

CEE region's fastest convergence is happening in digitalisation

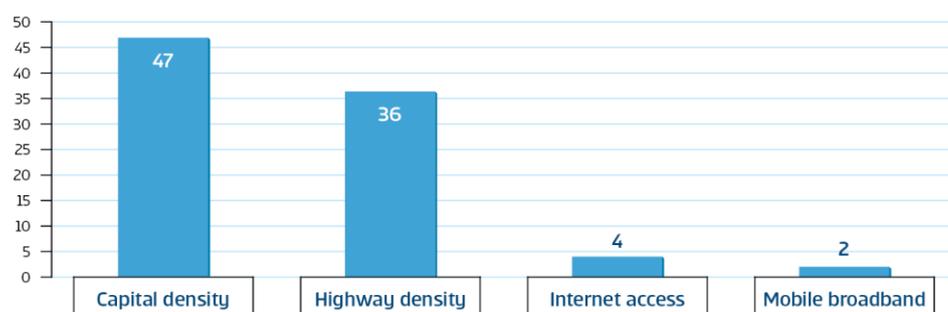
- **CEE countries almost on par with EU15 in terms of internet access and mobile broadband usage**
- **Region's digital infrastructure is relatively well developed, but low level of digital public services (eGovernment) remains its Achilles heel**
- **Training highly-skilled workers in the digital sphere, not just in manufacturing, should be a priority for CEE countries**

The CEE region has almost closed the gap with Western Europe in the digital sphere, with the lag measurable in only a handful of years rather than decades, finds Erste Group's newly issued report on the status of digitalisation in the CEE region. In contrast, the CEE countries' average GDP per capita in absolute terms is at the level seen in Western Europe in the mid-1980s and convergence in areas requiring a lot of physical capital (such as road infrastructure) is taking much longer. Countries in the region can build on their relatively well-developed digital infrastructure by raising their low level of digital public services (eGovernment). In turn, this would lead to higher transparency and lower corruption, as well as better access to and more efficient public services. The report's authors also recommend enhanced investments in developing CEE workers' digital skills, as well as a broader uptake of ICT solutions by CEE businesses. In the longer term, the efforts that CEE countries place into digitalisation promise to foster the development of growth-positive factors and contribute to the region's overall prosperity.

"CEE's success in achieving big gains in convergence in the manufacturing sphere is widely known, just as it's no secret that the region's economies still have a way to go to reach Western European levels of economic performance in general GDP terms. What's far less known is just how much the CEE countries have already caught up in the digital sphere, where they barely lag behind the EU15 on such key markers as internet access or mobile broadband usage," said Juraj Kotian, Head of CEE Macro/FI Research at Erste Group and co-author of the report. *"Because further digitalisation can offer them a faster track to overall convergence, the CEE economies should focus on stepping up their efforts by actively promoting their citizens' digital skills and usage, including through more comprehensive eGovernment offerings."*

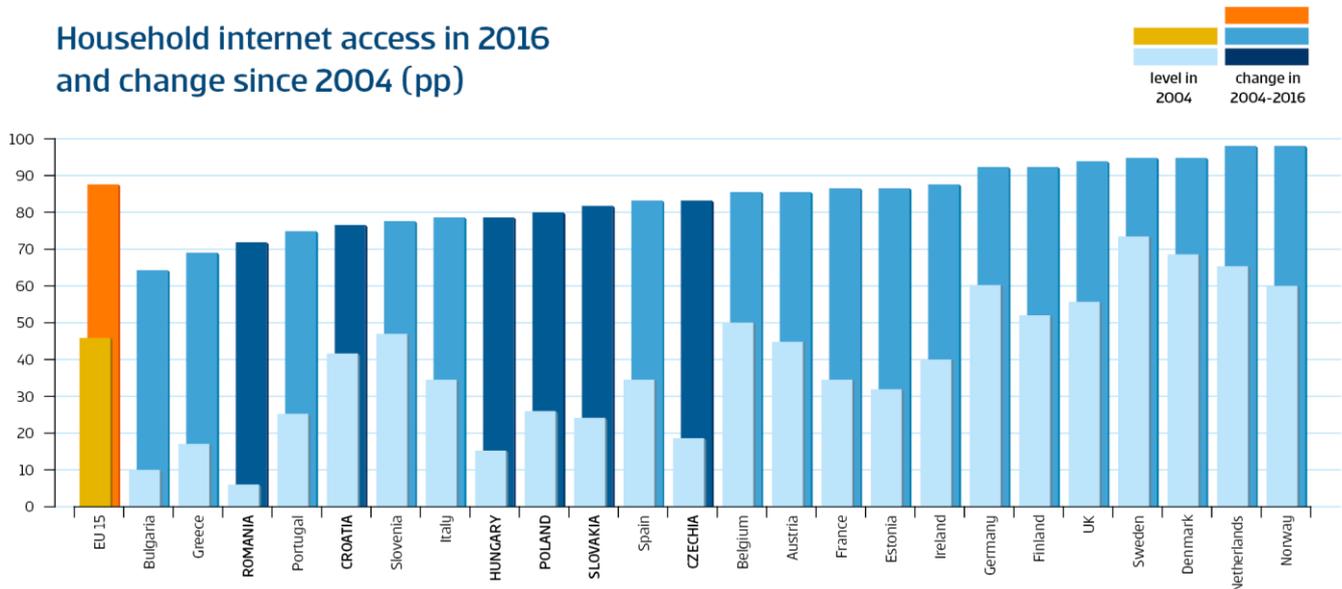
While progressing in areas requiring a lot of physical capital, such as building highways, has always been a lengthy process in CEE, bringing digitalisation to the EU level has proven to be much faster and cheaper. In digital infrastructure, such as household internet access, the CEE region is now lagging only four years behind the EU15; in access to mobile broadband, the gap is only two years.

Number of years CEE7 is lagging behind the EU15



What's more, this gap is mainly attributable to lower household internet connectivity rates in the rural areas of CEE; there are hardly any differences between Western Europe and CEE in urbanized areas. The countries in

Household internet access in 2016 and change since 2004 (pp)

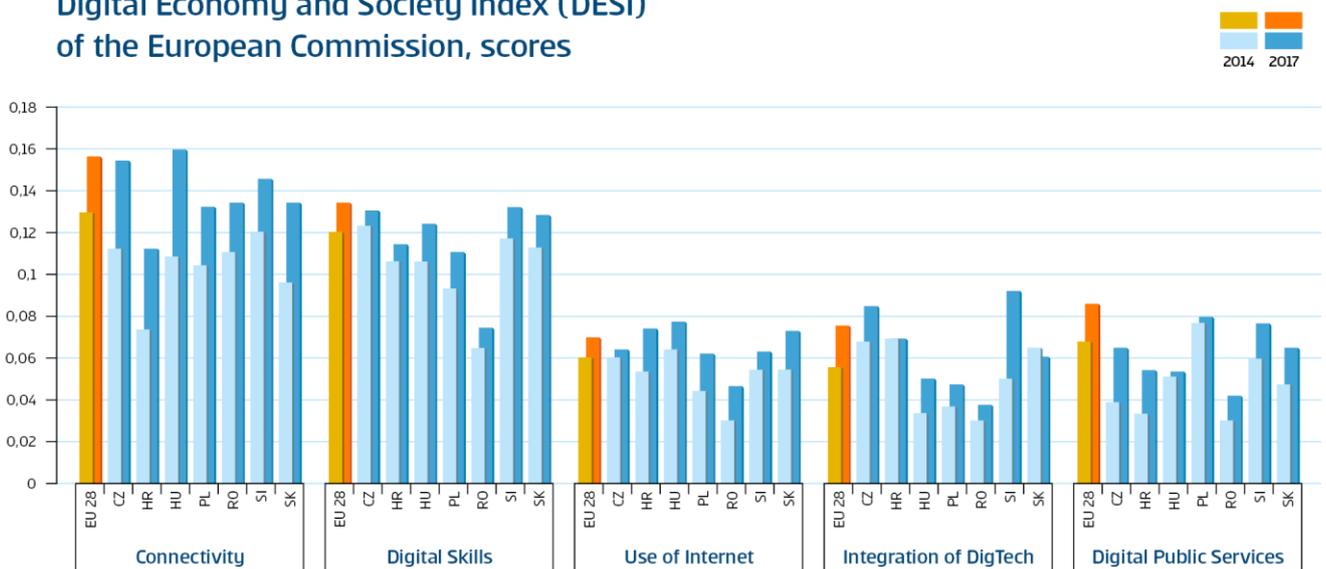


Central and Eastern Europe have benefitted and will continue to benefit from the fact that the availability of high-quality broadband helps to support investment in general, with the availability of EU funds enhancing the process in the region.

eGovernment: serious shortcomings and huge opportunities

The Digital Economy and Society Index (DESI), which is the European Commission's composite index of five indicators of digital performance, both underlines the significant advances CEE countries have made in the digital sphere and highlights those areas in which they continue to lag behind their Western European peers. Even with all EU members managing to improve their overall DESI performance in 2016, Slovakia and Slovenia were the two countries achieving the strongest improvements, posting gains nearly twice as high as the EU average. At the same time, the overall DESI scores of all CEE countries remain below the EU average, with Slovenia and the Czech Republic just slightly below that average, while Romania ranks at the very bottom.

Digital Economy and Society Index (DESI) of the European Commission, scores



When it comes to CEE's digital competitiveness, DESI suggests that connectivity, digital skills and use of the internet are not the major challenges for the countries of the region. Instead, DESI exposes CEE's digital Achilles heel to be the region's low level of digital public services. Not only do all CEE countries lag behind the EU average in this indicator of eGovernment offerings, but the size of their individual gaps to that average are also the largest in this subcategory. According to the Commission, Hungary, Croatia and Romania collectively form the bottom of the ranking for digital public services.

"The CEE countries have lots of room to improve in the field of eGovernment services. They should be heavily motivated to do so, because expanding the scope of the digital public services they offer has a strong spillover effect into other areas of the economy and ultimately contributes to their level of prosperity," points out co-author Zoltan Arokszállasi, Chief Analyst of the CEE Macro/FI Research team. *"Using the internet to interact with public officials helps to lower perceived corruption levels and supports transparency in government rules and policies. More generally, digitalisation can lead to more structured and faster processes that in turn bring about both cost savings and higher overall satisfaction in society."*

Erste Group Research also addressed the link between the penetration of internet banking usage and the degree to which citizens actively make use of digital public services to communicate with authorities by filling out forms. While generally lying in the middle field amongst internet banking users, the CEE countries stand out on account of the outsized share of their citizens who only use eGovernment offerings to gather information, but not to complete forms or otherwise communicate with governmental bodies. The continued spread of internet banking usage in the region is also likely to contribute to a more active uptake of digital public services.

Pushing forward digitally

The region's lag in eGovernment is a problem in both governance and strategy. In contrast to the sterling example provided by Estonia, all of the CEE states have so far failed to develop strategies that would lead to the creation of a common platform at the national level that would enable the secure exchange of information between decentralized systems.

With DESI showing some lag in CEE in digital skills (especially in Romania, but also to some extent in Croatia, Hungary and Poland), the region's economies are also well advised to invest in human capital with the aim of developing highly-skilled workers who are able to use advanced and digitally-orientated technologies -- instead of focusing primarily on manufacturing jobs. DESI scores also suggest that the integration of digital technology is relatively low in Hungary, Poland and Romania, while evidence from Eurostat indicates that CEE is generally lagging behind in enterprises using ICT technology in their operations. For example, corporate resource planning with ERP (enterprise resource planning) software is below the EU average in all CEE countries.

The question whether being more digital leads to stronger growth or if wealthier countries can simply afford to be more digital remains open. However, the Erste Group Research analysts believe that in the longer term, digitalisation could foster the development of growth-positive factors. *"For CEE countries, going digital is a must in order to maintain an affordable pace of economic convergence. This would help them to counterbalance challenges stemming from increasing input costs and demographic developments,"* Kotian concludes.

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