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Special Issue
20 Years of EU Enlargement

20 Years of EU Membership: Key Economic Aspects and Outlooks in EU-CEE

Looking Ahead: What are the Main Economic Challenges and Opportunities for the EU-CEE Countries?

Welfare Convergence or Social Dispersion? The Socio-demographic Developments of the EU-CEE Countries

Testing the Limits: The Politics of EU Membership in EU-CEE

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The Vienna Institute for International Economic Studies
Wiener Institut für Internationale Wirtschaftsvergleiche

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MARCUS HOW
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TAMÁS SZEMLÉR
MARYNA TVERDOSTUP
ZUZANA ZAVARSKÁ

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20 Years of EU membership: Key economic aspects and outlooks in EU-CEE

TAMÁS SZEMLÉR[1]

Accession to the European Union in 2004 was a long-awaited historical event for eight Central and East European countries. After 20 years of membership, one can say that some expectations related to the economic benefits of membership have come true, but some others have not. Beyond a positive overall economic balance, the performance of the individual countries has not been uniform. For example, there are differences in terms of the pace of catching up as well as regarding membership in the euro area. In addition, political conflicts during recent crises have made the divisions in the region even more tangible.

The first round of the eastern enlargement of the European Union (EU) was a milestone not only in the history of European integration, but also in the history of the countries that joined the EU in 2004. For the eight Central and East European (CEE) countries that entered the EU on 1 May 2004, it meant the fulfilment of one of their major political and economic objectives since the systemic changes following the end of the Cold War (with the other one being NATO membership).[2]

Much has happened in the two decades since 2004. Some periods have been better, some more difficult; some dreams have come true, some have not – and some have even turned into nightmares. In this essay, I deal with some key economic issues. Rather than diving into the detailed data, I will concentrate on trends, changes, convergence and divergence over the last two decades.

EXPECTATIONS AND REALITY: A GENERAL OVERVIEW

Expectations related to EU membership were high, and the CEE countries had been waiting a long time for accession. One of the most important driving forces was the hope that EU membership would help them to catch up to the living standard enjoyed by the citizens of Western European economies. This would mean not only enjoying access to a wide variety of products (which was not the case before the systemic changes took place in these countries but became reality in the 1990s), but also that the ability to buy them would spread to most – and, ideally, all – members of society. The promise of EU financial support played an important role in fostering these expectations. At the same time, researchers were emphasising the success stories of structural policy actions in Portugal, Spain and Ireland as examples to be followed.

There was also much anticipation about gaining access to the European single market. Industrial trade had been almost entirely liberalised since the early 1990s with the entry into force of the interim agreements contained in the Europe Agreements and, later, by the entry into force of the Europe Agreements themselves. But the four freedoms of the single market – free mobility of goods, services,

1 Associate professor in the Faculty of Commerce, Hospitality and Tourism of Budapest Business University, Head of the Institute of Economics at Budapest Business University.

2 Although Cyprus and Malta joined the EU at the same time, this essay only deals with the eight EU-CEE countries.

labour and capital – could bring even more opportunities (but also more challenges) for CEE enterprises. Inclusion in the EU Common Agricultural Policy (CAP) was another important issue, and something that ultimately only happened after a transition period lasting seven years.

Yet another important issue was the free movement of people. It was much expected on the CEE side – and much feared in some of the 'old' EU member states. The result of these approaches at the accession negotiations was the possibility of a long (but flexible) transition period that only a few old member states had gone through in its entirety. In fact, most of them opened their labour market well before the final deadline, and some CEE countries experienced a serious outflow of people (in both absolute and relative terms), which led to considerable problems (e.g. a labour shortage in some sectors or in general) in some of them.

While it is impossible to evaluate all aspects of expectations and reality in detail in such a brief essay, one can say that these former expectations have only been partially met. In the following, I focus on five areas and discuss them in a bit more detail. These five areas are: catching up, competitiveness, trade, financial support, and accession to the euro area.

CATCHING UP

Catching up after EU accession was a major expectation in the CEE countries and, when one looks at the figures, one can say that a certain level of catching up actually has taken place. Of course, for the population of (some) CEE countries, this is felt less than what was expected. Although there have been differences across the individual countries in terms of the pace of catching up, the region as a whole has come closer to the EU average over these two decades.

There is no denying, however, that there have been some big bumps in the road over this same period. The 2008 world financial and economic crisis and its aftermath have resulted in lower growth (and, except for in Poland, also included recessions), but this is something that the entire EU has had to face. Recovering and adapting to changed circumstances required time, but this time was different in the different countries. For example, although recovery has started in Hungary, it has advanced more slowly there than in most other CEE countries owing to the circumstances in the credit market.

In the early 2020s, the shock of the COVID-19 pandemic impacted the region in more or less same way, though there have been some differences from how it affected Western Europe. For example, while the first wave hit the CEE region somewhat less intensely, the opposite was true during the latter waves. In addition, Russia's war on Ukraine has had serious consequences for those countries that have been highly dependent on Russian energy. One of them, Hungary, has chosen to follow a different political path and, unlike some other CEE countries, has only taken limited steps towards diversifying its energy supply.

While Czechia and Slovenia have remained the countries closest to the average GDP per capita of the EU, the Baltic countries, Poland and Slovakia have improved their position in the region. When tackling the effects of accession, it is always an interesting question whether catching up is (mainly) the result of EU accession or whether it would have taken place in any case. Of course, we cannot conduct any specific 'experiment' to get at an answer. But the more modest growth (and thus convergence) figures of some other (non-EU) countries in Central, East and Southeast Europe (CESEE) strongly suggest that

EU accession has played a significant role in the catching-up process, which we have also been able to observe in the EU member states of CEE (EU-CEE) (for details, see Kerényi and Lakócai 2024). This means that – as the current prime minister of Hungary has said many times (with the first time being all the way back in 1999!) – there is life outside the EU, too. But, as is reflected in the key economic figures, that life is different from what it is like inside the EU (this has also been mentioned by him at a couple of earlier occasions) (see Csatári and Körömi 2021).

COMPETITIVENESS

The so-called Copenhagen criteria on accession to the EU have included the requirement of the existence of a functioning market economy as well as its ability to withstand the competitive pressure of the single market. During the preparations for accession (and even for the accession negotiations), the European Commission's evaluation of these aspects has always attracted a high degree of interest (first of all, of course, in the candidate countries). Two decades after accession, we can say that the economies of the EU-CEE countries are complying with these criteria.

Of course, much happened during these two decades – and even more happened before accession. The transformation crisis led to a restructuring of the economies of the CEE countries. Although the process was painful, even before accession, the resulting new structure was embedded into the world economy, into the networks of companies, most of which were from Western Europe at that time. Foreign direct investment (FDI) was and still is a very important facilitator of development in the CEE countries.

When evaluating the effects of EU accession, one should not forget that in the case of the CEE countries (unlike, for example, in the cases of Spain and Portugal), most of the liberalisation took place before accession. In other words, the effects of joining the EU were not as dramatic in this respect. The important question for today is related to the role that these countries will play in the networks of trans- and multinational companies. Will they be able to become centres of production with a high value added as well as important R&D activity? Or will they remain the hosts of (mostly) assembly and distribution units of these networks (for more on that, see the article by Zuzana Zavarská in this report)?

TRADE

As mentioned above, trade of CEE countries with the EU was highly liberalised well before accession. Nevertheless, accession has brought some important changes. First, full liberalisation (including the gradual inclusion of these countries into the CAP) has happened. Second, it became clear that being part of the single market triggered a boom in intra-CEE trade. Even though five countries (Czechia, Hungary, Poland, Slovakia and Slovenia) were members of the Central European Free Trade Agreement (CEFTA), trade between them only rapidly increased after their accession to the EU (and, thereby, to its single market). This was clear proof of the often-mentioned statement (and fact) that the single market is much more than simply a free trade area.

Not surprisingly, the main trading partner of all EU-CEE countries is the EU. This is clearly the case despite some attempts to forcibly diversify the geographical orientation of trade (most clearly by Hungary's 'opening towards the East' policy). Such efforts have yet to show any results in the statistics (at least not for CEE exports). The CEE economies are open market economies, and their natural main partner – for geographical, cultural and historical reasons – is the EU. And this is also reflected in their trade figures.

Of course, with the development of other regions and with the entry of many Asian firms into CEE economies (e.g. in battery manufacturing in many countries, but primarily in Hungary), shares in trade may change to some extent going forward. The question of intra-firm trade (representing an ever-increasing share in trade) is also an important one. Indeed, even though the question is not CEE-specific, it may be particularly important in some CEE countries owing to their relatively small size, which gives these firms relatively high bargaining power.

EU FINANCIAL SUPPORT

Since joining the EU, the EU-CEE countries have been net recipients of EU budget funds. This financial support has been very important to them, especially during periods when their economies have experienced rough times (e.g. during and after the 2008 world financial and economic crisis as well as the COVID-19 pandemic). Regarding the quantity of financial support, Poland is at first place due to its size. When it comes to the per capita amount (i.e. the intensity) of financial support, the Baltic countries and Hungary are in the top positions.

The amount of financial support is one thing, the use of it is another one – and the efficient use of it is yet another still. The differences in this respect have been an important driver of the variation in the development paths of the EU-CEE countries over the last two decades (as mentioned above when discussing the issue of catching up). In particular, EU financial support – among other factors – has played an important role in the spectacular development of the Baltic countries, Poland and Slovakia.

The importance of EU financial support becomes especially clear when is becomes inaccessible. This is currently the case for a certain share of Hungary's finances. The effects can be felt by those who could potentially use these finances (under normal circumstances). For example, the unavailability of Horizon and Erasmus+ financing is causing difficulties for several universities in Hungary (despite the Hungarian 'replacement schemes' that have already been created).

ACCESSION TO THE EURO AREA

All EU-CEE countries have committed themselves to introducing the euro as soon as they are ready for it (which is also in line with the Copenhagen criteria). Nevertheless, 20 years after their accession, only five of them – the three Baltic countries, Slovakia and Slovenia – have introduced the euro (as Croatia also did following subsequent rounds of EU eastern enlargement). For Czechia, Hungary and Poland, the introduction of the single currency is not on the agenda for various reasons, some of which are political. This is surely the opposite of what was expected 20 years ago.

It is an important question whether this situation will change in the foreseeable future. Especially in the case of Poland, due to its economic weight (and its rapidly rising development level), introducing the euro would be an important step for the present euro area itself. In the case of Czechia, and even more so of Hungary, the step would be important, too, though primarily for these countries themselves (and the international enterprises settled in and/or trading with these countries). But, as mentioned above, this step is currently not on the agenda.

This is one of the most tangible economic dividing lines among the eight CEE countries that joined the EU in 2004. Interestingly, this division cannot be attributed to differences in development level. For example, while Czechia – one of the most developed countries – has not introduced the euro, Slovenia did so long ago. It can be regarded as an issue correlated with the size of the countries, as the ones that have introduced the euro in CEE are among the smaller ones. But, then again, Poland is the only really important outlier.

THE 2020S: CRISES AND OUTLOOK

The 2020s have seen crises that European integration has never experienced before. The EU response to COVID-19 (including the creation of the NextGenerationEU programme and its funding from external loans) looks like an innovative one and, if successful, may be a model for future actions. However, Russia's full-scale war on Ukraine has led to division and political conflict within the EU and among the CEE countries. While the position of most member states (including most EU-CEE countries) is clearly pro-Ukrainian, the governments of some EU-CEE countries (first of all, of Hungary and, more recently, Slovakia) have a different position.

It is an open question how these conflicts will be resolved, how cooperation – including economic cooperation – within the EU can further develop. Two decades after the first 'big bang' round of the EU's eastern enlargement, even the question of the exit of one or two countries from the EU is mentioned. Taking this into account, despite all the economic progress, the EU's eastern enlargement – which has, of course, never been simply an economic project – cannot be regarded as a process that has met all the initial expectations.

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Looking ahead: what are the main economic challenges and opportunities for the EU-CEE countries?

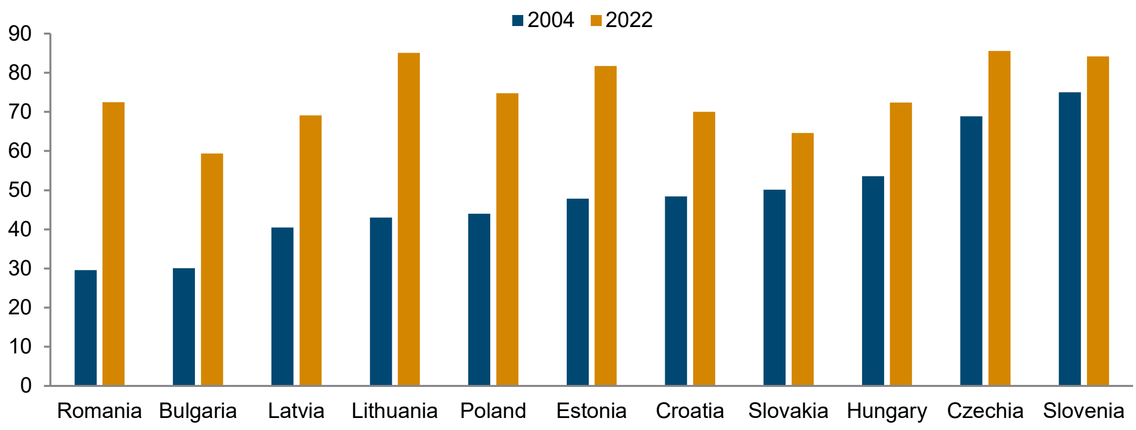
BY ZUZANA ZAVARSKÁ

EU-CEE's development path following EU accession is a success story that should not be downplayed. Yet, 20 years on, it is time for these countries to formulate a new strategy for their economic model. With the right set of industrial policies, EU-CEE can become a more strategic player in EU value chains, increase its resilience to external shocks, close the remaining gaps with Western Europe and, ultimately, enhance the well-being of its populations.

INTRODUCTION

In modern history, there are not many countries that have experienced development as dynamic as the Central and Eastern European member states of the EU (EU-CEE) in the years leading up to and following EU accession. In less than two decades, these countries have gone from having GDP per capita as low as 30% of Western European levels to over 70% today (see, for instance, Romania in Figure 1). One can also observe in Figure 1 that countries such as Czechia or Slovenia, which benefitted from better starting positions compared to other CEE countries, are now virtually as economically developed as most Western European nations.

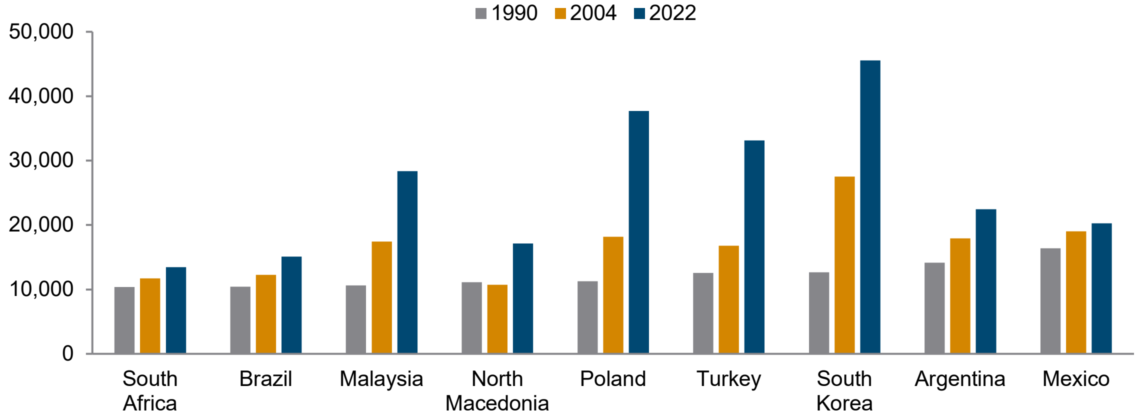
Figure 1 / GDP per capita as % of EU15 (in PPS)



Source: AMECO.

To some extent, it is to be expected that less developed countries will catch up with more advanced ones, as it is consistent with various economic theories of convergence.[1] When one benchmarks the region's growth against more economically comparable countries, the remarkable nature of this becomes all the more evident. Taking Poland as an example, Figure 2 shows that, in 1990, the country had a GDP per capita level roughly comparable to those of South Africa, Brazil, North Macedonia and Turkey. In the years that followed, however, Poland strongly surpassed all these major economies with similar starting points, with the exception of only South Korea, another growth champion.

Figure 2 / GDP per capita of Poland and other emerging economies (PPS, constant 2017 international USD)



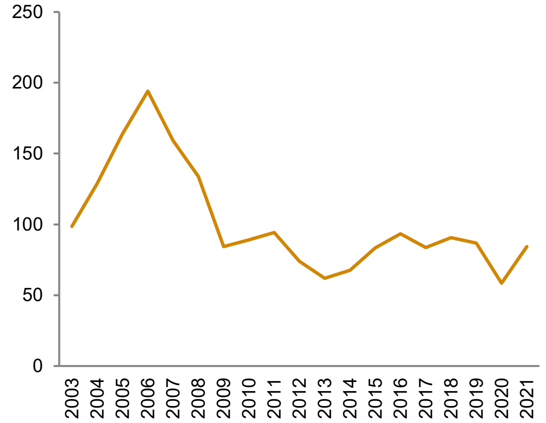
Source: World Bank.

The role of EU membership in fuelling the economic success of EU-CEE is well known and well documented. As the necessary institutional reforms were undertaken by the then-candidate countries and as trade barriers between 'new' and 'old' member states were dismantled, foreign direct investment (FDI) poured into the region to take advantage of its cost-competitive, skilled labour force. As a result, the EU-CEE countries became important nodes in international production networks, particularly in manufacturing sectors of medium-high technology.

Yet, 20 years on, the need to transition away from this FDI-based growth model is looming large on the EU-CEE countries. Especially following the global financial crisis of 2008-2009, the job-generating potential of FDI has been fading, and labour productivity growth has never recovered to its pre-crisis levels (see Figure 3 and Figure 4). Consequently, the notion that the low-hanging fruits stemming from EU membership have already been reaped is spreading across EU-CEE, necessitating a strategic reorientation to a new, more innovation-driven growth model (see Grieveson et al. 2021 for a detailed discussion on this topic). However, the region's success in this next growth chapter will crucially depend on its ability to tackle numerous challenges as well as to embrace various opportunities that await it along the way.

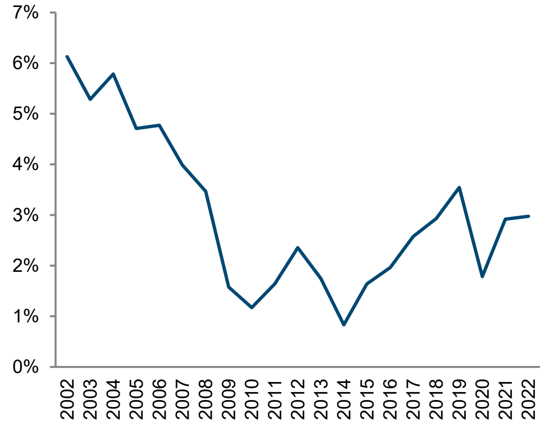
[1] See, for instance, Quiroga (2007) for an overview.

Figure 3 / Number of jobs generated in the EU-CEE countries by greenfield FDI projects, in thousands



Source: Own calculations based on fDi Markets.

Figure 4 / Labour productivity growth in the EU-CEE countries, three-year moving average



Note: Based on GDP per person employed in constant PPS prices. Aggregate EU-CEE data reported by the World Bank.
Source: Own calculations based on World Bank data.

CHALLENGES

Regional disparities

Although the economic progress made over the past 20 years was undoubtedly significant, the gains have certainly not been shared equally. Regional disparities continue to be a pressing issue in the EU-CEE context, with certain parts still lagging very far behind in terms of industrial development and having standards of living far below the EU average. Generally speaking, EU-CEE's capitals now boast GDP per capita levels high above the EU average, including 207% in the capital region of Czechia (Praha), 177% in the capital region of Romania (Bucuresti-Ilfov), and 162% in the capital region of Poland (Warszawski stołeczny).[2] These regions also display signs of more sophisticated specialisations in global value chains, taking on activities beyond just production and assembly (Kordalska et al. 2022). On the other hand, the GDP per capital levels of the poorest regions in these three countries respectively stand at 60%, 46% and 54% of the EU average.[3] While the EU's Cohesion Policy tackles precisely this challenge, the pace of development has nevertheless been uneven, requiring stepped-up regional policy efforts on the part of EU-CEE governments in the years ahead. After all, as long as a significant portion of the EU-CEE population is being left behind, the previous stage of development cannot yet be considered complete.

2 This is partially also driven by firms registering in capital cities but maintaining operations across different parts of the country, which overstates the concentration of economic activity in capital regions.

3 2022 data, taken from Eurostat (nama_10r_2gdp).

Institutional environment

Particularly in recent years, the EU-CEE region has been struggling with institutional backsliding. In two countries of the region, Hungary and Poland, this has even led to a temporary suspension of the disbursement of EU funds (which is still ongoing in the case of Hungary). Worryingly, the World Governance Indicators (WGIs) reveal deteriorations in the percentile ranks in 2022 compared to the EU enlargement year of 2004 in multiple countries. The divergence between economic growth and the gains from it – fuelled by the above-mentioned regional disparities – potentially acts as a contributing factor, fostering populist tendencies that, in turn, contribute to the erosion of institutional integrity. Hungary shows the worst performance in this regard, having deteriorated in all six dimensions of the WGI compared to almost 20 years ago (Table 1). Slovakia and Bulgaria are not faring much better, as they show deteriorating tendencies in five of the six dimensions. By contrast, Czechia, Estonia and Romania have improved across all dimensions.

Considering that institutional reforms were a crucial factor in EU-CEE's economic success following EU accession and that the institutional setting should generally improve as economies develop, this is certainly a distressing trend. Furthermore, given that the leap to a more innovative economic model fundamentally requires capable governments along with well-designed and -implemented policies, the competitiveness of multiple EU-CEE countries may be under serious threat.

Table 1 / Movements in percentile ranks in the Worldwide Governance Indicators, 2004 vs. 2022

	Improvement	Deterioration
Voice and accountability	CZ, EE, LT, LV, RO	BG, HR, HU, PL, SK, SI
Political stability and absence of violence/terrorism	BG, CZ, EE, PL, RO	HR, HU, LV, LT, SK, SI
Government effectiveness	CZ, EE, HR, LT, LV, RO, SI	BG, HU, PL, SK
Regulatory quality	CZ, EE, HR, LT, LV, PL, RO, SI	BG, HU, SK
Rule of law	BG, CZ, EE, HR, LT, LV, PL, SK, SI, RO	HU
Control of corruption	CZ, EE, LT, LV, PL, RO	BG, HR, HU, SK, SI

Source: Own elaboration based on World Bank.

Demographics

Another significant challenge relates to people – or, more precisely, a lack thereof. The issue of labour shortages has been long discussed in EU-CEE, and it's clear that there are no quick solutions to the problem (see e.g. Astrov et al. 2022). Strikingly, the EU-CEE labour markets have remained largely resilient to the multiple economic shocks of the past four years, with the issue of labour shortages persisting even amid recessionary developments. Survey results[4] indicate that the share of firms experiencing shortages of labour surpasses 30% in the manufacturing sector of Poland, 25% in the case of Slovenia, and 20% in the cases of Slovakia and Hungary. Together with the Netherlands, these are the most labour-constrained countries of the EU. Generating economic growth under conditions of labour scarcity will be a difficult yet necessary task for EU-CEE going forward. This will inevitably require policies to maximise labour market participation, to promote inward migration while mitigating outward migration, and to incentivise family formation.

4 Labour shortages limiting production in Q4 2023 (Source: DG ECFIN).

The green transition

The exposure of the EU-CEE countries to the changes brought on by the green transition is high, yet so far their preparedness for the transition remains low. While progress has been made on a number of fronts, including the decoupling of growth from CO_2 emissions and improvements in energy efficiency, there is still a long way to go to reach the ambitious goals of the European Green Deal. Given three main factors – namely, that the region's energy mix is heavily skewed towards non-renewable sources, that societal recognition of the climate crisis is lower than in most other parts of the EU, and that a notable share of the population is employed in brown sectors, such as coal mining and the production of combustion engine vehicles – getting the EU-CEE economies ready for the green transition will certainly not be an easy task (see Riepl and Zavarská 2023). Yet an apprehensive stance towards the transition risks making matters worse. After all, whether EU-CEE adapts or not, the world is already moving in the direction of developing cleaner technologies and adopting renewable energies. Hence, failing to embrace the green transition and effectively utilise the relevant financial instruments and policy mechanisms available in the EU comes with the risk of economic obsolescence, with outdated industries struggling to remain relevant in a changing world.

OPPORTUNITIES

Automation and digitalisation

A promising means for inducing an upgrading of EU-CEE economies and dealing with the demographic challenges can be found in the automation of routine tasks. As argued by Grieveson et al. (2021), instead of perceiving this transformation as a threat, there are opportunities to be found in the EU-CEE countries that argue in favour of a wider adoption of automation technologies, which channels scarce labour into value-adding activities that cannot be easily carried out by robots. At the same time, in the digital realm, certain countries (particularly in the Baltics) and certain sectors (e.g. software or e-commerce) in EU-CEE have already demonstrated considerable potential. Moreover, even in countries that are falling behind in terms of digitalising the wider economy, there are local competitive firms emerging in the digital economy that could pave the way for new industries to thrive (see Zavarská et al. 2023). In this sense, the digital transformation – in contrast to the green transition – can be regarded as an area in which some leapfrogging could take place in the years ahead, thereby positioning the EU-CEE countries as 'digital challengers' in the EU context (McKinsey 2022).

The EU's industrial strategy and Open Strategic Autonomy

Today's world is starkly different from the one of the early 2000s, when the EU-CEE countries joined the EU. While the former period was characterised by 'hyper-globalisation', what we have been observing in recent years is a slowdown in these integrative forces and a changing policy tone of all major global economic actors (e.g. Antràs 2020). The EU is no exception in this regard, as it has announced its intentions to pursue Open Strategic Autonomy – which, as summarised by European Commission Executive Vice-President Valdis Dombrovskis, entails 'acting multilaterally wherever and whenever we can, but being able to act autonomously if we must' (European Commission 2021).

Under this reference framework, a number of EU instruments have been introduced, including massive financing from the NextGenerationEU fund, a number of changes to state aid rules, investment screening mechanisms, and initiatives like the European Chips Act and the Net-Zero Industry Act. All of these mechanisms are meant to strengthen EU-centric value chains in critical and strategic sectors. While operating in a multipolar world comes with a multitude of challenges, the EU-CEE countries – as integral participants in the EU's manufacturing value chains – can also stand to gain from the more assertive stance of the EU. This holds true not only from the perspective of potential value chain restructuring and the increased appeal of near-shoring that it may bring, but also from the perspective of the growing policy and financial space available to boost the resilience and competitiveness of EU industry. Compared with other emerging countries in the world, this puts the EU-CEE countries in an advantageous position, as they can leverage the joint financial and policy space with some of the most technologically advanced countries of the world.

EU enlargement

Another EU-wide development that EU-CEE could leverage to its advantage comes from the potential enlargement of the EU to include the Western Balkan countries, Georgia, Moldova and Ukraine. The fact that the EU-CEE countries would move from the position of 'new' member states to 'old' member states raises several important questions related to competitiveness. On the one hand, the newly integrated countries would hold a significant labour cost advantage, which could impact the currently strong positions of the EU-CEE countries as assemblers in EU value chains. On the other hand, it is precisely this type of shock that could induce the EU-CEE countries to upgrade their positions in these value chains. This process could resemble the 'flying geese' pattern observed in the development of East Asian countries, whereby less sophisticated products and segments of value chains were shed by certain countries as they developed and passed on to less developed countries in the region (see Kojima 2000). Such a regional transmission of industrialisation in the European context would entail having the EU-CEE countries finally cede their strong specialisation in the production stage of the value chain, which far exceeds levels that would be in line with their development levels in the first place (Stöllinger 2021). At the same time, stronger integration of candidate countries into the EU could induce more outward FDI activity from the EU-CEE countries into these countries, creating new possibilities for EU-CEE-centred value chains to emerge.

INDUSTRIAL POLICY FOR EU-CEE'S NEXT GROWTH CHAPTER

Without a more active and strategic use of industrial policy, the opportunities discussed above are unlikely to materialise and the challenges will only be compounded.[5] Indeed, a contributing factor to the productivity slowdown evident in Figure 4 relates to the passivity of EU-CEE's growth path to date, which can only take countries so far. Hence, without policies to help induce structural change, it will be very difficult for them to move away from their positions as dependent market economies (Nölke and Vliegenthart 2009). At the same time, as more and more EU member states move in the direction of implementing their own industrial strategies, the EU-CEE countries will need to keep pace with them to avoid divergence in economic performance as much as possible.

[5] This section draws on the findings and insights presented in Zavarská et al. (2023).

Thinking about modern-day industrial policy for EU-CEE, a number of core pillars can be identified (see Zavarská et al. 2023 for more details). First, states need to play a more proactive role in connecting key actors in the economy, including the private sector, academic institutions, key ministries and business development agencies. It is based on these interactions that promising areas and niches can be identified and exploited. The EU-CEE countries need to be careful not to equate industrial policy with top-down planning, as witnessed in parts of the region in recent times. At the same time, the EU-CEE countries can and should learn from the achievements of each other (as well as of other countries). For instance, the success of some EU-CEE countries in the digital sphere can serve as an inspiration to the wider region. However, replicating policies without sufficiently considering the unique conditions of each country runs the risk of policy failure. Hence, each EU-CEE country needs to create a tailor-made strategy that is a good fit for its specific needs and ambitions.

Second, given that the EU-CEE countries are members of the EU, it is imperative to think about having an industrial policy that not only is compatible with EU rules and regulations, but also makes the most of this integration. Importantly, this means making better use of EU funds than the region has done up to now, such as by improving their absorption and efficiency. At the same time, boosting participation in the EU's expanding range of joint research and industrial policy initiatives could offer the EU-CEE countries valuable opportunities to learn from more technologically advanced countries. Yet, without targeted support, it remains difficult for local actors to participate.

Third, if EU-CEE wants to go beyond its current role as an assembler in value chains, it needs to rethink the way it approaches FDI promotion. Specifically, investment promotion schemes need to be closely tied to industrial innovation strategies of the EU-CEE economies while also avoiding blanket support to foreign investors and overly generous subsidies. Indeed, both domestic and foreign firms should be supported based on their potential contribution to the local economy, and any support should be adjusted and scaled back over time. Furthermore, deeper linkages and spillovers between foreign and domestic actors need to be promoted.

Fourth, as discussed above, there is a worrying trend in the area of institutional quality in many of the EU-CEE countries. Given these circumstances, institutional improvements and reforms need to go hand in hand with industrial policy endeavours. Without it, the EU-CEE countries run the risk of fostering overweening policies, corrupt practices and distortive interventions. Yet, as the successful experience of East Asian countries reveals, having institutional quality at the level of the countries of Northwestern Europe need not be a prerequisite for the successful implementation of industrial policies, provided that accountability mechanisms are put in place. Instead, institutional improvements and industrial development can go in tandem, creating a virtuous cycle between these two spheres.

Finally, more efforts need to be dedicated to balancing structural change with equality. In this context, EU-CEE nations can strive for flexible labour markets to facilitate the shift from traditional to modern sectors and job opportunities, complementing this process with robust retraining initiatives and a comprehensive social safety net to ensure that individuals or entire regions do not get left behind. Considering the major regional imbalances present in EU-CEE, a more place-sensitive and regionally oriented industrial strategy is paramount not only for making the pie larger, but also for making the pieces more equal.

CONCLUSION

The past two decades have been a truly transformative time for the EU-CEE countries, which is in large part a consequence of EU accession. Looking to the years ahead, the EU-CEE region has a lot to gain from further deepening its integration with other European nations. A more assertive EU, which is putting its own competitiveness at the core of its economic strategy and potentially expanding its internal borders, will open up unique opportunities for EU-CEE to transform into more a strategic player in European value chains. At the same time, given the region's relatively favourable starting positions, leveraging technological developments and newly emerging sectors in the digital sphere can pave the way for new specialisations of EU-CEE countries.

On the other hand, decoupling the region's growth from fossil fuels and creating a greener economy will require concerted efforts and sound reskilling and redistribution mechanisms. The shortage of labour will also need to be tackled, such as by leveraging possibilities for automation and tapping into segments of the labour force that face greater obstacles to participation, such as female, young, elderly and foreign workers. Rising populism and declining institutional quality threaten to make the challenges harder and the opportunities less accessible. Nevertheless, with the right set of industrial policies and firm commitment, EU-CEE can upgrade its position in EU value chains, increase its resilience to external shocks, close the remaining gaps with Western Europe and, ultimately, enhance the well-being of its populations – thereby setting the stage for another successful 20 years.

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Welfare convergence or social dispersion? The socio-demographic developments of the EU-CEE countries

BY SEBASTIAN LEITNER AND MARYNA TVERDOSTUP

Following their accession to the EU, the CEE countries have continued to make up ground in economic terms. However, in terms of overall welfare, the pace of their catching up has been mixed and less rosy in some areas. An important factor behind this has been demographic developments that were strongly driven by migration flows, resulting in sharply falling unemployment and rising labour shortages. Still, some of the countries (e.g. the Baltic states, Bulgaria and Romania) feature considerably higher levels of relative poverty and lower levels of public expenditures in comparison to the EU average.

DEMOGRAPHIC DEVELOPMENTS AND MIGRATION

After the fall of the Iron Curtain, and even more so after the EU accession of the Central and East European (CEE) countries, migration returned to Europe at magnitudes it had not seen since the period following the Second World War. Skilled workers from the new EU members states of CEE (EU-CEE) were welcomed in the EU15, but less so immigrants receiving social benefits. Populist parties in the EU15 soon took advantage of citizens' fear of being replaced on the labour market and of losing status. These concerns had already started building up in the 1980s due to higher unemployment levels and declining job security.

These migration flows played a pivotal role in shaping the demographic landscape in the EU-CEE countries after EU accession. Panel (i) of Figure 1 illustrates population growth rates across EU-CEE countries – as well in Austria, Germany and Spain for comparison – spanning the period from 2004 to 2022. The population dynamics varied dramatically among EU-CEE countries upon their accession to the EU. Only three countries – Czechia, Slovenia and Slovakia – experienced positive growth rates, of 4.7%, 5.8% and 1.1%, respectively. In contrast, all other EU-CEE countries faced population decline, with the most pronounced drops (around 16%) being observed in Bulgaria, Latvia and Lithuania. This dynamic stands in stark contrast to that of Austria, Germany and Spain, which have seen population growth over recent decades driven by steady East-to-West migration within the EU.

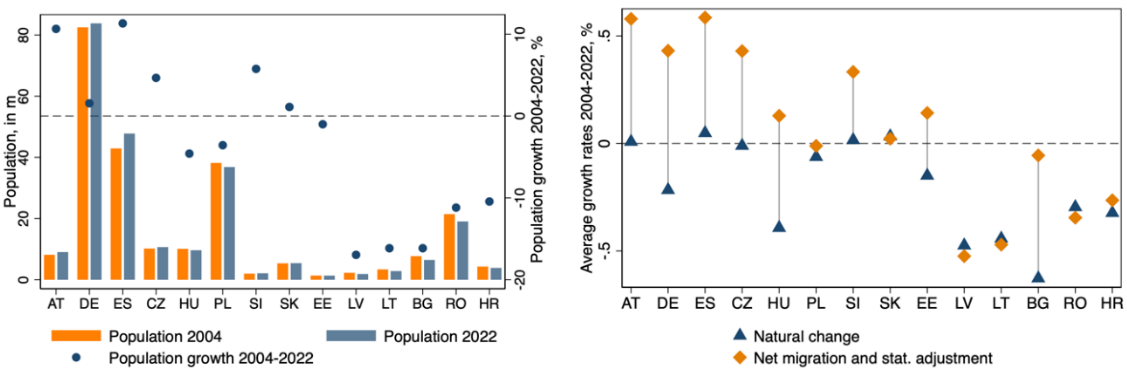
A constellation of factors – such as low fertility, persistent outward mobility and often slow improvements in life expectancy – drove the negative population dynamic in the EU-CEE region over the last two decades, as confirmed by Eurobarometer interviewees (European Commission 2023). Further disaggregation of the population growth rate into the natural growth rate and net migration (as shown in panel (ii) of Figure 1) yields several important observations. The average natural population change, which captures the gap between births and deaths, stood at or below zero for all EU-CEE countries over the 2004-2022 period, as it also did for Austria, Germany and Spain. Natural population decline was particularly pronounced in Hungary, Latvia, Lithuania and Bulgaria, where it was largely driven by declining fertility (Eurostat 2024).

Hence, the positive population growth dynamic in the 'old' EU member states and in several EU-CEE countries (as recorded on panel (i) of Figure 1) was driven by positive net migration alone, while natural population growth rates declined steadily. In all EU-CEE countries apart from Czechia, Estonia, Hungary and Slovenia, the average net migration over the 2004-2022 period was zero or negative. These countries served as a major migration source region for the 'old' EU member states. The most pronounced negative net migration was recorded in Latvia and Lithuania, as outward migration spiked after EU accession and return migration remained subdued in subsequent years. However, limited population growth prospects suggest that the potential of the EU-CEE countries to supply the 'old' EU member states with much-needed labour and offset looming population decline is running low.

Figure 1 / Demographic developments after EU accession, by country

(i) Population and population growth rate, 2004-2022

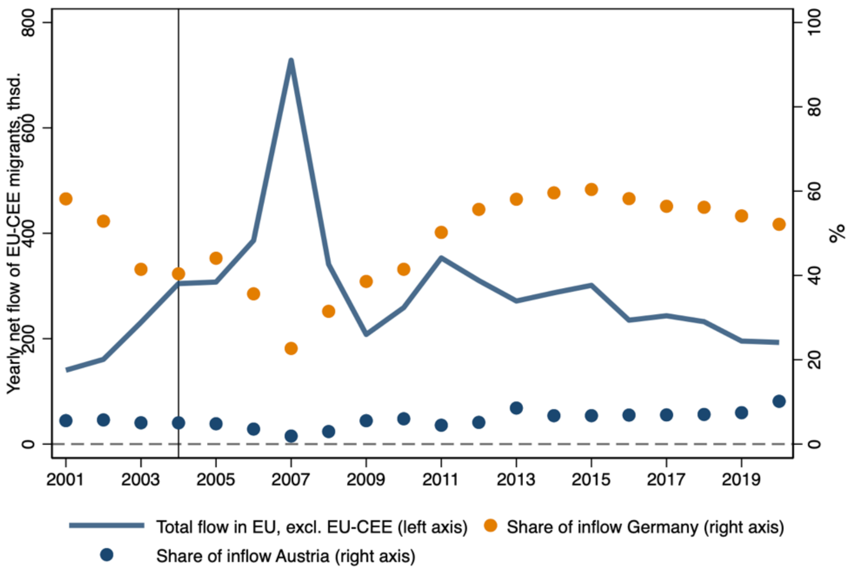
(ii) Population change by component (average annual growth rates, 2004-2022)



Note: Population growth rate on panel (i) is computed as the difference between the average population in 2022 and in 2004 divided by the population in 2004. Average growth rates on panel (ii) from 2004 to 2022 are estimated as simple mathematical averages of annual growth rates. Annual natural growth rate is measured as a fraction of the difference between births and deaths in a given year to the average population that year. Annual net migration is measured as a fraction of the difference between the numbers of immigrants and emigrants in a given year to average population that year.
Source: Eurostat population statistics (*demo_gind*).

The evolution of the net migration flows from EU-CEE to EU15 (as depicted in Figure 2) reflects the expanding East-to-West mobility immediately following EU accession and its gradual return to pre-accession levels in recent years. The net flow stood at around 140,000 in 2001 and increased more than fivefold by 2007, reaching 730,000. However, migration intensity declined sharply as the financial crisis unfolded, and the net flow fluctuated between 250,000 and 350,000 in the past decade, converging to a pre-accession level of around 200,000 by 2020. Germany remained the major destination country for EU-CEE migrants, with the country's share of the total EU-CEE migration flow fluctuating between 40% and 60% for most of these years. Austria, which is 10 times smaller than Germany, also had a consistently lower share of EU-CEE immigrants in all these years, which reached 10% in 2020.

Figure 2 / The net flow of EU-CEE migrants to EU15 and the shares of Austria and Germany in overall EU-CEE migration flows, 2001-2020



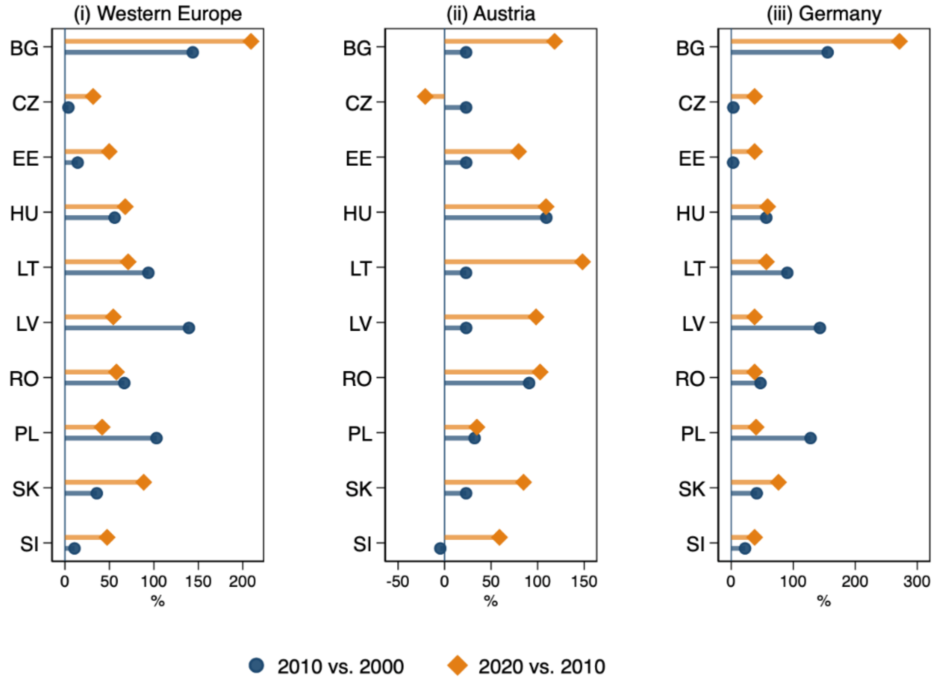
Note: EU-CEE countries include Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. Net flow is estimated as the difference between in- and out-coming migrants from the EU-CEE countries. The share of inflow in Germany and Austria is defined as the percentage of all EU-CEE immigrants arriving in the EU15 during a given year, with their destination country being either Germany or Austria.
Source: Eurostat immigration and emigration statistics (*migr_imm1ctz* and *migr_emi1ctz* respectively).

The evolution of the net migration flow reflects the interplay and varying importance of multiple push and pull factors. In the initial post-accession years, high unemployment and even absolute poverty (see section below) in the EU-CEE countries as well as economic gaps between these countries and the ‘old’ EU member states loomed large. However, the disparity gradually narrowed for many EU-CEE countries, which in turn diminished the relative importance of economic pull factors, such as higher wages and better job opportunities in Western Europe. Various other factors – including political stability, investment and development – influenced migration trends. As EU-CEE countries made progress, some people discovered improved prospects in their home countries, which lessened the need to seek work abroad (Mara 2017).

The population of immigrants from the EU-CEE region in Western Europe has changed dramatically over the last two decades, with the magnitude of change varying starkly across origin countries (Figure 3). However, one common observation holds true for immigrants from all EU-CEE countries, namely, that their numbers have consistently increased throughout the last two decades. The most pronounced increase was recorded for immigrants from Bulgaria, as their population in Western Europe grew by 143% in the 2000-2010 period and by another 209% over the 2010-2020 period. The number of immigrants from Latvia and Lithuania residing in Western Europe also increased sharply, especially between 2000 and 2010, with respective increases of 94% and 140%. In addition, there was a 102% increase in the population of Polish immigrants over the same period.

Austria and Germany reveal varying patterns when it comes to the dynamics of their EU-CEE immigrant populations. In Austria, immigration from Hungary and Romania rose sharply during the 2000-2010 period, while the population of immigrants from Bulgaria, Hungary, Latvia, Lithuania and Romania saw the starkest increases in the subsequent decade. Immigration to Germany over the early post-accession years was most sizable among Latvian, Lithuanian and Polish nationals, while the population of immigrants from Bulgaria increased by a striking 270% over the 2010-2020 period.

Figure 3 / Relative change in the stock of immigrants by country of origin and destination in the EU



Note: The definition of Western Europe region follows the UN classification and includes Austria, Belgium, France, Germany, Liechtenstein, Luxembourg, Monaco, the Netherlands and Switzerland.
Source: UN migration stock statistics (United Nations 2020).

LABOUR MARKETS IN THE EU-CEE COUNTRIES

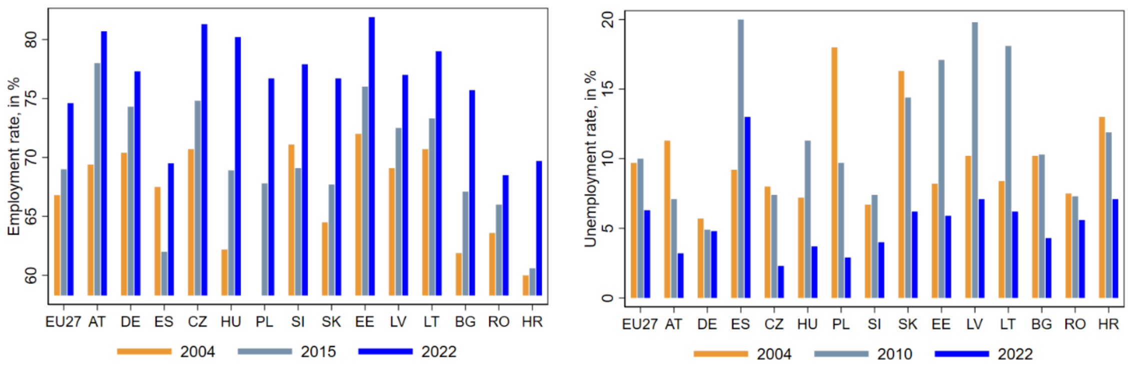
Following overmanning and low productivity levels in the socialist production systems of the CEE countries, their economies were strongly shedding labour for a couple of years during the transition period. Thus, employment shares remained rather low or even declined until the time of EU accession despite catching up in term of productivity and GDP. Unemployment was often rather stagnant, and Poland and Slovakia were two examples of countries whose economic restructuring even resulted in increasing unemployment rates during the period before EU accession. The financial crisis also affected the labour markets of the EU-CEE countries, albeit less so than in Southern Europe. Nevertheless, in the Baltics, where financialisaton generated pre-crisis boom and post-crisis bust, unemployment rose to between 15% and 20% (see Figure 4ii) and became an important push factor for substantial emigration.

However, in many of the EU-CEE countries, economic recovery following the financial crisis resulted in substantially rising employment rates from 2015 onwards. Even the COVID-19 crisis could not stop this trend. In 2022, the employment rates of most EU-CEE countries were close to or even surpassed the EU's 78% target (see panel (i) of Figure 4). Only Romania and Croatia still lagged behind somewhat. However, one should not forget that strong increases in employment rates were often accompanied by very low growth in terms of the number of jobs. On the supply side of the labour market, they were mostly driven by outward migration from the region. Bulgaria, Romania, Latvia and Lithuania all even saw a decline in total employment in the period between 2004 and 2022.

Figure 4 / Labour market developments, 2004-2022, by country

(i) Employment rate, 20-64 years

(ii) Unemployment rate, 15-64 years



Source: Eurostat.

THE MOULDING OF THE EU-CEE WELFARE MODEL(S)

Following the crash of the command system, which triggered substantial drops in general welfare in the CEE countries, economic revival from the mid-1990s onwards was able to alleviate some of the worst social consequences of transformation. Absolute poverty,[1] for example, which was rather widespread in many countries in the 1990s, had declined until 2004. Nevertheless, the share of the population living below USD 6.85 a day still amounted to between 5% and 10% in Hungary, Czechia, Slovakia and Estonia, while it affected 15% of the population in Poland, 20% in Latvia and Lithuania, 30% in Bulgaria, and even 40% in Romania, with the latter being in line with Ukraine at that time.

Applying Esping-Andersen's welfare regime methodology featured in 'The Three Worlds of Welfare Capitalism' (1990), analysts viewed the EU-CEE countries as one or two distinct type(s) of welfare state(s) (Lauzadyte-Tutliene et al. 2018, Piotrowska and Rae 2018) with both liberal and conservative features. The latter type of welfare regime leaves a lot of functions of social protection to the family (or individual). A particular characteristic of this Central and East European type of welfare state was the much lower level of benefits for the unemployed, the disabled, children, pensioneers and others in comparison to other types of welfare states. In order to come closer to their peers in Western Europe, the EU-CEE countries would have had to build up more inclusive welfare structures (Andor 2022).

However, the decade before 2004 was a time when some governments in the EU15 searched for ways to tackle the situation of rather high and stagnating levels of unemployment. The 'Third Way' (also

1 The indicated rates are the percentage of the population living on less than USD 6.85 a day at 2017 international prices and are derived from the World Development Indicator Database of the World Bank.

named Modernised Social Democracy) became dominant in the welfare discourse, with its turn to a re-commodification of social services (and risks) as well as a move ‘from welfare to workfare’. In Germany, for example, the government led by Social Democratic Chancellor Gerhard Schröder introduced the Hartz IV reforms in 2002, which substantially lowered the minimum income support for the long-term unemployed. Thus, the CEE countries entered the EU at a time when providing more social protection and services had fallen out of style. Moreover, most CEE governments saw their role in facilitating productivity catch-up in a liberal manner (also via providing a low tax environment) and then allowing (expected) trickle-down effects to work in order to increase welfare. The result was that the government expenditure as a share of GDP in the EU-CEE countries was often 10 or more percentage points below the average of the EU15 (47.1% in 2004). Only Hungary, Croatia and Slovenia showed levels similar to those of the ‘old’ EU countries, and Czechia and Poland could be found in between. In most cases, the lower public expenditure levels were the result of less spending on social protection.

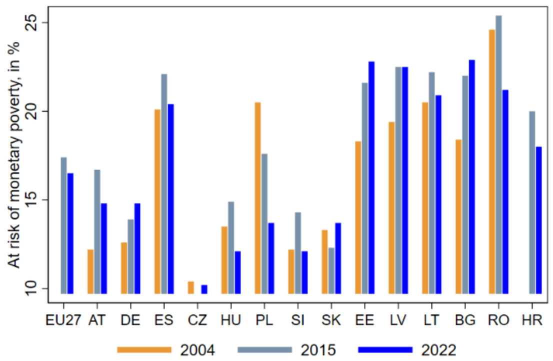
The financial crisis and its aftermath (2008-2012) put additional pressure on harder-hit EU-CEE countries. The Troika urged a couple of countries (e.g. Romania) to liberalise their labour markets and collective bargaining regulations, causing coverage rates – which were already low at that time – to decline even further. By 2018, they had shrunk to below 20% in Estonia, Lithuania, Poland and Romania (where the decline from 98% in 2010 was the strongest in the region); between 20% and 30% in Latvia, Hungary, Bulgaria and Slovakia; 34% in Czechia; and 53% in Croatia. At 79%, Slovenia was the only EU-CEE country showing a coverage rate by collective agreements comparable to the ones in Western Europe. Moreover, the extent and duration of unemployment benefits and social assistance was reduced in some EU-CEE countries, particularly in Hungary and Romania.

The austerity- and liberalisation-oriented policies pursued by EU institutions in the aftermath of the financial crisis resulted not only in a second dip in 2011 and increasing economic disparity among EU members, but they also put the social fabric within individual countries in danger of fraying. Increased unemployment, inequality and instability thus fostered political polarisation, and far-right-wing populist parties gained momentum not only in the ‘old’, but also in the ‘new’ EU countries. Where ‘the liberal elites of the EU and the old parties’ had failed, the state was again supposed to protect ‘the nation and its folk’ from loss in terms of welfare and status. For many citizens in the EU-CEE countries, the collapse of stability and modest prosperity had already been experienced after the fall of the Iron Curtain. Thus, they expected the EU to play an anchoring role that promoted resilience and economic progress, while further liberalisation was generally not desired by citizens in either the eastern or western parts of the bloc. It became obvious that the EU (and even more so the euro area) was not viable without more flexible and countercyclical fiscal policies both at the EU level and the level of individual countries (Heimberger 2017); that the European Central Bank (ECB) had to use more proactive measures (e.g. bond market interventions); and that, in general, structural and institutional reforms to reduce polarisation in Europe and foster economic resilience were needed (Kapeller et al. 2019).

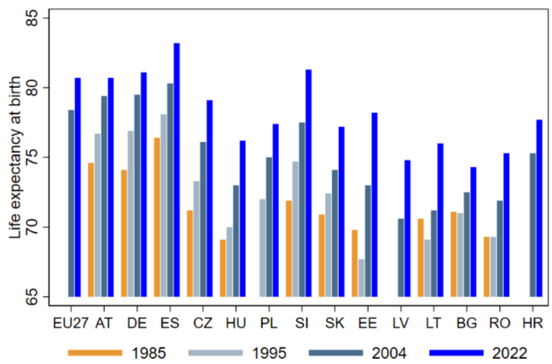
Thus, the European Commission had to deliver a countervailing policy concept that would demonstrate its ability to usher in economic stability, progress and cohesion in welfare terms not only for its member states, but also for individual citizens. In the area of social policies, the European Pillar of Social Rights, proclaimed in 2017, can be seen as a move in this direction (Keune and Pochet 2023). The 20 principles of the Social Pillar aim to promote equal opportunities and access to the labour market, ensure fair working conditions, and foster social protection and inclusion for all EU citizens. The Commission promised to deliver concrete actions to regulate minimum standards and promote social progress in the following years. This can be seen as a change of orientation from a market liberal orientation towards ordoliberalism, which accepts the need for regulation and calls for a more active state to provide at least equality of opportunity (if not outcome) for citizens all over the EU. Updated targets for increases in the employment rates, training for upskilling of the workforce, and childcare provision as well as for poverty reduction were adopted in 2021 and 2022. Since a few EU-CEE countries lag behind in these areas, the Commission's push will help to increase welfare levels for those EU members in particular. In November 2022, the European Parliament also adopted the Minimum Wages Directive, which encourages EU governments to set and enforce adequate minimum wages with the involvement of social partners and to target collective agreement coverage rates of at least 80% (Leitner 2024).

Figure 5 / Social indicators, by country

(i) At risk of monetary poverty rate*, 2004-2022



(ii) Life expectancy at birth, 1985-2022



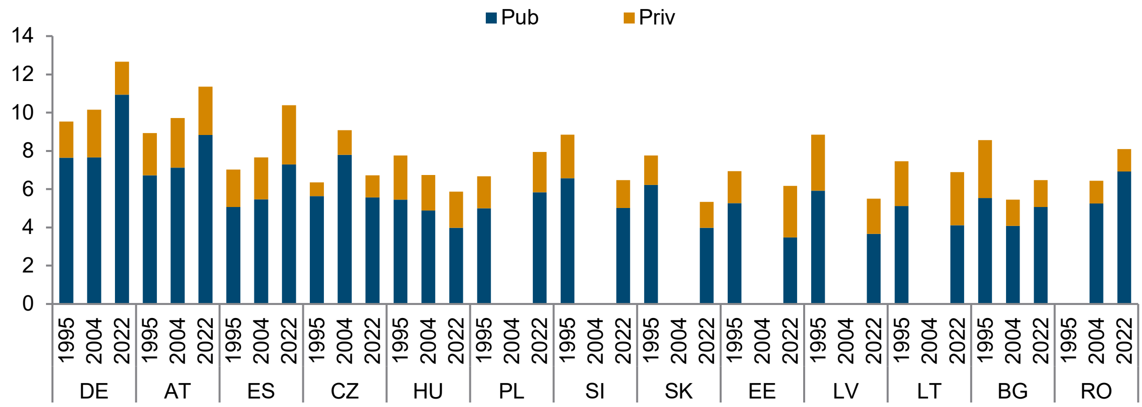
Note: At-risk-of-poverty rate: share of people with an equivalised income at or below 60% of the median income after social transfers.
Source: Eurostat.

A big disparity within the EU-CEE is to be found in the case of poverty and inequality (see panel (i) of Figure 5). While the CEE5 countries – meaning the Visegrád countries (Poland, Czechia, Slovakia and Hungary) as well as Slovenia – feature poverty rates that are in line with or even lower than those of most West European countries, more than 20% of the population are at risk of poverty in the Baltics states, Bulgaria and Romania, and the figure is almost as high for Croatia. Among the reasons behind this are strong differences between urban and rural (and other peripheral) regions in terms of productivity and income, small re-distributional capacities, and the impact of the fiscal systems in those countries. Thus, inequality is much more acute in EU-CEE countries.

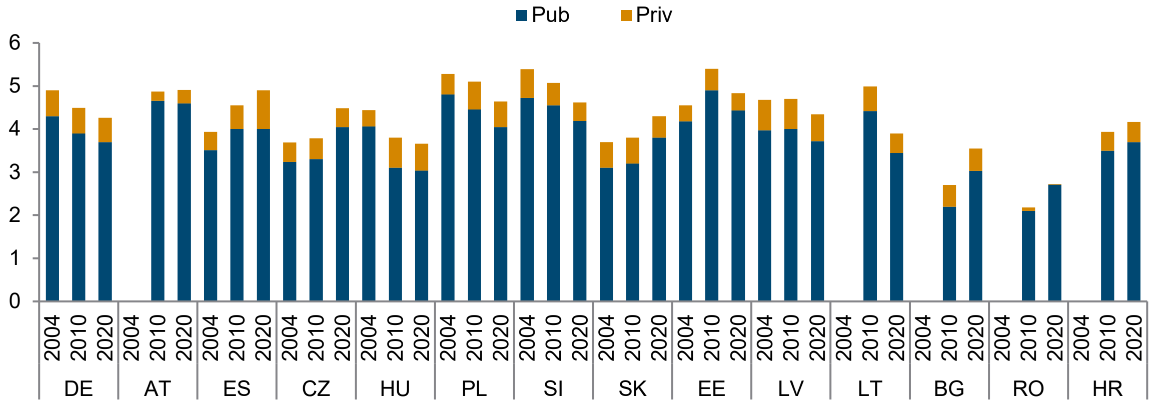
In order to describe progress and catching up in welfare levels in a broader sense, we apply the simplistic indicator of life expectancy at birth (see panel (ii) of Figure 5). Here, one can see that in European countries in general, progress in medicine, nutrition and other related fields brought about considerable increases in life expectancy in the past 40 years. In EU-CEE, however, we see that the transformation period of the 1990s was not only a time of economic crisis, but also one of stagnation – and even of declining life expectancy in the Baltic states. However, strong improvements in life expectancy subsequently resulted in some EU-CEE countries' catching up with the EU15. In 2022, life expectancy in Czechia and Slovenia was at the same level as the EU27 average, while Latvia, Lithuania, Bulgaria and Romania lagged behind by five years, as did Hungary, the Visegrád country with the lowest level of life expectancy. In general, we see this kind of development – namely, progress with mixed results in terms of quickly catching up to the level of EU peers – for many welfare indicators (e.g. the share of children in formal childcare) and various health indicators.

Figure 6 / Public and private expenditure on health and education, in % of GDP

(i) Health expenditure, 1995-2022



(ii) Education expenditure, 1995-2020

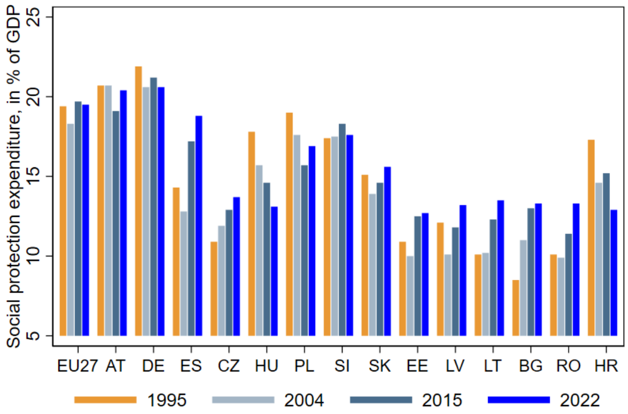


Source: OECD.

One of the reasons for the persistent differences in well-being between most 'old' EU members and the EU-CEE countries are lower levels of welfare-promoting public (and private) expenditures in the latter. In the field of health care, public expenditures increased in all EU-CEE countries as a share of GDP in the 2004-2022 period (panel (i) in Figure 6). However, since this was also the case in West and South European countries (and also driven by ageing populations and the COVID-19 pandemic), the EU-CEE countries hardly managed any catching up. In addition, the share of private expenditures on health is relatively high in some EU-CEE countries. For example, households in Latvia, Lithuania and Bulgaria have to cover more than 30% of the total health expenditures out of their own pocket, which is another feature of the rather liberal welfare models of these countries.

The picture looks different when it comes to education expenditures (panel (ii) of Figure 6), where most EU-CEE countries seem to have clung to the communist tradition of making high investments in this area. We can see the effort of most EU-CEE countries to promote skill development in order to boost productivity and raise their position in the global value chains. Only Romania lags behind in terms of expenditure levels, although Bulgaria and Hungary have relatively lower levels, as well. However, problematic in this respect is that higher shares of private education expenditures – like the ones found in some of the EU-CEE countries – tend to increase education inequality and thereby reduce social mobility.

Figure 7 / Public expenditure on social protection, in % of GDP



Source: Eurostat.

As mentioned above, the element of the welfare state that features the strongest difference between the EU-CEE countries and the rest of the EU are public expenditures for social protection, which include, among other things, unemployment, family, child, sickness and disability benefits as well as public pensions. In the majority of EU-CEE countries, public social expenditures amounted to 13% of GDP in 2022, while the average for the EU27 was 20%. Closest to this level were Slovakia, Poland and Slovenia, with between 16% and 18% of GDP. While those countries that had the lowest levels in terms of GDP per capita in 1995 also caught up in this respect after EU accession, many of those with high levels decreased their spending on social protection as a share of GDP.

CONCLUSIONS

The demographic landscape in the EU-CEE region faced significant challenges due to persistent East-to-West migration, declining fertility rates, and slow improvements in life expectancy. After joining the EU, the EU-CEE countries played a crucial role as major labour migration sources to the 'old' EU member states for nearly two decades. Consequently, with the exception of Czechia, Slovakia and Slovenia, all other EU-CEE countries experienced population decline following EU accession. This shrinking demographic potential undermines the region's ability to supply much-needed workers to Western Europe in the long term. As domestic economies face substantial labour shortages and economic conditions gradually align with those of Western Europe, the incentives for emigration decrease. As a result, unemployment levels have declined rather swiftly over the past decade and employment rates are now comparable with those of Western Europe. However, in the same decade, collective bargaining and social protection against unemployment have been diminished in various countries in the region.

In general, even though the EU-CEE countries have been able to make a lot of improvement on many welfare aspects (e.g. life expectancy), catching up to the level of West European countries has not been achievable to date. The 'new' EU member states generally cluster around two distinct welfare state models. Although they are different in many ways, the Visegrád countries and Slovenia generally feature higher levels of social-protection, health and government expenditure, while their poverty rates are comparable to those of Western European countries. Their 'Central European' welfare model is rather close to the conservative one. The second country group – comprising the Baltic states, Bulgaria, Romania and Croatia – cluster around an 'East and Southeast European' welfare model, with lower public welfare expenditures and lower results in terms of welfare outcomes, including persistently higher poverty rates and inequality levels. In the period after EU accession, most citizens in the EU-CEE seem to have benefited from the improved welfare situation. However, those benefits have been lower and distributed more unequally in countries embracing the 'East and Southeast European' welfare model compared to those embracing a 'Central European' welfare model.

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Testing the limits: The politics of EU membership in EU-CEE

BY MARCUS HOW[1]

Surveys indicate that local populations in EU-CEE remain broadly positive about EU membership. Apathy is high, however, and trust in national institutions remains low. Combined with 'convergence fatigue', these factors have created favourable conditions for populist forces, which have degraded the quality of institutions in numerous states. These forces are qualified in their Euroscepticism in that they favour EU membership for pragmatic reasons. Nevertheless, such attitudes will prove unsustainable in the long term, as the case of Hungary is now demonstrating.

Two thousand and four was among the most consequential years in the history of the European Union, as the number of its member states nearly doubled. In the space of a decade, those new EU states within Central and Eastern Europe (EU-CEE) had succeeded in aligning their formerly communist institutions with minimum EU standards. This had profound implications not only for the new member states themselves, but also for the bloc as a whole – and decision making within it.

Twenty years on, with Romania, Bulgaria and Croatia having acceded to EU membership in the interim, the further integration of the new member states into the EU core has deepened, albeit unevenly. Of those within EU-CEE, six – a lower number than expected – have successfully adopted the euro, while the largest among them (Poland, Romania, Hungary, Czechia) have retained their local currencies. All member states have joined the Schengen area of free movement, apart from Romania and Bulgaria, which have only gained partial membership.

Local attitudes towards the EU, combined with the pace of integration, are of particular significance given that the bloc plans – provisionally – to expand further over the next decade to include the Western Balkan countries, Ukraine, Moldova and Georgia. Furthermore, EU-CEE has gained in importance amid geopolitical upheaval and economic development. Poland and Hungary have become, for different reasons, some of the most influential member states in the entire bloc. Even some small states have gained in profile, as Croatia and Lithuania have proven by emerging as energy gateways.

THE ONLY SHOW IN TOWN

Of the CEE states that joined the EU between 2004 and 2013, nine held referendums, with support for accession averaging 79.3%. In relative terms, opposition was strongest in Estonia, Latvia and Croatia, where it garnered up to a third of the vote. Although the result indicated overwhelming support for membership, this belied the existence of a constituency that was apathetic. Indeed, average turnout was modest, with only 57.1% of the electorate voting, a share that fell to around 45% in both Hungary and Croatia.

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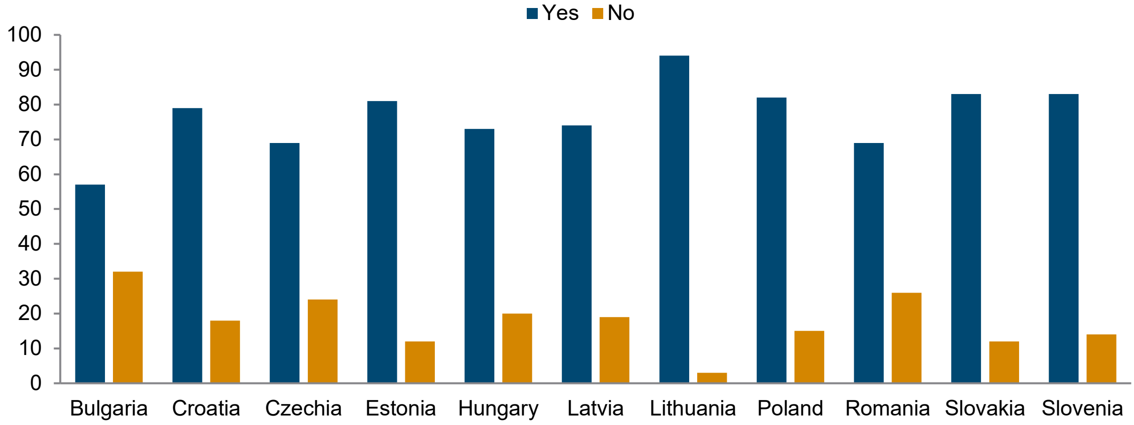
[1] Marcus How is the Head of Analysis at VE Insight, a Vienna-based investment risk advisory specialised in EU-CEE.

Since then, Euroscepticism has entered the political mainstream of all the EU-CEE member states and is championed by major parties, but very few of them advocate a departure from the EU. This reflects not only the depth of the economic integration of these member states into the EU, but also the public support for continued membership, which has remained high.

The Eurobarometer survey, which is conducted regularly by the European Parliament, confirms positive attitudes across multiple categories. In the most recent survey, in autumn 2023, an average of 76.72% of respondents stated that EU membership had benefited their respective country, with Bulgaria being the only notable outlier, with only 57% believing this to be the case (Figure 1). The overall EU average was 72%.

Figure 1 / Survey question: 'Has your country benefited from membership of the EU?', in %

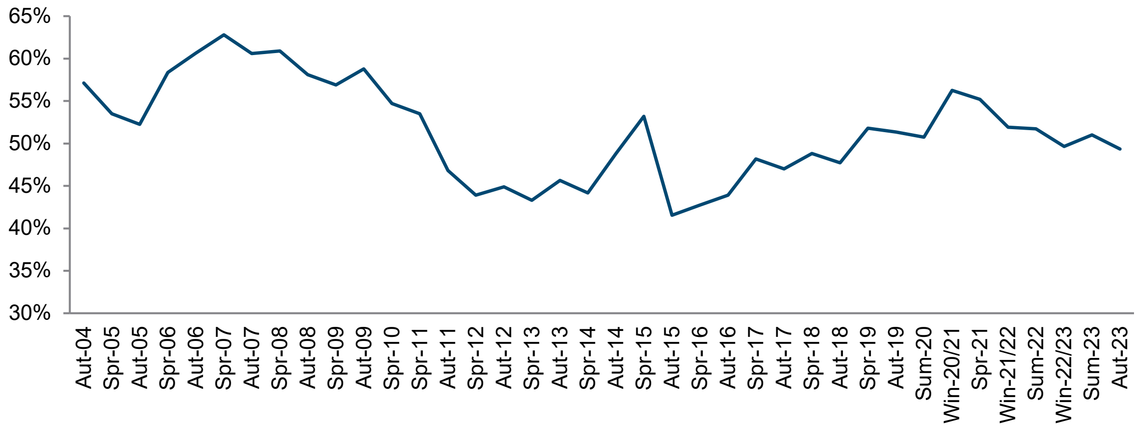


Source: Eurobarometer survey, autumn 2023.

Another Eurobarometer category indicated that 58.5% of respondents regarded EU membership as positive, which was slightly below the EU average of 61%. Only 8.6% believed it was negative, with the remainder regarding it as neither positive nor negative. When asked about the importance of being an EU member state to their country, 63% of respondents felt it was important, as compared with the EU average of 67%. A further 12% believed the contrary, with the remainder expressing indifference. Meanwhile, optimism in the future of the EU ranked at 64%, although it had fallen from the 71% level of the 2007 survey.

While reflecting overall positivity, these indicators point towards increasing apathy. The Eurobarometer reveals that trust in the EU among EU-CEE populations has decreased, falling on average from a peak of 63% in 2007 to 49% in 2023 (Figure 2). Yet, in as far as Euroscepticism is a factor in public opinion in EU-CEE member states, it manifests itself more as apathy towards than outright opposition to the EU. Thus, fundamental attitudes about EU membership among the electorates of most EU-CEE member states have not changed.

Figure 2 / Trust in the EU, EU-CEE average, in %



Source: Eurobarometer survey.

This steadiness of opinion comes despite the multitude of crises that the region, along with the rest of the EU, has experienced over the past two decades, including: the 2008 financial crisis, which impacted EU-CEE states with local currencies with particular severity; the 2009-2012 euro area crisis; the 2015 migration crisis; the 2016 referendum on the departure of the UK from the EU; the 2020-2021 COVID-19 pandemic; and Russia's invasions of Georgia in 2008 and Ukraine in both 2014 and 2022.

In this sense, the eastern and southern enlargement of the EU may be deemed an unequivocal success. At the same time, however, it has not translated into greater confidence in national institutions. The Eurobarometer shows that the average level of trust in national governments in EU-CEE stood at just 31% in 2023, which is the same percentage as it was 2004. Trust in national parliaments was even lower, languishing at 26%.

Paradoxically, satisfaction with democracy – a core value of the EU – has recovered from a crisis experienced between 2010 and 2016 to reach 48% in 2023, up from 40% in 2004. This suggests that voters have more confidence in the potential of democratic governance, even as they regard their elected representatives as being unable to deliver. On the other hand, given that half of respondents still remain dissatisfied, this has evidently been a slow process of improving confidence.

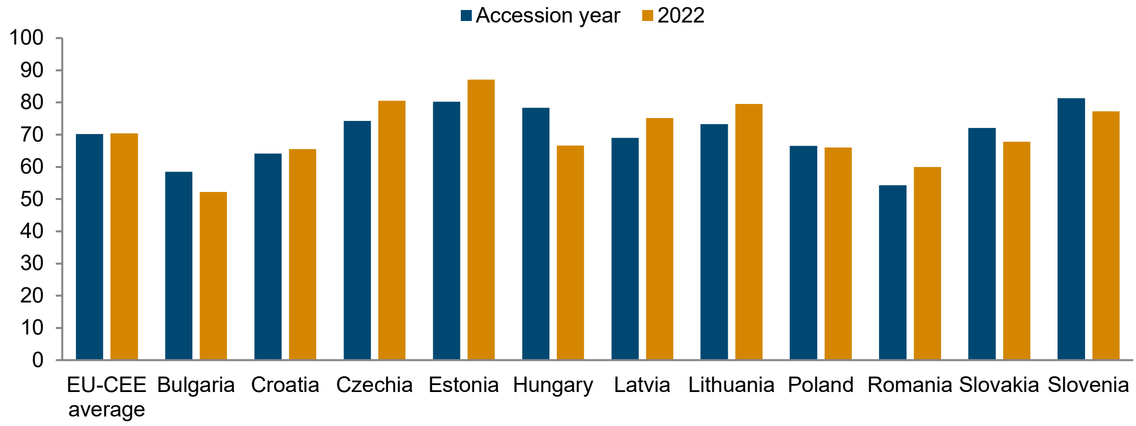
DECELERATION AND BACKSLIDING

When the new member states joined the EU, the process of convergence was not complete. Its continuation was to be supported by cohesion funds and further reform, with the single market providing easy access to foreign multinationals, whose investments would result in higher tax revenues, employment and local expertise.

The World Governance Indicators (WGIs) of the World Bank indicate that the process of institutional convergence has stalled overall. The WGIs collate various indices of governance, which are broken down into six indicators: political stability and the absence of violence/terrorism; voice and accountability; regulatory quality; government effectiveness; control of corruption; and rule of law.

The average WGI score of the new member states, calculated according to the year of their respective accession, amounts to 70.18 out of 100 (Figure 3). In 2022, their combined average was 70.36, indicating that there has been negligible improvement in overall institutional quality on the regional level. In contrast, the average score among the member states that joined the EU before 2004 was 84.7 in 2022.

Figure 3 / World Governance Indicators scores of the EU-CEE countries



Source: World Bank.

This stagnation belies the very considerable backsliding that has occurred in member states. The strongest backsliding has been seen in Hungary, whose average score plummeted from 78.4 in 2004 to 62.65 in 2022. Nonetheless, other EU-CEE member states have also registered declines over their respective periods of membership, including Slovakia, Slovenia and Bulgaria. Meanwhile, Poland increased its score from 65.5 to 76.88 between 2004 and 2015, before regressing to 66 by 2022.

There have been some consistent success stories, however, with Czechia, Estonia, Latvia, Lithuania and Romania registering scores that have steadily increased overall. While this has kept the overall performance of the region stable, it masks the extent of the deteriorations registered in many of the other EU-CEE member states.

CHICKEN OR EGG?

It is difficult to assess whether public attitudes in EU-CEE towards the EU and national governance are a product or a cause of this developmental stagnation. At the very least, electorates continue to distrust their national representatives, who are regarded as not having delivered. Indeed, many member states in the region have experienced upheaval in their domestic politics, with party-political landscapes being redrawn as new ideological divisions have emerged.

This has destroyed or altered the post-communist status quo, and it has occurred in all EU-CEE states in the region in some form or other. Existing parties have either evolved or otherwise been supplanted by newcomers, with 83 new parties – or an average of 7.5 per state – having secured parliamentary representation in the combined period since EU accession. Of those, 32 have served in government, and eight of these have succeeded in securing the prime ministership.

In some countries, fresh forces even monopolised power – at least for a time and to varying degrees. And this happened in states that consequently registered the sharpest declines in their WGI scores. These include Hungary, with the Fidesz party of Viktor Orbán (1998-2002, 2010-present); Poland, with the Law and Justice party of Jaroslaw Kaczyński (2005-2007, 2015-2023); Slovakia, with the Smer party of Robert Fico (2006-2010, 2012-2020, 2023-present); and Bulgaria, with the GERB party of Boyko Borisov (2009-2013, 2014-2021, 2023-present). Although these parties differ in many ways, they have nonetheless proved themselves to be illiberal, nationalist and Eurosceptic, as well as interventionist and/or oligarchic.

On paper, these parties were born out of the widespread disaffection that accompanied the painful compromises demanded by the post-communist transition, which sparked social upheaval. These compromises were not only material but cultural and as much a consequence of the loss of people as of livelihoods. Indeed, the combined population of the region shrunk from 110.8 million to 105.9 million between 1989 and 2023, a decrease of 5%. Rates of birth have not kept pace with those of death, falling by an average of 34%, from 14 per 1,000 people in 1989 to 9.3 by 2021.[2] This trend was exacerbated by high rates of emigration, later enabled by the free movement of people within the EU, with most of the EU-CEE states posting negative or stagnant net migration figures for much of the same period.[3]

Thus, a sense of insecurity grew directly from the prerogatives of EU membership, which were implemented by national politicians whose sincerity was doubted. This resulted in a constituency characterised by ambivalence or apathy towards the outcomes of EU membership. These sentiments were harnessed by populist parties, which championed nationhood and tradition as counterpoints to the EU prerogatives of liberalisation in the context of globalisation. Ironically, this occurred even as these parties, upon securing power, actually oversaw the deeper integration of their countries into the European political economy. Their status as hubs for foreign direct investment grew. Meanwhile, 'reform fatigue' was being exploited in what was a shift from the pre-accession period, when nationalists and liberals had complementary goals.

These ideological differences have also provided cover for cruder struggles to control state institutions and the distribution of resources. Most political factions have engaged in these struggles, but the illiberal tendencies of the populists have entailed attempts at centralisation and state capture, which have resulted in the gradual divergence from EU norms in some EU-CEE member states. This has occurred even as populations have remained overwhelmingly, if passively, supportive of EU membership – and as the populist clientele has been handsomely profiting from the single market and cohesion funds.

POINT OF NO RETURN?

Although the chronic crisis of confidence in national politicians is not limited to EU-CEE, the region is one of its hotbeds and has become a laboratory for illiberal populism. This has resulted in a major challenge to the EU, which has become an adversary of multiple illiberal governments even as they do not question the principle of membership in the bloc. The backsliding by the governments of Hungary's Viktor Orbán and Poland's Jaroslaw Kaczyński necessitated the development of instruments to monitor

2 https://data.worldbank.org/indicator/SP.DYN.CBRT.IN?locations=HU-SI-BG-RO-PL-EE-LV-LT-CZ-SK

3 https://data.worldbank.org/indicator/SM.POP.NETM?end=2022&locations=HU-SI-BG-RO-PL-EE-LV-LT-CZ-SK-HR&start=1960&view=chart

and sanction abuses of EU law. These have included annual rule of law reports as well as the conditionality mechanism, which may suspend cohesion funds. In both instances, this mechanism was triggered pending remedial action.

However, it is unlikely that these actions will suffice on their own. The Orbán government acceded to EU demands to take action to address its institutional backsliding, but this amounts to little more than formalistic tinkering. The key issue is not so much the divergence of institutions as of values. This may become palpable in other strategic areas, such as foreign and security policy, as the Orbán government's veto of EU aid for Ukraine and opposition to sanctions on Russia have shown. Thus, illiberal governments in the EU-CEE have proven that cohabitation with Brussels is possible for a time, but ultimately unsustainable.

This would be the case even if the EU shifted towards a confederative as opposed to supranational model of governance, as the institutional divergences between member states could imperil the trust necessary for the functioning of key EU institutions. In such a climate, the question is less about the extent of popular support for EU membership in the region and more about whether it will be rendered meaningless altogether by quiet divergence.

Monthly and quarterly statistics for Central, East and Southeast Europe

The monthly and quarterly statistics cover **23 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 trends in the real and monetary sectors of the economy, in the labour market, as well as in the financial and external sectors.

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: https://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
ER	exchange rate
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices (for new EU member states)
LFS	Labour Force Survey
NPISHs	Non-profit institutions serving households
p.a.	per annum
PPI	Producer Price Index
reg.	registered
y-o-y	year on year

The following national currencies are used:

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

EUR euro – national currency for Montenegro, Kosovo 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), Slovenia (from January 2007, euro-fixed before) and Croatia (from January 2023, euro-fixed before).
Sources of statistical data: Eurostat, National Statistical Offices, Central Banks and Public Employment Services; wiiw estimates.

Online database access

wiiw Annual Database | **wiiw Monthly Database** | **wiiw FDI Database**

The wiiw databases are accessible via a simple web interface, with only one password needed to access all databases (and all wiiw publications).

You may access the databases here: https://data.wiiw.ac.at.

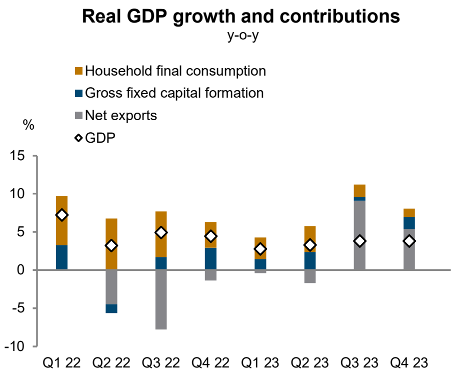
If you have not yet registered, you can do so here: https://wiiw.ac.at/register.html.

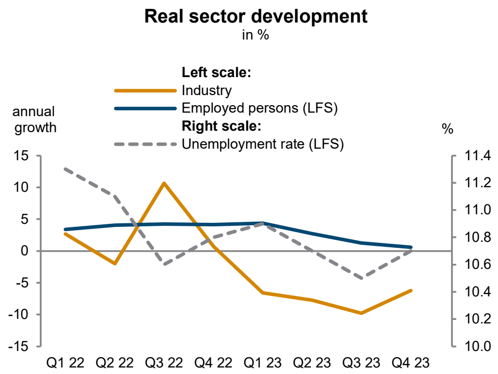
Service package available

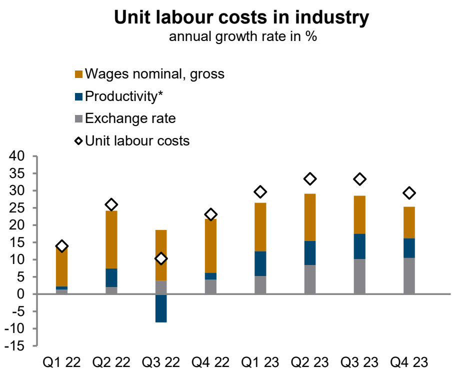
We offer an additional service package that allows you to access all databases – a wiiw Membership, at a price of € 2,700. Your usual package will, of course, remain available as well.

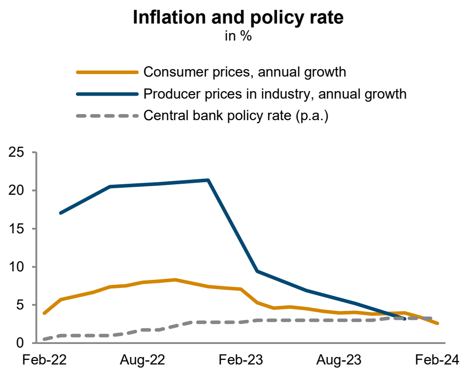
For more information on database access for Members and on Membership conditions, please contact Ms. Monika Potocnik (potocnik@wiiw.ac.at), phone: (+43-1) 533 66 10.

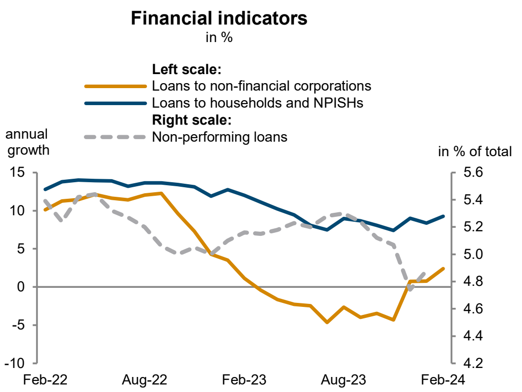
Albania

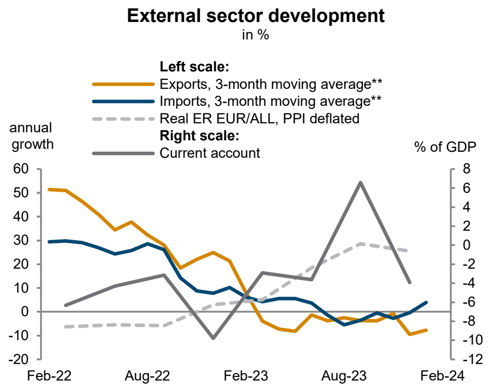












*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.
**EUR based.

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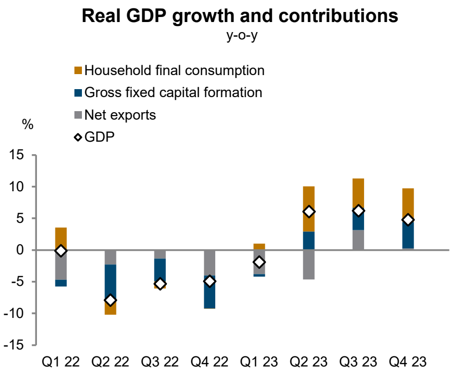
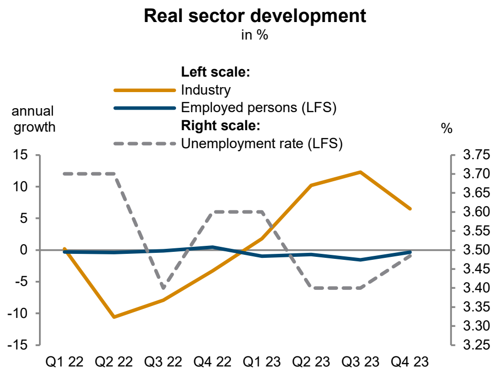
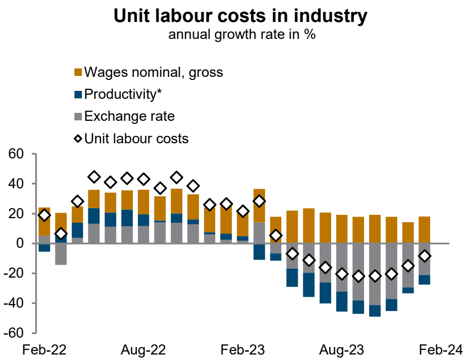
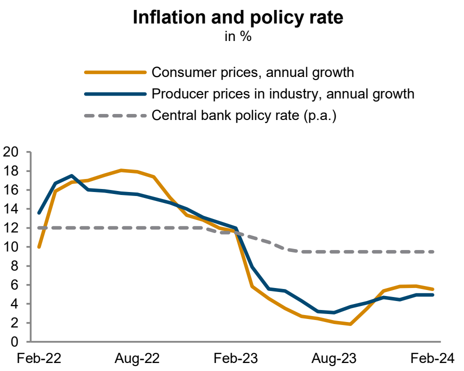
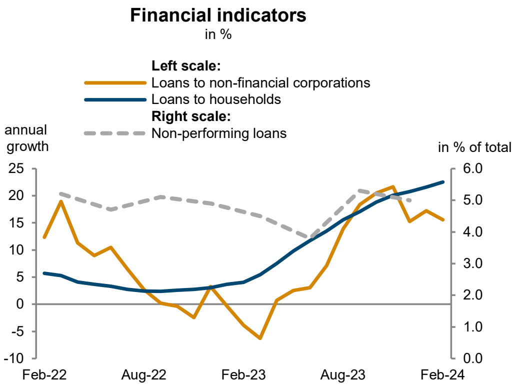
Belarus

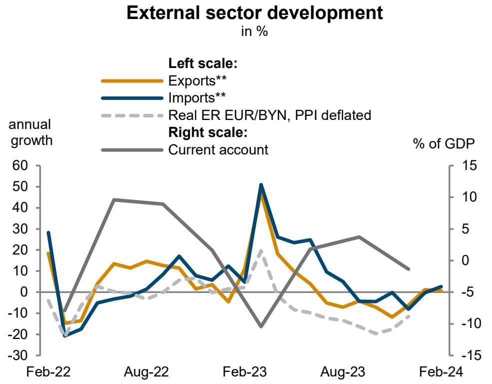












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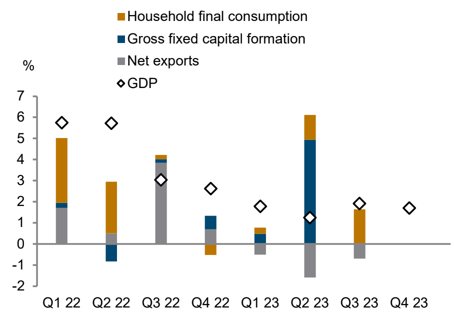
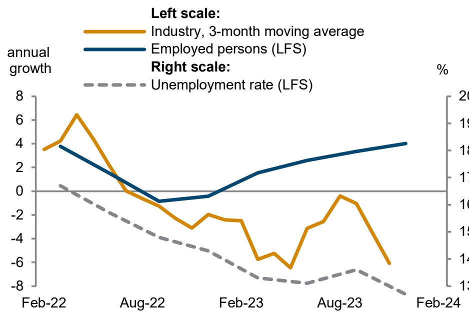
Bosnia and Herzegovina

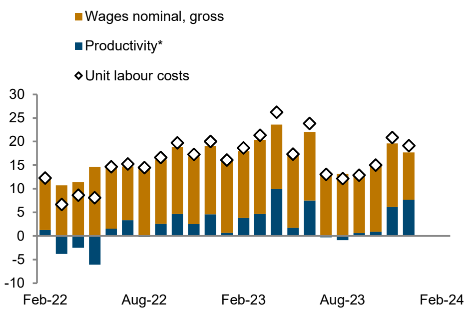
Real GDP growth and contributions
y-o-y



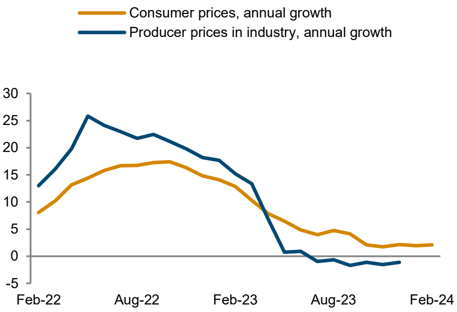
Real sector development
in %



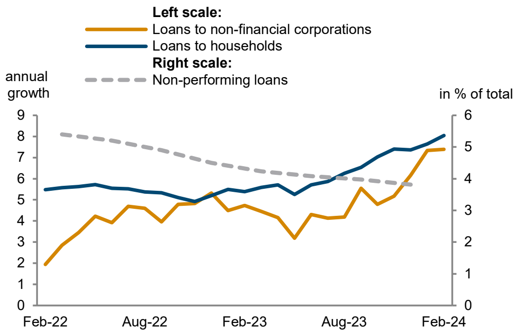
Unit labour costs in industry
annual growth rate in %



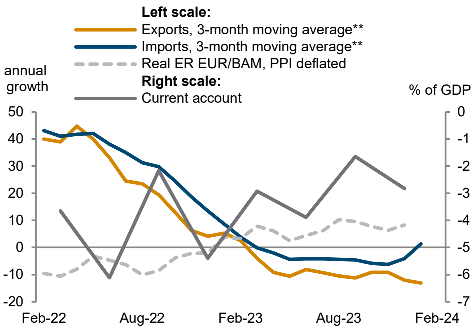
Inflation
in %



Financial indicators
in %



External sector development
in %



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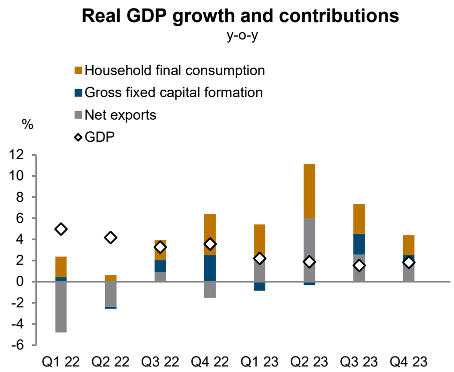
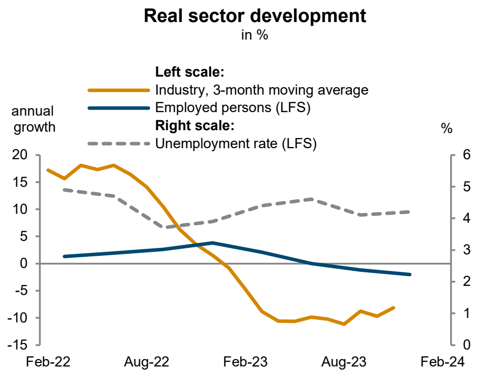
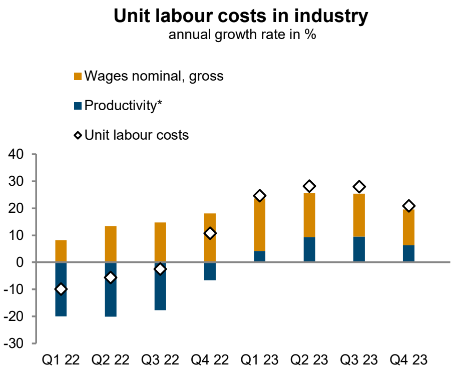
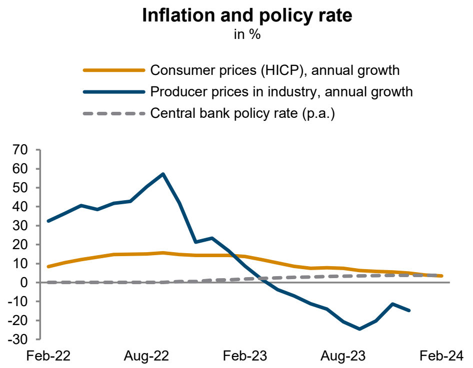
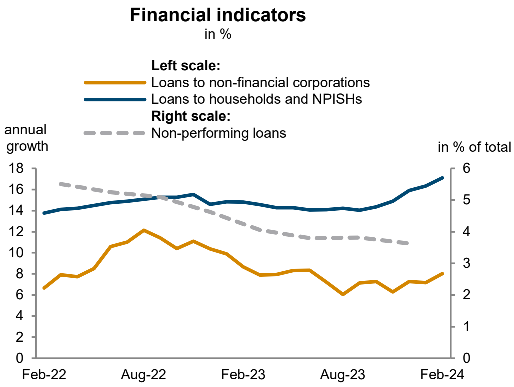
Bulgaria

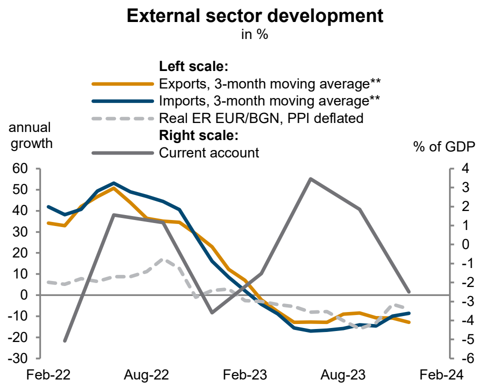












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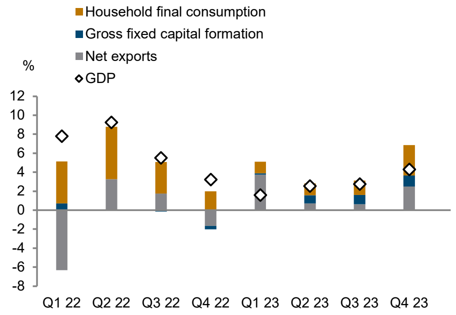
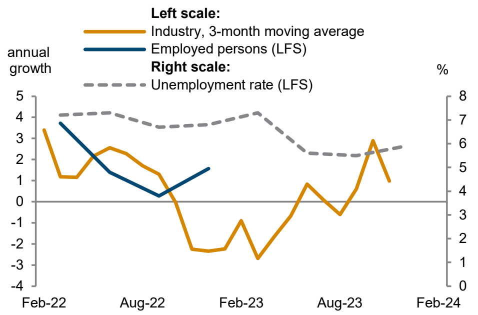
Croatia

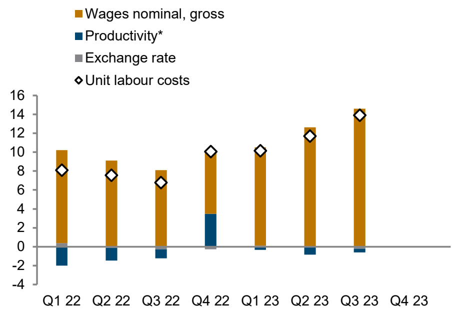
Real GDP growth and contributions
y-o-y



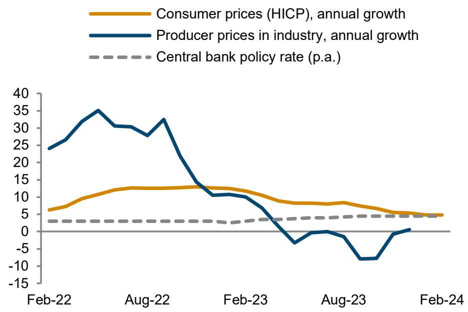
Real sector development
in %



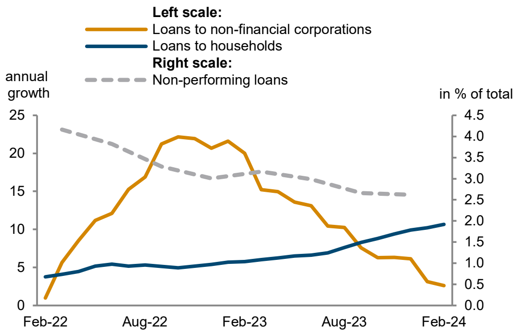
Unit labour costs in industry
annual growth rate in %



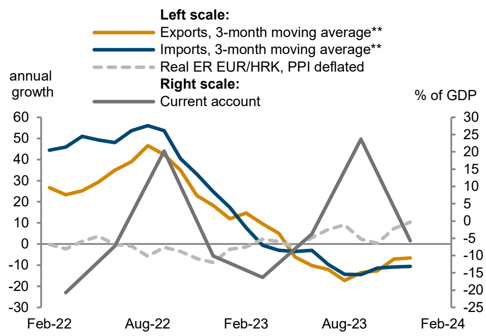
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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

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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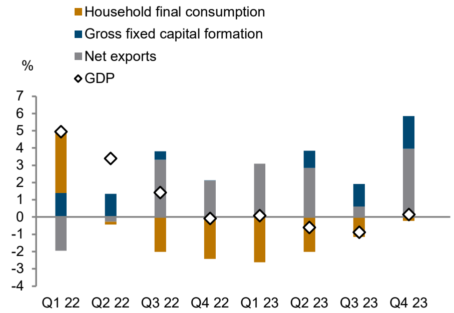
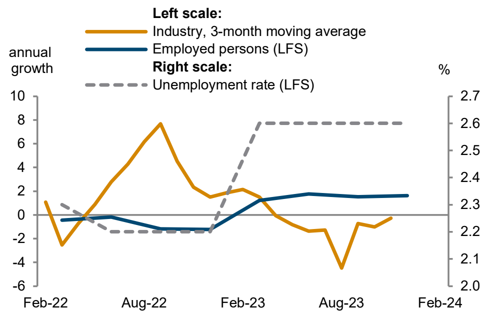
Czechia

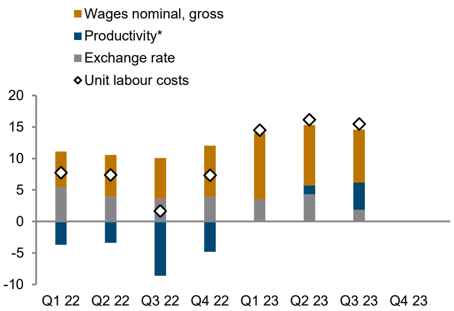
Real GDP growth and contributions
y-o-y



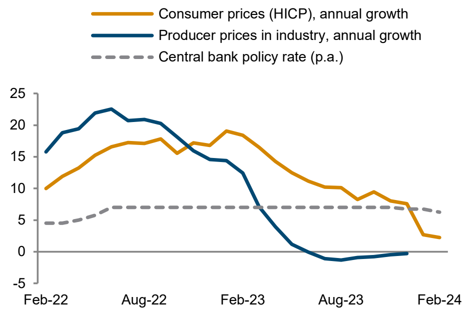
Real sector development
in %



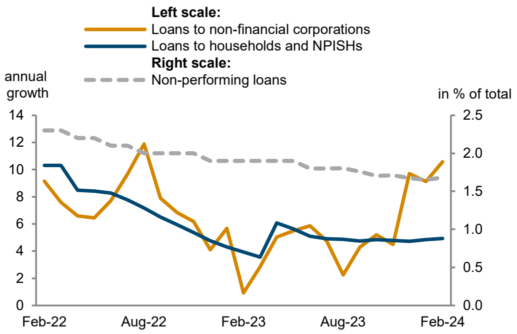
Unit labour costs in industry
annual growth rate in %



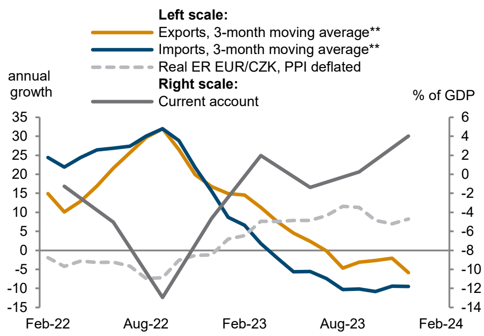
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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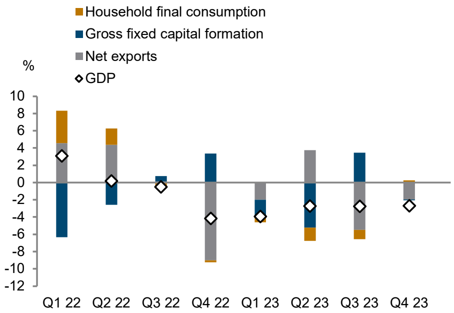
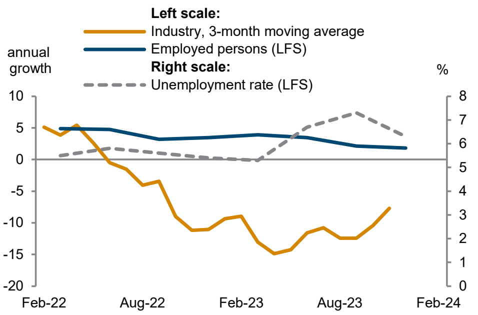
Estonia

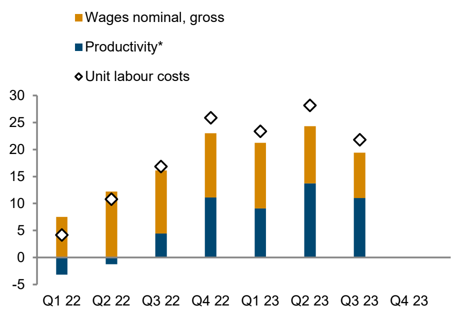
Real GDP growth and contributions
y-o-y



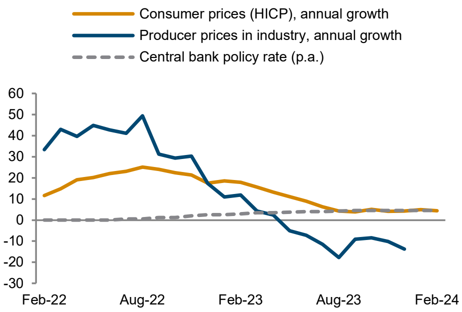
Real sector development
in %



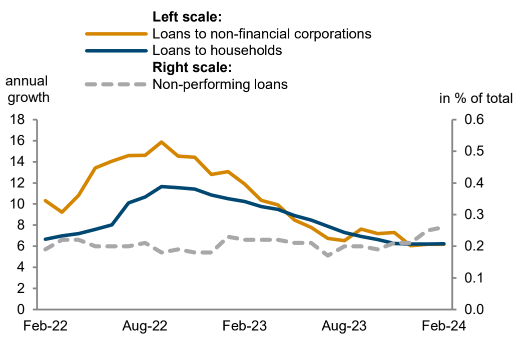
Unit labour costs in industry
annual growth rate in %



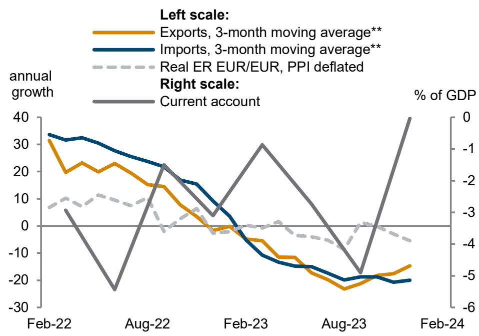
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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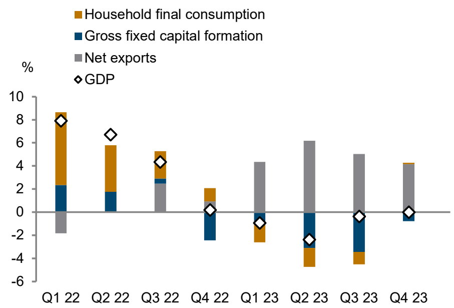
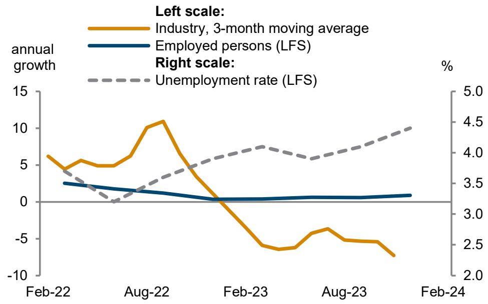
Hungary

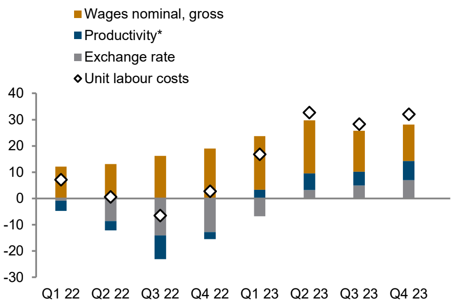
Real GDP growth and contributions
y-o-y



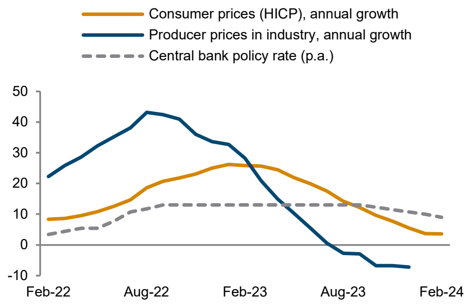
Real sector development
in %



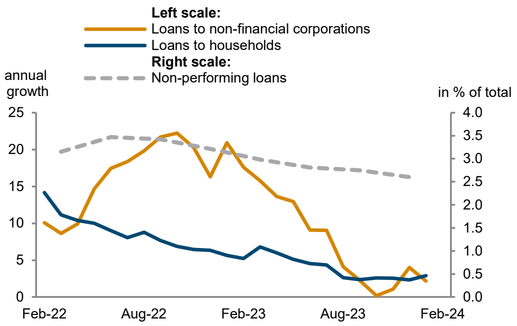
Unit labour costs in industry
annual growth rate in %



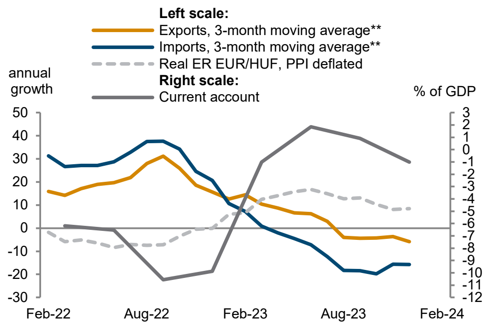
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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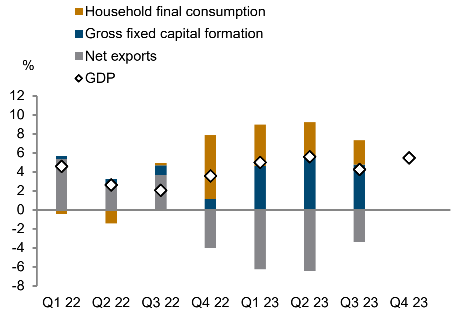
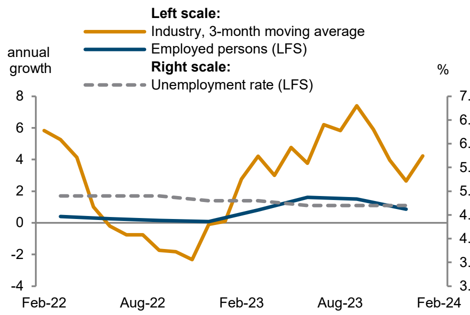
Kazakhstan

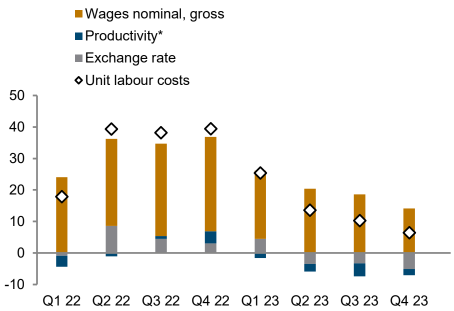
Real GDP growth and contributions
y-o-y



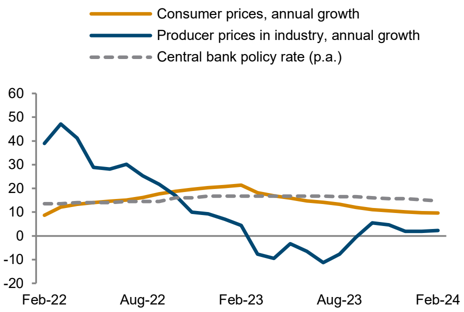
Real sector development
in %



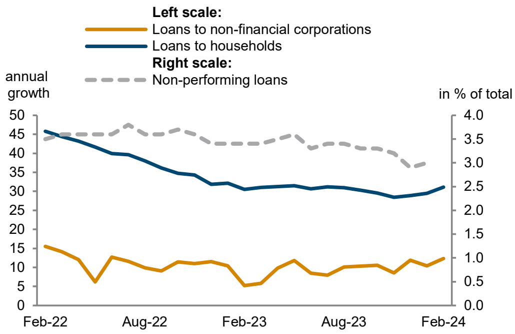
Unit labour costs in industry
annual growth rate in %



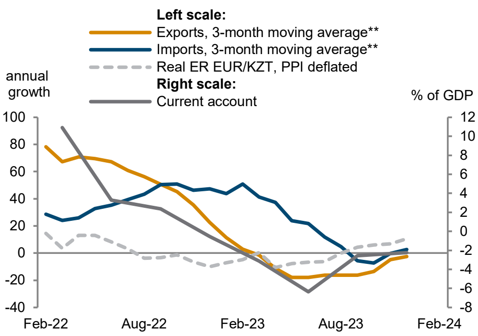
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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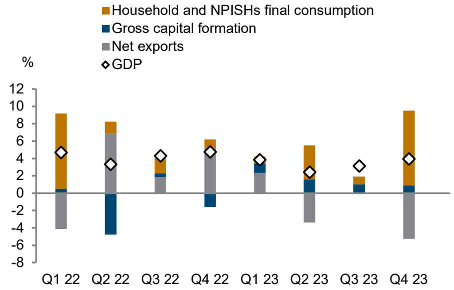
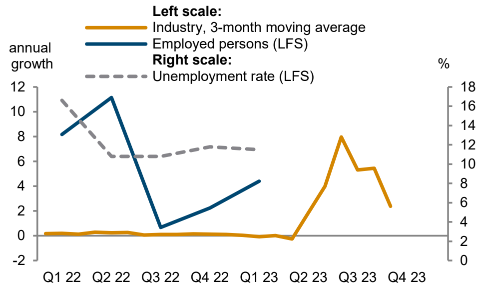
Kosovo

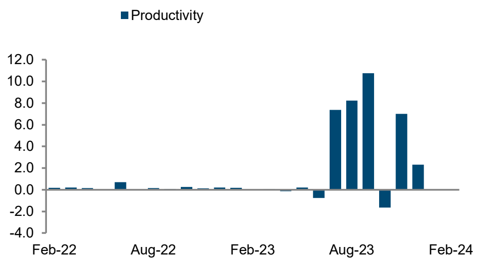
Real GDP growth and contributions
y-o-y



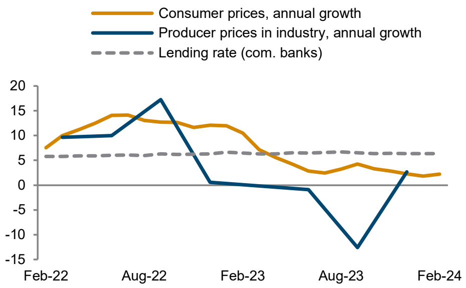
Real sector development
in %



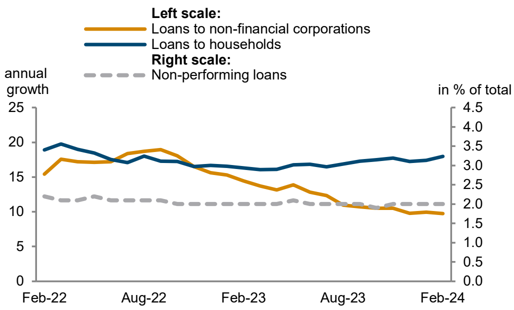
Productivity in industry
annual growth rate in %



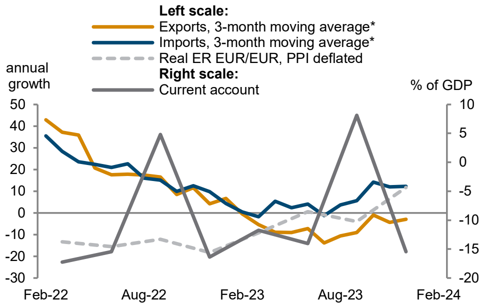
Inflation and lending rate
in %



Financial indicators
in %



External sector development
in %



*EUR based.

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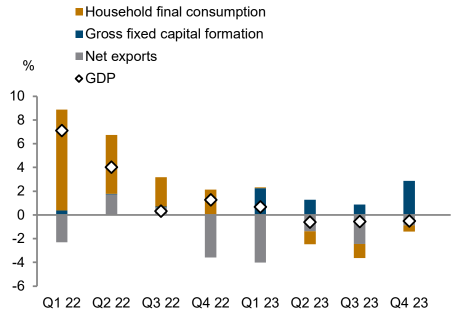
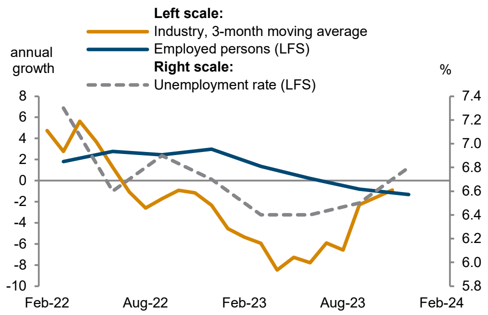
Latvia

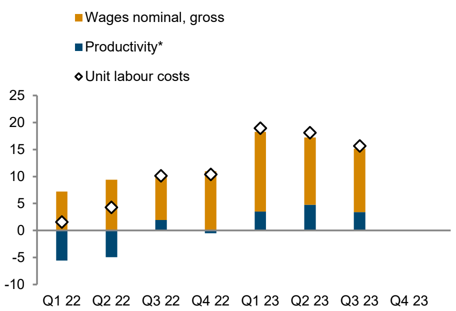
Real GDP growth and contributions
y-o-y



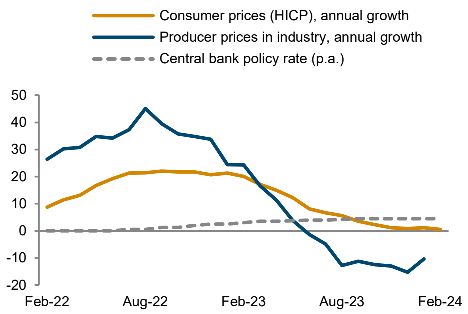
Real sector development
in %



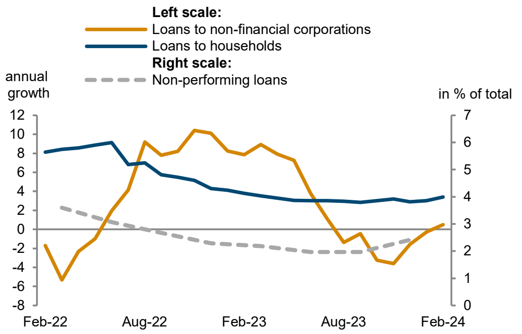
Unit labour costs in industry
annual growth rate in %



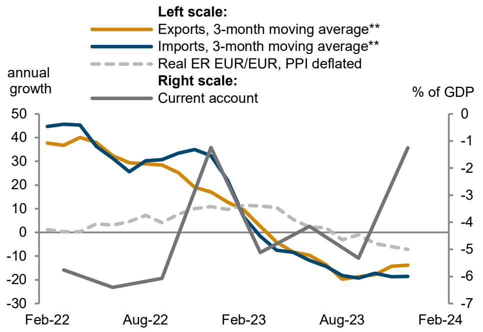
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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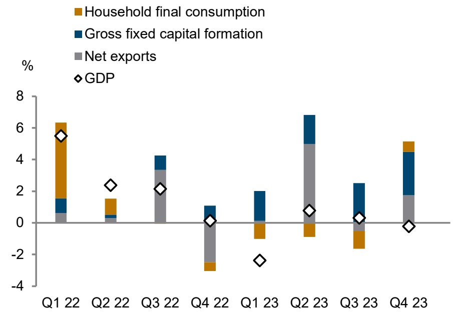
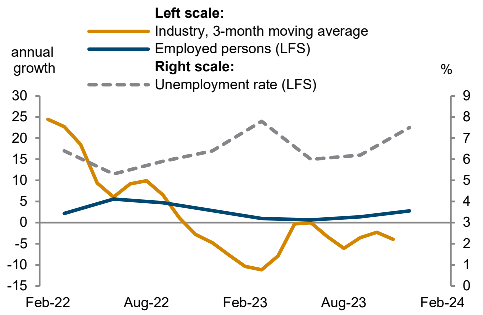
Lithuania

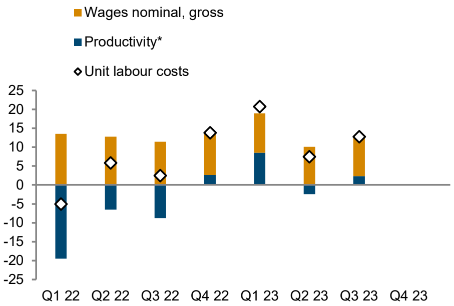
Real GDP growth and contributions
y-o-y



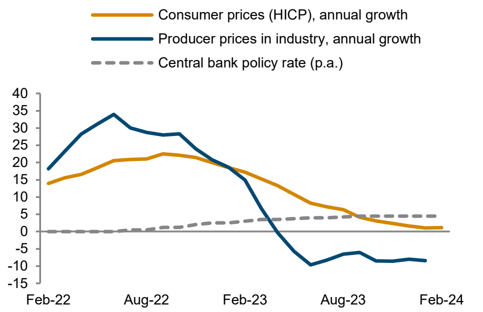
Real sector development
in %



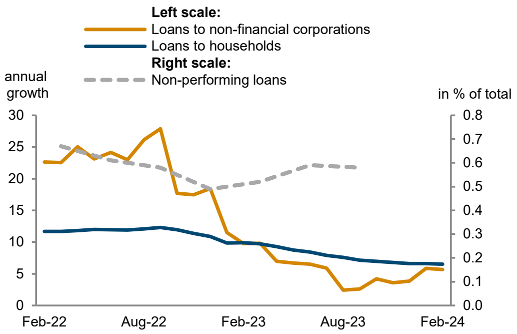
Unit labour costs in industry
annual growth rate in %



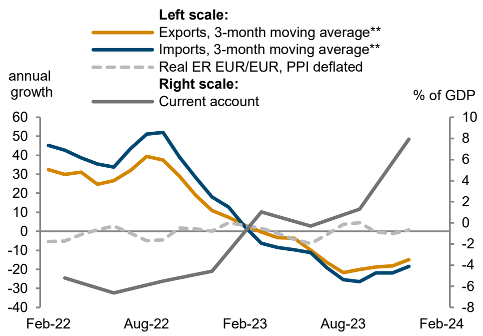
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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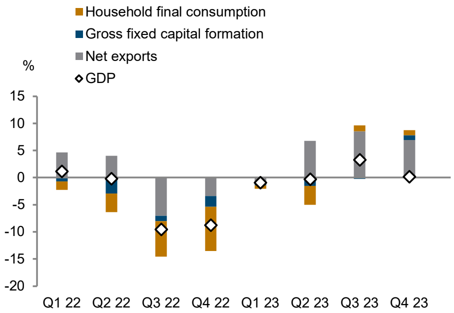
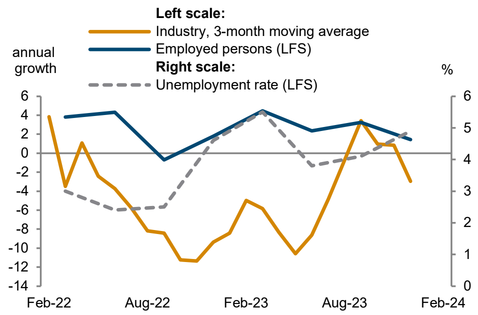
Moldova

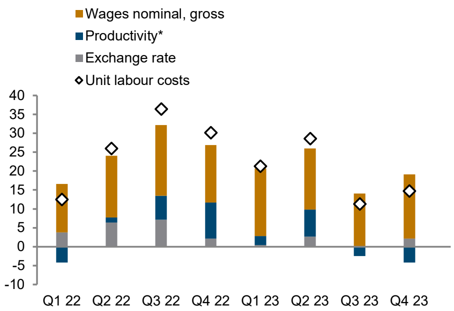
Real GDP growth and contributions
y-o-y



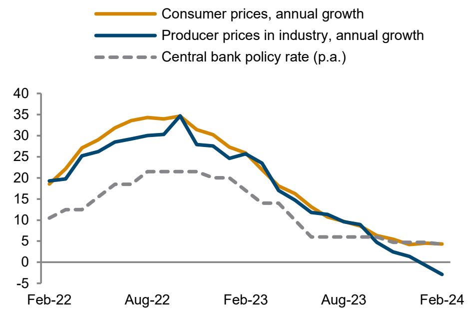
Real sector development
in %



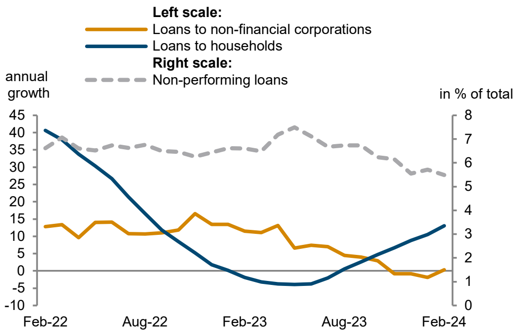
Unit labour costs in industry
annual growth rate in %



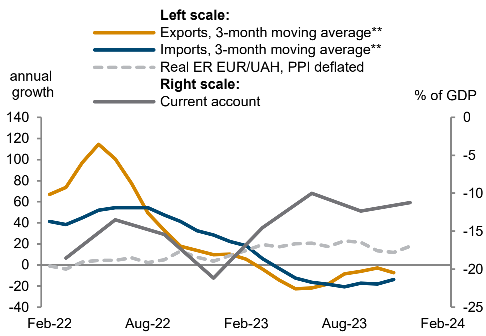
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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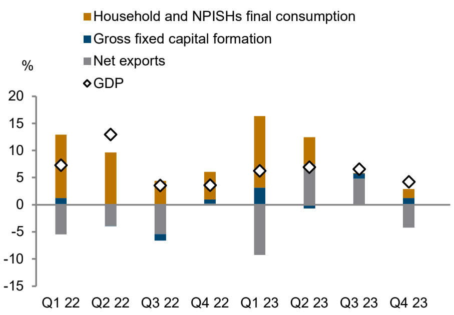
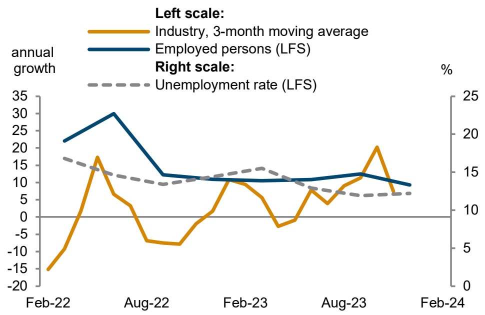
Montenegro

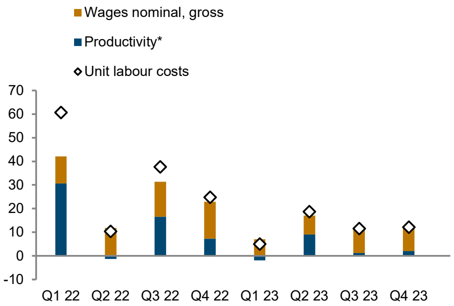
Real GDP growth and contributions
y-o-y



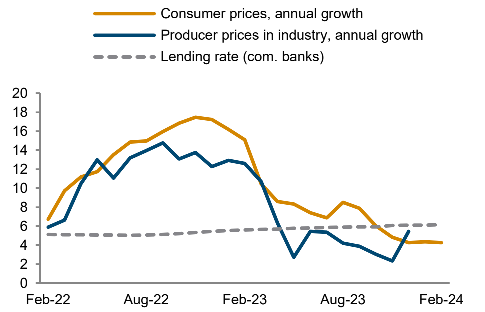
Real sector development
in %



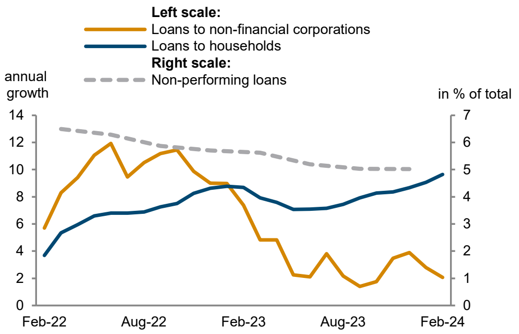
Unit labour costs in industry
annual growth rate in %



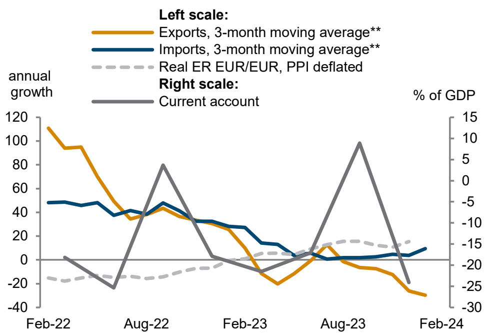
Inflation and lending rate
in %



Financial indicators
in %



External sector development
in %



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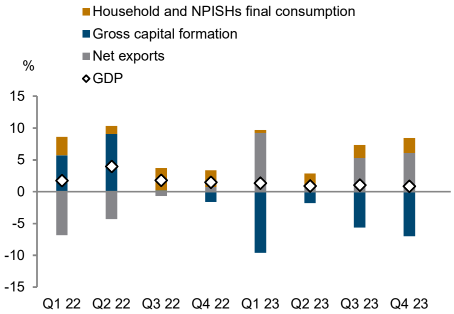
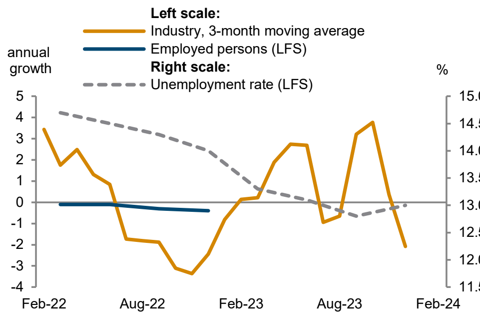
North Macedonia

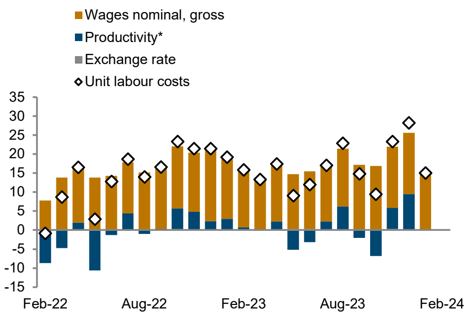
Real GDP growth and contributions
y-o-y



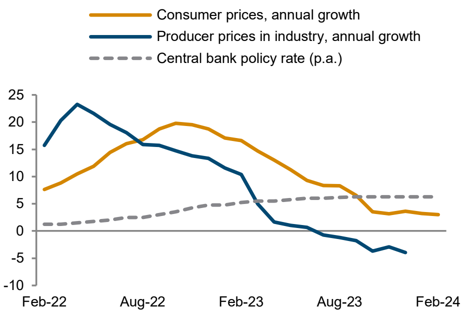
Real sector development
in %



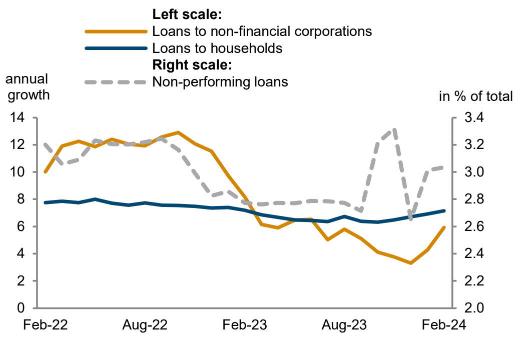
Unit labour costs in industry
annual growth rate in %



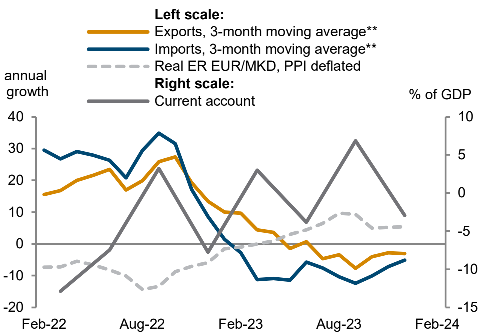
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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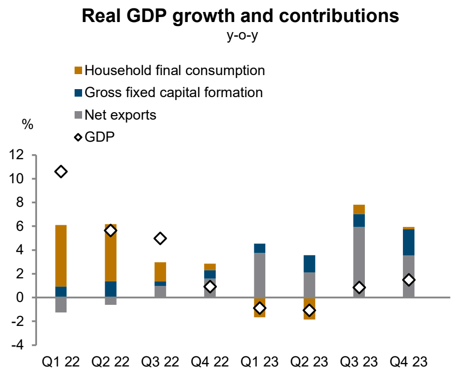
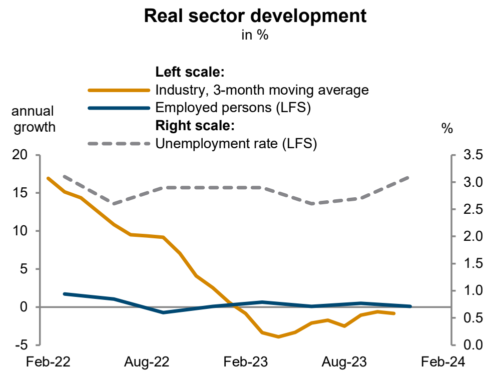
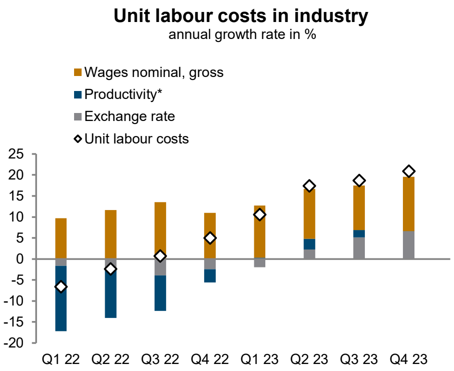
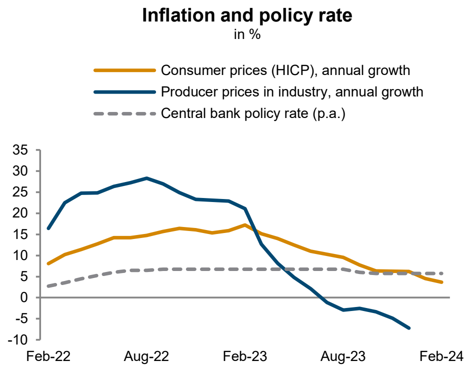
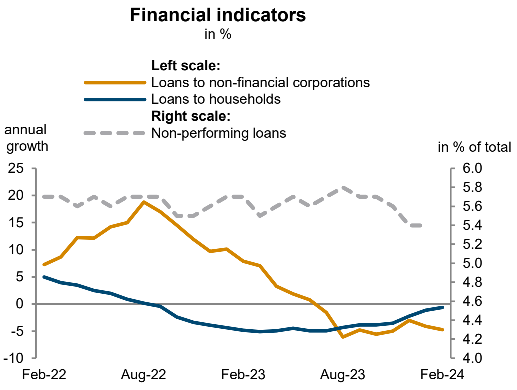
Poland

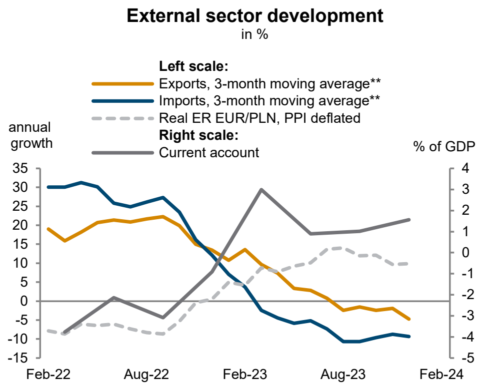












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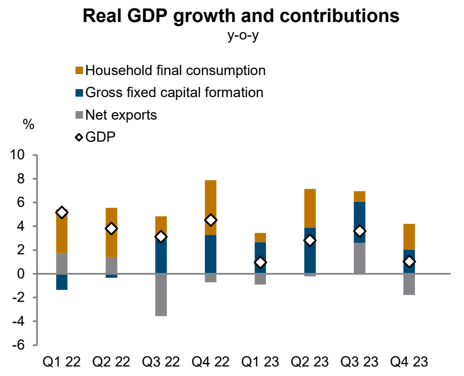
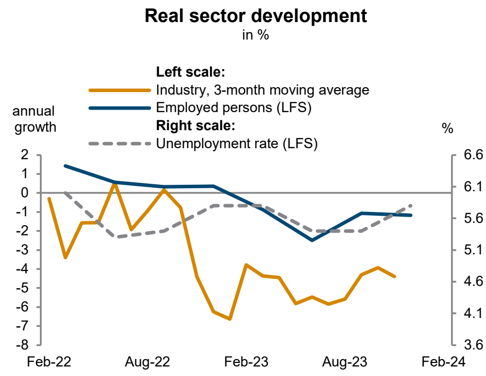
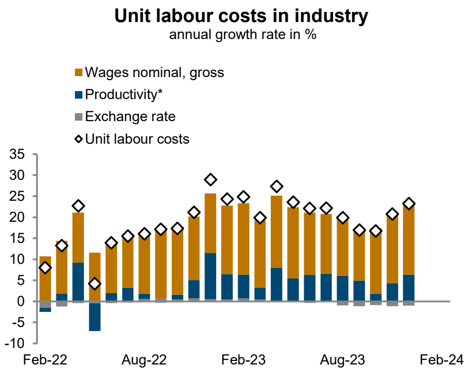
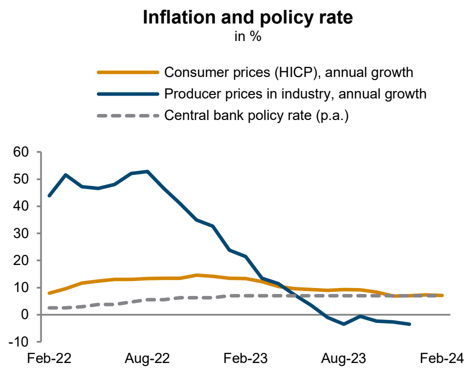
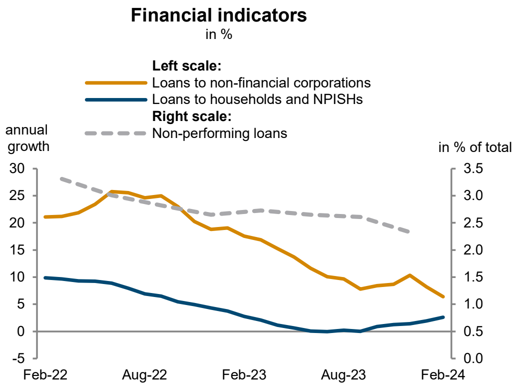
Romania

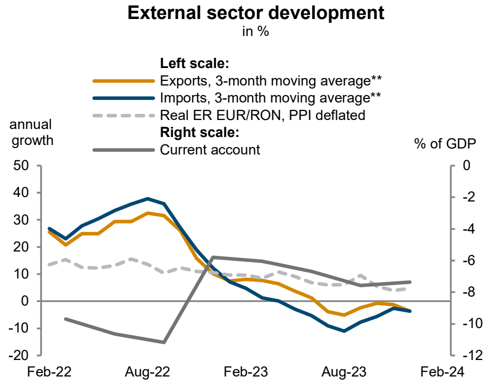












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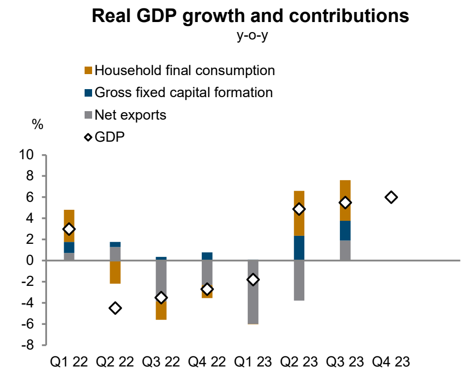
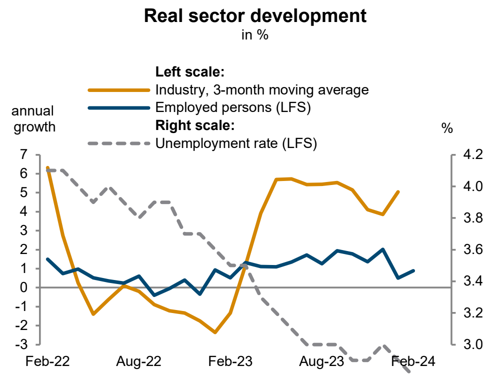
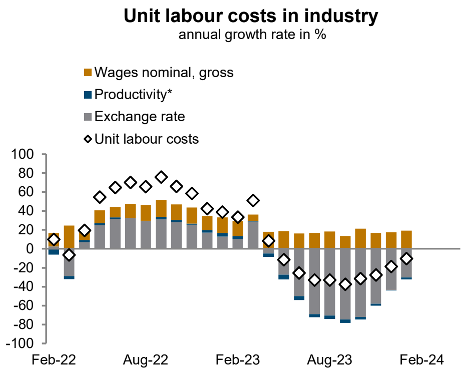
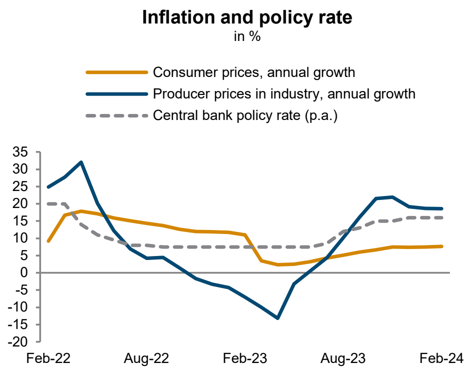
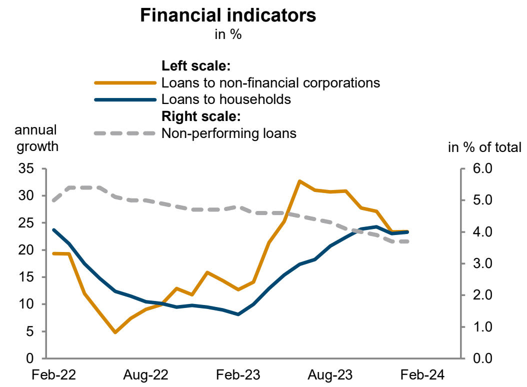
Russia

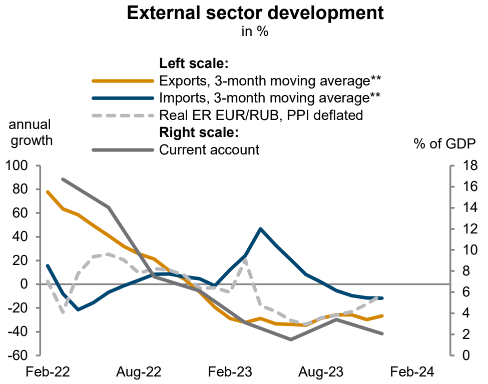












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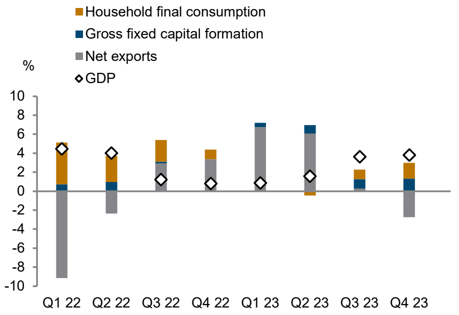
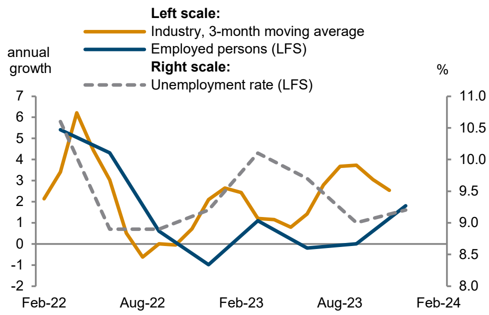
Serbia

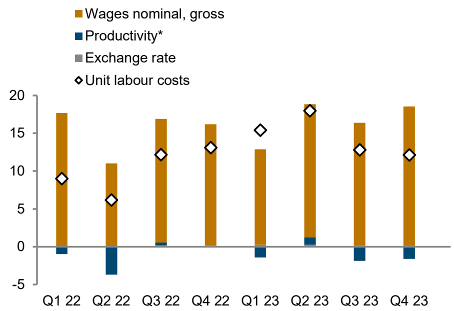
Real GDP growth and contributions
y-o-y



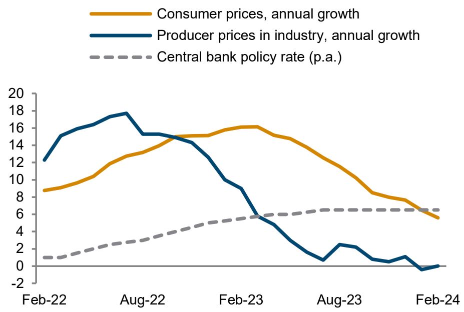
Real sector development
in %



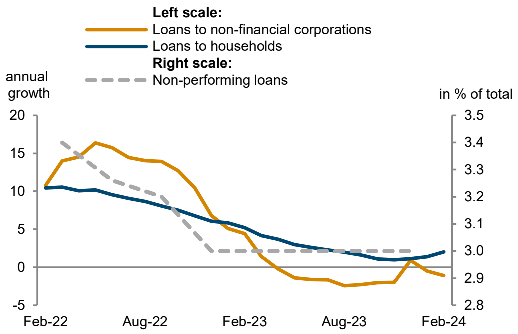
Unit labour costs in industry
annual growth rate in %



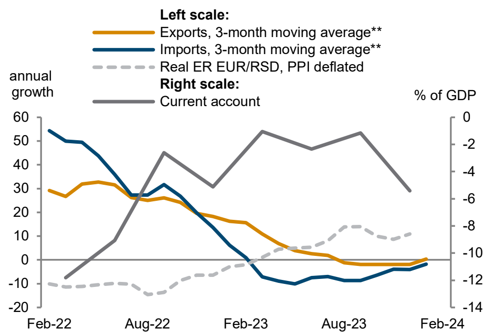
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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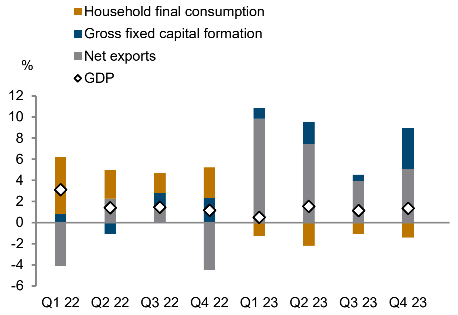
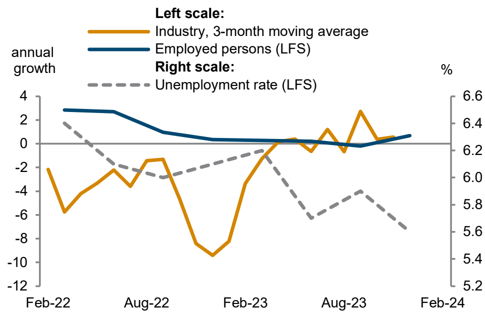
Slovakia

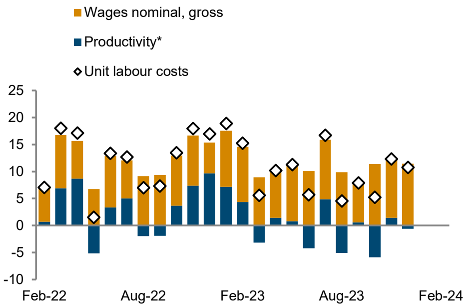
Real GDP growth and contributions
y-o-y



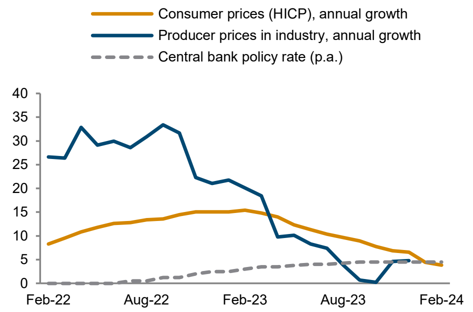
Real sector development
in %



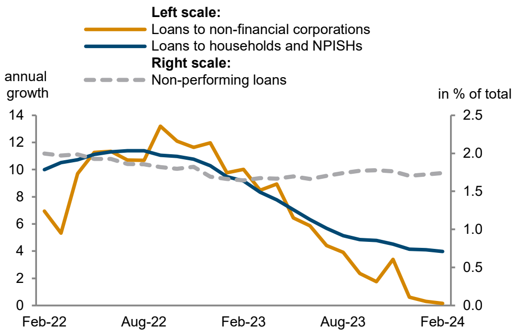
Unit labour costs in industry
annual growth rate in %



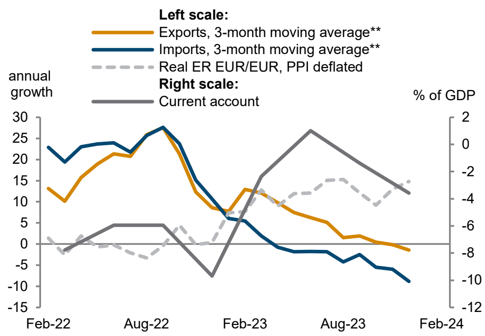
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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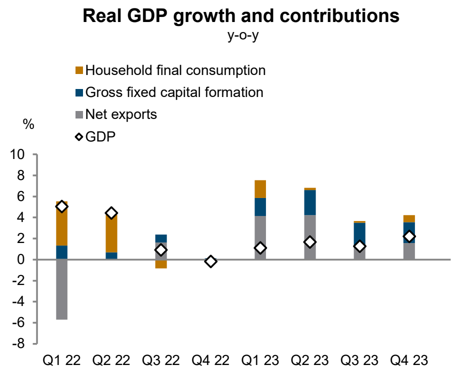
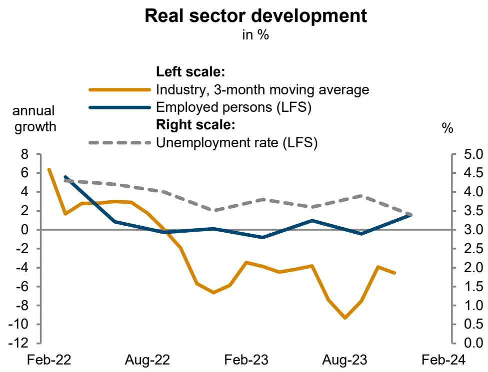
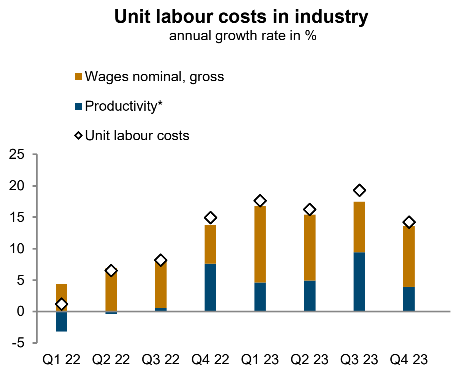
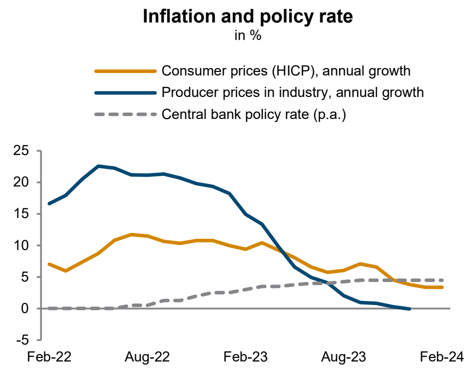
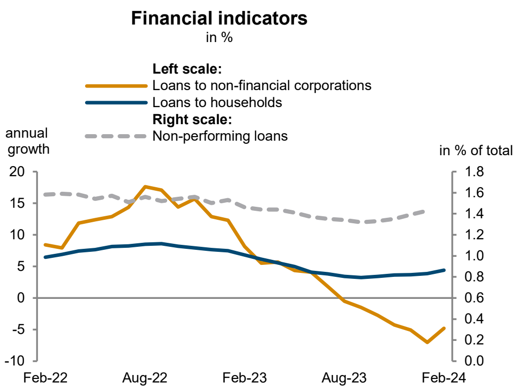
Slovenia

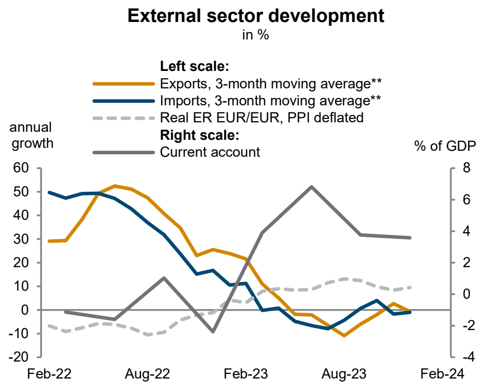












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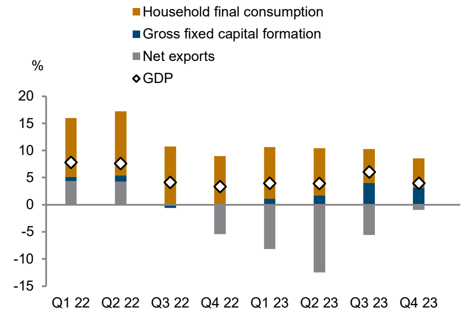
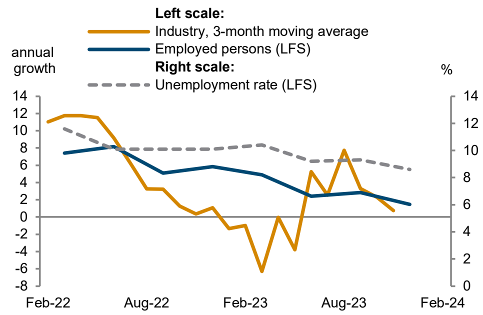
Turkey

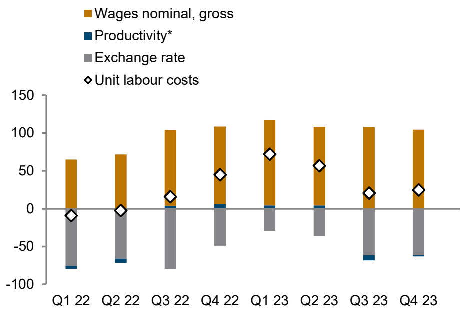
Real GDP growth and contributions
y-o-y



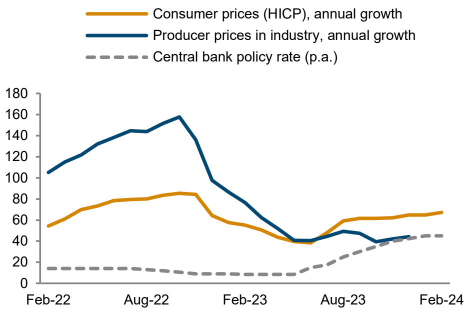
Real sector development
in %



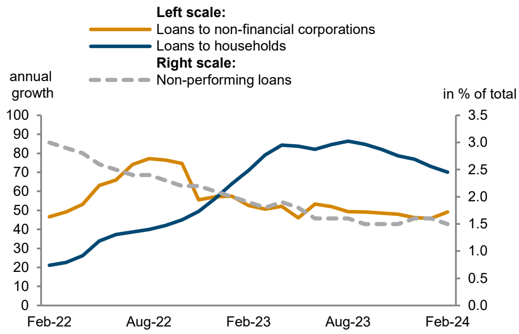
Unit labour costs in industry
annual growth rate in %



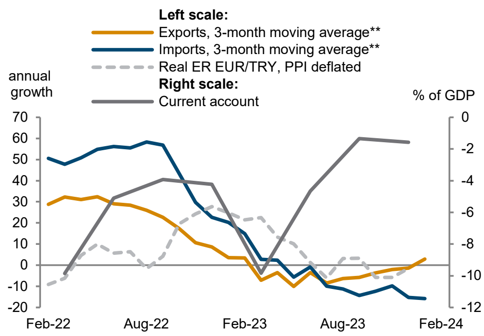
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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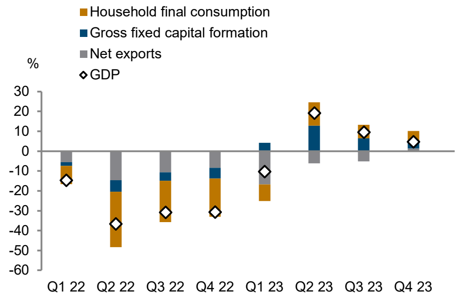
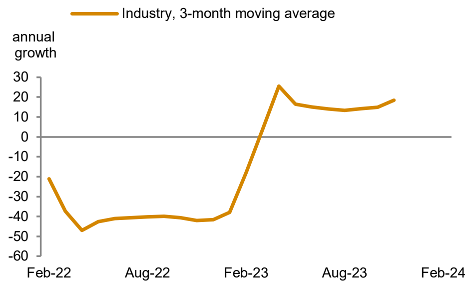
Ukraine

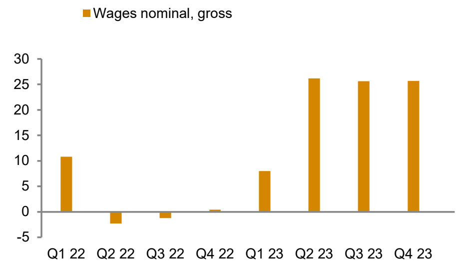
Real GDP growth and contributions
y-o-y



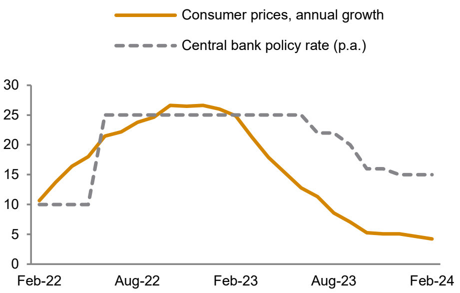
Real sector development
in %



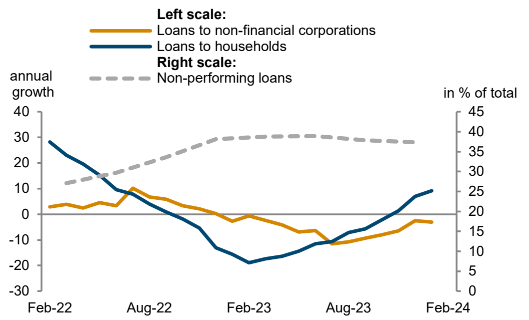
Wages in industry
annual growth rate in %



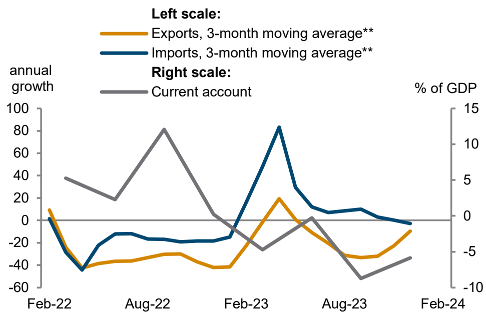
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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multi-country articles and statistical overviews

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Monthly and quarterly statistics for Central, East and Southeast Europe are compiled by the statistics department: Alexandra Bykova (coordination), Beata Borosak, Nadja Heger, Beate Muck, Monika Schwarzhappel, Galina Vasaros and David Zenz.

Economics editor: Vasily Astrov

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