

# The Coming Golden Age of New Europe?

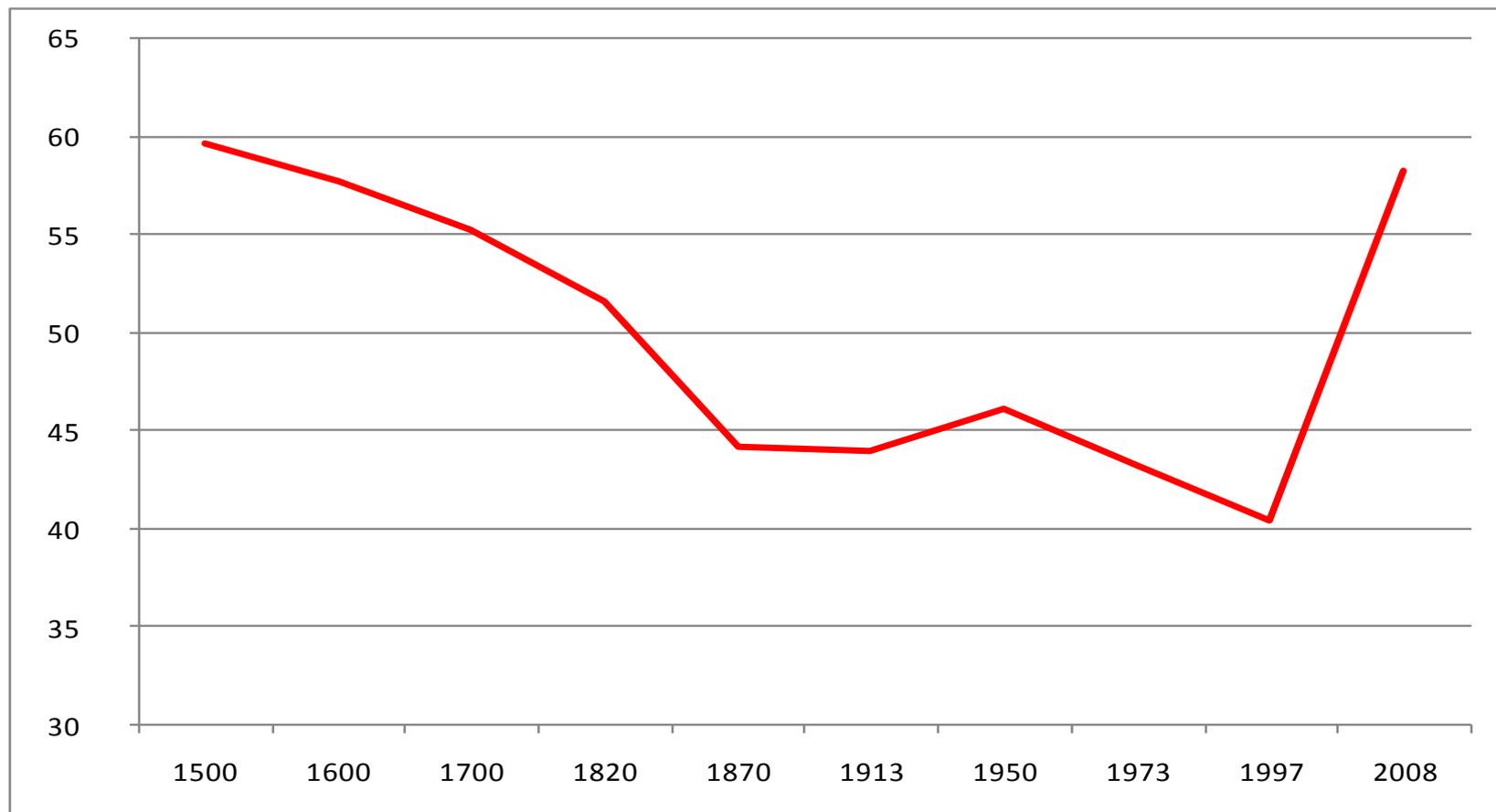
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# Summary

- ▶ New Europe has never had it so good. Its income, quality of life, and level of happiness have never been higher.
  - ▶ Despite the crisis, fast catching-up will continue. In 2050, New Europe's income and quality of life will be almost on par with Western Europe and higher than in most emerging markets.
  - ▶ To achieve it, New Europe needs new growth models based on higher productivity, euro adoption, immigration, and EU integration.
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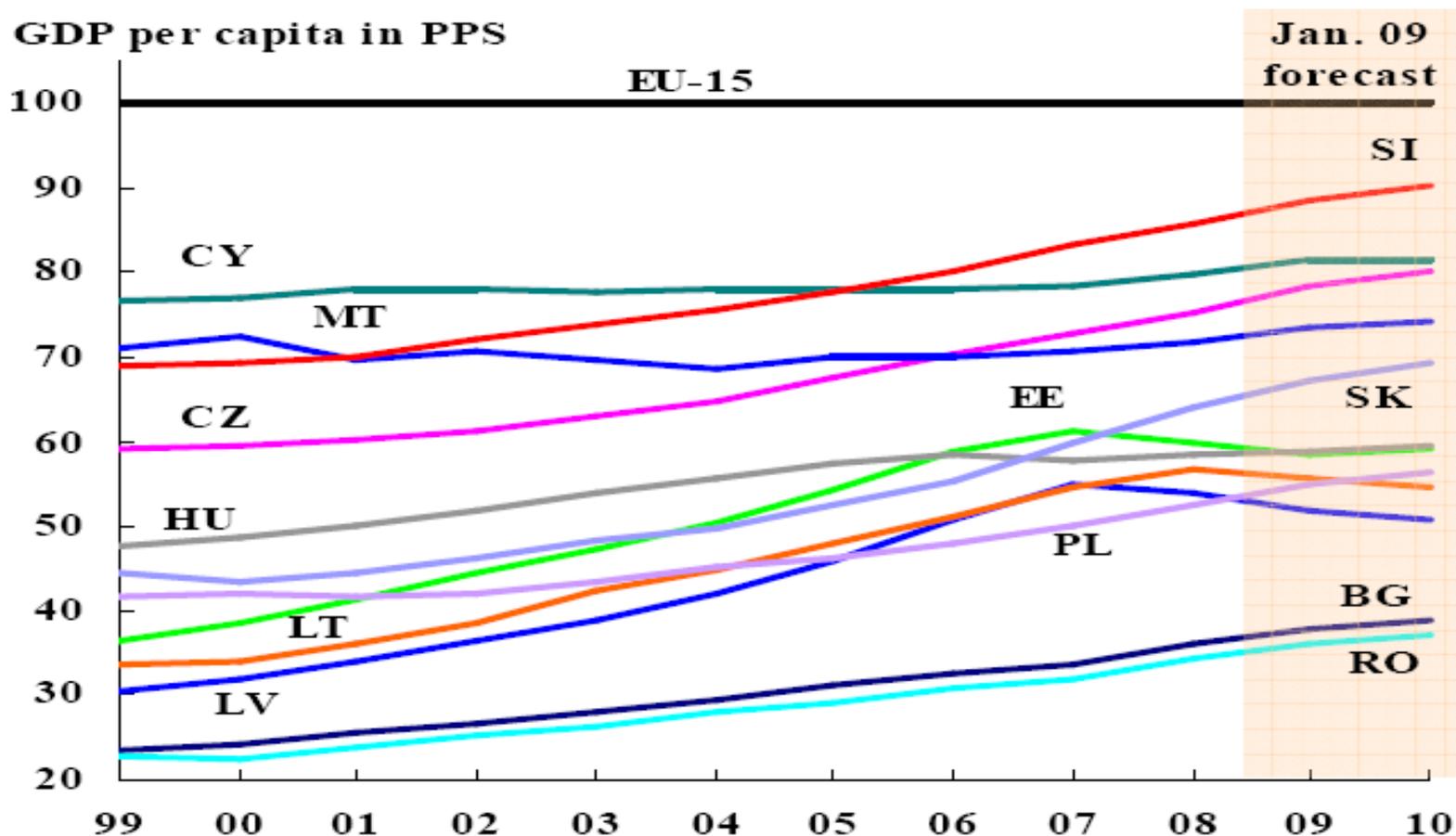
# In 2008, New Europe achieved its highest income since 1500

Figure 1: GDP per capita in New Europe, 1500-2008, Western Europe=100



Source: Maddison (2003) for 1500-1973 and Eurostat data for EU-10 relative to Eurozone 15 for 1997-2008.  
Note: EE in Maddison includes Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, and Yugoslavia.  
Maddison data are in 1990 international \$, while Eurostat in PPS. Both unweighted averages.

# The recent pace of catching-up was unprecedented

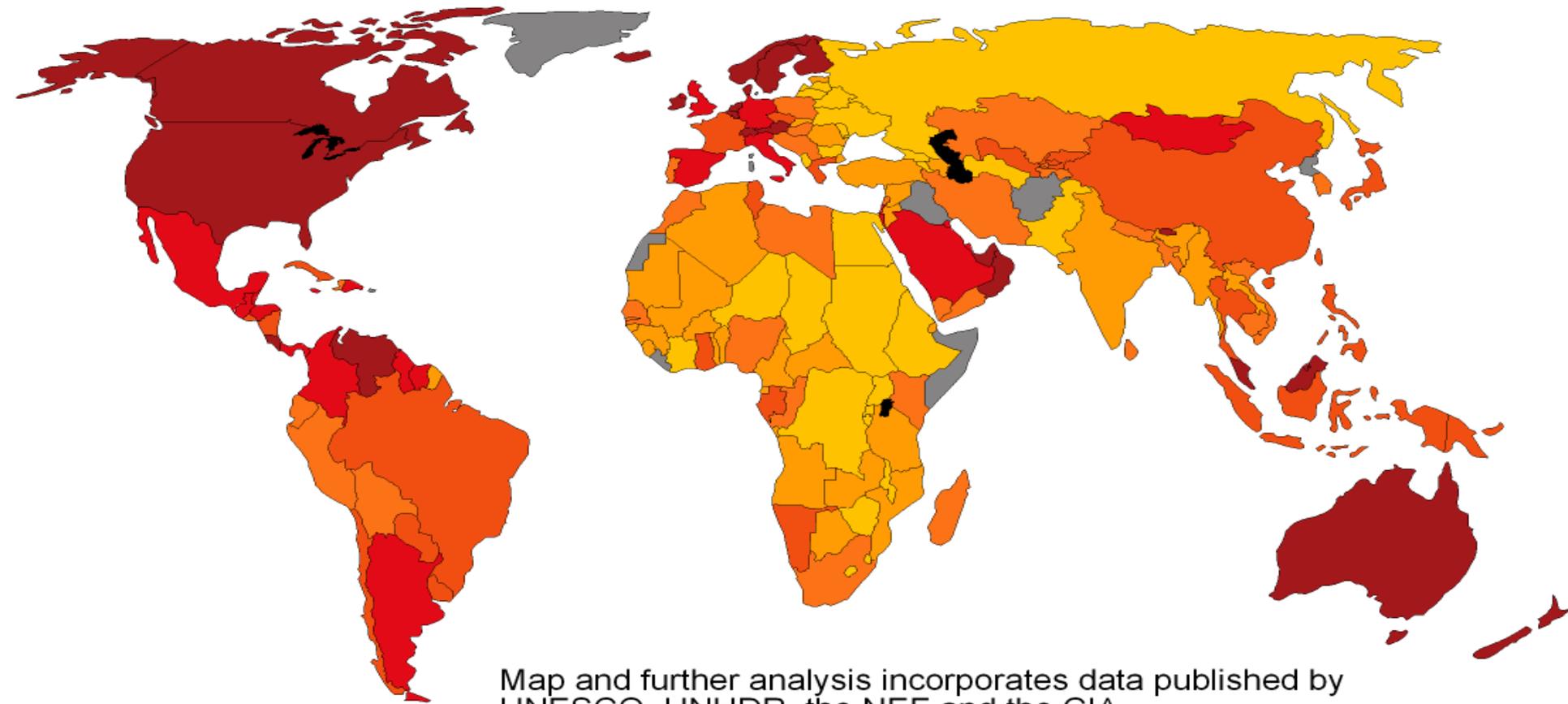


Source: Commission services (January 2009 interim forecast)



# Raising the level of happiness...

## A Global Projection of Subjective Well-being



Map and further analysis incorporates data published by UNESCO, UNHDR, the NEF and the CIA.



High SWB - - - - - Low SWB

## Until the crisis happened...

- ▶ This year's New Europe GDP growth rate will be negative and possibly only slightly positive in 2010.
  - ▶ Many countries in the region will deconverge, except Poland, Slovakia, Slovenia and the Czech Republic.
  - ▶ Unemployment is rising, happiness is falling.
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# In the future growth will resume...

Table 4: Projected GDP per capita growth rates of EU-25, 2004-2050

	2004-2010	2011-2020	2021-2030	2031-2040	2041-2050	2004-2050
BE	2.1	1.8	1.2	1.5	1.7	1.6
DK	1.8	1.8	1.2	1.3	2.0	1.6
DE	1.6	1.7	1.1	1.4	1.6	1.5
GR	2.6	1.8	1.3	1.0	1.2	1.5
ES	2.0	2.3	1.5	0.8	1.0	1.5
FR	1.7	1.6	1.5	1.5	1.7	1.6
IE	4.2	3.1	1.9	1.3	1.1	2.2
IT	1.6	1.8	1.4	1.0	1.5	1.5
LU	3.0	2.1	2.0	2.3	2.4	2.3
NL	1.3	1.5	1.2	1.5	1.9	1.5
AT	1.9	1.9	1.1	1.3	1.5	1.5
PT	1.5	2.3	2.0	1.1	1.2	1.6
FI	2.4	1.7	1.5	1.7	1.7	1.8
SE	2.3	2.3	1.7	1.6	1.8	1.9
UK	2.4	2.2	1.4	1.5	1.6	1.8
CY	2.9	3.1	2.3	2.0	1.3	2.3
CZ	3.6	3.2	2.5	1.4	1.1	2.3
EE	6.6	4.2	2.8	2.0	1.2	3.1
HU	3.9	3.1	2.6	1.4	1.3	2.4
LT	7.0	4.8	2.5	1.7	1.2	3.2
LV	8.3	5.0	2.8	1.9	1.0	3.5
MT	1.3	2.0	2.4	1.9	1.4	1.8
PL	4.7	4.0	2.9	1.6	1.0	2.7
SK	4.7	4.3	2.8	1.3	0.8	2.7
SI	3.6	2.8	2.2	1.5	1.3	2.2
EU25	2.2	2.1	1.6	1.4	1.5	1.7
EU15	1.9	1.9	1.4	1.3	1.6	1.6
EU12	1.8	1.8	1.4	1.3	1.5	1.5
EU10	4.6	3.8	2.7	1.5	1.1	2.6

# Raising income to almost Western European levels ...

Table 5: Projected GDP per capita levels of New Europe relative to EU 15, 2004--2050

	2004	2010	2030	2040	2050
BE	108	109	106	108	109
DK	110	110	107	107	111
DE	101	99	94	95	95
GR	72	74	72	70	68
ES	85	86	90	86	81
FR	105	104	101	103	103
IE	132	150	177	176	167
IT	100	98	97	94	94
LU	194	207	225	247	268
NL	108	105	98	100	103
AT	116	117	113	113	112
PT	68	66	73	71	68
FI	108	111	110	114	115
SE	112	115	123	126	129
UK	104	107	111	112	113
CY	81	87	107	113	110
CZ	64	71	89	90	86
EE	46	60	86	91	87
HU	54	60	76	77	75
LT	43	58	86	89	87
LV	42	60	93	99	94
MT	68	65	73	77	76
PL	45	53	75	77	73
SK	48	57	83	83	77
SI	73	80	94	96	94
EU25	92	93	97	97	97
EU15	100	100	100	100	100
EU12	99	98	97	97	96
EU10	50	59	80	82	78

# Other emerging markets are supposed to grow even faster...

Table 4.5 – Projected real growth rates for expanded group of emerging market economies: 2007-50 (%pa)

Country	GDP in US \$ terms	GDP in domestic currency or at PPPs	Population	GDP per capita at PPPs
Vietnam	9.8	6.8	0.8	6.0
<b>India</b>	<b>8.5</b>	<b>5.8</b>	<b>0.8</b>	<b>5.0</b>
Nigeria	8.0	6.1	1.6	4.4
Philippines	7.2	5.2	1.1	4.1
Egypt	7.1	5.1	1.1	3.9
Bangladesh	7.0	5.1	1.1	3.9
<b>China</b>	<b>6.8</b>	<b>4.7</b>	<b>0.1</b>	<b>4.6</b>
<b>Indonesia</b>	<b>6.7</b>	<b>4.5</b>	<b>0.6</b>	<b>3.9</b>
Pakistan	6.4	4.9	1.4	3.5
<b>E7 average</b>	<b>6.4</b>	<b>4.5</b>	<b>0.5</b>	<b>4.0</b>
Malaysia	5.8	4.3	1.0	3.3
Thailand	5.7	3.6	0.1	3.5
Iran	5.2	3.8	0.8	3.0
<b>Brazil</b>	<b>5.2</b>	<b>3.8</b>	<b>0.7</b>	<b>3.1</b>
<b>Turkey</b>	<b>5.1</b>	<b>4.1</b>	<b>0.7</b>	<b>3.4</b>
Argentina	4.9	3.7	0.6	3.0
South Africa	4.8	3.7	0.3	3.3
Saudi Arabia	4.8	4.1	1.4	2.7
<b>Mexico</b>	<b>4.7</b>	<b>3.7</b>	<b>0.5</b>	<b>3.2</b>
<b>Russia</b>	<b>4.3</b>	<b>2.5</b>	<b>-0.6</b>	<b>3.2</b>
Poland	3.4	2.1	-0.5	2.7
<b>G7 average</b>	<b>2.0</b>	<b>2.2</b>	<b>0.3</b>	<b>1.9</b>

Sources: PricewaterhouseCoopers GDP growth estimates (rounded to nearest 0.1%), population growth projections from the UN. E7 and averages shown in bold.

Source: PWC (2008)

# But New Europe has stronger fundamentals than most emerging markets

- ▶ Stronger institutions
  - ▶ Higher quality of education
  - ▶ Hundreds of billion euro of future EU funds
  - ▶ Prospects for euro adoption
  - ▶ TFP-based productivity growth
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# Most important source of long-term growth: stability!

- ▶ Political: EU effect
  - ▶ Social: lower inequality
  - ▶ Ethnic and religious: homogeneity
  - ▶ Military: NATO
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# Stability will matter a lot given three rising trends...

- ▶ The rise of new powers, upsetting the world's balance of power;
  - ▶ Ongoing depletion of world's resources, including of water and oil;
  - ▶ Growing emancipation of the world's poor, who will be increasingly demanding a bigger voice in global affairs and a bigger share in the world's economic pie.
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## New Europe, however, has weaknesses

- ▶ Low level of innovation
  - ▶ Fast population ageing
  - ▶ Relatively unfriendly business climate
  - ▶ Lack of strategic thinking
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# Policy recommendations

- ▶ Increase domestic saving
  - ▶ Re-emphasize productivity growth
  - ▶ Promote integration of the EU's financial sector, but with lessened reliance on foreign ownership
  - ▶ Diversify exports
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...as well as...

- ▶ Adopt the euro
  - ▶ Strengthen the regulatory and guiding role of the public sector
  - ▶ Promote immigration
  - ▶ Support further EU integration and enlargement
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**And the Golden Age will come!**

