



# Comments on Mojmir Mrak's “Redefining Growth Models...”

Mark Hallerberg  
Hertie School of Governance  
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# Main Points of Argument

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- **Before the crisis:** Growth in region strong
  - It was based on 1) strong domestic demand and 2) capital inflows
- **Crisis:** Effects were worse in the region than in any other emerging region
- **Post-Crisis:** Expectation that the previous model will not work
- The **building blocks** to a new growth model
  - Increase private and public savings
  - Proactive policies that direct capital into tradable sectors, exports
  - Structural reforms
  - [Measures to make the region less vulnerable to shocks]

# My comments

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- Is the “death” of the old model premature?
- Is there more hope for the new model than Professor Mrak suggests?
- Final statistical comments

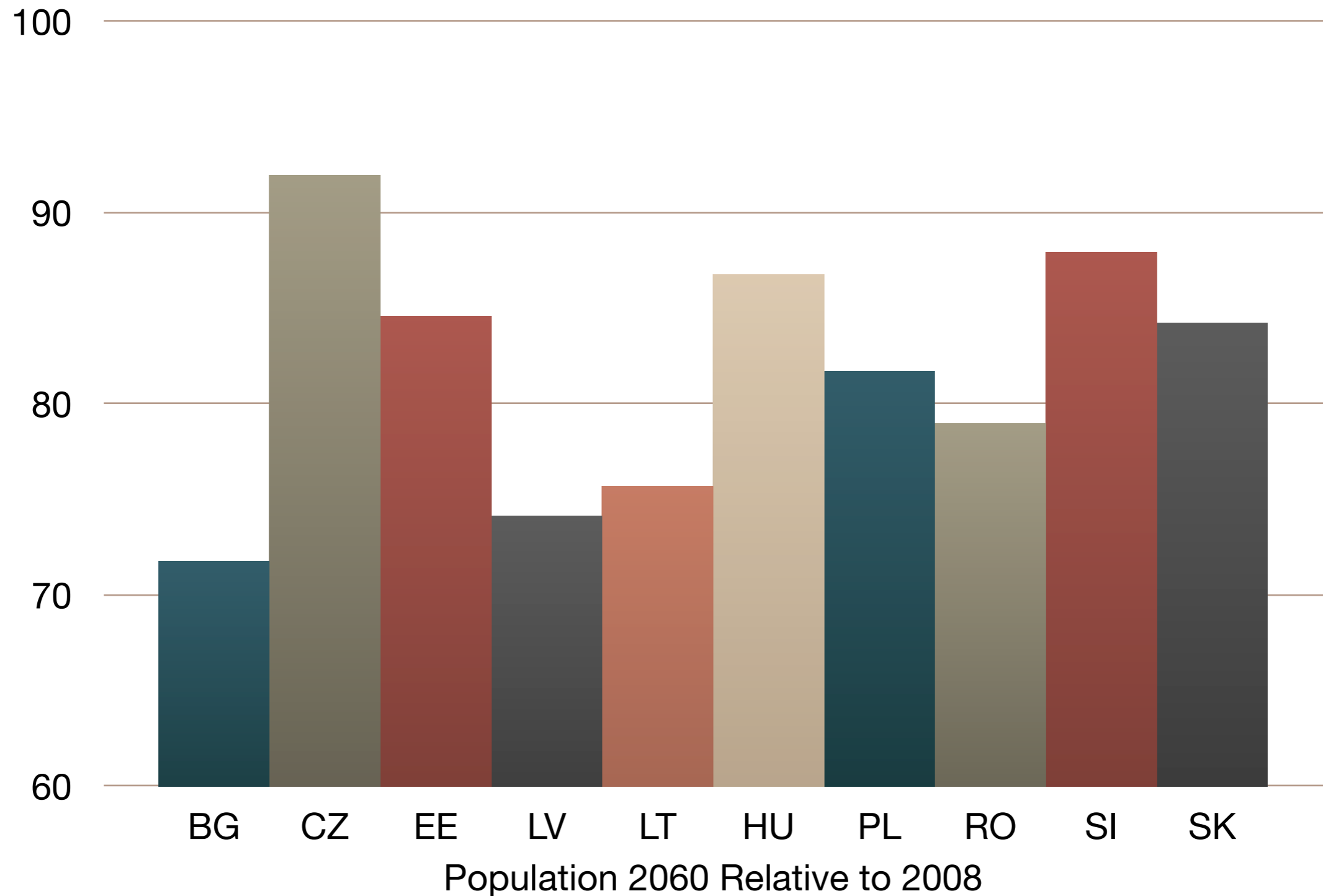
# Euro--On the Horizon?

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- Small portion of countries have the euro (Slovenia, Slovakia, and Montenegro); what should one expect if more countries adopt it?
- More capital flows
  - More domestic economic reforms to get into euro
  - “Original Sin” so problematic in Latin America, which exacerbates sudden stops, does not exist

# Demographics--Big concern longer term, potential growth *will* decline

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# Comments on Building Blocks

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- **Building Block 1: Increase Savings**

- 2010 crisis an opportunity to justify higher public savings rates
  - Also an opportunity to reform fiscal institutions, with such reforms perhaps more likely for countries moving towards euro accession
- Probably cannot repeat Asian record on private savings, however, because they countries are democracies and are in the EU

# Blocks (Continued)

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- **Building Block 3:** Increase Productivity
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- **Building Block 3:** Increase Productivity
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  - Importance of such reforms clear
- **[Building Block 4]:** Reduce risks to future shocks
  - Focus on increased public savings, fiscal institutional reforms

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  - Moreover, potential growth rates in most of these countries quite low, and will get lower because of demographics factors

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- Projections about potential growth more stable for “old member states”
  - Moreover, potential growth rates in most of these countries quite low, and will get lower because of demographics factors
- **Fazit:** convergence will probably continue, but as much because the picture looks even worse in the old member states than in the new ones/candidate countries