

An export-led recovery: what lessons from Central and Eastern Europe?

Talk on 28th May 2015 at 12:15pm

Mamta Murthi (regional director for Central Europe and the Baltics, World Bank) and **Theo Thomas** (lead economist, World Bank) presented the EU Regular Economic Report, focusing in particular on the export-led recovery in Central and Eastern EU countries. **Zsolt Darvas** (Senior Fellow, Bruegel) was the discussant and **Grégory Claeys** (research fellow, Bruegel) chaired the event.

Three main dimensions of the report were highlighted, regarding **(i)** the social dimension, how different patterns emerged with the recovery, based generally on the growth performance as well as different policy choices; **(ii)** the export-led recovery, with all four countries moving up the international value-chain and first signs of non-price competitiveness emerging; **(iii)** the improving financing conditions in the region.

Mr Darvas, the discussant, did not have any major comments to add to the report. However, he wanted to raise some controversial issues for discussion. First of all, why can we observe different current account patterns in the region – can these be interpreted as moving away or towards a new equilibrium? Second, when export growth is decomposed, how should price or non-price measures be factored in? And how should the domestic value added content be defined? Third, concerning the financing conditions in the region, saving rates have been low and net FDI has been falling over recent years. Overall, the question arises how sustainable the whole export-led model is. Indeed, many of the pre-crisis vulnerabilities are gone, but has there been a real change in economic model?

In the Q&A session, the following points were raised:

- How should the 'domestic value added' be treated in a model which decomposes exports in the region, since most of the countries produce intermediate goods for countries like Germany?
- Only looking at the trade balance is leaving out an important part regarding capital flows into the region.
- One participant raised the point about the way forward in this catching-up story. Incomes have been converging in a model which puts wage competitiveness above all. A new policy priority should be R&D and education, to foster innovation.
- A concluding remark was on the lessons to be learned for other member states. Mr Thomas answered that certainly investment in skills should be a policy priority. Poland is a good example of getting funding from European regional funds, with the focus shifting from infrastructure to innovation projects.

Event notes by Pia Huettl