

**Is the EU Danube Region Strategy
Helpful?**

**Implications of EU Integration for
Ukraine's Foreign Trade**

**How to Attract FDI to Ukraine
after Stabilisation?**

**Supporting Industrial and
Regional Economic
Development in Ukraine**



Is the EU Danube Region Strategy Helpful?

**Implications of EU Integration for Ukraine's
Foreign Trade**

**How to Attract FDI to Ukraine after
Stabilisation?**

**Supporting Industrial and Regional Economic
Development in Ukraine**

AMAT ADAROV

PETER HAVLIK

GÁBOR HUNYA

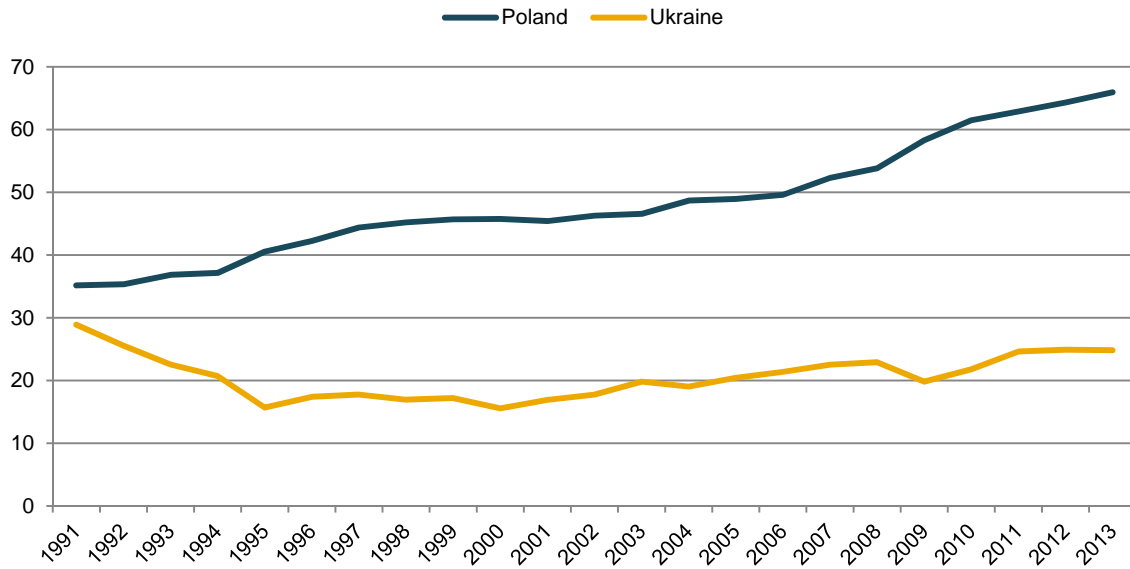
MICHAEL LANDESMANN

CONTENTS

Graph of the month: Per capita GDP in Ukraine and Poland, 1991-2013	1
Opinion corner: Is the EU Danube Region Strategy helpful?	2
Implications of EU integration for Ukraine's foreign trade.....	4
How to attract FDI to Ukraine after stabilisation?.....	11
Supporting industrial and regional economic development in Ukraine.....	17
The editors recommend for further reading	21
Monthly and quarterly statistics for Central, East and Southeast Europe.....	22
Index of subjects – April 2014 to April 2015	45

Per capita GDP in Ukraine and Poland, 1991-2013

in % of EU-28 average, at current purchasing power parity



Source: wiiw Annual Database, Eurostat, wiiw calculations.

Opinion corner: Is the EU Danube Region Strategy helpful?

ANSWERED BY WIIW EXPERT GÁBOR HUNYA

The EU Strategy for the Danube Region (EUSDR) is a macro regional strategy of the European Commission covering the region between the Black Forest and the Black Sea. wiiw participates in a project in cooperation with the Centre for European Economic Research (ZEW) Mannheim and the Institute for Applied Economic Research (IAW) Tübingen which aims to assess economic conditions in the region and help identify cooperation projects.¹ In your view, in what way can the EUSDR contribute to diminishing the social and economic backwardness in the EU Eastern periphery?

The main aim of the EUSDR is to develop the Danube Region (DR)² by increasing interregional cooperation and network building³. The basic idea is to follow a bottom-up approach: stakeholders, NGOs and other interested parties are invited to define projects which can be implemented together with partners from other countries. The intention behind the joint implementation of projects is to increase knowledge transfer in the region and to help the less developed countries use more of their approved budgets of the EU regional funds.

The EUSDR has not set up new permanent institutions or offices. Beyond online interaction, regular meetings of national representatives and coordinators take place covering 11 priority areas. Lack of EU guidance and coordination has been identified as a shortcoming and will lead to the establishment of an office for the EUSDR, called the Danube Strategy Point, in Brussels in the first half of 2015.⁴

The implementation of the EUSDR is by its nature slow and progress is difficult to measure; it has no quantitative targets. Participation is uneven in the various working groups and projects ranging from islands of enthusiasm to wide-spread scepticism. Having consulted a number of stakeholders in the regions and after participating in some DR events, I learned to appreciate the unfolding cooperation initiatives. This is a 'soft' programme supporting communication between people and institutions and not one financing large investment projects. It can contribute to overcoming backwardness in some people's minds, not by any of the macroeconomic indicators.

The EUSDR is a project with no substantial new financial resources; therefore it is not very attractive for national authorities beyond those having to do with it directly. But the bottom-up process has attracted a

¹ <http://www.zew.de/en/publications/7462>

² The participating countries and regions in the EUSDR comprise: Baden-Wuerttemberg, Bavaria, Austria, the Czech Republic, Hungary, Slovakia, Slovenia, Romania, Bulgaria, Moldavia, Serbia, Montenegro, Bosnia and Herzegovina and border regions of Ukraine.

³ <http://www.danube-region.eu/>

⁴ <http://www.danube-region.eu/communication/news>

number of interested parties setting up some reasonable joint projects⁵. Cooperation initiatives between clusters, universities, municipalities are all the more important because lack of trust in authorities and partners has been one of the major obstacles to business cooperation in the less developed part of the Danube Region. Transferring knowledge and joint reflection and deliberation have been widely missing. EU-financed projects have often failed due to lack of understanding between stakeholders, and business opportunities have often been left unused due to lack of clustering of SMEs. EUSDR projects can contribute to solving these problems by mediating between EU and national goals, public initiatives and SMEs.

The extreme heterogeneity in the Danube Region hinders achieving its goals. First of all, there are countries and territories with different status and access to external funding – EU members, future members and neighbourhood countries. Second, DR countries have very different institutional capacity and financial means which could be utilised to provide the basic organisational infrastructure for cooperation projects. Fortunately, some technical assistance and EU financing has been made available to facilitators beyond the current programmes.⁶

The Danube Transnational Programme (DTP) 2014-2020⁷, a funding instrument of territorial cooperation for the same group of countries, will hopefully complement the EUSDR in a way that larger cooperation projects can find the necessary funding. It is this programme rather than the EUSDR that may foster the catching-up process of backward regions.

⁵ See for example those aiming at increasing competitiveness in the Danube Region, <http://groupspaces.com/Competitiveness/pages/pa-8-projects>

⁶ http://www.danube-capacitycooperation.eu/pages/technical_assistance_facility-drp

⁷ <http://www.southeast-europe.net/download.cmt?id=4652>

Implications of EU integration for Ukraine's foreign trade*

AMAT ADAROV AND PETER HAVLIK

INTRODUCTION

The integration process of Ukraine has been obstructed by a lack of clear domestic strategy as well as the outside intervention. The issue of economic and political 'orientation' – either towards the European Union or to the Russia-led Eurasian integration project – received a lot of attention already in the context of the failed November 2013 Eastern Partnership Summit in Vilnius. This 'either/or' approach pursued by both Russia and the EU was misguided and instigated the subsequent conflict in and over Ukraine.¹ Apart from overcoming the effects of the military conflict, an urgent challenge currently facing Ukraine is the implementation of the Association Agreement, including a Deep and Comprehensive Free Trade Area (AA/DCFTA) with the EU, which will lead to trade reorientation and commodity restructuring and will pose challenges for the country's competitiveness.

At the same time, EU integration may lead to a disruption of economic and trade relations with Russia, which will have grave economic repercussions not only in the short run, but probably also in the medium and long run. Such disruptions are already observed and include mutual trade, investment and travel embargoes, energy price disputes and other frictions which altogether result in sizeable economic costs for all parties concerned. Official Western reform assistance notwithstanding, the new Ukrainian trade specialisation patterns can emerge only after a far-reaching restructuring facilitated by inflows of new private investments (both domestic and foreign). This will require some degree of macroeconomic stability, improvements in the investment climate and, above all, the termination of the military conflict in Donbas.

FOREIGN TRADE SPECIALISATION: DICHOTOMIES BETWEEN EAST AND WEST

*Both European Union (EU) and Russian/Eurasian Economic Union (EEU) markets have been historically very important for Ukraine.*² Imports from the EU constituted 34% and imports from Russia 32% of Ukraine's total imports on average over the period 2003-2013 (Figure 1). Similarly, exports to the EU have amounted to 28% and those to Russia to 24% of total exports of Ukraine on average over the past decade. For Ukraine, Russia has been the single most important export partner (with 23.6% of exports in

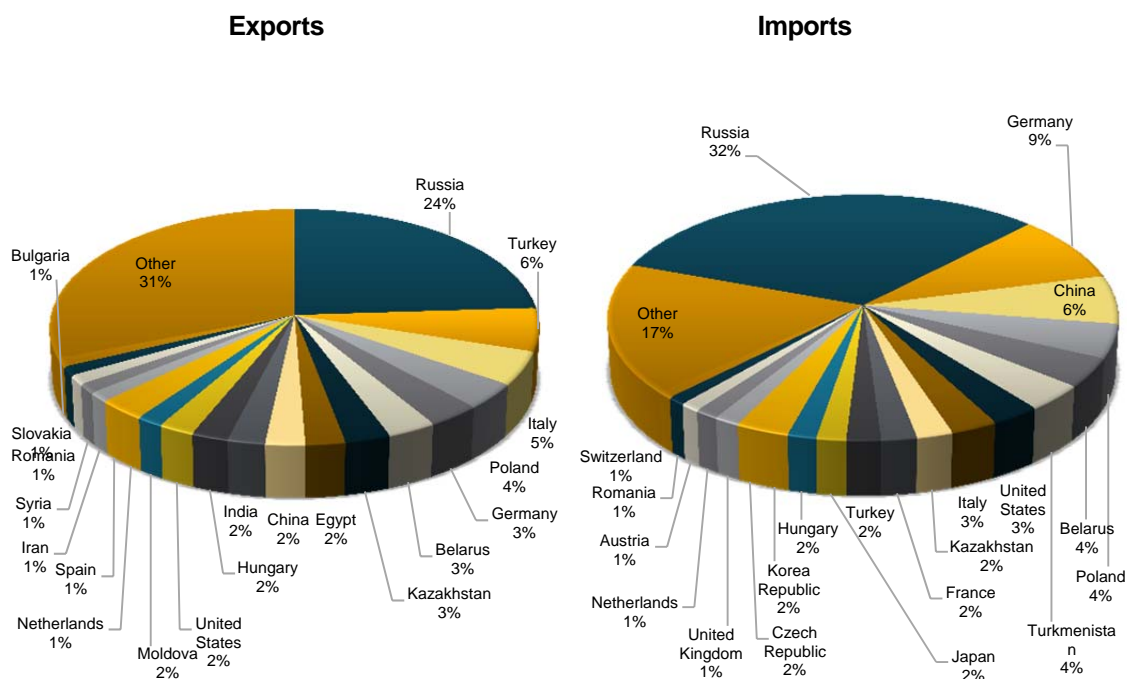
* This article is based on a wiiw study presented at the Residence Palace in Brussels on 15 April 2015.

¹ Havlik (2013) discussed some additional aspects of the Vilnius Eastern Partnership summit. Havlik (2014) dealt with economic consequences of the conflict.

² The Eurasian Economic Union (EEU) was established on 1 January 2015 on the basis of the Customs Union of Belarus, Kazakhstan and Russia. Its member states are the three former countries as well as Armenia; Kyrgyzstan is expected to join in mid-2015 (<http://www.eurasiancommission.org/en/Pages/default.aspx>).

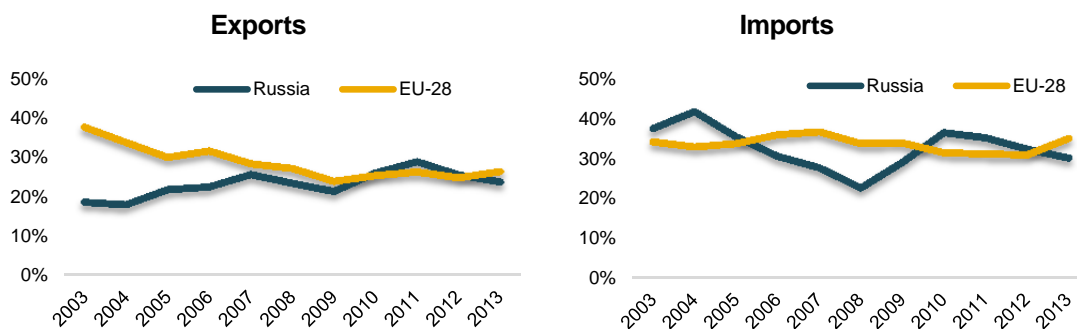
2013 and 17.6% in 2014; Belarus and Kazakhstan accounted together for an additional 6.5% of Ukraine's exports). This geographic pattern of trade represents the major challenge for the post-conflict trade reorientation. Barring a full-scale trade embargo and the likely subsequent economic collapse, it would not be possible for Ukraine in the short and medium term (and rational from the economic point of view even in the longer run) to fully disconnect itself from the EEU markets. Therefore, apart from implementing the AA/DCFTA with the EU, a restoration of disrupted trade linkages with Russia/EEU should be one of Ukraine's trade policy priorities.

Figure 1 / Top 20 trading partners of Ukraine, average 2003-2013



Source: Calculations based on wiiw database.

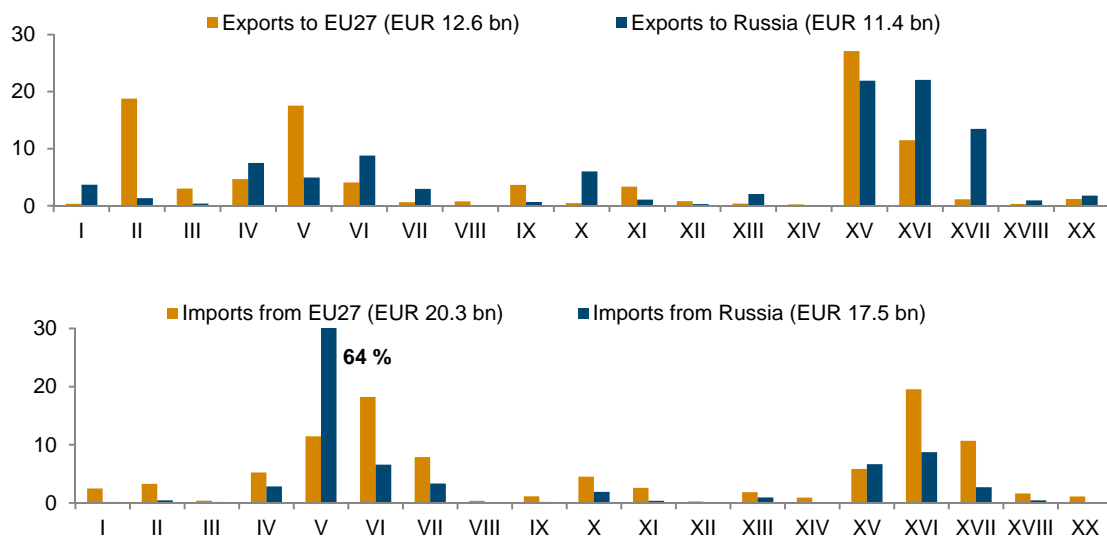
Figure 2 / Share of the EU and Russia in total trade of Ukraine, 2003-2013



Source: Calculations based on wiiw database.

The *distinct commodity specialisation of Ukraine with respect to its two key trading partners – the EU and Russia* – represents another challenge facing post-conflict Ukraine's transformation. While both markets had been (at least until the outbreak of the conflict last year) nominally about equally large with respect to both exports and imports, the dichotomy in commodity composition has been substantial and the respective patterns of revealed comparative advantages quite distinct, with exports to Russia being generally more sophisticated (Figure 3).³

Figure 3 / Commodity structure of Ukrainian foreign trade, in %, 2013



I Live animals, animal products

II Vegetable products

III Animal or vegetable fats, oils, waxes, prepared edible fats

IV Prepared foodstuffs, beverages, tobacco and substitutes

V Mineral products

VI Products of the chemical or allied industries

VII Plastics and articles thereof, rubber and articles thereof

VIII Raw hides and skins, leather, fur skins and articles, etc.

IX Wood and articles of wood, wood charcoal, cork, etc.

X Pulp wood, paper or paperboard (incl. recovered) and articles

XI Textiles and textile articles

XII Footwear, headgear, umbrellas, walking sticks, etc.

XIII Articles of stone, plaster, cement, ceramic products, glassware

XIV Natural or cultured pearls, precious stones and metals, etc.

XV Base metals and articles of base metal

XVI Machinery, mechanical appliances, electrical equipment

XVII Vehicles, aircraft, vessels and associated transport equipment

XVIII Optical, measuring, medical instruments, clocks, musical instr., etc.

XX Miscellaneous manufactured articles

Source: Ukrainian Statistical Office, wiiw calculations.

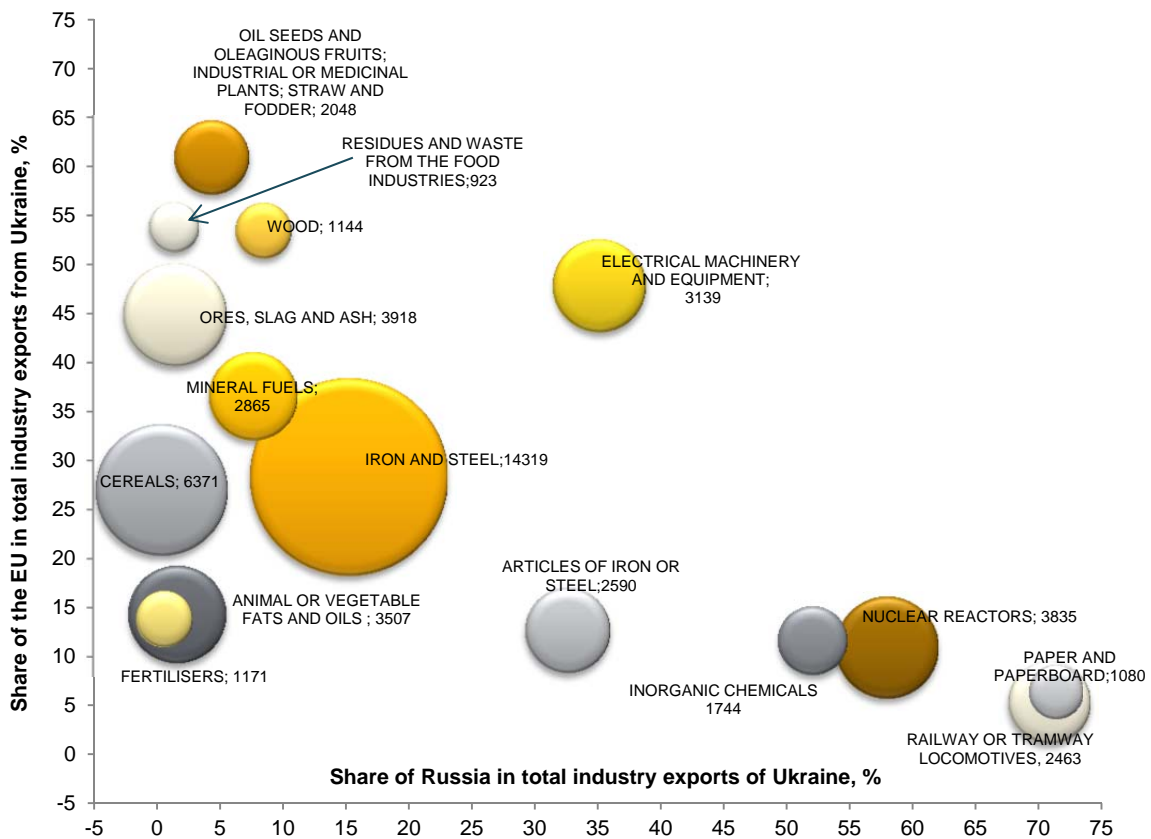
Which sectors of Ukraine's economy are most vulnerable to conflict-related trade disruptions? Figure 4 shows a number of important export positions which depend predominantly on the Russian market (nuclear reactors and boilers, railway/tramway rolling stocks, inorganic chemicals, paper, plastics, etc.). Their reorientation to other markets would be not only costly but also difficult without modernisation/restructuring investments and appropriate transitory arrangements. Heyets et al (2014) provide detailed sectoral data and list examples of cooperation linkages between Ukrainian and Russian enterprises (e.g. Motor Sich in Zaporizhyye producing helicopter motors, the Sea Engineering Bureau in

³ There is an additional regional dichotomy: a significant part of Ukraine's exports (even more so of the 'sophisticated' ones) originated in eastern regions – not only in separatist Donetsk (19.5% in 2013) and Luhansk (5.6%) – see below.

Odesa designing shipyards, the Steel Plant Dniprospeystal in Zaporizhye, etc.). Interrupted Russian-Ukrainian cooperation in the space and defence sectors hurts not only the affected production facilities in Ukraine (e.g. Yushmash in Dnipropetrovsk producing missile systems, Khatron-Arkos in Kharkiv producing space launchers and electronics, etc.), but also Russia and other countries which used Ukraine-supplied rockets and electronic components in space launching programmes.⁴

There is an additional important regional component in the destination of Ukraine's exports: Kyiv Region, Ivano-Frankivsk, Khmelnytsky, Kharkiv and Sumy are particularly dependent on Russian/EEU markets (which account for more than half of regional exports). Moreover, several eastern regions (Luhansk, Donetsk and Dnipropetrovsk) represent, apart from the City of Kyiv, Ukraine's biggest exporters and would suffer most from trade disruptions with Russia/EEU (Figure 5).

Figure 4 / Destination of top 15 biggest export industries of Ukraine, 2013



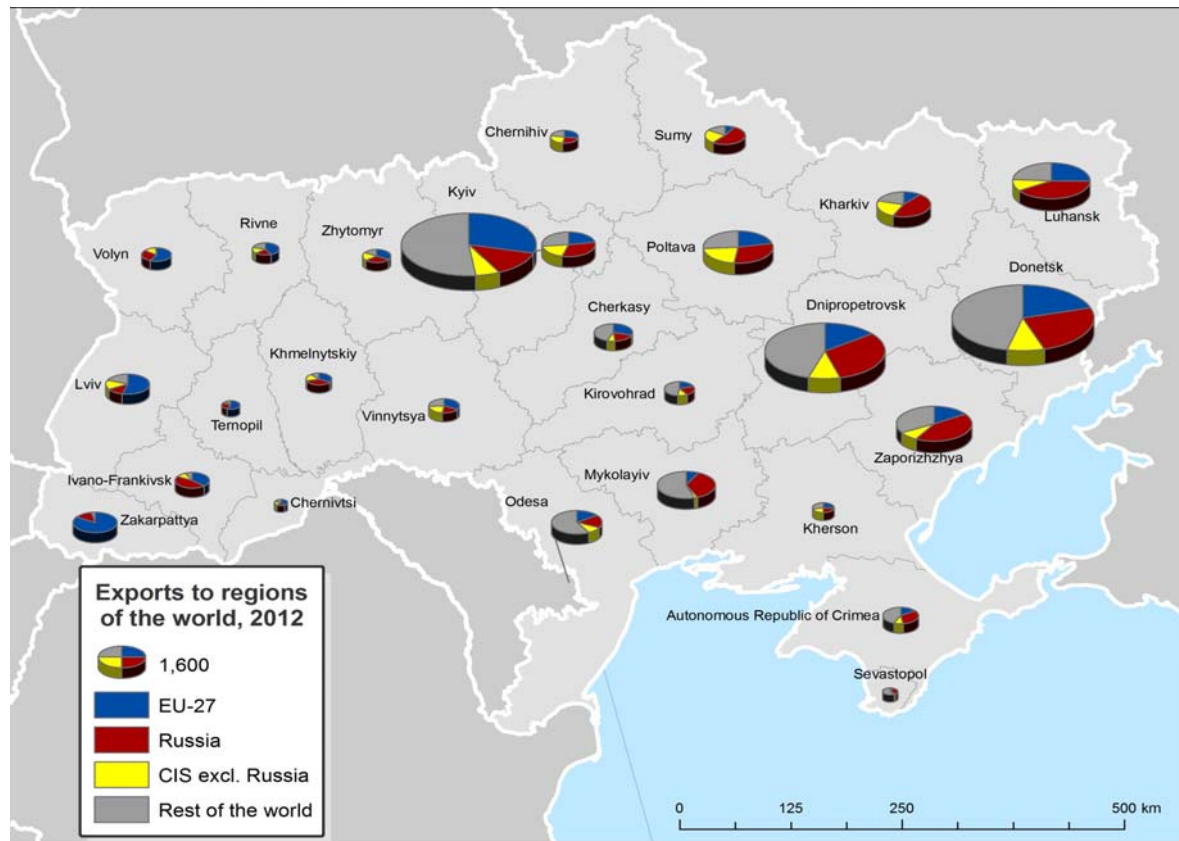
Horizontal axis: share of Russia in total industry exports from Ukraine; vertical axis: share of the EU in total industry exports from Ukraine; bubble size corresponds to the value of the industry exports in USD million.
 Source: Authors' calculations based on UN Comtrade data.

Obviously, the first policy implication of the dichotomy in geographic and commodity trade patterns outlined above is that it would be rather costly for Ukraine to abandon a quarter of its export market – the

⁴ Dvorkin (2015). The cancellation of the Russian order for 60 AN-70 military cargo planes produced at the Kyiv Region-based Antonov plant will result in a loss of more than USD 4 billion – see *Izvestia*, 3 March 2015. For more information on major Ukrainian enterprises, their sectoral specialisation, ownership and location see Uiboubin (2006).

market of Russia/EEU. Moreover, the huge regional dichotomy in the commodity composition of Ukraine's trade (and its labour market, social, political and other implications) represent another challenge which is seldom taken into account in trade integration discussions. Admittedly, these exports are frequently remnants of past cooperation linkages persisting from the Soviet period which are largely non-competitive on other markets. Even with adequate investments, a restructuring, conversion and reorientation of the respective export capacities will be extremely challenging. Ukraine's domestic market will not – even under 'normal' conditions and without crisis-related effects of the military conflict – be able to absorb the redundant machine-building output which used to be exported to Russia. A redirection of exports to third markets and a conversion of military-related linkages will also be difficult – even in the medium and long run.

Figure 5 / Regional composition of Ukraine's exports by destination, 2012



Note: Size of the pies corresponds to the value of regions' exports in USD million.

Source: Authors' calculations based on data from the Ukrainian Statistical Office.

HOW TO LIMIT THE POTENTIAL DAMAGE?

As discussed above, Ukraine's position between the EU and the Russia-led EEU and its nearly equal, yet asymmetric, dependence on both markets puts forward a challenge how to maintain, expand and deepen trade relations in both directions. A balanced trade policy could play an important role towards attracting investments and advancing modernisation, with Ukraine potentially developing trade relations with both the EU and the EEU/Commonwealth of Independent States free trade area (CIS FTA) blocs

and serving as a bridge between them.⁵ Whereas the formation of a pan-European-Eurasian free trade area is a distant and very ambitious goal that appears unrealistic even in the longer run, alternative solutions need to be explored in order to curtail the potential damages. The need to continue trilateral talks about DCFTA implementation between Ukraine, Russia and the EU was reiterated once more at the Minsk-2 negotiations in February 2015. Looking forward – and moving from the current confrontation to a more cooperative strategy – trilateral negotiations between the EU, Ukraine and Russia about the prospective integration in the medium and long run should be launched as soon as possible. As rightly stated by Kotkin (2015), ‘no external power or aid package can solve Ukraine’s problems or compensate for its inherent vulnerabilities vis-à-vis Russia’. While Ukraine’s membership in the EEU, which implies a customs union arrangement for its member states, is not compatible with the DCFTA, the existing framework of the CIS FTA provides sufficient flexibility for Ukraine to enjoy liberalisation with respect to both European and Eurasian markets. The concerns expressed by Russia with regard to potential re-exports of European products to Russian markets through Ukraine once the DCFTA is implemented can in principle be addressed via conventional ‘rules of origin’ regulations along the WTO lines, if effectively implemented. The other issues raised concerning continued applicability of Eurasian technical and sanitary and phytosanitary (SPS) regulations in Ukraine while it approximates to the EU norms should be addressed on a tripartite basis, involving the EU, Ukraine, and the CIS FTA members (should Ukraine preserve its membership in the CIS FTA), and should be aimed at establishing an equivalence mechanism and mutual recognition of standards.

In the long run, a successful EU integration is expected to bring multiple benefits to Ukraine not only in the trade dimension, but also in reforming institutions and infrastructure building, altogether allowing for more investments and a more sustainable economic development. However, the process of approximation to the EU standards by Ukraine will be painful not only because of the internal dichotomy of its industrial structure and export orientation, but also as a result of the macroeconomic instability that undermines reform efforts, the traditionally high level of corruption and the legacy of weak institutions. This will make it difficult for Ukrainian businesses to withstand the competition from more efficient European peers, possibly resulting in the loss of some sectors. Therefore, a well-scrutinised long-run strategy of industrial transformation focusing on the potential areas of future global and regional competitiveness of Ukraine should be formulated.

In the meantime, leaving aside extreme scenarios involving continuing military clashes or even outright war, the space for possible economic integration routes for Ukraine is rather narrow. While the situation will realistically evolve along a scenario involving a ‘Transnistriasation’ of Ukraine in the best case, there should be a way to find a mutually acceptable consensus for Ukraine, the EU and Russia at least when it comes to the trade policy dimension – however difficult this may sound given the recent geopolitical developments.

⁵ This was suggested by numerous analysts already well before the ominous Vilnius EaP Summit in 2013 (see Hoekman et al., 2013; Havlik, 2013). A similar proposal has recently been forwarded by Emerson (2015) and Yavlinsky (2015) as well.

REFERENCES

Dvorkin, V. (2015), 'Who benefits from Ending Russian-Ukrainian Cooperation in the Space and Defense Sectors?' Carnegie Moscow Center, 16 March.

Emerson, M. (2015), 'Is there reason to hope for Minsk II?' *CEPS Commentary*, 16 February.

Havlik, P. (2013), 'Vilnius Eastern Partnership Summit: A Milestone in EU-Russia Relations – not just for Ukraine', *wiiw Policy Notes and Reports*, No. 11, Vienna, November.

Havlik, P. (2014), 'Economic consequences of the Ukraine conflict', *wiiw Policy Notes and Reports*, No. 14, Vienna, November.

Heyets, V.M. and L.V. Shinkaruk (2014), 'Ukraine's Integration Options: Perspectives and Consequences' (in Ukrainian), Institute of Economics and Forecasting, Ukraine Academy of Sciences.

Hoekman, B., J. Jensen and D. Tarr (2013), 'A Vision for Ukraine in the World Economy. Defining a Trade Policy Strategy that Leverages Global Opportunities', Paper presented at the 10th Yalta Annual Meeting YES, September (www.yes-ukraine.org).

Kotkin S. (2015), 'The Resistible Rise of Vladimir Putin', *Foreign Affairs*, Vol. 94, No. 2, available at <http://www.foreignaffairs.com/articles/143037/stephen-kotkin/the-resistible-rise-of-vladimir-putin>

Uiboupin, J. (2006), 'Industrial clusters and regional development in Ukraine: the implications of foreign direct investments and trade', Turku School of Economics, Publication of the Pan-European Institute 9/2006, Turku.

Yavlinsky, G. (2015), 'Nemtsov was casualty of a wider war', *Financial Times*, 2 March, p. 9.

How to attract FDI to Ukraine after stabilisation?*

GÁBOR HUNYA

NO STABILITY, NO FDI

Attracting foreign direct investment (FDI) has been among the primary goals of most Central, East and Southeast European (CESEE) governments. Many of them have achieved remarkable foreign investment inflows in efficiency-seeking, export-oriented projects underpinning economic growth, institutional transformation and technological upgrading. But in several countries including Ukraine high FDI could not be attained due to unstable institutions, uncoordinated policies and inadequate business conditions.

The IMF Ukraine Country Report No. 14/145 of May 2014 identified some of the FDI-related problems in a general way. In its forecast table, the IMF extrapolates rather meagre FDI inflows of 2.4% of GDP until 2018. We think that there is more in it: FDI can become a more important source of financial stability and support to competitiveness and structural change if conditions of doing business improve in post-crisis Ukraine.

As of recently, however, circumstances for FDI have worsened in Ukraine. First, the country is considered being at war and close to financial default which deters investments, both foreign and domestic. Second, there are signs of an institutional vacuum and new structures are still to emerge. The investment promotion agency's InvestUkraine website is not operational and contacted regional investment agencies did not respond to inquiries in January 2015. At the moment, more pressing issues seem to be in the focus of policy-makers than a revamp of FDI policy. It is not the current desperate situation but one with resumed basic political and economic stability when FDI can be re-started. We build recommendations based on past achievements which, combined with lessons of best practice of other countries, may foster higher direct capital inflows in the future.

FDI INFLOWS WIDELY OVERSTATED IN THE BALANCE OF PAYMENTS

Balance of payments statistics reveal that FDI inflow in Ukraine has not been inferior to peers in the region, Belarus, Poland and Romania (Table 1). Inflow as a percentage of GDP was even higher than in the other three countries and higher than the CESEE average in 2009-2012 (Figure 1). As a result, the share of Ukraine in the FDI stock of the CESEE countries increased from 2.7% in 2007 to 4.5% in 2013 (Table 2). However, political and economic risk increased in 2014 to such an extent that inflows fell to one tenth of the previous year. Short-term prospects are not any better at the time of writing.

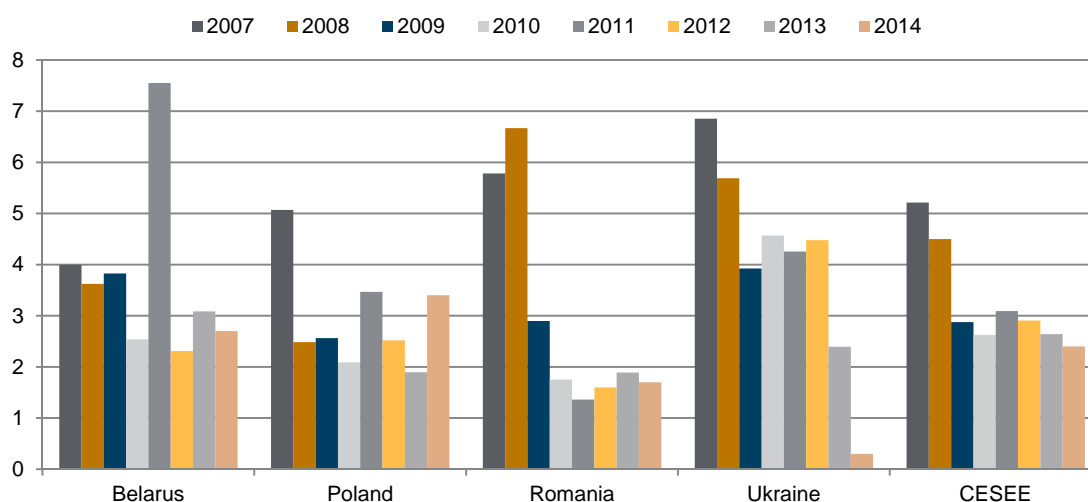
* This article is based on a wiiw study presented at the Residence Palace in Brussels on 15 April 2015.

Table 1 / FDI inflow, EUR million

	2007	2008	2009	2010	2011	2012	2013	2014
Belarus	1313	1544	1321	1041	2787	1137	1693	1379
Poland	15896	9040	8064	7520	13068	9729	7510	13000
Romania	7250	9496	3489	2220	1814	2139	2725	2300
Ukraine	7441	7312	3419	4860	5177	6360	3396	309
CESEE	135283	134091	71561	78649	102176	105233	97332	70000

Remark: Based on Balance of Payments Manual 5th Ed.

Source: wiiw database; 2014 wiiw estimate for Poland, Romania and CESEE.

Figure 1 / FDI inflow in % of GDP

Source: wiiw database.

Table 2 / Relative size of FDI

	Inflow in % of CESEE				Inward stock in % of CESEE			Inward stock in % of GDP		
	2007	2010	2013	2014	2007	2010	2013	2007	2010	2013
Belarus	1.0	1.3	1.7	2.0	0.3	0.6	0.9	9.3	18.2	22.2
Poland	11.8	9.6	7.7	18.6	12.3	13.1	12.3	37.0	42.5	39.9
Romania	5.4	2.8	2.8	3.3	4.5	4.5	4.8	34.1	41.5	42.5
Ukraine	5.5	6.2	3.5	0.4	2.7	3.7	4.5	23.9	41.0	40.3

Source: wiiw database.

The sectoral and home country distribution of FDI reveals that the above data exaggerate the real size of foreign investments to Ukraine. The main target of FDI in Ukraine has been the financial sector, while the share of manufacturing is smaller than in the peers. This means that even more than in other countries, foreign investors targeted the domestic market and there is a lack of export-oriented, efficiency-seeking FDI. Within manufacturing, FDI targeted first of all the two main sectors of the Ukrainian economy: the production of basic metals and of food. The figures for these two industries seem to be overstated as some of the Ukrainian companies have established headquarters abroad.

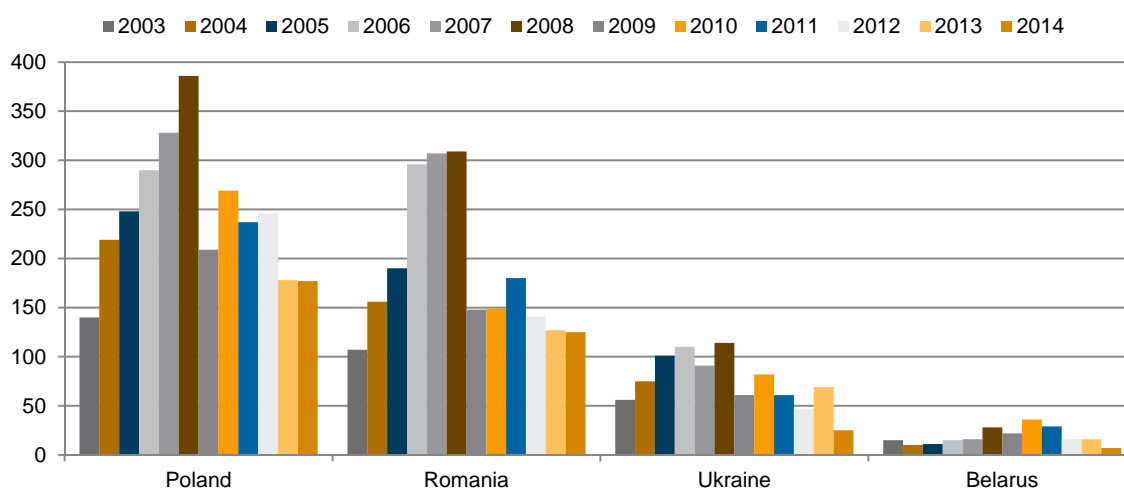
Most notably, the largest industrial conglomerate Metinvest B.V.¹ is registered in The Hague, Netherlands.

The main investing country in Ukraine is Cyprus. This country can be identified as a tax haven frequented by Russian and also Ukrainian investors to register companies operating in their home country (88% of Ukrainian outward FDI stock has gone to Cyprus). This indicates that most probably a large part of the FDI inflow in Ukraine is not genuine foreign capital but round-tripping domestic capital. Round-tripping capital through holdings abroad does not bring new capital, technology and knowledge into the country. Such holdings are artificial constructions having often the aim of avoiding taxation. At the same time, insecure property rights and the fear of re-privatisation may also have prompted owners of Ukrainian companies to shift headquarters abroad. Future economic reforms in Ukraine therefore need to stem the motives of capital flight by increasing security of ownership, legal transparency and getting rid of corruption.

UNATTRACTIVE FOR GREENFIELD INVESTORS

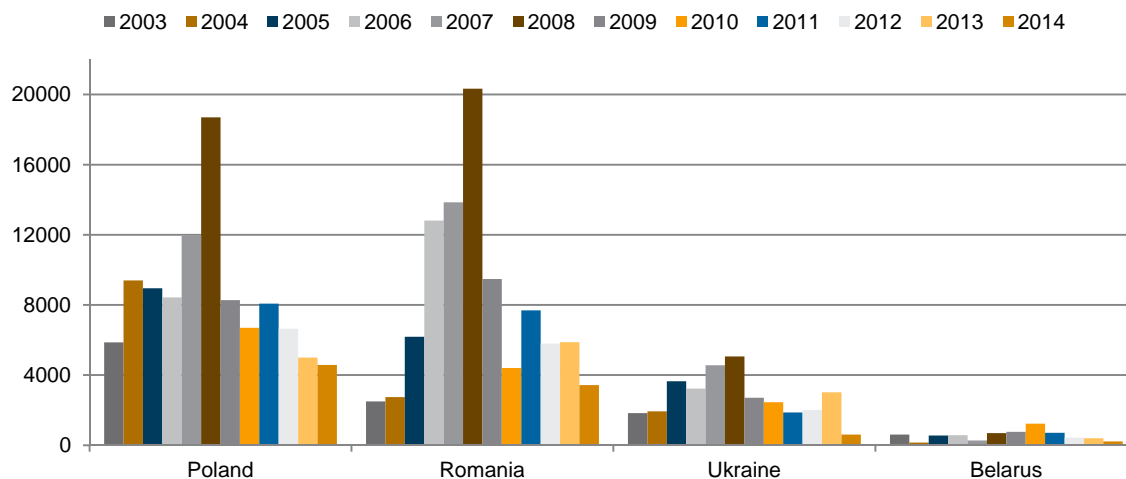
The limited interest of foreign investors in Ukraine is illustrated by the number and value of greenfield projects which has been much smaller than in Poland or Romania (Figures 2 and 3). Their increase up to the financial crisis was more modest and the decline in later years much smaller than in the peers. In 2014 foreign investors avoided Ukraine: only 25 projects were announced as compared to 69 in the previous year while the capital investment pledged in the greenfield projects declined from EUR 3 billion in 2013 to EUR 600 million in 2014.

Figure 2 / Number of greenfield projects



Source: fdimarkets.com – excluding retail shops.

¹ Metinvest, largely owned by the Ukrainian oligarch Rinat Akhmetov, has eight industrial assets in the steel segment located in Ukraine and the EU, including the largest steel plants in Ukraine: Azovstal Iron and Steel Works, Ilyich Iron and Steel Works, Yenakieve Steel, and Khartsyzsk Pipe (the only producer of large diameter pipes in Ukraine). In the Coke and chemicals sector, Metinvest's assets include Avdiivka Coke and Inkor Chemicals, which is the largest producer of crude naphthalene in the EU.

Figure 3 / Value of greenfield projects, EUR million

Source: fdimarkets.com – excluding retail shops.

The sectoral distribution of projects reveals that foreign investors have established a large number of rather small manufacturing production units and a number of even smaller ICT units in Ukraine. The automotive industry has not been a main target – a big difference compared with Poland or Romania. Assembly lines operate only for the local market. But some supplier firms in the automotive and ICT industries are present and most probably produce for exports also in Ukraine, including Flextronics (Singapore), Leopold Kostal (Germany), Gumi (Japan) and Team International (United States). These recently established projects are all located either in the capital city or in the western part of the country. They are rather small projects as of now but may expand based on competitive wages if business conditions improve.

The presence of automotive and IT suppliers indicates that low wages do attract investments into Ukraine in labour-intensive activities and the country has chances to become a component production and service provider platform. It may even attract relocating projects from new EU members such as Poland based on significantly lower wages, provided political and economic consolidation is achieved. Conditions for investments better than in Ukraine as a whole may be found in some western regions of the country.

FDI REGIME TO BE REVAMPED

Previous governments put in place institutions and frameworks to foster and promote FDI in Ukraine. With a view to improving the investment climate, Ukraine adopted an 'Investment reform' in 2011 which targeted the preparation and promotion of strategic investment proposals. It created a 'one-stop shop' investment promotion department called 'InvestUkraine'² (launched in January 2012) in the State

² <http://www.ukrproject.gov.ua/en/page/investukraine-one-stop-shop>

Agency for Investment and National Projects of Ukraine. The operation of InvestUkraine³ in principle corresponded to the international best practice according to the chart below:



The investment incentive regime established in 2011 was on the whole attractive. It was most probably not because of the lack of incentives why greenfield investors largely avoided the country. As of 2012, corporate income tax and dividend tax were reduced to internationally competitive levels. In addition, the Ukrainian FDI law provided for special regimes⁴ similar to those in other countries:

- › sector-based incentives: total exemption from taxation until 1 January 2021 for aircraft manufacturers, shipbuilders, hotels, light industries and agricultural machinery producers;
- › simplified tax regime for SMEs (annual turnover below UAH 1 million and less than 50 employees): 6% on the sales revenue plus 20% VAT, or 10% rate including VAT;
- › exemption from import duties for in-kind contributions to the enterprise capital with foreign investment; exemption from import duties and taxes for goods imported and stored at bonded warehouses; no tariff for goods imported to or exported from special economic zones, etc.;
- › industrial parks: co-financing of infrastructure development by the state.

The OECD Investment Policy Review for Ukraine gave recommendations for further improvements in the investment climate in 2011⁵. The Review stated that ‘proposed investment policy recommendations have to be a part of broader reforms which target public and private investment, including foreign capital, and which remove entry and exit barriers for all categories of firms’. The specific recommendations included the protection of property rights, improved land ownership rights, reduced national security considerations and liberalised access to specific sectors as well as streamlined bureaucracy. We have no detailed information about the implementation of these recommendations. It can be assumed that most of these issues have remained open and protracted time is necessary to solve them.

FDI POLICY OPTIONS

FDI inflows – indispensable for economic restructuring and growth – have so far been meagre in Ukraine, when controlling for round-tripping Ukrainian capital. This puts forward the challenge of designing a business environment as well as specific FDI policies which are conducive towards these goals. Such policies can be based on revamping previous initiatives and regulations as well as on existing recommendations by OECD and other international institutions. Beyond improving the framework conditions which would make the country a less risky place for genuine investors, four main lines of action need to be implemented as a coherent package to attract more and better FDI:

³ The website ‘investukraine.com’ was out of service in February 2015 – hopefully to be interpreted as a sign of renewal.

⁴ <http://www.east-invest.eu/en/investment-promotion/ukraine-2>

⁵ OECD (2011), Investment Policy Reviews: Ukraine 2011, OECD Investment Policy Reviews, OECD Publishing; http://www.oecd-ilibrary.org/finance-and-investment/oecd-investment-policy-reviews-ukraine-2011_9789264113503-en

- › Industrial/business parks can act as an incentive for attracting (foreign) investors, as they enable to start operations within a rather short period of time and under good infrastructure and operational conditions. Parks must provide clear ownership rights, good transport connections, abundant and reliable energy and water supply, and need the support of the local/regional administration. In particular, the unutilised industrial land of state-owned enterprises could be used in this way. Provinces (oblasts) and municipalities must have the legal authority and financial means to foster the establishment of such parks. Special economic zones are specific forms of business parks to attract investments at least in a limited territory of the country. The government should initiate establishing special zones in border regions with the aim to attract export-processing investments.
- › Granting a transparent contractual regime by the government to the investors in large projects can provide individually tailored packages of incentives. Contracts should guarantee investors' access to fair or even priority treatment by authorities in a transparent way.
- › Promotion of FDI spillovers is necessary to upgrade the absorption capacity of the local economy. Foreign-owned companies need support to create linkages with local companies, and local companies need support to meet the standards to become suppliers to foreign multinationals. Support may not necessarily mean a lot of money but care and communication on the part of authorities in fostering cluster development.
- › It is also necessary to revitalise the FDI agency InvestUkraine, preferably as an independent agency reporting to the prime minister. There are several successful investment promotion agencies in the new EU Member States, especially PAIIZ in Poland and Czech Invest in the Czech Republic, which may serve as examples and give support to the Ukrainian agency. Regional investment agencies in territorial-administrative units are necessary to help investors find the proper locations. This is another reason why the competencies and autonomy of oblasts and municipalities need to be upgraded.

Supporting industrial and regional economic development in Ukraine *

MICHAEL LANDESMANN

ECONOMIC IMPLICATIONS OF UKRAINE'S DE FACTO SPLIT-UP

The scenario which is currently emerging is one in which there is a de facto split of the Ukrainian state, with Crimea as well as greater parts of the regions of Donetsk and Luhansk no longer being under the control of the central government in Kyiv. There are important implications of this split for industrial and regional economic developments in Ukraine.

Foremost it means that two of its traditional industrial regions (parts of Donetsk and Luhansk) will remain heavily dependent on Russia, while the rest of Ukraine will be forming increasingly closer ties with the European Union. Where exactly the demarcation line will be and how long the current intense phase of the conflict will last is still unclear.

Hence, instead of the hybrid status of Ukraine being an 'in-between state', it is highly likely that Ukraine will have two parts: one part with a potential to become a region more integrated with developments in Western and Central Eastern Europe and another (much smaller) part which will further deepen its historical industrial and economic links with Russia. This 'split-state' situation might not be the optimal outcome for Ukraine as a whole, but the most likely one, at least in the foreseeable future.

Will this lead to a successful economic development in the longer run?

Many analysts (Havrylyshyn, 2014; OECD, 2014; World Bank, 2014; Aslund, 2014) have pointed out that Ukraine requires a major break in its institutional development and in relation to the stranglehold which oligarchic structures maintain over its economy, in order to follow the path pursued by the more successful Central European transition economies.

Over the longer run, there are reasons to believe that the EU-oriented part of Ukraine is reasonably well placed to follow a convergence path in the future. What are the factors which point in this direction?

- › The reaction by the 'West' – documented both by the most recent engagement of the IMF to prepare a further substantial financial assistance package (Extended Fund Facility) in the midst of military conflict as well as the intense efforts by Germany and France to mediate an armistice deal – is an expression of utmost commitment to push for its interest. This, of course, mirrors the commitment by Putin to entrench his engagement in the eastern – split-off – part of Ukraine. Both these engagements imply that considerable resources will be forthcoming from both sides to support their positions in the two different parts – although along quite different lines.

* This article is based on a wiiw study presented at the Residence Palace in Brussels on 15 April 2015.

- › From the West's point of view, 'success' will have to be defined as a pay-off in terms of stabilising the economic situation in the short run and supporting in a significant way institutional and political-economic change in Ukraine which would be instrumental to bring the country on a sustainable growth path. The chances for this happening – I would judge – are not small as the partition of the country might lead to a realignment and reorientation of the longer-term interests of the elites (including oligarchs) as we have witnessed in quite a few of the transition countries in the course of their rapprochement towards the EU – ending with EU membership. It is not a foregone conclusion, as a concrete offer of full membership in the EU – which served as an important focusing device for society and elites in other transition economies – is not currently being made to Ukraine.
- › The Ukraine-EU Deep and Comprehensive Free Trade Agreement (DCFTA) – together with the recent IMF Agreement – will play quite an important role as an instrument for reforms: from the Ukrainian side all state bodies will be heavily involved in its implementation and from the EU's side (and other Western international bodies) a massive mobilisation of technical assistance will be provided to assist in these reforms. By past experience this can make a substantial impact on changing state, legal and market structures.

POLICY SUGGESTIONS

As regards regional and industrial developments, we conjecture the following:

- › As pointed out above, amongst the industrial regions two will be controlled by separatists (i.e. large parts of Luhansk and Donetsk), but there are other eastern regions, such as Dnipropetrovsk, Zaporizhzhya, Poltava, Sumy, and Kharkiv, which are likely to remain in the part of Ukraine under control of the Kyiv government. These are currently in a very difficult phase given the conflict situation and the interruption of historical production and trade links with the split-off parts of Donbas and with Russia. The aim, however, has to be to preserve the potential for the development of a diversified industrial structure which could evolve in this part of Ukraine. Massive investments will be required to modernise capacities and reshape product programmes in line with changing market orientation. It will be difficult in the short run to attract private foreign investors to this region, partly because of the conflict situation and the massive nature of the task of restructuring, and partly because of the highly concentrated nature of control of markets by existing interests and institutional hindrances.
- › The opening-up of highly concentrated market structures will thus have to be given high priority and public supports by international donors together with the application of strict conditionality with regard to institutional improvements will have to prepare the ground for the massive task of restructuring and modernisation of industrial capacities in this region. The implementation of a programme to attract FDI will be important for the whole of Ukraine but is absolutely indispensable in this region as the task of reshaping product programmes and redirecting sales to new markets will be impossible without the support of foreign investors.
- › The question in the other (western) regions is how quickly Ukraine can be made attractive to cross-border and cross-European production networks which played an important role in the modernisation, re-industrialisation and the development of an export base of the Central Eastern European economies. Experience tells us that the regions which are neighbouring more advanced economies (in

this case particularly the Ukrainian regions bordering Poland) would have the potential to become part of cross-border production networks.¹ The development first of cross-border production linkages and then the gradual upgrading of Ukraine's position in value added chains in agriculture, food processing, wood-based industries and other (inclusive supplier) industries in these regions would open up a scenario of regional rebalancing, overcoming the pattern which characterised Ukraine's economy historically where industrial regions were largely concentrated in the east and agrarian regions in the west.

- › Linked to the encouragement of cross-border production networks but also the necessary changes in market orientation is the focus on redesigning and improving the transport infrastructure and – as mentioned earlier – the manifold improvements of institutional characteristics (legal weaknesses, barriers to enterprise activity) which still make Ukraine rather unattractive for foreign investors.
- › There were programmes already in place in Ukraine to streamline the efforts to attract foreign direct investment over the past years, but these were hampered by major weaknesses of legal and governance reliability and, more recently, by political instability. Realistically, only once the conflict gets truly 'frozen' and the very challenging short-term macroeconomic situation gets stabilised (the IMF programme will have to show some success with regard to achieving a sustainable fiscal situation as well as monetary stabilisation) can longer-run factors come into play to allow a catching-up process to truly take hold in Ukraine.
- › Comparative advantage factors (a relatively skilled labour force; geographic proximity to EU markets; relatively well-developed transport infrastructure inherited from the past though requiring modernisation) as well as the impact of the recent strong devaluation (leading to very low relative production costs) make Ukraine a potentially attractive location for international investments. The implementation of the DCFTA and accompanying improvements of institutional and legal conditions may furthermore play an important role. Evidence from the development processes in the CEE transition economies also points to an advantage of the relatively big economies (such as Poland and Romania) to be attractive for foreign investors both for the size of the domestic market as well as the production scale which can be achieved for exporting and drawing on a wider domestic supplier network.
- › The mobilisation of domestic public and international investment resources will have to play a major role to revamp the educational sector, support training and retraining programmes, invest into the transport network (road and rail), and support the process of regional redistribution of industrial activity and diversification in combination with policies targeted to make private productive investment attractive again.
- › Ukraine has suffered and will continue to suffer from a drain of skilled and professional workers through outward migration. The track record of other transition countries shows that this can be stopped or even partly reversed once an economy embarks on a successful catching-up process.

¹ It is an interesting feature of many transition countries (though not in Ukraine, at least so far) that the most rapid development processes take place in the western regions of those countries even though these border in most cases on the less developed regions of the neighbouring countries. It is the ease with which the geographic location of such regions lends itself to easier logistics of cross-border linkages while still benefiting from country-wide comparative advantage factors which explains this regional development pattern.

However, it is important to develop incentive structures for the highly skilled and professionals to see a perspective in terms of career prospects (based on meritocratic criteria) and future rewards to keep them in the country and support the re-stabilisation and growth process of the country.

- › Entry and exit rates in the firm population are very low reflecting a high degree of concentration in industrial activity (see World Bank, 2012). A powerful and well-monitored *competition authority* could play an important role in improving mobility patterns, easing the ability of new firm entry and making sure that public support is provided in a manner less skewed towards incumbents.
- › Reforms of tax structures and the revamping of tax administration could also reduce the size of the informal sector (estimated to be up to 40% of the economy) thus also broadening the base from which firm growth, including in export activity, could take place. A large informal sector biases economic structures in favour of the non-tradable sectors and inhibits human capital development.
- › Policy measures emphasising a higher degree of diversification of export structures are a must, particularly in the case of Ukraine as the high reliance on exports of metals, petroleum products and chemicals led to very high instability of terms-of-trade and export earnings. FDI alone might not lead to diversification as the track record in many countries shows a strong interest by foreign investors in materials. Hence accompanying policies (education, infrastructure, institutional/legal) have to be implemented to avoid an undue continued specialisation of the Ukrainian economy on metals and low processed commodity exports.

REFERENCES

Aslund, A. (forthcoming), Ukraine – What Went Wrong and How to Fix It, Peterson Institute for International Economic Studies, Washington DC.

Havrylyshyn, O. (2014), 'Ukraine – Greatest Hopes, Greatest Disappointments', article prepared for Peterson Institute for International Economic Studies publication, Washington DC.

IMF (2014), Ukraine - First Review of the Stand-by Arrangement, IMF Country Report 14/263, August, Washington DC.

OECD (2014), OECD Territorial Reviews: Ukraine, 2013, OECD, Paris.

World Bank (2012), From Dispersion to Agglomeration: the Role of Internal Labor Mobility in Creating More and Better Jobs in Ukraine, Human Development Department, ECA Regional Office, The World Bank.

The editors recommend for further reading*

General

Buiter and Rahbari on abolishing the zero lower bound: <http://willembuiter.com/ELB.pdf>

On raising the minimum wage: <http://www.iie.com/publications/briefings/piieb15-2.pdf>

Brad DeLong argues for more public debt: <http://equitablegrowth.org/2015/04/05/draft-rethinking-macroeconomics-conference-fiscal-policy-panel/>

Guriev and Traisman on the new authoritarianism: <http://www.voxeu.org/article/new-authoritarianism>

Greece and euro area

Why Europe needs to save Greece:

<http://www.project-syndicate.org/commentary/why-europe-needs-to-save-greece-by-anders-borg>

On lessons for Greece from Mexico's crisis:

<http://www.voxeu.org/article/lessons-1982-mexican-debt-crisis-greece>

Bernanke on Germany's trade surplus:

<http://www.brookings.edu/blogs/ben-bernanke/posts/2015/04/03-germany-trade-surplus-problem>

Hungary

Paul Krugman on Hungary: <http://krugman.blogs.nytimes.com//2015/03/17/hungary-without-two-thirds/>

Russia

Bershidsky on Russia's turnaround:

<http://www.bloombergvew.com/articles/2015-04-01/russia-s-recovery-won-t-have-to-be-oil-driven>

Ukraine

Dmitri Trenin on the dangers of Ukraine's massive meltdown:

<http://carnegie.ru/2015/04/10/europe-s-nightmare-ukraine-s-massive-meltdown/i68z>

The West is wrong to write off Ukraine's debts:

<http://www.theguardian.com/world/2015/apr/13/ukraine-debts-lebedev-corruption>

Kiev should start talking to Russophone Ukrainians:

<http://www.theguardian.com/world/2015/mar/27/ukraine-russia-solve-nicolai-petro>

* Recommendation is not necessarily endorsement. The editors are grateful to Vladimir Gligorov for his valuable contribution to this section.

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 development.

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



wiiw FDI Database

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>.

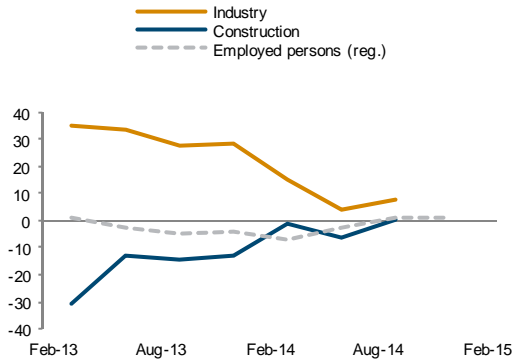
New service package available

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.

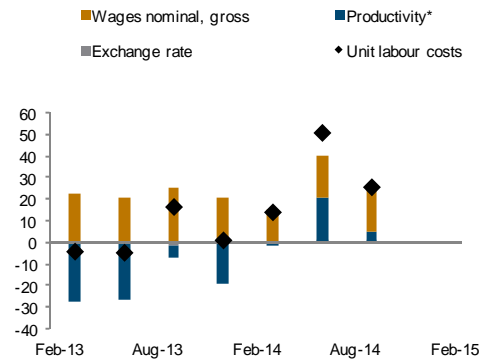
For more information on database access for Members and on Membership conditions, please contact Ms. Gabriele Stanek (stanek@wiiw.ac.at), phone: (+43-1) 533 66 10-10.

Albania

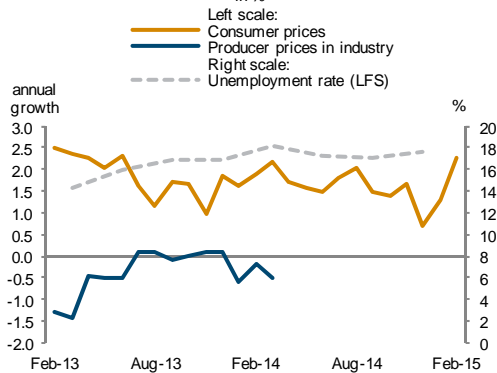
Real sector development
cumulated annual growth rate in %



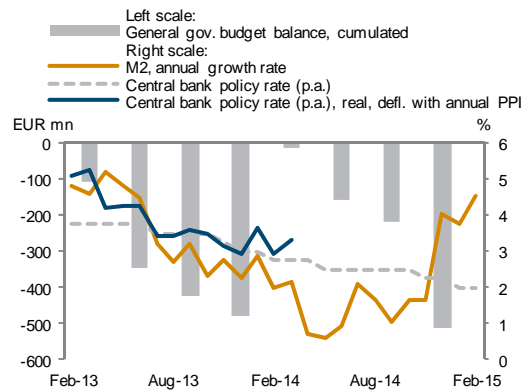
Unit labour costs in industry
annual growth rate in %



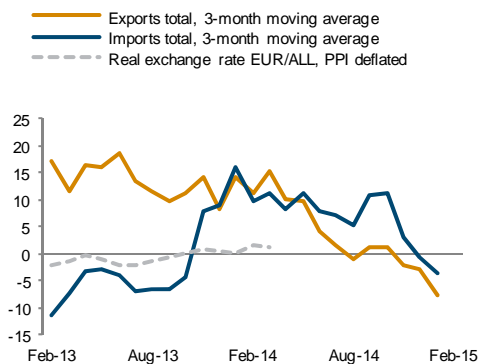
Inflation and unemployment
in %



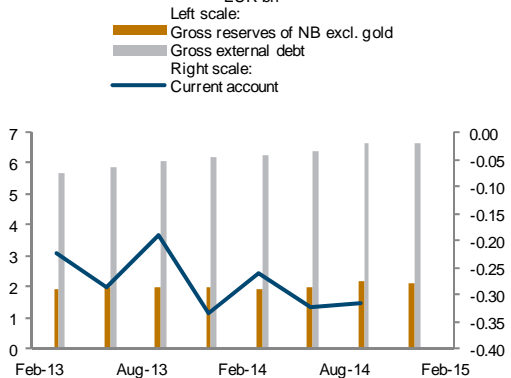
Fiscal and monetary policy



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.

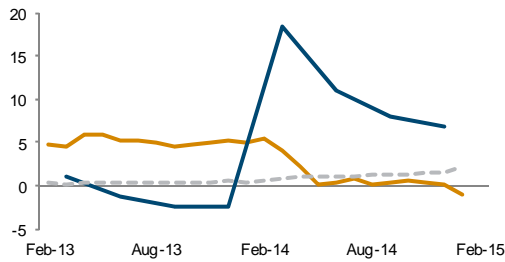
Source: wiiw Monthly Database incorporating Eurostat and national statistics.
Baseline data, country-specific definitions and methodological breaks in time series are available under:
<http://data.wiiw.ac.at/monthly-database.html>

Bosnia and Herzegovina

Real sector development

cumulated annual growth rate in %

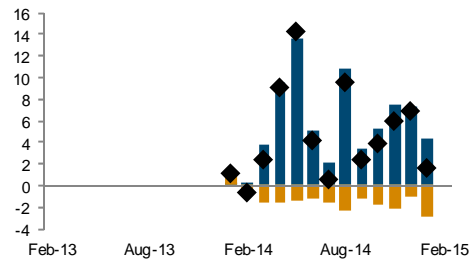
- Industry
- Construction
- - - Employed persons (reg.)



Unit labour costs in industry

annual growth rate in %

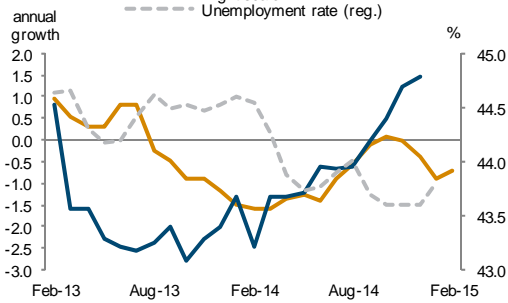
- Wages nominal, gross
- Productivity*
- ◆ Unit labour costs



Inflation and unemployment

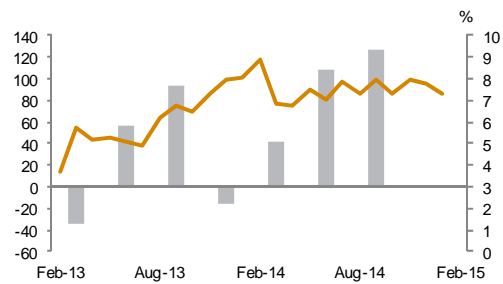
in %

- Left scale: Consumer prices
- Producer prices in industry
- Right scale: Unemployment rate (reg.)



Fiscal and monetary policy

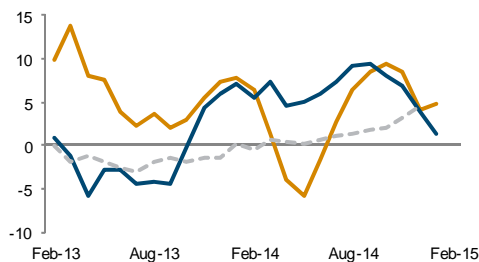
- Left scale: General gov. budget balance, cumulated
- Right scale: M2, annual growth rate



External sector development

annual growth rate in %

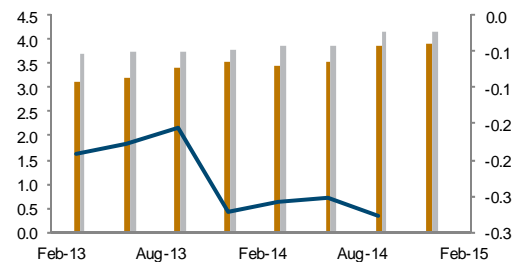
- Exports total, 3-month moving average
- Imports total, 3-month moving average
- - - Real exchange rate EUR/BAM, PPI deflated



External finance

EUR bn

- Left scale: Gross reserves of NB excl. gold
- Gross external debt (public)
- 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.

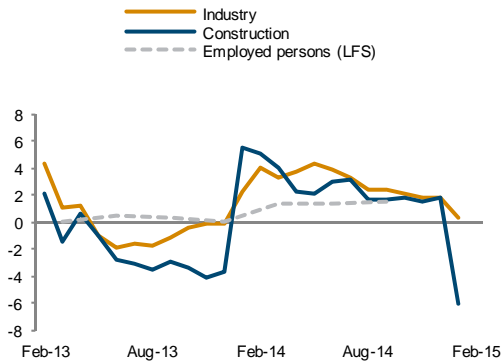
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Bulgaria

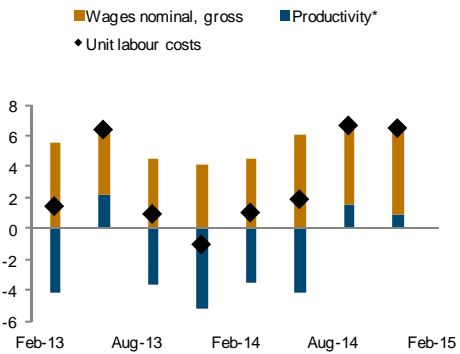
Real sector development

cumulated annual growth rate in %



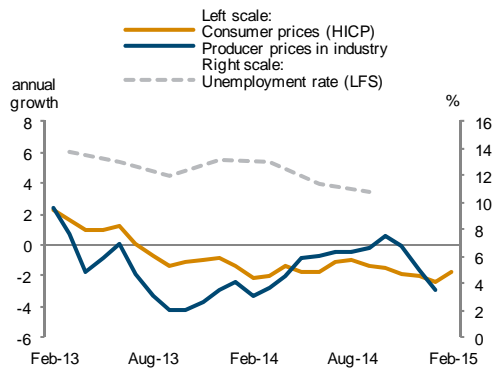
Unit labour costs in industry

annual growth rate in %

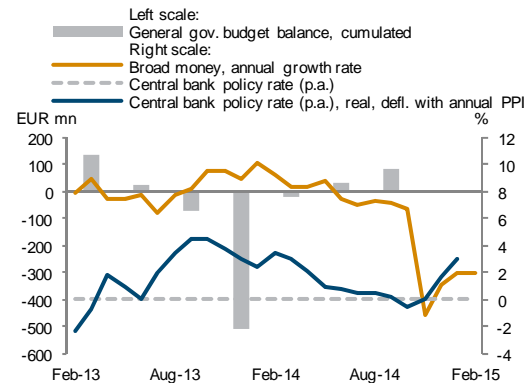


Inflation and unemployment

in %

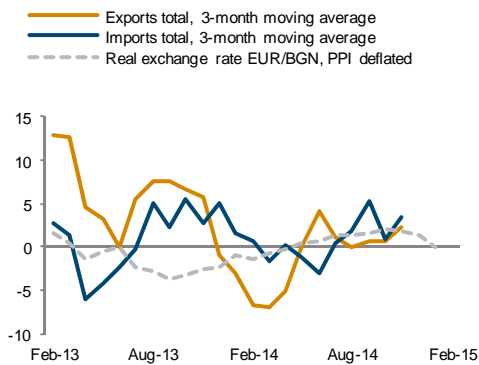


Fiscal and monetary policy



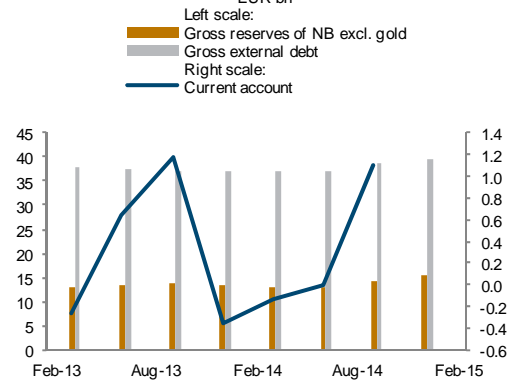
External sector development

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.

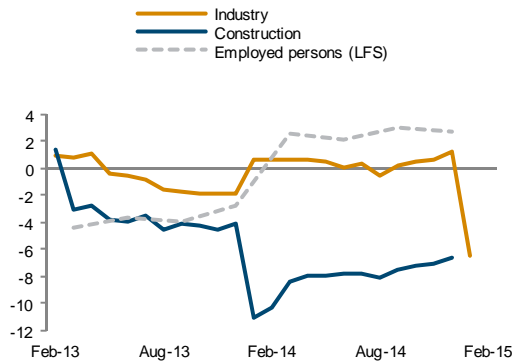
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Croatia

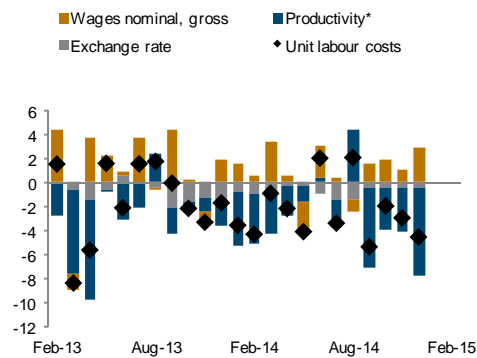
Real sector development

cumulated annual growth rate in %



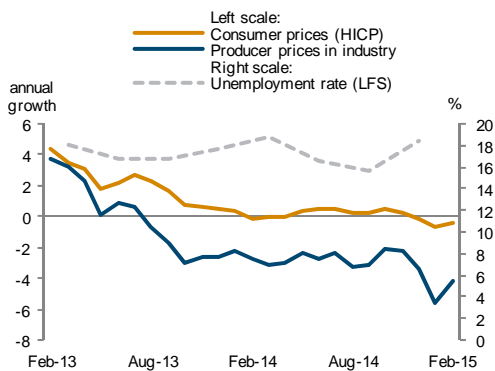
Unit labour costs in industry

annual growth rate in %

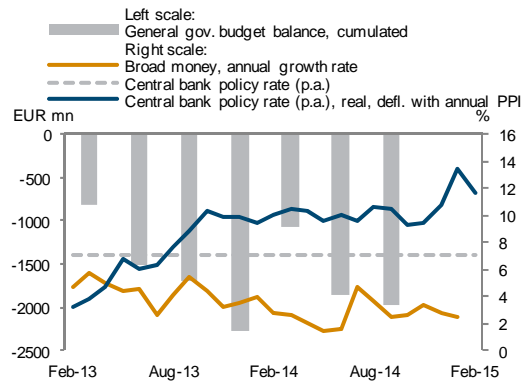


Inflation and unemployment

in %

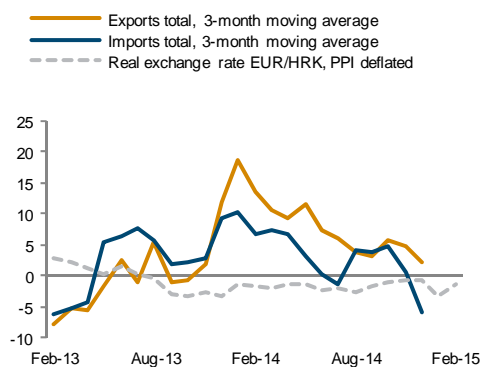


Fiscal and monetary policy



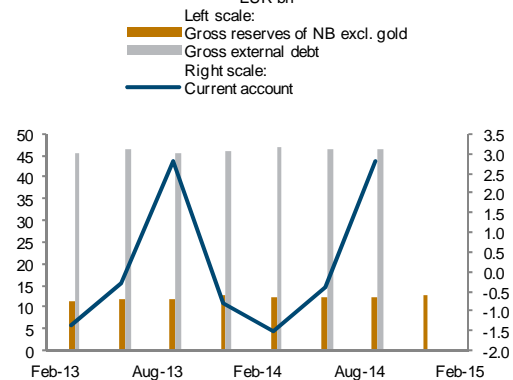
External sector development

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.

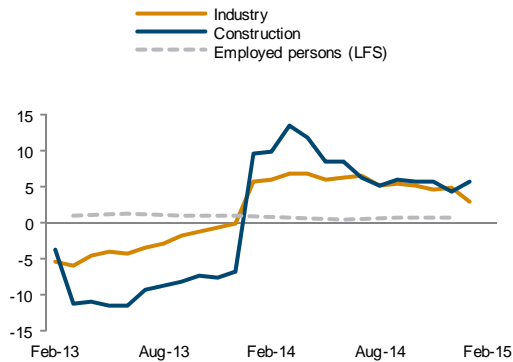
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Czech Republic

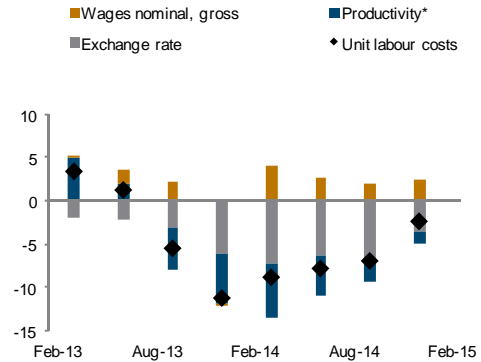
Real sector development

cumulated annual growth rate in %



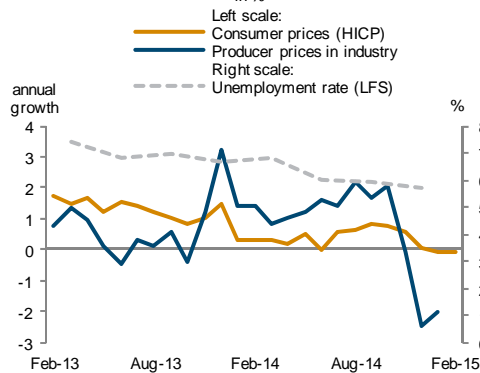
Unit labour costs in industry

annual growth rate in %

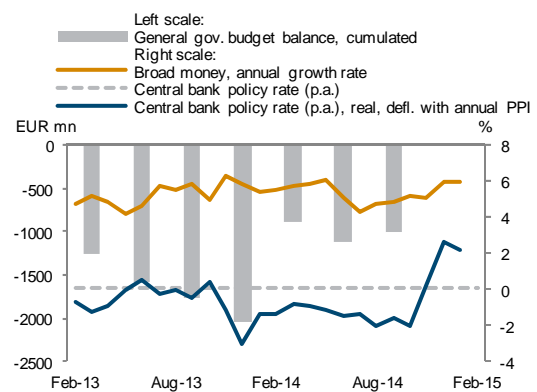


Inflation and unemployment

in %

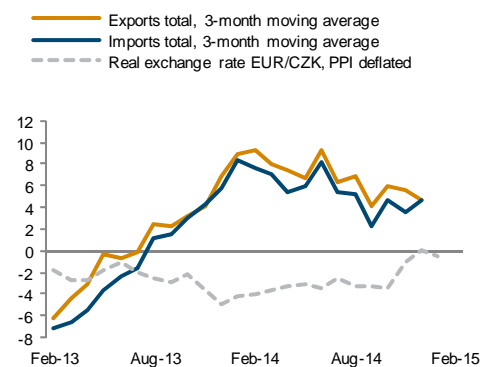


Fiscal and monetary policy



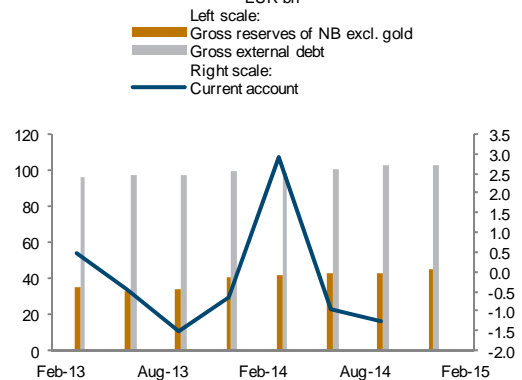
External sector development

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.

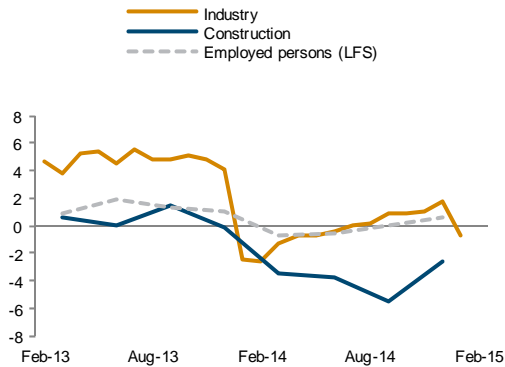
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Estonia

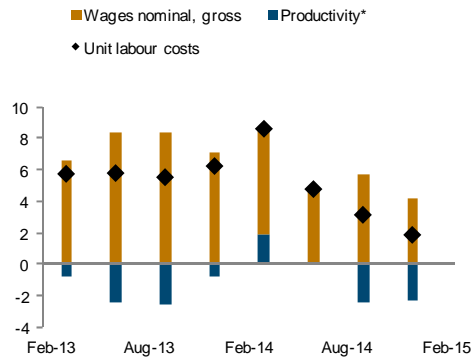
Real sector development

cumulated annual growth rate in %



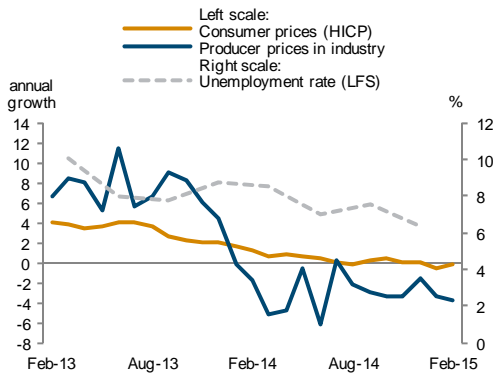
Unit labour costs in industry

annual growth rate in %

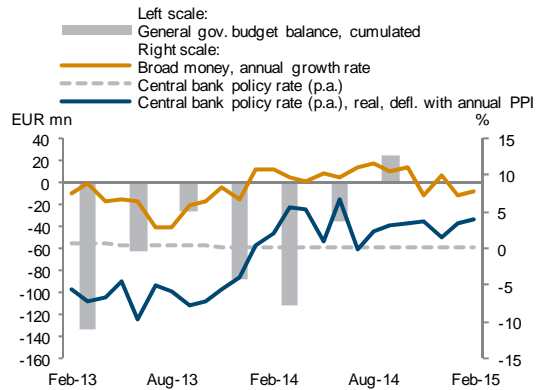


Inflation and unemployment

in %

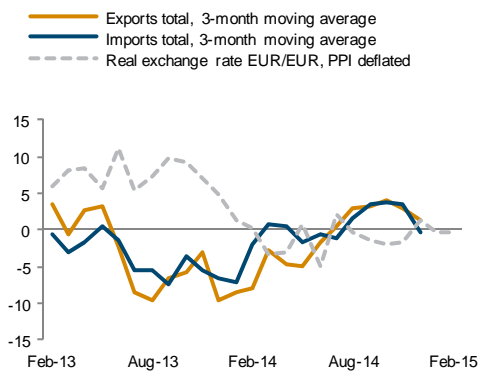


Fiscal and monetary policy



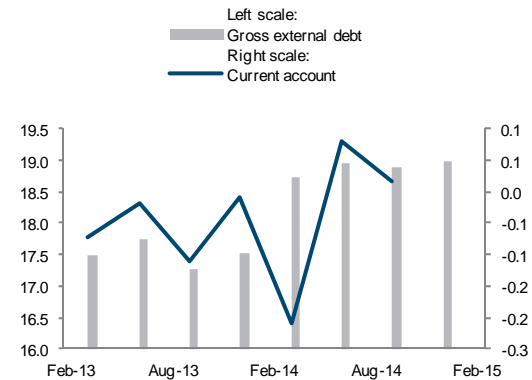
External sector development

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:

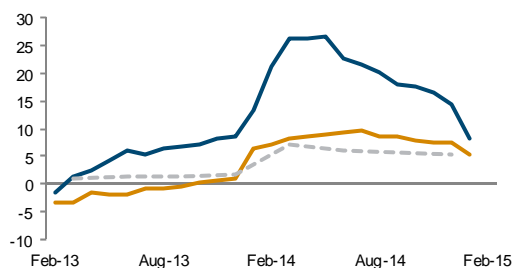
<http://data.wiiw.ac.at/monthly-database.html>

Hungary

Real sector development

cumulated annual growth rate in %

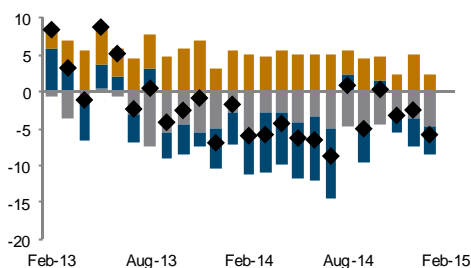
— Industry
— Construction
- - - Employed persons (LFS)



Unit labour costs in industry

annual growth rate in %

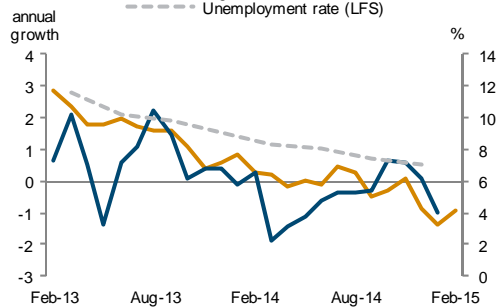
■ Wages nominal, gross ■ Productivity*
■ Exchange rate ◆ Unit labour costs



Inflation and unemployment

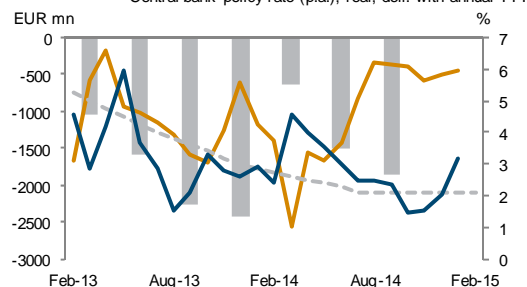
in %

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



Fiscal and monetary policy

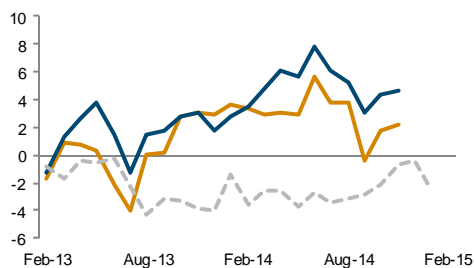
Left scale:
■ General gov. budget balance, cumulated
Right scale:
— Broad money, annual growth rate
- - - Central bank policy rate (p.a.)
— Central bank policy rate (p.a.), real, defl. with annual PPI



External sector development

annual growth rate in %

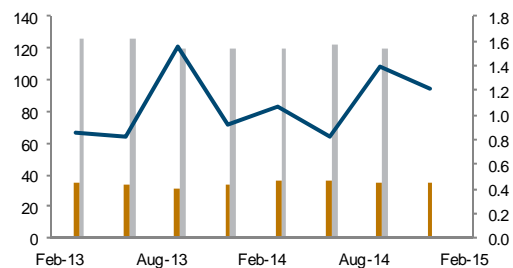
— Exports total, 3-month moving average
— Imports total, 3-month moving average
- - - Real exchange rate EUR/HUF, PPI deflated



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.

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

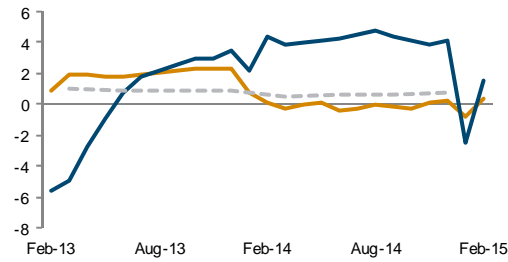
<http://data.wiiw.ac.at/monthly-database.html>

Kazakhstan

Real sector development

cumulated annual growth rate in %

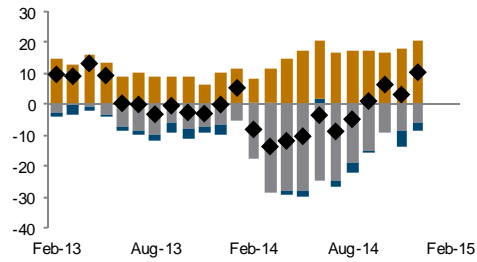
- Industry
- Construction
- - - Employed persons (LFS)



Unit labour costs in industry

annual growth rate in %

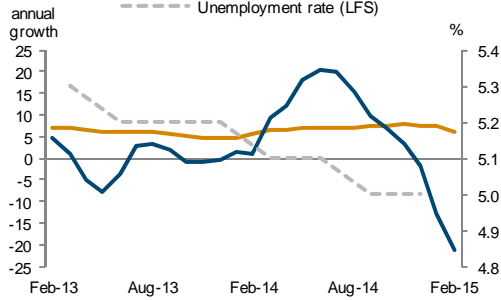
- Wages nominal, gross
- Exchange rate
- Productivity*
- ◆ Unit labour costs



Inflation and unemployment

in %

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



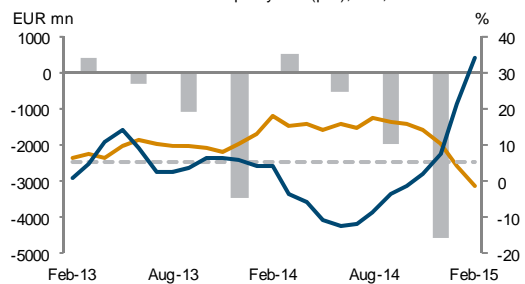
Fiscal and monetary policy

Left scale:

- General gov. budget balance, cumulated

Right scale:

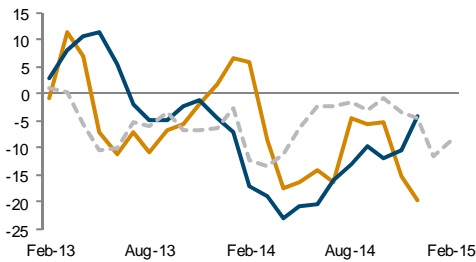
- Broad money, annual growth rate
- - - Central bank policy rate (p.a.)
- Central bank policy rate (p.a.), real, defl. with annual PPI



External sector development

annual growth rate in %

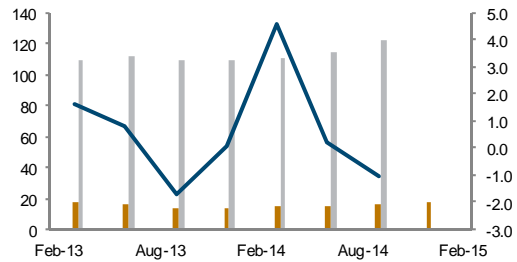
- Exports total, 3-month moving average
- Imports total, 3-month moving average
- - - Real exchange rate EUR/KZT, PPI deflated



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.

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

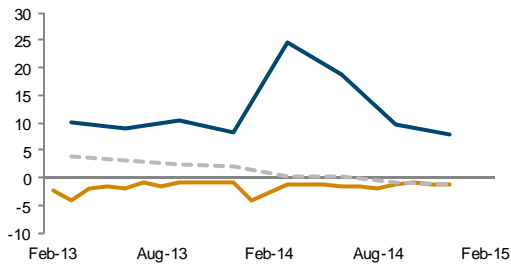
<http://data.wiiw.ac.at/monthly-database.html>

Latvia

Real sector development

cumulated annual growth rate in %

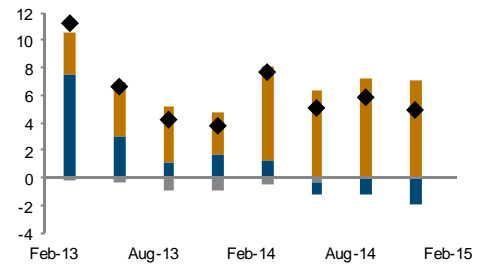
— Industry
— Construction
- - - Employed persons (LFS)



Unit labour costs in industry

annual growth rate in %

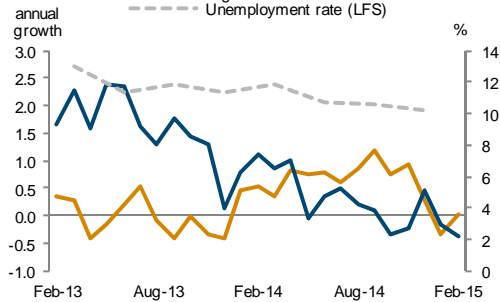
■ Wages nominal, gross
■ Exchange rate
■ Productivity*
◆ Unit labour costs



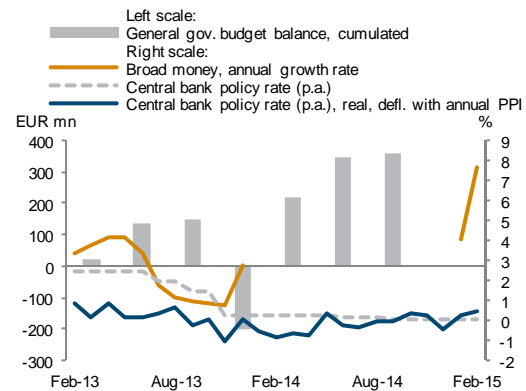
Inflation and unemployment

in %

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



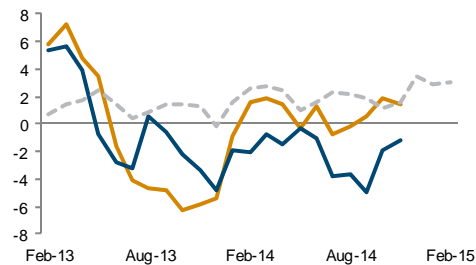
Fiscal and monetary policy



External sector development

annual growth rate in %

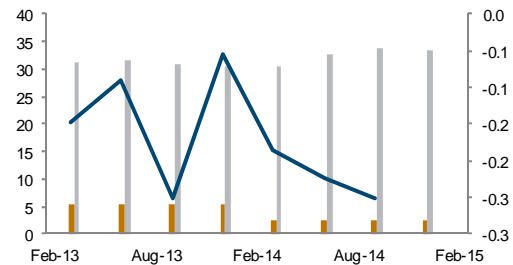
— Exports total, 3-month moving average
— Imports total, 3-month moving average
- - - Real exchange rate EUR/EUR-LVL, PPI deflated



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.

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

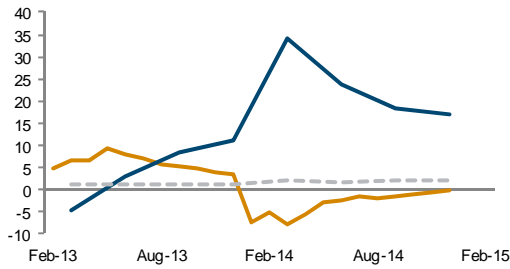
<http://data.wiiw.ac.at/monthly-database.html>

Lithuania

Real sector development

cumulated annual growth rate in %

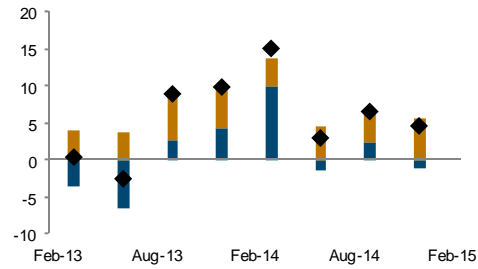
- Industry
- Construction
- - - Employed persons (LFS)



Unit labour costs in industry

annual growth rate in %

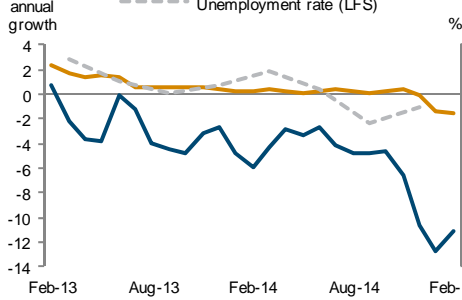
- Wages nominal, gross
- Exchange rate
- Productivity*
- ◆ Unit labour costs



Inflation and unemployment

in %

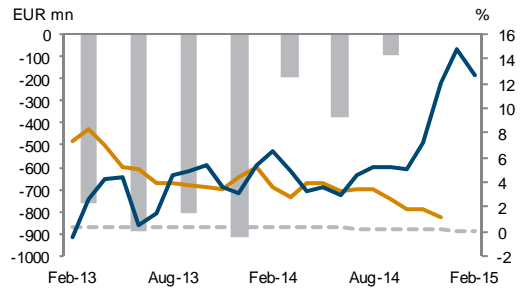
- Left scale:
 - Consumer prices (HICP)
 - Producer prices in industry
- Right scale:
 - - - Unemployment rate (LFS)



Fiscal and monetary policy

Left scale:

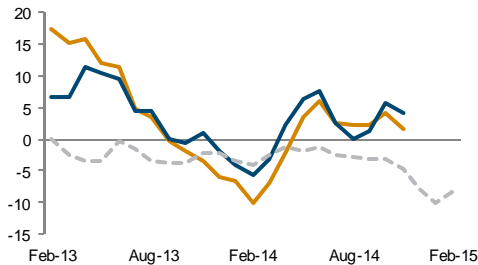
- General gov. budget balance, cumulated
- Right scale:
 - Broad money, annual growth rate
 - - - Central bank policy rate (p.a.)
 - Central bank policy rate (p.a.), real, defl. with annual PPI



External sector development

annual growth rate in %

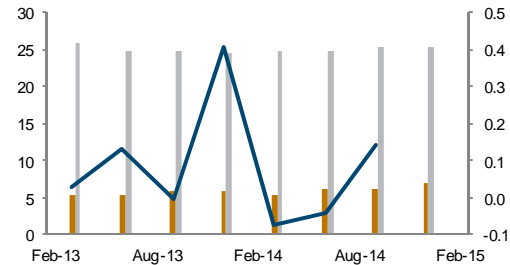
- Exports total, 3-month moving average
- Imports total, 3-month moving average
- - - Real exchange rate EUR/EUR-LTL, PPI deflated



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.

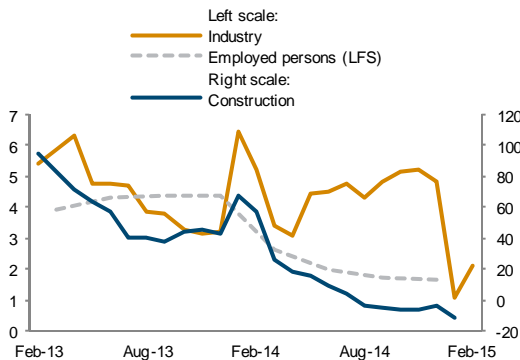
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Macedonia

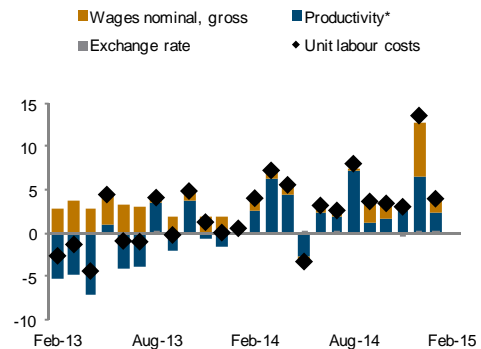
Real sector development

cumulated annual growth rate in %



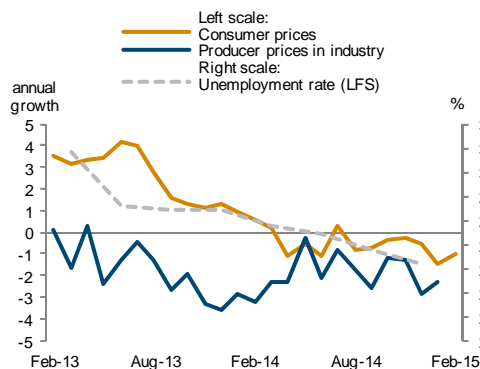
Unit labour costs in industry

annual growth rate in %

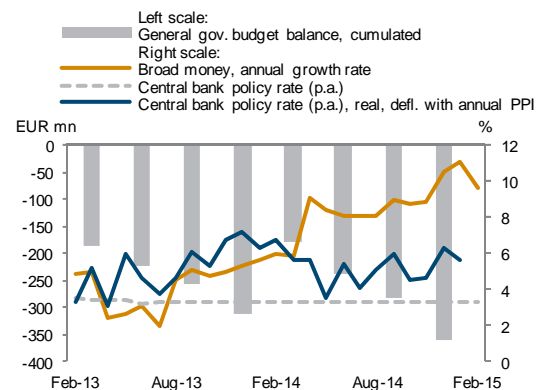


Inflation and unemployment

in %

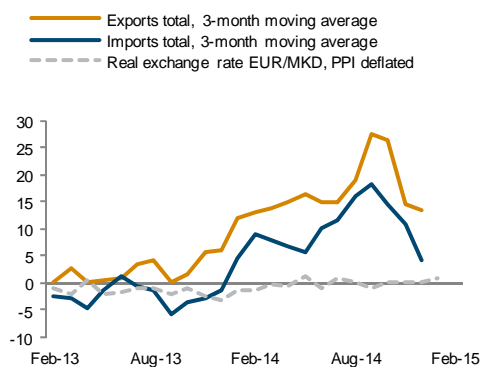


Fiscal and monetary policy



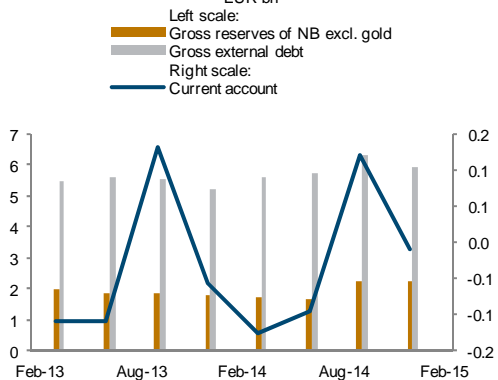
External sector development

annual growth rate in %



External finance

EUR bn



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

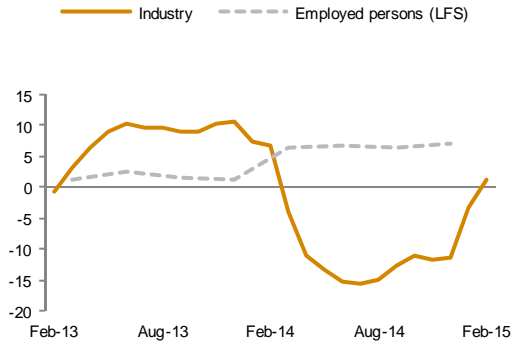
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

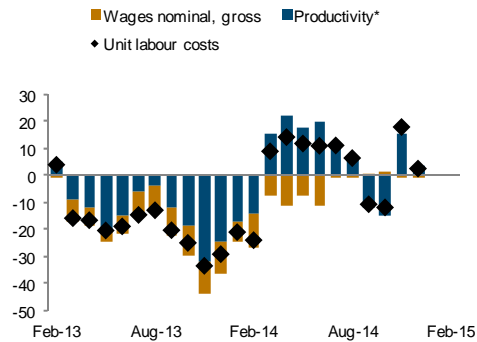
<http://data.wiiw.ac.at/monthly-database.html>

Montenegro

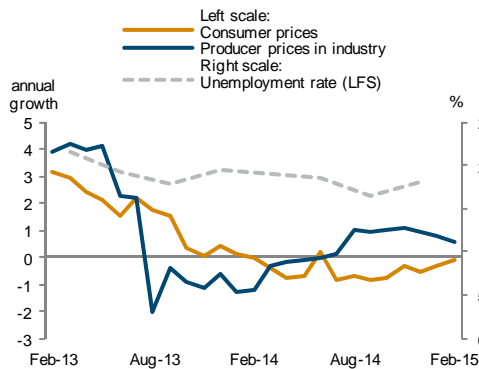
Real sector development
cumulated annual growth rate in %



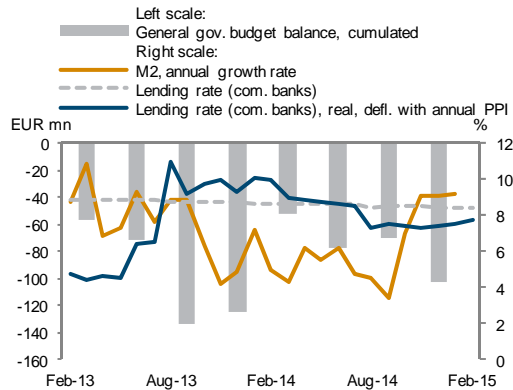
Unit labour costs in industry
annual growth rate in %



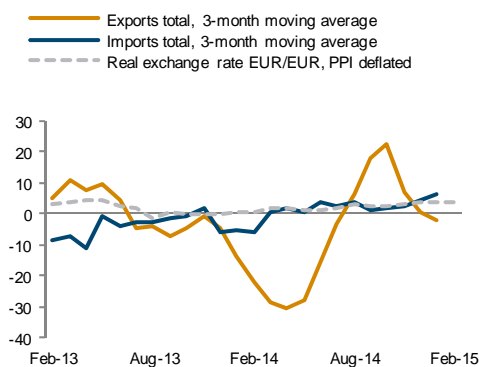
Inflation and unemployment
in %



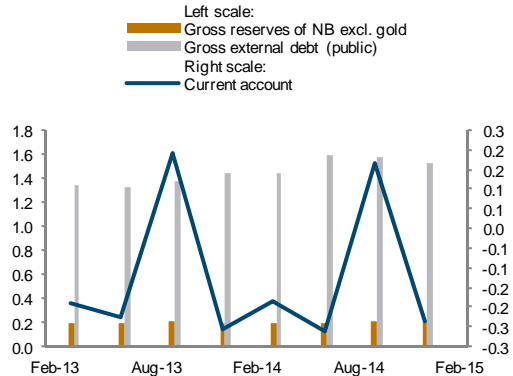
Fiscal and monetary policy



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.

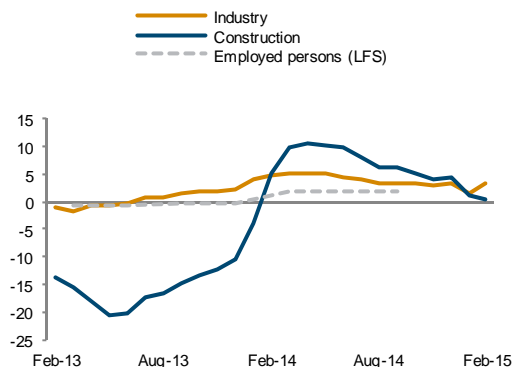
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Poland

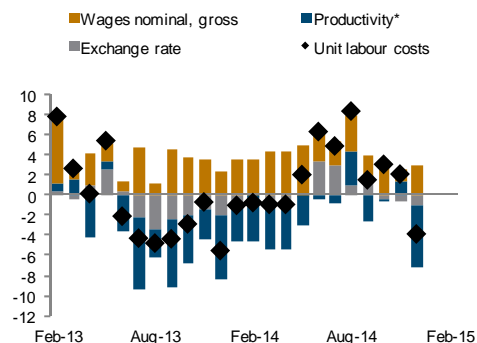
Real sector development

cumulated annual growth rate in %



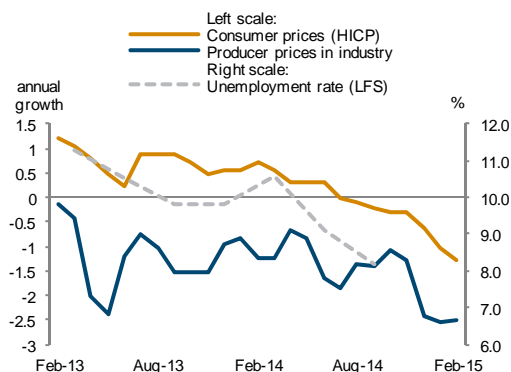
Unit labour costs in industry

annual growth rate in %

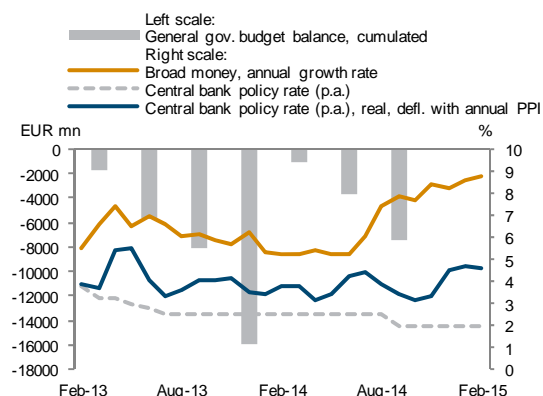


Inflation and unemployment

in %

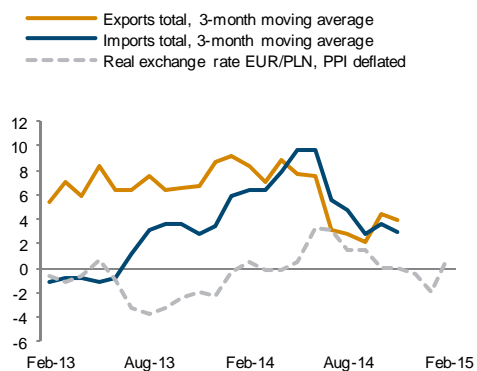


Fiscal and monetary policy



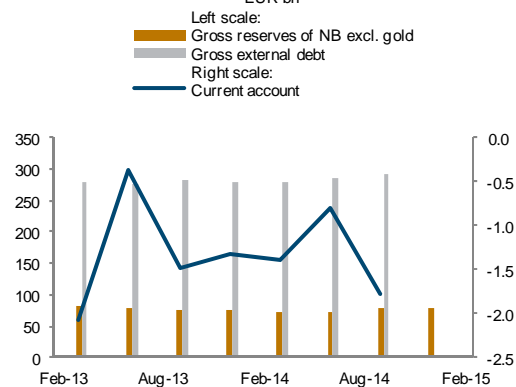
External sector development

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:

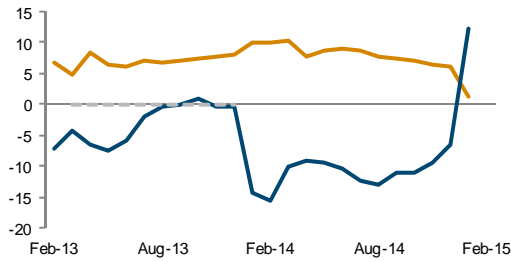
<http://data.wiiw.ac.at/monthly-database.html>

Romania

Real sector development

cumulated annual growth rate in %

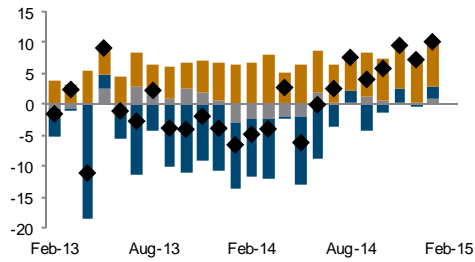
- Industry
- Construction
- - - Employed persons (LFS)



Unit labour costs in industry

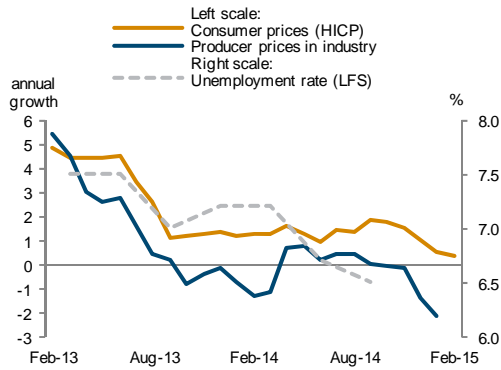
annual growth rate in %

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

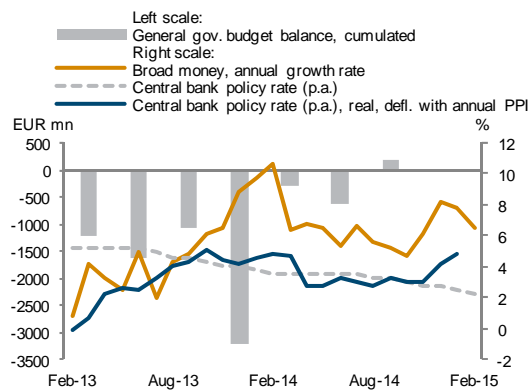


Inflation and unemployment

in %



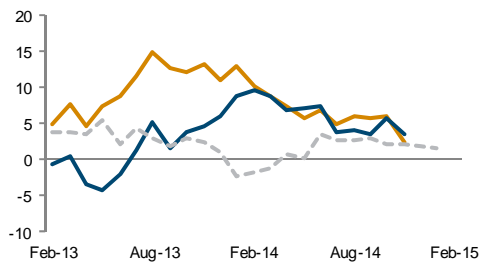
Fiscal and monetary policy



External sector development

annual growth rate in %

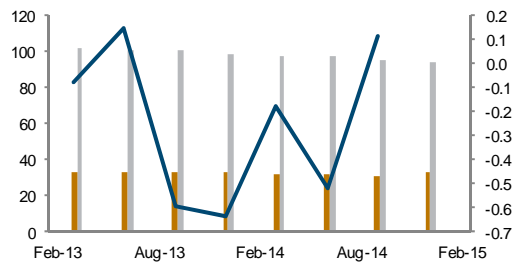
- Exports total, 3-month moving average
- Imports total, 3-month moving average
- - - Real exchange rate EUR/RON, PPI deflated



External finance

EUR bn

- 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.

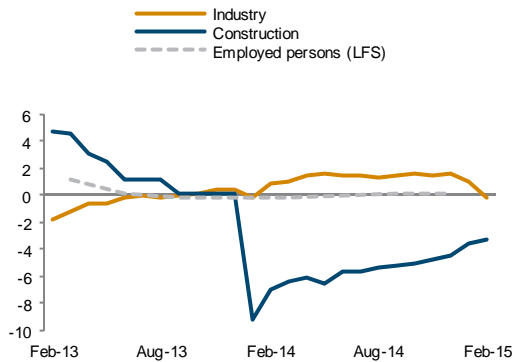
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Russia

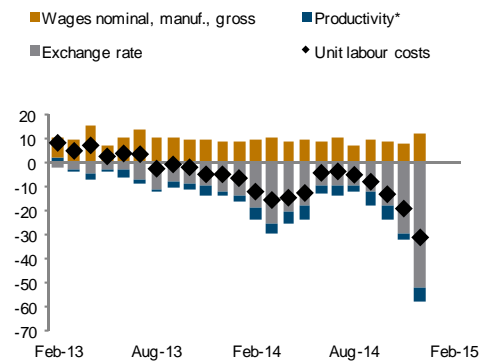
Real sector development

cumulated annual growth rate in %



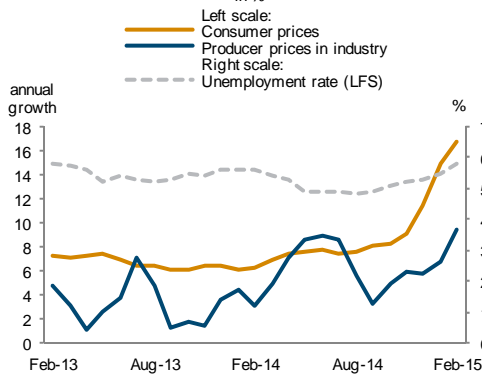
Unit labour costs in industry

annual growth rate in %

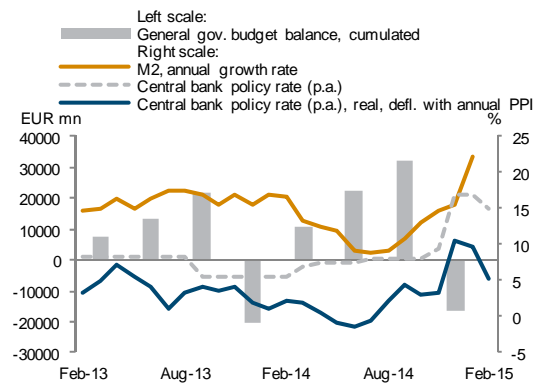


Inflation and unemployment

in %

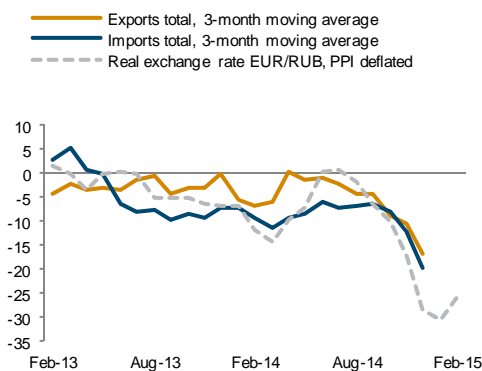


Fiscal and monetary policy



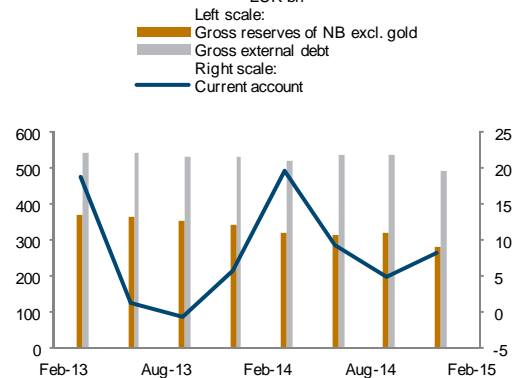
External sector development

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.

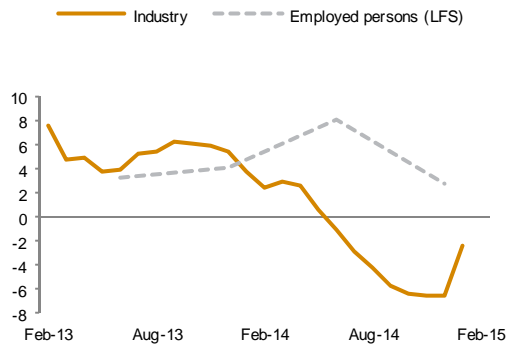
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Serbia

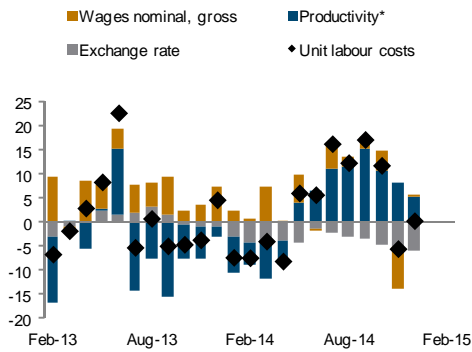
Real sector development

cumulated annual growth rate in %



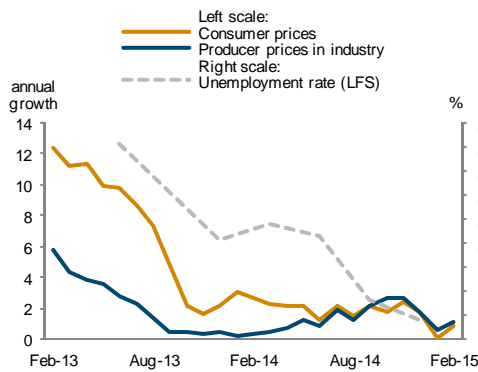
Unit labour costs in industry

annual growth rate in %

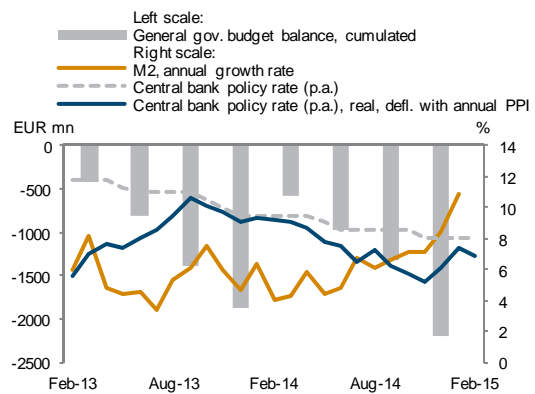


Inflation and unemployment

in %

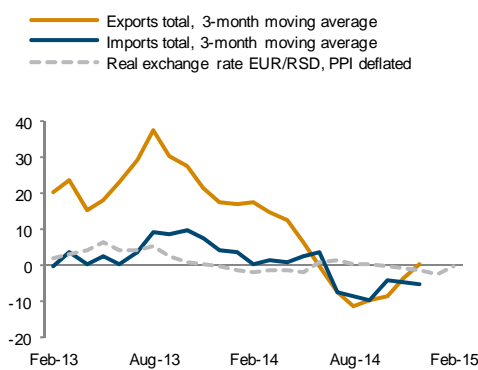


Fiscal and monetary policy



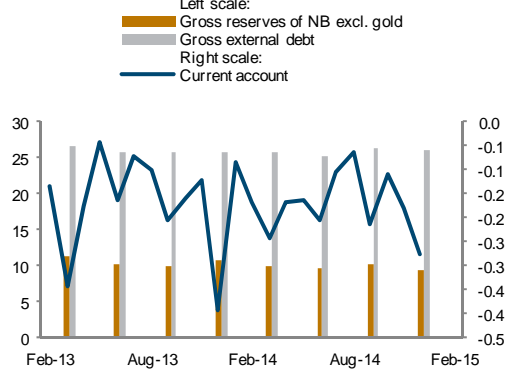
External sector development

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.

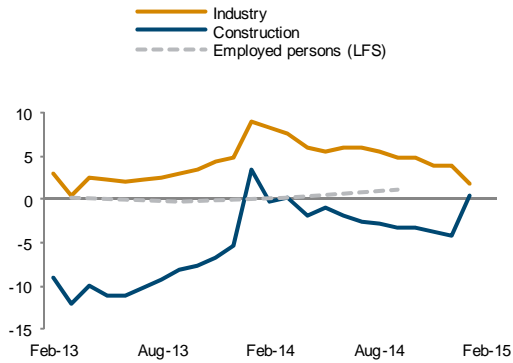
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Slovakia

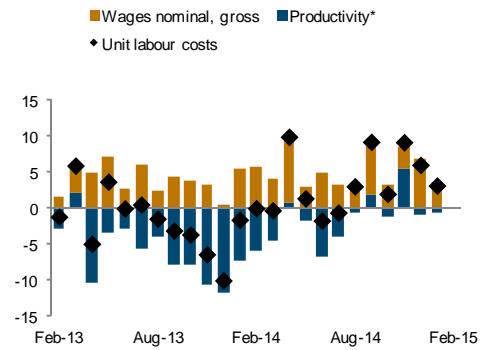
Real sector development

cumulated annual growth rate in %



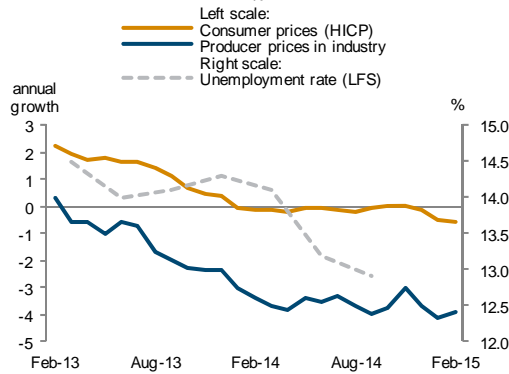
Unit labour costs in industry

annual growth rate in %

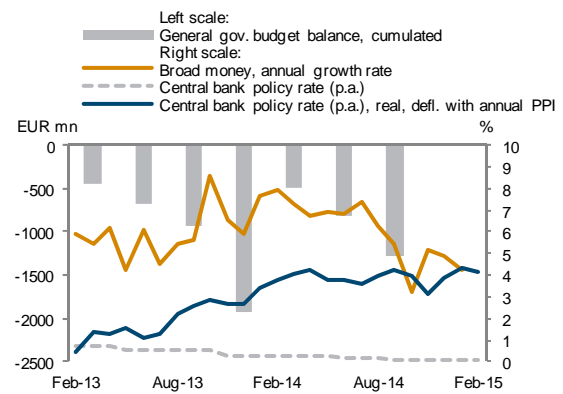


Inflation and unemployment

in %

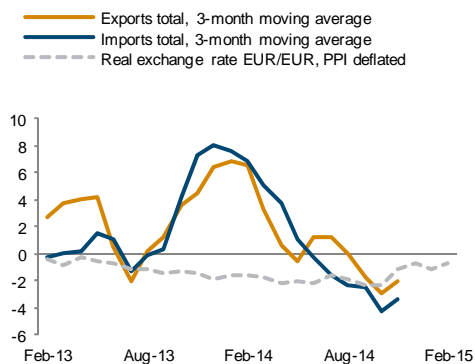


Fiscal and monetary policy



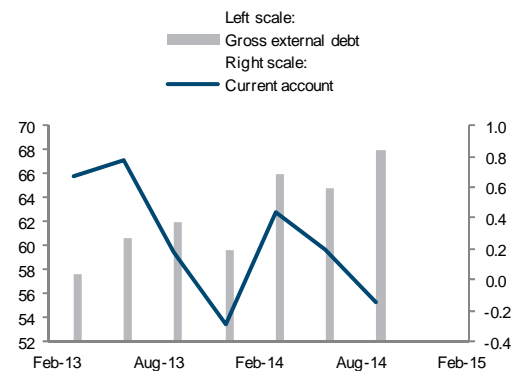
External sector development

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:

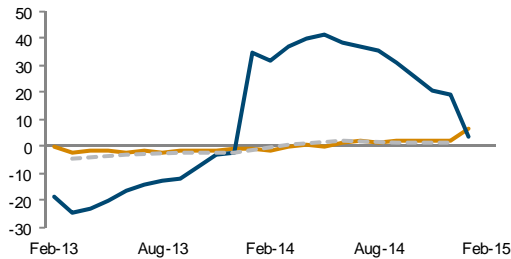
<http://data.wiiw.ac.at/monthly-database.html>

Slovenia

Real sector development

cumulated annual growth rate in %

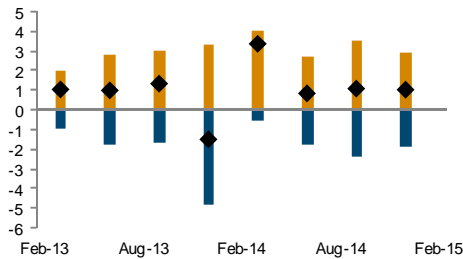
- Industry
- Construction
- - - Employed persons (LFS)



Unit labour costs in industry

annual growth rate in %

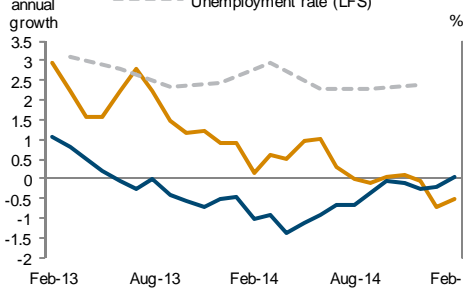
- Wages nominal, gross
- Productivity*
- ◆ Unit labour costs



Inflation and unemployment

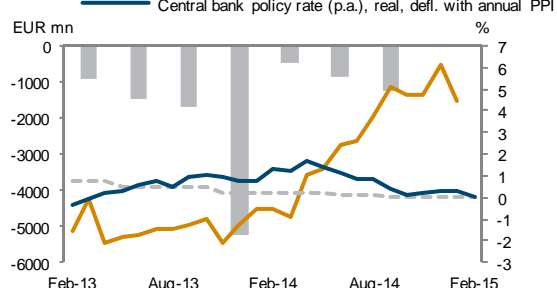
in %

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



Fiscal and monetary policy

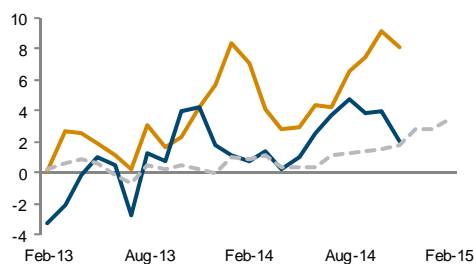
- Left scale: General gov. budget balance, cumulated
- Right scale: Broad money, annual growth rate
- - - Central bank policy rate (p.a.)
- Central bank policy rate (p.a.), real, defl. with annual PPI



External sector development

annual growth rate in %

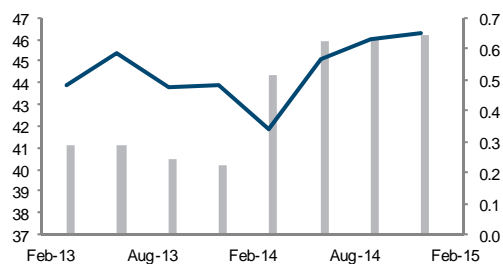
- Exports total, 3-month moving average
- Imports total, 3-month moving average
- - - Real exchange rate EUR/EUR, PPI deflated



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.

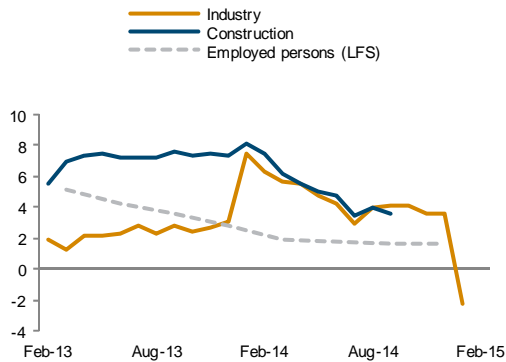
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Turkey

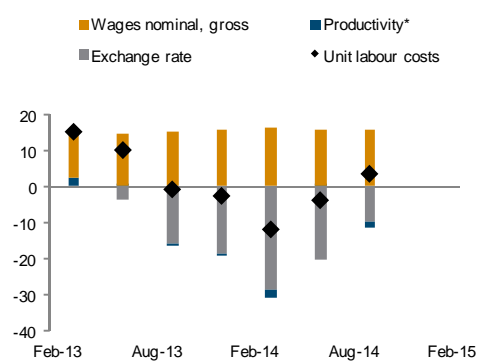
Real sector development

cumulated annual growth rate in %



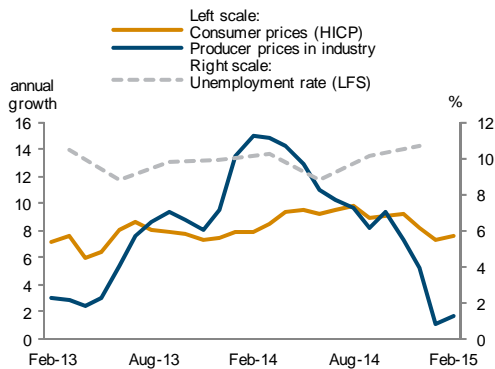
Unit labour costs in industry

annual growth rate in %

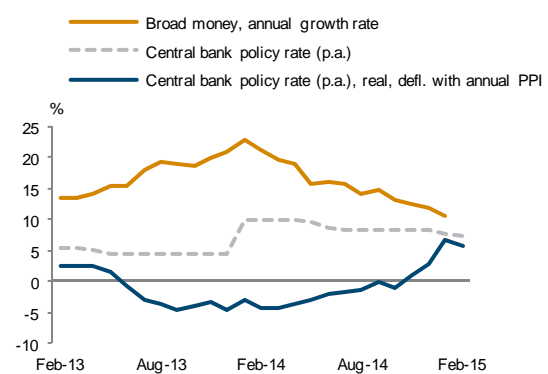


Inflation and unemployment

in %

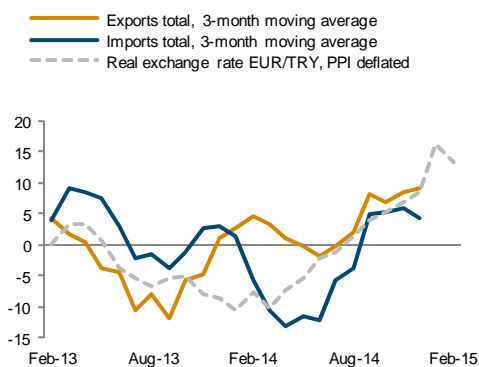


Fiscal and monetary policy



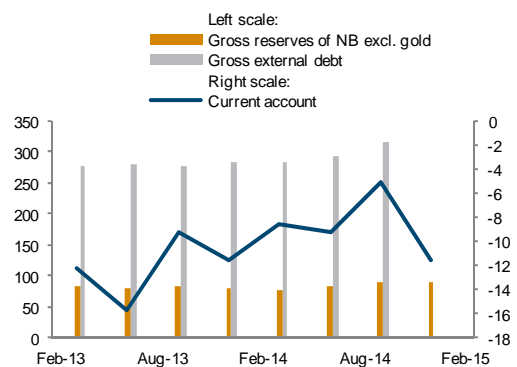
External sector development

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.

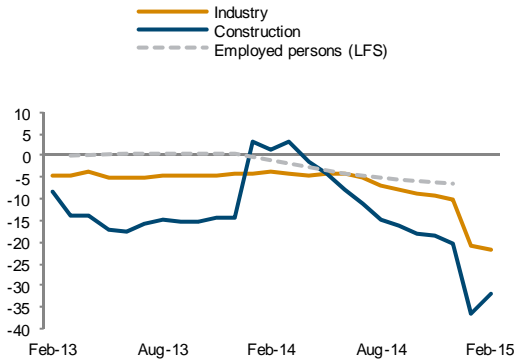
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Ukraine

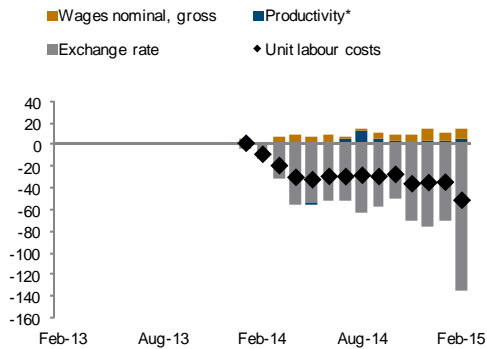
Real sector development

cumulated annual growth rate in %



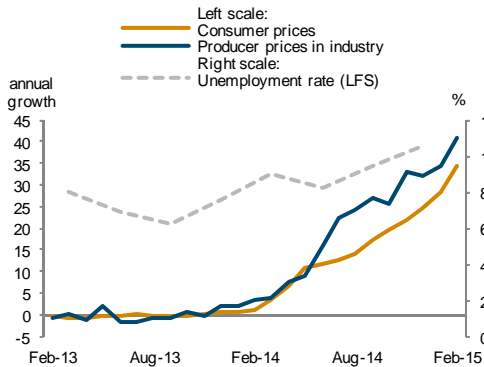
Unit labour costs in industry

annual growth rate in %

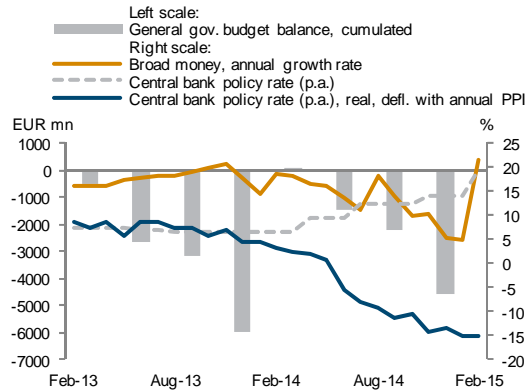


Inflation and unemployment

in %

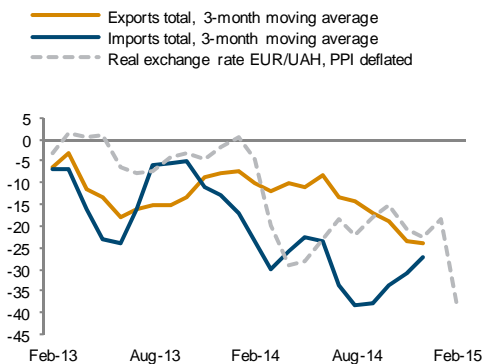


Fiscal and monetary policy



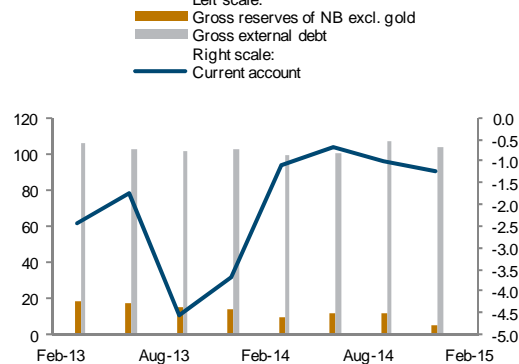
External sector development

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>

Index of subjects – April 2014 to April 2015

Albania	economic situation	2014/7-8
Bosnia and Herzegovina	economic situation	2014/7-8
Bulgaria	economic situation	2014/7-8
	migration	2014/4
	impact of the Russia–Ukraine conflict	2014/5
Croatia	economic situation	2014/7-8
Czech Republic	economic situation	2014/7-8
Estonia	economic situation	2014/7-8
Hungary	economic situation	2014/7-8
Iran	sanctions	20015/1
Kosovo	economic situation	2014/7-8
Latvia	economic situation	2014/7-8
Lithuania	economic situation	2014/7-8
Macedonia	economic situation	2014/7-8
Montenegro	economic situation	2014/7-8
Poland	economic situation	2014/7-8
	arms industry	2014/12
	automotive sector	2014/12
	migration	2014/4
Romania	economic situation	2014/7-8
	migration	2014/4
	impact of the Russia–Ukraine conflict	2014/5
Russia	economic situation	2014/7-8
Serbia	economic situation	2014/7-8
	migration	2014/4
Slovakia	economic situation	2014/7-8
	arms industry	2014/12
	automotive sector	2014/12
Slovenia	economic situation	2014/7-8
Turkey	economic conundrum	2014/9
	EU accession prospects	2014/9
	migration to Austria	2014/9
	regional disparities	2014/9
Ukraine	economic situation	2014/7-8
	EU integration and foreign trade	2015/4
	FDI	2015/4
	regional and industrial policy	2015/4
	corporatism and wage share	2014/6
	Danube Region Strategy	2015/4
	determinants of earnings inequalities in the EU	2014/11
	earnings levels and inequality in the EU	2014/11
	energy cost shares, energy intensities, industrial competitiveness	2015/2
	EU agricultural imports from LDCs	2014/10
	EU convergence	2014/6
	EU budget	2015/1
	gender wage gap in the EU	2014/11
	green industries for Europe	2014/10
	input-output table	2015/1
	manufacturing and services in the EU	2015/3
	migration and mobility patterns	2014/4
	natural gas and electricity prices	2015/2
	SMEs' funding obstacles	2014/10
	South Stream pipeline	2014/5
	trade between Bulgaria and Romania	2014/5
	wages and employment in the Balkans	2014/6
Regional		
(EU, Eastern Europe, CIS)		
multi-country articles		
and statistical overviews		

The *wiiw Monthly Report* summarises wiiw's major research topics and provides current statistics and analyses exclusively to subscribers to the wiiw Service Package. This information is for the subscribers' internal use only and may not be quoted except with the respective author's permission and express authorisation. Unless otherwise indicated, all authors are members of the Vienna Institute's research staff or research associates of wiiw.

Economics editors: Vasily Astrov, Sándor Richter

IMPRESSUM

Herausgeber, Verleger, Eigentümer und Hersteller:
Verein „Wiener Institut für Internationale Wirtschaftsvergleiche“ (wiiw),
Wien 6, Rahlgasse 3

ZVR-Zahl: 329995655

Postanschrift: A 1060 Wien, Rahlgasse 3, Tel: [+431] 533 66 10, Telefax: [+431] 533 66 10 50
Internet Homepage: www.wiiw.ac.at

Nachdruck nur auszugsweise und mit genauer Quellenangabe gestattet.
P.b.b. Verlagspostamt 1060 Wien

Offenlegung nach § 25 Mediengesetz: Medieninhaber (Verleger): Verein "Wiener Institut für Internationale Wirtschaftsvergleiche", A 1060 Wien, Rahlgasse 3. Vereinszweck: Analyse der wirtschaftlichen Entwicklung der zentral- und osteuropäischen Länder sowie anderer Transformationswirtschaften sowohl mittels empirischer als auch theoretischer Studien und ihre Veröffentlichung; Erbringung von Beratungsleistungen für Regierungs- und Verwaltungsstellen, Firmen und Institutionen.



wiiw.ac.at