

[Home](#) > [Comparative Economic Studies](#) > Article

Beyond the Crisis: Prospects for Emerging Europe

| Regular Article | Published: 28 April 2011

| Volume 53, pages 261–290 (2011) [Cite this article](#)[Save article](#)[View saved research](#) >

[Comparative Economic Studies](#)

[Aims and scope](#) →[Submit manuscript](#) →[Zsolt Darvas](#)^{1,2,3}[107](#) Accesses [7](#) Citations [3](#) Altmetric [Explore all metrics](#) →

Abstract

This paper assesses the impact of the 2008–2009 global financial and economic crisis on the medium-term growth prospects of the countries of Central and Eastern Europe, the Caucasus and Central Asia, which began an economic transition about two decades ago. We use cross-country growth regressions, putting special emphasis on a proper consideration of the crisis and robustness. We find that the crisis has had a major impact on the within-sample fit of the models used and that the positive impact of EU enlargement on growth is smaller than previous research has shown. The crisis has also altered the future growth prospects of the countries studied, even in the optimistic but unrealistic case of a return to pre-crisis capital inflows and credit booms.



This is a preview of subscription content, [log in via an institution](#) to check access.

Access this article

[Log in via an institution](#) →

Subscribe and save

✔ Springer+

from €37.37 /Month

- Starting from 10 chapters or articles per month
- Access and download chapters and articles from more than 300k books and 2,500 journals
- Cancel anytime

[View plans](#) →

Buy Now

[Buy article PDF 39,95 €](#)

Price includes VAT (Poland)

Instant access to the full article PDF.

[Institutional subscriptions](#) →

Similar content being viewed by others

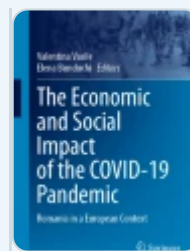
What Happened to the Economic Convergence of Central and Eastern Europe After the Global Financial...



Macroeconomic Impacts of the Crisis on European Emerging Markets

Article | 13 March 2018

Chapter | © 2017



Another Crisis, Different Responses? Determinants of Crisis and Mixed Impact on Economic Development: A...

Chapter | © 2024

Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[Economic Growth](#)

[Emerging Markets and Globalization](#)

[European Economics](#)

[Financial Crises](#)

[European Economic Integration](#)

[Economic Development, Innovation and Growth](#)

[Migration Patterns and Socioeconomic Dynamics in Regional Development](#)

Notes

1. The CEECCA countries that formerly belonged to the political and economic sphere of the Soviet Union have a common historical root but are rather diverse. Ten countries are members of the European Union (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia). Seven countries in the western Balkan are either EU accession candidates or potential candidates (Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia, and Kosovo under UNSC Resolution 1244/99, though we do not include Montenegro and Kosovo in our study due to lack of data). Among the 12 other former Soviet Union countries, five are major hydrocarbon exporters (Azerbaijan, Kazakhstan, Russia, Turkmenistan and Uzbekistan) while the other seven are not (Armenia, Belarus, Georgia, Kyrgyz Republic, Moldova, Tajikistan and Ukraine); most of these countries belong to the Commonwealth of Independent States (CIS) and we shall refer them accordingly. Mongolia is also a transition country, while Turkey - another EU candidate - is not, but we also include it in our study due to its geographical proximity.
2. See extensive analyses of the development model of the CEECCA region and assessments of its future potential in [Bruegel and WIIW \(2010\)](#), [Cihák and Fonteyne \(2009\)](#), [Fabrizio et al. \(2009\)](#) and [Mitra et al. \(2009\)](#).

3. We should highlight that forecasts for many explanatory variables are not necessary because these explanatory variables represent initial conditions that lag some years compared to growth, though there are some contemporaneous correlates as well. When it is only the regressand, the growth rate of GDP, which contains a measurement error due to the adoption of forecasts, it boosts the standard error of the estimate but does not distort the unbiasedness of the regression.
4. It was widely expected that countries undergoing transition would experience an initial decline in output and employment, but the depth and the length of the post-communist recession were unexpected ([Fischer, 2002](#); [Svejnar 2006](#)). The literature has proposed various explanations for this phenomenon. [Svejnar \(2006\)](#) categorises them into six main themes. First, a disorganisation among suppliers, producers and consumers associated with the central planning; second, the dissolution in 1990 of Comecon (Council for Mutual Economic Assistance), which governed trade relations across the Soviet bloc; third, difficulties of sectoral shifts in the presence of labour market imperfections; fourth, a switch from controlled to uncontrolled monopolistic structures in these economies; fifth, a credit crunch stemming from the reduction in state subsidies to firms and rise in real interest rates; and finally, tight macroeconomic policies may have played a role in the depth and length of the recession.
5. See [Veugelers \(2011\)](#) for a discussion of the different role of various factors for technological progress along the development path.
6. The cut-off values for the third country group, which are based on the average GDP per capita at PPP compared to the US in the 2000–2010 period, were determined on the basis of CEE10 countries. We calculated their minimum, 23.0% for Bulgaria, and maximum, 56.9% for Slovenia, and the standard deviation, which was subtracted from the minimum and added to the maximum to determine a possible range. However, we also include in this

middle-income country group those seven CIS countries that have lower per capita income, as well as Mongolia, in order to be able to analyse all CEECCA countries using the same model.

7. Multicollinearity among some variables may also explain the difficulties in finding a single best model. Note that multicollinearity affects the parameter estimates and their standard errors, but it does not reduce the predictive power or reliability of the model as a whole.
8. There are clear differences within the CEECCA region, however. The CEE10 have reached the highest level of integration, followed by the countries of the western Balkans that have either EU 'candidate' or 'potential candidate' status. The six 'Eastern Partnership' countries, which were part of the Soviet Union, have reached a varying degree of integration with the EU15, while integration was generally minor for most of the other former Soviet Union countries.
9. Unfortunately, it is difficult to collect reliable data on migration for a wide range of countries and time periods.
10. For most CEECCA countries the available data start in 1989 with the exception of a few, for which data for earlier years are also available.
11. [Falcetti et al. \(2006\)](#) and [Iradian \(2009\)](#) use a discrete dummy variable to measure the same phenomenon. The dummy takes a value of 1 if output in a given year is below 70% of its 1989 value. [Böwer and Turrini \(2010\)](#) adopt a continuous variable to capture this effect and hence it is the closest to our variable: they define an 'output loss' variable as the ratio of current output to the average output during the period 1990-1995.
12. See detailed results of this exercise in [Table 1](#) of [Darvas \(2010b\)](#).

13. The sample period of [Böwer and Turrini \(2010\)](#) covers actual data till 2007 and the spring 2008 forecast of the European Commission for 2008.
14. The income thresholds we applied were defined in the section 'Methodology and model selection issues'. We did not include the four EU15 countries falling within the thresholds (Greece, Italy, Portugal and Spain). The 44 countries are: Albania, Algeria, Argentina, Azerbaijan, Belarus, Bosnia/Herzegovina, Botswana, Brazil, Chile, Colombia, Costa Rica, Croatia, Dominican Republic, Ecuador, El Salvador, Gabon, Iran, Israel, Jamaica, Kazakhstan, South Korea, Lebanon, Libya, Macedonia, Malaysia, Mauritius, Mexico, Namibia, New Zealand, Oman, Panama, Peru, Russia, Saudi Arabia, Serbia, South Africa, Taiwan, Thailand, Trinidad and Tobago, Tunisia, Turkey, Ukraine, Uruguay, and Venezuela.
15. For example, during the pre-crisis boom, rapid economic growth was accompanied by growing internal and external vulnerabilities in several CEECCA countries, which would suggest a perverse relationship between vulnerabilities and economic growth.
16. Note that this close to zero cumulative growth from 2005 to 2010 is the product of high growth in 2006 and 2007 and a deep contraction from 2007 to 2010.

References

Abiad, A, Leigh, D and Mody, A . 2009: Financial integration, capital mobility, and income convergence. *Economic Policy*, 24 (58): 241-305.

Åslund, A and Jenish, N . 2006: The Eurasian growth paradox. Working paper no. 06-5, Peterson Institute for International Economics.

Berg, A, Borensztein, E, Sahay, R and Zettelmeyer, J . 1999: The evolution of output in transition economies: Explaining the differences. IMF Working paper no. 99/73.

Böwer, U and Turrini, A . 2010: EU Accession: A road for fast-track convergence? *Comparative Economic Studies* 52: 181–205.

Bruegel and WIIW. 2010: Whither growth in Central and Eastern Europe? Policy lessons for an integrated Europe. Report written by Torbjörn Becker, Daniel Daianu, Zsolt Darvas, Vladimir Gligorov, Michael Landesmann, Pavle Petrovic, Jean Pisani-Ferry, Dariusz Rosati, André Sapir and Weder Di Mauro, Bruegel Blueprint, Vol. XI.

Cerra, V and Saxena, SC. 2008: The myth of economic recovery. *The American Economic Review* 98 (1): 439–457.

Cihák, M and Fonteyne, W . 2009: Five years after: European Union membership and macro-financial stability in the new member states. IMF Working paper no. 09/68.

Darvas, Z . 2010a: Global financial crisis and growth prospects. EU 10 Regular Economic Report July 2010, World Bank, pp. 35–48.

Darvas, Z . 2010b: Beyond the crisis: prospects for emerging Europe. Bruegel Working paper 2010/6.

Durlauf, SN, Johnson, PA and Temple, JRW . 2005: Growth econometrics. Chapter 8 in: Aghion, P and Durlauf, SN (eds). *Handbook of Economic Growth*, Vol. 1A. Amsterdam: Elsevier B.V. 555–677.

European Commission. 2009: Five years of an enlarged EU. Economic

achievements and challenges. European Commission, Directorate General for Economic and Financial Affairs, Brussels.

European Commission. 2010: European economic forecast – Autumn 2010. European Economy 7/2010, Directorate-General Economic and Financial Affairs of the European Commission.

Fabrizio, S, Leigh, D and Mody, A . 2009: The second transition: Eastern Europe in perspective. IMF Working paper 09/43.

Falcetti, E, Lysenko, T and Sanfey, P . 2006: Reforms and growth in transition: Re-examining the evidence. *Journal of Comparative Economics* 34 (3): 421–445.

Fischer, S . 2002: Ten years of transition: Looking back and looking forward. IMF Staff Papers, Vol. 48.

Hauk Jr., WR and Wacziarg, R . 2009: A Monte Carlo study of growth regressions. *Journal of Economic Growth* 14 (2): 103–147.

Iradian, G . 2009: What explains the rapid growth in transition economies? IMF Staff Papers 56 (4): 811–851.

Levine, R and Renelt, D . 1992: A sensitivity analysis of cross-country growth regressions. *American Economic Review* 82 (4): 942–963.

Mitra, P, Selowsky, M and Zalduendo, J . 2009: Turmoil at twenty: Recession, recovery, and reform in Central and Eastern Europe and the former Soviet Union. Washington DC: World Bank, November 2009.

OECD. 2010: The impact of the economic crisis on potential output. WP1 Working

document, February.

Schadler, S, Mody, A, Abiad, A and Leigh, D . 2006: Growth in the Central and Eastern European countries of the European Union. IMF Occasional paper no. 252.

Stock, J H, Wright, J H and Yogo, M . 2002: A survey of weak instruments and weak identification in generalized method of moments. *Journal of Business and Economic Statistics* 20 (4): 518-529.

Svejnar, J . 2006: Strategies for growth: Central and Eastern Europe. Conference Proceedings: The New Economic Geography: Effects and Policy Implications, The Federal Reserve Bank of Kansas city, Jackson hole, Wyoming, 24-26 August, pp. 205-233.

Vamvakidis, A . 2008: Convergence in emerging Europe: Sustainability and vulnerabilities. IMF Working paper no. 08/181.

Veugelers, R . 2011: Assessing the potential for knowledge-based development in transition countries. Forthcoming in *Society and Economy*.

Acknowledgements

I am grateful to conference participants at the CICM Conference '20 Years of Transition in Central and Eastern Europe: Money, Banking and Financial Markets', the Tallinn University of Technology Conference 'Economies of Central and Eastern Europe: Convergence, Opportunities and Challenges', and ECOMOD 2010, and seminar participants at Bruegel, the European Bank for Reconstruction and Development and the Vienna Institute for International Economic Studies for comments and suggestions. Without implicating him in any way, I would also like to thank Alessandro Turrini for his comments and suggestions. Excellent research

assistance by Maite de Sola, Juan Ignacio Aldasoro and Lucia Granelli is gratefully acknowledged as well as editorial advice from Stephen Gardner. Bruegel gratefully acknowledges the support of the German Marshall Fund of the United States to research underpinning this paper.

Author information

Authors and Affiliations

Bruegel, Rue de la Charité 33, Brussels, 1210, Belgium

Zsolt Darvas

Institute of Economics of the Hungarian Academy of Sciences, Budaörsi út 45, 1112 Budapest, Hungary

Zsolt Darvas

Corvinus University of Budapest, Fövám tér 8, 1093 Budapest, Hungary

Zsolt Darvas

Rights and permissions

[Reprints and permissions](#)

About this article

Cite this article

Darvas, Z. Beyond the Crisis: Prospects for Emerging Europe. *Comp Econ Stud* **53**, 261–290 (2011).

<https://doi.org/10.1057/ces.2011.10>

Published

28 April 2011

Issue date

01 June 2011

DOI

<https://doi.org/10.1057/ces.2011.10>

Keywords

[crisis](#)

[economic growth](#)

[growth regressions](#)

[transition countries](#)

JEL Classifications

[C31](#)

[C33](#)

[O47](#)

Search

Search by keyword or author



Navigation

Find a journal

Publish with us

Track your research