REAL CONVERGENCE OF EU-27 AND CROATIA IN THE PERIOD 1995-2017

PETAR SOPEK

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Discussant
Iftekhar Hasan
Fordham University and Bank of Finland

Overview

- Analyzes historical movements of real convergence of all 27 current EU member states and Croatia (1995-2011) and also projects future direction of convergence (2011-2017).

- The paper documents evidence of convergence. That is, disparity (GDP per capita) between new EU Member States, Croatia and old EU Member States is diminished.
- Financial crisis has slowed down the convergence a bit due to slow recovery of less developed member states!
- Croatian convergence is consistent with EU-12 trend in up to 2004 and lags behind in the post 2004 and the lag likely to continue.

Highlights

- Informative
- Successfully conveys the historical trends of convergence in EU 27.
- Compares GDP Per capita and Labor Productivity but convergence is highlighted via GDP per capita.
- EU-12 is lower in labor productivity and Croatia is lagging in GDP productivity and prices.
- This paper makes an important contribution by showing the existence of the pro-cyclical effect with a well designed and brilliant identification strategy.

What Else We Could Ask?

- What makes some countries to converge faster than others?
- Create periodic deviation from average and explain why there are variances across samples.
- Create a few hypotheses on what helps to converge.

    Is it Institutions?

    Governance?

    Legal System?
- Create periodic deviation from average and explain why there are variances across samples.
- Examine whether accession to EU changes the trend of such deviation.

Comments (Cont.)

- Why focus only on GDP convergence?
  - $GDP=C+I+G+(X-M)$
  - What drives the GDP Convergence?
- What transition initiatives influenced/correlated the most?
  - Role of Institutional Developments / Integration!
  - Legal, Privatization, Regulations, Competition, Good Governance?
  - Any role of Foreign Banks?

Comment s (Cont.)

- The paper uses Lehman Brother as an exogenous event that has a general impact on the credit risk of the German firms.

- Authors could further strengthen the paper by providing a discussion on how the shock affects the credit risk of the German firms at varied degree. This would help to understand how the event change the “probability of default” and capital demand of different firms.

Comments (cont.)

- Literature review needs attention.

  Kutan and Yigit (2005)

  Halamai and Vasary (2010).
- Policy Implications

  What did we learn?

  What should we do to change the slower convergence into a faster mode?
- Good initiative and has additional potentials.