



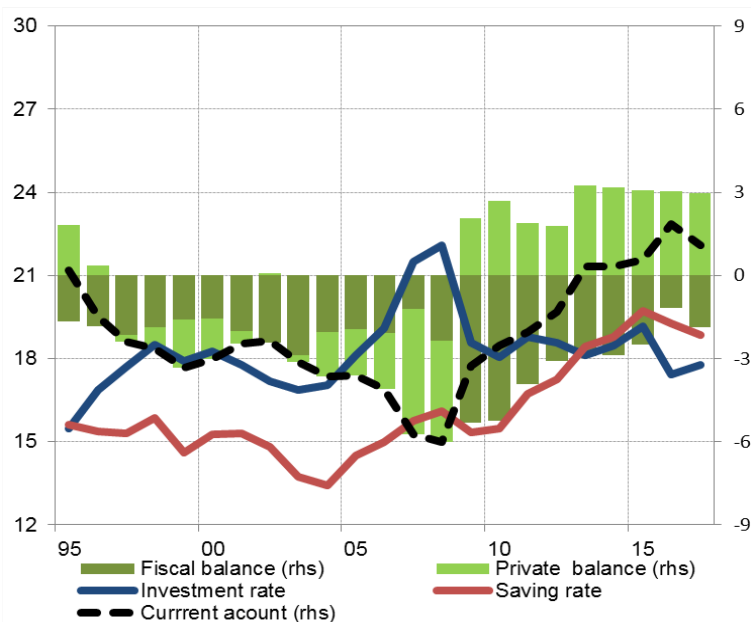
Challenges & policies to attain sustainable economic convergence in CESEE countries

Debora Revoltella
Director, EIB Economics Department

Frankfurt am Main, 5 Oct 2017

Convergence so far: strong investment growth, but also a strong correction

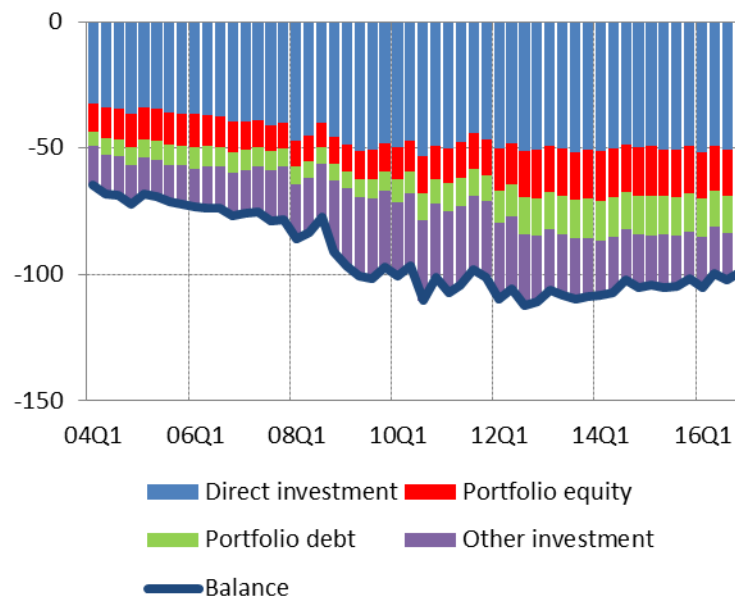
Saving, investment and current account balance in cohesion economies (% GDP)



Source: EIB/ECON calculations based on Eurostat.

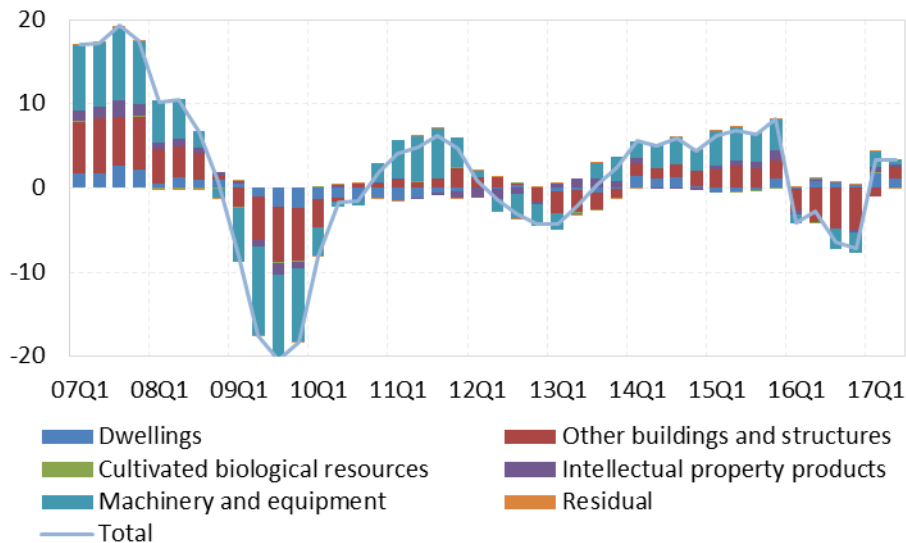
Note: Annual data, last record 2017 based on EC Spring forecast. Private balance stands for the private saving minus private investment balance

Net international investment position (% GDP, 4-qtr moving sum)

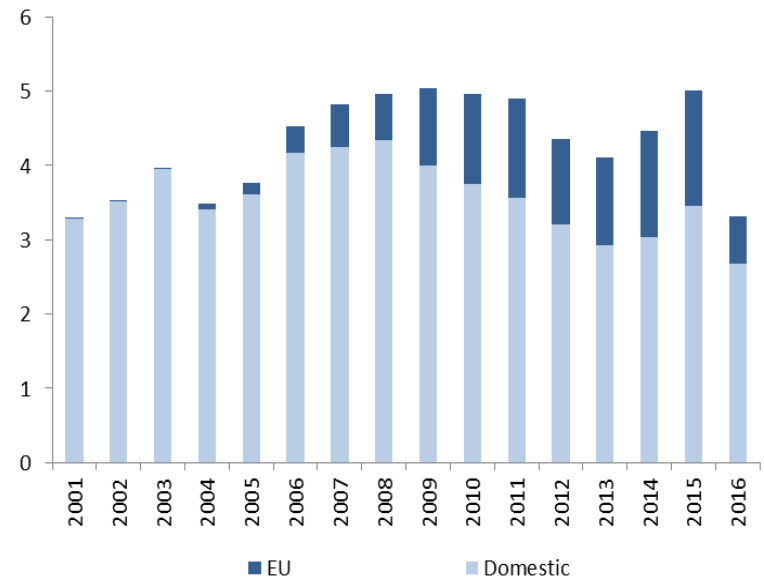


Investment recovery, but strong dependency from the EU Funds cycle

Real gross fixed capital formation contributions by asset type, (% yoy)



Domestic and EU funded public investment in CESEE-EU (% GDP)

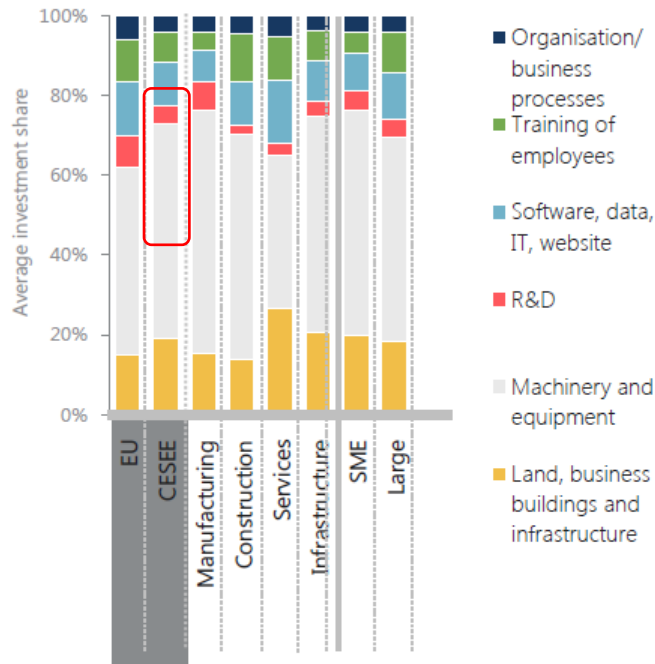


Source: EIB/ECON calculations based on Eurostat and ECB data.

Note: CESEE-EU: Estonia, Latvia, Lithuania, Czech Republic, Hungary, Poland, Slovakia, Slovenia, Bulgaria, Croatia, Romania.

Companies in CESEE invest less in intangible assets (R&D in particular) than the rest of the EU, and there is room for optimizing allocation of resources

Investment areas

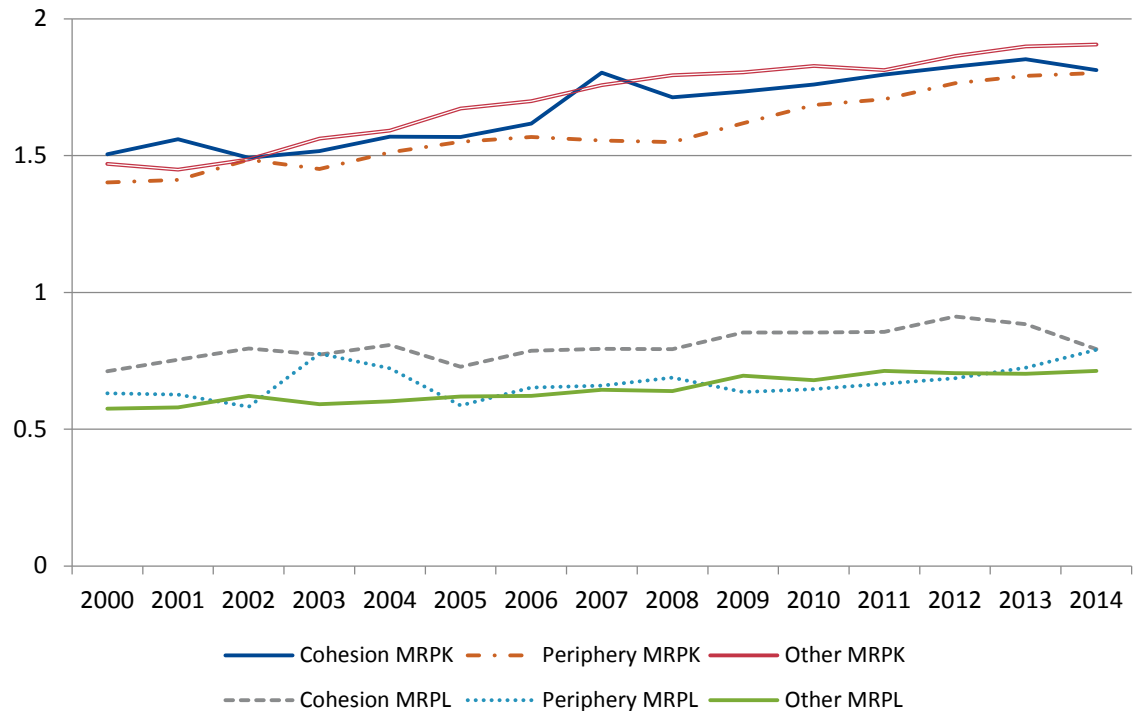


Base: All firms who have invested in the last financial year (excluding don't know/refused responses)

Q. In the last financial year, how much did your business invest in each of the following with the intention of maintaining or increasing your company's future earnings?

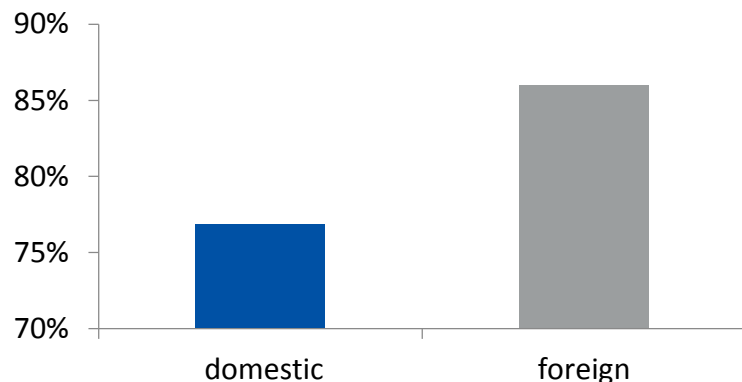
Source: EIB/ECON calculations based on Orbis and EIBIS

Evolution of the dispersion in the marginal product revenue of capital (MRPK) and the marginal product revenue of labour (MRPL) over the period 2000-2014. 3 groups of EU countries

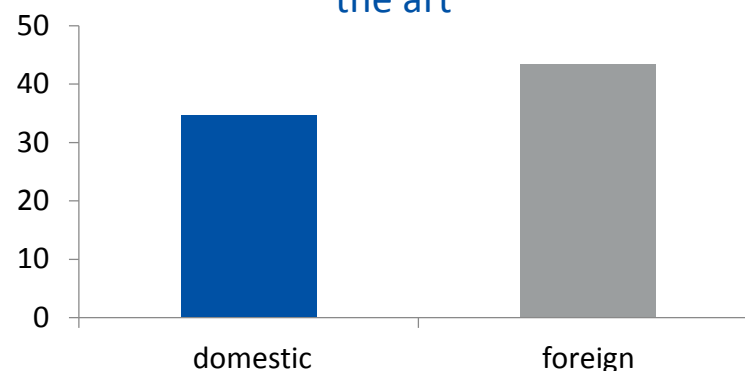


Foreign-owned firms: they invest and innovate more

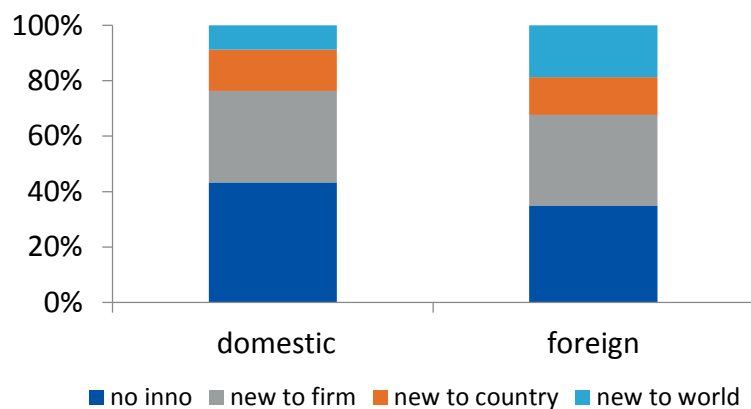
Share of firms investing



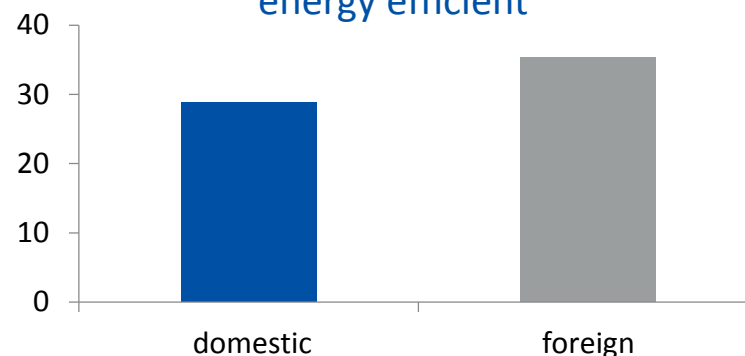
Share of machinery that is state of the art



Innovation activity



Share of building stock that is energy efficient

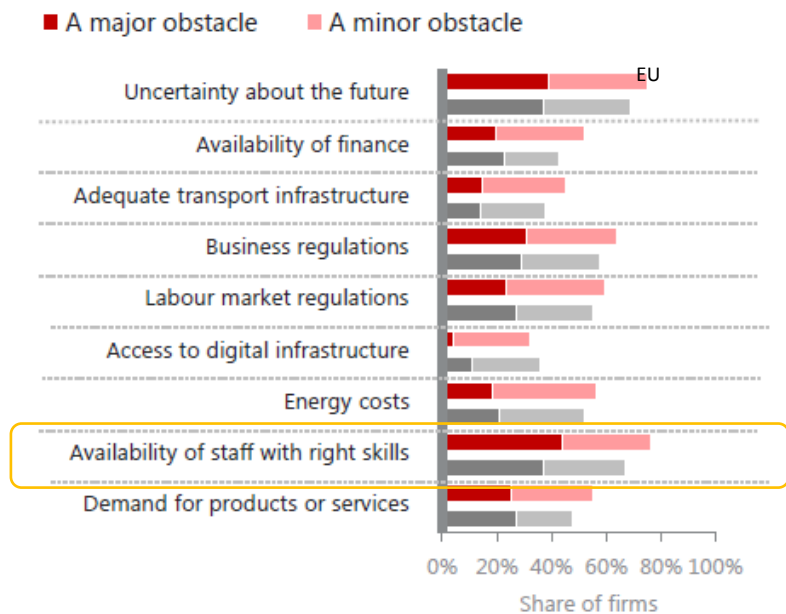


Base: all CESEE firms

Source: EIB/ECON calculations based on EIBIS

Lack of skilled staff and uncertainty are the key barriers to firm investment & aging and outward migration critical for municipalities

Firms: Long term barriers to investment

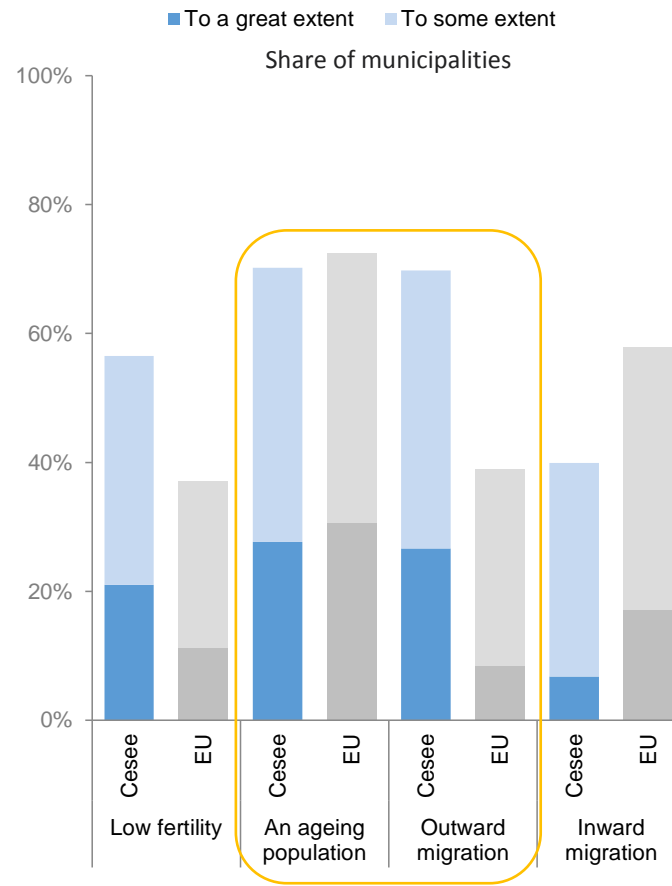


Base: CESEE average of all firms (data not shown for those who said not an obstacle at all/don't know/refused)

Q. Thinking about your investment activities in #country#, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

Source: EIB/ECON calculations based on EI BIS and EIB Municipality Survey

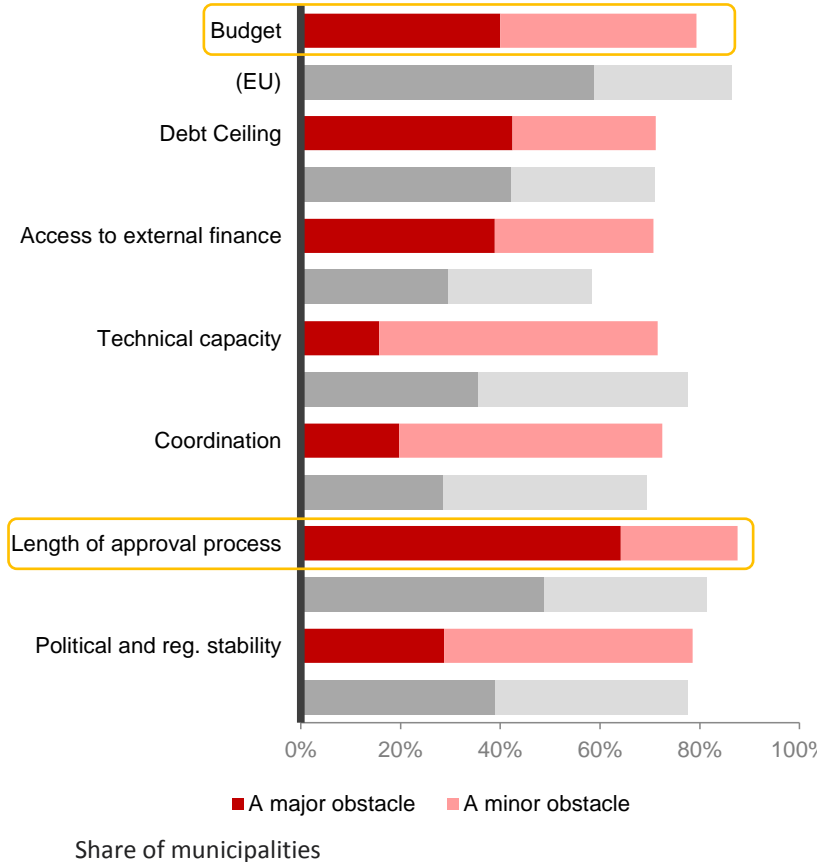
Municipalities: Drivers of demographics



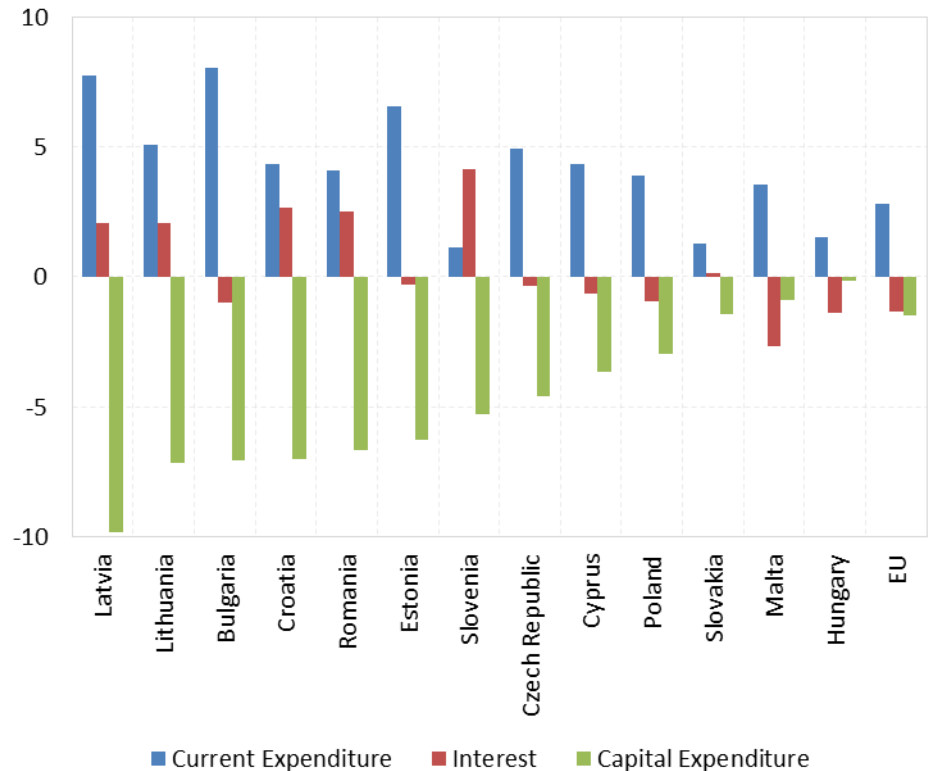
Base: All municipalities. Sectors are aggregated by the corresponding sub-national share in public investment.

Budget and length of approval process as main obstacles to infrastructure investment. Short term orientation of policies

CESEE: Long term investment barriers



Change of public expenditure composition 2007-2016, (difference in percentage points)



Base: All municipalities.

Q. To what extent is each of the following an obstacle to the implementation of your infrastructure investment activities?

Policy conclusions

- Do not waste the opportunity!
 - good policies
 - proper planning and prioritization
 - long term views
 - focus on competitiveness