Comments on Mojmir Mrak’s “Redefining Growth Models…”

Mark Hallerberg
Hertie School of Governance
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Main Points of Argument

• **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

• 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?

• 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
Comments on Building Blocks

- **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
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  - Will measures to promote “smart, sustainable, and inclusive growth” under Europe 2020 increase productivity?

  - Importance of such reforms clear
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- **Building Block 3**: Increase Productivity
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- **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

- **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