

# **Catching-up – the fear of being left behind**

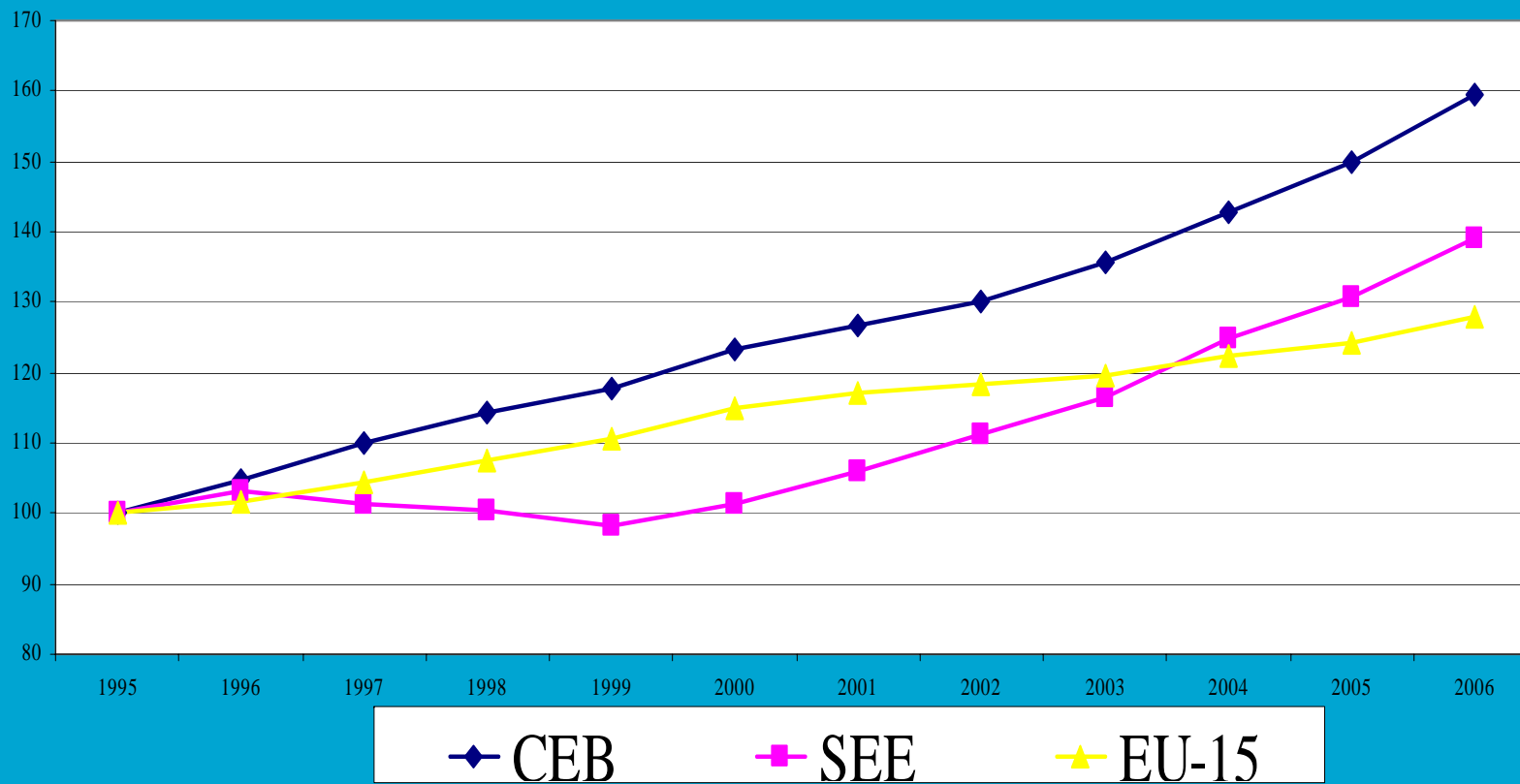
Brussels Economic Forum  
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Erik Berglof, Chief Economist, EBRD



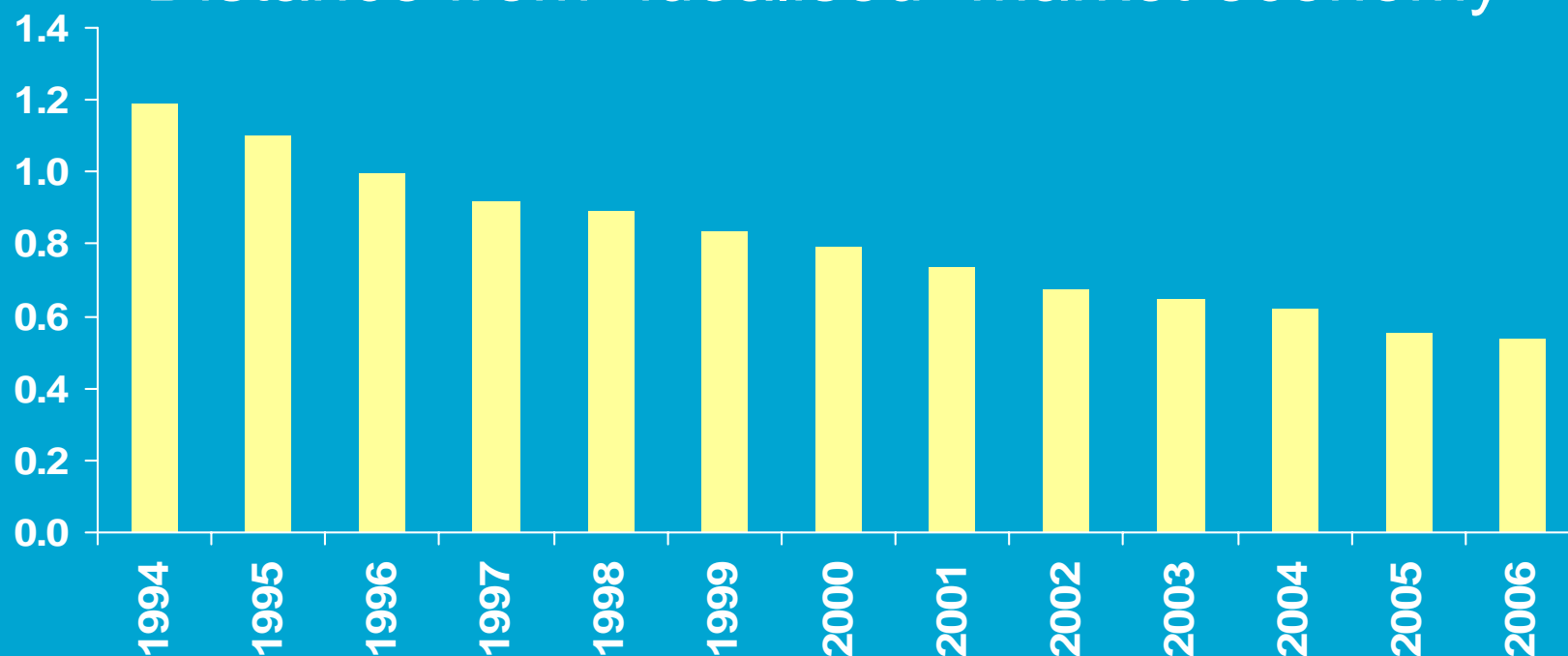
# Catch-Up Growth

Level of real GDP (1995=100)



# Institutional gap remains

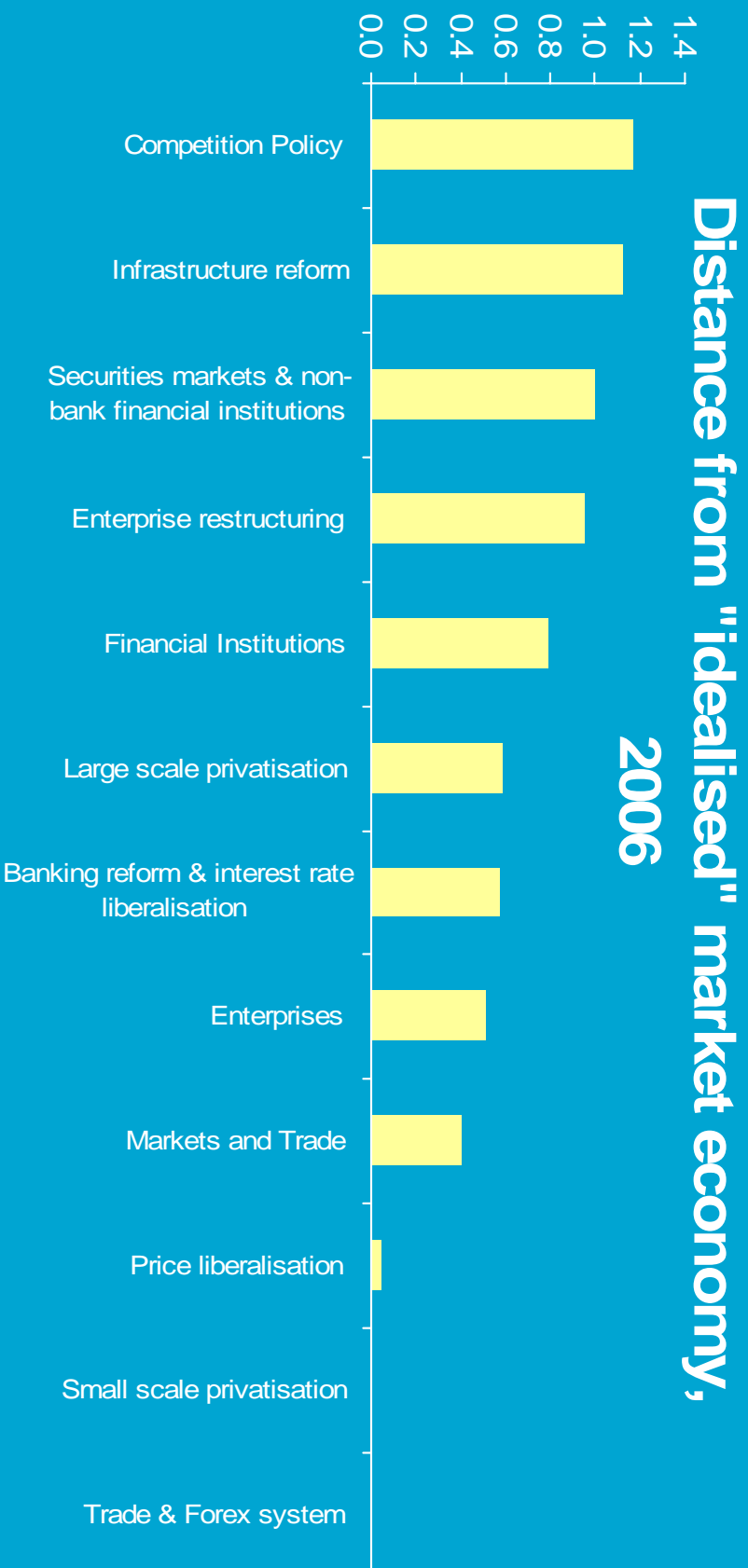
Distance from "idealised" market economy



Note: Bars indicate the difference between the idealised market economy (a score of 4.33) and the EU-8 countries' actual scores. Source: EBRD Transition Indicators



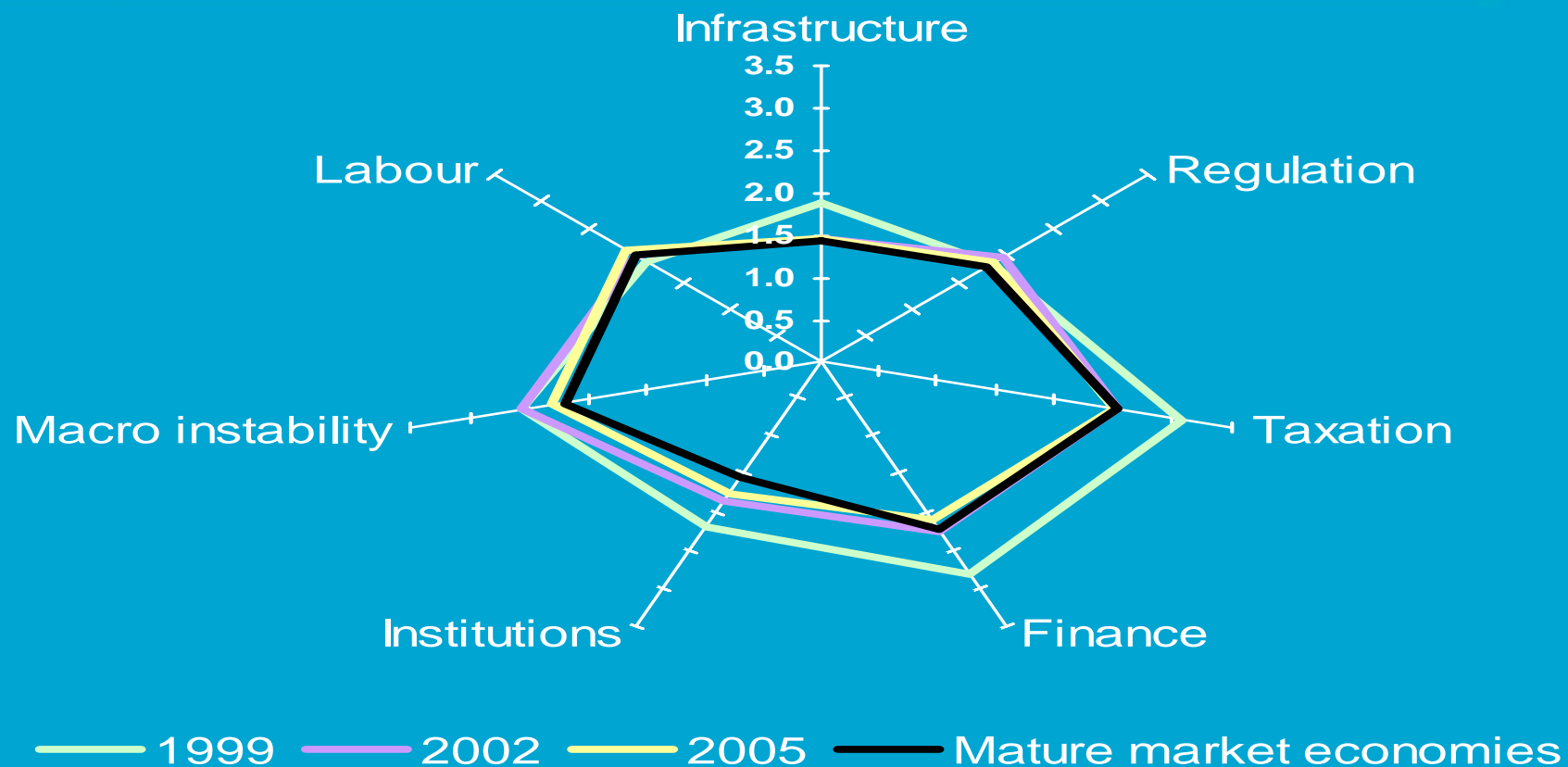
# Institutional gap remains



Source: EBRD Transition Indicators



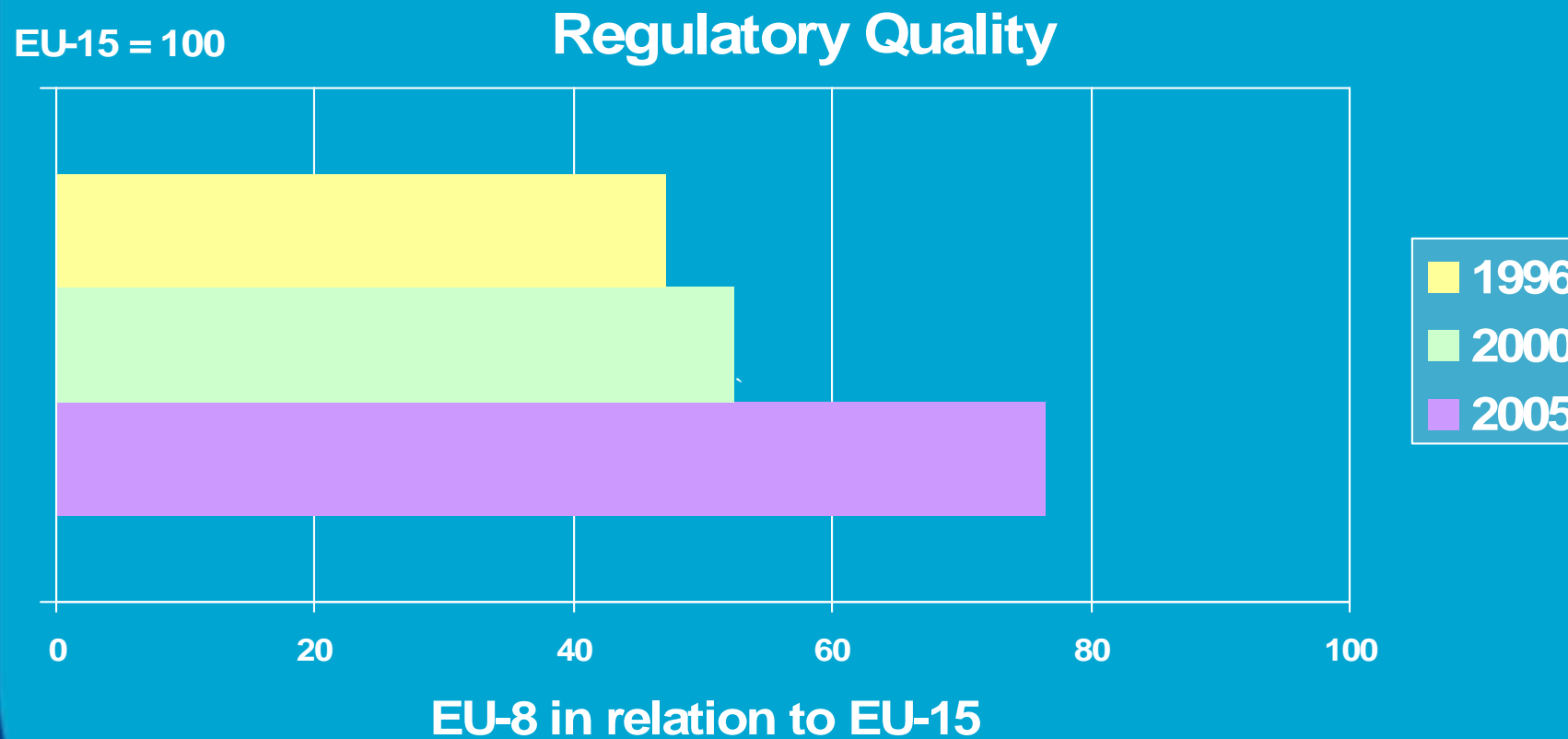
# Institutional gap remains



Source: EBRD-World Bank Business Environment and Enterprise Performance Survey (BEEPS)



# Institutional catch-up



Source: World Bank Governance Indicators



## Institutional catch-up

- Remarkable change prior to EU accession

**but...**

- enforcement and public sector reform lagging
- fiscal restraint difficult after sacrifices
- EU enforcement power limited post-accession



# Financial development and integration

- most integrated ownership in Europe, but functional integration lagging
- suffering from unsolved issues
  - challenges to monitor large multinational banks
  - regulatory and supervisory overlaps
  - trend towards home country regulation and supervision - lose control over key instruments
  - democratic legitimacy of financial system
- Progress on EU reform critical





## “Fear of being left behind” globally

- Important driver of institutional change and international cooperation
- “Back to Europe” about freedoms, but also about living standards and isolation
- In accession process
  - inclusion of Estonia and Slovenia in first group (reforms, not geography mattered)
  - some countries in second group feared being left behind; queue ( not to dull incentives)
  - formation of EMU



# External pressure and its limits

- EU enforcement power limited
- “Club-in-club” arrangements
  - EMU
  - Enhanced cooperation: financial integration (Baltic Financial Zone)
- Change increasingly has to come from within
  - Lack of consensus of vision

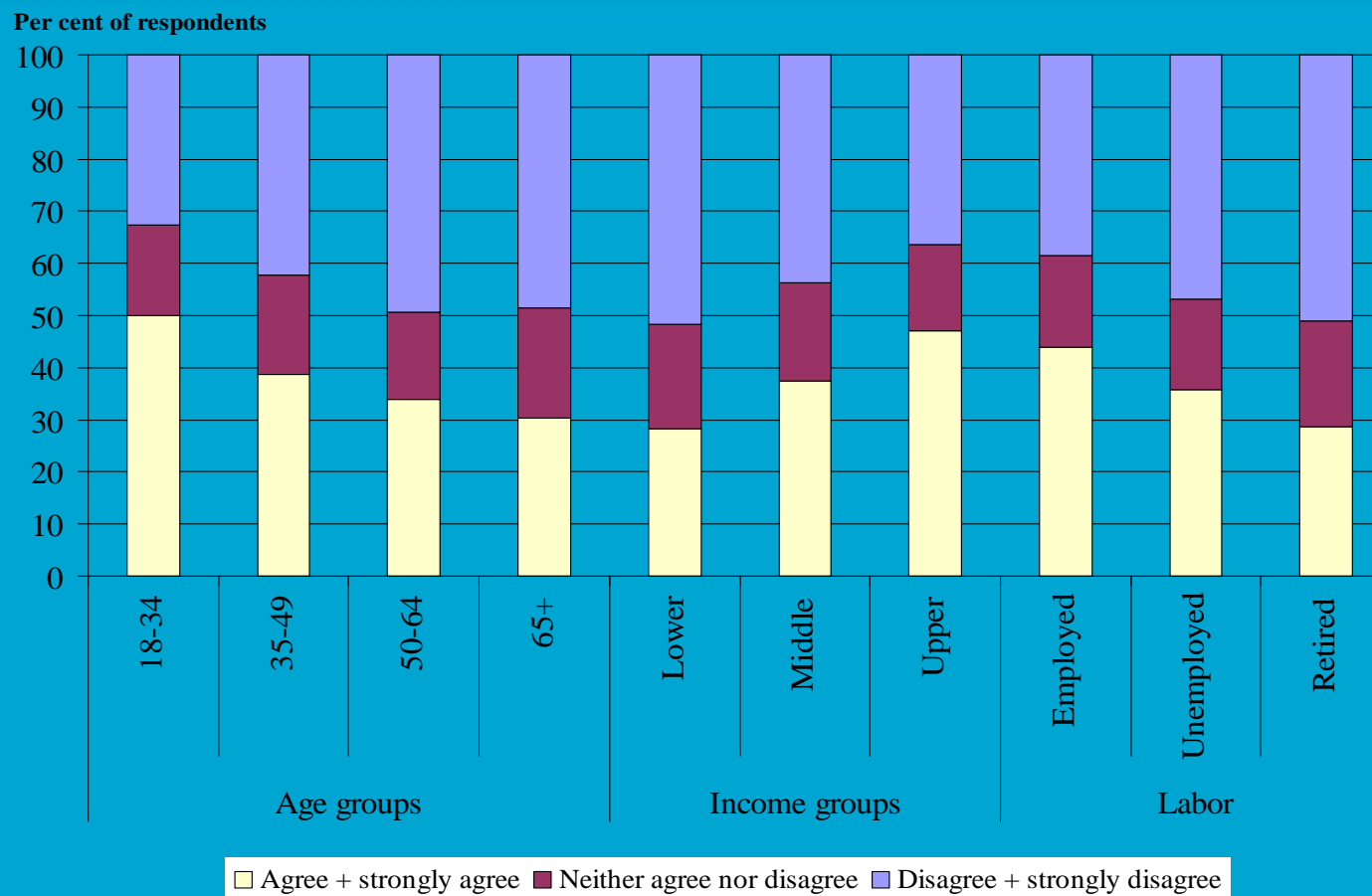


## **"Fear of being left behind" domestically**

- Popular support critical element of EU accession
- Widespread discontent with the outcome of transition
  - convinced life will be better for their children, but many feel they have lost out
  - generation of losers dominating politics; a fertile ground for populism and myopic policies
- Perception of important gaps in transition
  - lingering corruption and opaque policy process
  - weaknesses of social welfare system and healthcare
  - resentment towards measures of fiscal restraint

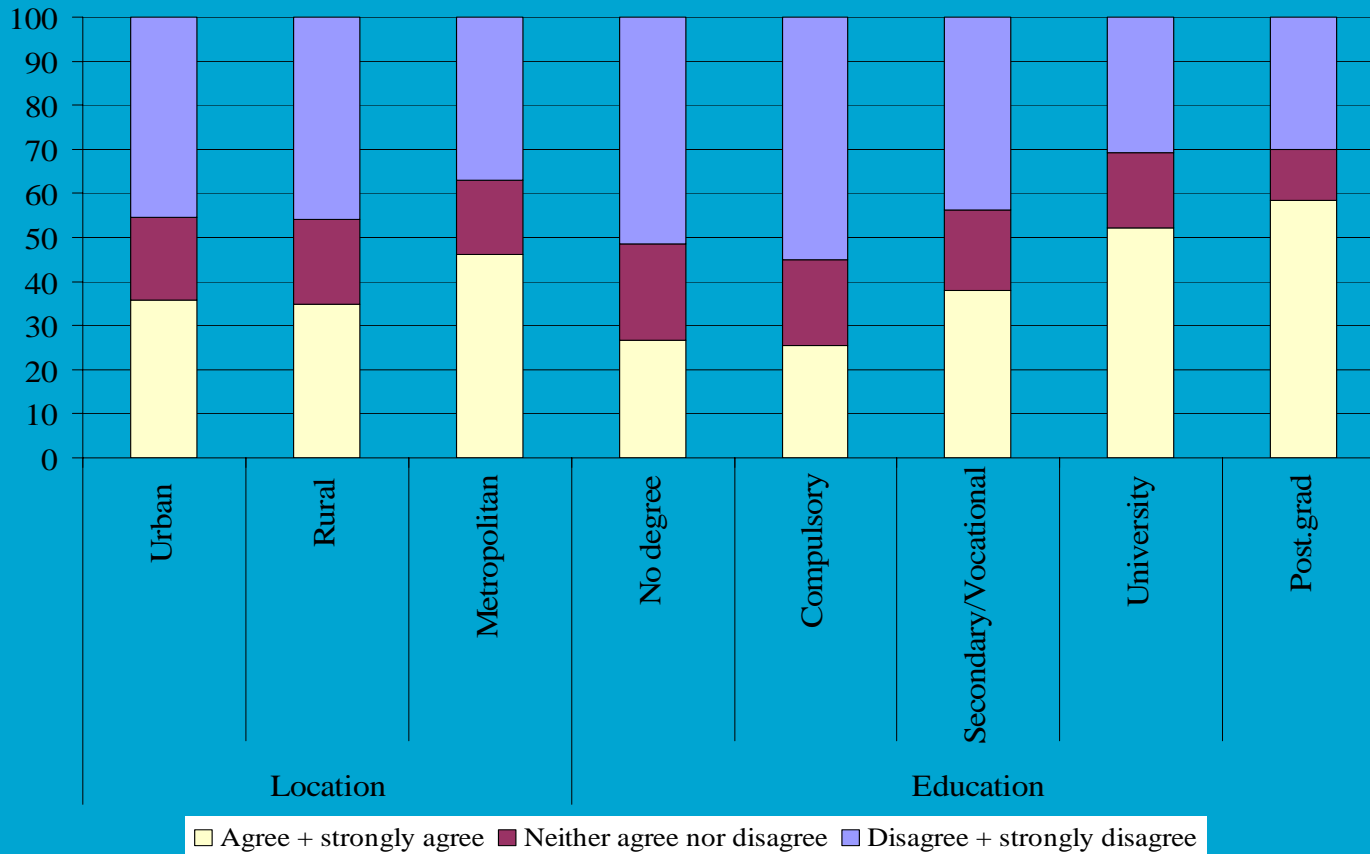


# The economic situation in this country is better today than around 1989, by age, income, and economic activity



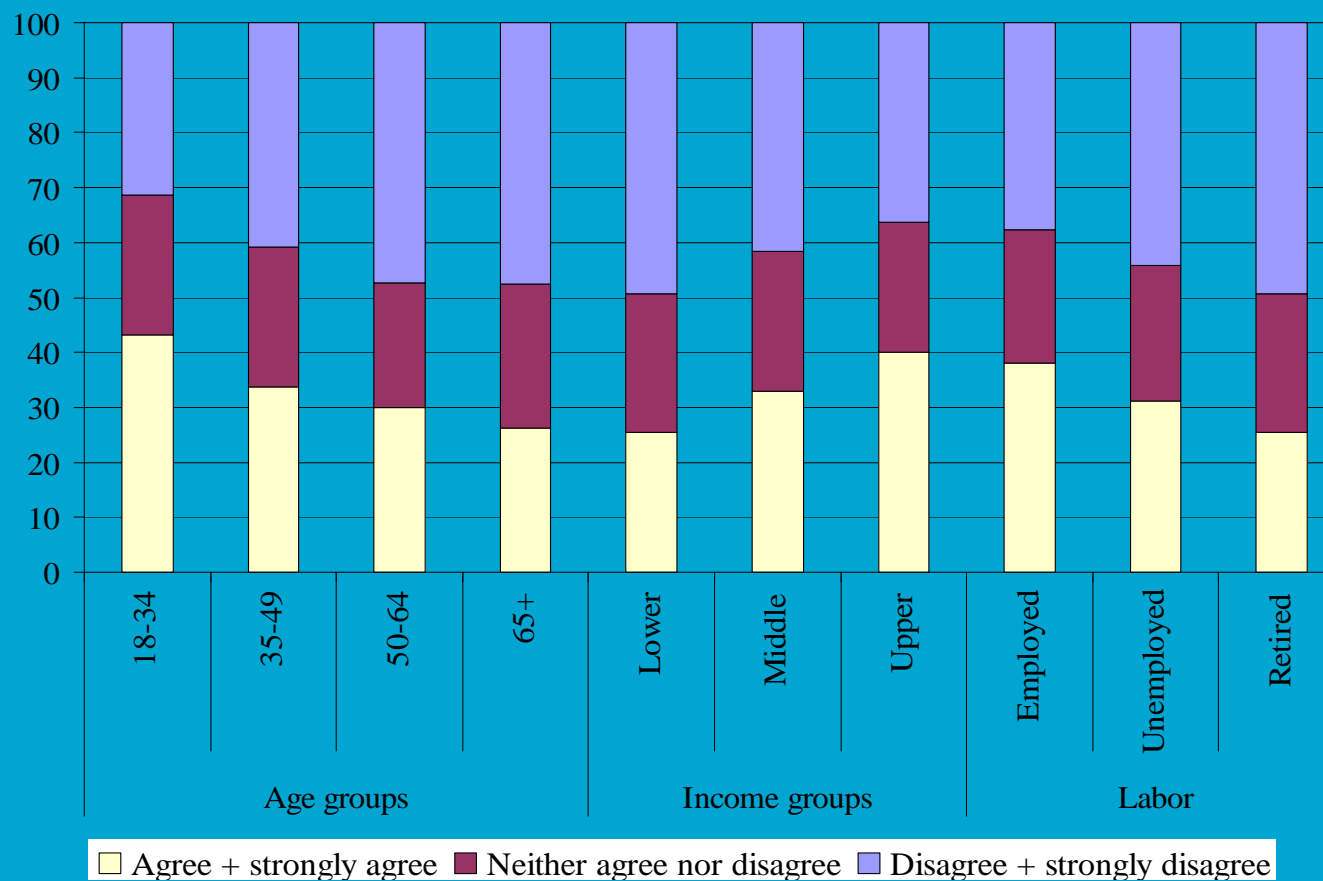
# The economic situation in this country is better today than around 1989, by location and education

Per cent of respondents



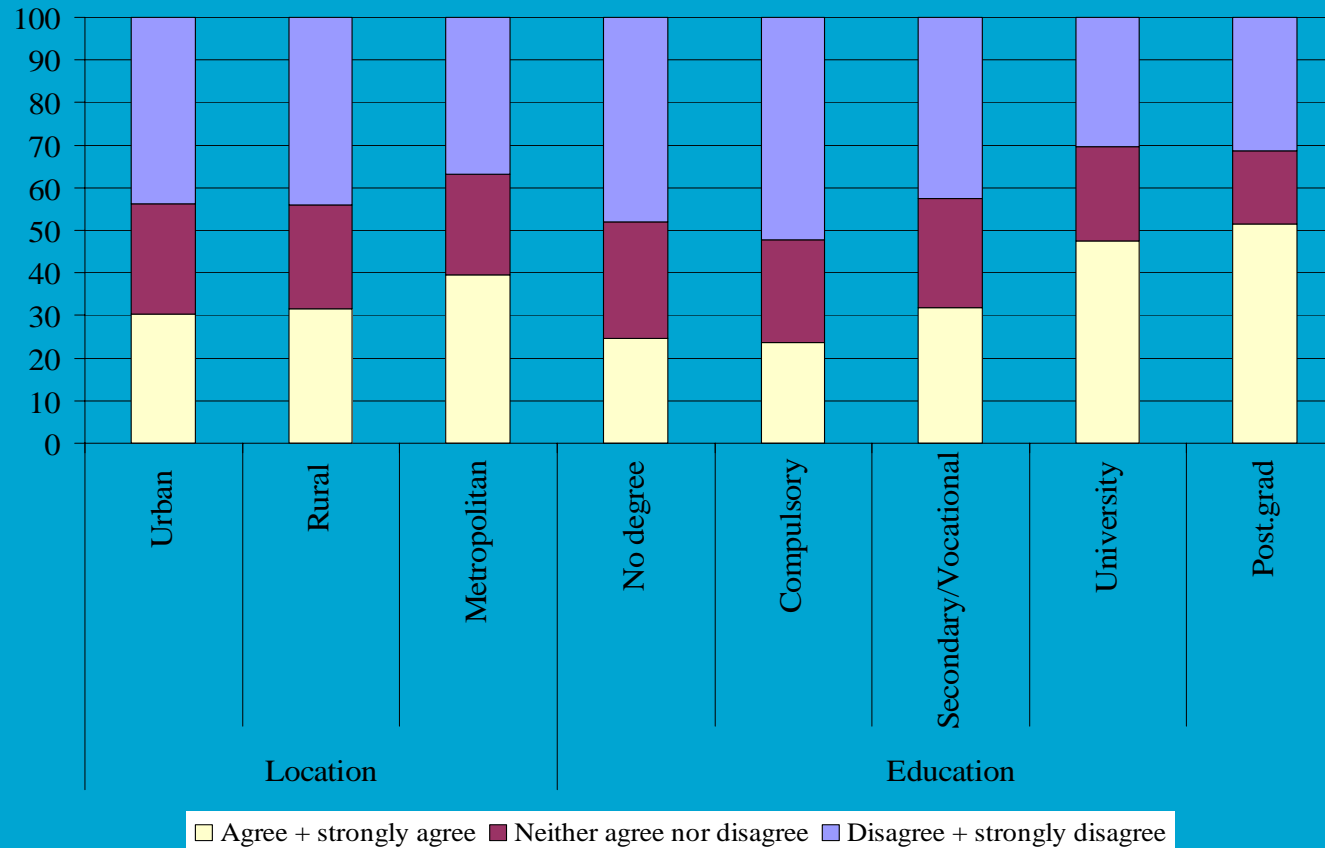
# The political situation in this country is better today than around 1989, by age, income, and economic activity

Per cent of respondents

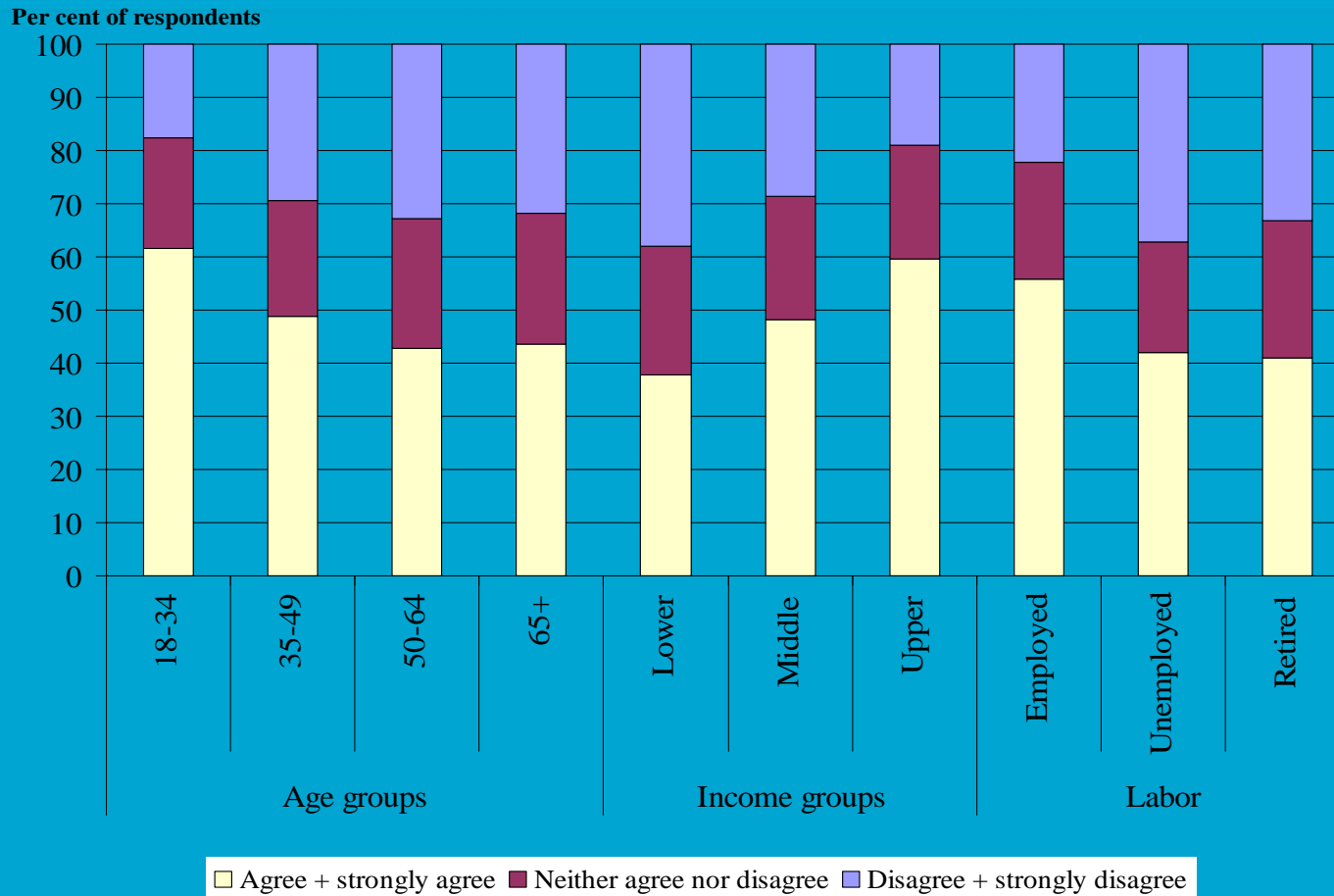


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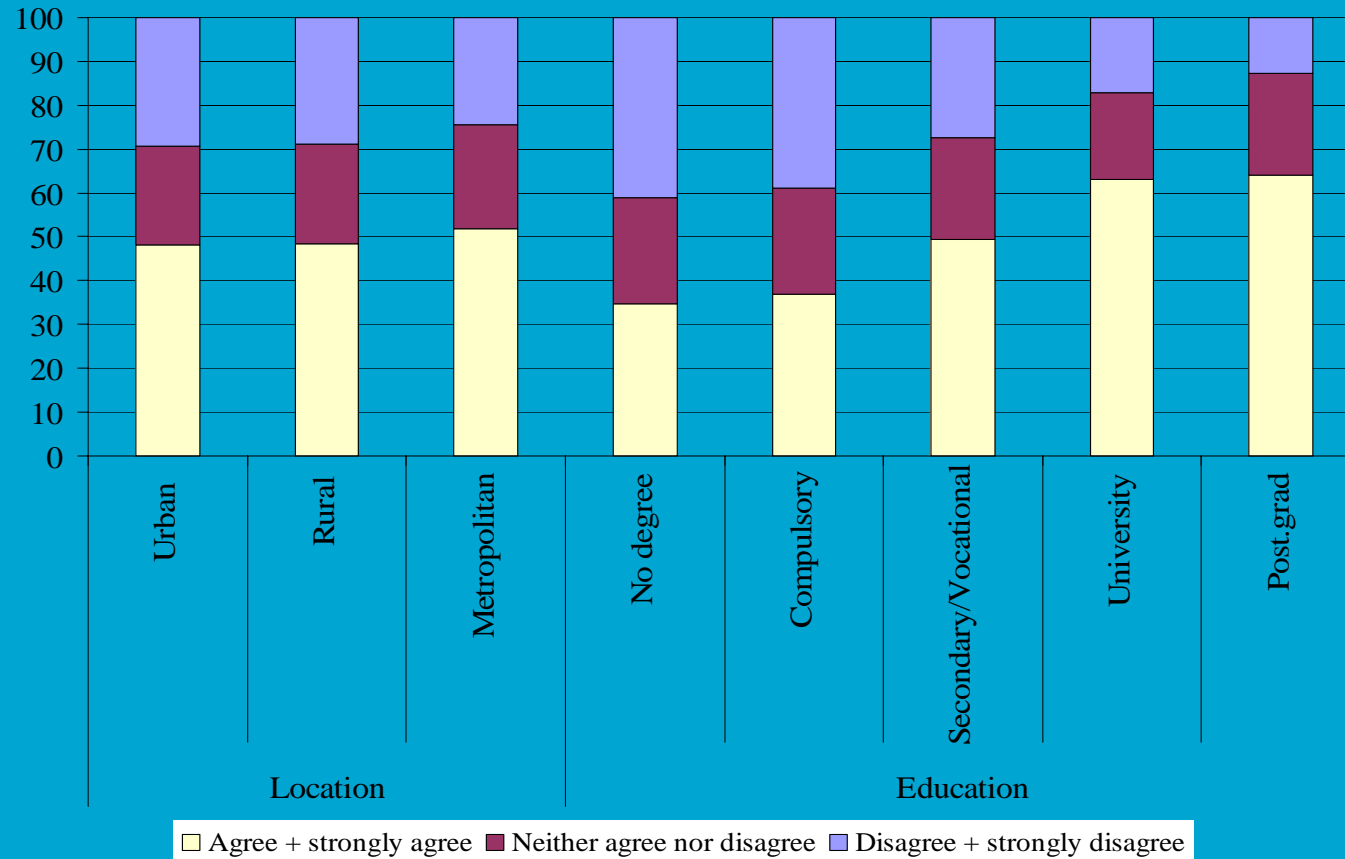
# All things considered, I am satisfied with my life now, by age, income, and economic activity





# All things considered, I am satisfied with my life now, by location and education

Per cent of respondents

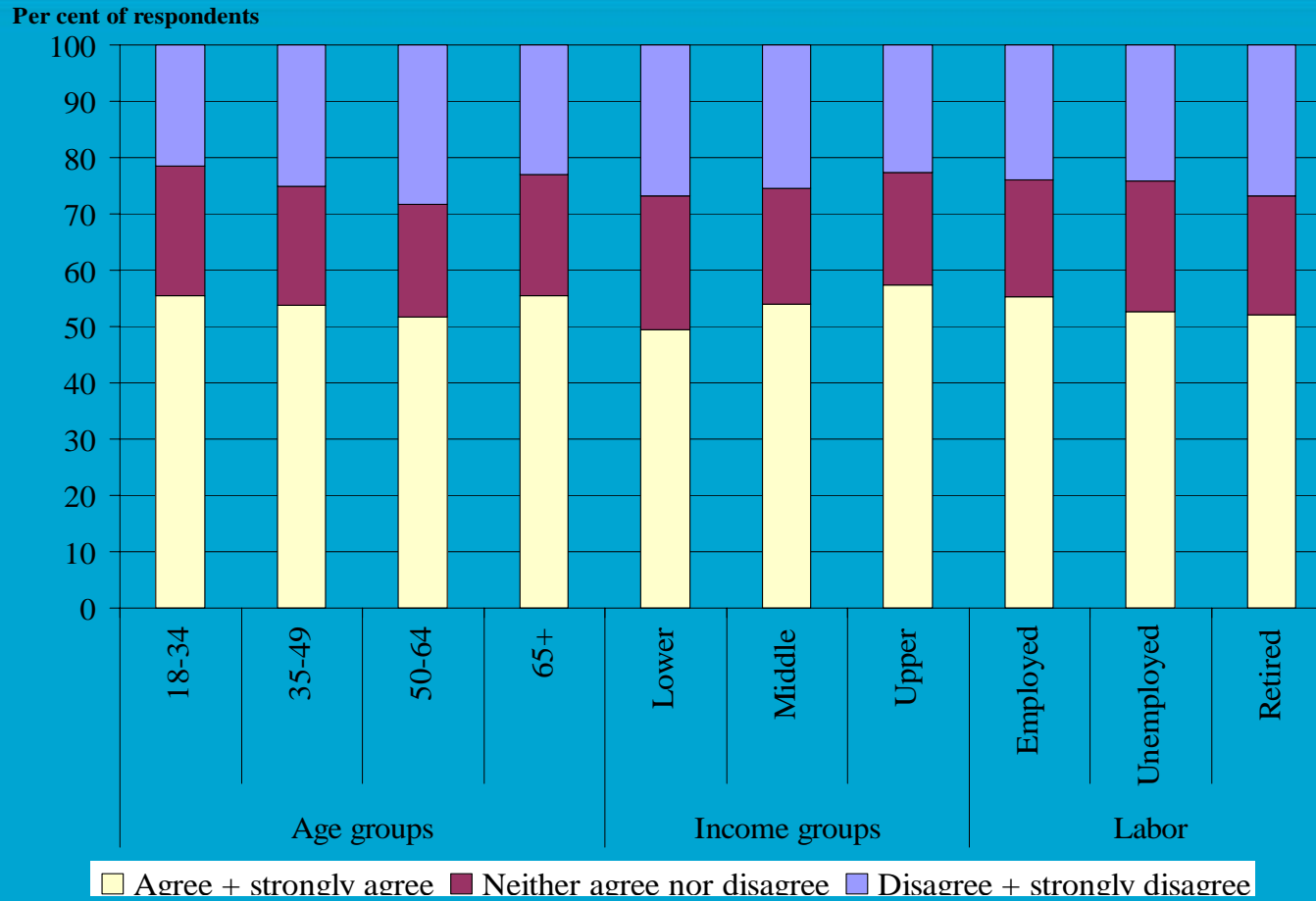


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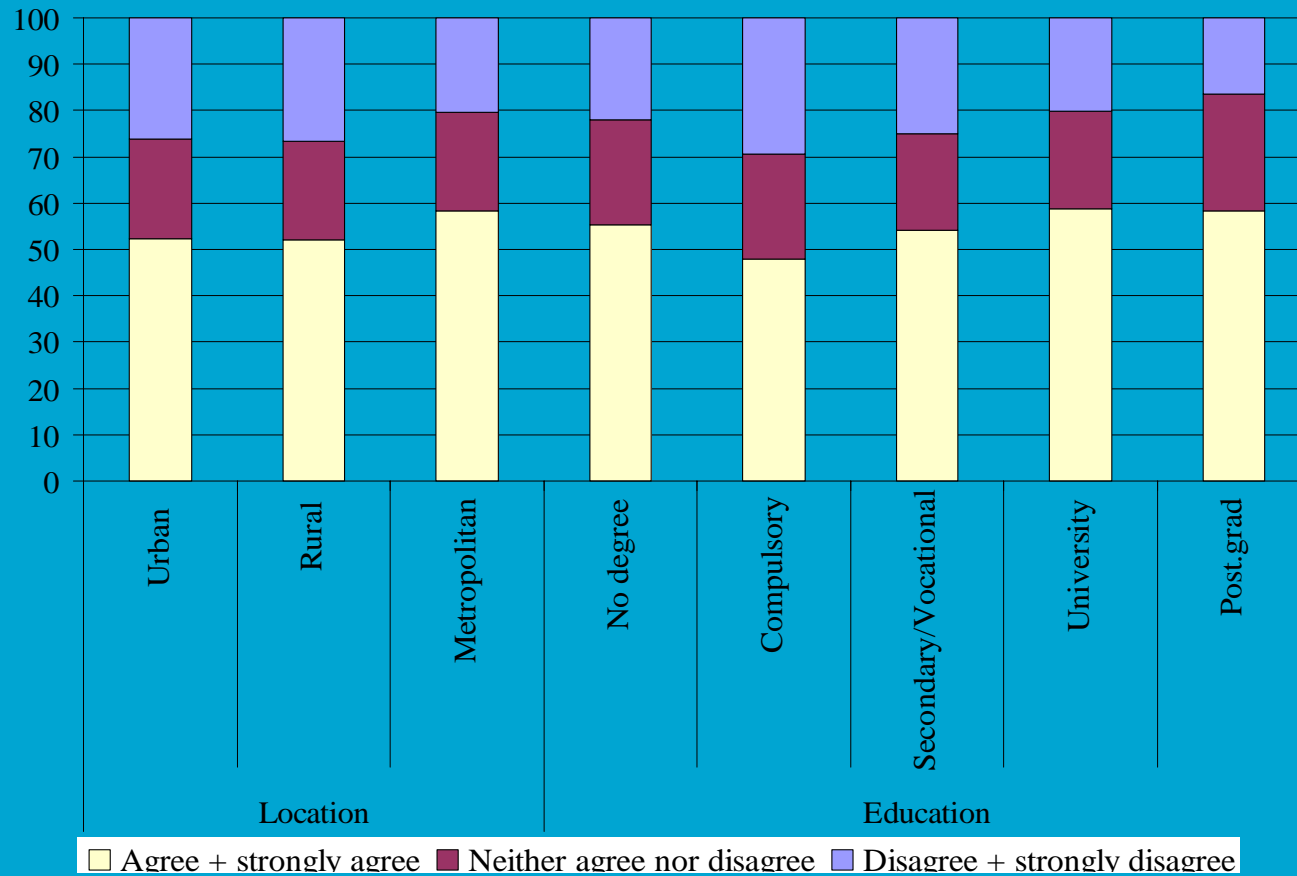


# Children who are born now will have a better life than my generation, by age, income, and economic activity



# Children who are born now will have a better life than my generation, by location and education

Per cent of respondents



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## What needs to be done?

- engage people in the broader EU project; not just EMU; engage broader group of people
- keep up pressure on enforcement; political will has to come from within
- foster transparency in policymaking, particularly at local level
- EU progress on internal reform, e.g., constitution and financial regulation

