

Monthly Report

New Governments in Poland and Romania

Trade Competitiveness of Austrian and Neighbouring Regions

Russia's Grand Trade Collapse

Challenges of Eurasian Economic Integration



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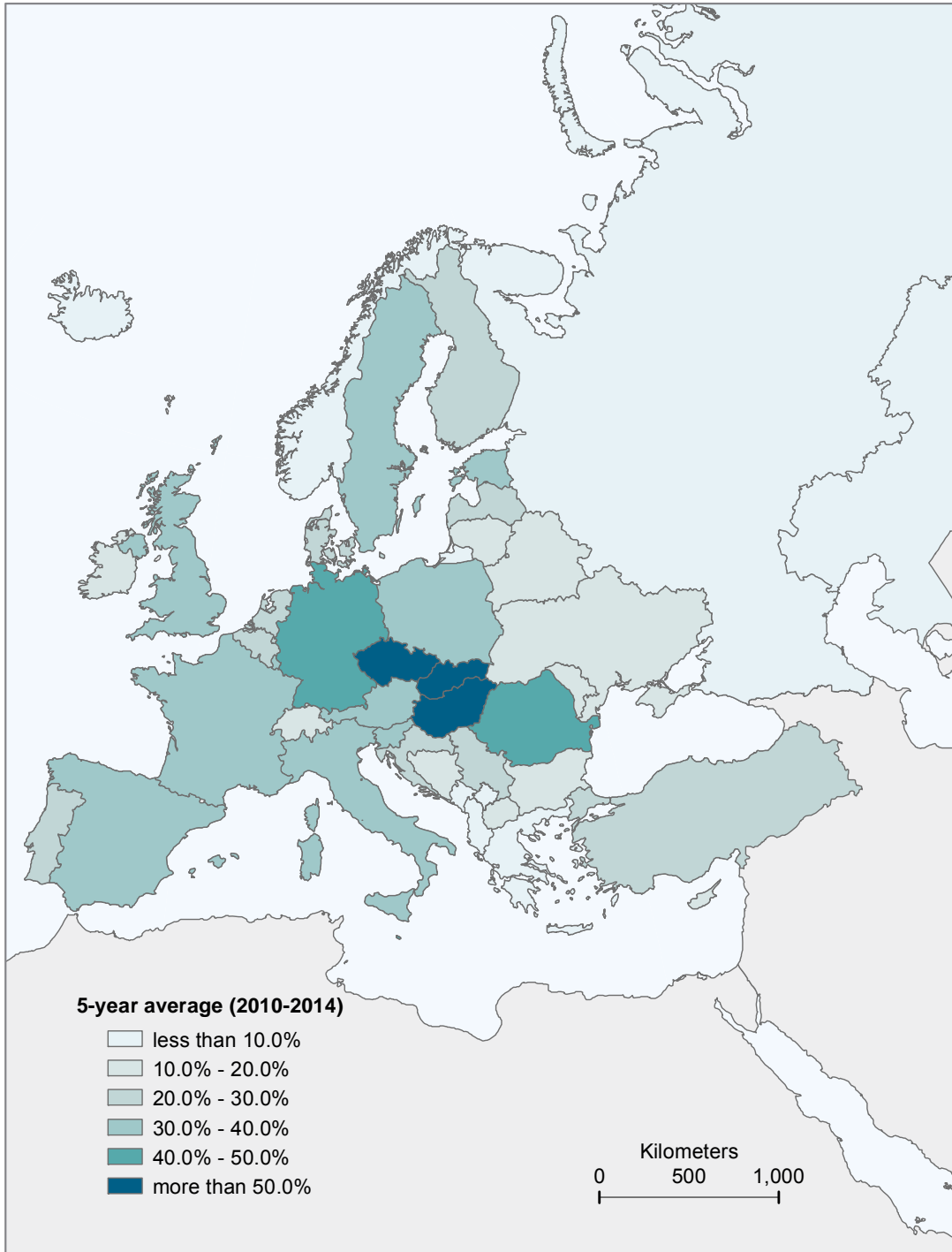
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Exports of machinery and transport equipment (SITC 7) in % of total exports



Source: wiiw Annual Database incorporating national and Eurostat statistics.

This map is an excerpt from the newly published *wiiw Handbook of Statistics 2015*. The Handbook contains macroeconomic statistics and key structural indicators for 21 CESEE economies, allowing comparisons across themes, countries and time for the period 1990-2014. It is available in hardcopy for the most recent years and as Excel tables covering the whole period. For details see <http://wiiw.ac.at/just-released-wiiw-handbook-of-statistics-2015-n-121.html>.

Opinion corner: New governments in Poland and Romania

BY WIIW EXPERTS LEON PODKAMINER AND GÁBOR HUNYA

What important changes can be expected in these two countries?

Leon Podkaminer: *Under the generally moderate and pragmatic policy of the liberal-conservative Civic Platform (PO) party the economy of Poland has performed quite well, at least in relative terms. Within the eight-year period while PO stayed in power (2007-2015) Poland's GDP increased by 28% (compared to 2.8% in the EU and less than 1% in the euro area). In terms of current purchasing power parities, Poland's per capita GDP jumped from 46% of the German level in 2007 to about 56% in 2015. Given the past record, it seems difficult at first glance to understand why PO has been humiliatingly defeated in the 2015 elections (first in the course of the presidential elections held in May, followed by the parliamentary elections held in October).*

In actual fact, what is interpreted as a great economic success has had some shady aspects too. About 2 million Poles (mostly young and skilled), dissatisfied with the economic opportunities at home, have sought 'greener pastures' in the West. Unemployment among the young has been very high (currently close to 20%) while the 'business-friendly' labour market policies enacted by PO have produced a massive rise of the 'working poor'. In addition, the public health service has been glaringly deficient, adequate housing has been out of reach to the majority of families.

In the run-up to the elections, the national-conservative Law and Justice (PiS) party led by Jarosław Kaczyński (who already ruled Poland from 2005 to 2007) skilfully incited the grievances of large segments of the population.¹ PiS solemnly promised to address these grievances almost immediately on assuming power. Orphaned by Donald Tusk, PO did not manage to develop leadership capable of resisting the PiS tactics.

In all probability, PiS would not have won the elections (and certainly not an absolute parliamentary majority) had it been transparent about its genuine priority, which is to 'remodel' the society – and the country's whole legal and constitutional system. The earlier (2005-2007) attempt to replace the liberal Polish democracy with a somewhat authoritarian rule was overwhelmingly rejected in the earlier elections in 2007. No doubt the electorate would have been more critical about PiS had it seen its 'old guard' – and old policies – coming back. Mr Kaczyński, well aware of his own dubious popularity, cleverly stayed out of sight prior to the elections. His chosen nominees for the office of the State Presidency and then for that of the Prime Minister were both 'new faces'.

The first days of the new government witness frantic legislative activities and sweeping personal decisions. These actions are to subordinate (also by intimidation) much of the state apparatus (including

¹ Among them the fears of a massive inflow of Muslim migrants.

public media, possibly parts of the judiciary system) to PiS. The once discredited, heavy-handed, exponents of the 'old guard' have taken over the crucial offices. It is becoming obvious that both the President and the Prime Minister are Mr Kaczyński's obedient lieutenants apparently ready to bend the law and disrespect the Constitution.

So far there has been no action suggesting any imminent fulfilment of the pre-election economic promises (distribution of large subsidies to families with children, substantially higher tax-free income threshold etc.). This is not surprising. The yearly cost of keeping these promises is estimated at about PLN 50 billion (close to 3% of GDP). That is by far more than could possibly be squeezed out, by way of an additional tax surcharge, from foreign banks and supermarket chains (which have been suggested as the possible sources of covering the additional budgetary deficits). Most probably, aware of the short-term consequences of doubling the budget deficit, the government will be postponing the fulfilment of the most costly promises, reducing the scope of the benefits. In the meantime it will keep experimenting with e.g. higher taxation of larger foreign-owned (and also state-owned) companies, more efficient tax collection, more direct involvement of the National Bank in deficit financing etc.

During its earlier rule (2005-2007) PiS ignored its then electoral slogan ('solidarity instead of liberalism') and embraced a fairly liberal economic agenda. Quite possibly also now the essentials of economic policy will not change very much, at least in the medium term. In the longer run things may be different.

Given the present external and internal limitations, Poland's longer-run economic advancement is unlikely to be rapid – or at least as rapid as could be desired. However, it is precisely this point that Mr Kaczyński expressly refuses to acknowledge. As he put it in his opening address to the Parliament (18 November 2015): '... It could be possible to let things (i.e. Poland's catch-up with the West) to themselves ... and expect, as has been the case with Spain, once a 2% growth, followed by a 1% growth and then perhaps by a 1% decline – that way creeping up, slowly ... No, ladies and gentlemen – PiS simply cannot agree to that ...'.

Now, serious attempts at having a genuinely dynamic economy – capable e.g. of emulating the East Asian performance – might of course produce the desired effects, provided the external conditions permit it. But equally well these attempts might precipitate an economic disaster – especially if the external conditions are less favourable. In any case, a Polish society and a Polish economy that could be consistent with Mr Kaczyński's dreams would have to be totally different from the actually existing ones.

Gábor Hunya: In Romania a new government was voted in by Parliament on 17 November 2015, after the previous socialists-led government had resigned in the wake of public protest against 'the whole political class'. The new government, which has only non-partisan members, enjoys the initial support of most political forces including the Social Democratic Party (PSD), governing during the past three years, and the oppositional National Liberal Party (PNL). The government is led by former European Agriculture Commissioner Dacian Cioloș and includes Finance Minister Anca Paliu Dragu, an economic analyst of the European Commission with IMF and National Bank experience, and Justice Minister Raluca Pruna, another female expert from the European Commission, who has expertise in anti-corruption work.

What can a government of technocrats achieve until regular elections will be held, in about a year? They can initiate in principle anything, but act only if their proposal gets a majority in Parliament. Thus, in practice the success of the non-partisan government depends on the party representatives' mercy. One can rule out changes of the constitution or of the electoral law, also due to time constraints. Although included in the new government's programme, neither the terms of the local election to be held in June 2016 nor those of the general elections forthcoming in December 2016 can be changed. An exception is the already adapted amendment making postal voting more accessible for Romanians living abroad.

The programme of the government was put together within a few days and contains mainly longer-term intentions which would be necessary to make public governance more efficient and ensure prosperity in the country. It includes the revision of the major investment projects, reforms in the field of education and healthcare, the consolidation of the rule of law and the organisation of next year's legislative and local elections in a fair and transparent manner. These priorities reflect the demands of civil organisations which had a decisive role in ousting the previous government. Furthermore, to demonstrate openness towards the civil society and organise public consultations, a new Ministry of Public Consultation and Civic Dialogue has been created. Consequently, the government has gained public support and street protests stopped. Still, they will have to work hard in order to lift the extremely low level of trust in public institutions.

To this end, one of the government's aims is to de-politicise and improve the functioning of public administration. Supported by wage increases in the public sector, they intend to introduce a general payment scheme for civil servants that is based on clear performance criteria and periodic competence checks. As an immediate act they intend to stop handing out administrative positions to political clientele.

The fight against corruption is now on track, having constant support both from the population and the European Commission as well as the United States. In the first nine months of the year, the National Anti-corruption Directorate (DNA) indicted 15 members of parliament and nine out of the country's 41 regional administration leaders in addition to starting an investigation against the outgoing Prime Minister Ponta. Mr Ponta's weathered status and unreliability has long been seen as a problem by the NATO allies, which have upgraded Romania's strategic status by starting deploying an anti-Russian missile shield and bridge-head for Middle East operations.

An immediate task of the government is the preparation of the budget for 2016. The overarching public sector pay rises and tax cuts initiated by the outgoing government have put fiscal deficits on an expanding track and it will again be public investments that are going to be curtailed in order to stay within the 3% of GDP deficit cap. The budget drafted by the government targets a budget deficit of 2.95% of the GDP and an economic growth of 4.1%, fuelled by consumption and investment forecasts for 2016. As public debt is below 40% of GDP, while the current account is nearly balanced and inflation is negative, no immediate risk of overheating emerges. But the pro-cyclical boost will increase the country's vulnerability to external shocks. Therefore the IMF sees increased danger for the financial macro-stability and is unwilling to enter into discussion with the government over a new precautionary loan agreement. Also the medium-term budgetary objectives agreed with the European Commission are breached.

Even if the current fiscal measures are fully implemented, which is quite certain, much of the fiscal stimulus is one-time, and GDP growth may slow down in 2017. It is to be seen if this transitional government succeeds in increasing the efficiency of tax collection and spending as intended and in making the current growth path sustainable. The main merit of this government's actions will be less in economic policy in the narrow sense, but in improving governance and initiating some longer-term reforms to be implemented by subsequent governing majorities.

Trade competitiveness of Austrian and neighbouring regions

BY ROMAN RÖMISCH*

European wide-data on foreign trade of EU regions at a disaggregated (NUTS 2) level are rare. Currently, there exist only two data sets in this respect, one produced by the Netherlands Environmental Assessment Agency¹ and the other by wiiw². This article is based on the latter.

Regional data on foreign trade allow, inter alia, identifying industries or products in which regions realise a strong trade specialisation. Thus, it reveals more and less successful performances at the industry-region level as well as the spatial distribution of competitive industries. Potentially, this improves the understanding of the regional aspect and micro-foundations of competitiveness, generates differentiated points of view on the future economic development of regions and provides a basis for a target-oriented use of policy intervention.

For the sake of clarity, the analysis in this article is performed at a high level of aggregation of regional trade data and is limited to trade in goods. Moreover, in the original wiiw data set regional trade was estimated for 22 product groups (according to the NACE Rev. 1 classification) for the years 2000 to 2011. Here, these product groups are aggregated to three product categories, corresponding to the average technology level needed to produce them:

- › high- and medium-high-technology-intensive goods,
- › medium-low-technology-intensive goods,
- › low-technology-intensive goods.

High/medium-high-technology-intensive (HMHT) goods include, amongst others, chemical products, machinery, communication equipment, vehicles as well as optical and medical instruments. Medium-low-technology-intensive (MLT) goods include, inter alia, refined petroleum products, rubber and plastic products, non-metallic mineral products, basic metals and fabricated metal products. Low-technology-

* The author is grateful to Michael Windisch for providing valuable support in preparing the data.

¹ M. Thissen, D. Diodato and F.G. van Oort (2013), 'Integrated Regional Europe: European Regional Trade Flows in 2000' and 'Integration and Convergence in Regional Europe: European Regional Trade Flows from 2000 to 2010', PBL Netherlands Environmental Assessment Agency, The Hague/Bilthoven.

² R. Römisch (2012), 'Foreign trade and FDI in the Austrian regions – a new methodology to estimate regional trade and an analysis of the crisis effects', FIW-Research Reports 2012/13 N° 01 October 2012; NIW, wiiw, ZEW (2015) (forthcoming), 'Identifying revealed comparative advantages in an EU regional context', study carried out for DG Enterprise within the Framework Service Contract 'Studies in the Area of European Competitiveness' (ENTR/300/PP/2013/FC-WIFO).

intensive (LT) goods include food and tobacco products, textiles, wearing apparel, leather and footwear, wood and products thereof, paper products etc.

Regional trade competitiveness is measured via the Revealed Comparative Advantage (RCA) indicator, which shows how the regions' characteristics (e.g. technological, productive, institutional) translate into global trade performance.

Formally it is defined as:

$$RCA_{irt} = \ln\left[\left(\frac{X_{irt}}{M_{irt}}\right) / \left(\frac{X_{rt}}{M_{rt}}\right)\right] * 100$$

where X_{irt} and M_{irt} denote the global export (X) and import (M) volume in region r and product i in year t. X_{rt} and M_{rt} represent the total global export and import volume in region r in year t. A positive (negative) RCA indicates a comparative advantage (disadvantage) for the respective product category in a specific region. Hence, positive RCA values reveal a highly competitive performance of domestic firms in the industry/sector under consideration.

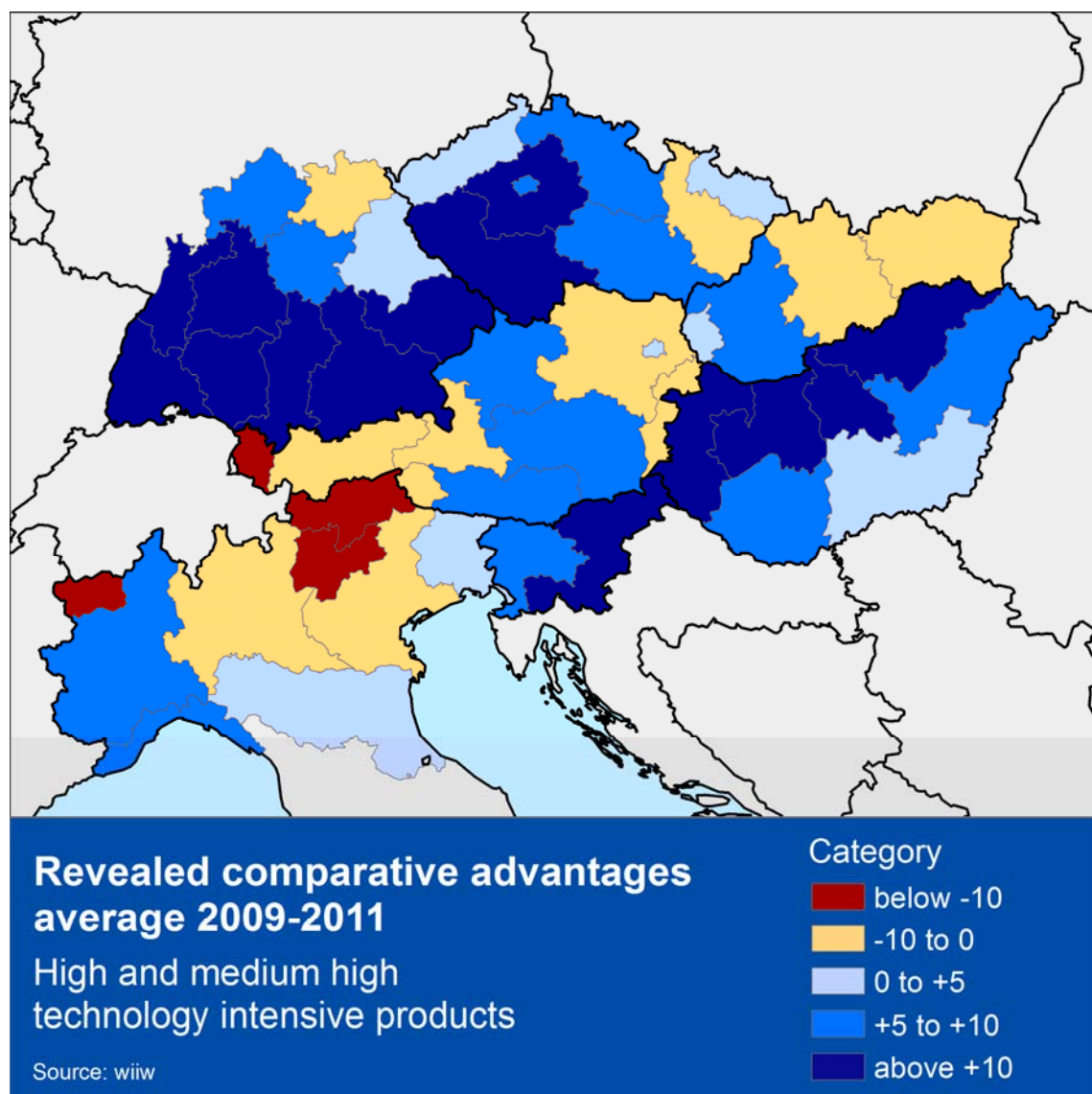
From a regional perspective, this article compares the trade competitiveness of Austrian NUTS 2 regions to the competitiveness of neighbouring regions in the Czech Republic, Slovakia, Hungary, Slovenia, Northern Italy and Southern Germany (i.e. the NUTS 2 regions in Bavaria and Baden-Württemberg) for the years 2000 to 2011.

To start with, Figure 1 shows the average revealed comparative advantages in the high- and medium-high-technology-intensive goods trade for the Austrian and neighbouring NUTS 2 regions over the years 2009-2011. In Austria, five of the nine NUTS 2 regions appear to have a moderate disadvantage in trade in HMHT goods (in Vorarlberg the disadvantages are slightly higher than in other Austrian regions) in the period 2009-2011, while four regions (Upper Austria, Styria, Carinthia and Vienna) have small to moderate positive advantages. This is in stark contrast to the majority of regions in Bavaria and Baden-Württemberg, which show exceptionally high advantages in the foreign trade in HMHT goods. In Northern Italy, the geographical distribution of advantages is more mixed. Piemonte, Friuli-Venezia Giulia and Emilia-Romagna show positive revealed comparative advantages while other regions such as Lombardia (around Milan), Veneto or Trento and Bolzano-Bozen show revealed disadvantages. Regarding the neighbouring regions in the Central and Eastern European (CEE) countries, revealed advantages are particularly strong in Střední Čechy and Jihozápad in the Czech Republic, in the Western regions of Slovakia and Hungary as well as in the East Slovenian region. Notably, many of those regions are important destinations of foreign direct investment (especially in the car-manufacturing industry).

The changes over time of the RCAs in trade in HMHT goods are depicted in Figure 2, which compares the HMHT RCAs of the period 2000-2002 (x-axis) to the RCAs of 2009-2011 (y-axis). Regions in the upper right quadrant (I) had a positive revealed export advantage in high- and medium-high-technology-intensive industries both in the earlier and the later period. Hence, although the size of their export advantage may have changed over time, their general characteristic of being specialised in high-technology industries did not. The same applies to the lower left quadrant (III), only that those regions had a revealed disadvantage both in the early and in the late 2000s. The most interesting cases are

those in the off-diagonal quadrants. In the upper left quadrant (IV) there are those regions where the increase in the RCA was so high that they climbed from the group of regions having disadvantages in high-technology industries to the group of regions with positive RCAs. Conversely, the regions in the lower right quadrant (II) moved from being specialised in high-technology industries at the start of the period to having revealed export disadvantages at the end of the period. That is, those regions changed as to their characteristics and trade specialisation. The 45 degree line indicates a stable pattern of specialisation: a region located on this line has identical RCAs in 2000-2002 and in 2009-2011 (regions above the 45 degree line increased their RCAs, while regions below faced a decrease in their RCAs).

Figure 1 / Revealed comparative advantages, high- and medium-high-technology-intensive products, average 2009-2011

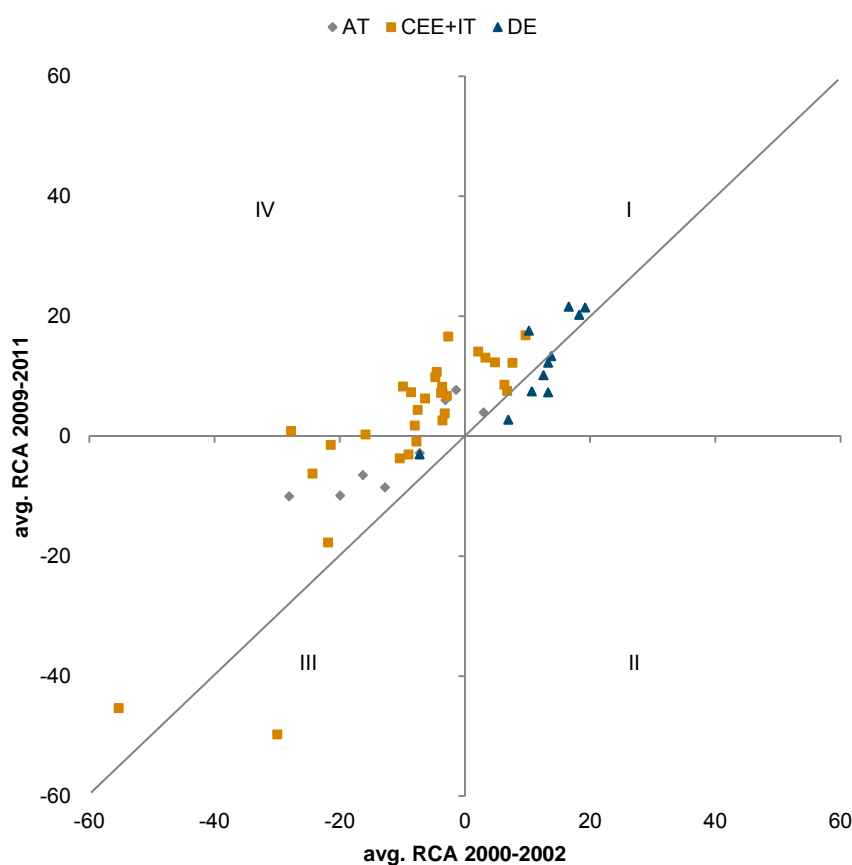


Source: wiiw.

Figure 2 reveals that over time all regions in Austria as well as all except one region in the CEE countries and Italy improved their RCAs and hence their competitiveness in HMHT products from 2000-

2002 to 2009-2011. In fact, in many of the CEE countries this improvement was so strong that those regions turned from having revealed disadvantages in trade in HMHT goods to having revealed advantages. In Southern Germany the development was more mixed, as approximately half of the regions in Bavaria and Baden-Württemberg lost some of their comparative advantages over time (but still remained specialised in the HMHT sector), while the other half experienced an increase in their RCAs.

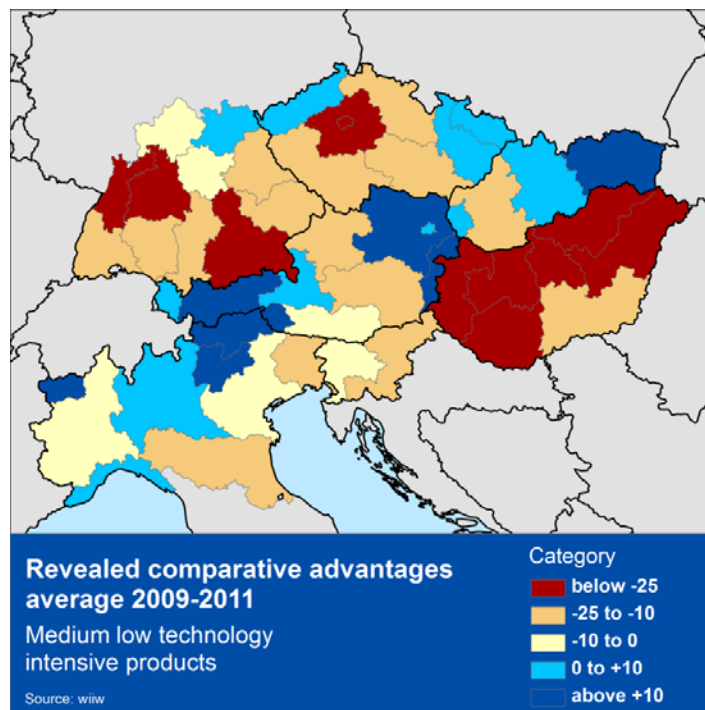
Figure 2 / Changes in revealed comparative advantages, high- and medium-high-technology-intensive products, averages 2000-2002 and 2009-2011



Source: wiiw.

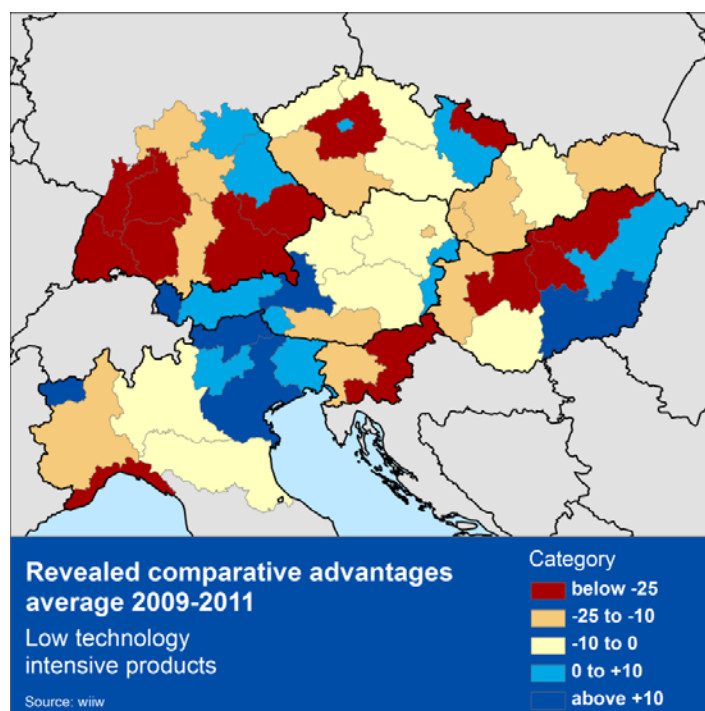
As far as the spatial distribution of RCAs in the trade in medium-low- and low-technology-intensive goods is concerned (Figure 3 and Figure 4), it is almost a mirror image of the spatial distribution of RCAs in HMHT goods trade for the period 2009-2011. In Austria, high RCAs in MLT goods trade are recorded for Lower Austria, Burgenland and Tyrol and moderately high RCAs for Vienna, Salzburg and Vorarlberg. In the neighbouring regions high RCAs in MLT goods trade are found in Trento, Bolzano-Bozen and Valle d'Aosta in Italy, as well as in the Eastern regions of the Czech Republic and Slovakia. As for trade in low-technology-intensive goods, highly positive RCAs are recorded for Salzburg and Vorarlberg in Austria, the North-Eastern regions of Italy and the South-East region of Hungary.

Figure 3 / Revealed comparative advantages, medium-low-technology-intensive products, average 2009-2011



Source: wiiw.

Figure 4 / Revealed comparative advantages, low-technology-intensive products, average 2009-2011

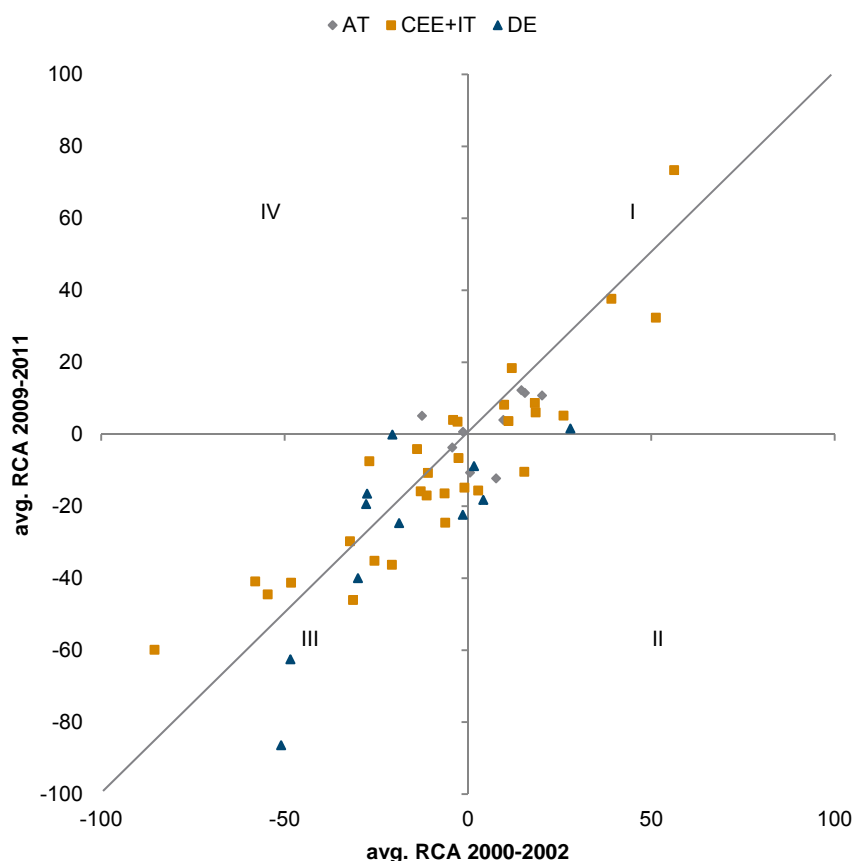


Source: wiiw.

Figure 5 and Figure 6 illustrate the 2000-2002 to 2009-2011 changes in the RCAs in medium-low- and low-technology-intensive goods trade, respectively. As far as the RCAs in the medium-low-technology-intensive goods trade are concerned, the changes over time were modest in the Austrian and neighbouring regions. As can be seen in Figure 5, many regions are distributed either on or closely around the 45 degree line, indicating that the changes in RCAs in the medium-low-technology sector were small and balanced across regions. Thus, the competitive position in this product category did not change by much, overall.

In the case of low-technology trade, however, RCAs declined over time in all regions in Austria and almost all regions in the CEE regions and Italy, pointing towards a general decline in global competitiveness in this product category. Germany is a slight exception to this rule as in some of the Southern German regions the RCAs in low-technology goods trade increased.

Figure 5 / Changes in revealed comparative advantages, medium-low-technology-intensive products, averages 2000-2002 and 2009-2011



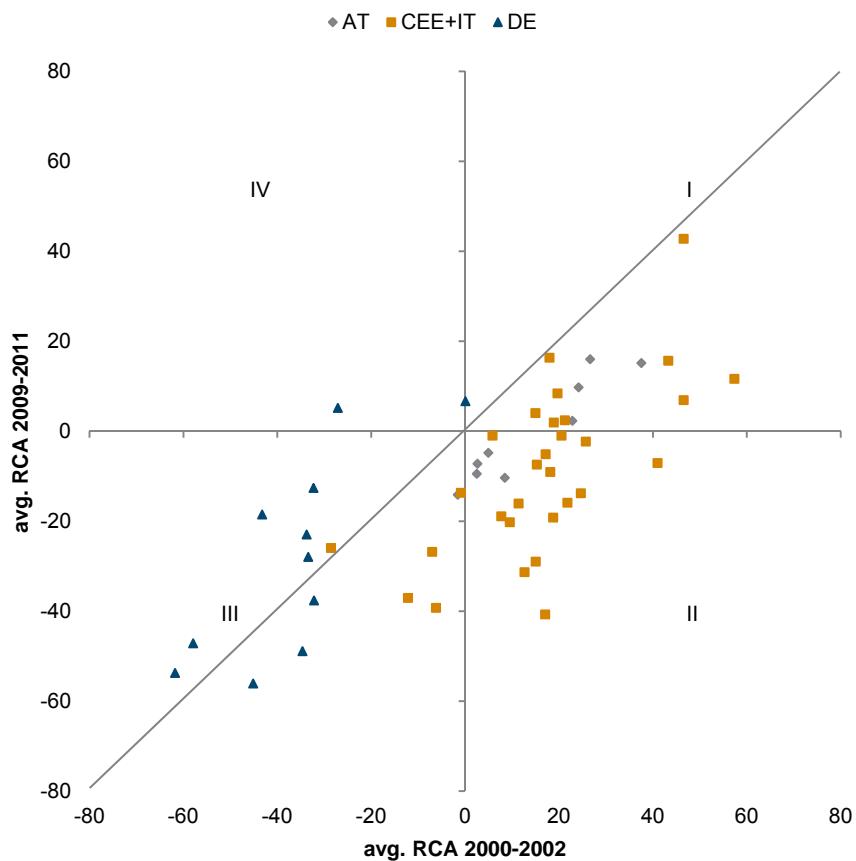
Source: wiiw

Summarising, Austria is surrounded by regions that are highly competitive in high-technology-intensive goods trade, while Austrian regions are only partly so, despite a general increase in the country's high-technology competitiveness over time. This raises the question whether Austria should be concerned about that situation. There is no clear-cut answer. It could be 'Yes', because there is the impression that

Austria is losing out in the high-technology sectors, with its goods seeming to be less competitive globally. In addition, high-tech sectors potentially generate high value added and innovation, which are also important drivers of national and regional economic development. Thus, the lack of competitiveness in these sectors may have negative implications for economic growth and employment in the longer run.

On the other hand, the answer could also be 'No', because it can be assumed that, even if the strength of Austrian regions is the medium-low- and low-technology goods trade, actual production of these goods may in fact be rather high-tech; the aggregate trade categories used in this article may disguise the technological capacity of some Austrian regions. Additionally, the specialisation and advantages of Austria could be complementary to the specialisation of its neighbouring regions, thus there may exist some synergy effects to be exploited. Finally, services are not covered by this analysis, which – with special reference to tourism – form a major pillar of Austria's global competitiveness.

Figure 6 / Changes in revealed comparative advantages, low-technology-intensive products, averages 2000-2002 and 2009-2011



Source: wiiw.

Russia's grand trade collapse

BY PETER HAVLIK*

BACKGROUND

The combined effect of (a) the Western sanctions, (b) the Russian counter-sanctions imposed in August 2014 affecting Western agro-food exports, and (c) especially the collapsing oil price later that year resulted in an unprecedented drop in Russian exports and – even more so – in imports. The latter was mainly due to the devaluation of the rouble. Already in 2014, Russian goods exports dropped by 6% while imports decreased by nearly 10% in USD terms according to the Russian Federal State Statistics Service (Rosstat).¹ Trade with the EU was hit particularly hard: EU exports to Russia declined by 14% in 2014, with German exports falling by 19%. Yet, trade with Ukraine and surprisingly also with Belarus suffered most, especially on the import side. Imports from the United States grew by more than 10% in 2014. Nevertheless the EU remained the key trading partner for Russia, accounting for more than 52% of Russian exports and 41% of imports in 2014. At the same time, China has been rapidly catching up, especially as a source of Russian imports, and has become the single largest import source, though partly thanks to differentiated rates of trade contraction. Yet, the reorientation of Russian exports from the EU towards China as envisaged by the Russian government will neither be easy nor fast, mainly on account of infrastructure bottlenecks and the associated investment requirements (for instance, the major oil and gas pipelines currently run westwards rather than to China). Figures 1 and 2 below provide detailed information about the regional composition of Russian trade.

DEVELOPMENTS IN 2015

The trade decline has dramatically accelerated in 2015 as the effects of the oil price collapse and of the rouble devaluation struck fully: data for the first eight months of 2015 indicate a huge drop in both exports (-32%) and especially imports (-39%) compared to the previous-year period, in USD terms.² Again, trade with the EU suffered more than average: exports to the EU fell by 37%, imports from the EU by 45% and the share of the EU in total trade declined accordingly. Exports to China dropped by 'only' 26% (imports by 33%). Trade with Ukraine was decimated (Russian exports: -57%, imports: -53%). Perhaps surprisingly, even Russia's partners in the Eurasian Economic Union (EAEU) – Armenia,

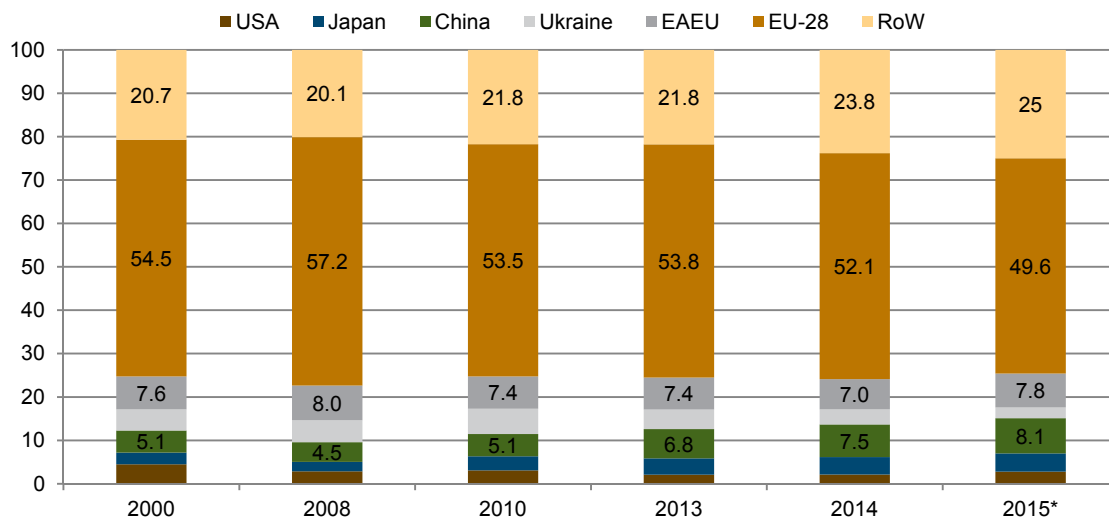
* The Vienna Institute for International Economic Studies (wiiw) and International Institute for Applied Systems Analysis (IIASA).

¹ In parallel, both inward and outward FDI stocks dropped by more than USD 200 billion and USD 90 billion, respectively during 2014, mostly owing to disinvestment from and to Cyprus-located investors according to the Central Bank of Russia (CBR). In the first half of 2015, FDI inflows to Russia fell to just USD 4.3 billion (-80% year-on-year), outflows to USD 10.2 billion (-65%). Part of this drop is related to exchange rate effects, efforts to bring flight capital back home, etc.

² Owing to the marked depreciation of the euro against the US dollar, the trade decline was much less pronounced in euro terms: exports -17%, imports -29%.

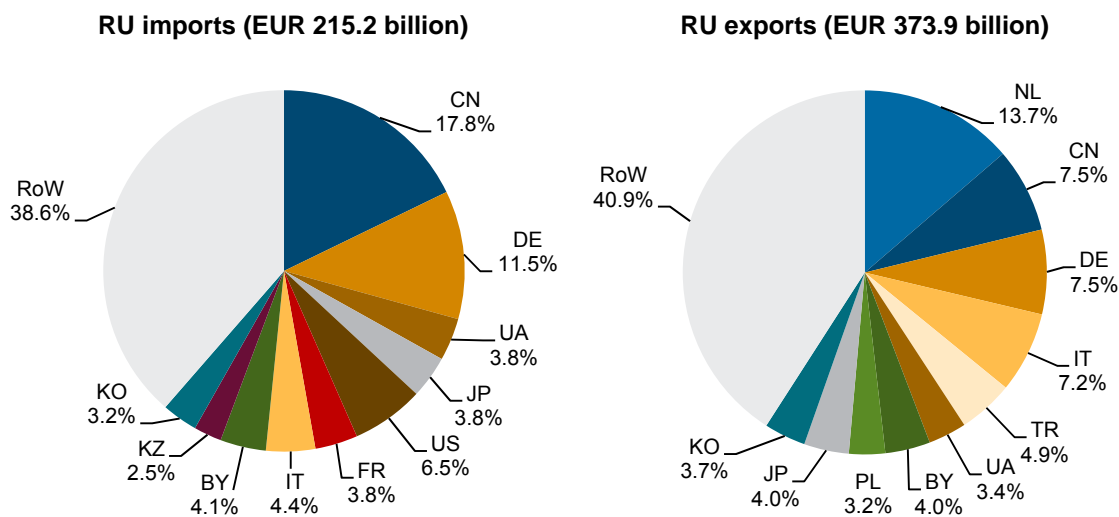
Belarus and Kazakhstan – were severely hit by Russian import cuts (-45%, -46% and -26%, respectively, in the first eight months of 2015).

Figure 1 / Russia's regional composition of goods exports in %, 2000-2015



Source: Rosstat; wiiw calculations. Year 2015 estimated. EAEU: Eurasian Economic Union of Belarus, Russia, Kazakhstan, Armenia and Kyrgyzstan.

Figure 2 / Russia's main trading partners in 2014, in % of total

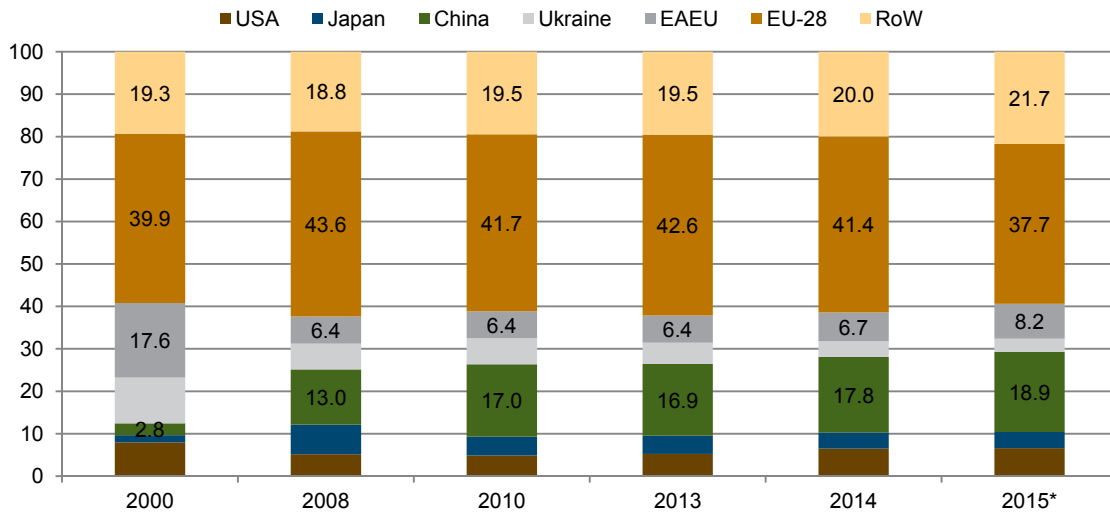


Source: Rosstat; wiiw calculations.

As shown in Figures 1 and 3, China has become the single most important trading partner as far as Russian imports are concerned (18.9% of total imports in the first eight months of 2015). Among

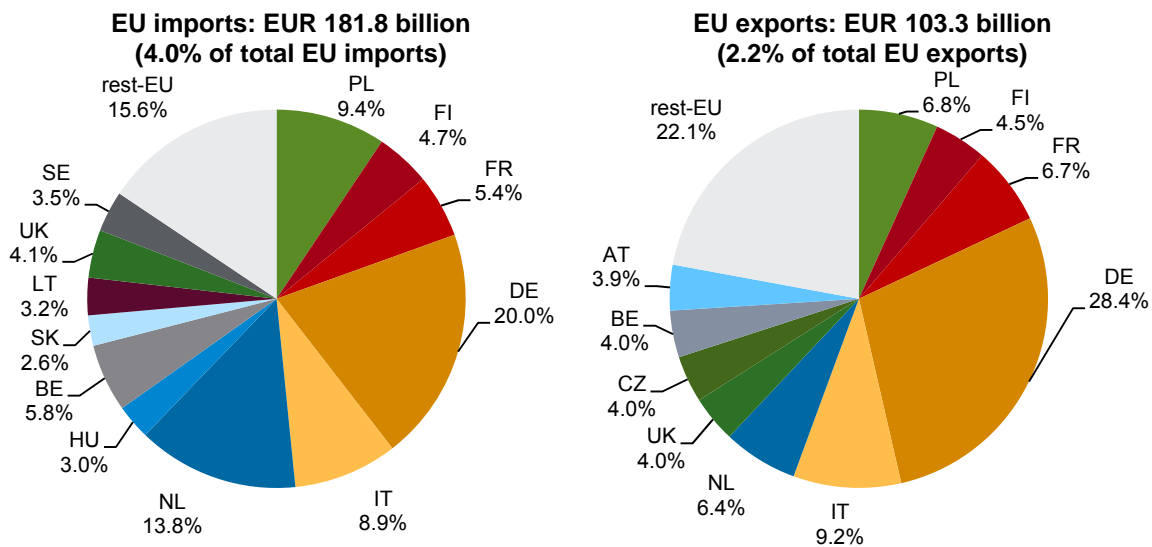
Russian export destinations, China, with a share of 8.1% in 2015 as depicted in Figure 1, outpaced Germany and Italy.³

Figure 3 / Russia's regional composition of goods imports in %, 2000-2015



Source: Rosstat; wiiw calculations. Year 2015 estimated. EAEU: Eurasian Economic Union of Belarus, Russia, Kazakhstan, Armenia and Kyrgyzstan.

Figure 4 / Russia's main trading partners in the EU in 2014, in % of total EU trade with Russia



Source: Rosstat; wiiw calculations.

³ The figure for the Netherlands, nominally the biggest Russian export market with a 13.7% export share in 2014 (12.3% in the first half of 2015), is affected by the Rotterdam port where a lot of Russian oil is traded and reloaded.

Can China replace the EU as the main source of Russian imports?

For which commodities is a trade reorientation from the EU to China possible, i.e. where does a substitution potential exist?⁴ A brief analysis of the detailed commodity composition of Russian imports (by 2-digit HS commodity groups) helps to identify this potential. Figure 5 shows the relative specialisation of Russian imports, comparing the overall import structure (by HS 2-digit commodity groups) with those of two major suppliers: the EU and China (together accounting for 60% of Russian imports in 2014). As can be seen, Russian imports are heavily concentrated: the top 3 commodity groups account for more than 40% of the total (the concentration of imports from both China and the EU is even higher).

Where is the largest potential or vulnerability for switching imports from the EU towards China? Figure 6 illustrates this by comparing major imports from the EU with those from China. The largest import gaps between the EU and China can be observed for three commodity groups: nuclear reactors, boilers (HS84); other vehicles (HS87); and pharmaceuticals (HS30). Pharmaceuticals, in particular, are imported almost exclusively from the EU (imports worth almost USD 10 billion in 2014, representing more than 8% of total Russian imports from the EU) and would be most difficult to replace by imports from China where they represented less than 0.2% in 2014.

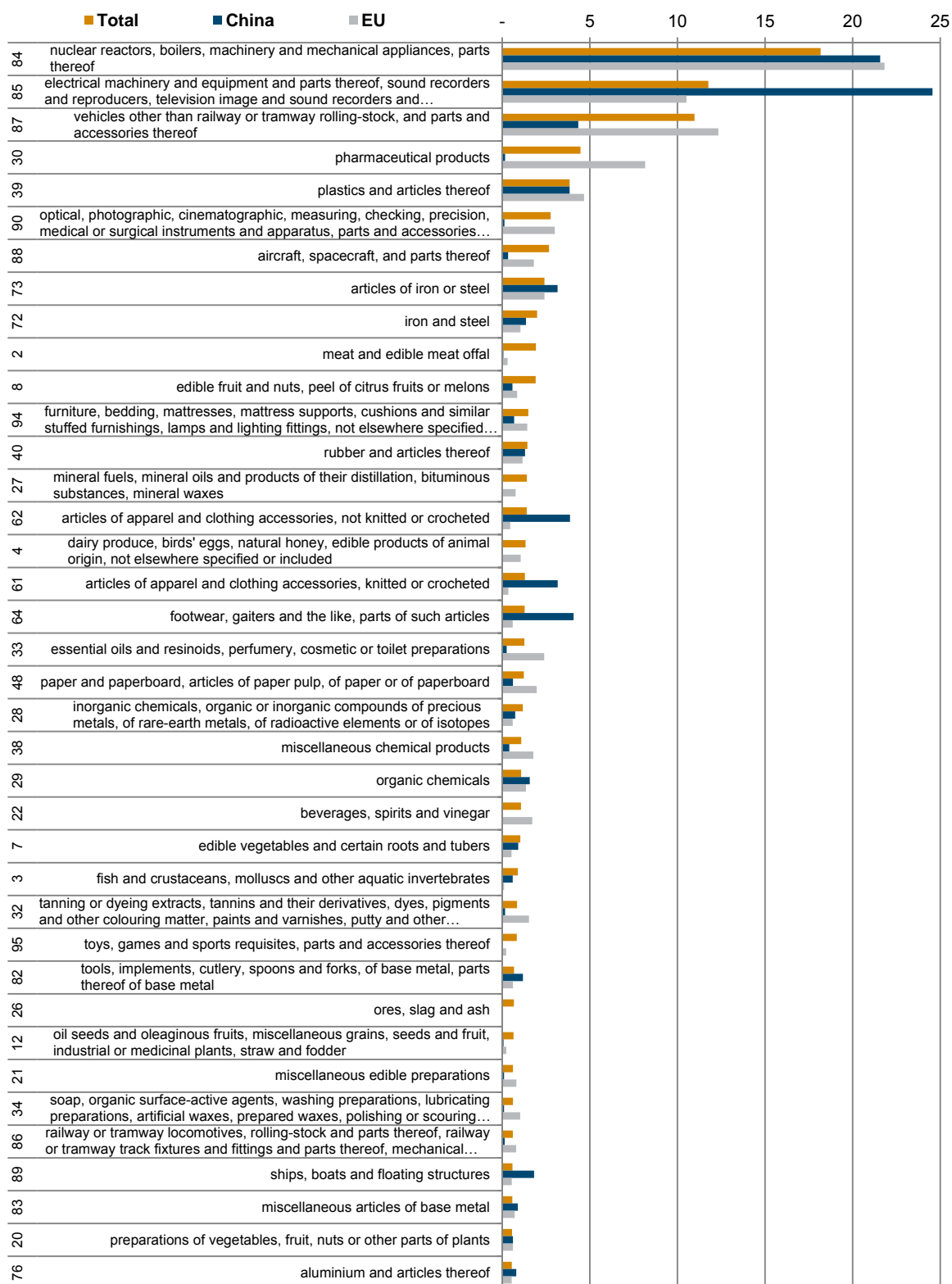
In the first eight months of 2015, Russian imports dropped by 18% in EUR terms year-on-year (38% in USD terms), imports from the EU were down by 30% whereas imports from China fell by 'only' one fifth. After imposing own counter-sanctions on Western food imports in August 2014, Russia de facto ceased to import meat, fish, milk, fruits and vegetables from the EU. EU fruits and vegetables were partly replaced by imports from third countries (mostly CIS), but there was little import substitution in general. Figure 6 shows the top 20 commodities with the largest value of 'EU-China import gaps' in 2014 (the latter defined as imports from the EU minus imports from China) and the corresponding drop in imports from the EU in the first half of 2015. One can see that a disproportionate decline in imports from the EU occurred in vehicles (-61%, HS87), aircraft (-92%, HS88), dairy products (-86%, HS04), fruit and nuts (-100%, HS08), locomotives and organic chemicals (-60% and -33%, respectively; HS86 and HS29).

With the exception of fruits, nuts and dairy products – all affected by the Russian counter-sanctions imposed in August 2014 – there has so far been hardly any substitution of EU imports from other sources. Overall imports of fruits and vegetables dropped 'only' by 38.5%, dairy imports by 55.8%, in the first half of 2015 – comparable in magnitude with the decrease in total imports of automobiles and aircraft by 56%, as illustrated in Figure 6.

Summarising, so far neither an import reorientation from the EU to China nor a substitution of imports by domestic production could be detected in Russia. Both will require time, and especially investments, which are not forthcoming.

⁴ We analyse here Russian imports only. As far as exports are concerned, mineral fuels dominate Russian exports to both destinations (more than 80% in exports to the EU and 74% in exports to China). At this stage, we do not discuss the issue of import substitution proper, e.g. the replacement of imports by domestic production.

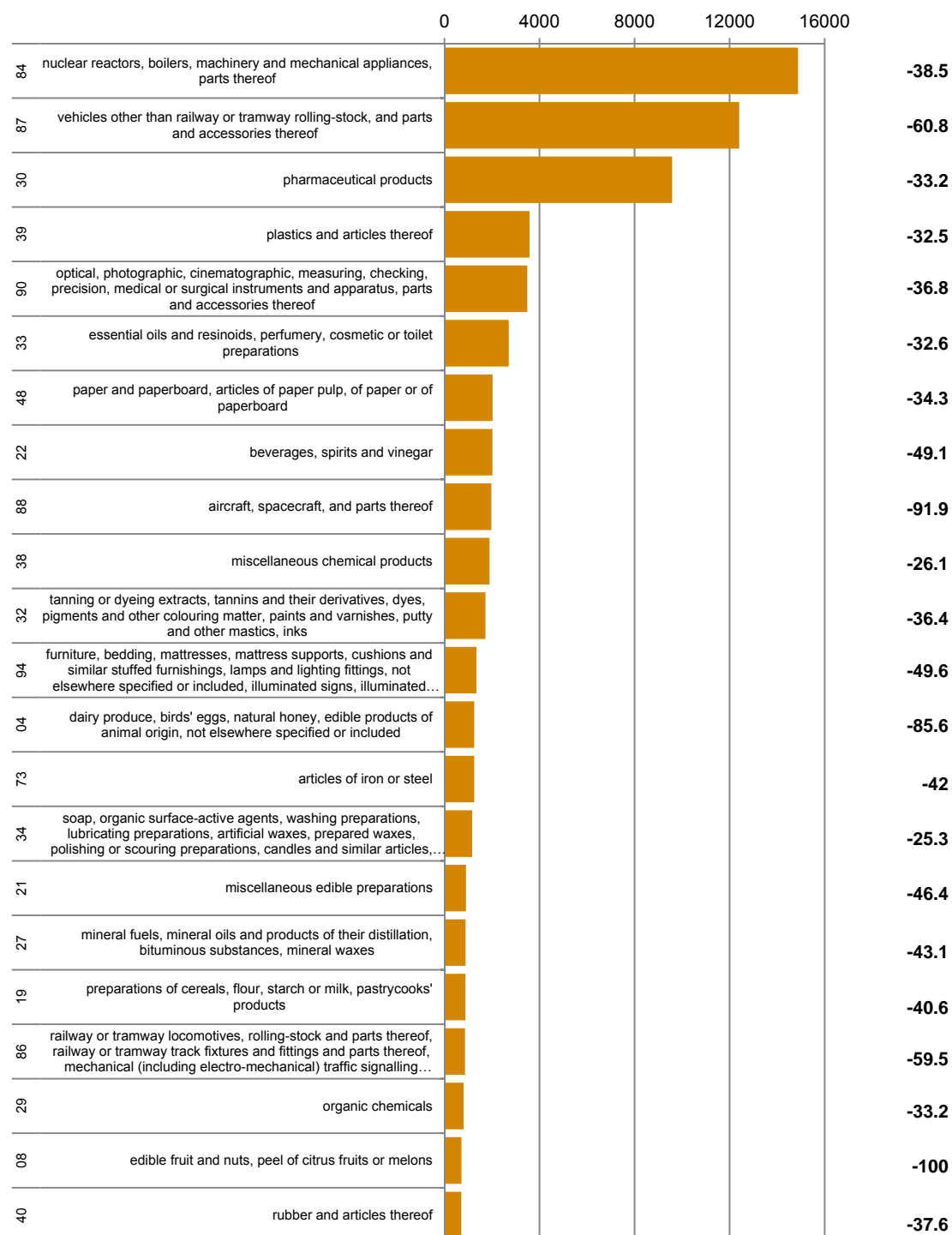
Figure 5 / Composition of Russian imports by HS 2-digit commodity groups (shares of selected commodity groups in total imports, imports from China and the EU), 2014



Source: Own calculations based on Russian Customs Statistics.

Figure 6 / Russian imports by HS 2-digit commodity groups: EU vs China, 2014

Major import gaps (USD million) and drop in imports from the EU in the 1st half 2015 (in %, year-on-year)



Note: Import gaps defined as imports from the EU minus imports from China (in USD terms, both in 2014); drop in imports from the EU in the first half of 2015 (in USD terms, year-on-year).

Source: Own calculations based on Russian Customs Statistics.

Challenges of Eurasian economic integration

BY AMAT ADAROV

The economic crisis in Russia along with its gloomy long-run growth outlook if oil prices remain at depressed levels further clouds the prospects of the Eurasian Economic Union, aggravating its internal issues associated with economic asymmetries, reliance on commodity exports, as well as lack of industrial diversification and competitiveness shared by all of its members.

NEGATIVE SPILLOVER EFFECTS FROM RECESSION-HIT RUSSIA

Eurasian integration has progressed this year as the Eurasian Customs Union–Single Economic Space formed in 2012 - moved on to the next stage of economic integration – the Eurasian Economic Union (EEU), offering a yet deeper integration agenda to its member states. Besides trade-related issues, it now focuses also on easing investment and labour flows, as well as closer coordination of national economic policies.¹ The bloc has also expanded geographically and now includes Armenia and Kyrgyzstan in addition to its founding members – Belarus, Kazakhstan and Russia.

While the EEU does constitute a sizeable market, comprising over 179 million people and generating aggregate output worth USD 2 trillion², it still amounts to only a fraction of the EU's GDP (less than 20% in PPP terms). In addition, it is characterised by vast economic asymmetries: with over 80% of the total GDP, Russia has been dominating the predecessor blocs in terms of sheer market size, and after the small economies of Armenia and Kyrgyzstan joined the union this year the situation did not change much. Therefore, unsurprisingly, the developments in the bloc are highly contingent upon the macroeconomic prospects of Russia. As Russia slipped into a deep recession in 2015 (real GDP contracted by 3.5% year-on-year in the first half of 2015³ and is expected to drop by 3.7% in 2015 according to the wiiw Autumn 2015 forecast⁴) on account of the oil price decline complemented by an array of Western sanctions imposed on Russia, the economic prospects of Eurasian integration have also deteriorated (Figure 1).

Whereas the smaller member states certainly benefit from the access to the larger market of the EEU as well as from the relatively high level of protectionism under its regulations, the economic dominance of Russia constitutes a palpable risk for the bloc. Mutual trade flows – the cornerstone of the Eurasian

¹ For more on the EEU see A. Adarov (2015), 'Eurasian integration: implications for Armenia and Kyrgyzstan', *wiiw Monthly Report*, No. 9, wiiw, September.

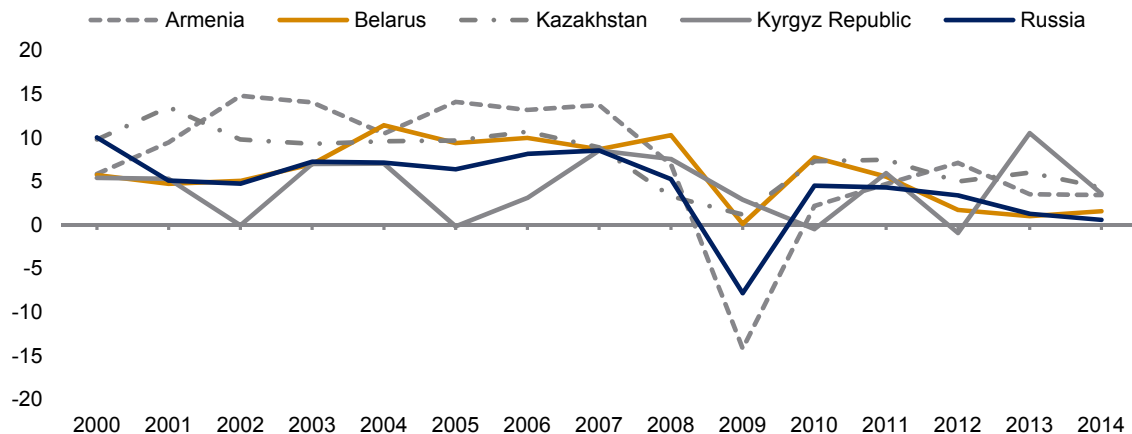
² At current USD, as of 2014 (World Bank's WDI); in terms of PPP, the combined GDP of the EEU amounts to 4.4 trillion current international USD.

³ See the Russian Federal State Statistics Service (Rosstat): http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/ru/statistics/accounts/

⁴ See A. Adarov et al. (2015), 'Mixed Prospects: Consumption Leads Fragile Recovery in the CESEE Core – CIS Stumbles', *wiiw Forecast Report Autumn 2015*, wiiw, November.
For additional details on Russia see P. Havlik (2015), 'Russian Federation 2015: From Stagnation to Recession and Back', *wiiw Research Reports*, No. 406, wiiw, September.

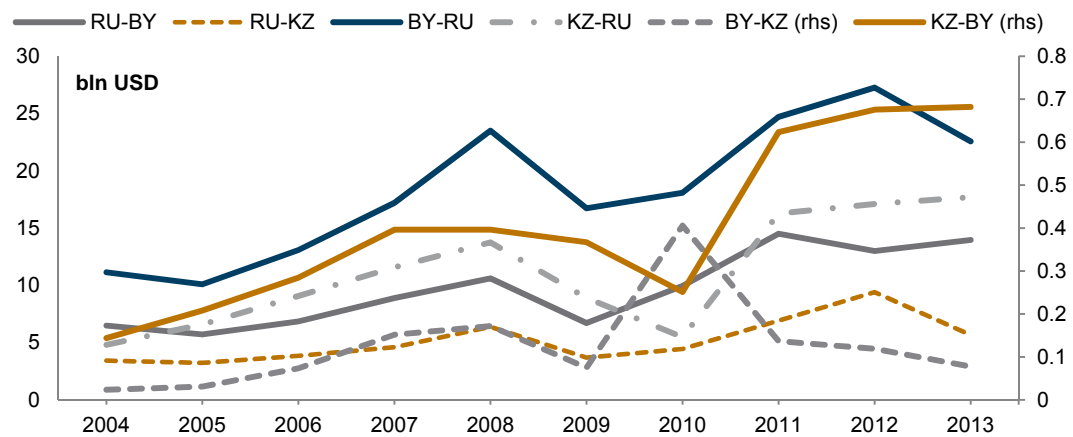
integration – have been largely following the business cycle dynamics (Figure 2) and have been declining in recent years despite integration efforts. Overall trade within the EEU over the period January-September 2015 declined by 26% year-on-year, according to data by the Eurasian Economic Commission.

Figure 1 / Real GDP growth of the EEU economies, 2000-2014



Source: IMF, World Economic Outlook.

Figure 2 / Mutual trade between the founding members of the EEU, 2004-2013



Note: Deflated (in 2010 USD terms); format: importer-exporter.

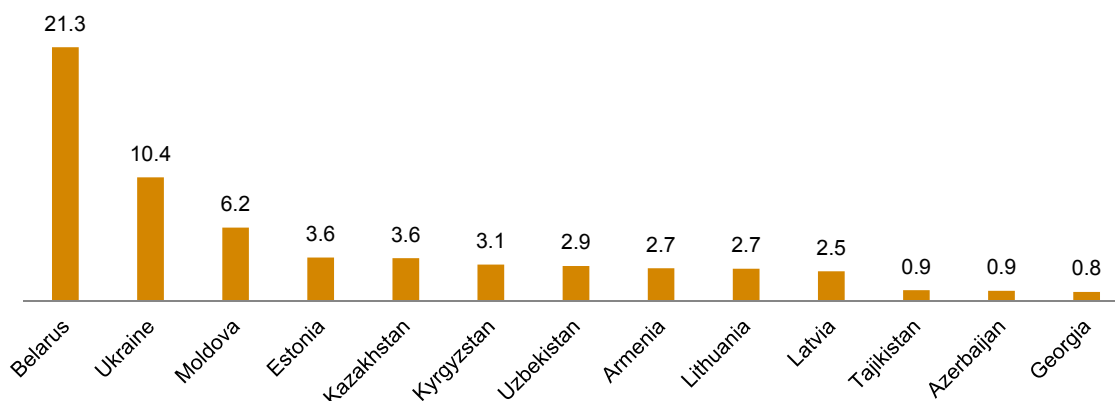
Source: UN Comtrade, IMF; wiiw calculations.

EXPOSURES TO RUSSIA VIA TRADE, INVESTMENT AND REMITTANCES LINKAGES

The slowdown in Russia bears risks for its EEU partners, as well as for the rest of the former Soviet republics with significant exposures via trade linkages (Figure 3). Belarus, the most vulnerable economy in this respect with exports directed to Russia amounting to as much as 20% of its GDP, while also suffering from significant macroeconomic imbalances and urge for external financing, plunged into a recession this year. Ukraine is a rather special case: while it has been heavily dependent on the Russian

market (particularly, the relatively more advanced industries in the eastern regions of the country), the choice between the European and Eurasian integration vectors was the triggering factor for the ongoing conflict.⁵ The Baltic countries, although suffering this year on account of trade linkages to Russia (food exports and transit of goods), remain rather resilient.

Figure 3 / Exports to Russia, % of an exporter's GDP, average 2011-2013

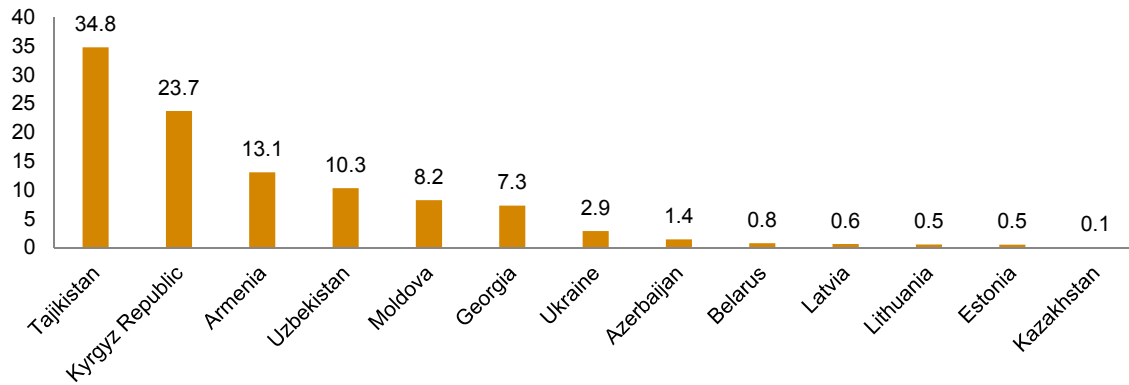


Source: wiiw Annual Database; own calculations.

As a related matter, because of a sharp weakening of the Russian rouble in late 2014 (the currency lost half of its value), Russian producers gained competitiveness vis-à-vis other partners in the EEU, thereby squeezing the producers of Belarus and Kazakhstan even in their domestic markets. Owing to these factors, as well as currency pressures leading to foreign exchange reserves quickly depleting, Kazakhstan and Belarus allowed their currencies to depreciate and announced a general move to more flexible exchange rate regimes. This reaction is consistent with the proposed overall strategy of the EEU to facilitate coordination of macroeconomic policy, implying a more flexible exchange rate regime and a shift to inflation targeting. However, this move came at a cost, as the pass-through effects of exchange rates contributed to inflationary pressures eroding domestic purchasing power and making the economic downturn more painful, especially in Russia, where an embargo on food products also contributed to a sharp acceleration of consumer inflation.

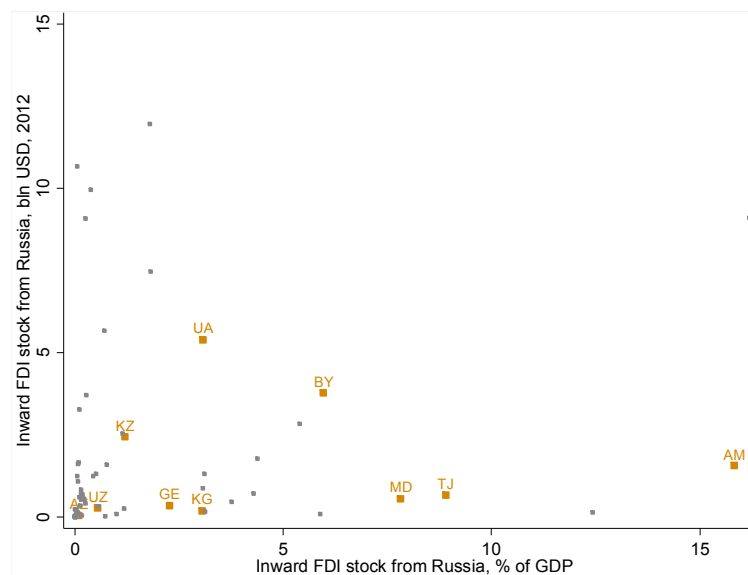
For the new EEU members – Kyrgyzstan and Armenia – the exposure to Russia via labour migration linkages is, however, a relatively more important issue of concern (Figure 4). In general, labour migration has been significant within the CIS region, with Russia being a critically important destination country and a major source of national income, particularly for poverty-stricken countries. For both Kyrgyzstan and Armenia, high dependence on remittances from Russia (24% and 13% as a share of GDP, respectively) was one of the most important factors underpinning the perceived benefits of Eurasian integration, especially in the light of the tightening of migration regulations in Russia in the recent years. As a result of the economic downturn in Russia and hence worsening labour market situation, aggravated by a sharp depreciation of the Russian rouble, the real value of the migrants' earnings dropped dramatically and many have been leaving Russia.

⁵ For details on the developments in Ukraine see the wiiw report 'How to Stabilise the Economy of Ukraine', background study 15/04/2015, available at: <http://wiiw.ac.at/how-to-stabilise-the-economy-of-ukraine-p-3562.html>

Figure 4 / Remittances from Russia, % of the recipient country's GDP, average 2013-2014

Source: World Bank; own calculations.

Russia has also been a prominent source of investment for some countries of the CIS region (Figure 5). With regard to the EEU, Armenia has been a particularly important destination of Russian FDI with the total inwards stock of FDI from Russia exceeding 15% of the country's GDP. As Russia itself has been suffering from capital outflows and recession lately, there is little hope that the more liberal standards of the EEU regulations introduced in 2015 will trigger investment activity.

Figure 5 / Inward FDI stocks from Russia, 2012

Note: orange squares: CIS, grey dots: other countries.

Source: UNCTAD, IMF; own calculations.

Finally, the attractiveness of Eurasian integration also hinges on the ability of Russia to provide explicit benefits to the participating members by transferring funds directly or indirectly via energy price discounts, development assistance, stabilisation loans, project funding and other channels. Apparently, this may become increasingly difficult for a recession-hit Russia now, as well as in the medium term as the country will likely see only feeble growth amid depressed oil prices.

COMPLIANCE ISSUES WITHIN THE EEU

The unilateral introduction of an embargo by Russia on selected European imports as a response to Western sanctions undermines the credibility of the EEU, which by design should now be responsible for the joint trade policy of the bloc and operating as a single economic entity. The allegations of re-exports of the banned products to Russia by its EEU partners and related customs checks recently effectively restored the within-EEU borders which hinder mutual trade flows. Nevertheless, in the light of a generally imperfect track record of compliance and trade disputes within the Eurasian bloc, it hardly looks surprising. In this respect, the disputes between Russia and Belarus have been especially notorious (e.g. the 'solvents scheme' dispute in 2012, the 'dairy wars' of 2013, meat and seafood product bans imposed on imports from Belarus by Russia in 2014 and 2015). The relations with Kazakhstan have been generally less strained, yet in April 2015 Kazakhstan restricted imports of dairy, confectionary products and meat products from Russia, while the Russian regulatory authorities banned imports of certain dairy and agricultural products from Kazakhstan. The justifications behind these moves commonly boil down to the claims of 'poor quality' and 'health risks'.

Potentially, the embargo imposed by Russia and, in general, its recently cultivated import substitution agenda, if realised, might bring opportunities for the EEU member states to expand their market shares in Russia. However, so far the declining aggregate demand in Russia offsets related gains, whereas in Russia itself import substitution is not likely to materialise in the near future due to capacity constraints as the investment climate has deteriorated further and borrowing costs have increased dramatically.

In this regard, elimination of the existing non-tariff barriers that are still significant in the EEU may provide at least some remedy for the stagnating mutual trade. Although the participating countries declared an economic union arrangement, barriers still exist even in trade in goods (the Eurasian Economic Commission itself identified 603 barriers, exclusions and various restrictions to trade in goods, services, and the movement of labour and capital)⁶.

The intentions spelled out in the Treaty of the EEU undoubtedly provide a pathway for deeper and multifaceted integration. However, the ability of the member states to fully commit and implement them effectively raises concerns, as headway in Eurasian integration has often been contingent on strong 'political will' of the elites rather than the regulatory bodies of the EEU, which de facto have limited capacity and instruments to enforce rules and regulations.

THE WTO MEMBERSHIP CONUNDRUM

Concurrent membership of the EEU members in the WTO represents another new challenge for the bloc. Prior to 2015, Russia was the only country of the Eurasian bloc that was a WTO member (it joined in 2012) and thus its obligations were internalised in the regulations of the Eurasian Customs Union. By contrast, the situation in the newly formed EEU is rather different: Armenia joined the WTO in 2003, Kyrgyzstan in 1998. With Kazakhstan completing its accession negotiations in 2015, Belarus remains the only non-WTO country of the bloc.

⁶ A detailed account of non-tariff barriers to the movement of goods, services, and factors of production is available in the analytical report available at http://www.eurasiancommission.org/ru/act/integr_i_makroec/dep_razv_integr/Pages/default.aspx

Each of the EEU member states joined the WTO independently and under rather different terms, making it now more difficult to harmonise the EEU regulations. In particular, both Armenia and Kyrgyzstan are long-standing members of the WTO that granted a rather liberal access to their markets under the most-favoured-nation regime, and the adoption of the EEU common external tariff – a much higher tariff schedule – necessitates renegotiations and compensations for the deterioration of their trade regimes in line with the WTO provisions. So far it appears that the major burden of renegotiating the terms with the WTO will be carried by Armenia and Kyrgyzstan themselves.

Kazakhstan's WTO commitments will also imply a more liberal trade regime relative to the EEU (effectively, its tariff schedule will revert to the pre-customs union levels with a trade-weighted average rate of 6.5%). As agreed so far, to comply with its WTO obligations, 3512 product lines will be subject to exclusions from the EEU common external tariffs (CET) for Kazakhstan, along with the negotiated SPS exclusions, and thus will require de-facto control of the rules of origin inhibiting mutual trade – something that the EEU originally intended to eliminate.

Belarus, the only country not benefiting from WTO membership, yet has to indirectly adhere to its rules due to the commitments of its EEU partners. This puts it in a particularly disadvantageous position, in part contributing to the high dependence of its exports on the Russian market. Belarus still seems to be rather far from fulfilling the original demands expressed by the WTO in the areas of agricultural subsidies and government involvement in the economy. As of today, the country relies on indicative planning and some 70% of its GDP is produced by state-owned enterprises.

CONCLUSION

Besides the new challenges that have emerged due to low oil prices and geopolitical tensions, the obstacles – stemming from infrastructural bottlenecks and a weak institutional setup - that hinder the investment climate are still high on the agenda, making it yet more difficult to move away from the 'natural resource curse'. The need for diversification and modernisation of the weak industrial base has been widely acknowledged, but despite continuous calls for reforms little progress has been made in the 2000s and now the window of opportunity appears to close for Russia. In this respect, the obligations to harmonise regulations along the lines of the new EEU provisions, which are WTO-based, could potentially facilitate at least some headway in developing a stronger institutional framework.

It is doubtful that the EEU bloc, comprising countries which share similar issues, is capable of cultivating a competitive environment that could trigger the necessary transformation to a more sophisticated industrial composition. All in all, despite making significant formal progress, the Russia-led Eurasian integration is facing severe challenges ahead. Recession in Russia and the related negative spillover effects to its EEU members, as well as poor medium-run prospects, along with uncertainty associated with the less predictable regulatory framework in Russia nowadays further weaken investor confidence in the region, while public investment is constrained by deteriorating fiscal conditions. Given the economic asymmetries in the bloc, the EEU is destined to face a painful economic adjustment, putting the bloc to a serious endurance test right at its inception.

The editors recommend for further reading*

Migration

An economic assessment of asylum seeker inflows published in November 2015 by the Austrian Society for European Politics (ÖGfE): http://oegfe.at/wordpress/wp-content/uploads/2015/11/OEGfE_Policy_Brief-2015.37_Pichelmann-Melander.pdf

A newspaper article on the economics of Syrian refugees (18 Nov 2015): <http://www.newyorker.com/news/john-cassidy/the-economics-of-syrian-refugees>

A book review on Paul Collier's book *Exodus*: <http://www.theguardian.com/books/2013/nov/17/exodus-immigration-multiculturalism-paul-collier-review>

A self-interested approach to migration crises discussing push and pull factors of migration: <https://www.foreignaffairs.com/articles/central-europe/2015-09-27/self-interested-approach-migration-crises>

A new NBER Working Paper by Isaac Ehrlich and Jinyoung Kim, published in November 2015, on immigration, human capital formation and endogenous economic growth: <http://www.nber.org/papers/w21699>

Grand Free Trade Agreements

A VoxEU Book on the consequences of TTIP for third countries, including systemic and different national perspectives: http://www.voxeu.org/sites/default/files/file/TTIP_23march.pdf

A statement by the European Commission on TTIP and sustainable development (6 Nov 2015): <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1393>; accompanied by the top 10 myths about TTIP: http://trade.ec.europa.eu/doclib/docs/2015/march/tradoc_153266.pdf

Background information on EU negotiating texts in TTIP published in the course of the European Commission's transparency initiative: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1230>; which are barely read as pointed out by a newspaper article of the FAZ: <http://www.faz.net/aktuell/wirtschaft/ttip-und-freihandel/kaum-jemand-liest-die-ttip-dokumente-13542243.html>

A commentary by Lawrence Summers (8 Nov 2015) on relations with China in the context of grand FTAs: <http://www.ft.com/cms/s/2/284b68f8-84ab-11e5-8e80-1574112844fd.html#axzz3s2U2PdHz>

* Recommendation is not necessarily endorsement. The editors are grateful to Vladimir Gligorov, Sebastian Leitner, Isilda Mara, Robert Stehrer, Olga Pindyuk and Michael Windisch.

Monthly and quarterly statistics for Central, East and Southeast Europe

The annex now covers **20 countries** of the CESEE region. The new graphical form of presenting statistical data is intended to facilitate the **analysis of short-term macroeconomic developments**. The set of indicators captures tendencies in the real sector, pictures the situation in the labour market and inflation, reflects fiscal and monetary policy changes, and depicts external sector developments.

Baseline data and a variety of other monthly and quarterly statistics, **country-specific** definitions of indicators and **methodological information** on particular time series are **available in the wiiw Monthly Database** under: <http://data.wiiw.ac.at/monthly-database.html>. Users regularly interested in a certain set of indicators may create a personalised query which can then be quickly downloaded for updates each month.

Conventional signs and abbreviations used

%	per cent
LFS	Labour Force Survey
HICP	Harmonized Index of Consumer Prices (for new EU Member States)
PPI	Producer Price Index
M1	Currency outside banks + demand deposits / narrow money (ECB definition)
M2	M1 + quasi-money / intermediate money (ECB definition)
p.a.	per annum
mn	million (10 ⁶)
bn	billion (10 ⁹)

The following national currencies are used:

ALL	Albanian lek	HUF	Hungarian forint	RSD	Serbian dinar
BAM	Bosnian convertible mark	KZT	Kazakh tenge	RUB	Russian rouble
BGN	Bulgarian lev	MKD	Macedonian denar	TRY	Turkish lira
CZK	Czech koruna	PLN	Polish zloty	UAH	Ukrainian hryvnia
HRK	Croatian kuna	RON	Romanian leu		

EUR euro – national currency for Montenegro and for the euro-area countries Estonia (from January 2011, euro-fixed before), Latvia (from January 2014, euro-fixed before), Lithuania (from January 2015, euro-fixed before), Slovakia (from January 2009, euro-fixed before) and Slovenia (from January 2007, euro-fixed before).

Sources of statistical data: Eurostat, National Statistical Offices, Central Banks and Public Employment Services; wiiw estimates.

Access: New online database access! (see overleaf)

New online database access



wiiw Annual Database



wiiw Monthly Database



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The wiiw databases are now accessible via a simple web interface, with only one password needed to access all databases (and all wiiw publications). We have also relaunched our website with a number of improvements, making our services more easily available to you.

You may access the databases here: <http://data.wiiw.ac.at>.

If you have not yet registered, you can do so here: <http://wiiw.ac.at/register.html>.

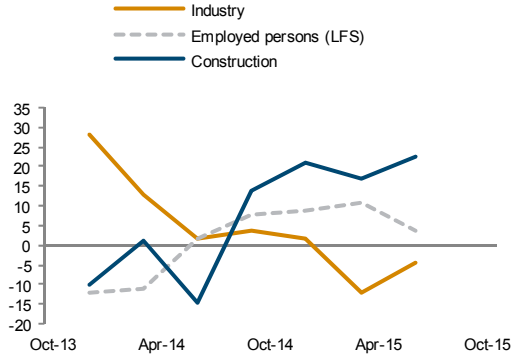
New service package available

Starting in January 2014, we offer an additional service package that allows you to access all databases – a Premium Membership, at a price of € 2,300 (instead of € 2,000 as for the Basic Membership). Your usual package will, of course, remain available as well.

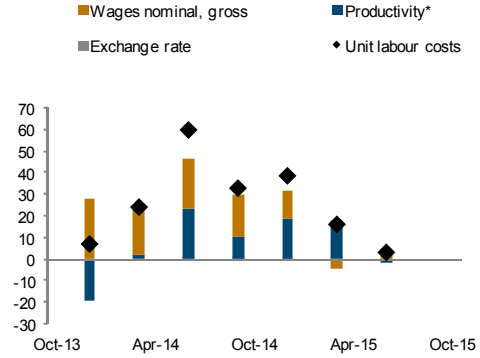
For more information on database access for Members and on Membership conditions, please contact Ms. Gabriele Stanek (stanek@wiiw.ac.at), phone: (+43-1) 533 66 10-10.

Albania

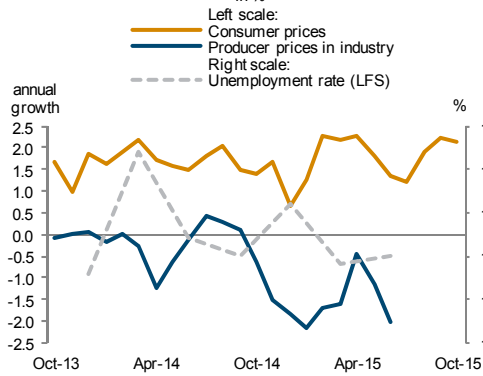
Real sector development
annual growth rate in %



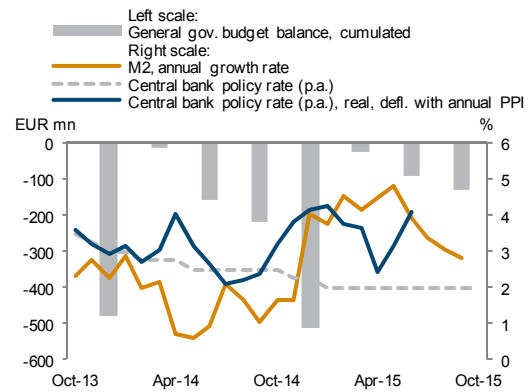
Unit labour costs in industry
annual growth rate in %



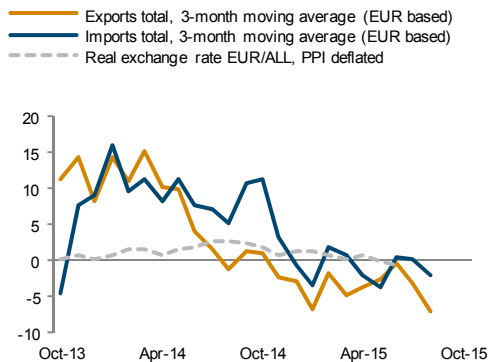
Inflation and unemployment
in %



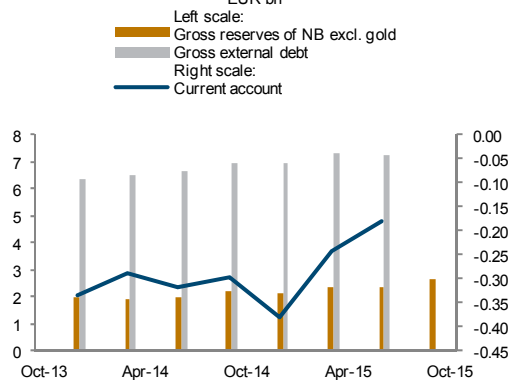
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

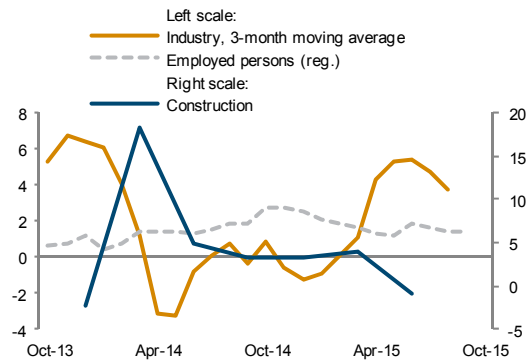
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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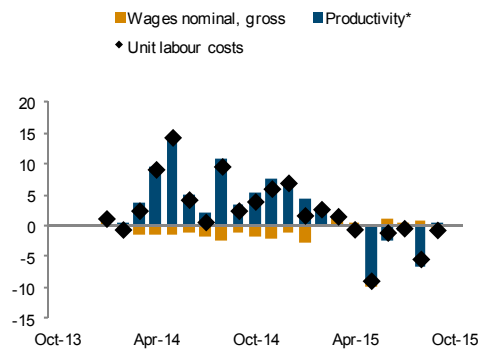
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Bosnia and Herzegovina

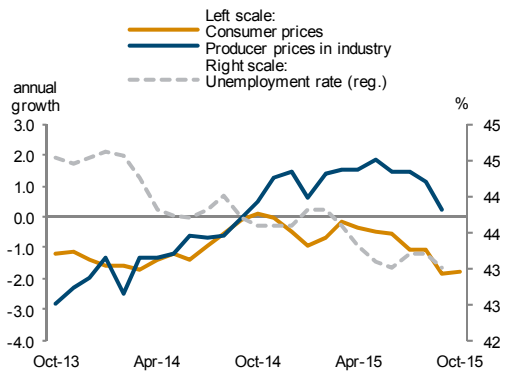
Real sector development
annual growth rate in %



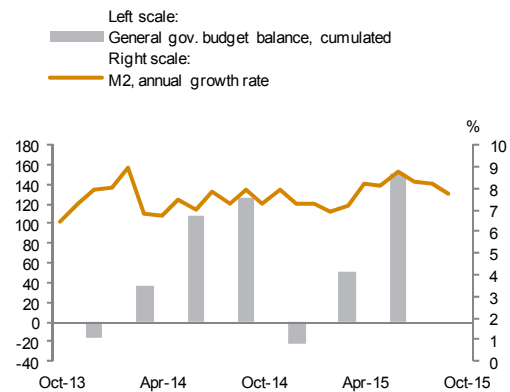
Unit labour costs in industry
annual growth rate in %



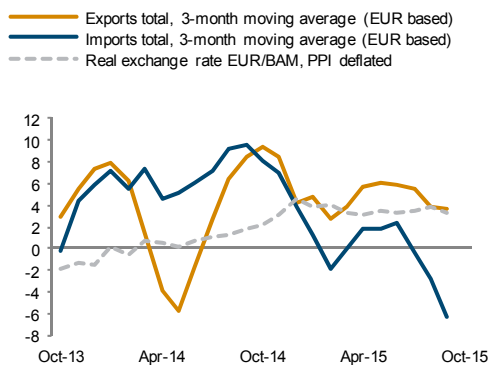
Inflation and unemployment
in %



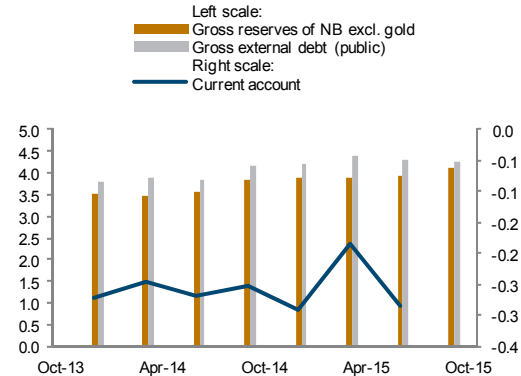
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



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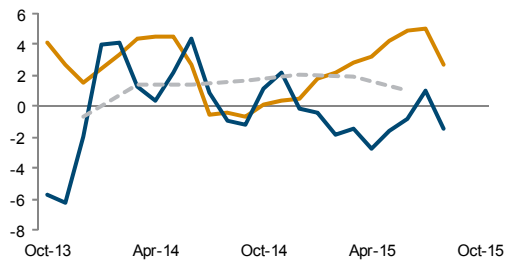
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Bulgaria

Real sector development

annual growth rate in %

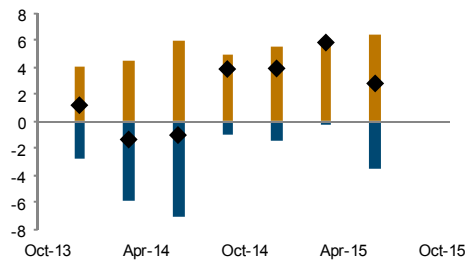
— Industry, 3-month moving average
— Construction, 3-month moving average
- - - Employed persons (LFS)



Unit labour costs in industry

annual growth rate in %

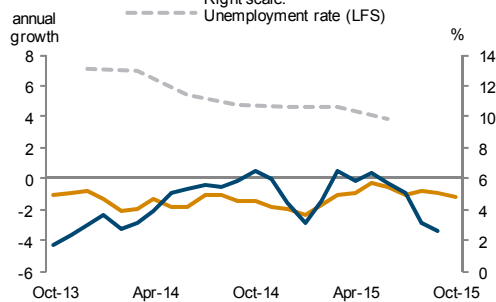
■ Wages nominal, gross ■ Productivity* ◆ Unit labour costs



Inflation and unemployment

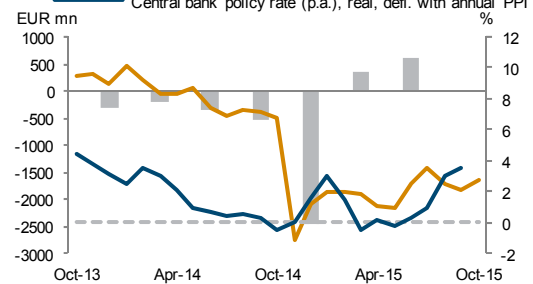
in %

Left scale:
— Consumer prices (HICP)
— Producer prices in industry
Right scale:
- - - Unemployment rate (LFS)



Fiscal and monetary policy

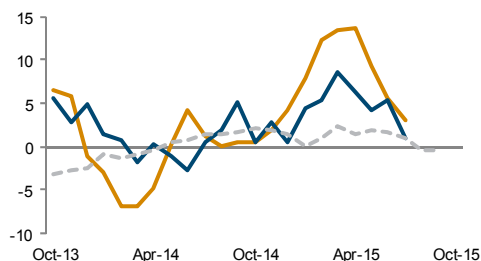
Left scale:
■ General gov. budget balance, cumulated
Right scale:
— Broad money, annual growth rate
- - - Central bank policy rate (p.a.)
— Central bank policy rate (p.a.), real, defl. with annual PPI



External sector development

annual growth rate in %

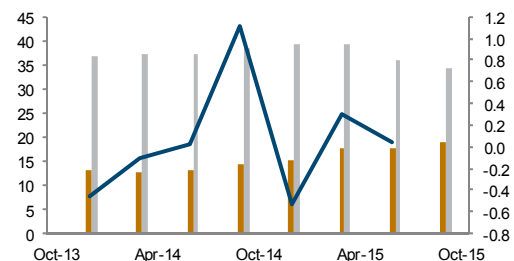
— Exports total, 3-month moving average (EUR based)
— Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/BGN, PPI deflated



External finance

EUR bn

Left scale:
■ Gross reserves of NB excl. gold
■ Gross external debt
Right scale:
— Current account



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

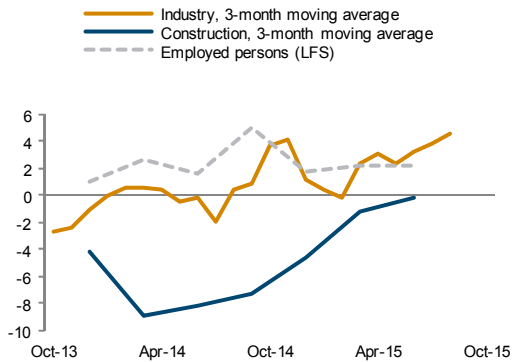
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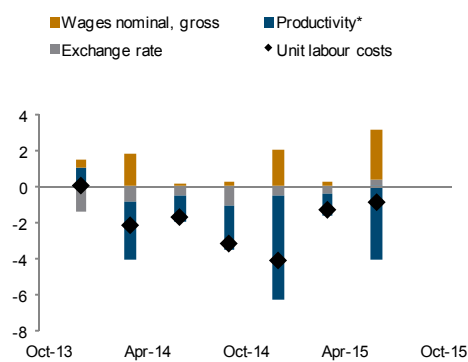
<http://data.wiiw.ac.at/monthly-database.html>

Croatia

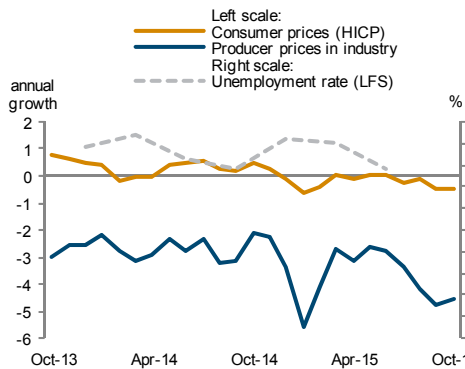
Real sector development
annual growth rate in %



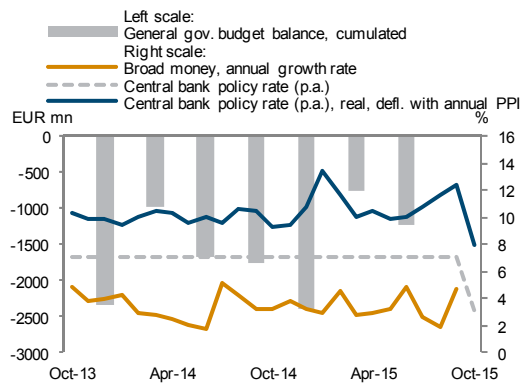
Unit labour costs in industry
annual growth rate in %



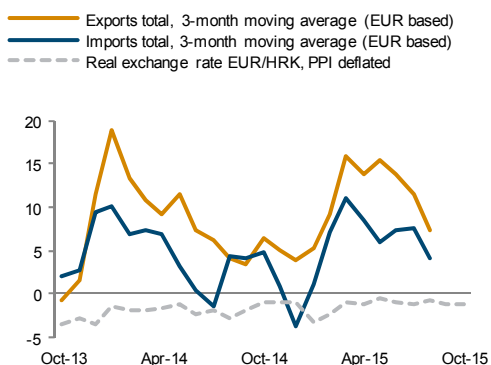
Inflation and unemployment
in %



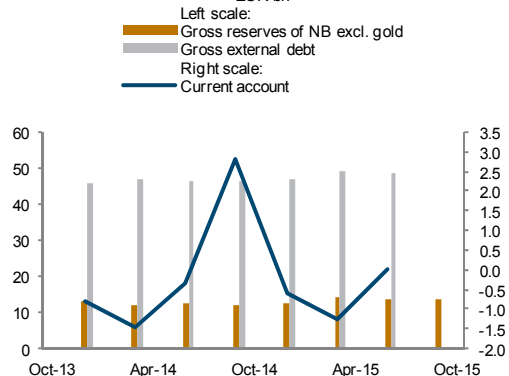
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

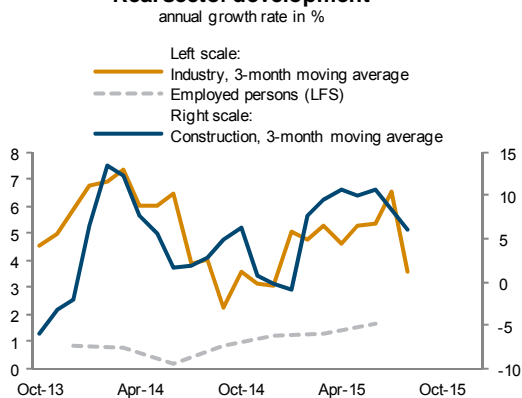
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

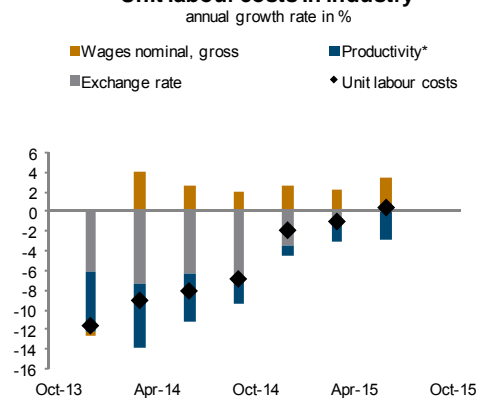
<http://data.wiiw.ac.at/monthly-database.html>

Czech Republic

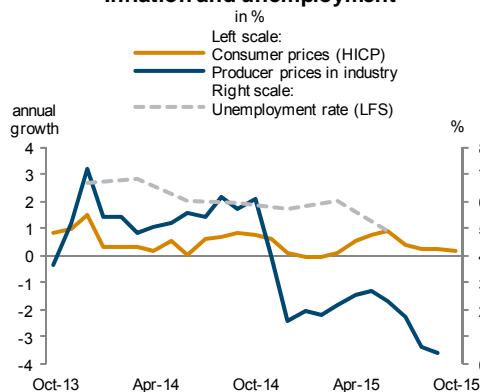
Real sector development



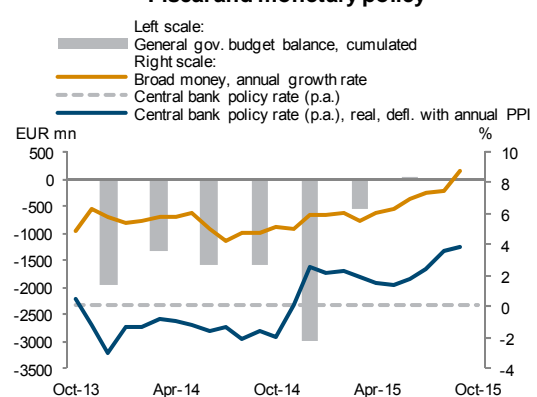
Unit labour costs in industry



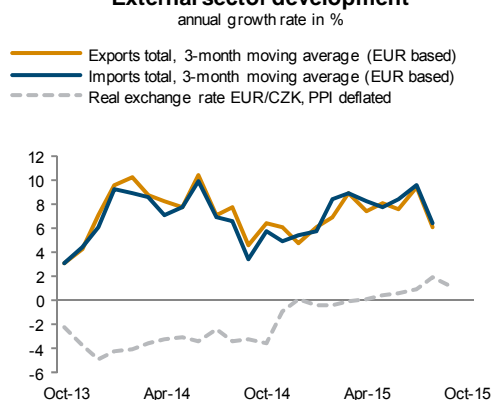
Inflation and unemployment



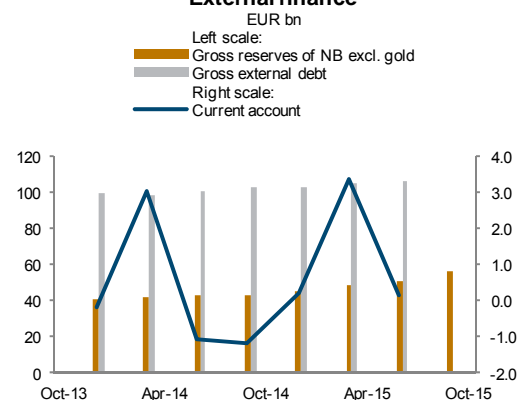
Fiscal and monetary policy



External sector development



External finance



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

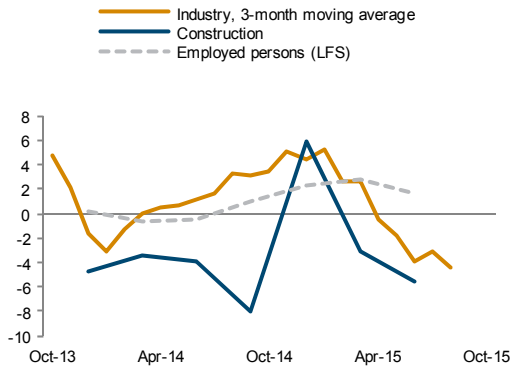
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

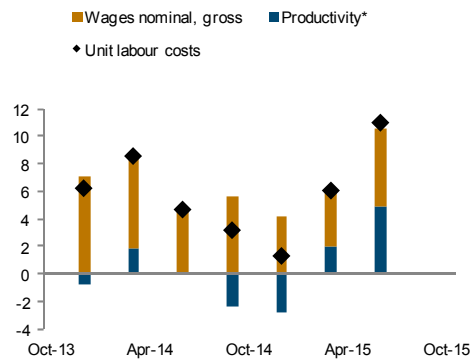
<http://data.wiiw.ac.at/monthly-database.html>

Estonia

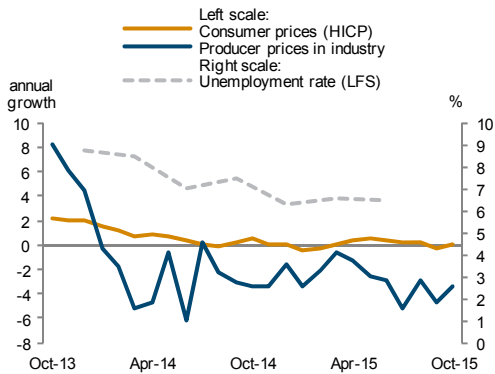
Real sector development
annual growth rate in %



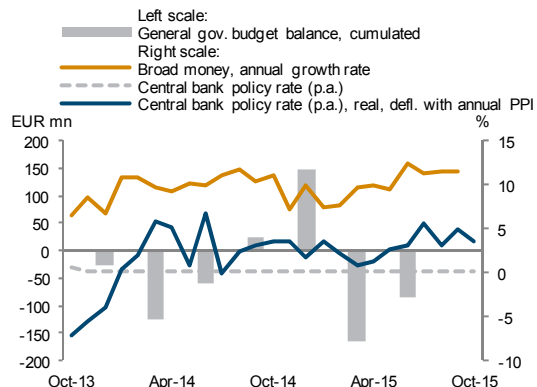
Unit labour costs in industry
annual growth rate in %



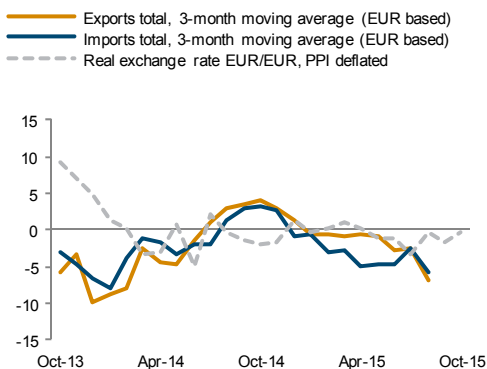
Inflation and unemployment
in %



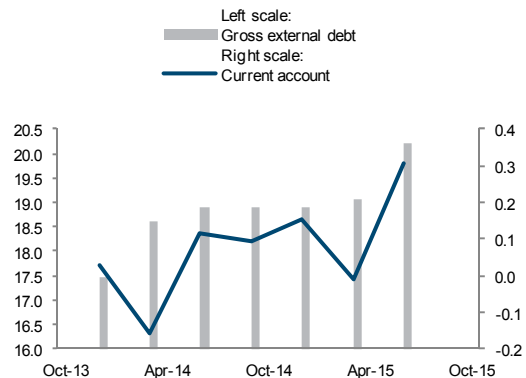
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

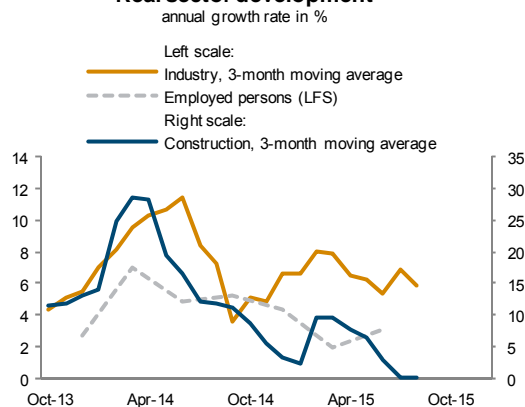
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

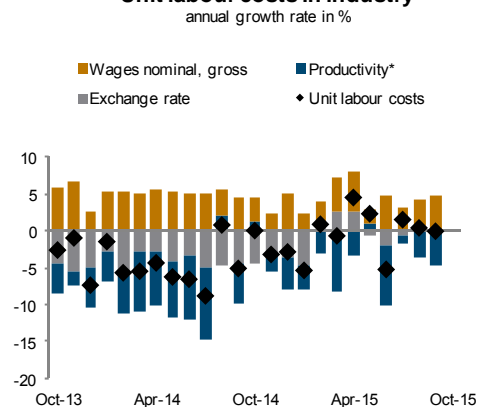
<http://data.wiiw.ac.at/monthly-database.html>

Hungary

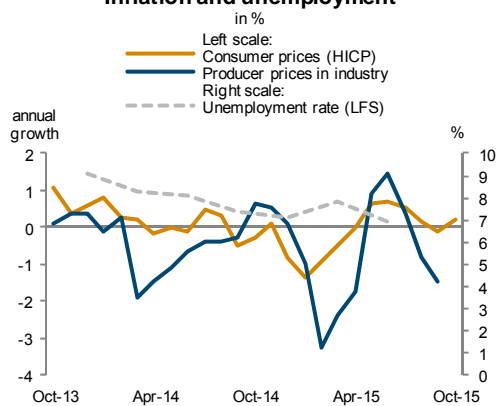
Real sector development



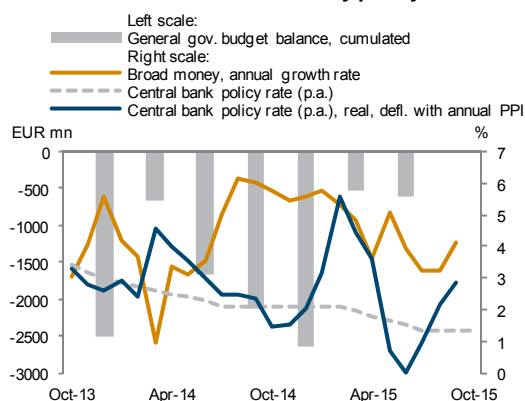
Unit labour costs in industry



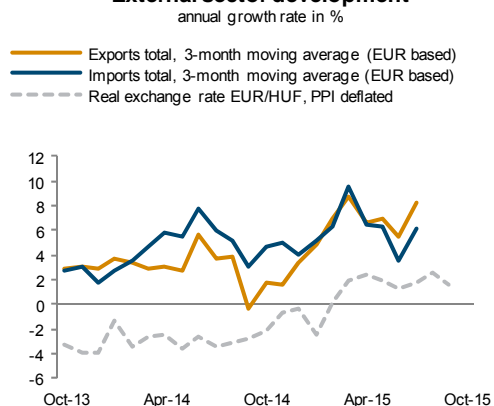
Inflation and unemployment



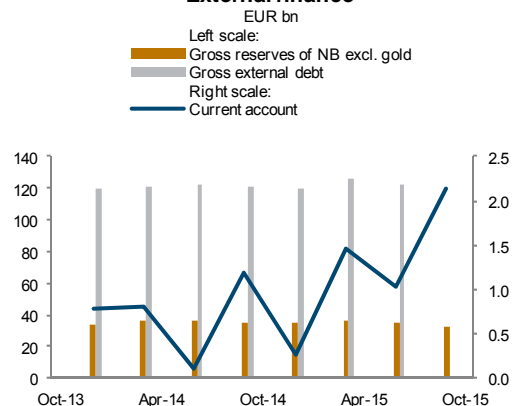
Fiscal and monetary policy



External sector development



External finance



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

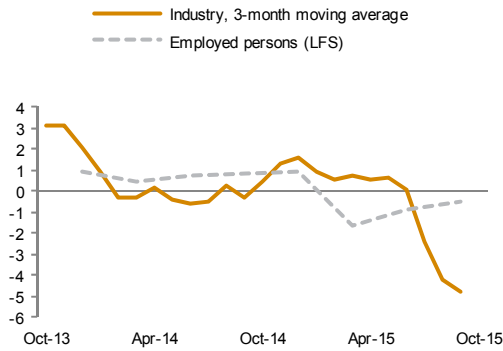
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

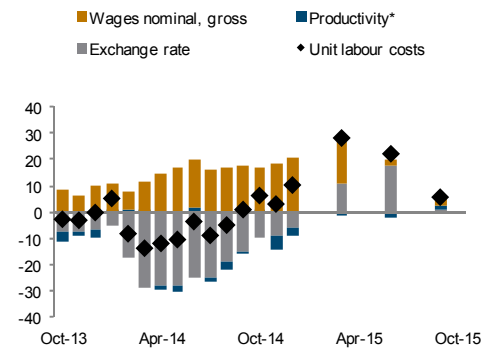
<http://data.wiiw.ac.at/monthly-database.html>

Kazakhstan

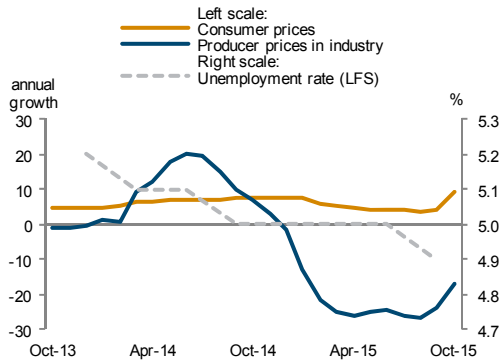
Real sector development
annual growth rate in %



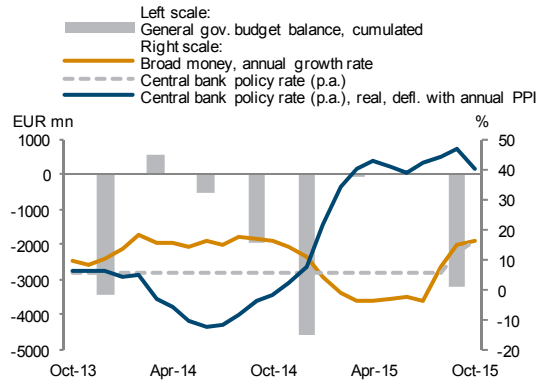
Unit labour costs in industry
annual growth rate in %



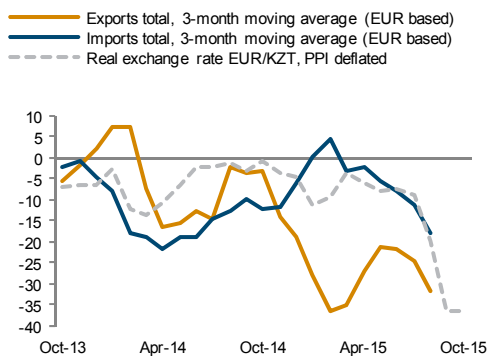
Inflation and unemployment
in %



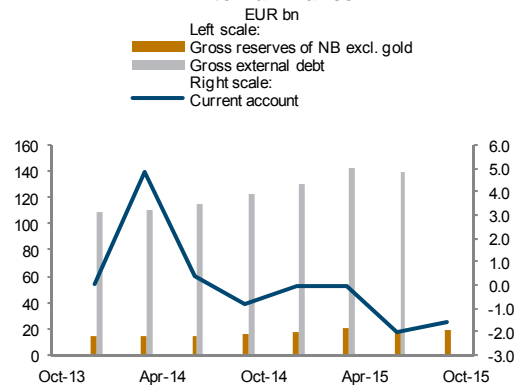
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

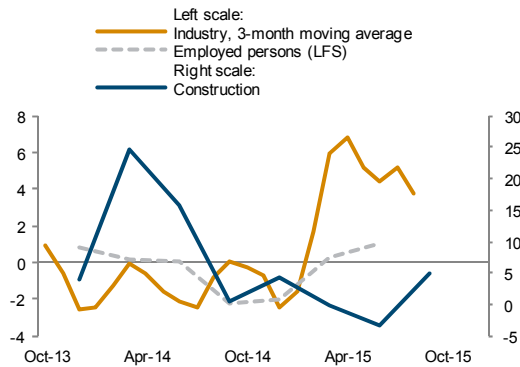
Baseline data, country-specific definitions and methodological breaks in time series are available under:

<http://data.wiiw.ac.at/monthly-database.html>

Latvia

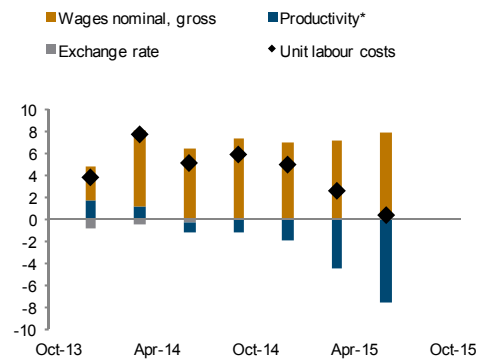
Real sector development

annual growth rate in %



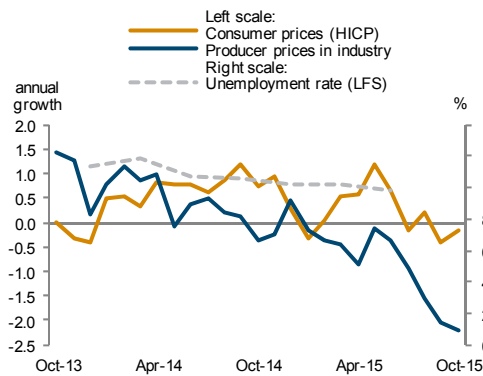
Unit labour costs in industry

annual growth rate in %

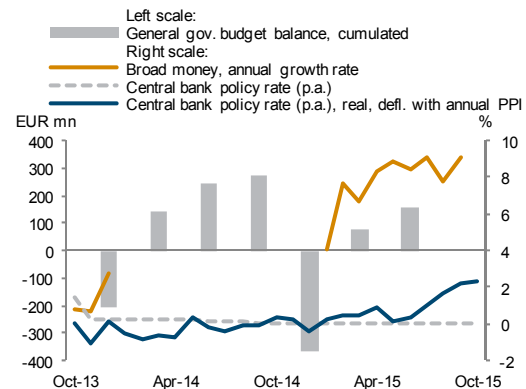


Inflation and unemployment

in %

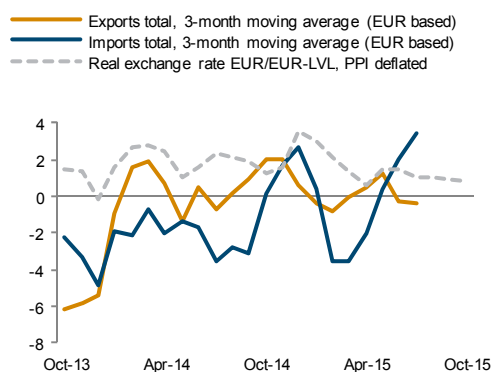


Fiscal and monetary policy



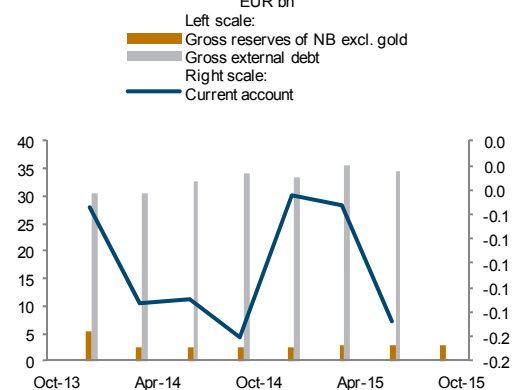
External sector development

annual growth rate in %



External finance

EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

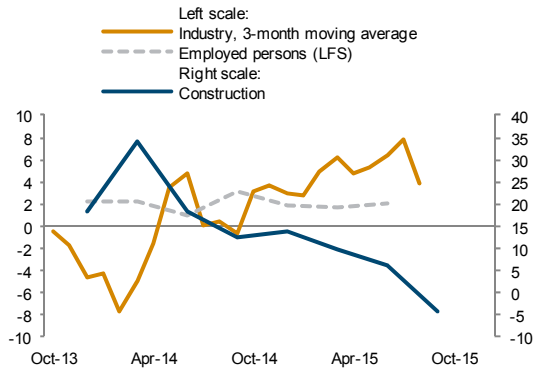
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

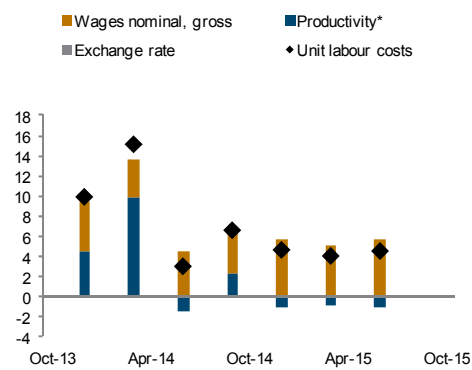
<http://data.wiiw.ac.at/monthly-database.html>

Lithuania

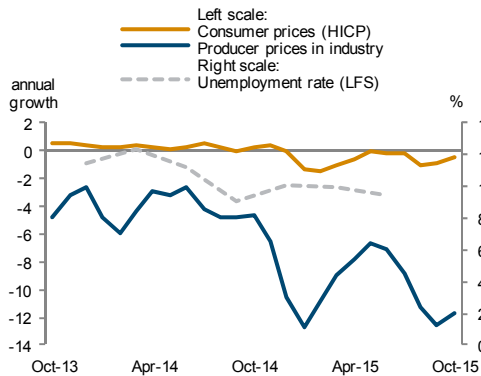
Real sector development
annual growth rate in %



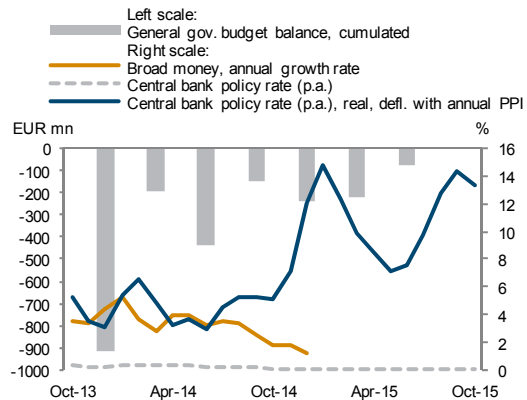
Unit labour costs in industry
annual growth rate in %



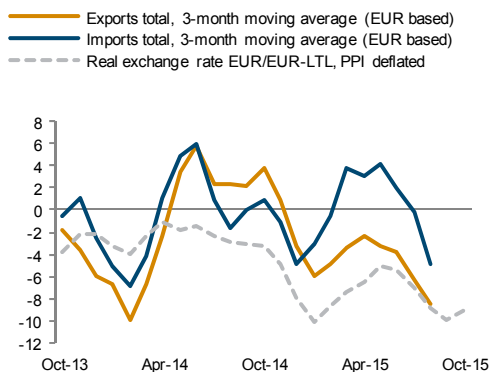
Inflation and unemployment
in %



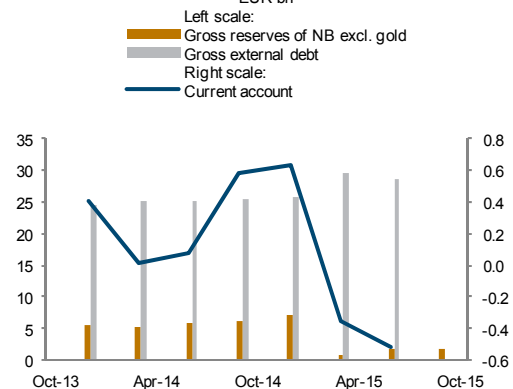
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



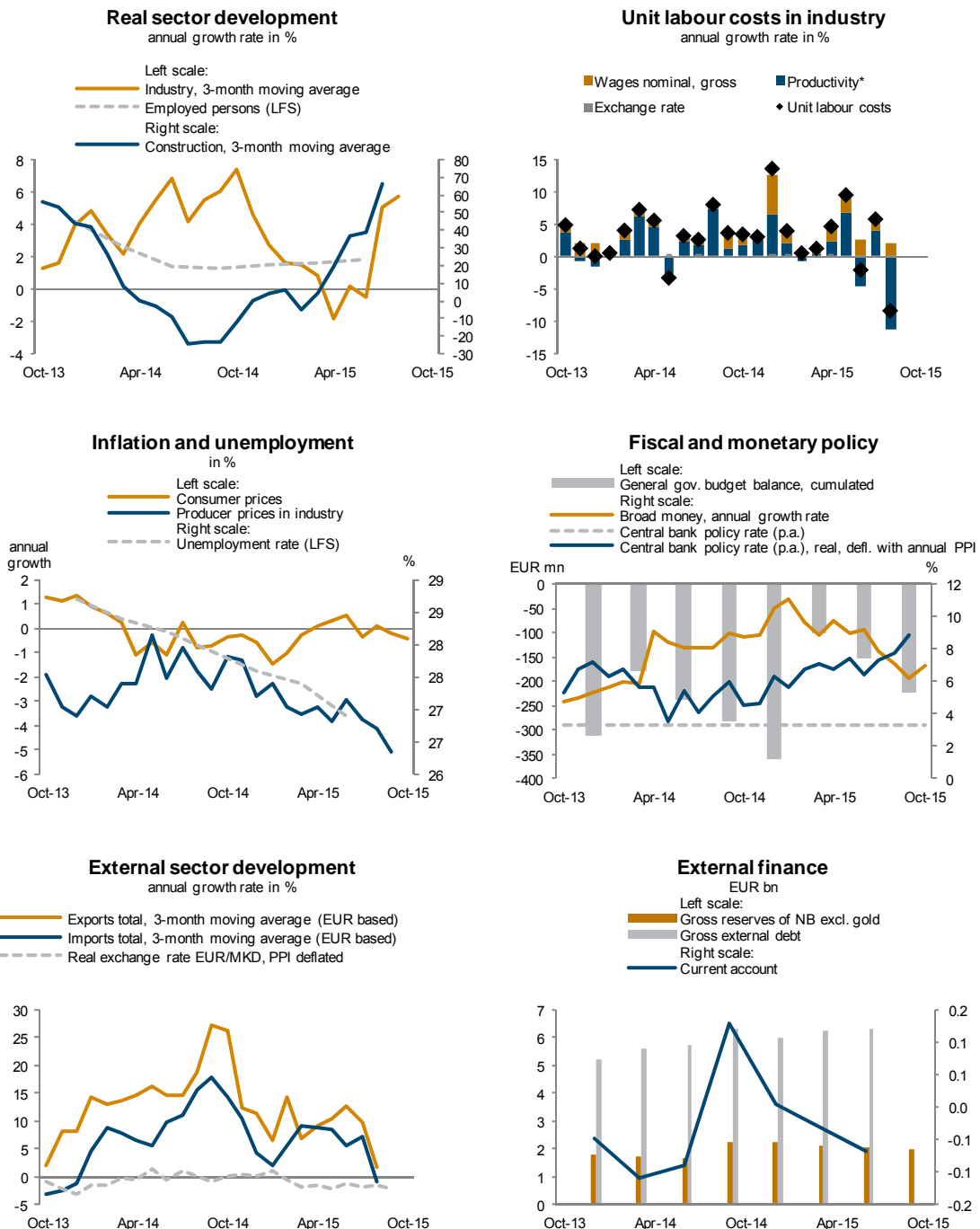
*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

<http://data.wiiw.ac.at/monthly-database.html>

Macedonia



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

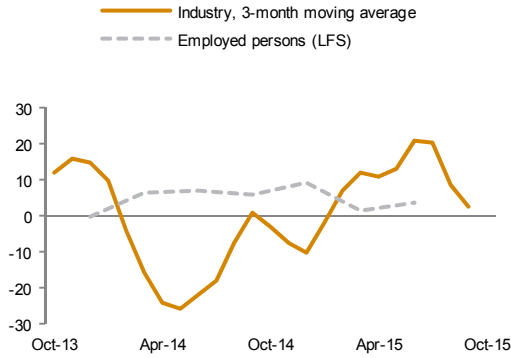
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

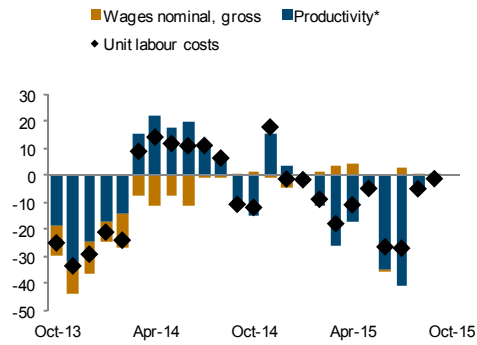
<http://data.wiiw.ac.at/monthly-database.html>

Montenegro

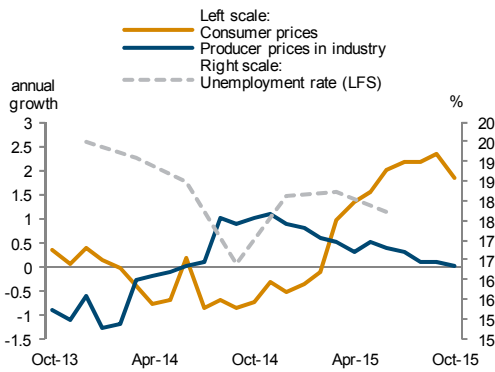
Real sector development
annual growth rate in %



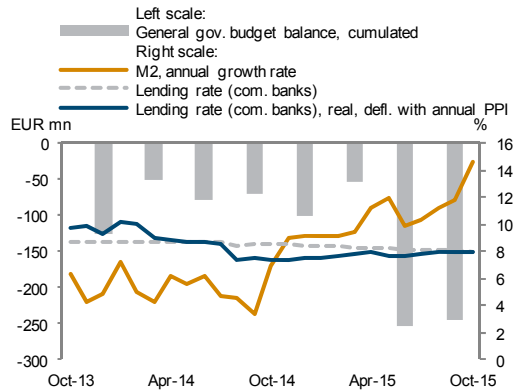
Unit labour costs in industry
annual growth rate in %



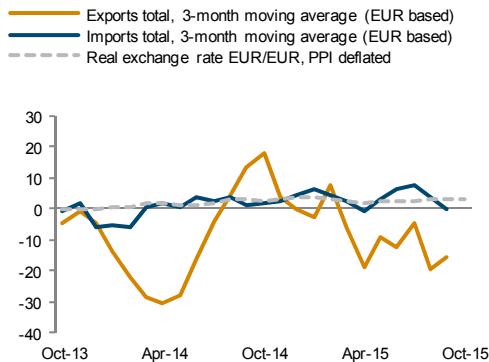
Inflation and unemployment
in %



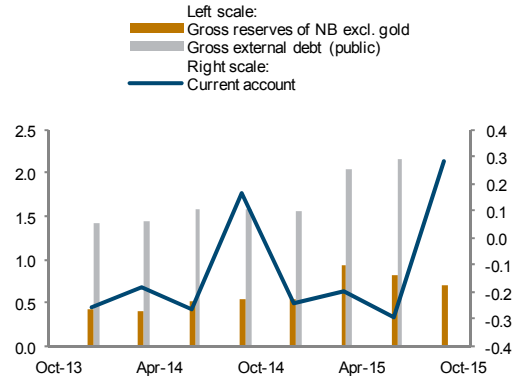
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

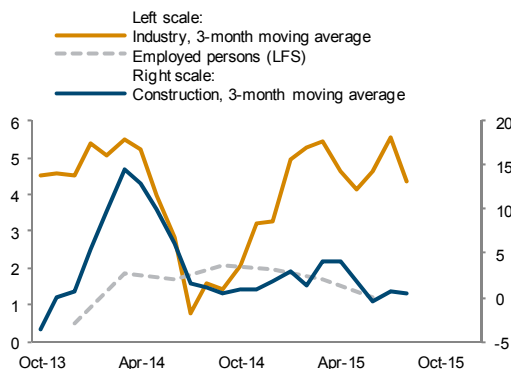
Baseline data, country-specific definitions and methodological breaks in time series are available under:

<http://data.wiiw.ac.at/monthly-database.html>

Poland

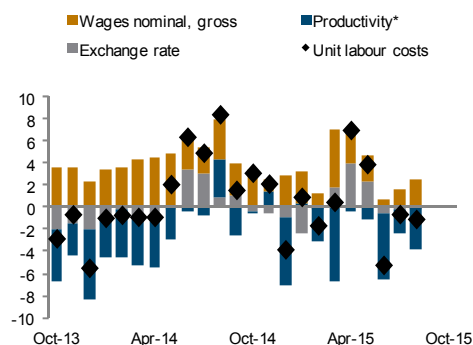
Real sector development

annual growth rate in %



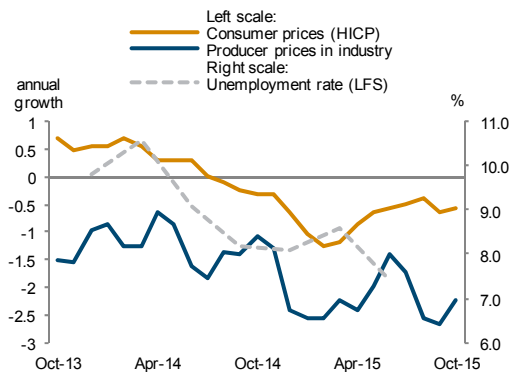
Unit labour costs in industry

annual growth rate in %

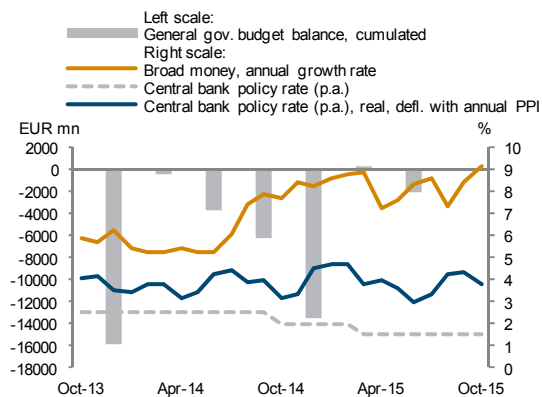


Inflation and unemployment

in %

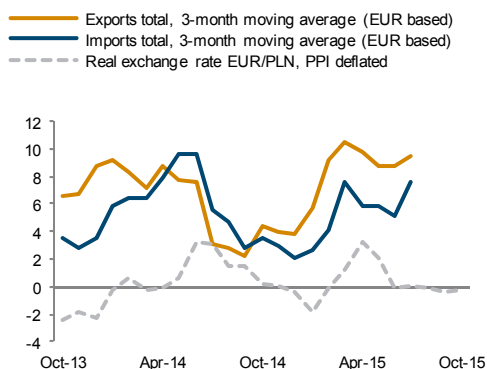


Fiscal and monetary policy



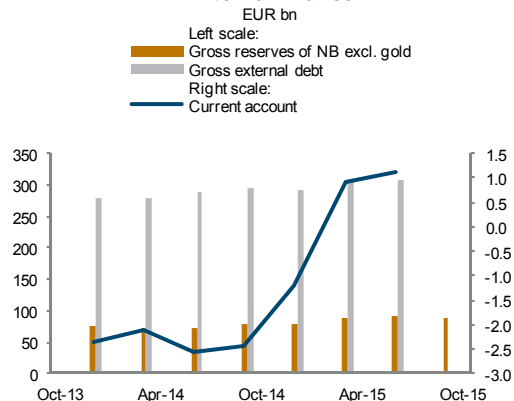
External sector development

annual growth rate in %



External finance

EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

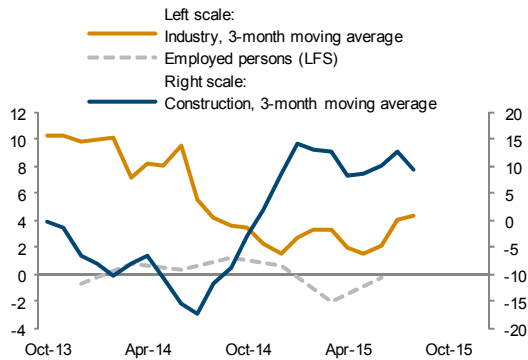
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

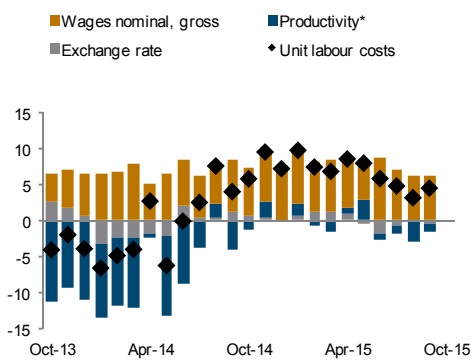
<http://data.wiiw.ac.at/monthly-database.html>

Romania

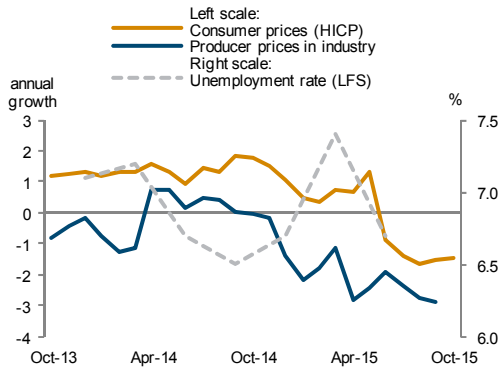
Real sector development
annual growth rate in %



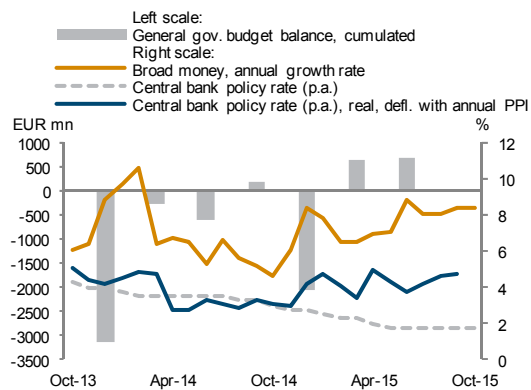
Unit labour costs in industry
annual growth rate in %



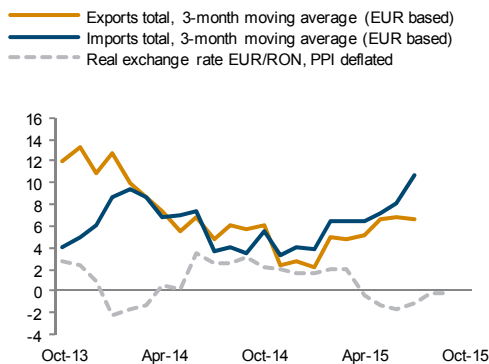
Inflation and unemployment
in %



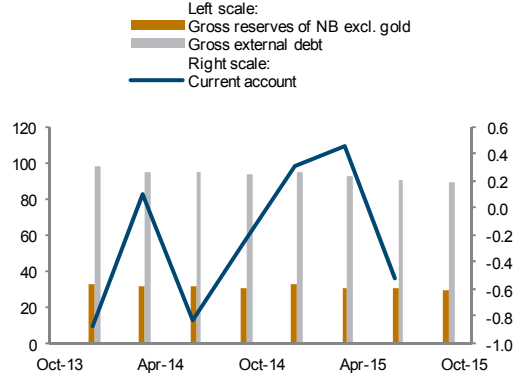
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

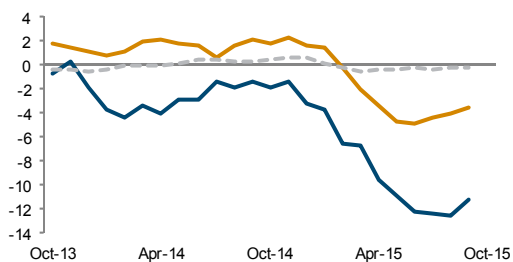
<http://data.wiiw.ac.at/monthly-database.html>

Russia

Real sector development

annual growth rate in %

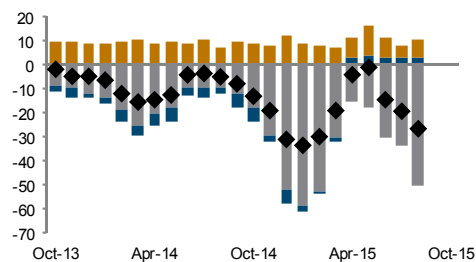
— Industry, 3-month moving average
— Construction, 3-month moving average
- - - Employed persons (LFS)



Unit labour costs in industry

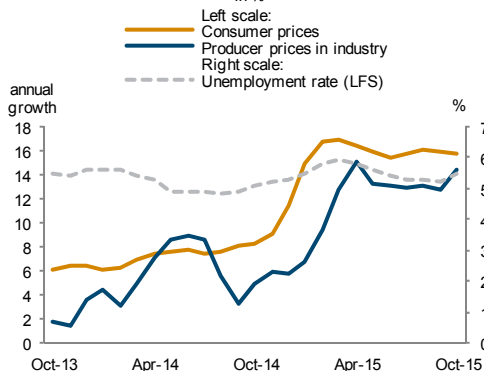
annual growth rate in %

■ Wages nominal, manuf., gross
■ Exchange rate
◆ Productivity*
◆ Unit labour costs

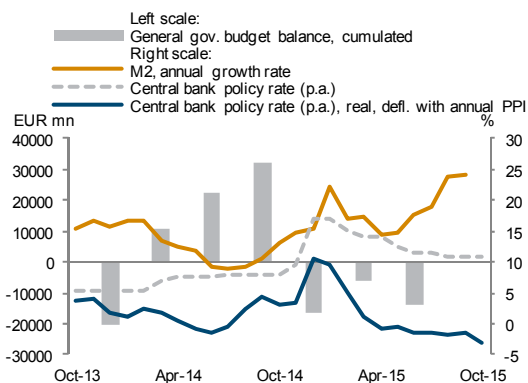


Inflation and unemployment

in %



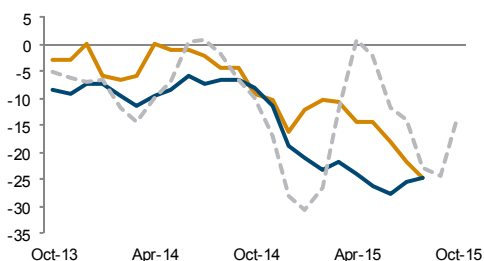
Fiscal and monetary policy



External sector development

annual growth rate in %

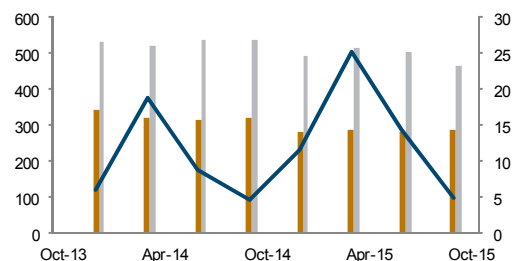
— Exports total, 3-month moving average (EUR based)
— Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/RUB, PPI deflated



External finance

EUR bn

— Gross reserves of NB excl. gold
— Gross external debt
— Current account



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

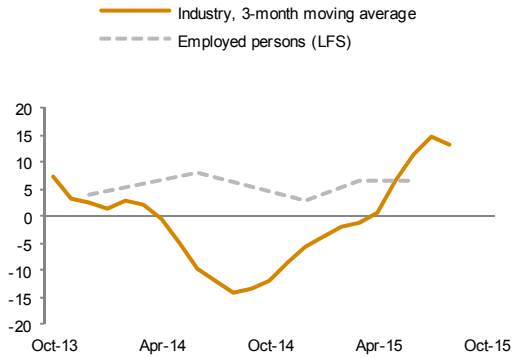
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

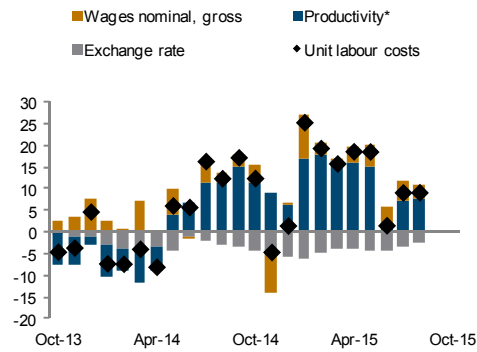
<http://data.wiiw.ac.at/monthly-database.html>

Serbia

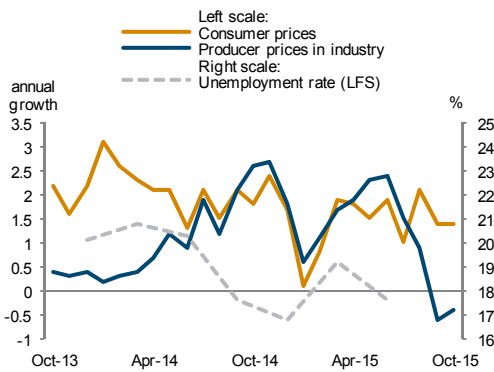
Real sector development
annual growth rate in %



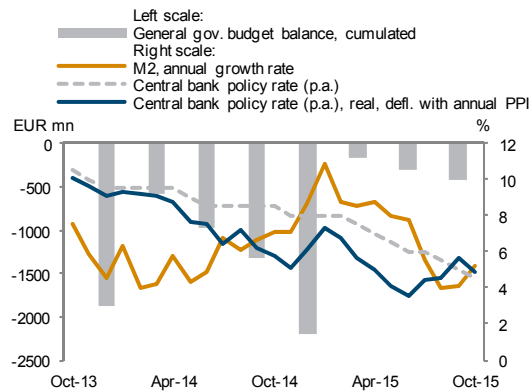
Unit labour costs in industry
annual growth rate in %



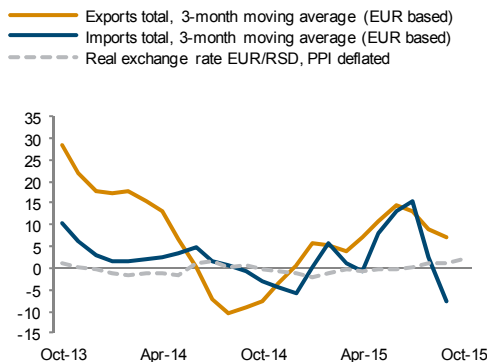
Inflation and unemployment
in %



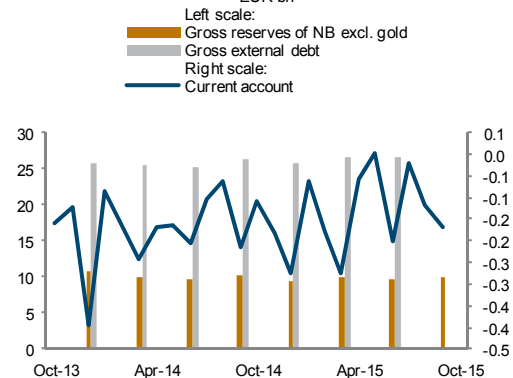
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

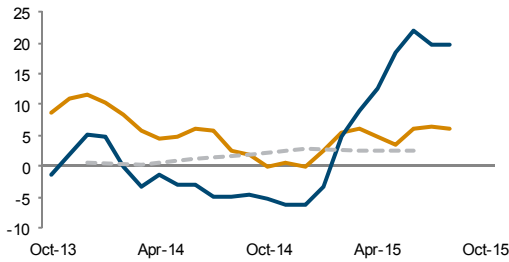
<http://data.wiiw.ac.at/monthly-database.html>

Slovakia

Real sector development

annual growth rate in %

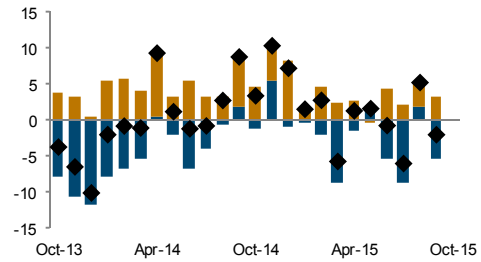
- Industry, 3-month moving average
- Construction, 3-month moving average
- - - Employed persons (LFS)



Unit labour costs in industry

annual growth rate in %

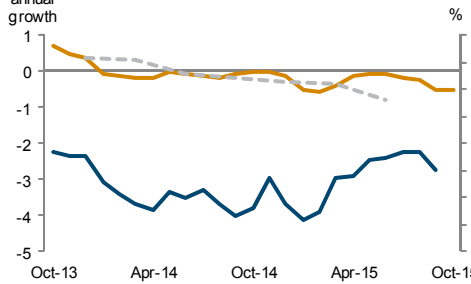
- Wages nominal, gross
- Productivity*
- ◆ Unit labour costs



Inflation and unemployment

in %

- Consumer prices (HICP)
- Producer prices in industry
- Unemployment rate (LFS)



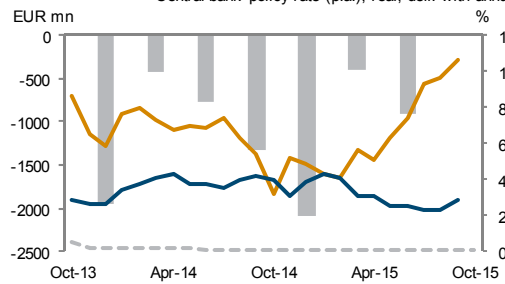
Fiscal and monetary policy

Left scale:

- General gov. budget balance, cumulated

Right scale:

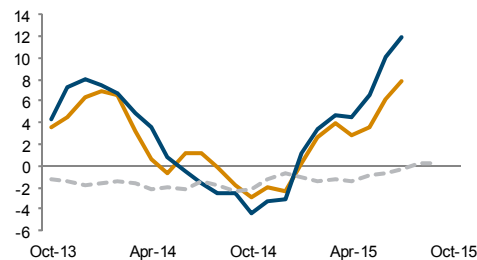
- Broad money, annual growth rate
- Central bank policy rate (p.a.)
- Central bank policy rate (p.a.), real, defl. with annual PPI



External sector development

annual growth rate in %

- Exports total, 3-month moving average (EUR based)
- Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/EUR, PPI deflated



External finance

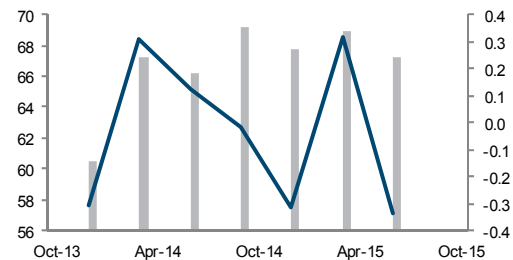
EUR bn

Left scale:

- Gross external debt

Right scale:

- Current account

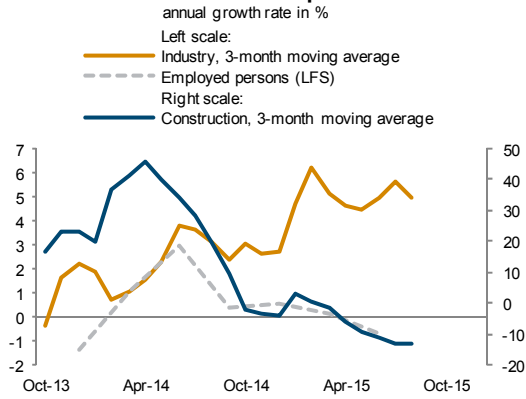


*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

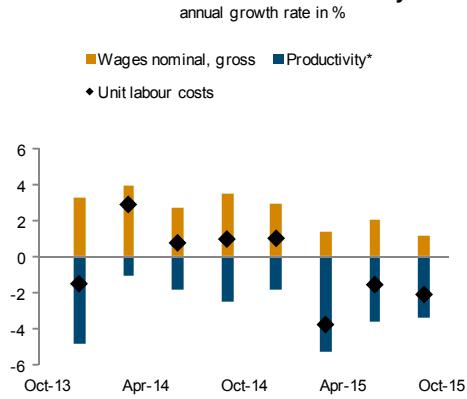
Source: wiiw Monthly Database incorporating Eurostat and national statistics.
 Baseline data, country-specific definitions and methodological breaks in time series are available under:
<http://data.wiiw.ac.at/monthly-database.html>

Slovenia

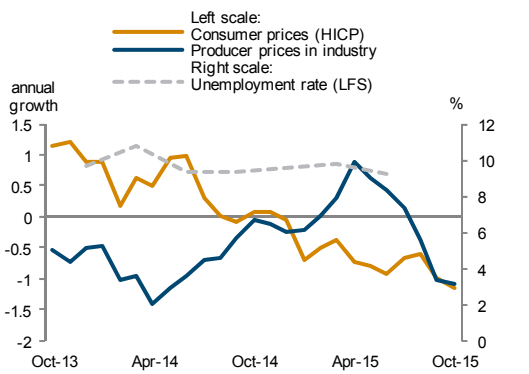
Real sector development



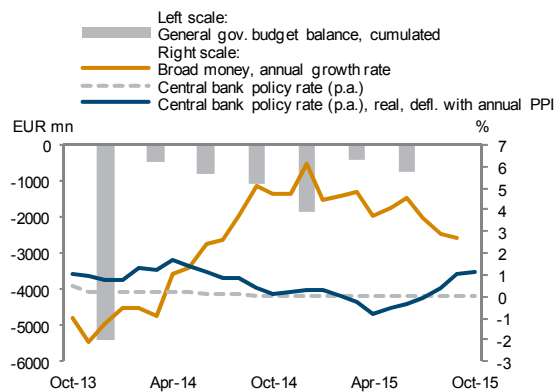
Unit labour costs in industry



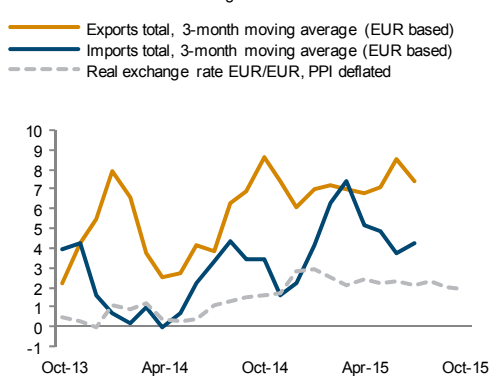
Inflation and unemployment



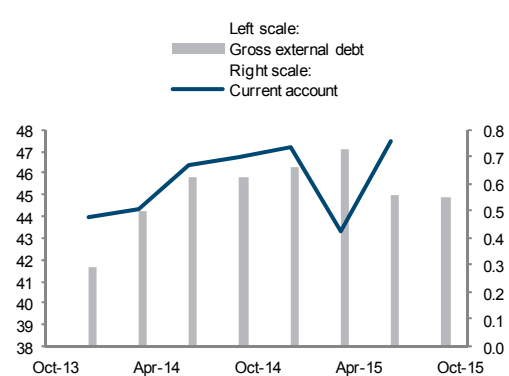
Fiscal and monetary policy



External sector development



External finance



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

Baseline data, country-specific definitions and methodological breaks in time series are available under:

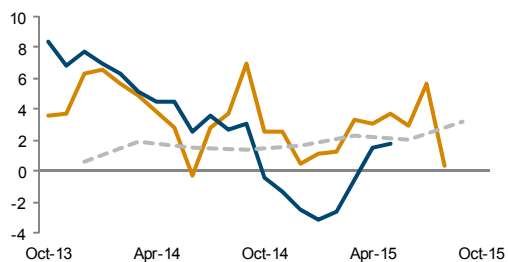
<http://data.wiiw.ac.at/monthly-database.html>

Turkey

Real sector development

annual growth rate in %

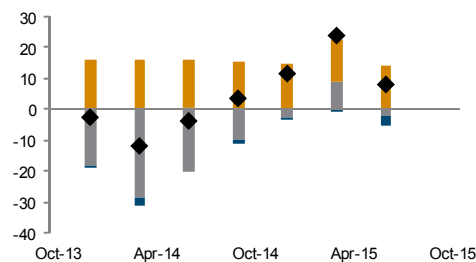
— Industry, 3-month moving average
— Construction, 3-month moving average
- - - Employed persons (LFS)



Unit labour costs in industry

annual growth rate in %

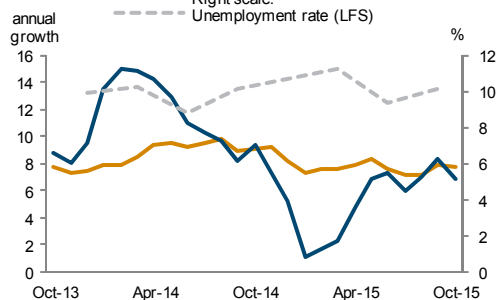
■ Wages nominal, gross ■ Productivity*
■ Exchange rate ◆ Unit labour costs



Inflation and unemployment

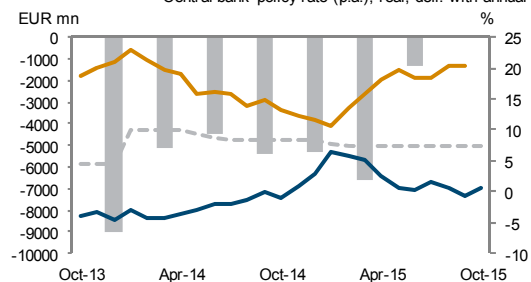
in %

Left scale:
— Consumer prices (HICP)
— Producer prices in industry
Right scale:
- - - Unemployment rate (LFS)



Fiscal and monetary policy

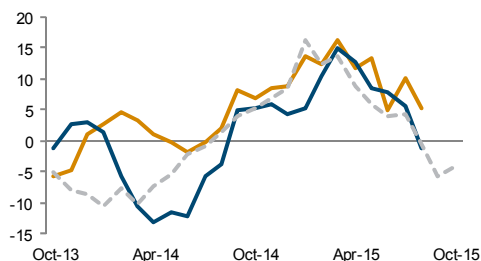
Left scale:
— General gov. budget balance, cumulated
Right scale:
— Broad money, annual growth rate
— Central bank policy rate (p.a.)
— Central bank policy rate (p.a.), real, defl. with annual PPI



External sector development

annual growth rate in %

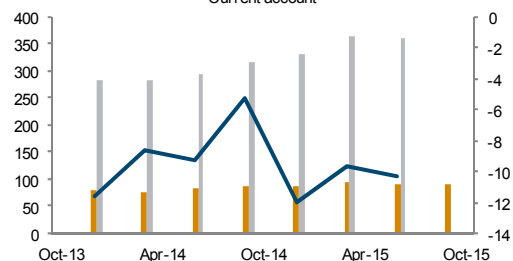
— Exports total, 3-month moving average (EUR based)
— Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/TRY, PPI deflated



External finance

EUR bn

Left scale:
— Gross reserves of NB excl. gold
— Gross external debt
Right scale:
— Current account



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

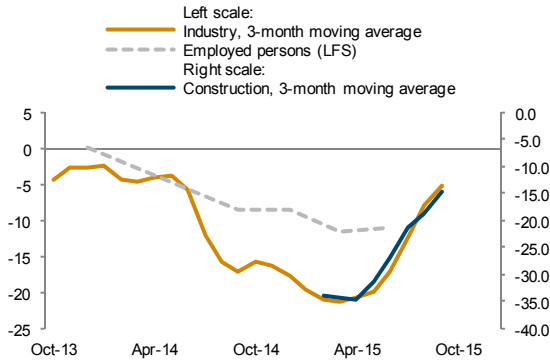
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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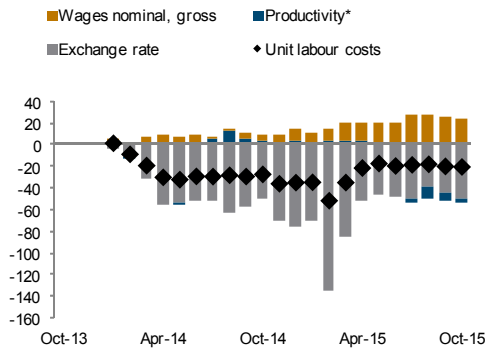
<http://data.wiiw.ac.at/monthly-database.html>

Ukraine

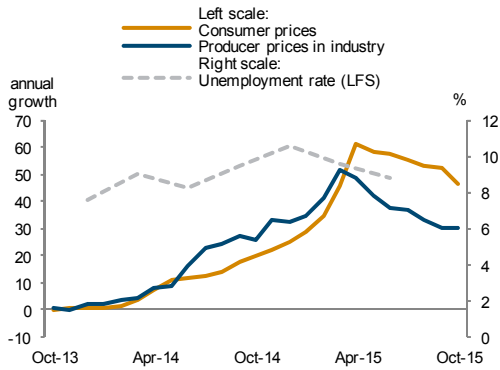
Real sector development
annual growth rate in %



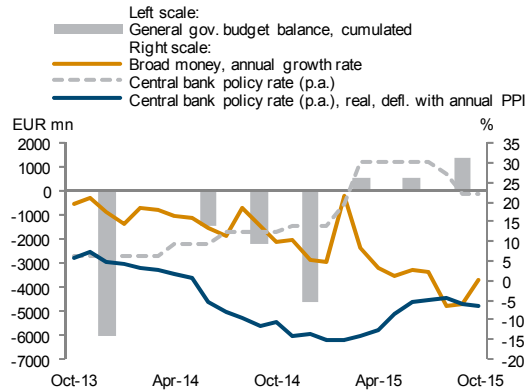
Unit labour costs in industry
annual growth rate in %



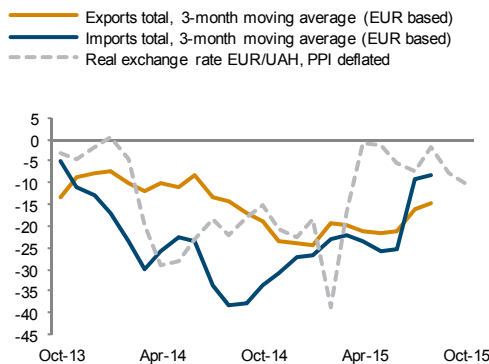
Inflation and unemployment
in %



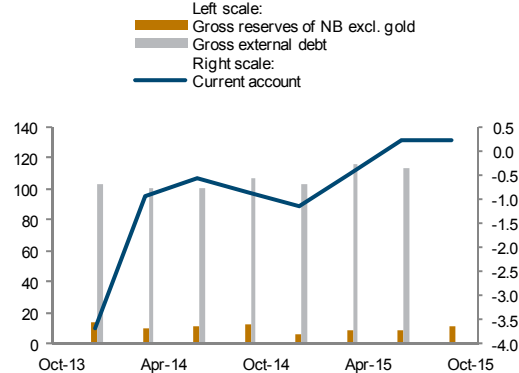
Fiscal and monetary policy



External sector development
annual growth rate in %



External finance
EUR bn



*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

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