

# Monthly Report

**What are the Possible Impacts of BREXIT?**

**The Competitiveness of the Services Sector in the Western Balkans**

**Trade in Services: Central Asia**

**Credit Growth in Slovakia: Cause for Concern?**





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DORIS HANZL-WEISS  
MICHAEL LANDESMANN  
CAROLINA LENNON



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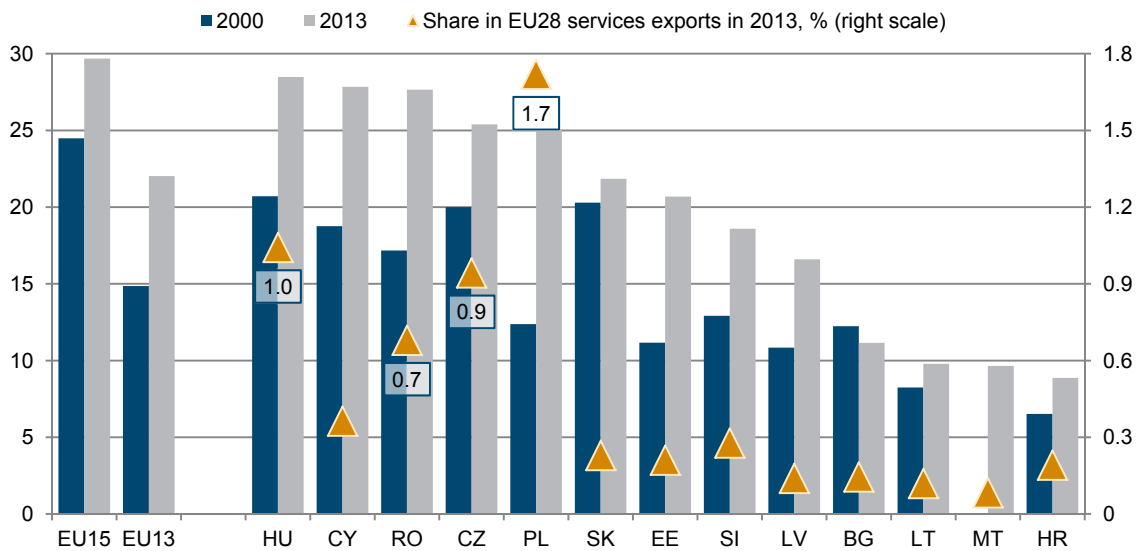
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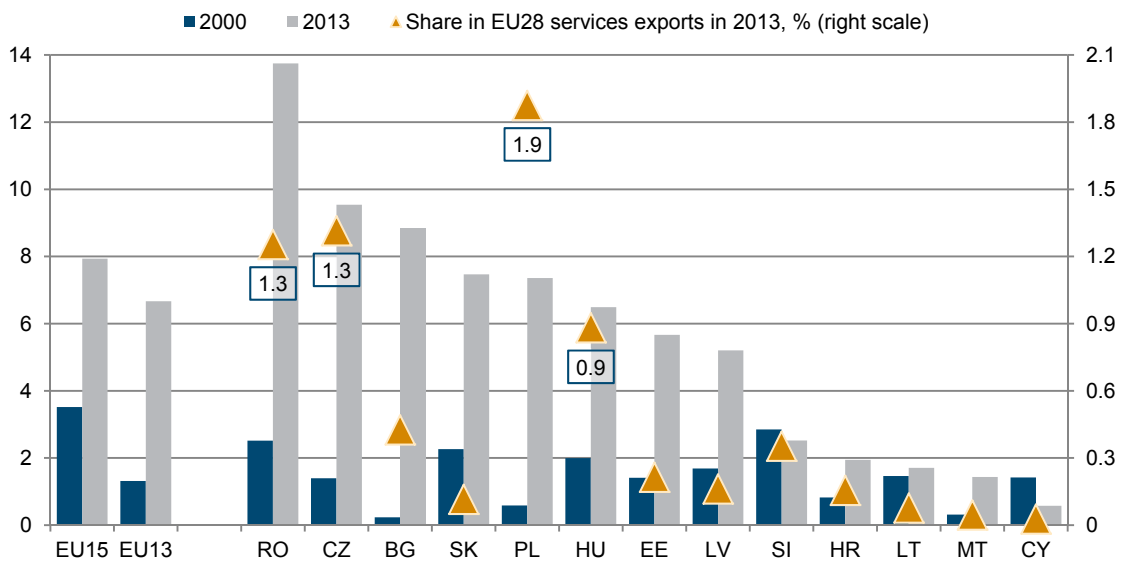
### Selected producer-related services in the new Member States

in % of total services exports

#### Other business services



#### Computer and information services



Data source: WTO, wiiw calculations.

## Opinion Corner: What are the possible impacts of BREXIT?

ANSWERED BY MICHAEL LANDESMANN

*Local elections have just been fought in the United Kingdom and now the way is free for the historic vote on 23<sup>rd</sup> June on whether the UK should remain in the EU or leave. This is a momentous vote not just for the UK but for the European integration process as a whole; in fact I shall argue that the negative repercussions of a BREXIT vote will be greater for the EU than for Britain itself.*

*But we are not there yet: current opinion polls still indicate a higher share of votes for 'STAY' (46%) compared to 'LEAVE' (43%), but this can be seen as a small margin. If some nasty stories appear in the British media over the next few weeks (e.g. around the refugee issue, continued squabbling amongst EU leaders, bungling of international relations issues e.g. with Turkey, unpopular policy developments such as with TTIP), the votes might very well flip.*

*In the following I discuss the issues which characterise the debate in Britain in the current referendum; I order them according to how important I judge them to be for the outcome of the vote:*

### **(i) Impact on the economy:**

*The evaluation of the economic impact of BREXIT for the UK economy occupies a central place in the debate not only amongst experts but also with the general public.*

*An important issue regarding the 'costs' of leaving the EU is whether it means leaving the Single Market and, if yes, which new relationship would emerge between the EU and the UK. A lengthy report issued by the UK Treasury (UK Government, 2016) assessed the different options of leaving the EU: the first option would be the 'Norwegian option', i.e. membership of the EEA, which de facto means remaining in the Single Market but without having any say in its further development. This option has now been mostly dismissed by the 'Leave'-campaign as it would in all likelihood mean that the UK would still have to adhere to the 'Four Freedoms' including the free movement of people. Further, it would also mean continuing to pay into the EU budget. As two of the central demands of withdrawing from the EU are to take 'control of borders' and thus of intra-European migration and mobility, as well as ending UK's contribution to the EU budget, the Norwegian option has been dropped.*

*This leaves two other options: one, similar to Switzerland, would be a negotiated deal which all EU members have to individually support. The other would simply be to – initially at least – fall back in relation to the EU to having WTO membership status.*

*The most likely outcome would be a negotiated deal and here the two sides disagree on the relative bargaining power of the UK vs. the EU on the likely content of such a deal. The 'Leave'-campaigners*



point to the interest of EU members – particularly Germany, which has a substantial trade account surplus with the UK – to offer the UK rather good conditions. The ‘Stay’-campaigners, on the other hand, emphasise that such deals will take a very long time to negotiate (see the lengthy negotiations with Switzerland or, more recently, with Canada) which means that in the meantime the UK could face substantial tariff and non-tariff barriers. Further, in the negotiations individual countries will push their individual interests so that a free trade deal will be significantly watered down. The recent negotiations with Canada on a free trade deal also excluded financial services, which is a vital UK interest. Finally, the EU would want to take a rather tough stance in these negotiations in order to demonstrate that any further current EU member contemplating exiting the EU will be aware of its costs.

The long-term trade arrangements are, of course, important for the attractiveness of the UK for foreign investors who see the UK as a gateway to the rest of the EU and rely on its membership of the Single Market. The emergence of substantial tariff or non-tariff barriers (including a differentiation in technical standards and regulations) would make the UK a less attractive place to invest in. There would also be a major upheaval in the City of London as the non-applicability of certain EU regulatory structures would prevent significant operations to be conducted from London. Any further evolution of regulations regarding financial services in the EU would no longer be influenced by the UK and this could also be seen as a potentially major disadvantage for the City of London.

Apart from the long-run arrangements, there is a dispute about the short-term costs: the ‘Stay’-campaign points to a period of substantial uncertainty that would lead to delayed private sector investment and capital flight in expectation of a major devaluation of the Pound Sterling. Such uncertainty could be protracted, as an exit also would be accompanied by major disarray in the ruling Conservative party.

All these concerns are countered by the ‘Leave’-campaign, stating – without any substantial analytical work backing up these claims – that current EU regulations are simply stifling UK business, that the UK could negotiate its own trade deals with countries all over the world and that fears of short-term disarray are highly exaggerated. The Treasury Report (see UK Government, 2016) – accused by the ‘Leave’-campaigners of partisanship – came up with the following estimates of the longer-run (level) impact on GDP depending on which of the different options was chosen:

Option 1: EEA .....	like Norway .....	-3.8%
Option 2: Bilateral agreements .....	like Switzerland or Canada .....	-6.2%
Option 3: WTO membership .....	like Brazil or Russia .....	-7.5%

Overall, most commentators are sharing the opinion that on the issue of the ‘economic cost’ of BREXIT, the ‘Stay’-campaigners are making the stronger case, and this side of the argument would be in their favour. The opposite holds with the next issue.

## **(ii) Migration**

Migration flows are – as in most European countries – a highly sensitive issue in the UK. The population blames the last Labour government for having vastly under-estimated the impact of EU Enlargement on migration flows to Britain. The net migration flows have reached over 300,000 per annum over the past

years and about half of these flows come from within the EU. Thus the argument brought forward by 'Leave'-campaigners is that Britain has lost control over about half the net inflows due to the Free Movement of Persons component of membership of the Single Market. Further, due to the free inflow of EU citizens, the extent of immigration had to come down one-sidedly on non-EU would-be migrants and this constrained migration policy to allow for an optimal mix that would include migrants from the rest of the world.

The 'Stay'-proponents are rather defensive on this issue. They argue that free mobility of persons is a necessary component of being a member of the Single Market and the economic benefits of this membership outweigh the possible costs of reduced control of migration policy. Economists (Dustmann, 2011; Portes, 2016) also point to the overall benefits of migration to Britain's economy: There is not much evidence of significant labour market disturbances, migrants from EU countries are net payers to the social security system, contribute significantly to the dynamism of the economy, etc. But these arguments are less powerful in the debate than the worry of loss of sovereign control in this vital area and the experience of congestion on housing, educational and health infrastructure that are strongly perceived by the population.

Thus the migration issue is the solid card in the 'Leave'-campaign's hand, even though its two pillars – the explicitly anti-immigrant UKIP party and the more aloof set of Tory campaigners including the popular and eccentric ex-mayor of London Boris Johnson – do not play this card in the same manner.

### **(iii) Sovereignty and democracy**

This is the other issue that plays into the hands of the 'Leave'-campaigners. Britain is one of the (few) countries in Europe – Switzerland probably the other main example – where there is a great deal of legitimacy underlying its democratic traditions and institutions. Any shift of control over legislation and the judicial system to the European level is unpopular with the British public. The arguments by EU-supporters that cooperation on trans-European and global issues and on human rights involves delegating powers to the pan-European level – the analogy drawn here is with NATO on security issues – fall on deaf ears.

The UK public is largely content with the workings and traditions of the democratic processes in the country and sees any EU interference as reducing democratic control. Of course, the EU-sceptics would also strongly oppose any strengthening of democratic structures at the EU level (such as further enhancing the powers of the European parliament); this would deprive them of their argument that the EU is an undemocratic, bureaucratic monster run by unelected officials. In the decision-making at Council level they point to the UK in many instances as being outvoted and as the euro-countries proceed with tighter integration this group would dominate decision-making in the EU overall. So things would only get worse. The items negotiated by David Cameron, i.e. that the UK will be exempt from 'ever closer Union' and that there will be certain safe-guards for the interests of non-EMU members, are seen as little protection. Fears of loss of sovereignty and democratic control thus feature strongly in the debate on BREXIT.

**(iv) BREXIT and Scottish independence**

*There is a fear that a 'Leave'-vote would lead to a break-up of the United Kingdom, with the successful Scottish National Party (SNP) pushing towards a renewed independence vote. Such a vote is very likely to take place in case of a BREXIT.*

*However, it is not obvious that such a vote would come out in favour of independence. In the last referendum, it was mostly the fear of economic costs of and the uncertainty linked with a break-up that swung the majority in favour of remaining with the UK. It is likely that such considerations might play an even more accentuated role as Scotland would have to negotiate renewed entry into the EU and it is questionable whether it would be given a derogation of EMU membership. If not, this creates a major problem as Scotland's trade with the non-UK EU amounts to about 16% of non-oil exports, while its exports to England are over 40%. Hence BREXIT would create a major problem for the Scottish economy which is so highly integrated with England.*

*This is thus an issue in favour of the 'Stay'-camp, but it seems to feature less in the debate around BREXIT than one might have expected.*

**(v) Security and Britain's weight in the world**

*The debate on the implications for security is very lively and the public is exposed to widely opposing and often confusing arguments. Many of the security and military experts argue that security cooperation (such as access to joint databases) within the EU has made a significant contribution to UK security. However, the 'Leave'-campaigners minimise the role of security cooperation within the EU and see NATO as the main institution in which military cooperation takes place and which is thus a guarantor of UK security. They even argue that security cooperation with EU partners by imposing certain regulations is counter-productive. Further, they come up with the rather odd arguments that the existence of the EU itself creates a security risk as it is a dysfunctional entity, generates social and economic misery and thus creates a security threat.*

**(vi) Britain and Europe's future**

*This – in my opinion – is the most depressing part of the debate in Britain. The impact which BREXIT might have on Europe as a whole and European integration in particular features little in the debate. People are just not concerned about this or at least very few are. Most of the debate is simply couched in terms of 'what is best for Britain'.*

*One might argue that a referendum of this type would in most countries be seen mainly from the point of view of how it would affect the country in question. However, in the British case it seems to me as if the lack of care for potential negative spillover effects on the rest of Europe is particularly strong and reflects the tradition in Britain of the lack of historical involvement in the European integration process. It was a latecomer to EU membership, and most of its negotiations thereafter reflected a very low level of commitment to giving up resources for the sake of advancing the aims of stronger European integration.*

*However, the implications of BREXIT could be very substantial for the EU and European developments as a whole. It would be the very first time that a country leaves the EU and this is likely to have a*

*demonstration effect. Referenda on this issue are gaining popularity in quite a number of countries and it is always difficult to argue against referenda. We are currently going through a phase when there is a resurgence of nationalism as a source of protection against economic change, social insecurity and in reaction to the rather bad handling of the economic and financial crisis in Europe. For the first time after WWII there is a possibility of a significant reversal of processes of cooperation and integration in Europe.*

*Large sections of the UK population, however, see themselves as external on-lookers of these developments and make their decision more on the basis of how they can insulate themselves from these tendencies rather than as being a core country which could play a role in countering them. However, the fact is that BREXIT would mean that the EU loses a country with significant foreign policy experience and international connections, a country with military resources and experience and an agent occupying an important position in the spectrum of opinions which drive the social and economic policy agenda in the EU. The exit of the UK from the EU would be of historical significance for the future of Europe.*

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# The competitiveness of the services sector in the Western Balkans\*

BY DORIS HANZL-WEISS

## INTRODUCTION

This article takes a closer look at the importance and characteristics of the services sector in the Western Balkan countries in comparison to Germany and five new EU Member States (NMS-5), consisting of the Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia. In the Western Balkan countries the services sector is the most important economic branch. In the framework of the 'South East Europe 2020 Strategy', the Western Balkan countries strive to strengthen the competitiveness of their tradable goods and services in order to increase exports from EUR 94.4 billion in 2010 to EUR 209.5 billion in 2020 (RCC, 2013).

## IMPORTANCE OF THE SERVICES SECTOR IN THE REGION

The manufacturing sector is relatively small and weak in the Western Balkan countries. By contrast, the agricultural sector still plays a comparatively large role. Yet, the services sector (including construction) is the most important economic sector in all Western Balkan countries and its size is similar to that of neighbouring countries (see Figure 1). It accounted for 63-77% of gross value added (GVA) and 46-86% of total employment in 2014. In terms of GVA, the services sector is smallest in Albania (63%), Serbia and Kosovo (66% each), while it is of slightly greater significance in Macedonia as well as Bosnia and Herzegovina (71% and 72%, respectively). The largest services sector in the region can be found in Croatia and Montenegro, where it accounts for 75% and 77% of GVA, respectively. For comparison, in the NMS-5, the services sector accounts for 70% of GVA on average, and in Germany for 74%. Between 2005 and 2014, the share of the services sector was growing slightly in most countries of the region, except for Albania and Kosovo.

The most important services branches in the Western Balkan countries (excluding public services sectors) are trade and real estate activities, while the smallest ones are accommodation and food services as well as administrative and support services. Financial activities are of greater importance in Croatia, accommodation and food services play a prominent role in Montenegro, and construction is a major services branch in Macedonia, Albania and Kosovo. In addition, professional, scientific and technical activities are most pronounced in Croatia, while they are very small in Kosovo and Macedonia.

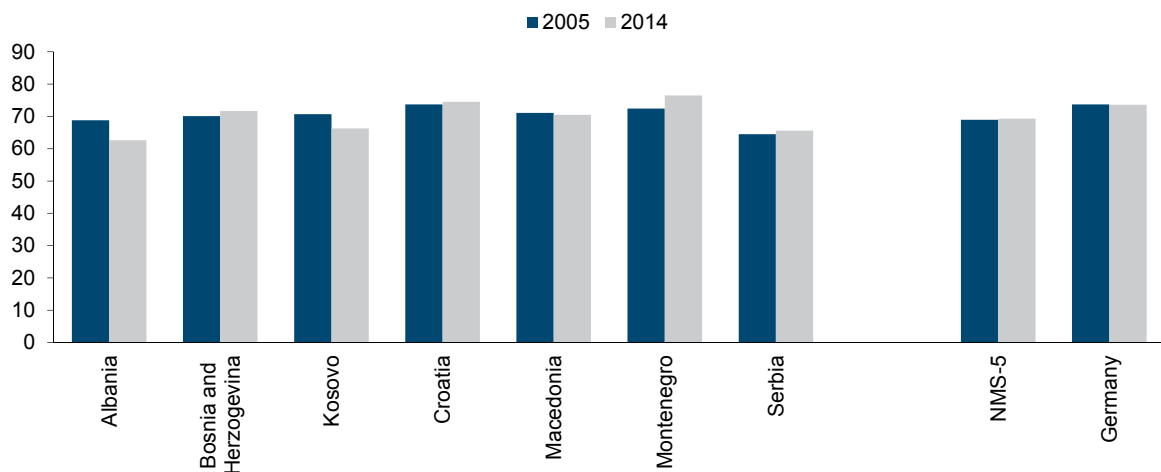
In general, prior to the crisis, the services sector contributed significantly to economic growth in the Western Balkan countries. However, it is important to distinguish between tradable (including transport services, information and communication, financial services, professional, scientific and technical

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\* This article is based on a study carried out for the German Federal Ministry of Finance and published as a wiiw Research Report in German language. The shorter English report is forthcoming.

activities) and non-tradable services (including wholesale and retail trade, accommodation and food services, real estate activities, administrative and support services). An analysis of structural changes in the EU has shown that the crisis revealed structural imbalances in some countries of the EU periphery (Hanzl-Weiss and Landesmann, 2013). In these countries a strong expansion of non-tradable activities in comparison to tradable activities (e.g. manufacturing and tradable services) occurred prior to the crisis associated with increasing current account deficits and in many cases with a huge loss in competitiveness or a relative downsizing of the tradable sector. In the Western Balkan region, some structural imbalances favouring the construction industry and non-tradable services sectors before the crisis were found in Croatia, Montenegro and Serbia.

**Figure 1 / Share of the services sector in % of gross value added**



Note: Services sector refers to NACE Rev. 2 sections F to T.

Source: wiiw Annual Database incorporating national and Eurostat statistics.

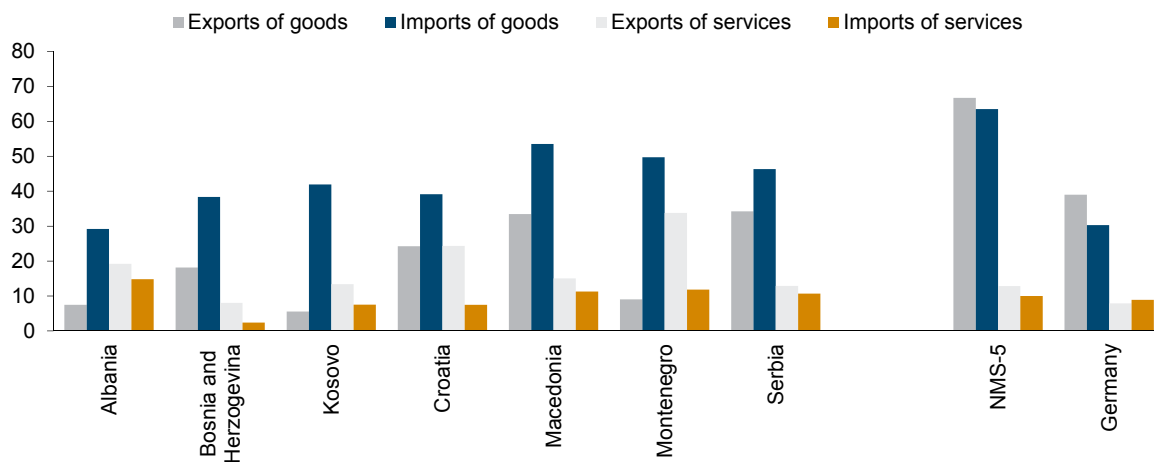
## SERVICES TRADE

The major role of the services sector in the Western Balkan region becomes visible when looking at services trade. While trade in goods shows a high deficit in the Western Balkan countries, the balance of services is positive. Figure 2 depicts the size of goods exports and imports, as well as services exports and imports in per cent of GDP. In the NMS-5 and Germany, services exports and imports account for about 10% of GDP. Services exports show approximately the same size in Bosnia and Herzegovina, Kosovo, Macedonia and Serbia but are essentially higher in Albania (19%), Croatia (24%) and Montenegro (34%). In the latter three, tourism is the major export sector due to those countries' location on the Adriatic Sea. When excluding tourism, one can find that all Western Balkan countries, except Macedonia, still exhibit a small export surplus.

Looking more closely at the structure of services exports in Figure 3, one can again see the dominant position of the tourism sector as the major exporting sector in the region. As a share in total services exports (values for the year 2013), travel accounts for 64% of total services exports of Kosovo (travel of diaspora) and 34% of Bosnia and Herzegovina (winter tourism), while in countries on the Adriatic coast the shares are as high as 70% or above (76% in Croatia). In Macedonia and Serbia, travel accounts for much lower shares (23% and 25%, respectively). In many countries of the region, transport services are

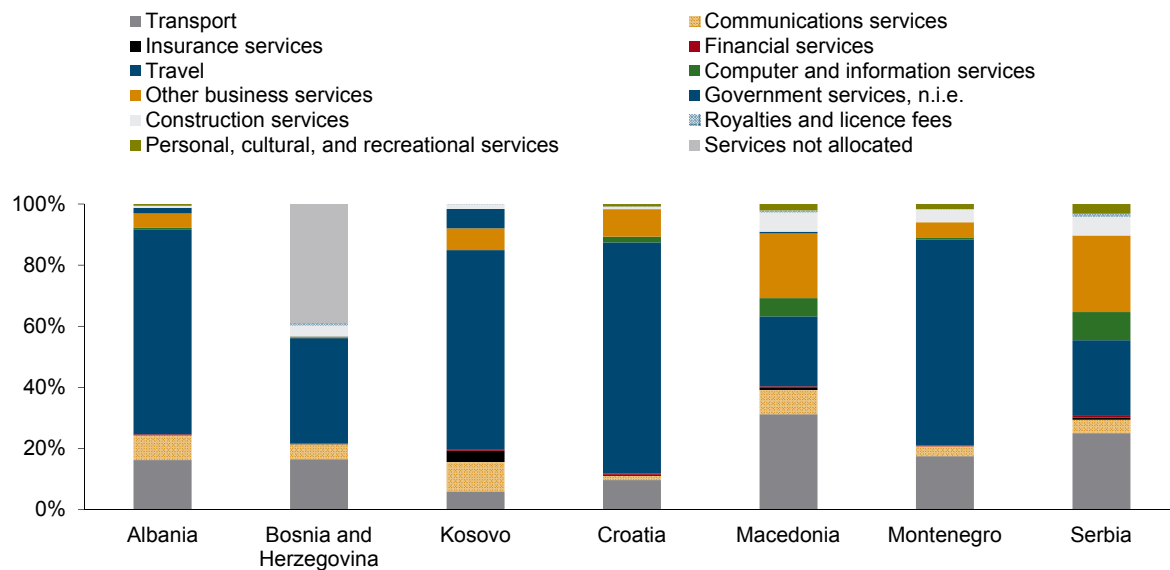
the second most important services exports. In Macedonia – a transit country – they even hold the largest position (31%), while they have the smallest share in Kosovo (6%). Also other business services, e.g. merchandising, leasing services, legal services or research & development, play a quite significant role for exports in most of the countries (except in Bosnia and Herzegovina), accounting for as much as 21% in Macedonia and 25% in Serbia. In the latter two countries, computer and information services exports are important as well (6% and 9%, respectively). Communication services exports are relatively larger in Albania, Bosnia and Herzegovina, Kosovo and Macedonia.

**Figure 2 / Trade in goods and services in % of GDP, 2015**



Source: wiiw Annual Database incorporating national and Eurostat statistics.

**Figure 3 / Structure of services exports in %, 2013**



Note: Government services, n.i.e. (not included elsewhere). Extended Balance of Payments Services Classification (EBOPS).

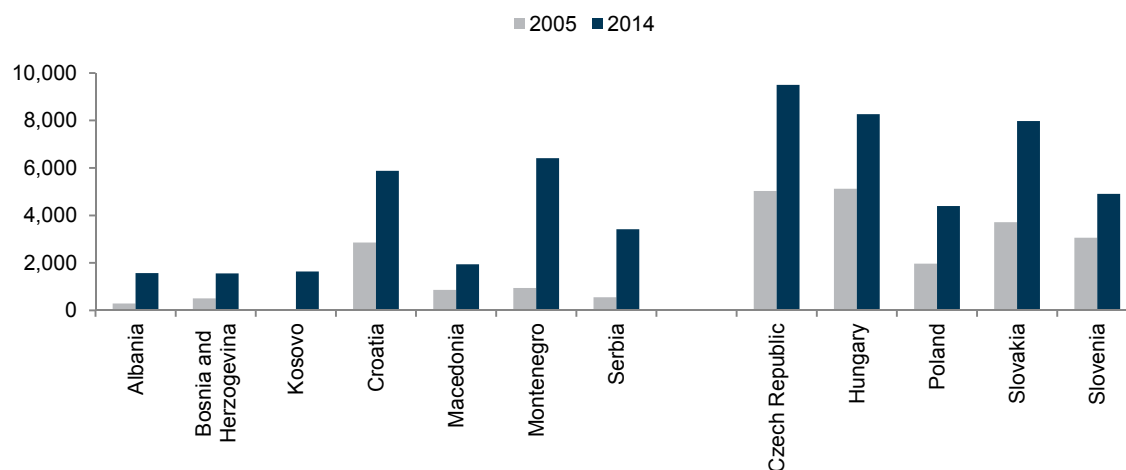
Source: UN Trade in Services Database, Kosovo National Bank.

Free trade in services is promoted under GATS (General Agreement on Trade in Services) at a global level and CEFTA (Central European Free Trade Agreement) at a regional level. Stabilisation and Association Agreements (SAA) are concluded with the EU, which are seen as a preliminary step towards EU membership. Recently the SAA between the EU and Bosnia and Herzegovina (1 June 2015) and the EU and Kosovo (1 April 2016) entered into force. Key developments are monitored annually in so-called Progress Reports by the EU where the movement of persons, services and the right of establishment (of nationals of a Member State in the territory of another Member State to take up and pursue activities as self-employed persons and to set up and manage undertakings) are regularly observed. The main measure is to align national law with the EU Services Directive. These reports testify that there is still substantial need for action in these areas.

## FOREIGN DIRECT INVESTMENT

In comparison to the new Member States, the inflow of foreign direct investment (FDI) to the Western Balkan countries was delayed (due to war) and started only in the 2000s, particularly after 2003. It is therefore not surprising that the stock of foreign direct investment is lower than in the NMS-5 (Figure 4). In 2014, FDI inward stock per capita stood at 1,500 to 2,000 EUR in Albania, Bosnia and Herzegovina and Kosovo and was higher in Serbia with 3,400 EUR per capita. Only in Croatia and Montenegro, FDI holds an important position (about 6,000 EUR per capita), with values above those in Poland and Slovenia. In Montenegro especially Russian investment in tourism plays an important role (Hunya, 2014).

**Figure 4 / Foreign direct investment inward stock, EUR per capita**



Source: wiiw FDI Database.

Looking at the distribution of FDI by activities, the share of services in FDI stock in 2014 was 67% in Albania, 72% in Croatia, 64% in Bosnia and Herzegovina and 55% in Macedonia. The size of the services sector also depends on how much inflow was directed to manufacturing (e.g. in Bosnia and Herzegovina and Macedonia) or mining (e.g. in Albania). Privatisation processes and large privatisation deals, e.g. of banks and telecommunication enterprises, also played a role for the inflow of FDI. In Albania, a large share of FDI went into transport and communication (27%), followed by financial



services (17%) and real estate and business services (9%). Only a very small share was directed towards the trade sector. In Bosnia and Herzegovina, financial services accounted for the largest share of FDI stock (22%), followed by the information and communication sector (15%). In addition, a considerable part was invested into trade services (12%). In Croatia, again financial services had the biggest share in FDI stock (26%), while real estate and business services (22%) came second. The trade sector accounted for 9%. In Macedonia, foreign direct investment is again concentrated in financial services (23%), followed by the trade sector (14%). FDI is comparably low in the sectors related to transport as well as information and communication.

## CONCLUSIONS

The services sector (including construction) is the most important economic sector in all Western Balkan countries, and its size is similar to that of neighbouring countries (accounting for 63-77% of gross value added, and 46-86% of total employment). The most important services branches in the region are trade and real estate activities. In general, the services sector contributed significantly to economic growth prior to the crisis. There were some structural imbalances favouring the construction industry and non-tradable services sectors in Croatia, Montenegro and Serbia. FDI inflows occurred relatively late, but once they did, the services sector was one of the main targets (55-72% of total FDI stock). In all countries, the financial services sector (banks) is holding the largest share in the FDI stock in the services sector (except for Albania). In most countries it is followed by the 'transport and communications' (telecom companies) and trade sectors. While foreign trade in goods shows a high deficit in the Western Balkan countries, the balance of services is positive. Services exports play a particularly important role in Albania, Croatia and Montenegro because of tourism.

The recommendations to be drawn include that, first, the services sector should be perceived as the largest sector in the economy in future strategies and not be given less attention than the industrial sector. Second, as the tourism sector is a crucial export arm in countries bordering the Adriatic Sea (Croatia, Montenegro, Albania) this potential should be promoted further. Third, the potential in higher valued added sectors – such as information technology (IT) and business-related services – should be enhanced. (The export share of the IT sector is low, except in Macedonia and Serbia.) In both areas, exports could be promoted and incentives be provided to attract FDI.

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## Trade in services: Central Asia

BY CAROLINA LENNON\*

Between 2000 and 2013, services exports increased significantly in Central Asia, growing by 14.4% annually, faster than in the rest of the world. Particularly noticeable was the performance of Kyrgyzstan, whose services exports grew by 24.3% annually, ranking number one in the world. However, given the more rapid expansion of exports of goods, mainly of natural resources, the region as a whole has shown a diversification away from services, and today services account merely for 9% of the region's exports, well below the world average (20.7%).

Two distinctive groups of countries emerge. On the one hand, we find the rich, large, and energy-exporting economies such as Kazakhstan, Turkmenistan and Uzbekistan. In this group of countries, the role played by the services sector and by services exports in the economy is smaller than in other countries with a similar level of income. In addition, over time, these countries have experienced a further diversification away from services. On the other hand, there is a group of small economies – comprising Kyrgyzstan and Tajikistan – which have outperformed in services exports and have shown a clear structural change towards growing significance of services. Finally, Central Asian economies exhibit different patterns of services exports specialisation. While more than a half of Kazakh services exports are attributable to the transport sector, Kyrgyz services exports are concentrated in travel services, and Tajik services exports are dominated by other commercial services (OCS).

### SOME CHARACTERISTICS OF CENTRAL ASIAN ECONOMIES

Central Asia is situated in a strategic geographical location between Asia and Europe and close to three of the leading emerging economies (BRICs): Russia, India and China. With a population of 62 million inhabitants, the five Central Asian landlocked economies have reached near universal literacy and are abundant in natural resources such as fuels (oil and natural gas) and gold.

**Table 1 / Real economic growth in Central Asia, in % (2000-2013)**

	Rank (World)	Growth rate (p.a.)
Turkmenistan	9	8.3
Tajikistan	11	7.7
Kazakhstan	17	7.5
Uzbekistan	22	7.0
Kyrgyzstan	80	4.3
Central Asia		7.4
<b>World</b>		<b>2.5</b>

Note: Annual growth rate calculated as logarithmic compounded return.

Source: World Development Indicators, accessed in April 2016.

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Among Central Asian economies, Kazakhstan is the richest country. Although it accounts for slightly more than a quarter of the Central Asian population, its economy accounts for half of the region's Gross Domestic Product (GDP), for two thirds of the region's exports of services and for three quarters of the region's exports of goods. In addition, Kazakhstan hosts 85% of the region's total incoming foreign direct investment. Another important player in the Central Asian region is Uzbekistan. Concentrating 46% of the inhabitants, Uzbekistan is the most populated country and the second largest economy in the region, accounting for one third of Central Asian GDP. At the other end of the spectrum, the poorest countries in the region are Tajikistan and Kyrgyzstan, which account together for 20% of the population, but only for 5% of GDP.

After a significant economic downturn during the 1990s, growth in Central Asian economies accelerated to historical levels, reaching about 7.4% annually between 2000 and 2013 and putting Central Asian economies among the fastest growing economies in the world (Table 1). Growth in the region has mainly been propelled by high prices for commodities such as oil and natural gas and by increasing inward foreign direct investment. However, as a result of the global financial crisis, growth rates decelerated by half in 2009. This highlights the need to find ways to ensure the resilience of the economies in the region, and to reduce dependence on the commodity sector. Therefore, the need arises for analysing the competitiveness of the services sector and services trade and the potential for growth in the sector.

## MODES OF SUPPLY

The inclusion of services in the Uruguay Round and the signature of the General Agreement on Trade in Services (GATS) in 1994 made it necessary to find a definition of trade in services. As indicated by Mattoo, Stern and Zanini (2008), 'the GATS took an unusually wide view of services trade, since the conventional definition of trade – where a product crosses the frontier – would miss out on a whole range of international transactions which are not tradable'. Consequently, the definition of trade in services was extended to include four different modes of supply. Besides the conventional mode (cross-border trade, mode 1), the definition also includes movements of consumers to the countries where services are provided (mode 2), commercial presence of services enterprises in the countries where services are consumed (mode 3) and, finally, temporary movement of workers (mode 4). That is, the definition of trade in services involves the whole globalisation of services, covering all modes of services internationalisation, from movements of products (mode 1, trade in the conventional sense), through movements of factors (mode 3 and 4), to movements of consumers (mode 2).

With respect to the data on services trade in Central Asia, Turkmenistan does not report data for any of the four modes of supply. In the case of Uzbekistan, only figures for total trade in services from the balance of payments statistics (BoP) are available. The BoP statistics cover services that can be mainly classified into modes 1 and 2. More information exists for Kazakhstan, Kyrgyzstan and Tajikistan, for which BoP statistics with some sectoral breakdown are available. With respect to the data on mode 3 (i.e. services FDI stock), only Kazakhstan collects this information consistently.<sup>1</sup> Finally, none of the countries gathers information on mode 4. Given the limitation of the data, the present analysis focuses on the trends in services trade obtained from the balance of payment statistics.

<sup>1</sup> Data on FDI stocks by sectors can be accessed on the website of the central bank of Kazakhstan. The central bank of Kyrgyzstan also publishes data on FDI by sector in its monthly balance of payments bulletin. However, this information only relates to net flows – and without a clear distinction between inward and outward flows these data cannot, unfortunately, be used in this report.

## TRADE IN SERVICES IN CENTRAL ASIAN ECONOMIES

Central Asian exports of commercial services amounted to almost USD 9.6 billion in 2013, and grew at an annual rate of 14.4% between 2000 and 2013, faster than world exports of services (8.7%). Although the region's share in world exports has increased, it still remains very low, accounting only for 0.21% of world exports of commercial services in 2013.<sup>2</sup> In addition, the services share in exports in the region is not only relatively low, but also declining. Indeed, even though the region has experienced a rapid expansion of services exports, goods exports have grown faster. As a result, the region's services share in exports slightly declined from 10% in 2000 to 9% in 2013. This is contrary to the global trend, where the share of services in global exports increased from 19.7% to 20.7% over the same period of time.

Yet, as shown in Table 2, exports of commercial services have expanded faster than the world average in all Central Asian economies. Growing by 24.3% annually, services exports in Kyrgyzstan were the most dynamic. Indeed, between 2000 and 2013, Kyrgyzstan was ranked number one in the world with respect to its growth rate in services exports. The second most dynamic country was Tajikistan, whose exports of commercial services grew at an annual rate of 18.7%, ranking number 4 in the world. It was followed by Kazakhstan and Uzbekistan with annual growth rates of 13.2% and 13.1%, respectively.

**Table 2 / Annual growth rate of Central Asian exports, in % (2000-2013)**

	Goods		Commercial services		
	Rank	Growth rate (p.a.)		Rank	Growth rate (p.a.)
Kazakhstan	5	17.4	Kyrgyz Republic	1	24.3
Uzbekistan	49	11.5	Tajikistan	4	18.7
Kyrgyz Republic	60	10.5	Kazakhstan	28	13.2
Tajikistan	130	3	Uzbekistan	29	13.1
Central Asia		15.8	Central Asia		14.4
<b>World</b>		<b>8.3</b>	<b>World</b>		<b>8.7</b>

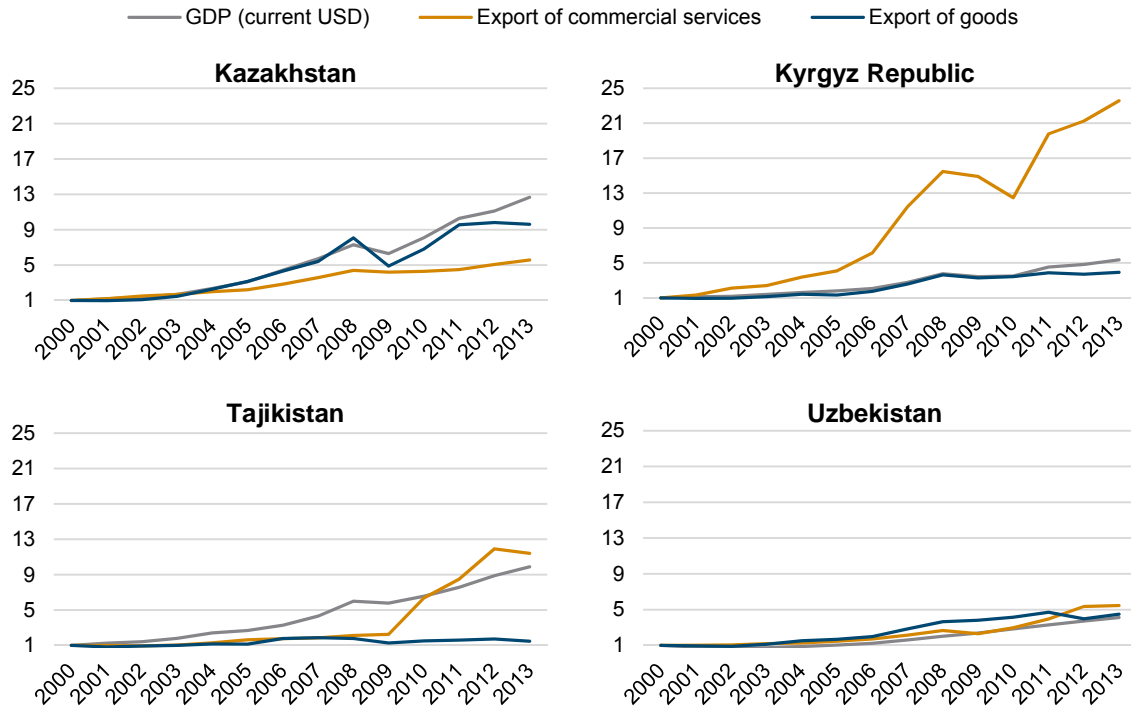
Notes: Annual growth rate calculated as logarithmic compounded return. Commercial services = total services – government services. Ranking over 138 countries with information on merchandise and services exports for 2000 and 2013. No data available for Turkmenistan.

Source: UNCTADstat online, accessed April 2016.

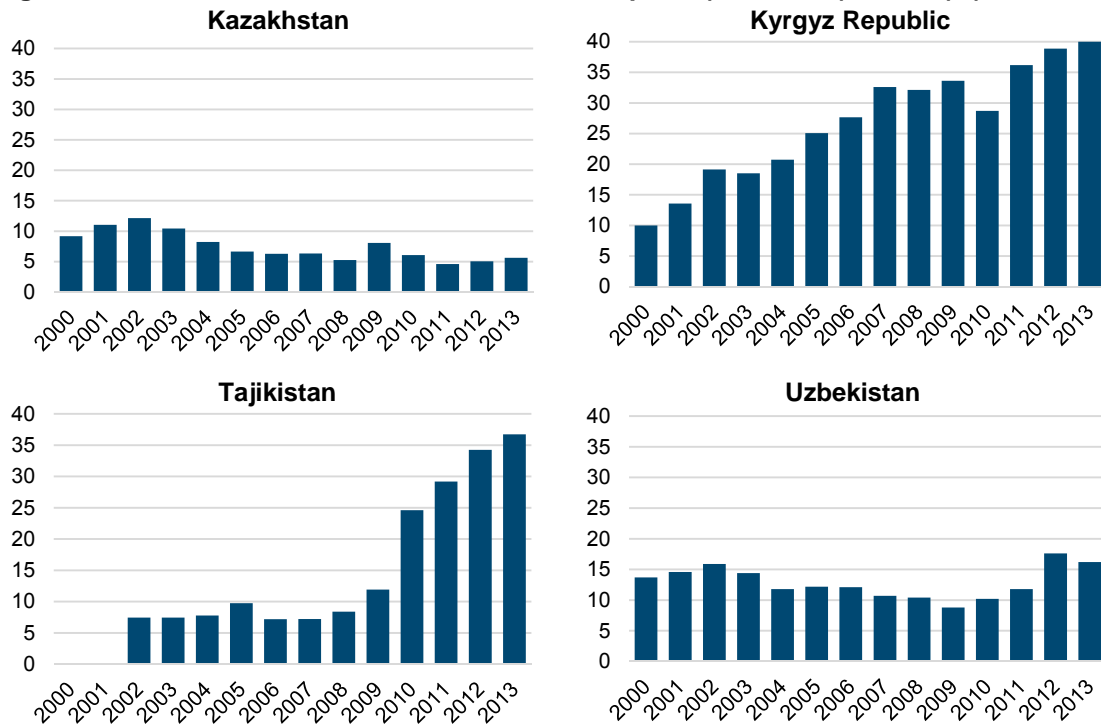
When looking at the trends in exports of commercial services over the period 2000-2013 (Figure 1), one can observe that the global financial crisis of 2008/2009 had a diverse effect on the expansion of commercial services exports among Central Asian economies. While the crisis strongly hit Kyrgyz services exports, which fell significantly between 2009 and 2010, services exports of Tajikistan have grown significantly since 2009. At the same time, growth in services exports has remained relatively stable in Uzbekistan and Kazakhstan.

<sup>2</sup> Since no information on services trade for Turkmenistan is available, this country was not included in the calculation.

**Figure 1 / Trends in GDP, exports of commercial services and goods (2000-2013), index (1 = 2000)**



**Figure 2 / Share of commercial services in total exports (2000-2013), share (%)**



Note: Commercial services = total services – government services.

Source: UNCTADstat, accessed in April 2016.

In small Central Asian economies such as Kyrgyzstan and Tajikistan, growth in services exports outpaced significantly that of goods exports. As a result, the export share of services strongly increased to a high of 40% in Kyrgyzstan and 37% in Tajikistan by the end of the period (Figure 2). In Kazakhstan, by contrast, the services share fell from 9.2% in 2000 to 5.6% in 2013, while remaining relatively stable in Uzbekistan. It is important to bear in mind that the declining share of services in Kazakhstan was not the result of a poor performance of Kazakh services exports, which grew faster than global services exports as shown in Table 2, but rather of an outstanding performance of Kazakh merchandise exports, which expanded by 17.4% annually during the period.

Despite the impressive expansion of services exports in Kyrgyzstan, the country is not the main services exporter in the region. As of 2013, Kazakhstan was the biggest exporter of commercial services, accounting for slightly more than half of services exports of the region, followed by Uzbekistan (26%), Kyrgyzstan (14%), and finally by Tajikistan with only 7%.

The remarkable growth of Kyrgyzstan's services exports was driven by travel services (Figure 3). Travel services exports in the country soared to a historical high in 2013, reaching around 55 times their level in 2000. Except for Kyrgyzstan, growth of services exports in the region was mainly the result of a rapid expansion of other commercial services. Particularly noticeable is the performance of Tajikistan in this respect; by the end of the period, other commercial services exports in this country had reached 70 times their level in 2000. In fact, as shown in the right panel of Figure 3, Tajikistan has drastically changed its export structure from one heavily concentrated in transport, which accounted for around 86% in 2000, to a specialisation in other commercial services, absorbing 76% of Tajik services exports today. As such, by 2013 each of the Central Asian economies specialised in a different services category. While Kyrgyzstan shows a clear specialisation towards travel services and Tajikistan towards other commercial services, Kazakh services exports concentrate in the transport sector, with 80% of the Kazakh transport exports being related to freight transport in 2013.<sup>3</sup>

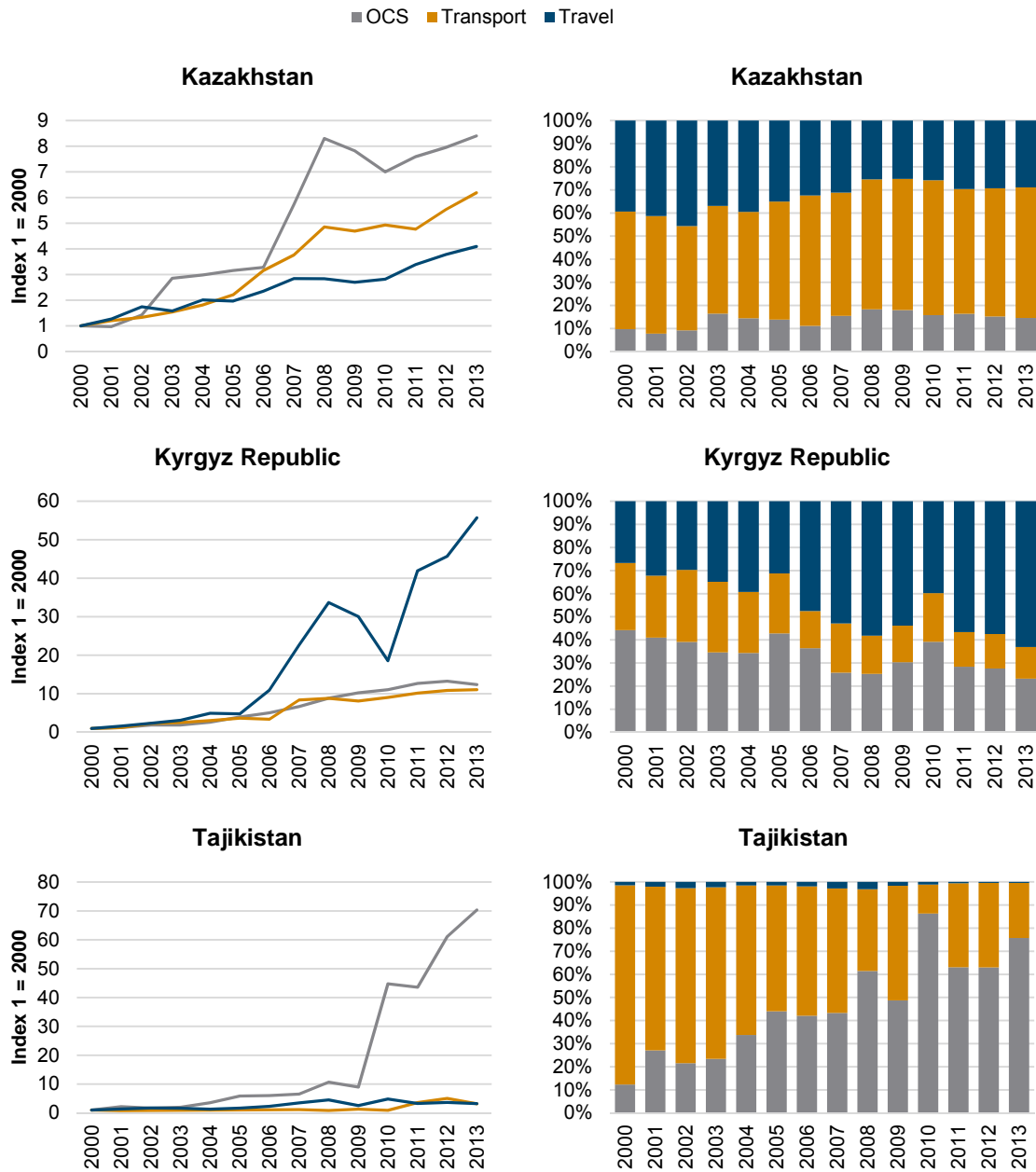
A closer look at other commercial services exports shows that in all Central Asian economies other business services exports were responsible for the expansion in the category of other commercial services. Today, other business services account for the bulk of other commercial services, absorbing more than 60% of other commercial services exports in Kazakhstan and more than 50% in Kyrgyzstan and Tajikistan.

Finally, with respect to the trade balance, it is apparent that oil exporters and big economies such as Kazakhstan and Uzbekistan have run trade surpluses in their merchandise trade account, while small economies have run large trade deficits. Although Kazakhstan, Kyrgyzstan and Tajikistan tend to run services trade deficits, their deficits tend to be small and seldom exceed 10% of their GDP. Uzbekistan is the only country running a services trade surplus. Unfortunately, we do not have detailed information on Uzbek services exports to explain this phenomenon. Within commercial services, Kyrgyzstan and Tajikistan went from running a trade deficit in other commercial services to having trade surpluses by the end of the period. This is not the case for Kazakhstan which, although running relatively balanced trade accounts for transport and travel services, has shown large deficits in other commercial services during the whole period of analysis. Finally, Kyrgyzstan has reported trade surpluses in travel services, while trade deficits for both travel and transport services are worsening in Tajikistan.

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<sup>3</sup> Uzbekistan provides data only on total services trade.

**Figure 3 / Exports of other commercial services (OCS), transport and travel, (2000-2013), indices (2000 = 1) and shares**



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# Credit growth in Slovakia: cause for concern?

BY DORIS HANZL-WEISS

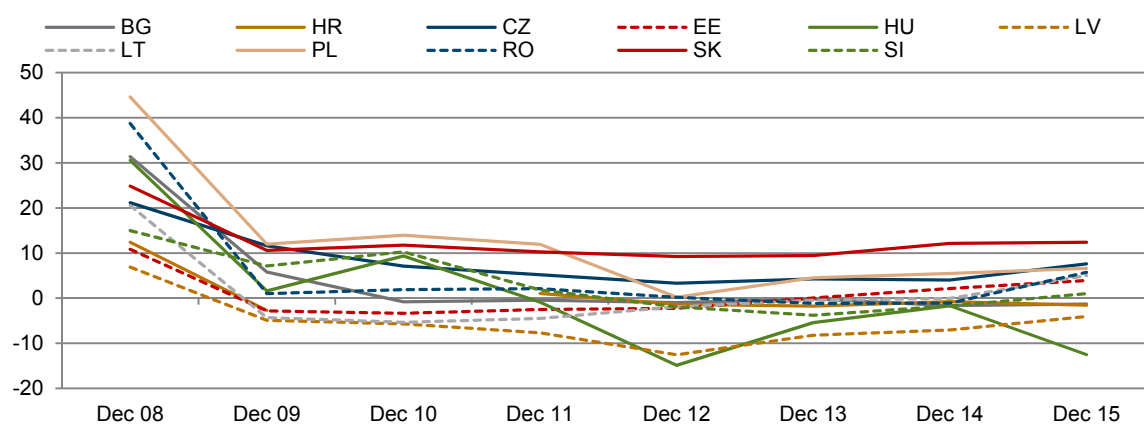
## INTRODUCTION

In October 2014, the National Bank of Slovakia (NBS) issued a recommendation<sup>1</sup> specifying conditions under which household loans may be granted (e.g. checking of customers, more prudence requirements) as a response to the high growth of loans to households in Slovakia, which is amongst the highest in the EU and the Central and Eastern European countries (see ECB, 2015). In fact, between 2009 and 2013, loans to households grew by 10% annually, and accelerated even further in 2014 and 2015.

## SLOVAKIA'S HOUSEHOLD CREDIT GROWTH ABOVE REGIONAL AVERAGE

Excessive credit expansion, i.e. credit bubbles (expansion which is not in line with fundamentals) might pose a risk to a country's financial and macro stability and is thus monitored with great care in the Macroeconomic Imbalance Procedure (MIP) of the European Commission. After strong credit expansion during the first half of the 2000s, growth rates of bank loans decreased as a consequence of the economic and financial crisis in 2009. In some other countries of the region, growth rates also dropped significantly and became even negative in that year (see Figure 1). By comparison, growth of household credits in Slovakia did not decrease as strongly as in the regional peers. Growth rates hovered around 10% between 2009 and 2012, and climbed to 13% in 2014 and 2015.

**Figure 1 / Bank loans to households, change in % against preceding year**

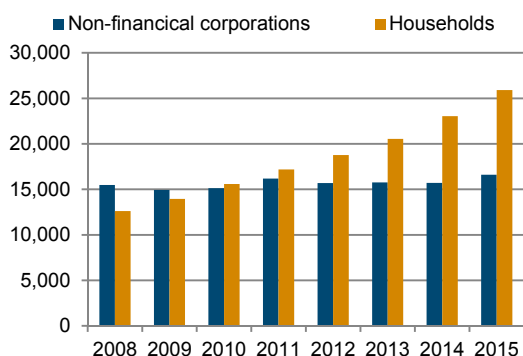
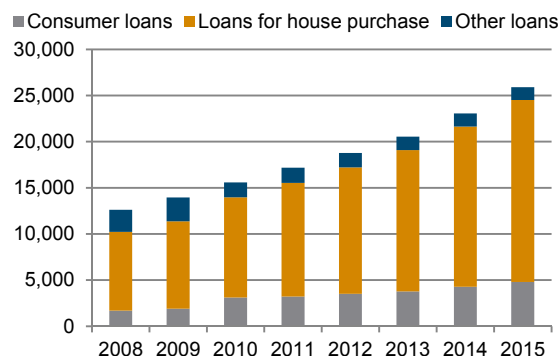


Notes: BG, CZ, RO, SK: including non-profit institutions serving households (NPISHs). HR: since December 2010 ESA'10 methodology; since December 2011 including money market funds.

Source: National Bank statistics, wiiw calculations.

<sup>1</sup> NBS Recommendation No 1/2014 of 7 October 2014 in the area of macroprudential policy on risks related to market developments in retail lending, effective from 1 March 2015 and due to be enacted in law in 2016.



**Figure 2 / Bank loans in Slovakia, in EUR million****Bank loans to non-financial private sector****Bank loans to households**

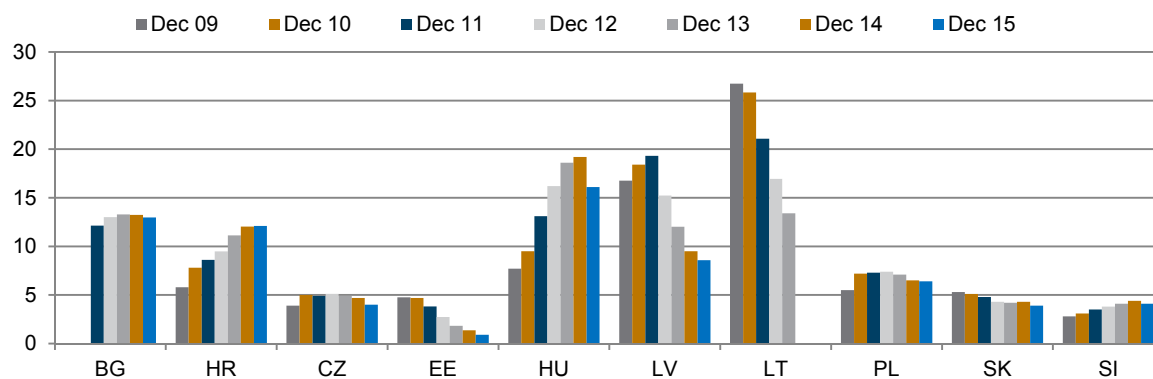
Source: National Bank of Slovakia.

Regarding the structure of non-financial private sector loans in Slovakia as shown in Figure 2, the loan volume to non-financial corporations (NFCs) remained nearly constant between 2008 and 2015, whereas that to households doubled during the same period. In 2015, loans for house purchase (purchase of house or flat) accounted for 76% of household bank loans, while those for consumer loans and other loans made up 19% and 5%, respectively. The two main reasons cited for this rapid increase are historically low interest rates as well as growing disposable household incomes (see NBS data). Interest rates have been falling since December 2008 and the NBS (May 2015) reports that in the period February 2014 to February 2015 interest rates on both new housing loans and for the outstanding amount of loans 'fell more than in any other euro area country'. Other reasons include strong competition by banks for customers (as their interest income decreased), relatively relaxed credit standards (even after the issuing of the recommendation for tighter standards), a good situation on the labour market (i.e. declining unemployment), and state interest rate subsidies for young borrowers as well as declining or relatively stable residential property prices.

In order to discern possible implications for the country's financial and macro stability, we take a look at selected indicators. Concerning the country's financial stability, the Slovak banking sector, which is dominated by foreign-owned banks<sup>2</sup>, appears to be stable and in good shape. The largest banks, accounting for 70% of all banks' assets (IMF, 2011), are: Slovenska Sporitelna (owned by Erste Group Bank, Austria), VUB Banka (Intesa San Paolo, Italy), Tatra Banka (Raiffeisen Zentralbank, Austria) and CSOB Slovakia (KBC Bank, Belgium). The capitalisation of banks is at a sound level, the overall capital adequacy ratio stands at about 17.8% (for the year 2015), and the leverage ratio at 8.4% (NBS, May 2016). The share of non-performing loans of households is very small in Slovakia and has been declining for years: It fell from above 5% at the end of 2009 to below 4% at the end of 2015 (see Figure 3). The share of non-performing loans in the region is typically higher in those countries which have had high shares of foreign-currency loans (Croatia, Hungary, Latvia, Lithuania, Romania), while in Slovakia there are practically no foreign-currency loans (in January 2009 Slovakia introduced the euro). Looking at macro vulnerabilities, one fact posing a certain risk is that loans to households in per cent of GDP have risen quite strongly. However, volumes are still low and currently amount to 33%. This is about the same level as in the Czech Republic and below that of Poland (see Figure 4).

<sup>2</sup> The share of foreign ownership in the Slovak banking sector was 99% in 2008 and fell to 92% in 2011.

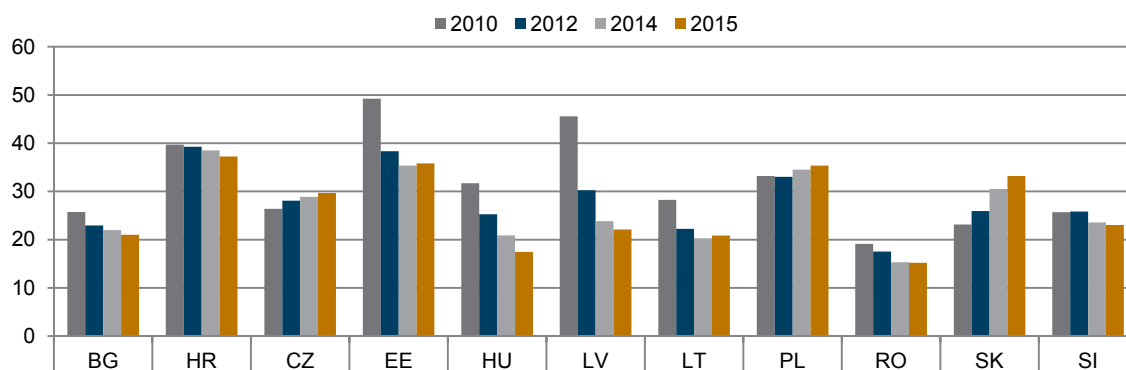
**Figure 3 / Share of non-performing loans of households in % of total household loans, end of period**



Notes: EE, LT: loans that are more than 60 days overdue.

Source: National Bank statistics, wiiw own calculations.

**Figure 4 / Stock of loans to households in % of GDP, 2010-2015**



Notes: BG, CZ, RO, SK – including NPISHs (S15). HR 2010 ESA'10 methodology; from December 2011 including money market funds.

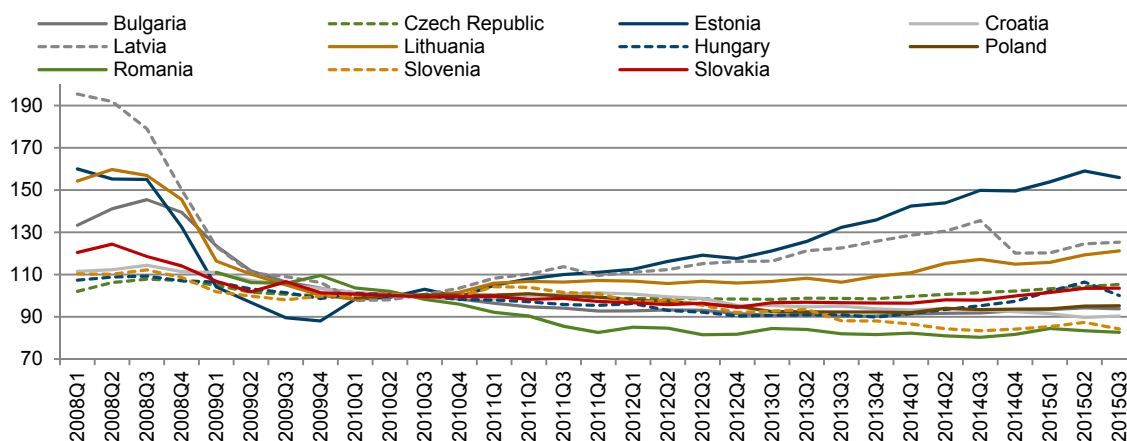
Source: National Bank statistics, wiiw own calculations.

## EFFECTS ON HOUSE PRICES

In the region, house prices experienced dramatic rises in the first half of 2000s, which were in fact above fundamentals and thus implied imbalances in the residential property market (see Beckmann et al., 2015; Huynh-Olesen et al., 2013; European Commission, 2014). The financial crisis brought an end to this upsurge and house prices fell dramatically thereafter. Slovakia also saw a house price bubble before the crisis, which burst at the end of 2008 (see Figure 5). Between 2009 and 2012 house prices slightly declined in Slovakia and remained almost constant thereafter. Only since the last quarter of 2014 did they start to rise somewhat again (by about 5%). Deflated house prices, monitored in the Macroeconomic Imbalance Procedure, rose by 5.5% in Slovakia in 2015, below but close to the alert threshold of 6%. Thus, there seem to be no imbalances in the Slovak property market at the moment, and strong credit growth to households has had only some effect on house prices recently. Looking at the type of residential property, it was mainly flats whose prices increased while those of houses remained constant. House prices and dynamics differed across Slovak regions. As can be expected,

prices were above the national average, and also showed the strongest increases, in the Bratislava region. Between Q4 2014 and Q4 2015, the second highest prices were reported for the Košice region, located in the less prosperous East of Slovakia, and the lowest for the Nitra region.

**Figure 5 / House price index, 2010 = 100**



Note: The Eurostat House Price Index (HPI) captures price changes of all residential properties purchased by households (flats, detached houses, terraced houses, etc.), both new and existing, independently of their final use and their previous owners. Only market prices are considered, self-built dwellings are therefore excluded. The land component is included. Source: Eurostat.

## EFFECTS ON RESIDENTIAL CONSTRUCTION

The Slovak construction sector recovered from a six-year decline only in 2015. It now holds about 9% of total gross value added, which is about double the size of that in other Central and Eastern European countries. The construction sector changed from a very even structure in 2005 (one third each held by building construction, civil engineering<sup>3</sup> and specialised construction activities<sup>4</sup>) to being dominated by 'specialised construction activities' (about half of construction value added) in 2013, while construction of buildings accounted for 22% and civil engineering for 23%. Overall, the recovery of the construction sector in 2015 was due to a huge production increase of civil engineering works, which surged by 54%. This was the result of the speeding-up of EU structural spending at the end of the drawing period of the 2007-2013 financial framework. However, also the buildings segment showed an upward movement for the first time by 6%. What is more interesting, building permits were already increasing in 2013 (+14%) and 2014 (+9%), with a further upward trend in 2015 (+23%), pointing to an increase in residential construction later on (see Figure 6).

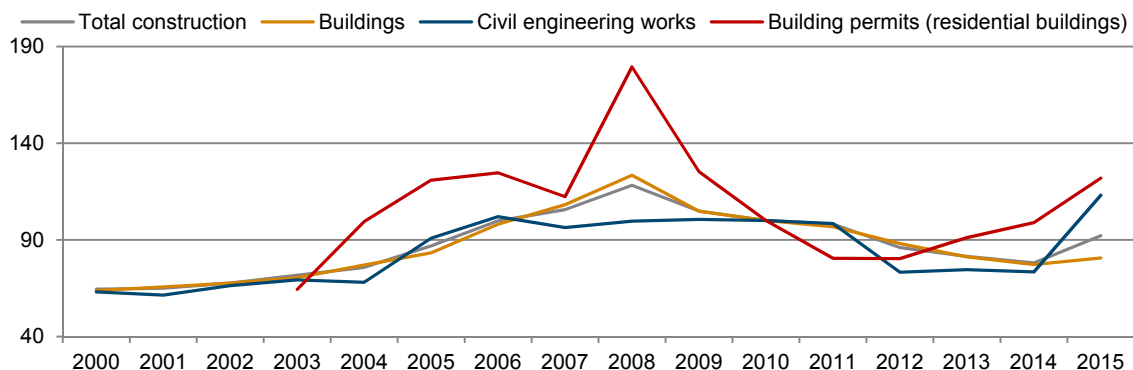
Housing bubbles may also be detected by looking at the share of gross fixed capital formation in residential construction in per cent of GDP. In Slovakia, there was no boom-bust pattern in the 2000s, as this share was decreasing over a long period. Residential construction declined from 4.4% in 2000 to 2.4% in 2006, was flat in the two subsequent years and saw only a small increase in 2009. Also in 2014

<sup>3</sup> Including construction of roads and railways, utility projects and other civil engineering projects.

<sup>4</sup> Including demolition and site preparation, electrical, plumbing and other construction installation activities, building completion and finishing and other specialised construction activities.

and 2015 this share was falling; it now accounts for 2.5%. For all countries of the region this share is well below the EU average, which was at 4.6% in 2015.

**Figure 6 / Construction production index and building permits in Slovakia, 2010=100**



Source: Eurostat.

## CONCLUSIONS

Slovakia has registered above-average growth in household credits after the financial crisis; also the recently introduced recommendation of the National Bank of Slovakia could not dampen this trend. Effects on house prices and on residential construction followed with a time lag. The European Commission (see also Harvan et al., 2015), evaluating the situation through the Macroeconomic Imbalance Procedure, sees no imbalances at the moment. Financial and macro stability are currently not at risk. However, trends in household credit growth keep pointing upwards – due to the favourable situation in the labour market (including falling unemployment), rising wages that increase the income of households, and a persistent environment of low interest rates. Thus, there are good reasons to finance housing by buying rather than by renting. Against this background, further monitoring seems necessary.

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## The editors recommend for further reading\*

### Migration – Focus: Refugees

Thomas Piketty on Europe's potential to absorb refugees: <http://www.bbc.com/news/business-35982528>

On do-it-yourself border policing in Bulgaria: <http://www.economist.com/news/europe/21697139-rights-groups-demand-bulgarias-government-bring-illegal-border-policing-groups-under>

The tempting trap of Fortress Europe:  
<http://carnegieeurope.eu/2016/04/21/tempting-trap-of-fortress-europe/ixdx>

On Anti-refugeeism in Hungary: <http://bostonreview.net/books-ideas/holly-case-gyorgy-konrad-imre-kertesz-viktor-orban-hungary-anti-refugeeism>

### Trade – Focus: TTIP & TPP

Alan Blinder in *The Wall Street Journal* on 'five truths' about trade:  
<http://www.wsj.com/articles/five-big-truths-about-trade-1461280205>

Krugman on trade and regulation: <http://krugman.blogs.nytimes.com/2016/04/20/101-boosterism/>

State of play in the Trans-Atlantic Trade and Investment Partnership (TTIP) negotiations:  
<http://trade.ec.europa.eu/doclib/html/154477.htm> and Cecilia Malmström's reaction to recent media outlets reporting about leaked secret negotiation papers:  
[https://ec.europa.eu/commission/2014-2019/malmstrom/blog/negotiating-ttip\\_en](https://ec.europa.eu/commission/2014-2019/malmstrom/blog/negotiating-ttip_en)

A Policy Brief of the Centre for European Reform on TTIP, global standards and multilateralism:  
<http://www.cer.org.uk/publications/archive/policy-brief/2016/shaping-21st-century-trade-ttip-global-standards-and>

Peter Petri and Michael Plummer on the Trans-Pacific Partnership:  
<http://voxeu.org/article/economics-tpp-winners-and-losers>

An assessment of an EU-China Free Trade Agreement by the Centre for European Policy Studies:  
<https://www.ceps.eu/publications/tomorrow%E2%80%99s-silk-road-assessing-eu-china-free-trade-agreement>

Neil Irwin in *The New York Times* on Donald Trump's trade scorecard:  
<http://www.nytimes.com/2016/03/28/upshot/the-trade-deficit-isnt-a-scorecard-and-cutting-it-wont-make-america-great-again.html>

### Ukraine

EBRD welcomes progress from Ukraine's Business Ombudsman Council:  
<http://www.ebrd.com/cs/Satellite?c=Content&cid=1395249953177&d=Tablet&pagename=EBRD%2FContent%2FContentLayout>

On the Minsk-2 Agreement: <http://www.the-american-interest.com/2016/04/11/what-minsk-means/>

Leszek Balcerowicz has become President's Representative in Government:  
<http://www.president.gov.ua/en/news/lyeshek-balcerovich-stav-predstavnikom-prezidenta-v-kabineti-37021>

\* Recommendation is not necessarily endorsement. The editors are grateful to Vladimir Gligorov, Peter Havlik, Simona Jokubauskaitė and Isilda Mara for their contributions.

# Monthly and quarterly statistics for Central, East and Southeast Europe

The monthly and quarterly statistics cover **20 countries** of the CESEE region. The 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
GDP	Gross Domestic Product
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 <sup>6</sup> )
bn	billion (10 <sup>9</sup> )

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.

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**wiiw Annual Database**



**wiiw Monthly Database**



**wiiw FDI Database**

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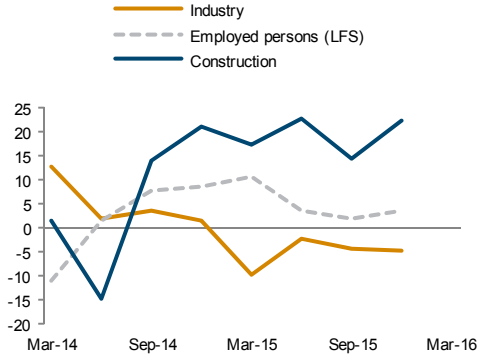
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Starting from January 2014, we offer an additional service package that allows you to access all databases – a Premium Membership, at a price of € 2,300 (instead of € 2,000 as for the Basic Membership). Your usual package will, of course, remain available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

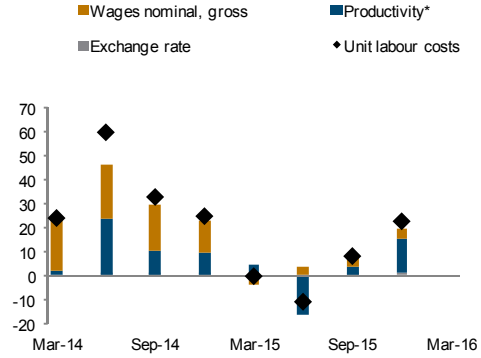
For more information on database access for Members and on Membership conditions, please contact Ms. Gabriele Stanek ([stanek@wiiw.ac.at](mailto:stanek@wiiw.ac.at)), phone: (+43-1) 533 66 10-10.

# Albania

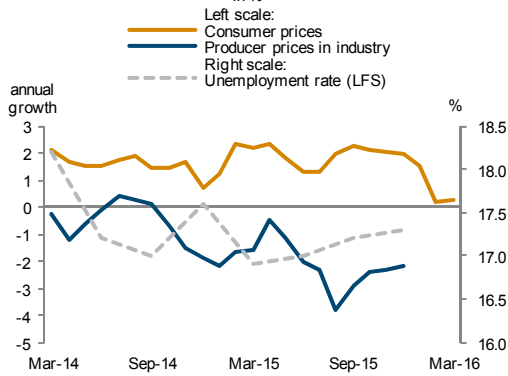
**Real sector development**  
annual growth rate in %



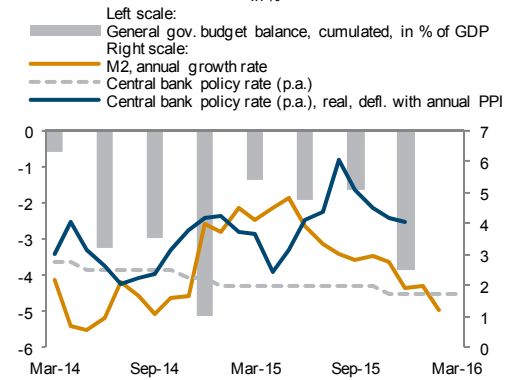
**Unit labour costs in industry**  
annual growth rate in %



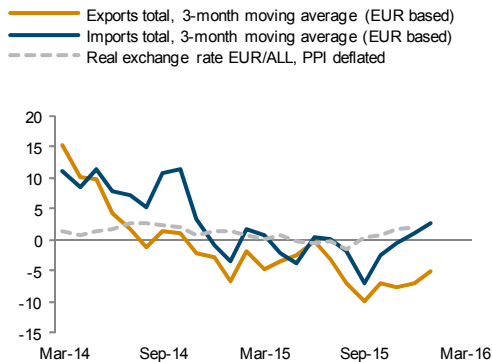
**Inflation and unemployment**  
in %



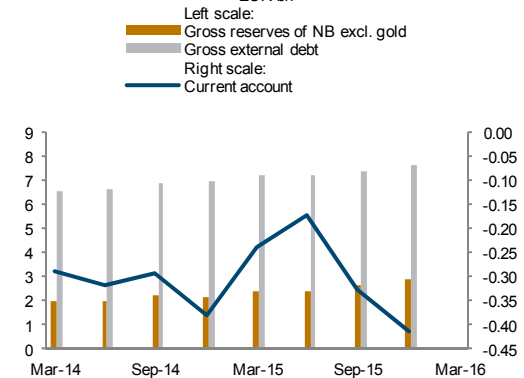
**Fiscal and monetary policy**  
in %



**External sector development**  
annual growth rate in %



**External finance**  
EUR bn



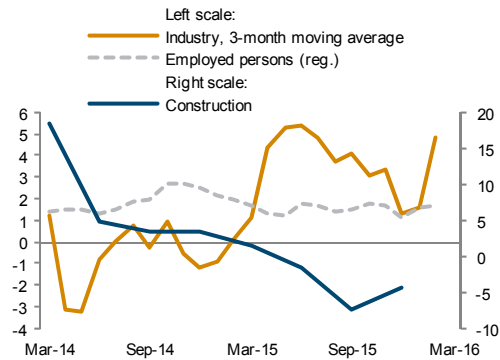
\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

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>

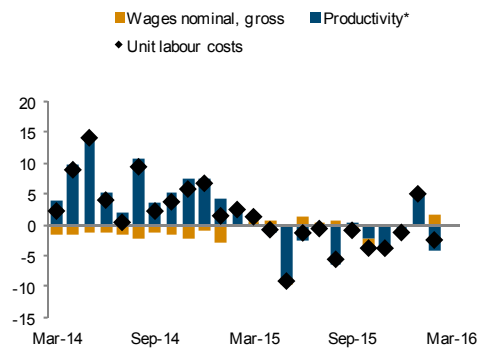


# Bosnia and Herzegovina

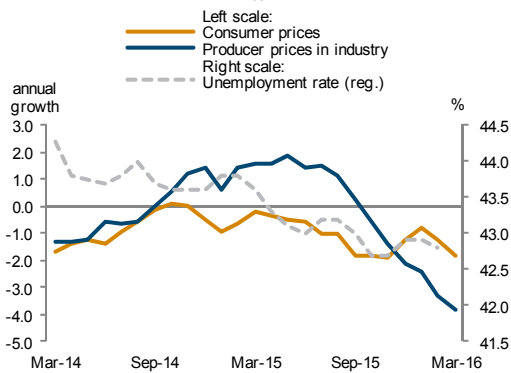
**Real sector development**  
annual growth rate in %



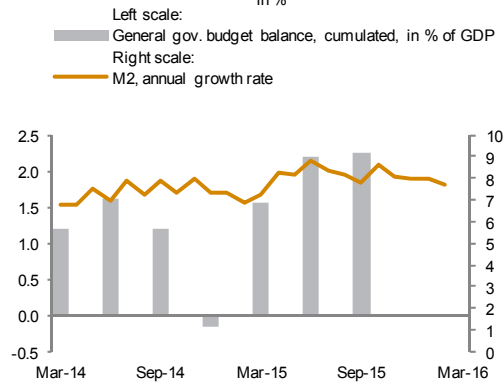
**Unit labour costs in industry**  
annual growth rate in %



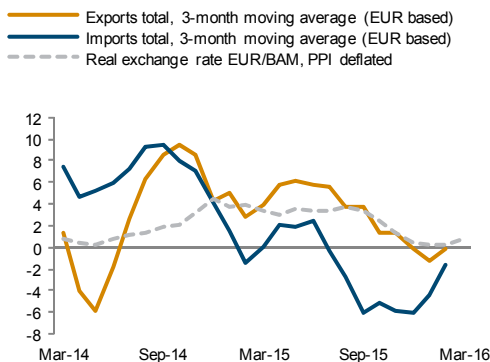
**Inflation and unemployment**  
in %



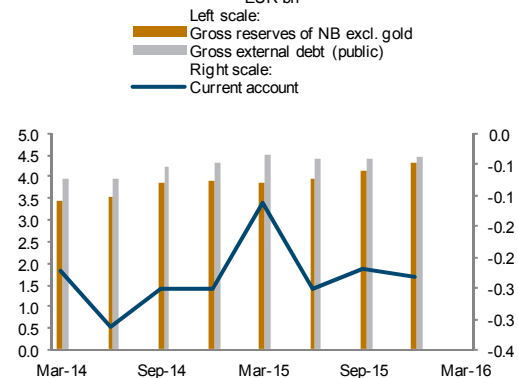
**Fiscal and monetary policy**  
in %



**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:

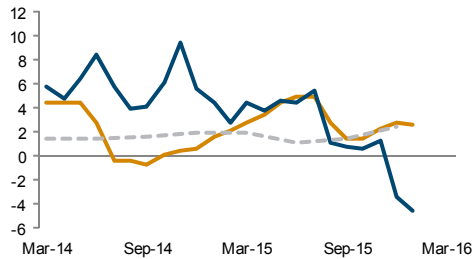
<http://data.wiiw.ac.at/monthly-database.html>

# Bulgaria

## Real sector development

annual growth rate in %

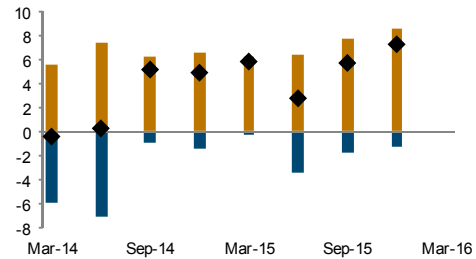
- Industry, 3-month moving average
- Construction, 3-month moving average
- - - Employed persons (LFS)



## Unit labour costs in industry

annual growth rate in %

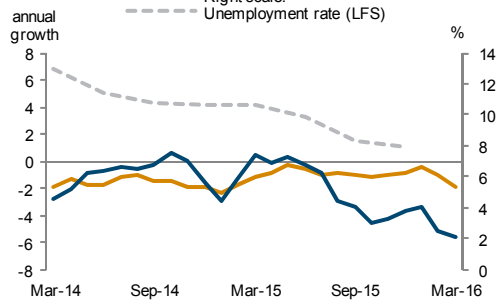
- Wages nominal, gross
- Productivity\*
- ◆ Unit labour costs



## Inflation and unemployment

in %

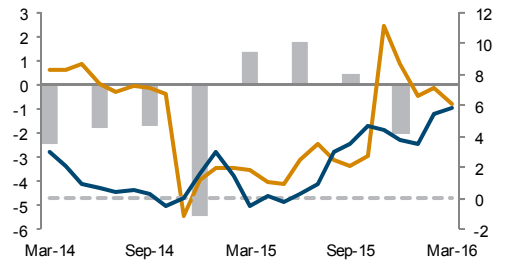
- Left scale: Consumer prices (HICP)
- Producer prices in industry
- Right scale: Unemployment rate (LFS)



## Fiscal and monetary policy

in %

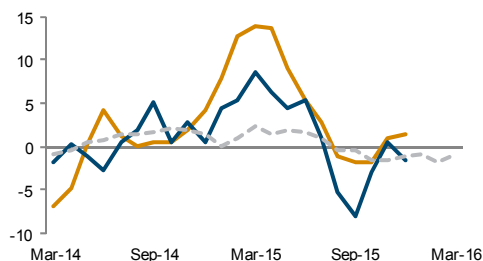
- Left scale: General gov. budget balance, cumulated, in % of GDP
- Right scale: Broad money, annual growth rate
- Central bank policy rate (p.a.)
- Central bank policy rate (p.a.), real, defl. with annual PPI



## External sector development

annual growth rate in %

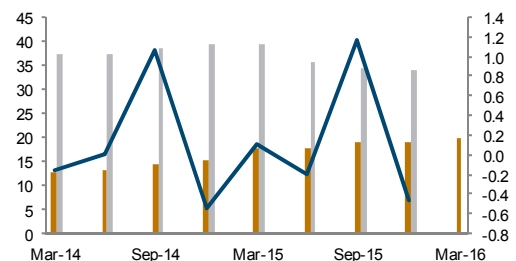
- Exports total, 3-month moving average (EUR based)
- Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/BGN, PPI deflated



## External finance

EUR bn

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



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

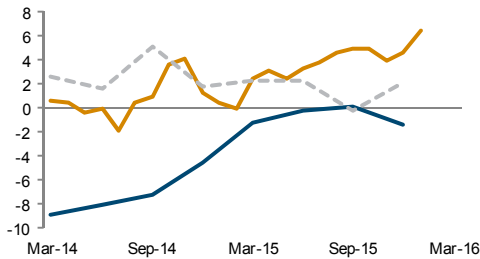
<http://data.wiiw.ac.at/monthly-database.html>

# Croatia

## Real sector development

annual growth rate in %

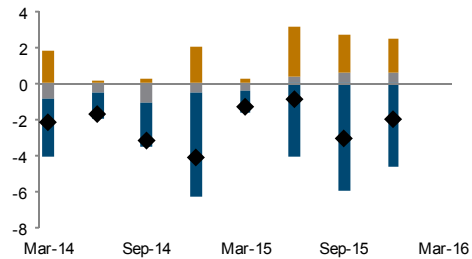
- Industry, 3-month moving average
- Construction, 3-month moving average
- - - Employed persons (LFS)



## Unit labour costs in industry

annual growth rate in %

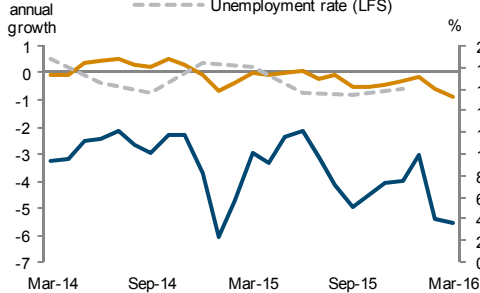
- Wages nominal, gross
- Productivity\*
- Exchange rate
- ◆ Unit labour costs



## Inflation and unemployment

in %

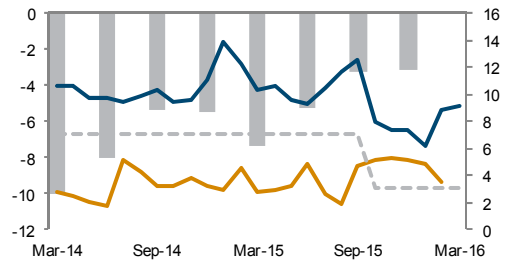
- Left scale: Consumer prices (HICP)
- Producer prices in industry
- Right scale: Unemployment rate (LFS)



## Fiscal and monetary policy

in %

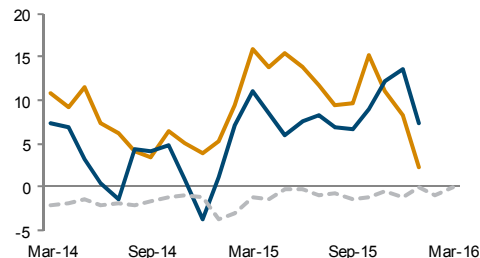
- Left scale: General gov. budget balance, cumulated, in % of GDP
- Right scale: Broad money, annual growth rate
- Central bank policy rate (p.a.)
- Central bank policy rate (p.a.), real, defl. with annual PPI



## External sector development

annual growth rate in %

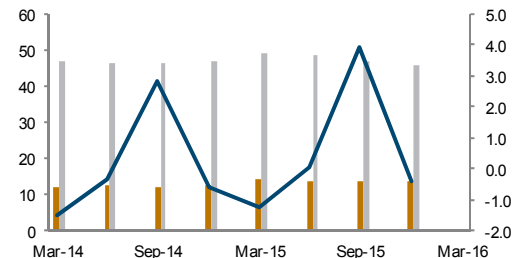
- Exports total, 3-month moving average (EUR based)
- Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/HRK, PPI deflated



## 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.

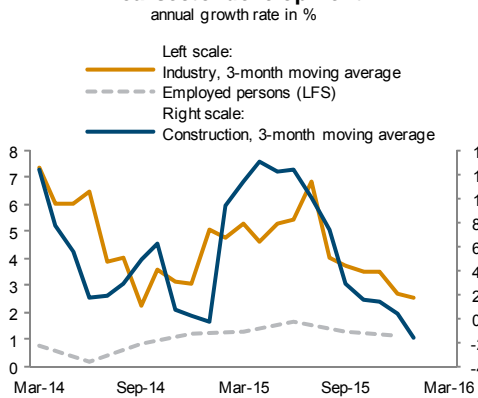
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

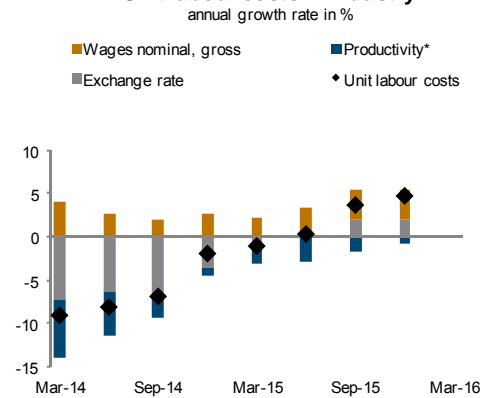
<http://data.wiiw.ac.at/monthly-database.html>

# Czech Republic

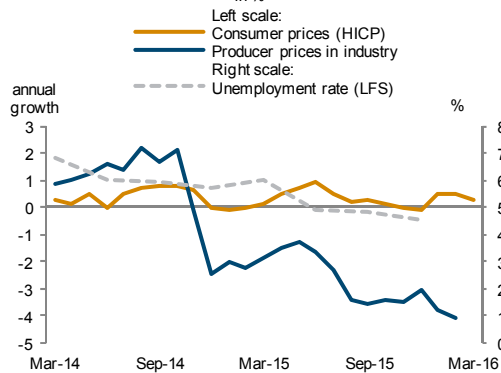
## Real sector development



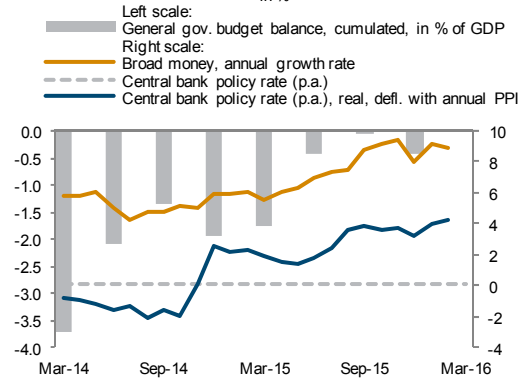
## Unit labour costs in industry



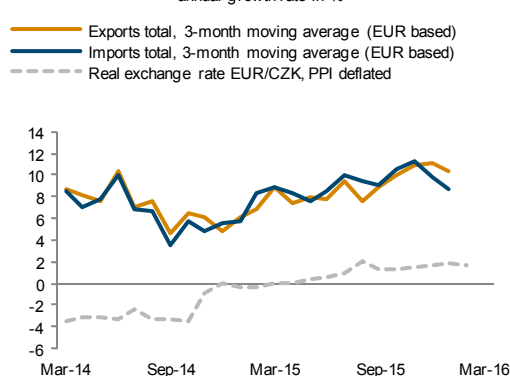
## Inflation and unemployment



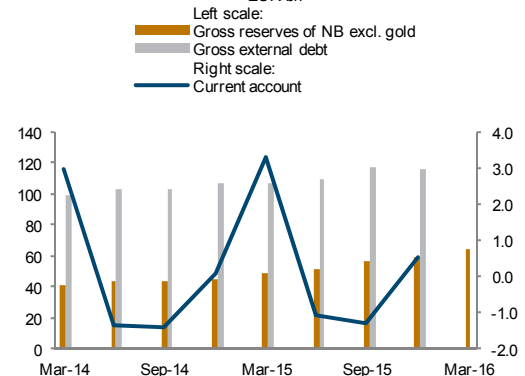
## Fiscal and monetary policy



## External sector development



## External finance



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

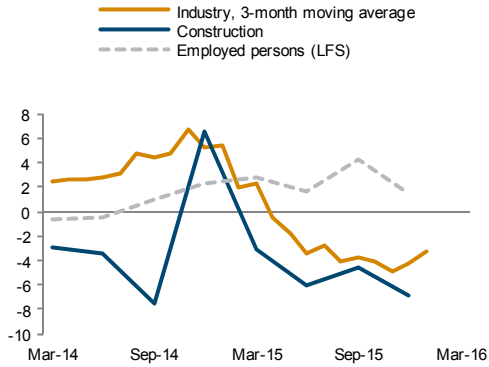
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

# Estonia

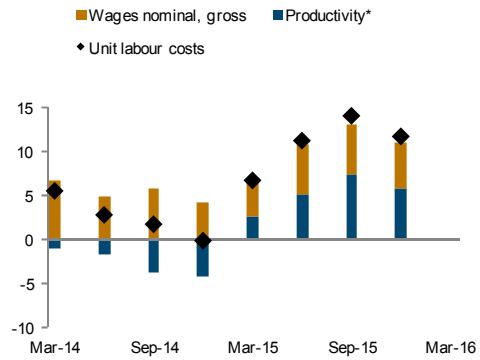
## Real sector development

annual growth rate in %



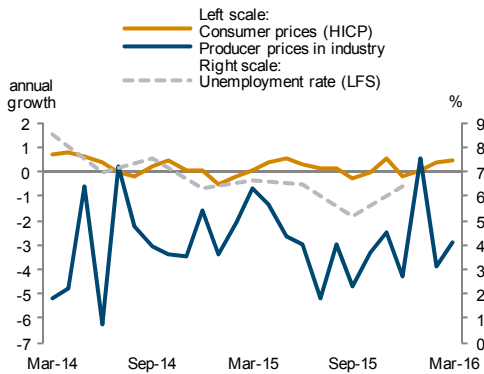
## Unit labour costs in industry

annual growth rate in %



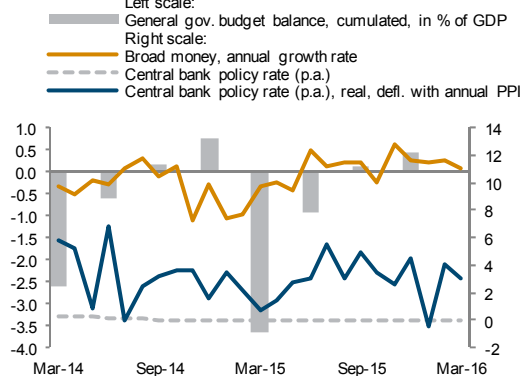
## Inflation and unemployment

in %



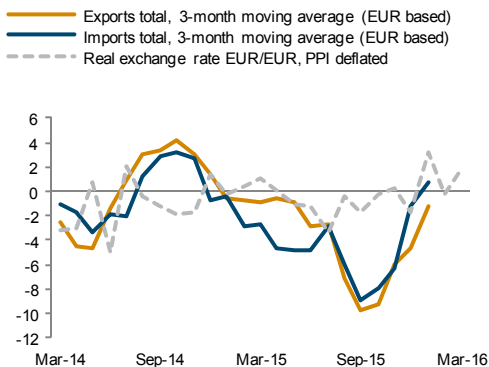
## Fiscal and monetary policy

in %



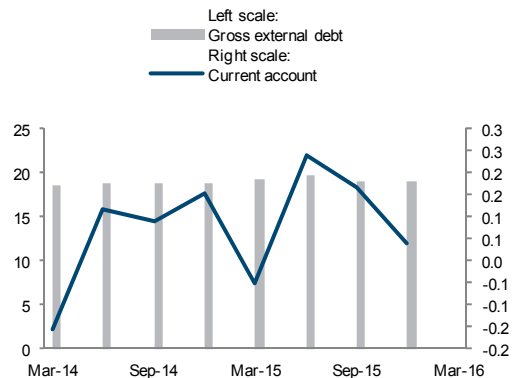
## External sector development

annual growth rate in %



## External finance

EUR bn



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

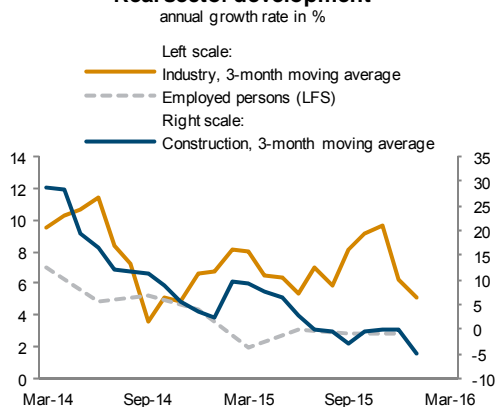
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

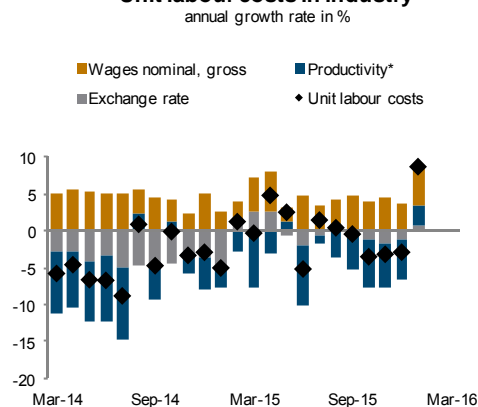
<http://data.wiiw.ac.at/monthly-database.html>

# Hungary

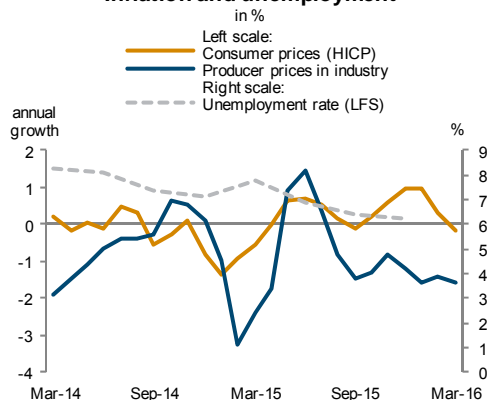
## Real sector development



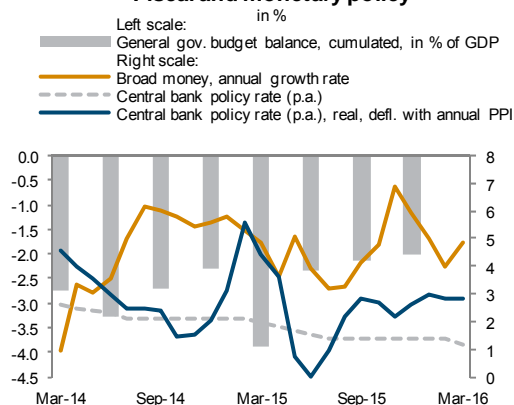
## Unit labour costs in industry



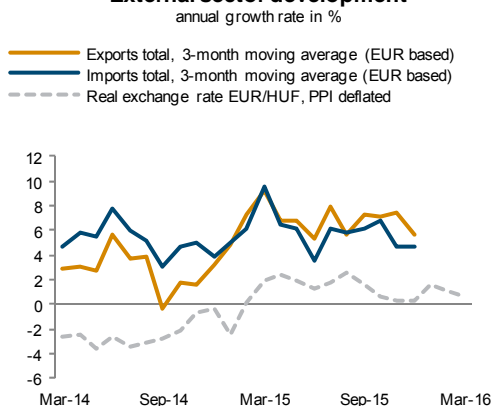
## Inflation and unemployment



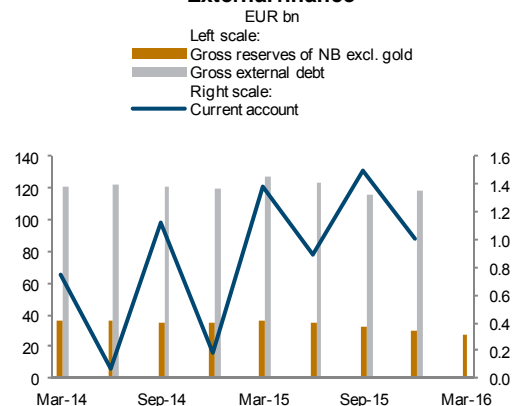
## Fiscal and monetary policy



## External sector development



## External finance



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

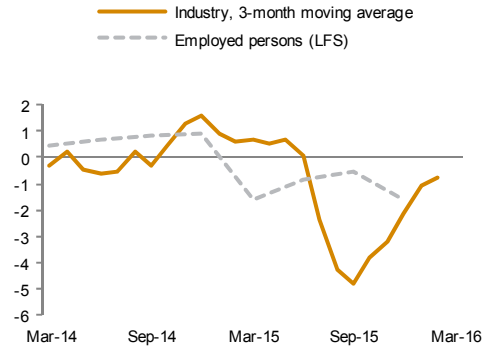
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

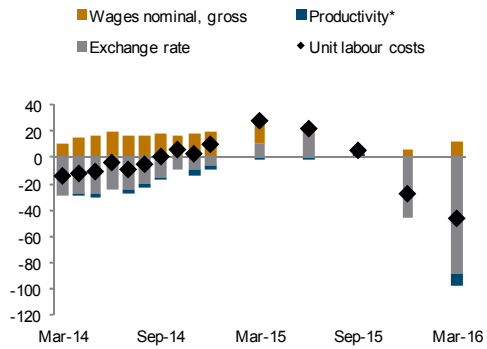
<http://data.wiiw.ac.at/monthly-database.html>

# Kazakhstan

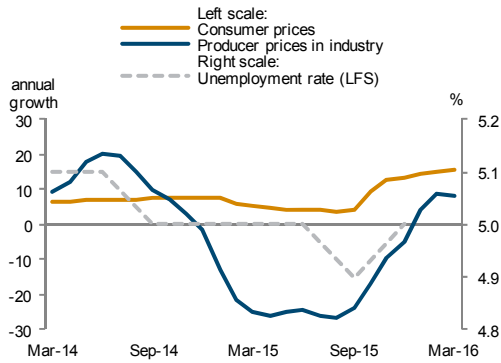
**Real sector development**  
annual growth rate in %



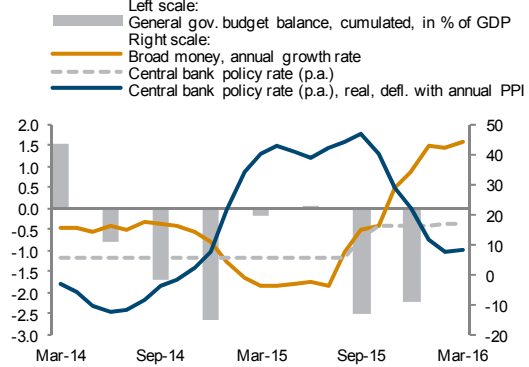
**Unit labour costs in industry**  
annual growth rate in %



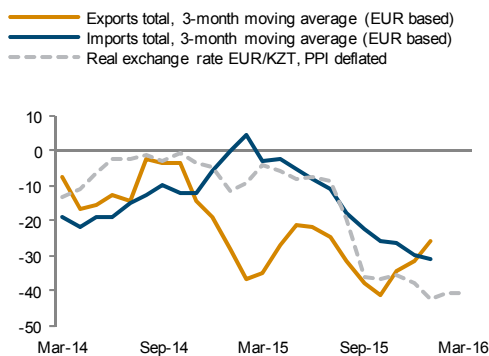
**Inflation and unemployment**  
in %



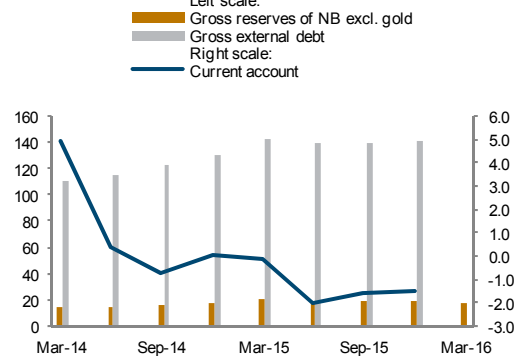
**Fiscal and monetary policy**  
in %



**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.

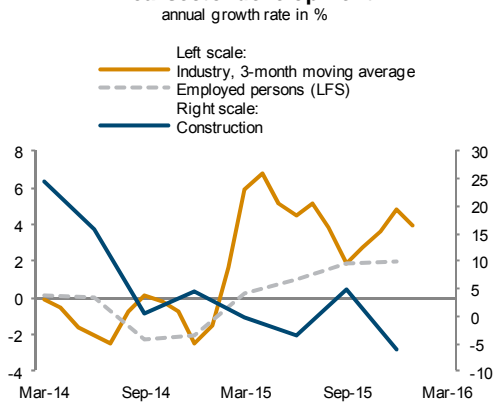
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

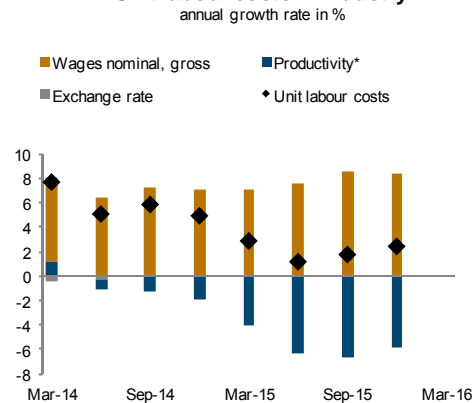
<http://data.wiiw.ac.at/monthly-database.html>

# Latvia

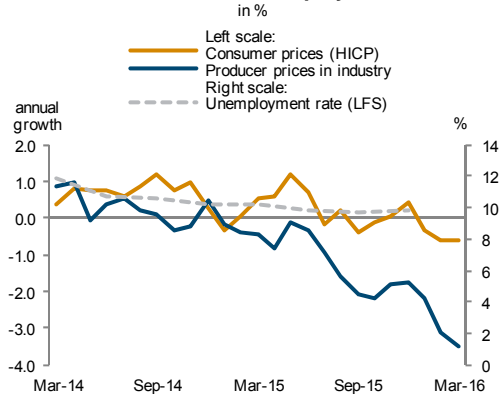
## Real sector development



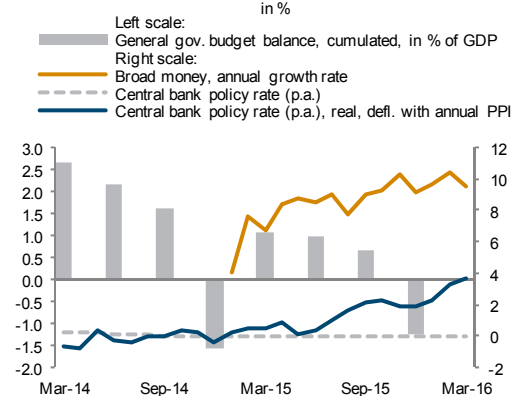
## Unit labour costs in industry



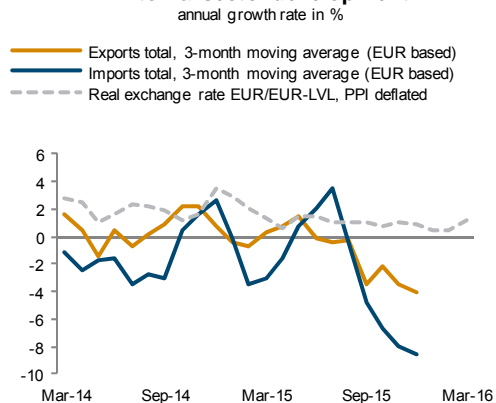
## Inflation and unemployment



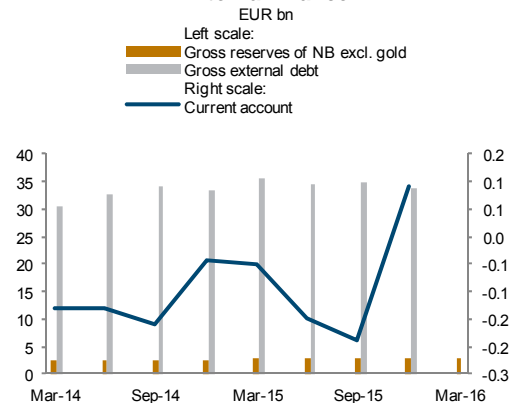
## Fiscal and monetary policy



## External sector development



## External finance



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

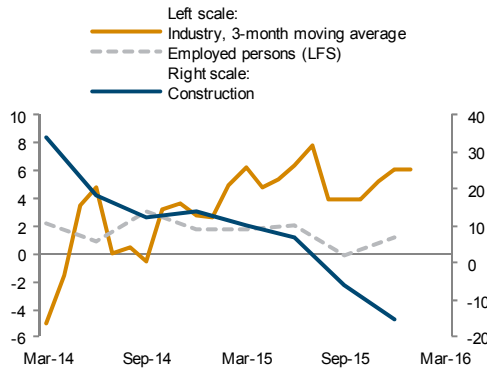
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

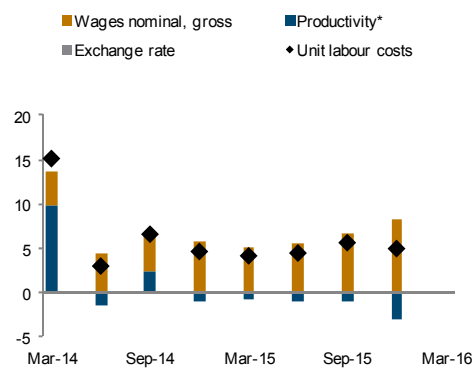


# Lithuania

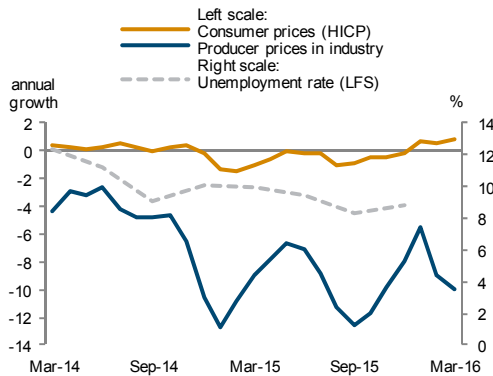
**Real sector development**  
annual growth rate in %



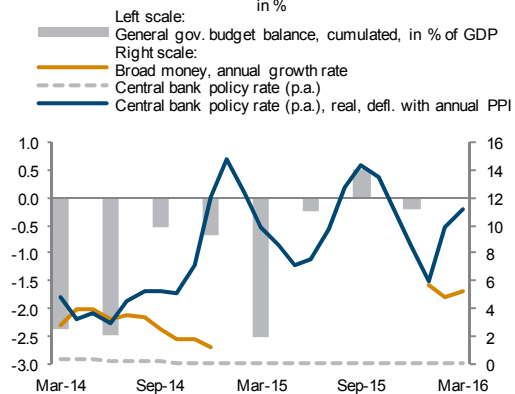
**Unit labour costs in industry**  
annual growth rate in %



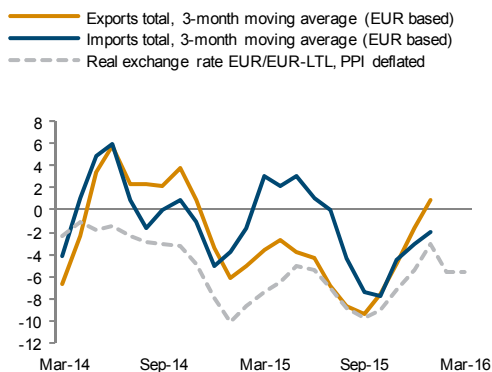
**Inflation and unemployment**  
in %



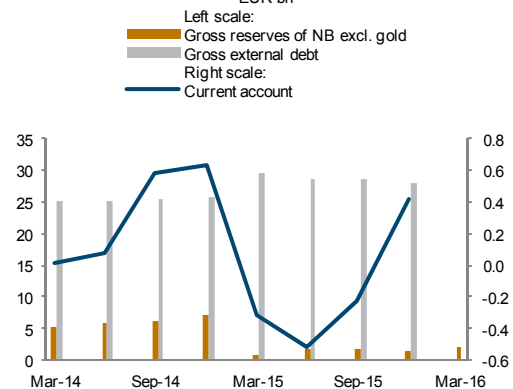
**Fiscal and monetary policy**  
in %



**External sector development**  
annual growth rate in %



**External finance**  
EUR bn



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

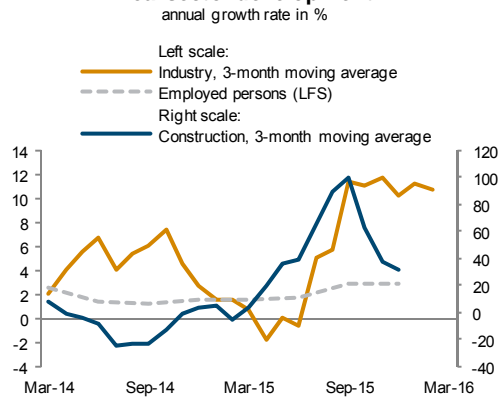
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

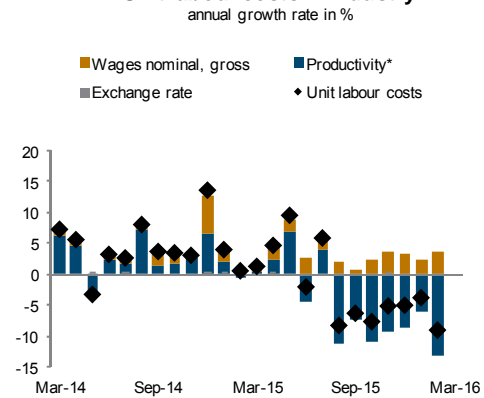
<http://data.wiiw.ac.at/monthly-database.html>

# Macedonia

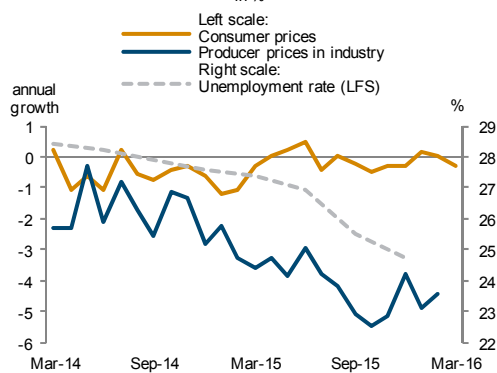
## Real sector development



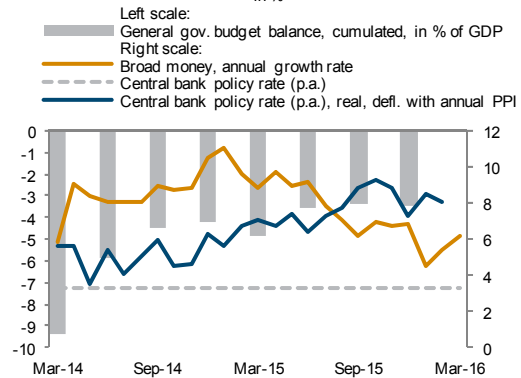
## Unit labour costs in industry



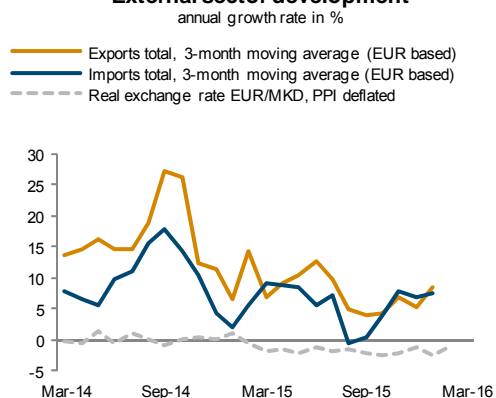
## Inflation and unemployment



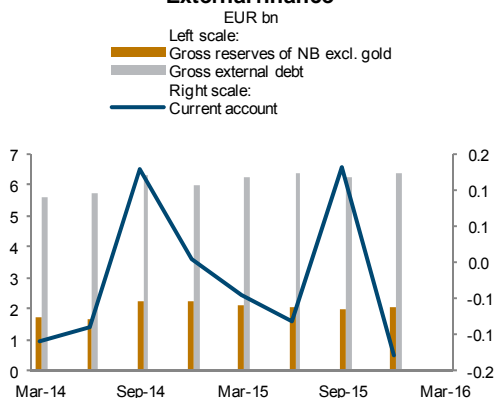
## Fiscal and monetary policy



## External sector development



## External finance



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

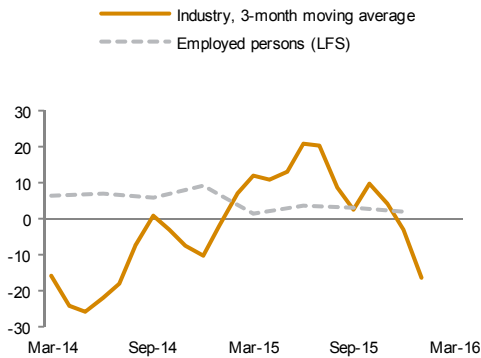
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

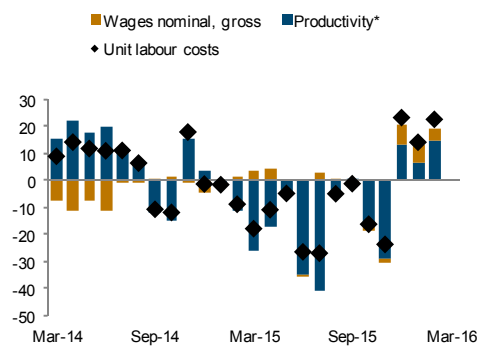
<http://data.wiiw.ac.at/monthly-database.html>

# Montenegro

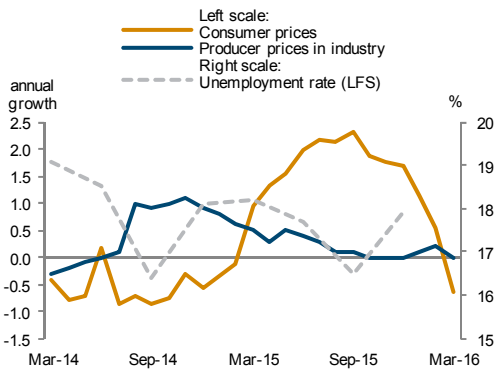
**Real sector development**  
annual growth rate in %



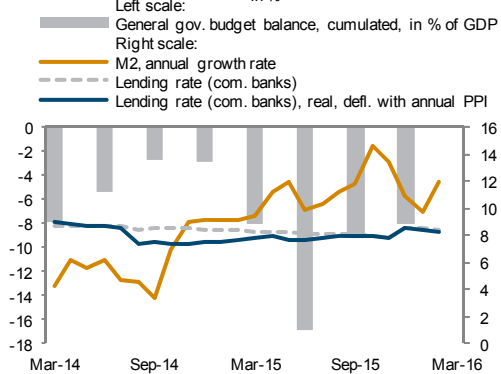
**Unit labour costs in industry**  
annual growth rate in %



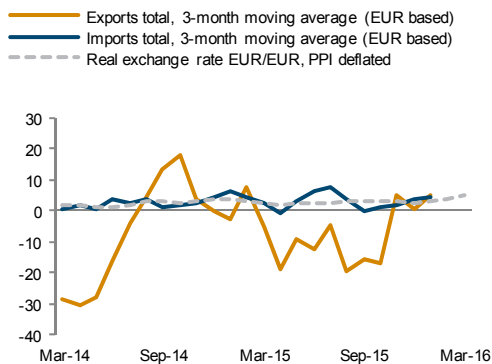
**Inflation and unemployment**  
in %



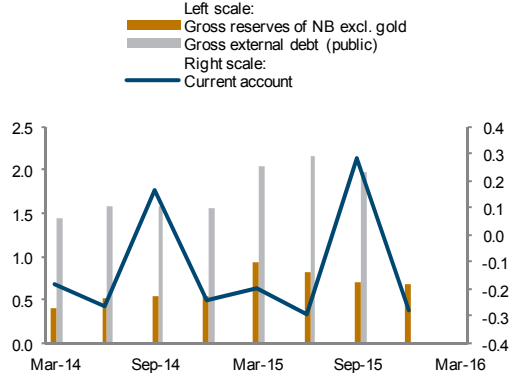
**Fiscal and monetary policy**  
in %



**External sector development**  
annual growth rate in %



**External finance**  
EUR bn



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

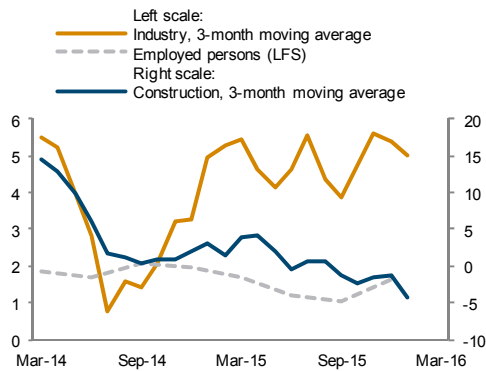
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

# Poland

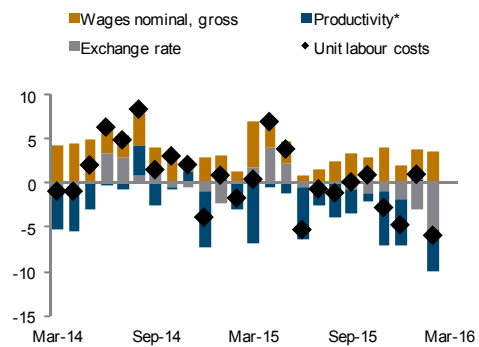
## Real sector development

annual growth rate in %



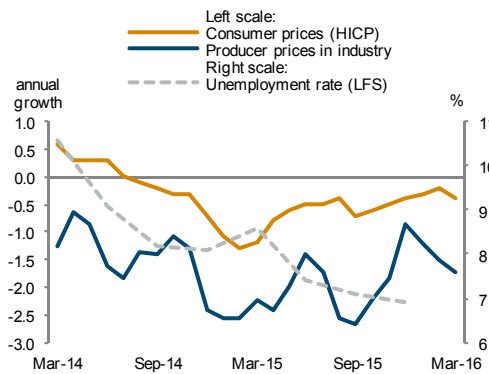
## Unit labour costs in industry

annual growth rate in %



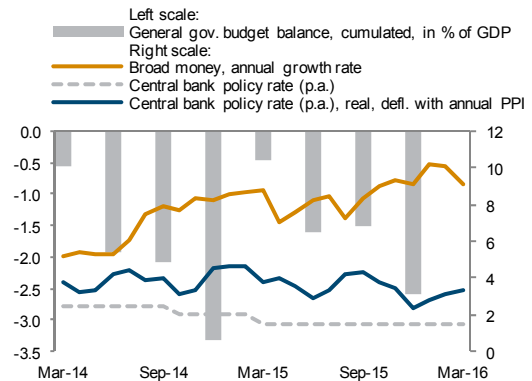
## Inflation and unemployment

in %



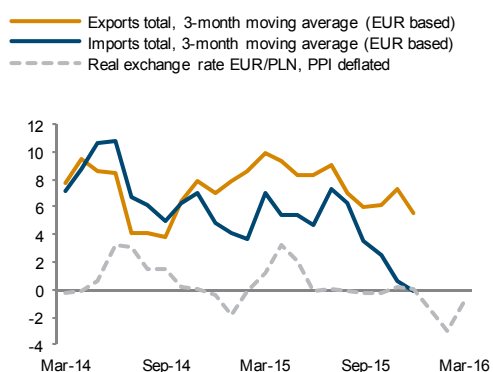
## Fiscal and monetary policy

in %



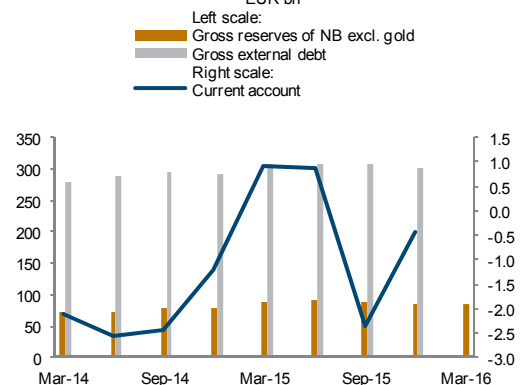
## External sector development

annual growth rate in %



## External finance

EUR bn



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

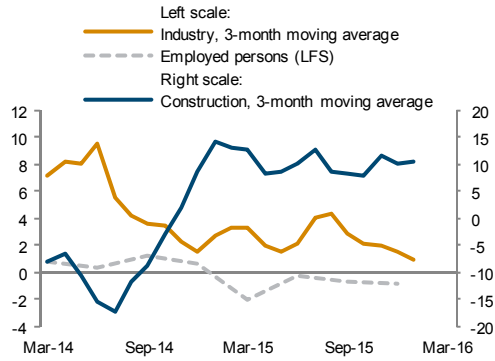
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

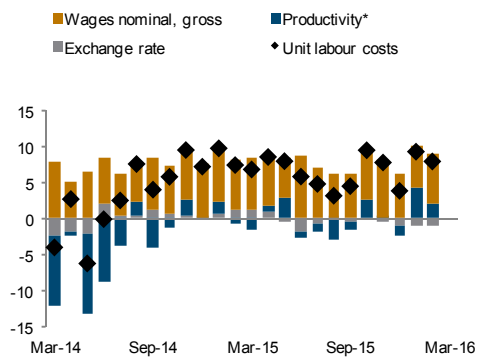
<http://data.wiiw.ac.at/monthly-database.html>

# Romania

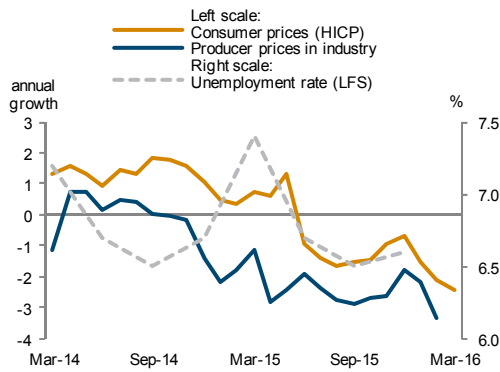
**Real sector development**  
annual growth rate in %



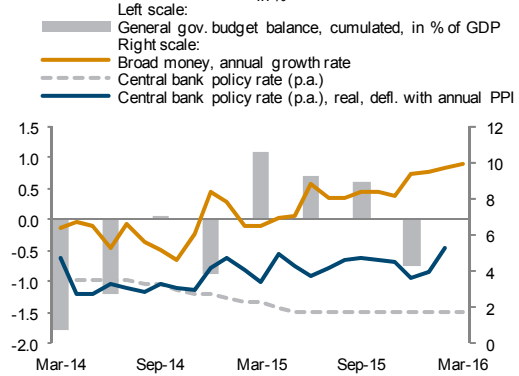
**Unit labour costs in industry**  
annual growth rate in %



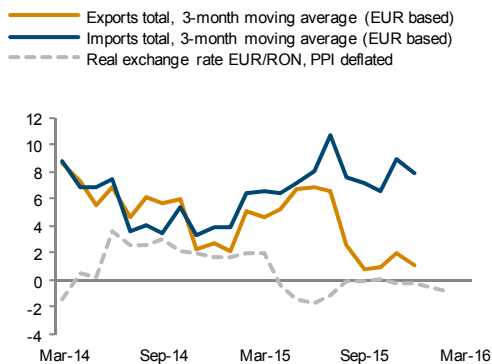
**Inflation and unemployment**  
in %



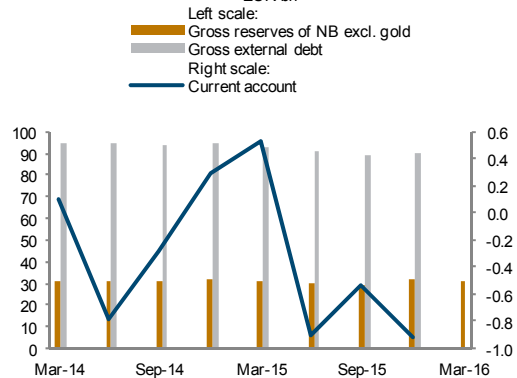
**Fiscal and monetary policy**  
in %



**External sector development**  
annual growth rate in %



**External finance**  
EUR bn



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

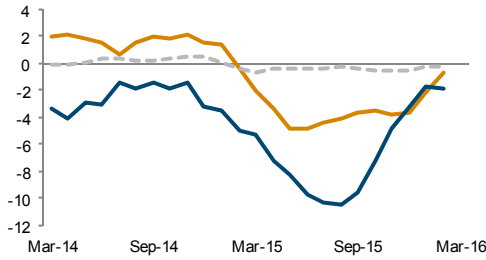
<http://data.wiiw.ac.at/monthly-database.html>

# Russia

## Real sector development

annual growth rate in %

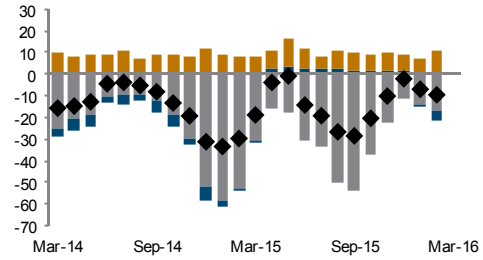
- Industry, 3-month moving average
- Construction, 3-month moving average
- - - Employed persons (LFS)



## Unit labour costs in industry

annual growth rate in %

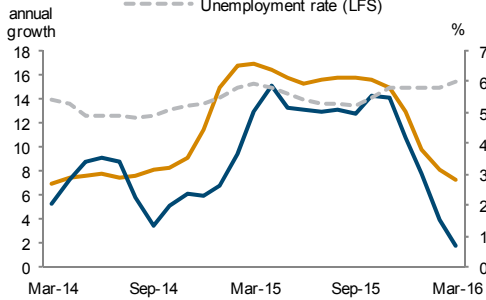
- Wages nominal, manuf., gross
- Exchange rate
- ◆ Productivity\*
- ◆ Unit labour costs



## Inflation and unemployment

in %

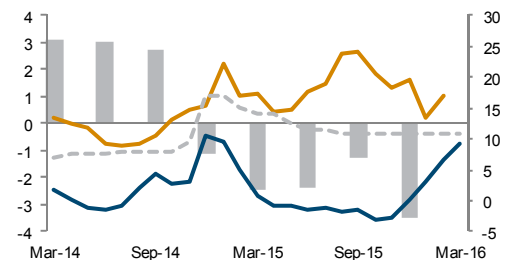
- Left scale:
  - Consumer prices
  - Producer prices in industry
- Right scale:
  - - - Unemployment rate (LFS)



## Fiscal and monetary policy

in %

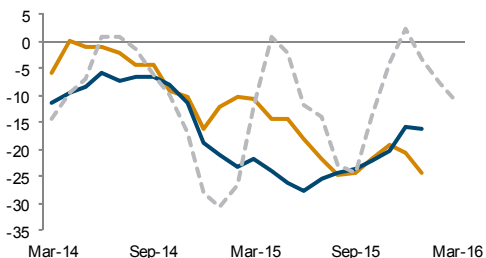
- Left scale:
  - General gov. budget balance, cumulated, in % of GDP
- Right scale:
  - M2 annual growth rate
  - - - Central bank policy rate (p.a.)
  - Central bank policy rate (p.a.), real, defl. with annual PPI



## External sector development

annual growth rate in %

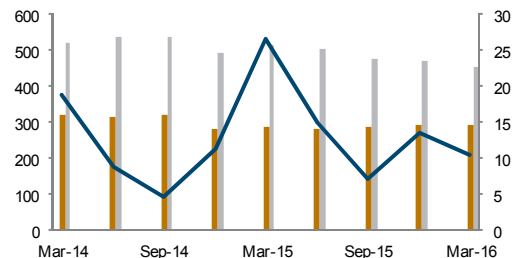
- Exports total, 3-month moving average (EUR based)
- Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/RUB, PPI deflated



## External finance

EUR bn

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



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

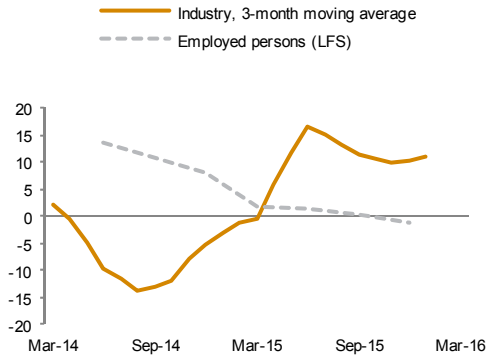
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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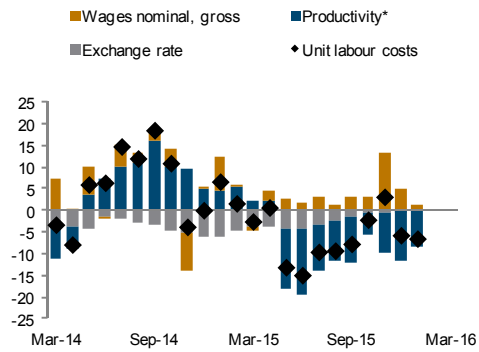
<http://data.wiiw.ac.at/monthly-database.html>

# Serbia

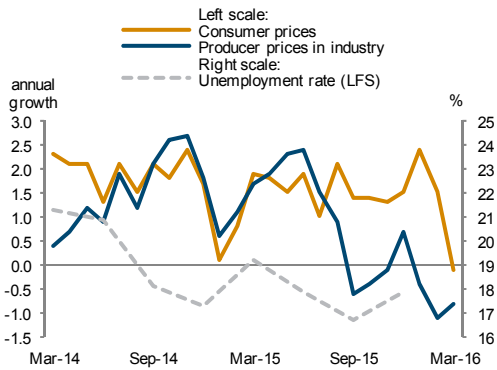
**Real sector development**  
annual growth rate in %



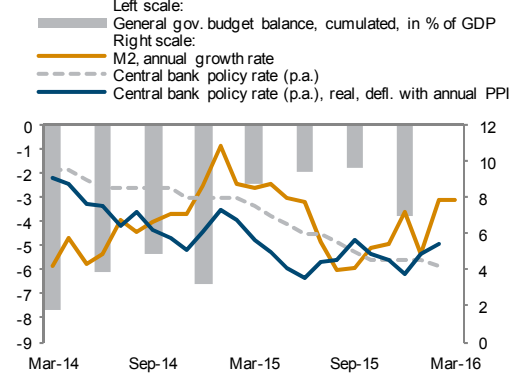
**Unit labour costs in industry**  
annual growth rate in %



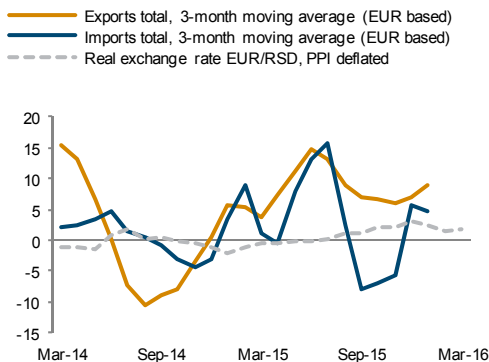
**Inflation and unemployment**  
in %



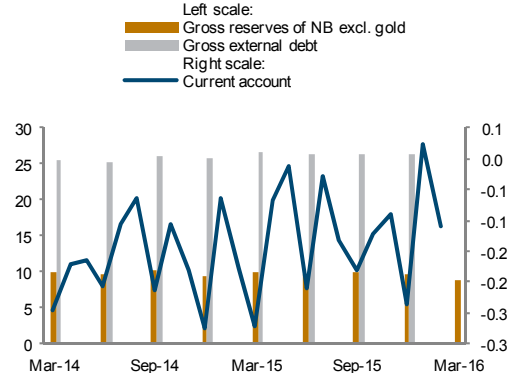
**Fiscal and monetary policy**  
in %



**External sector development**  
annual growth rate in %



**External finance**  
EUR bn



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

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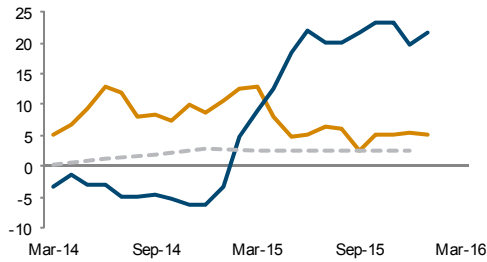
<http://data.wiiw.ac.at/monthly-database.html>

# Slovakia

## Real sector development

annual growth rate in %

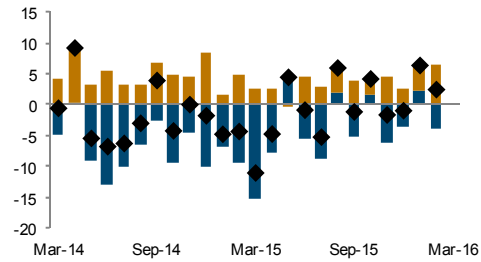
- Industry, 3-month moving average
- Construction, 3-month moving average
- - - Employed persons (LFS)



## Unit labour costs in industry

annual growth rate in %

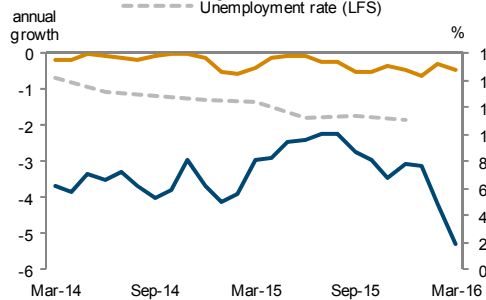
- Wages nominal, gross
- Productivity\*
- ◆ Unit labour costs



## Inflation and unemployment

in %

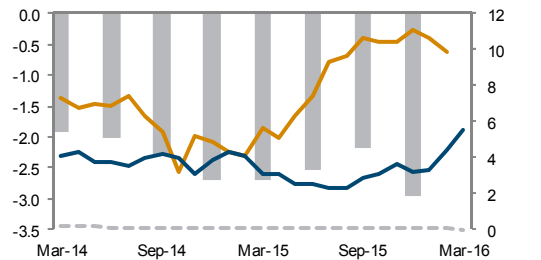
- Left scale: Consumer prices (HICP)
- Producer prices in industry
- Right scale: Unemployment rate (LFS)



## Fiscal and monetary policy

in %

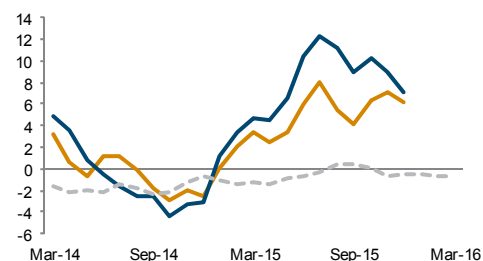
- Left scale: General gov. budget balance, cumulated, in % of GDP
- Right scale: Broad money, annual growth rate
- Central bank policy rate (p.a.)
- Central bank policy rate (p.a.), real, defl. with annual PPI



## External sector development

annual growth rate in %

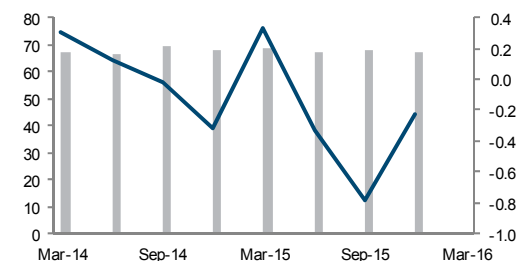
- Exports total, 3-month moving average (EUR based)
- Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/EUR, PPI deflated



## External finance

EUR bn

- Left scale: Gross external debt
- Right scale: Current account



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

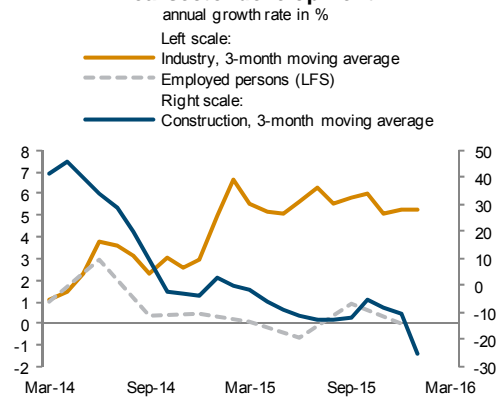
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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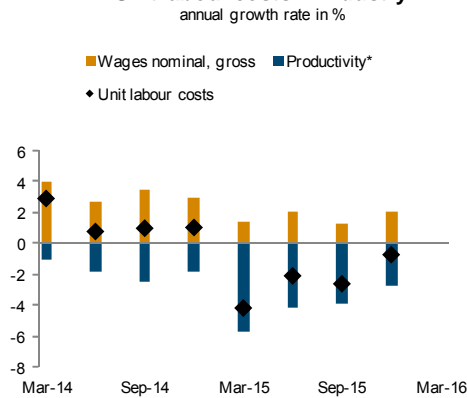


# Slovenia

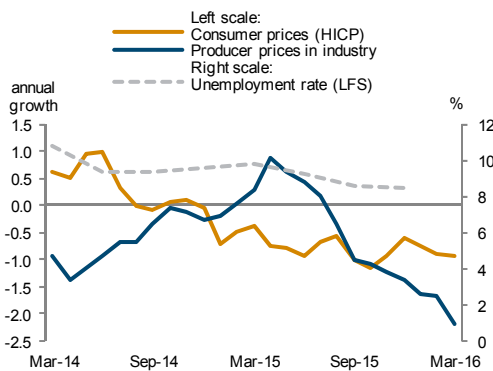
## Real sector development



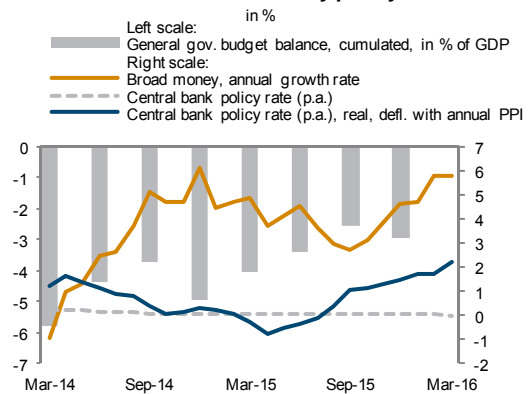
## Unit labour costs in industry



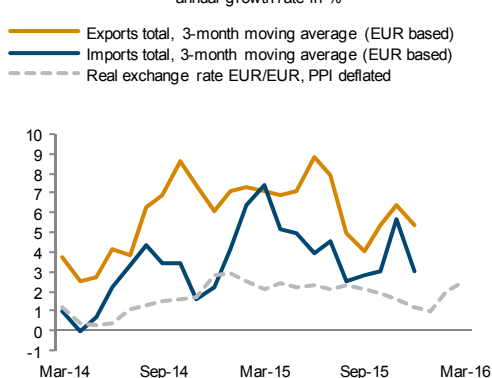
## Inflation and unemployment



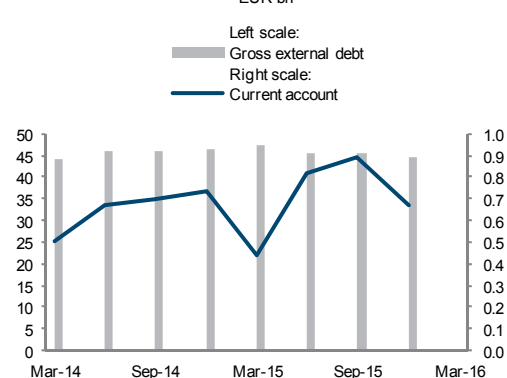
## Fiscal and monetary policy



## External sector development



## External finance



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

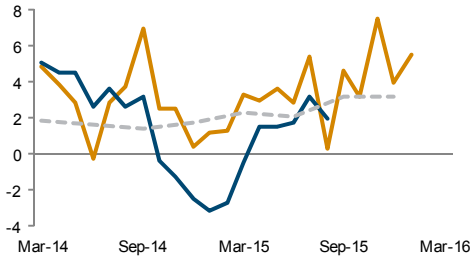
<http://data.wiiw.ac.at/monthly-database.html>

# Turkey

## Real sector development

annual growth rate in %

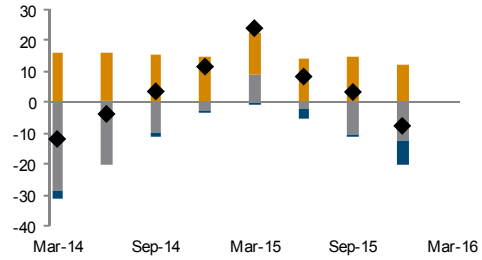
- Industry, 3-month moving average
- Construction, 3-month moving average
- - - Employed persons (LFS)



## Unit labour costs in industry

annual growth rate in %

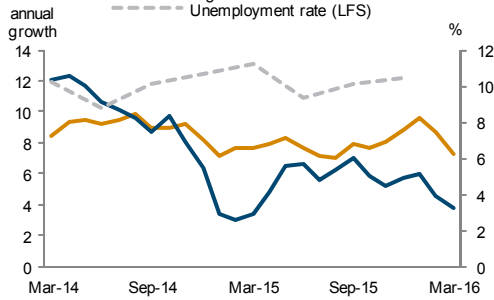
- Wages nominal, gross
- Exchange rate
- Productivity\*
- ◆ Unit labour costs



## Inflation and unemployment

in %

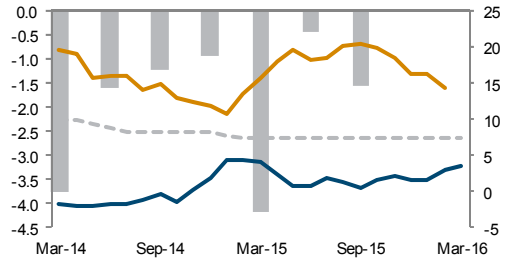
- Left scale: Consumer prices (HICP)
- Producer prices in industry
- Right scale: Unemployment rate (LFS)



## Fiscal and monetary policy

in %

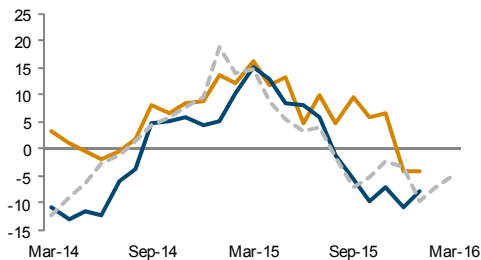
- Left scale: General gov. budget balance, cumulated, in % of GDP
- Right scale: Broad money, annual growth rate
- - - Central bank policy rate (p.a.)
- Central bank policy rate (p.a.), real, defl. with annual PPI



## External sector development

annual growth rate in %

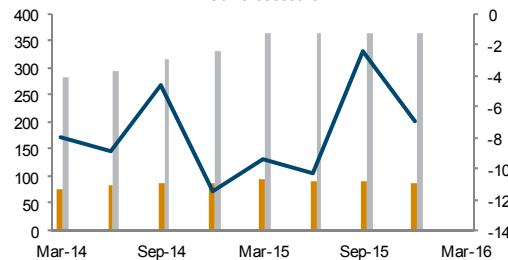
- Exports total, 3-month moving average (EUR based)
- Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/TRY, PPI deflated



## External finance

EUR bn

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



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

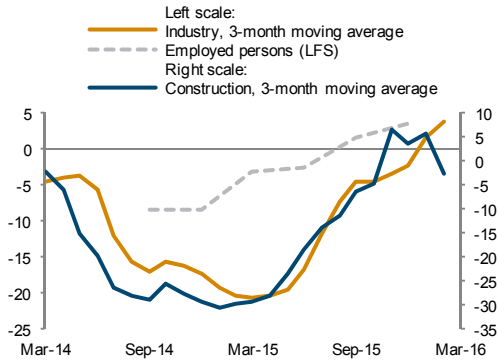
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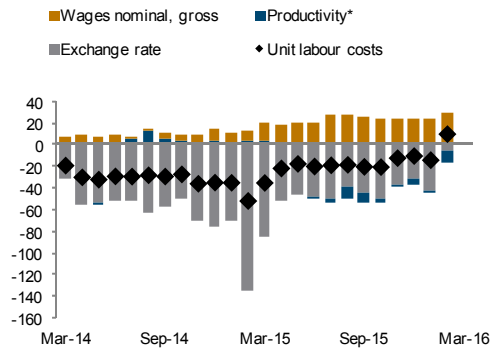
<http://data.wiiw.ac.at/monthly-database.html>

# Ukraine

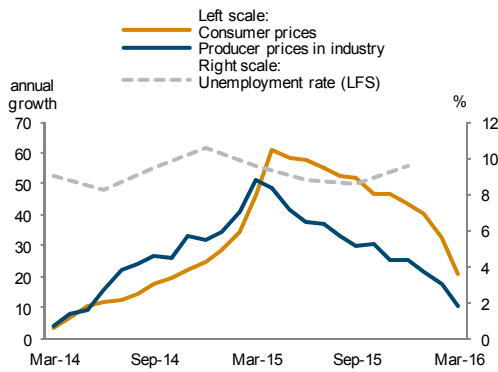
**Real sector development**  
annual growth rate in %



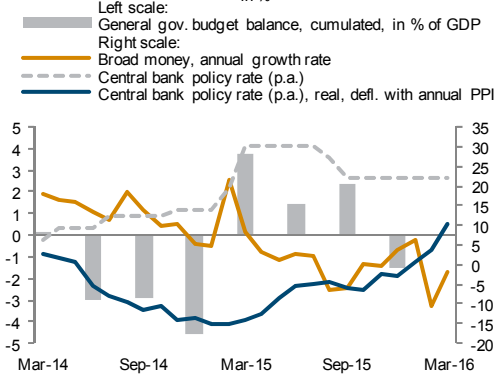
**Unit labour costs in industry**  
annual growth rate in %



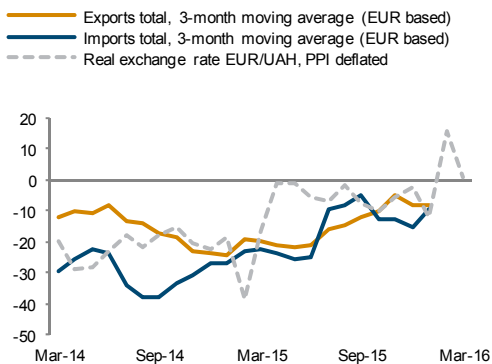
**Inflation and unemployment**  
in %



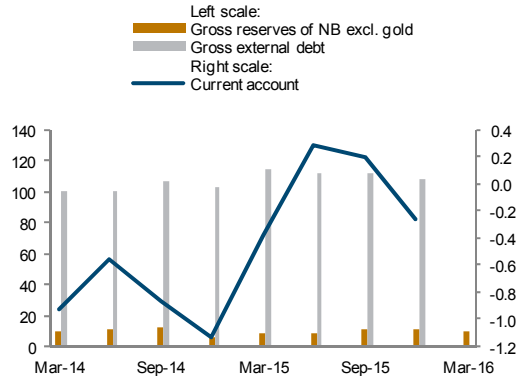
**Fiscal and monetary policy**  
in %



**External sector development**  
annual growth rate in %



**External finance**  
EUR bn



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

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Economics editors: Julia Grübler, 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](http://www.wiiw.ac.at)

Nachdruck nur auszugsweise und mit genauer Quellenangabe gestattet.

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.



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