

**EXECUTIVE  
BOARD  
MEETING**

SM/17/172  
Correction 1

December 19, 2017

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Cross Country Report on the Determinants of the Shadow Economy in CESEE and Policy Implications—Selected Issues for the 2017 Article IV Consultations with the Republic of Latvia and the Republic of Moldova**

Board Action: The attached corrections to SM/17/172 (6/21/17) have been provided by the staff:

**Evident Ambiguity** **Page 3**

Questions: Mr. Kelmanson, EUR (ext. 34906)  
Mr. Kirabaeva, EUR (ext. 35997)  
Ms. Mircheva, EUR (ext. 37732)  
Mr. Weiss, AFR (ext. 37330)



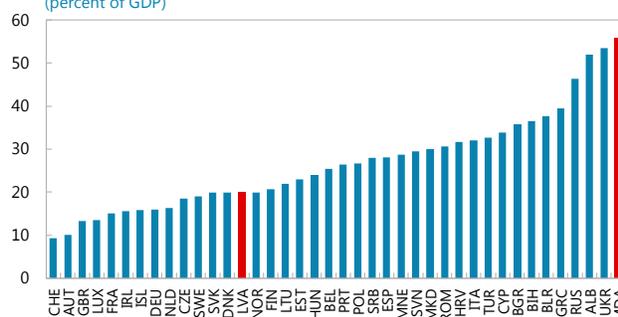
**6. The remainder of this paper is organized as follows:** Section B will provide an overview of the size, evolution, and costs of shadow economies in Europe; Section C will discuss the underlying causes of the shadow economy; Section D will present an empirical analysis of the determinants of the shadow economy; and Section E will discuss the policy implications and recommendations, and Section F will bring together conclusions.

## SIZE, EVOLUTION, AND COSTS OF THE SHADOW ECONOMY

**7. The shadow economy represents a sizeable share of GDP for many countries in Europe.**

Per estimations carried out with data for 2013 by Hassan and Schneider, the share of the shadow economy in Europe ranges from about 9 to over 50 percent of GDP. On average, the share of the shadow economy for countries in Western Europe tends to be smaller at about 20 percent of GDP. Countries in Central Europe, the Balkans, and the Baltics, have higher shares of the shadow economy on average, above 25 percent of GDP. The share of the shadow economy is even higher in CIS countries, above 40 percent of GDP and higher in some cases.

**Size of Shadow Economy in European Countries, 2013 1/**  
(percent of GDP)

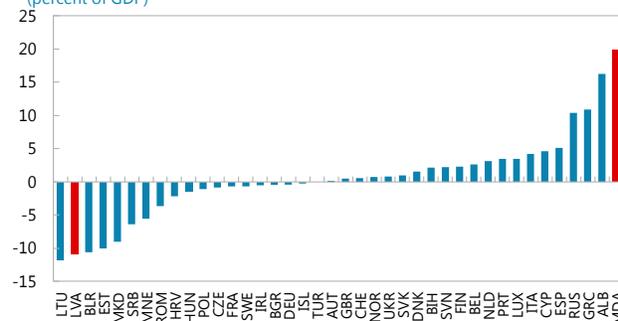


Source: Schneider (2015) and Hassan and Schneider (2016).

1/ Estimates of the shadow economy vary widely, and may differ from the authorities', depending on methodology, selected sample and time-period used.

**8.** While the average size of the shadow economy in Europe remained broadly the same as in 2000s, the dynamics is very heterogeneous across countries. Since 1999, in some countries the shadow economy shrunk significantly (e.g. by over 10 percent of GDP in Baltic countries), while in others, including some advanced economies, it increased substantially (e.g., by 11 percent in Greece and by 20 percent in Moldova). The shadow economies increased on average during 2008–10 and then declined to around pre-crisis levels.

**Change of the Size of Shadow Economy, 1999 to 2013 1/**  
(percent of GDP)



Source: Hassan and Schneider (2016).

1/ For some countries, including CIS, the estimated size of the change from 1999 to 2013 is likely affected by data limitations as well as changes in data collection methodology and data processing techniques.