Growth in the Central and Eastern European Countries of the European Union

Susan Schadler, Ashoka Mody, Abdul Abiad, and Daniel Leigh

Contents

Pref	face	vii
Abb	previations	viii
ı	Overview	1
II	Scope of the Study	4
Ш	The Record: Enduring Strengths or a Bounce Back?	6
IV	Growth Scenarios: Possible Paths for the Catch-Up	14
V	Policies and Long-Term Growth: What Can Be Learned from Other Countries?	18
	Lessons from Large Sample Studies of Long-Term Growth Updated Estimates of Growth Determinants Interpreting the Strengths and Weaknesses of the CEECs Trends and Prospects	18 20 23 24
VI	European Integration: Opportunities for Growth	27
VII	Implications for IMF Surveillance	35
	Labor Absorption Closing the Productivity Gap Use of Foreign Savings Euro Adoption	35 35 37 37
App	pendix. Growth Regressions and Data Description	39
References		51
	ncluding Remarks by the Acting Chair, Executive Board Seminar, February 27, 2006	53
Вох	es	
	3.1. Compositional Shifts in Output: Implications for Productivity Growth5.1. Measuring Institutional Quality in the CEECs6.1. International Financial Linkages and Growth	10 22 28
Fig	ures	
	2.1. Macroeconomic Trends in the CEECs, 1990-20043.1. Emerging Market Economies: Growth in Real PPP GDP Per Capita, 1990-2004	5 7

3.2.	CEECs and Other Emerging Market Regions: Growth in Real	
	Per Capita GDP	8
3.3.	Employment Rates in the CEECs	8
	Contributions to Average GDP Growth	9
	Employment and Activity Rates in Emerging Market Economies, 2004	12
3.6.	Investment and Growth in Emerging Market Economies, 2000-04	12
3.7.	Savings and Investment Rates in Emerging Market Economies, 2004	13
5.1.	Global Sample: Institutional Quality and the Speed of Convergence	21
5.2.	Emerging Market Economies: Actual and Predicted Per Capita GDP	
	Growth, 2000-04	23
5.3.	CEECs: Actual and Predicted Per Capita GDP Growth, 2000-04	23
5.4.	Per Capita GDP Growth in the CE-5 and Baltic Countries Relative	
	to Other Emerging Market Regions, 2000-04	24
5.5.	CEECs: Predicted Per Capita GDP Growth, 2005-09	26
	European Union: Current Account Deficits and the Speed of	
	Convergence, 1960-2004	29
6.2.	CEECs: FDI and Non-FDI Financing of Current Account Deficit	30
	CEECs: Predicted Versus Actual Per Capita GDP Growth	31
	CEECs: Actual Versus Predicted Current Account Balance	32
	CEECs in 2005 and East Asia in 1996: Selected Vulnerability	
	Indicators	33
6.6.	The CEECs and East Asia: Selected Governance Indicators	34
	Fiscal Balance and Risk Ratings in Emerging Market Economies,	
,,,,,	1990-2002	36
7.2	CEECs: Foreign Currency Government Bond Spreads	37
A1.		31
111.	Growth, 2000-04	43
Δ2	CEECs: Actual and Predicted Per Capita Growth, 2000-04	43
A3.	<u> -</u>	73
713.	Union, 2000-04	48
	Cinon, 2000 01	10
Tables		
	CEECs: Convergence with Euro Area Income Per Capita	15
	Decomposing the Income Gap Between the Euro Area and the CEECs	15
4.3.	Scenario 1: Speeding Up Convergence in the CEECs Through	
	Higher Investment	16
4.4.	Scenario 2: Speeding Up Convergence in the CEECs Through	
	Higher Productivity Growth	16
	Growth Regression Estimates	21
	Evolution of Growth Determinants in the CEECs, 1989-2004	25
Al.	Global Sample of Economies	40
A2.	Growth Regressions with Core Controls, Using Different	
	Country Samples	41
A3.	Growth Regression Estimates	41
A4.	Growth Accounting Regressions	42
A5.		45
A6.	Baltic Countries: Decomposition of Growth Differences	46
A7.	Growth and Current Account Deficit Regressions	49
A8.		50

The following conventions are used in this publication:

- In tables, a blank cell indicates "not applicable," ellipsis points (...) indicate "not available," and 0 or 0.0 indicates "zero" or "negligible." Minor discrepancies between sums of constituent figures and totals are due to rounding.
- An en dash (-) between years or months (for example, 2005-06 or January-June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2005/06) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2006).
- "Billion" means a thousand million; "trillion" means a thousand billion.
- "Basis points" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to !4 of 1 percentage point).

As used in this publication, the term "country" does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.