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, % of G7

Source: WB World Development Indicators, IMF WEO and author’s calculations. RHS chart: unweighted average of 9 economies.
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.

Source: World Development Indicators and authors' calculations.
Rapid market liberalisation reforms in the 1990s

Average transition indicator, 1 to 4.33 scale

Source: EBRD Transition Indicators and authors’ calculations.
It took 25 years to close the “happiness gap” with comparable economies.
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

Cumulative contraction in real GDP during the transition recession

Source: National authorities, IMF and EBRD calculations.
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)

Source: Adsera et al. (2019) and EBRD calculations.
Uneven distribution of gains from transition

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

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
(National average=100)

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
(Per cent)

Notes: 2000-2015 data for Croatia, Greece, Latvia, Lithuania, Poland and Germany.
Challenges:
Demographics and emigration
Getting old before getting rich

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 → 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

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 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 |
|---|---|---|
| Russia | Ukraine | Poland |
| Afghanistan | Kazakhstan | Estonia |
| Georgia | Estonia | Tajikistan |
| Georgie | Uzbekistan | Azerbaijan |
| Russia | Uzbekistan | Armenia |
| Georgia | Tajikistan | Berne |
| Georgia | Tajikistan | Greece |
| Georgia | Tajikistan | Greece |

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.

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

Sources: Liveable Cities Report (2019). World Bank City Database and authors’ calculations.
Challenges:
Finding new sources of growth
Growth has been relatively ‘innovation-light’

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

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

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

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
Investment in energy efficiency is not viewed as a priority

Reasons for not adopting energy efficiency measures vary

- Not a priority relative to other investments
- Lack of financial resources
- Not profitable
- Uncertainty about regulation
- Uncertainty about future prices
- Operational and/or technical risk

Source: EBRD-EIB-WBG Enterprise Surveys and authors’ calculations. *** denotes statistically significant difference between average answers by smaller and larger firms.
Conclusions

- 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?