



# Emerging European economies after the pandemic: stuck in the middle income trap?

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Written by an international team of authors, this book about economies before, during and after the Covid pandemic in emerging European economies (EEEs), based on detailed data analysis, gives us a comprehensive picture of global pandemic impacts. It provides an overview of macroeconomic, social, and fiscal policy responses in the economies observed from the Global Financial Crisis (GFC) to Covid and post-pandemic challenges. Numerous chapters cover the pre-transitional and the transitional period, which, although expanding the analysis, also pushes the focus away from what is important – the Covid crisis impacts.

The phrase middle income trap (MIT), coined by the World Bank, signifies the inability of EEEs to raise their incomes, mostly after the transition period in the 1990s. Countries observed in this book, the former transitional economies of Bulgaria, Croatia, Czechia, Hungary, Poland, Romania, Slovakia, and Slovenia, can be characterized as EEEs. They have been part of the European Union (EU), but can still be seen to be lagging behind the most developed EU countries. They are often given as examples of countries positioned in the MIT due to the economic transition; however, according to economic growth and income levels, there is no evidence for this hypothesis. Although the title suggests that the backbone of the book will be MIT, it is not emphasized in some of the chapters in which the topic is discussed but slightly.

The book is the result of international cooperation, with twelve chapters, written by different authors, which gives it sufficient strength and importance. The topic is very useful for macroeconomists, but also for political scientists and historians. To single out shortcomings, the writing style is uneven as the result of several authors. For some, the focus is on the transition, while some are mostly concerned with the crisis of 2008 and sporadically mention the pandemic.

Chapter 1 written by Péter Benczúr and István Kónya on *Convergence to the Centre* focuses on the main macroeconomic developments in the observed countries. The analyzed period includes a wider perspective than that of the pandemic, and can be divided into three periods: the first, post-transition, until 2008; the second, from the global economic crisis of 2008 to 2019, and the third since 2019 and the onset of the pandemic. In addition to giving standard indicators of economic progress such as GDP, unemployment, and employment rates, the authors provide a broader picture and use more comprehensive indicators that indirectly affect economic progress. According to average years of schooling, the EEEs are relatively well educated, but still lagging behind Austria in life expectancy, with the gap larger than it was in the 1990s. During the period 2009-2012, household consumption growth declined (but less than investment) causing EEEs to be more export-oriented. Although its purpose and effectiveness are often questioned, EU financial support did contribute to GDP growth. By the mid-2010s EU funds amounted to 2-4% of EEEs GDP. The Covid pandemic led to a huge decline in economic activity, especially in Croatia and Hungary. The impact on GDP growth during the Covid crisis was similar to the 2008-2012 crisis in all countries except Poland

where GDP fell significantly during the pandemic. Both crises caused short-run disruptions in international trade, unlike the different causes. The global recession caused demand to decrease, while international trade was partially suspended during the pandemic to stop the spread of the virus.

Chapter 2 written by Katalin Mérő and András Bethlendi entitled *Financial Markets: Banks and Capital Markets* analyzes the EEEs' financial markets, claiming that although these countries are highly integrated into the EU financial system, they are still lagging behind the more developed EU countries. There are huge differences between the GFC and Covid-induced shock – in the former, the financial system was mostly blamed for the crisis, and in the latter regulations established in the previous crisis provided financial stability. Covid changed the EEEs' financial systems mostly in terms of regulations and introduced different kinds of public (legislative) and private (non-legislative) moratoria.

Chapter 3, whose authors are István János Tóth and Éva Palócz, on *Firm Size, Productivity, EU Funds, and Corruption*, emphasizes the increased risk of corruption caused by the Covid pandemic and examines the tricky relation between EU funds and corruption. In EEEs, small and medium firms correlate with lower labor productivity. These firms were affected by the Covid crisis but in different ways – the smaller firms have fewer financial reserves and weaker market positions. Employment in medium-sized companies in all EEEs decreased, but the cause is not clear. Also, there is a shift in firm size structure. There are some interpretations that medium-sized companies became large-sized, but there is no explanation for the lack of the labor flow from small- to medium-sized companies. This is generally one of the weaker chapters, not appropriately connected with the others.

The fourth chapter *Labor Markets: Structural Characteristics and the Impact of Two Crises* written by Martin Guzi and Michael Landesmann discusses the consequences of both crises. The rate of unemployment reached its peak around 2012 but EEEs overcame the financial crisis relatively well except Croatia, Hungary, and Slovenia where it was lengthier. Labor markets in EEEs are characterized by high levels of workforce shortages due to emigration after EU enlargements in 2004 and 2007 and strong wage disparities between EEEs and older EU members. The authors emphasize the strong need for well-designed migration policies. Furthermore, sectoral employment structure was modified during the crises, especially employment in manufacturing during the financial crisis and the same pattern repeated during the Covid crisis. Although the overall increase in unemployment rates during the GFC and pandemic crises was similar, unemployment rates grew faster for women than for men in Bulgaria, Czechia, Romania, and Slovenia during the first phase of the Covid crisis, unlike the period after the financial crisis when there was a much stronger increase in unemployment rate of males. One of the characteristics of the EEE labor market is that life-long learning is less common than in developed countries.

*Transport and Mobility* is the title of the fifth chapter, written by Melinda Matyas, Daniel Hörcher, and Jacek Pawlak. The topic is presented throughout the period before as well as after the transition, and during the crises that followed. The chapter discusses infrastructure developments before and after the economic transition, and especially in the 2000s encouraged by EU funding. The changes that followed in the matter of working and means of transportation (such as the emergence of electric vehicles) are also mentioned. The chapter contains a lot of unnecessary information that shifts the focus away from what is most important – how the Covid crisis affected this sector.

Chapter 6 *Monetary, Macprudential, and Fiscal Policy* by Júlia Király, Balázs Csontó, László Jankovics, and Katalin Mérő shows the importance of policymakers in overcoming crises and the effects of monetary, macroprudential and fiscal policy measures during the GFC and the outbreak of Covid. The chapter detected the main post-pandemic challenges like inflation and interest rate growth. Although in 2008 new regulations on capital requirements were implemented, the impact did not quickly materialize in the form of concrete regulatory developments and the region was hit by the crisis. Like many developed countries, EEEs applied unconventional monetary practices and new approaches to banking regulations after the GFC. The Covid crisis had a strong impact on inflation, and the monetary policy response was aggressive, characterized by policy rate cuts, foreign exchange interventions, liquidity operations, lending programs and asset purchases. In the area of fiscal policy, the post-GFC period was marked by changes in the fiscal governance framework, fiscal tightening in the first half of the 2010s and divergent policies and macroprudential tightening in the second half. The Covid crisis brought to light the differences in the capacity of governments to respond to health situations as well as differences in fiscal policy measures in general. The authors state that there were differences among the various reports/data compilations about fiscal policy measures, but the EEE pandemic period was characterized by additional government spending like other parts of the EU.

Michael Carnegie LaBelle and Tekla Szép in the seventh chapter on *Green Economy: Energy, Environment, and Sustainability*, concluded that the Covid crisis negatively impacted United Nation Sustainable Development Goal for Affordable and Clean Energy (SDG7) and that the impact on Climate Action (SDG13) is not quite clear. The authors also highlighted the importance of sustainable economic growth, stating that a key problem is the large gaps between leaders in green transition (Germany and Scandinavia) and some EEEs (Poland and Hungary), summing up the strong need for a new policy agenda to meet the SDG targets.

Anikó Bíró, Zsófia Kollányi, Piotr Romaniuk, and Šime Smolić in Chapter 8 on *Health and Social Security*, analyze the healthcare systems in EEEs, which lagged behind the EU average before the pandemic while several of them collapsed during it. The health impacts during the pandemic are reflected mostly through caring for sick patients and their treatment, restrictions to reduce the number of patients

and vaccination, but the authors also emphasise the weak spots of the healthcare system like labor shortages, lack of hospital capacities, and a pressing health problem in the EEEs – limited access to healthcare and rise in health inequalities. This is the most comprehensive chapter of the book, focusing on EEEs and the impact of the pandemic. While the other chapters analyzed a broader time view, here the effects of the Covid pandemic on the EEEs are clearly indicated.

Chapter 9, *Ageing and Pension System*, by András Simonovits and Ádám Reiff compared the ageing and pension systems in EU27 and EEEs and concluded that the pandemic had no major and lasting demographic impact on pension systems. They considered the pre-Covid forecasts about pension systems and stated that they were very optimistic, frequently reflecting the governments' influence. The main impacts of pandemics are reflected in entitlements accruing to future retirees and increase of public debt ratios which may cause sustainability problems. The changes in labor market structure had a negative impact on its development.

Judith Lannert and Júlia Varga in Chapter 10 *Public Education* present the difference between the EU15 and EEEs. Although the public-school system is more accessible in EEEs, the level of basic skills of their young people is below that of the EU15. The pandemic significantly affected the public education system in EEEs primarily due to the lower availability of modern technology that would enable distance education. A lot of students in EEEs faced learning losses as well as the life-time cost of earning losses. New digital devices are a huge financial cost for these countries but also a great opportunity for the development of the schooling system.

László Mátyás, György Bógel, Mark Knell, Ludovit Odor, and Marzenna A. Weresa wrote Chapter 11 *Research & Development and Higher Education*. This chapter, more precisely the topic of R&D in higher education is perhaps the most relevant for analyzing the MIT in which EEEs seem to be stuck. The mostly public EEEs higher education systems are lagging behind those of more advanced countries in terms of equipment and development due to a lack of innovation. The authors provided policy recommendations, emphasizing the opportunity for economic growth and structural changes through investment in R&D.

The last chapter *Inequality and Welfare* written by Márton Medgyesi and István György Tóth, presents the logical conclusion of statements in previous chapters and includes the presentation of income distribution in the observed countries before 2009, the changes after the GFC, especially the growth of the Gini coefficients, as well as poverty in EEEs. The disposable income inequalities mostly increased in Bulgaria and Hungary after the GFC crisis. The impact of the Covid crisis in terms of the growth of inequality and poverty was more strongly felt in the EEEs compared to the EU average.

In summary, even though the last data used are from 2021, the book gives an overview of the post-transition state of the observed countries, and more or less

analyzes the consequences of the economic crisis in 2008, the recovery after that and the renewed crisis caused by the pandemic. The book might serve as a basis for further analysis and its importance and relevance are unquestionable, however it also has some weaker points. As the last wave of the pandemic is not included, it needs to be updated. The middle-income trap is not even mentioned in most chapters. The conclusion of the book as well as the main message is somehow missing, lacking a summary of all previous chapters to get a clearer and more meaningful picture. The huge amount of information leads to saturation, and in this way, the book is diluted and there is an absence of any focus on the essentials. It would have been better to focus only on the last, Covid-induced crisis, without merging it with the GFC. In addition, there are differences in the writing between the authors, but this has its positive and negative sides. On the positive side, one could notice the breadth of the approach, and on the negative side, one could state the lack of uniformity regarding the time frame and the focus on the main topic.

The authors made a huge effort to clarify the Covid crisis and its impact on the observed EEEs, contributing to the understanding of the macroeconomic aspects, and the book might help policy decision-makers to clarify their doubts and help them in making informed and useful political decisions based on relevant research.