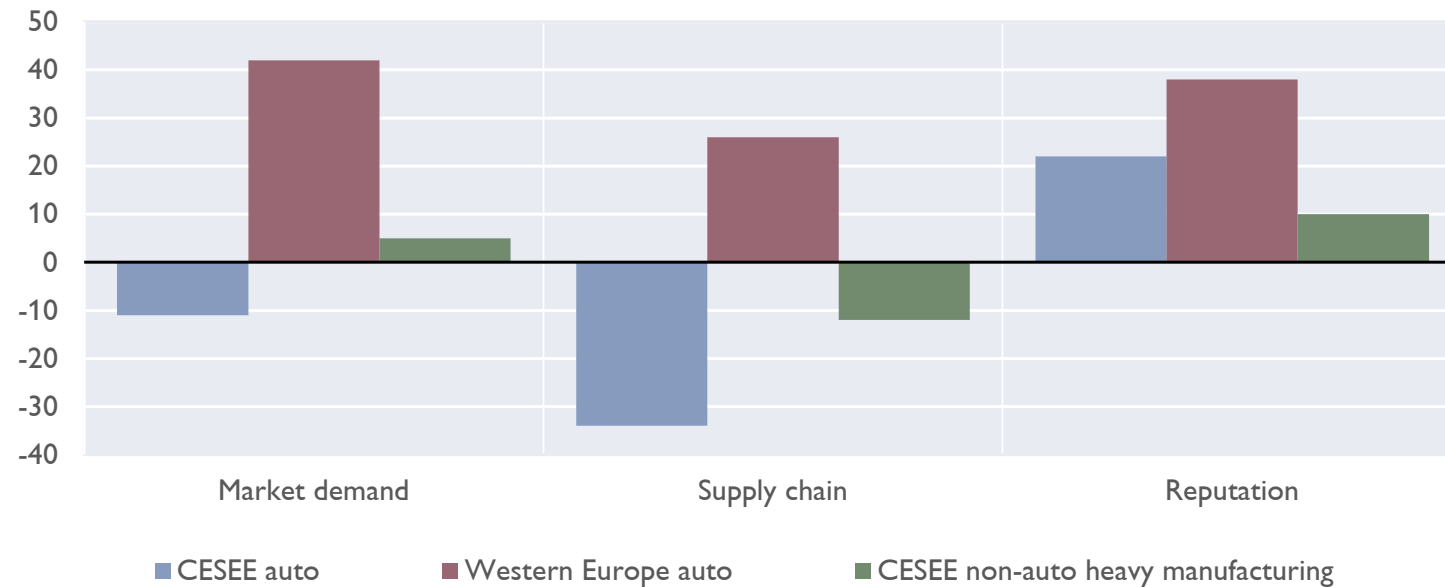
 [OeNB](https://www.youtube.com/OeNB)



CESEE firms, especially automotive, perceive the green transition rather as a risk

Impact of climate transition over the next five years

(balance positive answers net of negative)



Q58: What impact, if any, will this transition to a reduction in carbon emissions have on the following aspects of your business over the next five years?

Notes: Shown are balances: share of responses "positive impact" net of share of responses "negative impact", in per cent.

Source: EIBIS, 2020.