

# Impacts of the global crisis and future growth challenges

Peter Havlik

The Vienna Institute for International Economic Studies  
(wiiw)

September 2010

# Growth model, global crisis and the Strategy Europe 2020

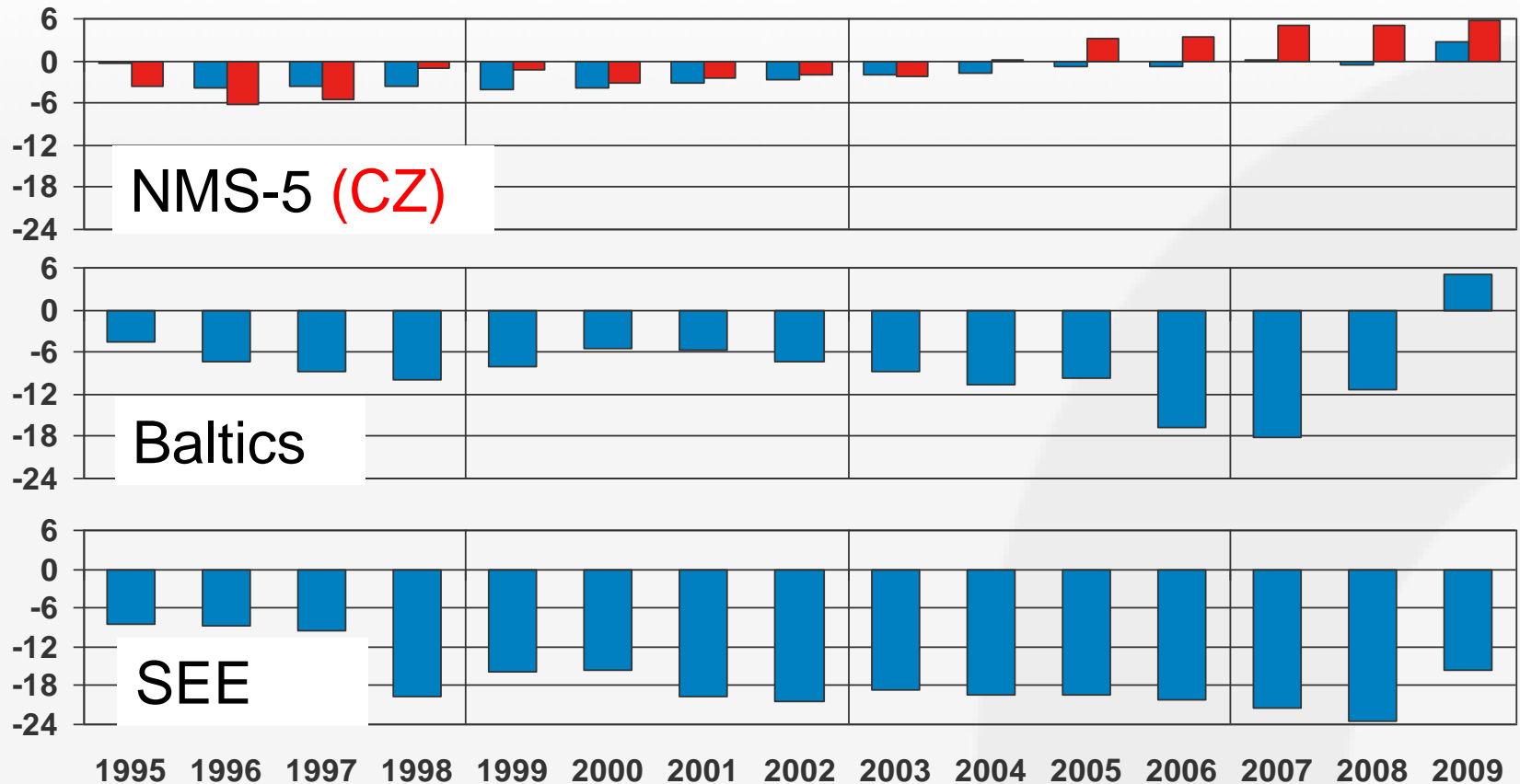
## Key points:

- Growth model: liberalization and integration
- Global crisis: transmitted via the growth model
- Strategy Europe 2020: a revival of Lisbon ?

## Features of the (old) growth model:

- associated with significant internal and **external liberalization** (trade, capital transactions, financial market integration)
- targeted at **integration with the EU area**
- **benefits**: capital inflows (FDI), trade integration, ‘technology’ transfer; institutional convergence
- the model worked - ‘convergence process’ – **but structural imbalances** emerged

## Trade balance of goods and services, in % of GDP



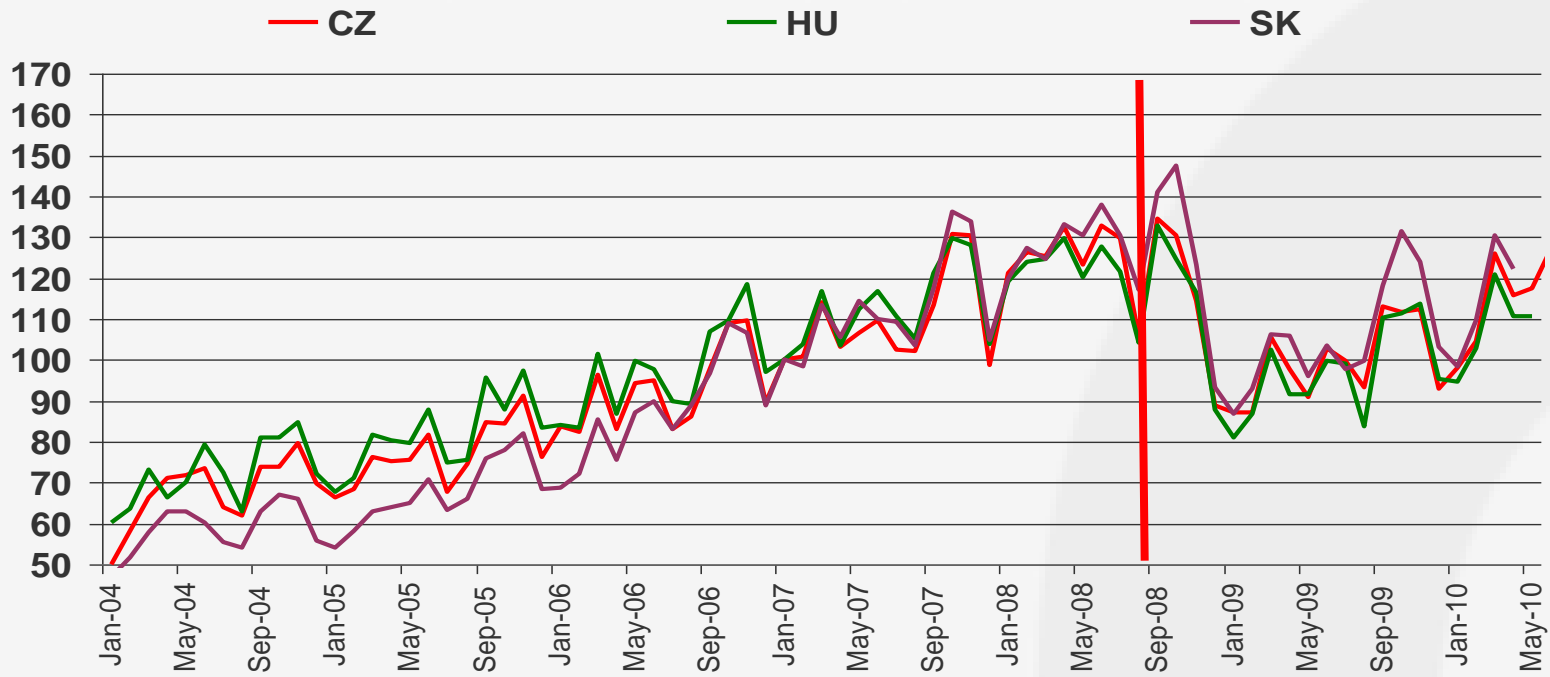
NMS-5: CZ, HU, PL, SK, SI. Baltics: EE, LV, LT. SEE: BG, RO, HR, MK, BA (from 1998), RS (from 1999), ME (from 2001).  
 Source: wiiw Annual Database incorporating national statistics, Eurostat.

## Three transmission channels of the global crisis:

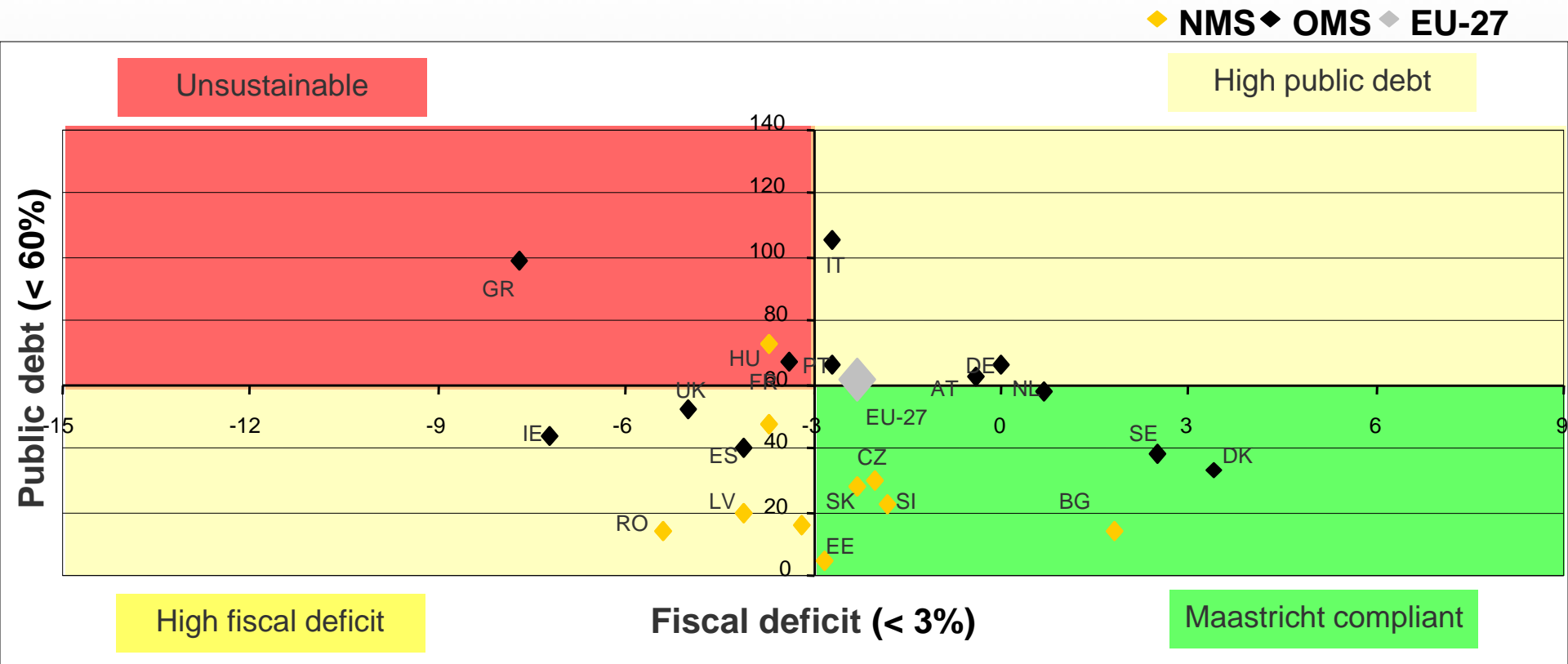
- I. Collapse of demand for imports from the region
  - => collapse of exports
  - => collapse of industrial production
  - => collapse of oil and metals prices (RU, UA, KZ)
  
- II. More difficult credit financing for households, companies and government after September 2008 (Lehman Brothers exit)
  
- III. Hardly any counter-cyclical economic policy measures of the state (except Russia, Kazakhstan and Poland)

# Collapse of exports after Sept. 2008

in EUR, January 2007 = 100

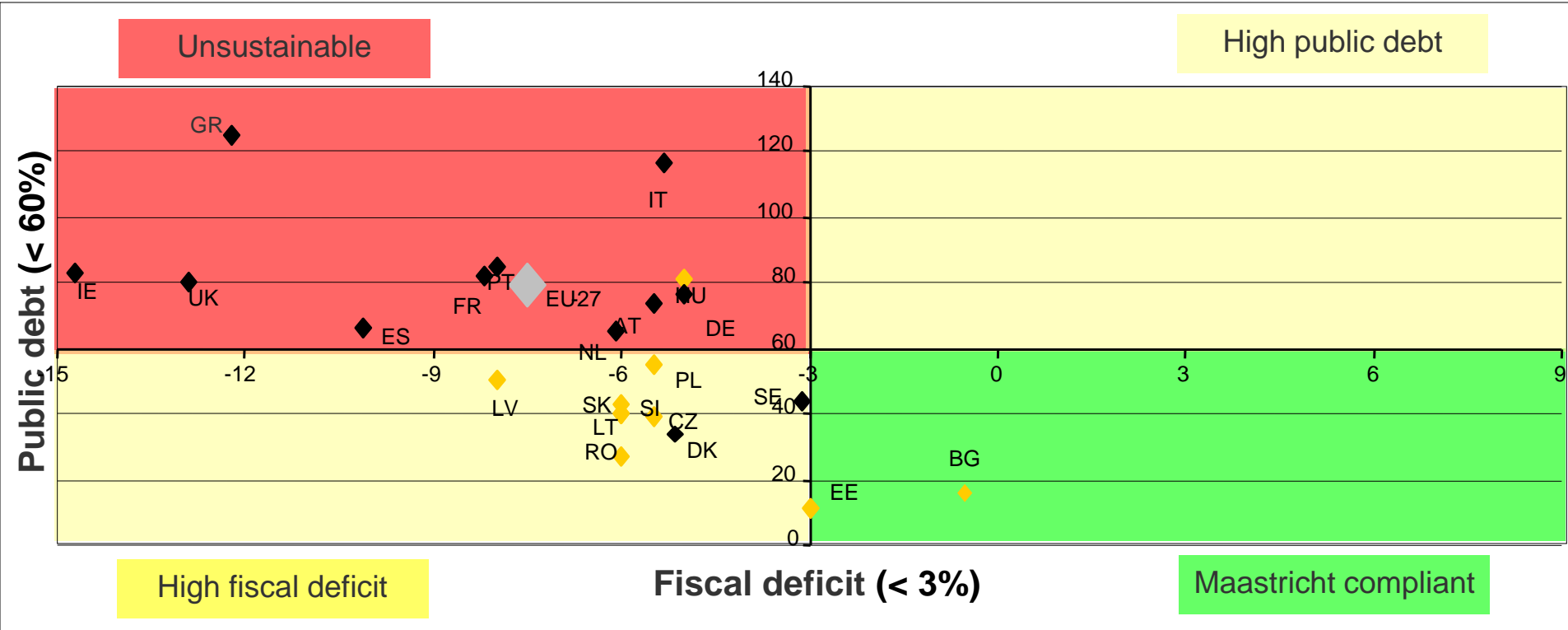


# Budget deficit and public debt, 2008 in % of GDP (Maastricht criteria)



# Budget deficit and public debt, 2010 in % of GDP (Maastricht criteria)

◆ NMS ◆ OMS ◆ EU-27

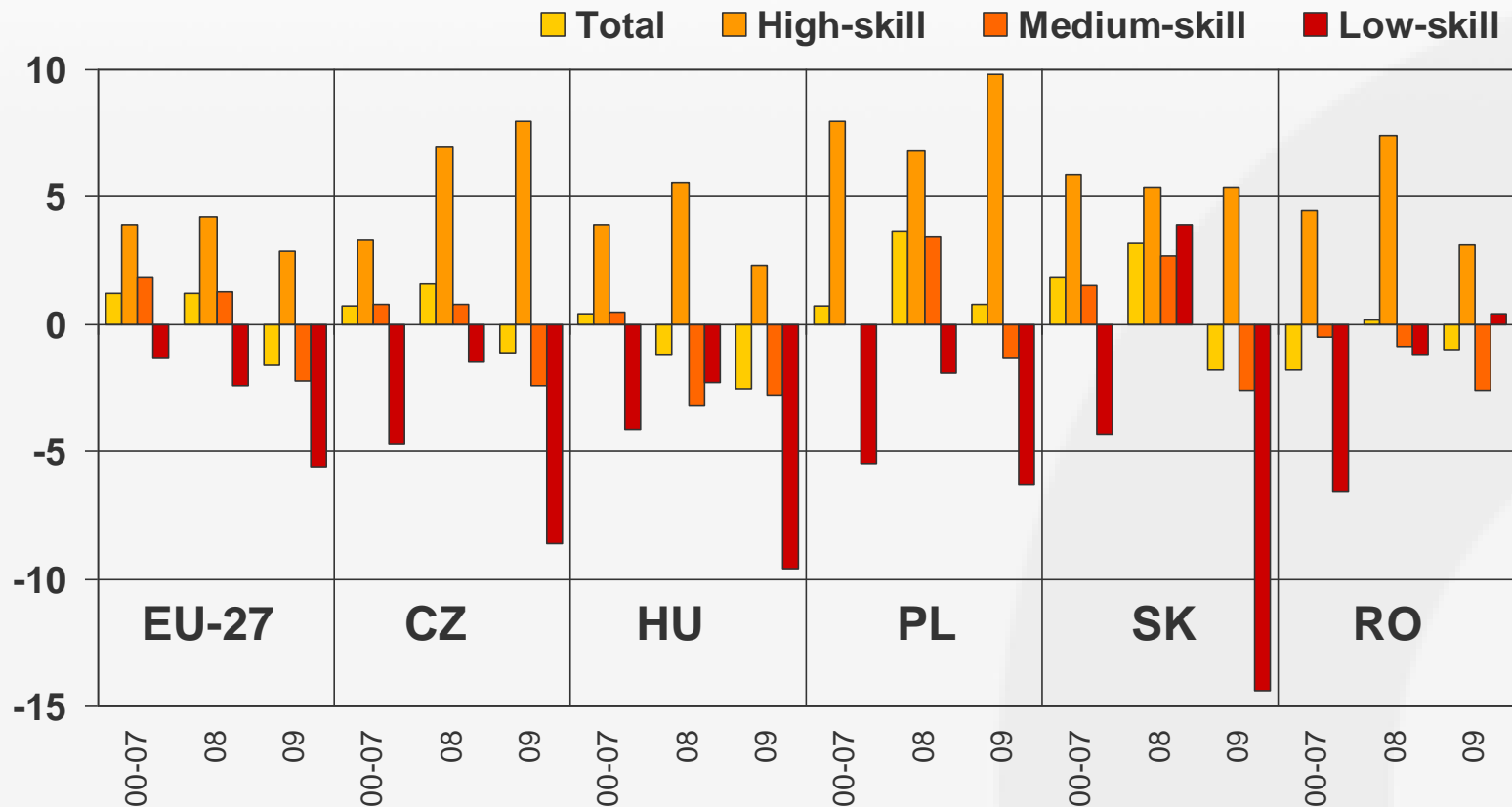


## Strategy Europe 2020

- Raising the employment rate of the population aged 20-64 from the current 69% to 75%
- Raising the investment in R&D to 3% of the EU's GDP
- Meeting the EU's '20/20/20' objectives on greenhouse gas emission reduction and renewable energies
- Reducing the share of early school leavers from the current 15% to under 10% and making sure that at least 40% of youngsters have a degree or diploma
- Reducing the number of Europeans living below the poverty line by 25%, lifting 20 million out of poverty from the current 80 million.

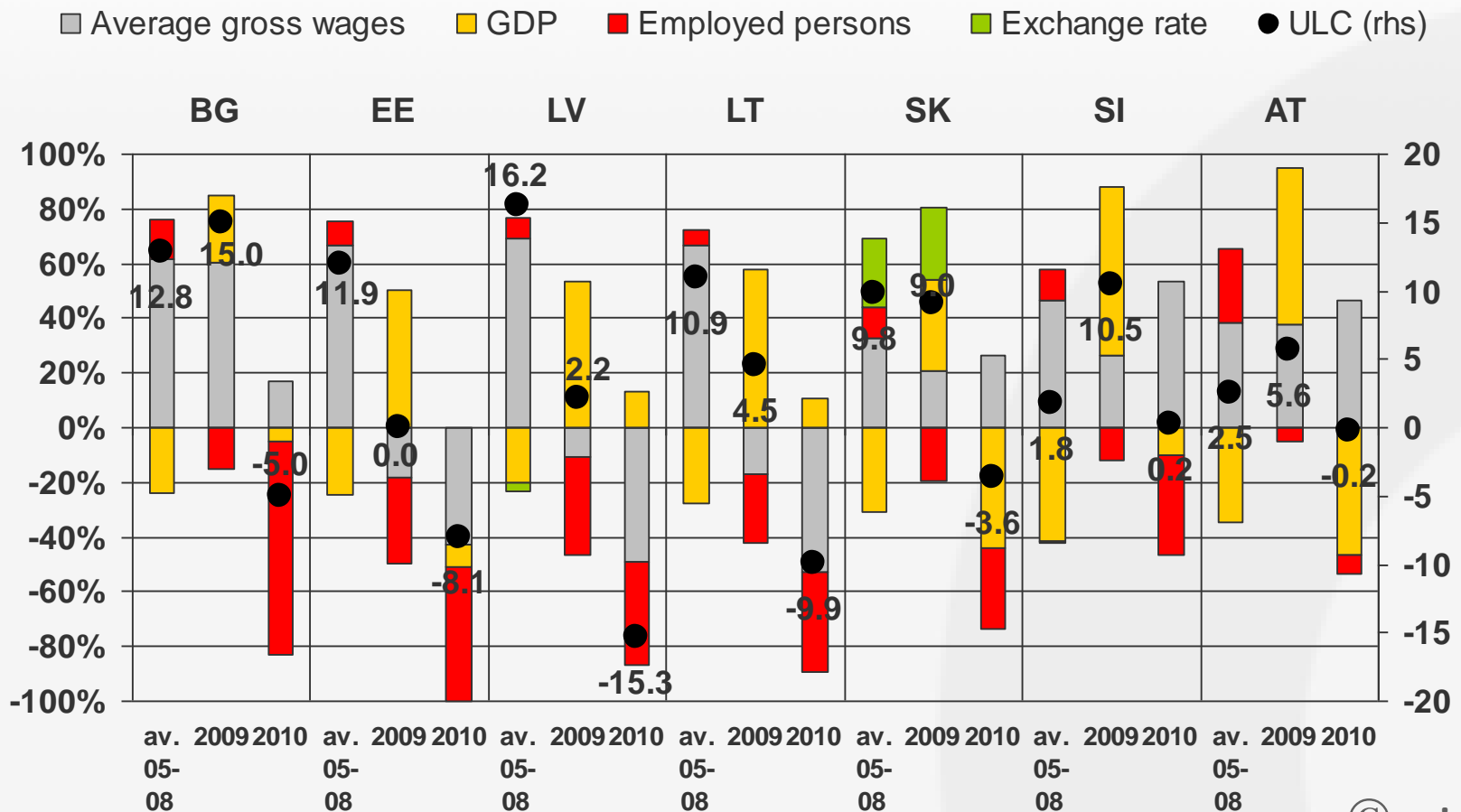
# Employment by skill groups

average changes 2000-2007, 2008 and 2009, in %

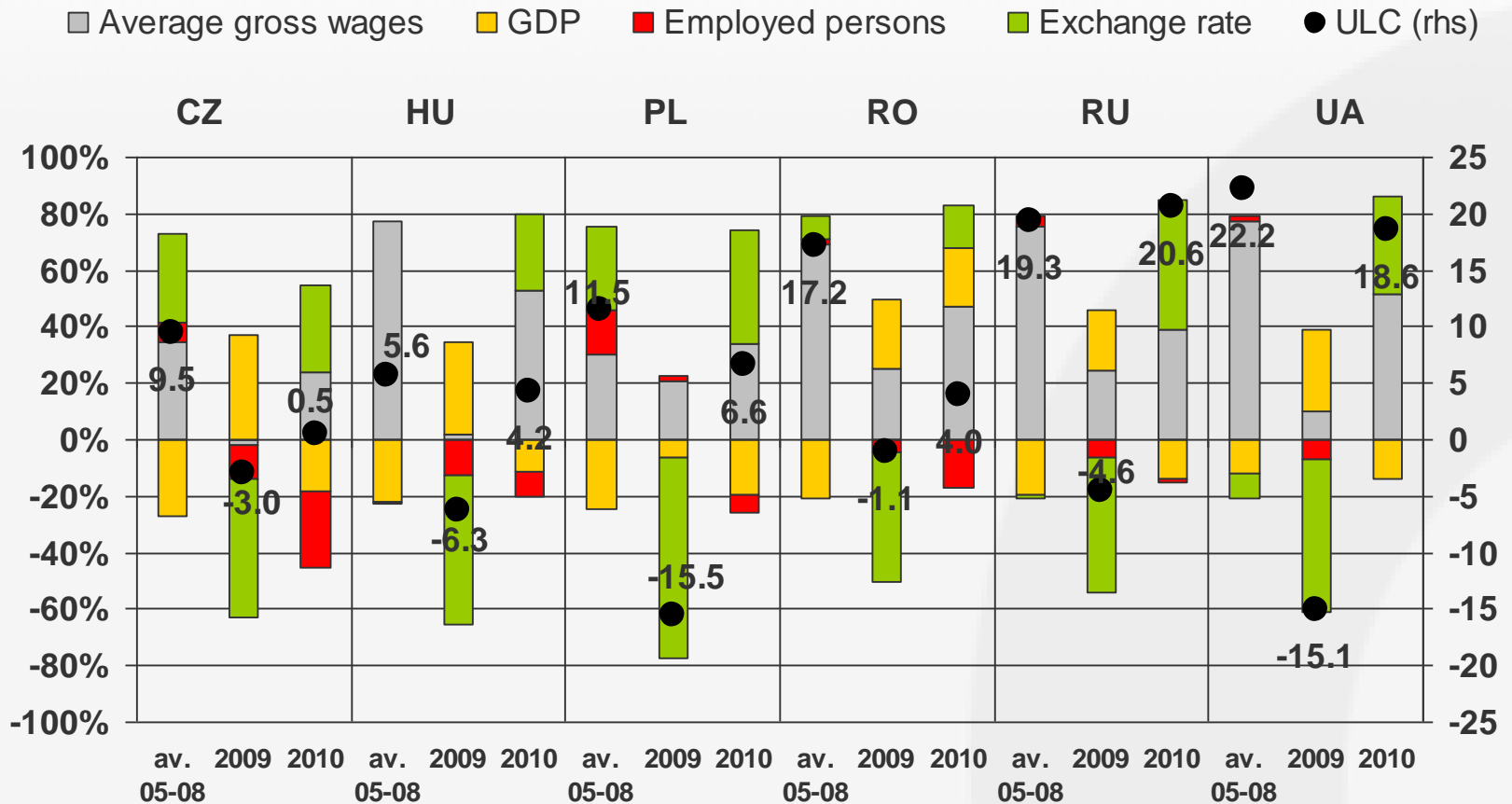


# ULC growth and contributions of main components, average annual changes in %, 2005-2010

## 'Fixers'



# ULC growth and contributions of main components average annual changes in %, 2005-2010 'Floaters'



## Exchange rates

- Flexible exchange rates have supported sustainable current account deficits
- ‘Floater’ countries had a less costly adjustment to the crisis (lower employment losses)
- Nominal depreciations improve competitiveness and support growth once external demand recovers
- Fixed exchange rates tend to mandate procyclical fiscal policies during the crisis and in the medium run
- EMU membership may not protect against real exchange rate misalignments
- Flexibility helps – especially in times of crisis

## Constraints following the crisis:

### **External factors:**

- higher risk assessment of the region;
- more difficult external (and internal) financing;
- reduced growth expectations in the most important export markets;
- tougher to join the eurozone (new OCA debate)

## Constraints following the crisis:

### **Internal factors:**

- ‘Deleveraging’ of private sector, increased propensity to save;
- more limited room to manoeuvre for fiscal policy;
- weaker and more cautious banking sector;
- very differentiated processes of real exchange rate adjustments

## Some tentative conclusions

- EU and national policies should be reformed in order to improve “economic governance”
- in order to benefit from trade and financial integration regulation is needed
- to deal with external and domestic imbalances measures to improve competitiveness needed (Strategy Europe 2020)
- depending on the types and severity of imbalances, the speed to full integration should be calibrated (“flexibility” helps)
- depending upon country-specific circumstances, the ‘integration model of growth’ must be adjusted but not abandoned

## Selected references:

- **‘Will Exports Prevail over Austerity?’ wiiw Current Analysis and Forecasts, No. 6, July 2010, Vienna**
- **‘Whither Growth in Central and Eastern Europe? Policy lessons for an integrated Europe’ Policy Report written by the Bruegel-wiiw Expert Group, Vienna and Brussels, June 2010**
- **Atoyan, R., (2010), ‘Beyond the Crisis: Revisiting Emerging Europe’s Growth Model’, IMF Working Paper 10/92**
- **Havlik, P., (2010), ‘Unit Labour Costs, Exchange Rates and Responses to the Crisis’, wiiw Monthly Report No. 7/10, July**
- **Haddad, M., Harrison, A., Hausman, C., (2010), ‘Decomposing the Great Trade Collapse: Products, Prices, and Quantities in the 2008-2009 Crisis’. NBER Working Paper No. 16253, August**
- **IMF-ILO, (2010), ‘The Challenges of Growth, Employment and Social Cohesion’. Discussion document prepared for joint IMF-ILO conference, September**