

**WB EU11 Regular Economic Report**  
*Promoting shared prosperity  
in Central and Eastern Europe:*  
**Discussion**

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## **DISCLAIMER**

The views expressed hereafter are the presenter's alone and do not necessarily correspond to those of the European Commission and its services.

# MACROECONOMIC CONTEXT AND OUTLOOK

- The broad picture
  - > tentative recovery since Q2.13 – heterogeneity
  - > continued external deleveraging
- Real growth of 1.0% (2013) and 2.3% (2014) expected
  - > important downside risks, incl. subdued internal demand
- Labour markets
  - > stabilisation of employment 6% below pre-crisis
  - > unemployment around 10.5%, esp. youth & low-skilled

# WHAT IS SHARED PROSPERITY?

- WB shared prosperity indicator: B40 income growth
  - relative to overall income growth, combines absolute growth and equity
  - 'Rawlsian' inequality measure
- Data: SILC up to 2012 release
- EU measures
  - at risk of poverty rate 17% (EU27, 2011) – 11-23% in EU11
  - serious material deprivation: might also depend on net wealth
  - AROPE: 25% (EU27, 2012) – but, heterogeneity
  - B40 cutoff point: 85-91% of median income
- Poverty or equity? Need to see context
  - income growth distribution: very useful

# EU MEASURES OF POVERTY AND SOCIAL EXCLUSION

COUNTRY	AROP	VLWI	SMD	ALL	AROPE11	GDPPC	GINI	GINI_PRE
BG	22	11	44	6	49	47	35	38
CZ	10	7	1	1	15	81	25	30
EE	18	10	9	2	23	69	32	36
LV	19	12	31	5	40	60	35	39
LT	20	12	19	3	33	68	33	39
HU	14	12	23	4	31	67	27	36
PL	18	7	13	2	27	65	31	35
RO	22	7	29	2	40	48	33	37
SI	14	8	6	1	19	84	24	30
SK	13	8	11	3	21	75	26	30

## WHO ARE THOSE IN FOCUS?

- B40%: 'the poor' + 'lower middle class'
- B40 households: less work in quantity and quality
  - more dependent elderly, esp. in 2nd quintile
  - lower educational attainment
  - lower employment rates
  - lower job security, lower skill content
  - esp. relevant: agricultural employment

## THOSE IN FOCUS: FULL PICTURE?

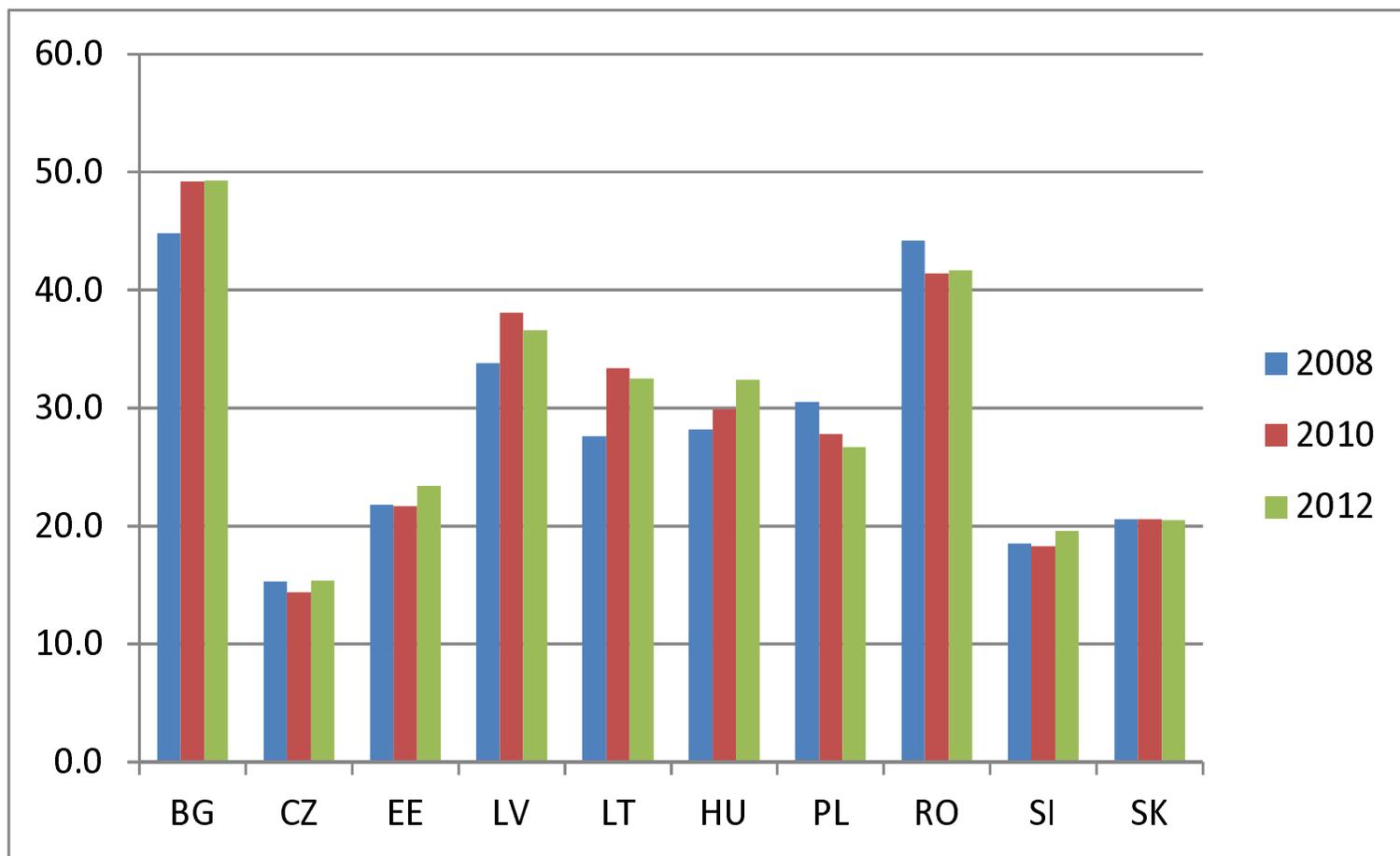
- Income vs. welfare
  - non-monetary components of welfare: e.g., health status
  - utility and choice, cf. elderly in Q2
  - role of wealth
- Sub-populations
  - women?
  - children?
- Multivariate analysis
- In- and outflows

## HOW HAS PROSPERITY BEEN SHARED?

- Findings:
  - shared prosperity except LV, LT, SK
  - 2008ff: falling HH incomes except SK
  - country heterogeneity in both sub-periods
- Sources of poverty reduction 2006-10: labour earnings, social insurance
  - employment of adults contributing little
  - taxes increasing the poverty headcount
  - ≠ B40!
- Outlook: shared prosperity will be more difficult

# HOW HAS PROSPERITY BEEN SHARED?

2008-2012: AROPE rates



# SHARED PROSPERITY IN CEE: WHAT NEXT?

- Growth relaunch
  - promote competitiveness, improve business environment, incentivise investment and innovation
  - public investment, also in education
  - better availability of credit, market entry/exit
  - pro-entrepreneurial attitudes
- Labour market, taxation, social policy
  - improve labour force participation, also by tax-benefit incentives
  - remove barriers to employment
  - more progressive taxation
- Improve people's capabilities

## SHARED PROSPERITY IN CEE: WHAT NEXT...

- A laudable agenda
  - but will be difficult: low growth, external risks, deleveraging
  - beware of hysteresis effects of low employment
- Obviously key: enhance the work intensity of the poor
  - apparently, no successes up to 2010; what are reasons?
  - how about wage effects?
- Difficult trade-offs
  - resource needs for upskilling – no immediate returns
  - the elderly: labour supply measures against demand bottlenecks?
- Difficult implementation
  - persistence of social fabric and attitudes

# SHARED PROSPERITY: SOME QUESTIONS

- More on the role of endowments, returns, policies
- Was pre-crisis shared prosperity sustainable?
- Role of assets for households' ability to cope with shocks, and income mobility
- Consideration of institutions

# SHARED PROSPERITY: SOME UNEXPLORED RESERVES

Scope for enhancing both efficiency and equity...

- Improve the quality of public administration
- Combat tax evasion: base broadening; progressivity
- Improve the fairness of access to returns