Discussion of the World Bank Group’s
Falling Long-Term Growth Prospects:
Trends, Expectations, and Policies
Presented by Franziska Ohnsorge

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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. 0.4
WB database provides a large variety of potential GDP growth estimates…

**Potential GDP growth estimates: Germany**

% p.p. (std.)

...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

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

Source: own calculations based on WB's Potential growth database.
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Source: Kose & Ohnsorge 2023, p. 0.4
Squaring the circle? Degrowth or decoupling?

CO₂ emissions per capita vs GDP per capita, 2018

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

Worldwide distribution of CO₂ emissions

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, firing, cement, steel, and other industrial processes. Fossil emissions do not include land use change, deforestation, soils, or vegetation.

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

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

Source: OWID.
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

Source: OWID.
A Herculean task or where will the seams burst?

\[ CO_2 \text{ emissions} = \text{population} \times \frac{\text{GDP}}{\text{population}} \times \frac{\text{energy demand}}{\text{GDP}} \times \text{CO}_2 \text{ emissions} \]

CO\(_2\)/real GDP, average yearly rates of change worldwide and in the EU 27

Source: Bruegel.
Robust investment? The air seems out of the post pandemic investment balloon

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Source: Kose & Ohnsorge 2023, p. o.4
Who will finance the (climate) investment needs?

Global debt at record high (% of GDP)…

…yet climate finance flows nowhere near estimated investment needs

Source: IMF
Global Debt Reaches a Record $226 Trillion (imf.org)

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

Population projections
World

More developed regions

Source: UN, Population Division
World Population Prospects - Population Division - United Nations
Creative destruction much less likely in greying societies?

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

- 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

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)
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

Source: EC
…no reason for exuberant optimism in the near future

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

Source: EC
CESEE lagging behind in terms of innovation...

Summary innovation index

Share of (non-)innovative firms in CESEE

Source: European Innovation Scoreboard 2022

Source: EIB Investment Survey 2022
One crucial reason: low investment in intangible assets

Source: ESI 2022

Source: Eurostat.
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
Thank you for your attention

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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.