

## 5. Convergence Monitor: CESEE again proves its resilience

BY RICHARD GRIEVESON

**The years since 2019 have been tumultuous ones for CESEE, with the outbreak of the Covid-19 pandemic in 2020, followed by Russia's full-scale invasion of Ukraine in 2022.** While these events affected the whole global economy, they had a particular resonance for CESEE. During the worst of the pandemic in 2020-2021, the region suffered some of the highest rates of 'excess deaths' in the world.<sup>18</sup> Meanwhile the invasion of Ukraine and the ensuing imposition of sanctions on Russia had a major negative impact on the economies of those two countries, but also caused huge disruptions to the region more generally. CESEE economies were impacted by their proximity to the conflict, the severing of important trading relationships with Russia in some cases, and the disruption to energy supplies, which caused inflation rates – especially in the Baltic states – to surge much higher than in most of Western Europe.

**In this context, over this period the continued per capita GDP convergence of almost all the CESEE countries with Germany has been remarkable.** Figure 5.1 below shows that between 2019 and 2022, 21 of the 23 CESEE countries posted per capita GDP convergence with Germany in purchasing power standard (PPS) terms. The top performers were Turkey, Romania, Poland and Croatia, all of which increased their wealth levels versus Germany by 7 percentage points or more. The best-performing sub-region was EU-CEE, helped by its more active use of fiscal policy – deploying both national budget revenue and also (crucially) EU funds – to counteract external shocks. Although the Western Balkan countries all posted convergence over this period as well, it was generally at a lower rate than EU-CEE, due in part to less fiscal space and limited access to EU funds. For understandable reasons Ukraine was the worst performer, although the massive exodus of people from that country means that its per capita GDP decline versus Germany is much less than for headline GDP. Interestingly, Russia posted convergence over this period, mostly reflecting an increase between 2020 and 2021.

**While the positive per capita convergence performance is a welcome sign, it may have been helped by the region's loss of population.** While breaks in the series in some cases mean it is hard to make direct population comparisons between 2019 and 2022 for some countries, it does seem clear that the population declined in many CESEE countries over these years.

**Our new forecasts suggest that most countries of the region will continue to catch up with Germany, but there are major challenges to future convergence performance.** Recent wiiw research has shown that the EU-CEE region is at risk of a functional specialisation trap and urgently needs a new growth model,<sup>19</sup> including a more active industrial policy, to achieve the next stage of economic convergence.<sup>20</sup> CESEE's demographic challenges are enormous and will cap growth potential

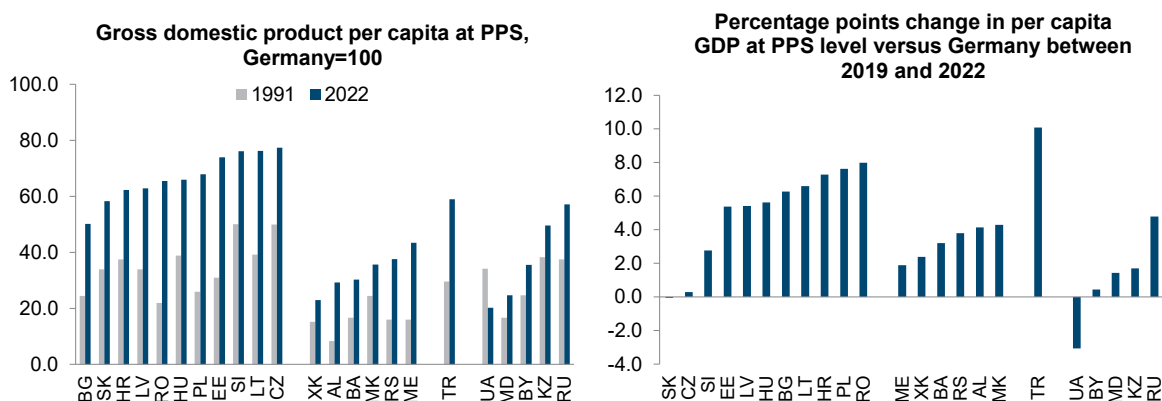
<sup>18</sup> <https://iris.who.int/handle/10665/367758>

<sup>19</sup> <https://wiiw.ac.at/avoiding-a-trap-and-embracing-the-megatrends-proposals-for-a-new-growth-model-in-eu-cee-p-5987.html>

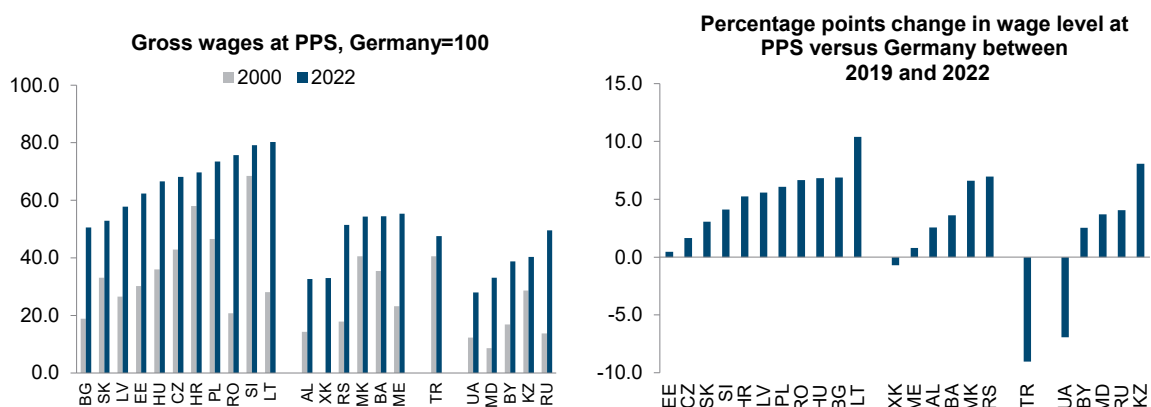
<sup>20</sup> <https://wiiw.ac.at/study-eu-cee-countries-need-an-industrial-policy-for-a-new-growth-model-n-604.html>

in the future, albeit not necessarily per capita GDP convergence.<sup>21</sup> The lasting impact of the war on the region is uncertain, but could adversely affect foreign investor perceptions of CESEE. Finally, the structural problems faced by Germany itself – which remains a major economic partner for almost all CESEE countries, and the centre of the manufacturing network into which many are plugged – also represent a major challenge to future economic growth in the region.

**Figure 5.1 / GDP per capita and gross wages per employee at PPS, convergence with Germany**



Note: Data 1991 for BA and XK refer to 2000, for ME and RS to 1995.  
 Source: wiiw Annual Database incorporating national statistics and Eurostat.



Note: Gross wages are based on administrative data. From 2019 Lithuanian and Romanian wages include employers' social security contributions. Turkey wages: personnel costs, data 2000 refer to 2003.  
 Source: wiiw Annual Database incorporating national statistics and Eurostat.

<sup>21</sup> <https://wiiw.ac.at/eu-faces-a-tough-demographic-reckoning-p-4912.html>

**Table 5.1 / CESEE GDP per capita and gross wages per employee at PPS (EU27), 2022**

	BG	CZ	EE	HR	HU	LT	LV	PL	RO	SI	SK	EU- CEE
GDP per capita	20,710	31,950	30,530	25,730	27,260	31,480	25,940	28,040	27,070	31,460	24,060	27,980
Gross wages	18,042	24,348	22,286	24,875	23,774	28,666	20,637	26,243	27,027	28,255	18,887	24,828

	AL	BA	BY	KZ	MD	ME	MK	RS	RU	TR	UA	XK	non- EU
GDP per capita	12,080	12,490	14,660	20,470	10,180	17,910	14,730	15,530	23,620	24,360	8,340	9,470	21,020
Gross wages	11,656	19,431	13,858	14,404	11,820	19,769	19,409	18,384	17,706	17,003	10,014	11,781	16,396

Note: Gross wages are based on administrative data. Lithuanian and Romanian wages include employers' social security contributions. Turkey wages: personnel costs.

Source: wiiw Annual Database incorporating national statistics and Eurostat.

**Table 5.2 / CESEE GDP per capita and gross wages per employee in EUR, 2022**

	BG	CZ	EE	HR	HU	LT	LV	PL	RO	SI	SK	EU- CEE
GDP per capita	12,400	25,850	27,040	17,130	17,580	23,580	20,710	17,370	15,010	27,040	19,930	18,500
Gross wages	10,803	19,694	19,740	16,559	15,333	21,468	16,476	16,251	14,988	24,287	15,648	16,324

	AL	BA	BY	KZ	MD	ME	MK	RS	RU	TR	UA	XK	non- EU
GDP per capita	6,470	6,800	7,470	10,910	5,430	9,600	7,040	8,920	14,430	10,150	4,360	5,030	11,300
Gross wages	6,243	10,571	7,061	7,680	6,300	10,596	9,277	10,555	10,818	7,083	5,243	6,252	9,013

Note: Gross wages are based on administrative data. Lithuanian and Romanian wages include employers' social security contributions. Turkey wages: personnel costs.

Source: wiiw Annual Database incorporating national statistics and Eurostat.