

Monthly Report

Three Decades of Successful Post-Socialist Transformation, and What Next?
A Programme for Poland

New Oil Counter-shock: Advent of Uncertainties

Challenges of Reintegrating Donbas into Ukraine: What Role for Foreign
Assistance?



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Chart of the month: COVID-19 measures and mobility responses in CESEE countries

BY JULIA GRÜBLER

Many different measures have been taken in recent weeks to reduce the speed of the spread of COVID-19 in CESEE countries in order to save lives and reduce the risk of overstressing healthcare systems. These measures, however, are causing enormous economic fallout in the short term.

		State of emergency	Quarantine measures, curfews	Closure of borders (partial or total)	Closure of non-essential businesses	Closure of schools and educational institutions	Closure of cultural or recreational establishments	Restriction on events and gatherings	Grocery and pharmacy	Parks	Workplaces	Places of residence
		Measures by country							Mobility trends			
Visegrád and Slovenia	PL	20 Mar	25 Mar	15 Mar	-	12 Mar	13 Mar	10 Mar	-59%	-59%	-36%	13%
	HU	11 Mar	28 Mar	12 Mar	17 Mar	16 Mar	17 Mar	11 Mar	-43%	-7%	-32%	10%
	CZ	12 Mar	16 Mar	16 Mar	14 Mar	11 Mar	14 Mar	04 Mar	-26%	-24%	-31%	11%
	SK	15 Mar	08 Apr	13 Mar	16 Mar	16 Mar	13 Mar	-	-89%	-9%	-38%	10%
	SI	-	20 Mar	10 Mar	16 Mar	16 Mar	16 Mar	16 Mar	-92%	-43%	-45%	13%
Western Balkans	AL	24 Mar	13 Mar	15 Mar	13 Mar	08 Mar	13 Mar	08 Mar	n.a.	n.a.	n.a.	n.a.
	BA	17 Mar	21 Mar	12 Mar	-	10 Mar	17 Mar	10 Mar	-50%	-22%	-50%	13%
	ME	-	31 Mar	13 Mar	-	13 Mar	13 Mar	13 Mar	n.a.	n.a.	n.a.	n.a.
	MK	18 Mar	22 Mar	13 Mar	-	10 Mar	14 Mar	10 Mar	-41%	-44%	-51%	18%
	RS	15 Mar	18 Mar	12 Mar	18 Mar	16 Mar	16 Mar	12 Mar	n.a.	n.a.	n.a.	n.a.
	XK	15 Mar	24 Mar	13 Mar	16 Mar	16 Mar	16 Mar	-	n.a.	n.a.	n.a.	n.a.
CIS, Ukraine and Turkey	BY	-	-	-	-	-	-	-	5%	41%	3%	-2%
	KZ	16 Mar	19 Mar	08 Mar	30 Mar	16 Mar	16 Mar	13 Mar	-24%	-20%	-17%	9%
	MD	17 Mar	25 Mar	17 Mar	25 Mar	11 Mar	13 Mar	13 Mar	-44%	-43%	-37%	12%
	RU	-	28 Mar	30 Mar	-	23 Mar	17 Mar	-	n.a.	n.a.	n.a.	n.a.
	TR	-	21 Mar	14 Mar	-	16 Mar	16 Mar	16 Mar	-39%	-58%	-45%	17%
	UA	25 Mar	06 Apr	16 Mar	17 Mar	12 Mar	17 Mar	12 Mar	n.a.	n.a.	n.a.	n.a.
Baltics	EE	12 Mar	-	17 Mar	27 Mar	16 Mar	13 Mar	13 Mar	-28%	4%	-32%	10%
	LT	26 Feb	-	16 Mar	16 Mar	12 Mar	16 Mar	12 Mar	-38%	-28%	-33%	11%
	LV	12 Mar	-	17 Mar	-	13 Mar	25 Mar	13 Mar	-22%	-18%	-25%	7%
2007-13 EU joiners	RO	14 Mar	25 Mar	12 Mar	-	11 Mar	17 Mar	08 Mar	-53%	-60%	-39%	15%
	BG	13 Mar	-	12 Mar	13 Mar	13 Mar	13 Mar	-	-36%	-32%	-29%	11%
	HR	-	-	14 Mar	19 Mar	16 Mar	19 Mar	12 Mar	-57%	-45%	-50%	15%

Sources and notes: CIDOB update as of 6 April 2020; no official measures reported by Belarus. Information for Kazakhstan based on statements by Kazakh authorities in media reports. Google Community Mobility Reports, updated 2 April, based on data as of 29 March 2020; n.a. - no mobility report available.

As the table above shows, different measures were taken at different times. Some of the measures were not taken up by *all* economies, such as the closure of non-essential businesses in the Western Balkans, Russia or Turkey; or (partial) curfews in the Baltics. However, the only real counter-example is Belarus, which – according to information collected by CIDOB (Barcelona Centre for International Affairs) – has not imposed any restrictions on social or economic life. Although Google Community Mobility Reports provide only a rough approximation of changes in people’s mobility, they confirm the outlier status of Belarus as the only economy in the CESEE region that shows increased mobility for shopping, parks and workplaces and a reduction in time spent at home. Overall, Central and Southeast European EU Member States seem to show stronger mobility responses in comparison to the Baltics, the Western Balkans and the CIS.

Opinion Corner*: Three decades of successful post-socialist transformation, and what next? A programme for Poland¹

BY GRZEGORZ W. KOLODKO²

This note argues that economic and social policy in Poland should go beyond a mere maximising of GDP growth and target a wide range of areas, such as consumer protection, investments in human capital, the quality of environment, demographic decline, sustainability of the pension system, and a more socially-oriented taxation system.

A good policy is to make *pro publico bono* use of opportunities for development. At present, the main global trend is irreversible globalisation, the modern phase of the scientific and technological revolution. Good policy should also be comprehensive and be able to face a number of challenges, the most important of which are ecological threats, an ageing population, a relatively low level of economic innovation, and migration flows. Finally, perhaps the most difficult thing is to give people what they need, and not what they want. There must therefore continue to be a responsible social dialogue that is devoid of demagogy, convincing people that they should want what they really need: the development of the moral space, social cohesion, high-quality human capital, a clean environment, a sustainable and competitive economy, well-paid work, a high level of public services and noticeably improved welfare.

1. Reformulation of development objectives

It depends on what and how you measure, where you're going and how you're going there. If we really want to create a full-fledged social market economy, it is high time to move away from maximising the level and growth rate of GDP as not only a goal, but also a measure of economic development. The economy has been in the post-GDP phase for many years, so it requires a post-GDP economic theory on which post-GDP economic policy and post-GDP development strategy should be based. A comprehensive approach to social and economic goals – as embodied in the new pragmatism, emphasising the integrity of the dynamic triple economic, social and ecological sustainability – is an imperative for the 21st century. The draft budget should be accompanied by an analysis and forecasts for the chosen sustainable development indicator. In fact, we have such indicators at our disposal, such as the Responsible Development Index developed by the Polish Economic Institute or the Social and Economic Sustainability Index prepared by Kozminski University. Many alternative measures are also proposed by international organisations, including the UN, the OECD and the EU.

* Disclaimer: The views expressed in the Opinion Corner section of the Monthly Report are exclusively those of the authors and do not necessarily represent the official view of wiiw.

¹ The original version of this text (in Polish) was published in *Rzeczpospolita* on 9 October 2019.

² Professor, lecturer at Kozminski University, four times Deputy Prime Minister, and Minister of Finance in 1994-1997 and 2002-2003.

II. Regulated market

The key to economic success is a competitive, well-regulated market. The fight on two fronts must consist of opposing the neoliberal utopia of the free market, in which the state does not intervene at all, and at the same time eliminating inefficient bureaucratic interference in market mechanisms. This requires strengthening institutions that counteract monopolistic practices in production and distribution. To this end, a fully apolitical centre must operate, with far-reaching prerogatives in the sphere of judgement. From a legal point of view, its location in the state structures should be similar to the position of a central bank fully independent of the government.

III. Consumer protection

Nowadays, it is not so much the bourgeoisie that exploits the working class, nor even that 'employers' oppress the 'precarial', but that, *sensu largo*, producers and sellers exploit buyers and consumers. Therefore, the role of a good state should be twofold: to foster, institutionally and economically, the flourishing of honest entrepreneurship based on legally protected property rights, while counteracting consumerism and the exploitation of customers, shielding them from advertising manipulation and forced bundled transactions. Because of a lack of reasonable restraint in consumption – which is further stimulated using psychology and behavioural economics – it is not the army or the police, nor the central bank or the tax authorities, but the competition and consumer protection office that should be the most powerful arm of the modern state. It is necessary to multiply its budget, increase its staff and establish local branches. Every municipality needs offices with well-educated and well-paid analysts and lawyers who will help people not to be manipulated and exploited as consumers. To this end, the state must step up funding for well-targeted studies by providing high-quality, ethical staff to protect consumers' interests. So far, we have educated a far greater number of those who act on the opposite side, in market analysis, marketing, advertising, and media.

IV. Instead of armaments, investment in human capital

It is necessary to withdraw from the destructive arms race, which entails a huge waste of public funds. So-called defence spending should not be raised to 2.5% of GDP by 2025 (which is on the agenda of the current PiS government), but frozen at the current very high level of almost PLN 50 billion; this is enough. Assuming an average annual GDP growth rate of 3.5% by 2030, this would save the state budget about PLN 180 billion. These funds should be directed to investments in human capital, first of all in education and healthcare, as well as in culture and science. A significant portion should be directed to investments in environmental protection, which give multiplier effects on economic growth similar to spending on the arms industry.

V. A clean environment

There is no escape from the generational environmental challenge. Poland is to join the European Union's climate pact and contribute to the systematic reduction of greenhouse gas emissions in order to achieve climate neutrality on a continental scale in 2050. Although difficult and costly, this is desirable and possible. To this end, given the relatively large share of coal in the energy sector, a special financial allocation should be negotiated with the European Commission in forthcoming EU budgets to support investments in the decarbonisation of the economy and the transition to the use of renewable energy sources on an increasing scale. Moreover, a huge educational and organisational effort should be directed towards taking care of the country's environment. If we cannot be one of the richest in Europe, because we will not be able

to afford it for a long time to come, let us be at least one of the cleanest, because we should be able to afford it!

VI. *The next generations*

World experience shows that, although difficult, it is possible to moderate the fertility rate, which varies from an appallingly high 6.35 children per mother in Niger to a catastrophically low 0.84 in Singapore. In many countries it has fallen excessively. In Poland, it currently stands at 1.36, but a simple maintenance of the population size (without migration) requires about 2.1. The only sensible way to increase the number of children is to develop a comprehensive, high-quality pre-school care system. This will make it easier for mothers to stay in the labour market (or to enter it), as it can be too difficult for many of them to take care of a small child and work. Public finances should generously finance the construction, organisation and operation of crèches and kindergartens and other forms of childcare, using the formula of private and public partnership. The teachers should be educated, well-paid professionals. This costs money, but it is worth it. There may be no chance to return to a fertility rate of 2.1, but it would be wise to raise it at least by two decimal places annually.

VII. *Retirement age*

With an ageing population and longer life expectancy, the retirement age should be gradually raised. It was a fatal policy error to block this process. At the same time, it must be possible for those who wish to retire earlier to do so, but with a correspondingly lower level of benefits, because the system must be financially viable. The retirement age of privileged employee groups, including uniformed services and the judiciary, must also be reviewed upwards – of course, with the principle that the law cannot have retroactive effect. The pension reform requires the prior appointment of a cross-party panel of professionals to prepare a professional, financially responsible but also socially acceptable project. The Sejm, Senate and the president should declare *ex ante* that they will implement the proposed solutions.

VIII. *Migration policy*

By various means, as many as possible of those who have left the country should be encouraged to return. A flourishing economy – if such an economy can be shaped by a wise policy and competitive entrepreneurship – will encourage this. However, for non-economic reasons, many people do not want to return to a country where the rules of democracy are sometimes violated, where not everyone is always treated equally by the law, where a false historical policy weighs on various aspects of the political environment, and where there are not enough independent media. It is necessary to join the old members of the EU, especially the largest countries – Germany, France, Italy and Spain – in a new agreement on the rules for the reception of refugees, and to include immigrants from Ukraine and other post-Soviet republics in the general accounts of population flows. Bearing in mind the purely humanitarian aspect of the matter, a greater degree of tolerance and multiculturalism will, in the long run, foster the development process. Opening up to immigration must be coupled with a national strategy for shaping supply in the labour market. Without this, capital, even when increasingly abundant, will not be able to make effective domestic investments. Without labour immigration, capital may emigrate.

IX. Poland in the euro, the euro in Poland

Having a treaty right and obligation to join the euro area, Poland should do so. This would politically strengthen the process of European integration and – assuming that other EU countries still using their own currencies do the same – would end the discussion about a ‘two-speed Europe’. After all, economic considerations are more important. Entering the euro area – with an appropriate convergence rate to ensure the competitiveness of the export sector, as the growth strategy should be export-led – will eliminate exchange-rate risk in the important areas of trade, finance and tourism. It will reduce the cost of money (credit and debt) and increase the willingness of domestic companies to invest and encourage the inflow of capital from abroad. Moreover, abandoning the zloty will result in the dissolution of the country's huge foreign-currency reserves, which exceed PLN 500 billion. Perhaps two-thirds of this, as much as PLN 360-380 billion, can be used partly to repay foreign debt and partly for investments financing triple sustainable development.

X. Rebuilding the tax system

The tax system needs to serve two purposes simultaneously: on the one hand, to promote social cohesion, and in particular justice, and on the other hand, the formation of capital. To this end, in particular, all individual income – including capital income and profits, with special treatment for inheritance income – should be integrated and taxed on a genuinely progressive scale, preferably at four tax rates and with a corresponding tax-free amount. Care should be taken to ensure that net household income is distributed in such a way that the Gini coefficient does not exceed 0.30. This can be achieved by setting the minimum wage at about half the average wage. Possible additional income growth on this account should be allocated to infrastructure investment and human capital. In addition, the limits of fiscalism should be set, so that the ratio of public expenditure to GDP does not exceed 42-43%.

It could be much better in Poland. It will be better in Poland. How much better? It depends...

New oil counter-shock: advent of uncertainties

BY ANDREI BELYI¹

The current slump in oil prices is a reflection of fundamental uncertainties and, unlike previous such episodes, will do little to boost economic growth. Its effect on oil-producing countries is likely to be asymmetric, with Russia lagging behind OPEC in terms of the competitiveness of its oil industry. The era of low oil prices does not bode well for energy transition, as incentives for this will be greatly diminished and cash-strapped budgets will be in need of excise taxes on oil products.

SYMBOLIC OIL SHOCKS

The recent shock caused by a lack of an agreement on production restrictions between the world's two largest oil exporters, Russia and Saudi Arabia, confirmed the symbolic power of the oil price: it has never been right. If oil producers restrict output and push the price up, it will be viewed as too high and controlled by a cartel. If they leave oil markets uncontrolled, a sense of price vulnerability and an elevated volatility emerges. During the oil shocks of the 1970s, price hikes did not halt a fast-growing demand for oil. Now, however, oil demand had been declining long before the Russia-Saudi clash (and after Iran, Libya and Venezuela had reduced their production). OPEC+ negotiations failed mostly *because* of the oversupply, rather than serving to provoke it.

The current crisis is in some ways similar to that seen at the end of 2015 and early 2016, when oil prices collapsed following a demand slowdown in China, while attempts to agree on production restrictions were blocked by Saudi Arabia and the United Arab Emirates. Then, oil producers took a long time to find an agreement to stabilise the markets; an agreement became possible only after indications of demand growth emerged. Rather than the earlier characteristic periods of price hikes, counter-shocks may be becoming the new normal.

Oil markets are now facing greater volatility and liquidity. Although oil is increasingly seen as simply another commodity, the crush in the oil market is perceived as a new wave of instability. In this context, a demand for a higher oil price might even decouple from the demand for oil itself. However, the repetition of the 2015-2016 scenario engenders a sense of uncertainty. This notion of uncertainty should be viewed differently from a risk. Borrowing a quote from Michelle Foss of the Baker Institute, 'risk can, by definition, be quantified, controlled, mitigated. Uncertainty cannot'.² Uncertainty decreases the market attractiveness of oil-producing companies, and therefore oil majors have seen a slump in their stock prices. A former International Energy Agency analyst, Antoine Halff, speaks about a 'reassessment of fundamentals'.³ If an oil-price decline used to provide stimulus to economic growth, now it tends to suppress it.

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² Michelle Foss, 'Foreword' in Andrei Belyi (ed.), *Beyond Market Assumptions: Oil Price as a Global Institution*, Springer, Berlin, 2020.

³ Antoine Halff, 'Afterword', in Andrei Belyi (ed.), *Beyond Market Assumptions: Oil Price as a Global Institution*, Springer, Berlin, 2020.

EFFECTS ON OIL PRODUCERS: FROM MELTING BUDGETS TO LOWER COSTS

Despite certain similarities with the counter-shock of 2015-2016, the extent of the current oversupply of oil is unprecedented.⁴ Given demand uncertainty, oil producers' ability to adapt to the counter-shock largely depends upon the magnitude of the economic decline provoked by the coronavirus pandemic.

Some recent discussions focused on the industry's adaptability to the persisting low oil price.⁵ There is no doubt that a low oil price induces economic hardship in export-dependent economies, mostly because of the high social price of oil. Oil is not only a source of revenue for producing companies but also for government budgets, which tend to be primary 'shock absorbers' when the price declines.⁶ For example, in many export-dependent states, the level of royalties depends on the international oil price, hence royalties decline with the price.

Therefore, the oil industries of the producing states might still be better off than their national budgets. Saudi Arabia and its neighbours in the Persian Gulf, for instance, would still find themselves in an advantageous position, owing to low production costs. Earlier scholarly works demonstrated that OPEC countries would be in the most advantageous cost position in the post-peak oil era,⁷ although Saudi Arabia will experience economic difficulties owing to its widening budget deficit.⁸

According to some analysts, Russia is better placed to cope with the current oil price counter-shock.⁹ In particular, it is argued that Russia's currency devaluation in 2014-2015 (triggered in part by Western sanctions) and its flexible exchange-rate regime have boosted its resilience.¹⁰ It could also be argued that the oil tax reform conducted in Russia in 2018 was designed to decrease national budget reliance on exports, shifting the focus to domestic oil taxation. Although the effects of the tax reform on national refining industries and on social costs have been questionable,¹¹ the dependence of the government budget on oil-price dynamics has visibly declined.

Nevertheless, Russia's situation is not as bright as it might seem at first glance. Currency devaluation hindered the purchase of foreign equipment by oil companies, and the national sovereign fund has been shrinking in recent years. In addition, Russia's oil exports rely on a capital-intensive trunk pipeline system that makes them less competitive. Russia's main export blend, Urals, is a mix of heavy and high-sulphur oil commingled into the pipeline system for exports. For these reasons, Russian oil is cheaper than other high-octane crudes, and it usually suffers the most during counter-shocks. Furthermore, the high sulphur

⁴ Grant Smith, 'Billion-Barrel Oil Flood From OPEC Fight to Strain World's Tanks', Bloomberg, 14 March 2020.

⁵ Center on Global Energy Policy, Columbia University, 'Why This Oil Crash is Different', podcast available via <https://energypolicy.columbia.edu/why-oil-crash-different>

⁶ Cf a detailed chart of the social price of oil in 2014 in Larry Elliott et al., 'Recession in Russia, revolt in Venezuela? The knock-on effects of tumbling oil prices', *The Guardian*, 16 October 2014, <https://www.theguardian.com/news/datablog/2014/oct/16/datablog-low-oil-prices-chill-producer-economies>

⁷ Aleh Cherp, Jessica Jewell, Vadim Vinichenko, Nico Bauer and Enrica De Cian, 'Global energy security under different climate policies, GDP growth rates and fossil resource availabilities', *Climatic Change*, 2016, Vol. 136, pp.83-94.

⁸ Abeer Abu Omar, 'Saudi Arabia's Economy Can Ill Afford Oil-Price War It Began', Bloomberg, 9 March 2020, https://www.bloomberg.com/amp/news/articles/2020-03-09/saudi-arabia-s-economy-can-ill-afford-oil-price-war-it-started?_twitter_impression=true

⁹ Among others, Elina Ribakova from the Institute of International Finance has elaborated the reasons for the endurance of Russia's financial system, despite the low oil price.

¹⁰ Chris Weafer, 'Oil War: Who will blink first?', bne IntelliNews, 8 March 2020, https://www.intellinews.com/macro-advisor-oil-war-who-will-blink-first-178033/?source=russia&inf_contact_key=d757fac6ab64c892ee44451c337de03a1b0a3f0fd3ee5d9b43fb34c6613498d7

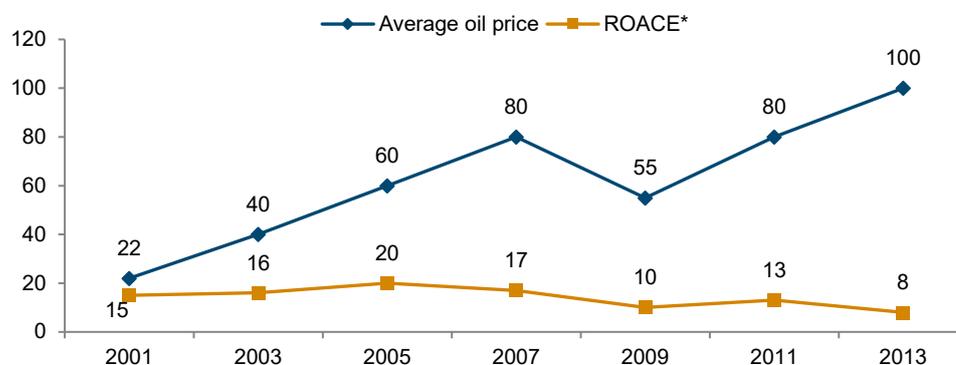
¹¹ Andrei Belyi, 'Russia's new social contract in light of the oil taxation reforms', *wiiw Monthly Reports*, No. 2, February 2019.

content of Russian oil may cause problems. In 2019 Russian oil exporters were forced by Belarus to withdraw supplied volumes because of the high sulphur content of crude shipped to the country.¹² Russia is still heavily dependent on hydrocarbon export revenues, and the long-term effects on its economy are still to be seen. For instance, a representative of Lukoil, Russia's largest private oil firm, defined the price level of USD 20 per barrel as a sign of a catastrophe.¹³ Adding to Russia's problems, its gas export revenues are in freefall because of the ongoing supply glut in the natural-gas market.¹⁴

For these reasons, it might sound paradoxical that it was Russia, rather than the OPEC countries, that opposed any OPEC+ agreement in early 2020, provoking the current counter-shock. So what can explain the Russian stance? Some Russian experts suggested that the Russian authorities understood the ineffectiveness of the OPEC+ agreement, given a reduction in oil demand as a consequence of the coronavirus pandemic. In this case, some would have considered the reputational costs of a failure of the OPEC+ agreement to be higher than the economic damage induced by the low oil price.

The counter-shock will affect US shale producers as well, at least those who are heavily indebted and whose production costs are high. However, lower prices reduce production costs and therefore may give a new impetus to the industry. To illustrate this, a 2014 study by IHS Markit found a non-linear correlation between the oil price and the profitability margin (see Figure 1). The reason is that higher oil prices drive up production costs and therefore reduce profitability.

Figure 1 / Oil price versus profitability margin, USD per barrel



Note: * ROACE is return on average capital employed.

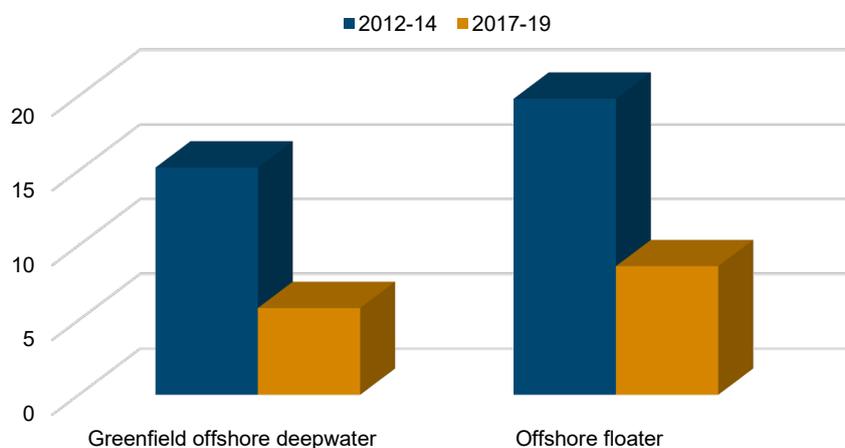
Source: IHS Herold Global Upstream Performance Review, May 2014, quoted by Woodside on 6 November 2014, URL https://files.woodside/docs/default-source/news-and-media-document/speeches/06-11-2014-ceo-and-managing-director-meti-lng-address.pdf?sfvrsn=d9128799_2.

Later observations confirmed negative profitability during the counter-shock of 2015-2016, whereas profitability became positive in 2017-2018. Estimates by Rystad Energy indicate that during the period of elevated oil prices in 2012-2014, average production costs were about three times higher than during the low-price period in 2017-2019 (see Figure 2). Profitability might remain low, but the expenditure burden has lessened. Similar dynamics are assumed among other producing companies beyond the US.

¹² Aliaksandr Kudrytski, 'Russia-Belarus oil dispute begins to threaten supplies to Europe', *World Oil*, 14 February 2020, <https://www.worldoil.com/news/2020/2/14/russia-belarus-oil-dispute-begins-to-threaten-supplies-to-europe>

¹³ Lukoil vice-president Leonid Fedun, interview to RBC on 18 March 2020, quoted by The Bell, 19 March 2020, https://thebell.io/ne-mogli-sebe-v-strashnom-sne-predstavit-sovladelets-lukoila-nazval-tsenu-nefti-katastrofoj/?fbclid=IwAR1-NPleBUiwXbBZ1ybQC14za_Feve7KuyuqKkjKDjKrBfP74opImUCDb5o

¹⁴ See *Vedomosti*, 11 March 2020, <https://www.vedomosti.ru/business/articles/2020/03/11/824983-viruchka-gazproma>

Figure 2 / Production costs, USD per barrel

Source: Rystad Energy, Cost Benchmarking Report, 2019, URL: <https://www.rystadenergy.com/products/OFS-Solutions/cost-service-analytics/cost-benchmarking-report/>.

Questions persist about the long-term effects of the current oil-price collapse on oil markets. In particular, the uncertainty surrounding price projections generates uncertainty for long-term investments in upstream production. Two years before the current price collapse, Robert Dudley, a former CEO of BP, noted that ‘many trillions of dollars of investment in oil and gas will still be required to counter the substantial decline rates of existing fields’.¹⁵ Lower investments into oil production might further contribute to market rebalance, conditional upon the future level of oil demand.

END OF OIL AND ENERGY TRANSITION?

With the current oil price collapse, some have emphasised an approaching end of the oil era. For example, Pierre Noel from the International Institute for Strategic Studies argues that the oil-price crisis signifies the end of the oil industry as ‘wind and solar have become ever-cheaper options to generate electricity. Storage costs have also dropped and network management improved. Even in the US, renewables are displacing coal and gas. Electrification of vehicle fleets will damp demand further.’¹⁶

This assessment might partly reflect a context where societies at large, particularly in Europe, are taking an increasingly negative stance towards the oil industry because of the carbon footprint it produces. However, the transition to a carbon-free economy would imply an increase in direct consumption of electricity, replacing the use of fuels. In turn, a higher share of direct electricity consumption in industry, road transport and residential heating will require an unprecedented growth of electricity generation and transmission capacity. Some projections applicable to the European Union’s targets for 2050 demonstrate that the electrification of various economic sectors would require a 75% increase in power generation capacity, and additional electricity demand equivalent to current German annual energy consumption.¹⁷

¹⁵ Quoted in *Financial Times*, 10 October 2018.

¹⁶ Pierre Noel, ‘Oil crash only a foretaste of what awaits energy industry’, *Financial Times*, 15 March 2020.

¹⁷ For details on power sector projections in the context of electrification, see BloombergNEF, ‘Sector Coupling in Europe: Powering Decarbonization’, February 2020, <https://data.bloomberglp.com/professional/sites/24/BNEF-Sector-Coupling-Report-Feb-2020.pdf>; Irina Kustova and Christian Egenhofer, ‘The EU Electricity Sector Will Need Reform, Again’, *Intereconomics*, Pre-print available at <https://link.springer.com/article/10.1007/s10272-019-0849-5>

Direct electricity consumption leads to higher costs for users, an issue that is still underestimated in the debates surrounding decarbonisation. At least a high oil price would have stimulated a transition towards more expensive electricity, whereas a low oil price might increase the social costs of decarbonisation. Recent fuel protests in France, for example, revealed social difficulties in opting for more expensive transport fuels. Hence the era of low oil prices might accentuate, rather than resolve, challenges relating to energy transition.

Furthermore, while the coronavirus pandemic will contribute to the decline in oil demand, it will also hurt national budgets and increase public debt, thereby creating additional barriers to the attainment of the EU's ambitious environmental targets. Budgetary restrictions could further hamper the phasing out of oil products from road transport. In fact, oil-importing states usually levy excise taxes on oil products, and these are used for improving road infrastructure and innovation. The share of excise taxes in the total tax revenues of individual EU states is not negligible, varying between 2% and 5%.

In emerging economies, the priority of short-term affordability over long-term sustainability might be even more pronounced.¹⁸ Similar to the situation of early 2016, cheaper oil may stimulate poorer nations to purchase greater quantities for their transport needs, diesel generators, and even heating and cooking facilities. The South Asian subcontinent represents the fastest-growing regional economy, and has a high share of oil products in its energy mix.

CONCLUSIONS

In conclusion, one may observe a paradoxical dichotomy between oil markets' de-institutionalisation, characterised on the one hand by a persistent uncertainty and on the other by the development of the oil price as symbolic across markets and political economies. The oil price has become a metaphor existing beyond pure supply-demand mechanisms and therefore constitutes an important benchmark for the world economy and market dynamics. Energy transition would have been easier with higher oil prices; the current low price adds uncertainty to the decarbonisation process. Moreover, in times of budgetary difficulties, a reliance on excise duties could become an important factor impacting policy choices across oil-importing states.

Failed efforts in countering lower oil prices reveal producers' weakness in the context of a glut, or a buyers' market. The question remains open about Russia's endurance in accepting its lack of windfall oil profits, in the context of Saudi Arabia's upper hand on the low-price markets. Meanwhile, the oil industry – regardless of its origins – might still be able to find ways to adapt to the new realities, given lower production costs. Economic recovery could then pay off with large revenues and, probably, far more attractive oil prices.

Most of the questions briefly sketched above remain rather open. However, the swift repetition of the oil-price counter-shock is likely to mark a new era for oil markets.

¹⁸ Leslie Hook, "Oil shock threatens to take wind out of sails for renewables shift", *Financial Times*, 11 March 2020.

Challenges of reintegrating Donbas into Ukraine: what role for foreign assistance?

BY PETER HAVLIK¹

The conflict in Donbas that has just marked its sixth anniversary is having a significant impact on the whole of Ukraine. In contrast to the unprecedented scale of international assistance provided to Ukraine so far, the engagement of the private sector has been disappointing. A 'freezing' of the conflict – mediated by the conflict parties with international support – would be an important step towards curtailing human suffering and mitigating the costs of economic reconstruction. The coronavirus crisis is driving Donbas into the Russian-managed space.

ECONOMIC CONSEQUENCES OF THE CONFLICT

The conflict in eastern Ukraine ('Donbas') and its military escalation has just marked its sixth anniversary. With, so far, more than 13,000 dead and up to 30,000 wounded, this is the bloodiest conflict in Europe since the end of the war in former Yugoslavia. Despite some progress having been made in resolving the conflict, facilitated by international actors and the change of political leadership in Ukraine, military actions in the conflict zone continue, along with deterioration in daily life, social services, infrastructure, economic activity and the environment.

The area commonly referred to as Donbas – comprising the Donetsk and Luhansk administrative regions of Ukraine – was highly industrialised before the conflict, with a combined territory of 53,000 square kilometres and a (predominantly Russian-speaking) population of 6.5 million. Home to coal mining and metallurgy, Donbas has traditionally been Ukraine's industrial heartland, accounting for 16% of GDP and around 25% of exports in 2013. In terms of per capita GDP, the Donetsk region was the second-richest in Ukraine, just behind the capital city, Kyiv. The armed conflict in this densely urbanised and industrialised part of eastern Ukraine not only directly affects almost 4 million people living in (and near) the non-government-controlled area (NGCA), but is also having a significant impact on the country's economy.

According to official statistics, in 2014 industrial production dropped by more than 30% in Donetsk and by more than 40% in Luhansk, accounting for most of the 10% overall decline in Ukraine as a whole. Exports to Russia, which used to account for around 25% of Ukraine's exports before the conflict, plummeted by 35% in 2014. Exports to the European Union increased by 12%, but that could not offset the decline in exports to the rest of the world. Since then, the economic losses have increased. Bans and sanctions on internal trade and transport across the contact line in Donbas that were introduced in March 2017 have further exacerbated the economic disruption. Between 2014 and 2015, Ukrainian GDP fell by more than 15%. With annual growth rates of some 3% per year, the economic recovery that started in 2016 has been insufficient to restore the lost output in full, and exports are still below their pre-conflict level. To make things worse, the coronavirus pandemic will inflict serious damage on the Ukrainian economy this year, and could have a devastating impact on Donbas.

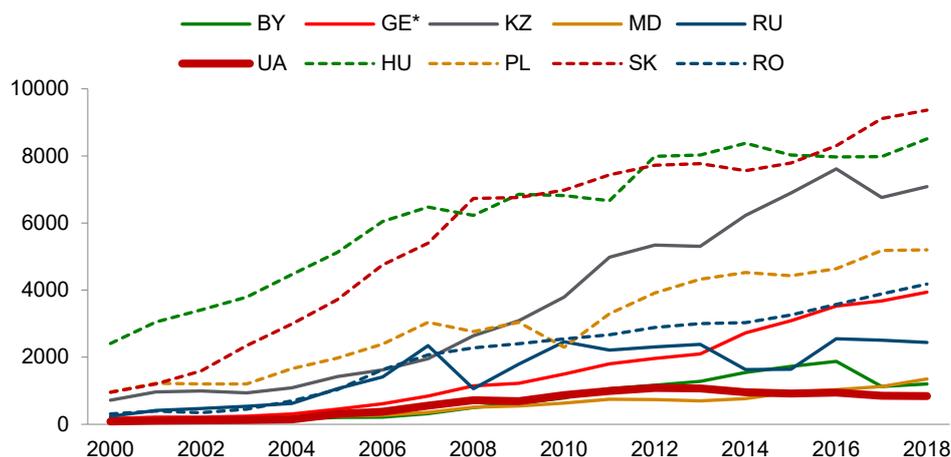
¹ Senior Research Associate at wiiw and former Deputy Director. This article is partly based on a broader study written recently by wiiw (forthcoming). However, the views expressed in this article are exclusively those of the author and do not necessarily represent the official view of wiiw.

INTERNATIONAL ASSISTANCE TO UKRAINE SO FAR: THE EU, THE IMF AND BEYOND

The scale of international assistance to Ukraine since the 'Maidan revolution' of February 2014 has been unprecedented. The EU has mobilised around EUR 14 billion, including more than EUR 1 billion in grants. In late 2016 the Ukraine Reforms Architecture (URA) programme to support public administration reform was launched jointly with the EBRD. A Strategic Advisory Group (SAGSUR) established by the EU was embedded with Ukrainian government ministries. In March 2015 the IMF Stand-By Arrangement of April 2014 (USD 16.5 billion) was replaced with a new USD 17.5 billion Extended Fund Facility to support a revised four-year reform programme. Apart from intensifying the fight against corruption, key IMF conditions included reducing natural-gas price subsidies and pension entitlements. Later, privatisation of state-owned enterprises and lifting the ban on farm land sales were added (all these measures are highly contentious in Ukraine). In March 2020 the Ukrainian government launched negotiations with the IMF about a new emergency assistance programme in response to the coronavirus crisis.

Other multilateral donors (the World Bank, the EBRD and the European Investment Bank) extend substantial financial and technical assistance to Ukraine, almost exclusively to government-controlled territories. Bilateral humanitarian and technical assistance is also provided, among others, by Germany, Sweden and the US.² The US also provides military assistance to Ukraine, while Russia provides both military and some humanitarian assistance to the NGCA in Donbas. In 2014 the EU and Ukraine signed an Association Agreement (AA), including a Deep and Comprehensive Free Trade Area (DCFTA), which among other stipulations granted Ukrainian producers duty-free access to EU markets (with some exceptions and tariff rate quotas for agricultural goods). Last but not least, holders of Ukrainian biometric passports have been able to travel visa-free to the EU's Schengen Area since June 2017.

Figure 1 / FDI inward stock per capita, EUR



Note: * estimated.

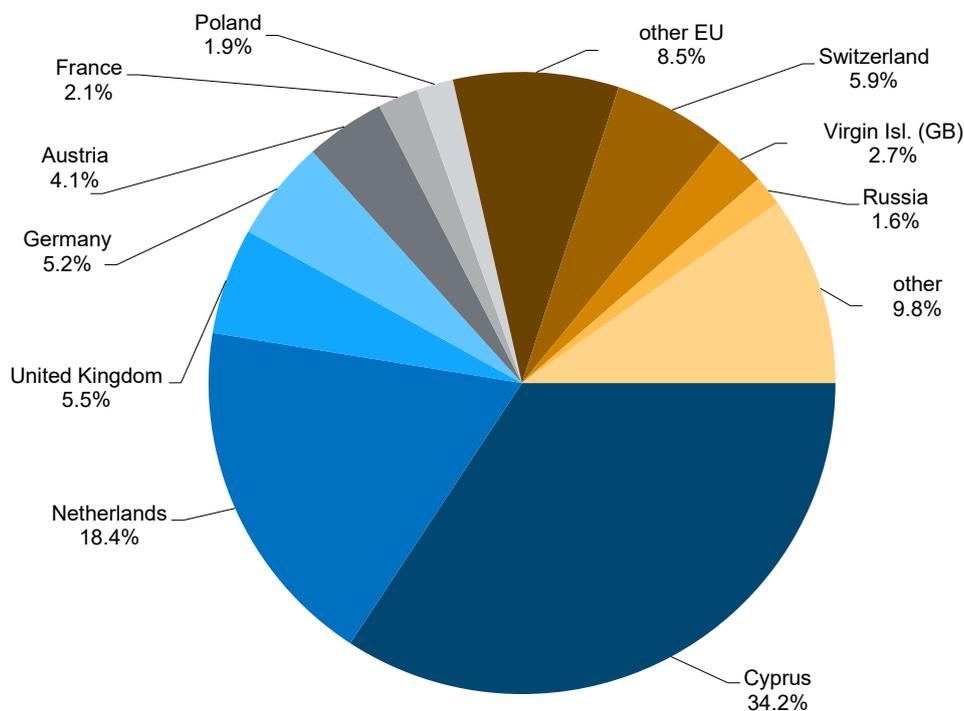
Source: wiiw FDI database.

² Responding to the coronavirus crisis, the IMF has boosted its loan package to Ukraine from USD 5 billion to USD 8 billion; the World Bank is offering USD 1 billion; and the EU a further USD 500 million. At least USD 2 billion would be disbursed quickly by the IMF, making funds available almost immediately to fight the coronavirus, according to the former US special representative, Kurt Volker – see <https://www.kyivpost.com/article/opinion/op-ed/kurt-volker-ukraines-moment-of-truth.html>

The extraordinarily high level of international support to Ukraine contrasts sharply with the disappointing engagement of the private sector (both domestic and foreign). The share of gross fixed capital formation in the country's GDP (17.2% in 2018) was the lowest of all Central, East and Southeast transition countries. In 2019 overall investment dropped by another 7%. In terms of per capita foreign direct investment (FDI), the Ukrainian stock (EUR 850 in 2018) is the worst among regional peers (Figure 1). Were it not for the EBRD – which has supported investment of more than EUR 14.5 billion since 1992 and has a current project portfolio in Ukraine exceeding EUR 4.4 billion – Ukraine's FDI would be even more meagre. In order to reach the same FDI penetration level as, for example, Romania (EUR 4,200 per capita in 2018) or Poland (EUR 5,200), Ukraine would need to attract an additional EUR 150 billion and EUR 180 billion in FDI, respectively.

Needless to say, this is far in excess of the USD 50 billion in FDI inflows targeted for the next five years by the first government under Volodymyr Zelensky. Reaching even this not very ambitious target would require concerted efforts (much beyond the resolution of the conflict in Donbas) by Ukrainian authorities, civil society and other stakeholders to improve the investment climate. Furthermore, the extraordinarily high shares of Cyprus and other offshore destinations in Ukrainian FDI stocks and flows indicate a widespread practice of dubious round-tripping investment, money laundering and tax avoidance – much higher than elsewhere in Central and Eastern Europe, where most FDI originates from Western Europe (see Figure 2; this is similar to Russia).

Figure 2 / Ukraine: FDI inward stock by partner, top ten investors in 2018



Source: wiiw FDI database.

THE CONFLICT COSTS, ITS RESOLUTION AND THE WAY FORWARD

According to various estimates, the economic damage caused by the conflict in Donbas exceeds USD 20 billion.³ Apart from considerable human suffering, the impact has included destroyed or damaged physical capital (such as infrastructure and housing stocks), foregone investments, environmental damage, and the need to clear landmines on agricultural and other land. According to the official Ukrainian government plan from 2018,⁴ the reconstruction of Donbas would cost USD 20-30 billion and take at least ten years. Additional costs related to, for example, accumulated pension arrears and the resettlement of internally displaced persons, compensation and medical assistance to war veterans, and the restoring of the financial sector and trade, would certainly amount to billions more US dollars.

The emergence of a new political leadership in Ukraine after the presidential elections in April 2019 should be used as an opportunity to launch a new initiative for peace, democracy, rehabilitation and economic reconstruction of the Donbas region. The first step in this direction has been undertaken by the December 2019 meeting of the Normandy Four (the German Chancellor and the presidents of France, Ukraine and Russia). At this meeting, apart from a ceasefire and exchange of prisoners, the implementation of the Minsk protocols was agreed. Ideally, this initiative should be also supported by the US and other world powers. An endorsement by the UN Security Council would also be needed. The recent economic recovery in Ukraine – all remaining internal and external obstacles notwithstanding – has created a conducive environment for launching a new reintegration initiative in Donbas. However, the coronavirus outbreak has brought up a number of additional obstacles to reintegration efforts that could eventually result either in more co-operative solutions or in the sparking of new conflicts.

In this context, providing external assistance to Ukraine in order to facilitate the reintegration of Donbas and address the challenges of reconstruction of its physical and human capital would be of paramount importance. Nonetheless, there are several issues that need to be urgently addressed (irrespective of current coronavirus-related challenges). First, the economic reconstruction and reintegration of Donbas cannot be separated from reforms and restructuring of Ukraine as a whole. Second, it is important to bear in mind that, given the pervasive nature of corruption in Ukraine, a substantial portion of external assistance funds is likely to be misappropriated, embezzled or outright stolen (the case of PrivatBank, which was nationalised in 2016 following allegations of large-scale fraud, can serve as an illustration). Even large-scale financial assistance from abroad will not bring the expected benefits to Ukraine's economy unless it is accompanied by a wide range of – above all, institutional – reforms. Third, another important hindrance to efficient external assistance has been Ukraine's limited capacity to implement support programmes, as well as numerous co-ordination problems on the part of donors, including within EU institutions.

Realistically speaking – given the internal and external constraints – even a 'freezing' of the conflict in Donbas and the implementation of a variant of a 'Transdnistriean' solution⁵ accepted by both the Ukrainian government and society, separatists in Donbas and key external players (most importantly the EU, the US and Russia) would be an important step forward in curtailing human suffering and mitigating economic

³ See, for example, <https://www.atlanticcouncil.org/blogs/ukrainealert/who-should-pay-for-the-restoration-of-the-donbas/>

⁴ See <https://glavcom.ua/economics/finances/rujini-ta-groshi-skilki-koshtuvatime-velikiy-remont-donbasu-dokumenti-547636.html>

⁵ Moldova does not recognise Transdnistria as an independent state, although Transdnistria is de facto independent and even has its own currency. However, there are no military hostilities (although the presence of Russian troops in Transdnistria has been reduced to a bare minimum) and there are significant cross-border trade and people-to-people contacts. Also, Transdnistria is effectively covered by Moldova's DCFTA with the EU and thus is taking advantage of duty-free access to EU markets.

costs. Needless to say, Donbas is not Transdnistria – if only because of different human and economic dimensions (Donbas is much bigger), as well as geographical factors and the present geopolitics (Donbas shares a border with Russia, unlike Transdnistria). Nonetheless, as wiiw wrote five years ago with respect to Ukraine:

*‘Economic stabilisation and return to sustainable and inclusive economic growth will be impossible without a resolution of the military conflict, which should be the first priority for the policy-makers. Restoration of normal economic activities in the affected territories will also require massive public investment, and the EU could potentially play a crucial role here – ideally by designing a sort of ‘Marshall Plan’ for Ukraine.’*⁶

The report quoted above provided a number of specific economic policy recommendations to Ukraine in areas of exchange-rate policy, energy tariffs and government expenditure that are still partly valid in the current context. As far as institutional transformation and Western assistance are concerned, we underlined the need to support and strengthen non-violent civil society, independent media and NGOs in Ukraine. Meanwhile, foreign assistance should be rigidly tied to progress in the implementation of legal reforms and, last but not least, should be sensitive towards the social impact of reforms.

In the area of post-conflict economic and trade relations, we plead – perhaps controversially, given the currently charged sociopolitical situation in Ukraine – for a balanced approach that would involve both the AA/DCFTA with the EU (a highly challenging task in the context of Donbas reintegration, yet part of a Transdnistrian-like stabilisation) and restoring trade relations with Russia. Macroeconomic stability and the implementation of institutional reforms should get priority; the full implementation of the DCFTA should be linked to progress in the reintegration of Donbas, where it should eventually be implemented as well.

Beyond Donbas, peace in eastern Ukraine is a crucial pre-condition for a wider pan-European-Eurasian space of peace, co-operation and prosperity ‘from Lisbon to Vladivostok’. Deliberations concerning the feasibility, strategy and technical aspects of such space should be launched and transformed into a more consistent format, involving, besides the EU and Russia, other member states of the Eurasian Economic Union, as well as Ukraine. That is why it is necessary to prepare an overview of economic challenges to rehabilitate and reintegrate the Donbas region into the Ukrainian economy even before the present political and institutional initiatives to resolve the conflict have been implemented and a full resolution (or at least a stabilisation) has been achieved. Unfortunately, Ukraine has been a pawn in the geopolitical conflict between the West and Russia, and recently even a victim of the in-fighting in the US between Republicans and Democrats ahead of the November 2020 presidential elections. This seriously impedes initiatives with respect to conflict resolution in Donbas.⁷ The coronavirus crisis is not only hampering reconstruction efforts in Donbas, but is likely to be driving parts of the region towards the Russian-managed economic and social space.⁸

⁶ Adarov, A. et al., (2015), ‘How to Stabilise the Economy of Ukraine’, *wiiw Background Study*, No. 201504, April, <https://wiiw.ac.at/how-to-stabilise-the-economy-of-ukraine-dlp-3562.pdf>. Similar conclusions were arrived at even earlier – see Astrov, V. et al., (2010), ‘Ukraine, the European Union and the International Community’, *wiiw Research Report*, No. 364, July, <https://wiiw.ac.at/ukraine-the-european-union-and-the-international-community-current-challenges-and-the-agenda-for-overcoming-the-stalemate-p-2175.html>.

⁷ A negotiated peace solution is a highly controversial issue in Ukraine, where opposition to Mr Zelensky’s peace initiatives is becoming stronger even within his own party ranks – see, for example, <https://atlanticcouncil.org/blogs/ukrainealert/why-ukraine-cannot-risk-recognizing-putins-proxies/>. An earlier international proposal for conflict resolution prepared before the Munich Security Conference in February 2020 had to be shelved – see <https://www.kyivpost.com/ukraine-politics/shadowy-organization-adds-former-western-top-officials-to-enemies-of-ukraine-list.html>

⁸ See <https://www.kyivpost.com/ukraine-politics/how-crimea-and-donbas-are-responding-to-covid-19.html>

Monthly and quarterly statistics for Central, East and Southeast Europe

The monthly and quarterly statistics cover **22 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	Harmonized 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

The following national currencies are used:

ALL	Albanian lek	HRK	Croatian kuna	RON	Romanian leu
BAM	Bosnian convertible mark	HUF	Hungarian forint	RSD	Serbian dinar
BGN	Bulgarian lev	KZT	Kazakh tenge	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) and Slovenia (from January 2007, 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

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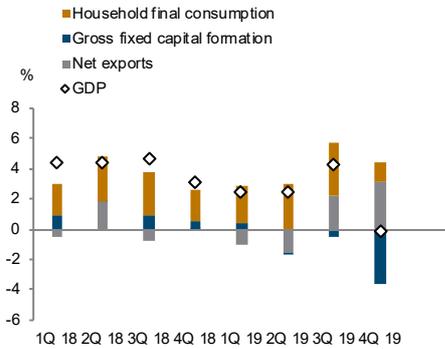
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We offer an additional service package that allows you to access all databases – a Premium Membership, at a price of € 2,300 (instead of € 2,000 as for the Basic Membership). Your usual package will, of course, remain available as well.

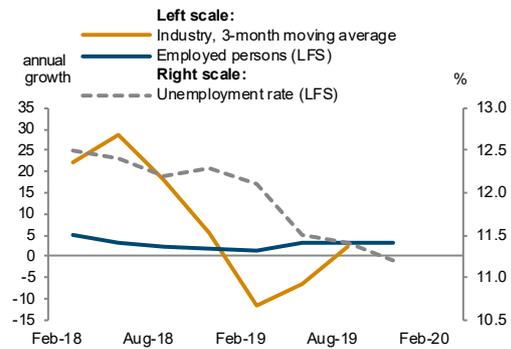
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Albania

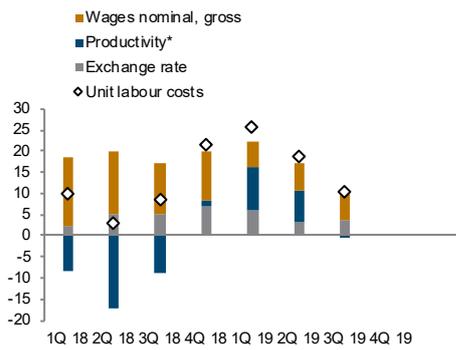
Real GDP growth and contributions
year-on-year



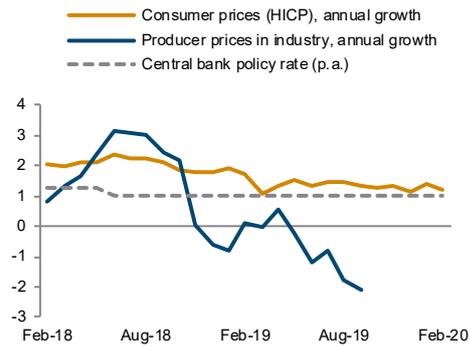
Real sector development
in %



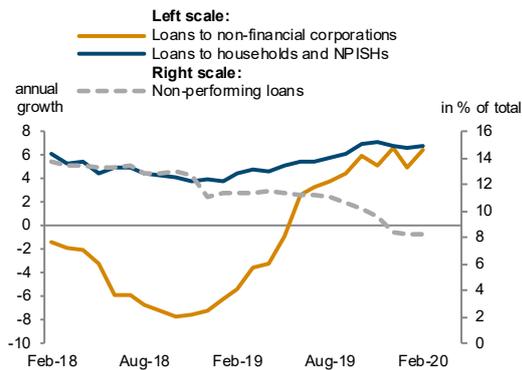
Unit labour costs in industry
annual growth rate in %



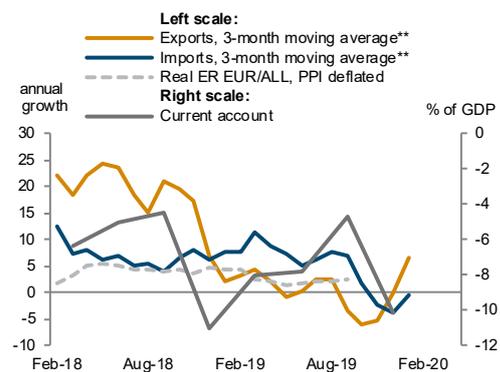
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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

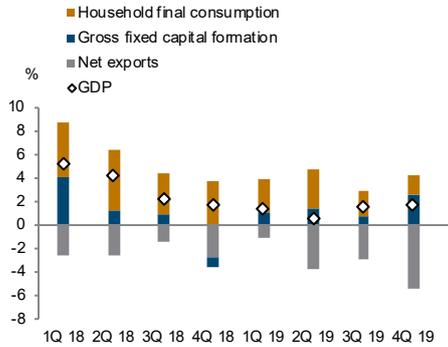
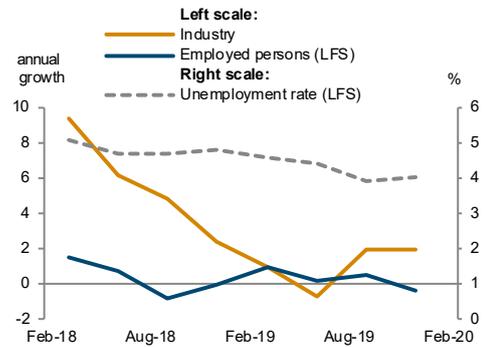
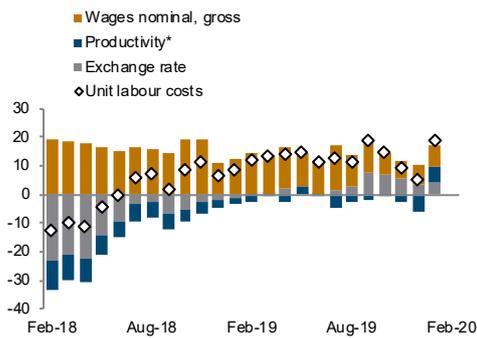
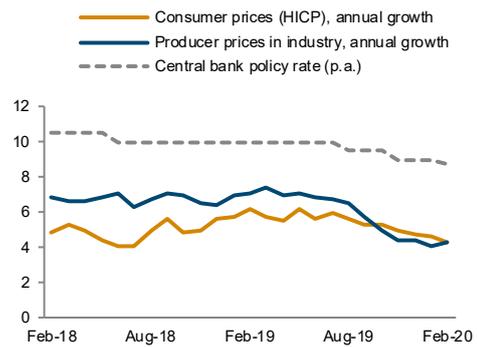
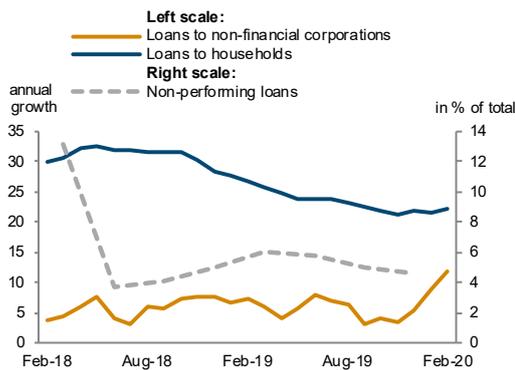
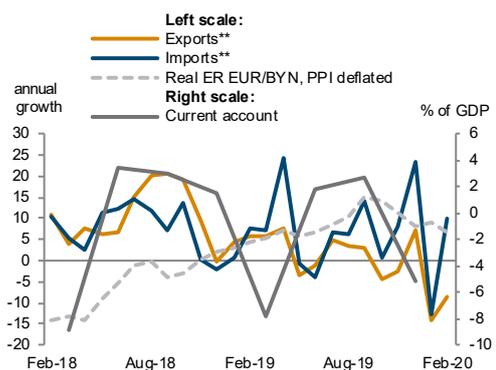
**EUR based.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

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

Belarus

Real GDP growth and contributions
year-on-yearReal 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.

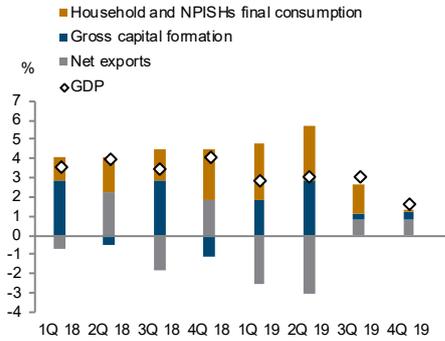
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Bosnia and Herzegovina

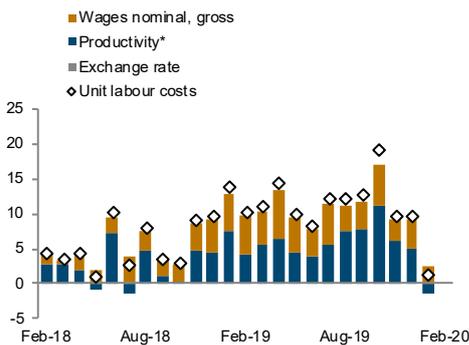
Real GDP growth and contributions
year-on-year



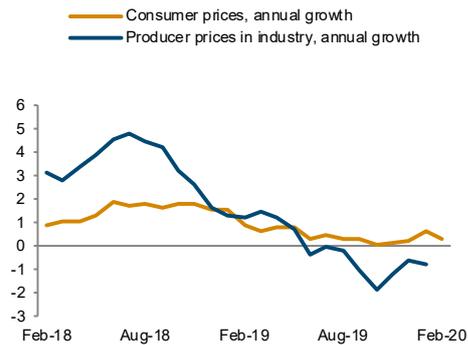
Real sector development
in %



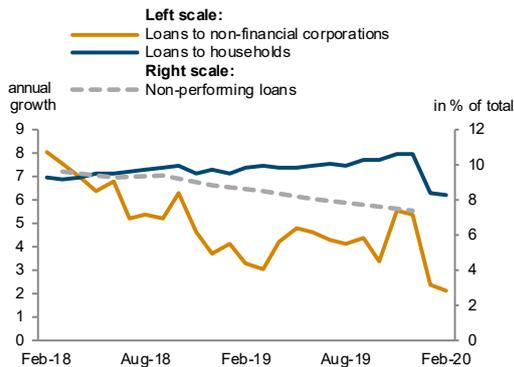
Unit labour costs in industry
annual growth rate in %



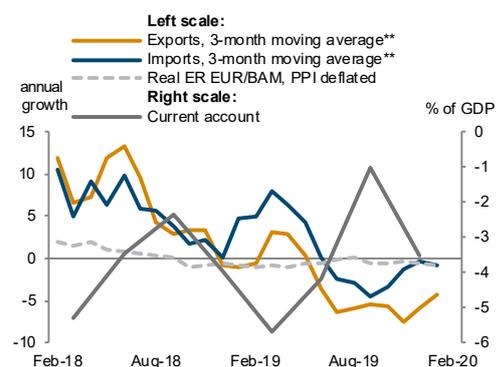
Inflation
in %



Financial indicators
in %



External sector development
in %



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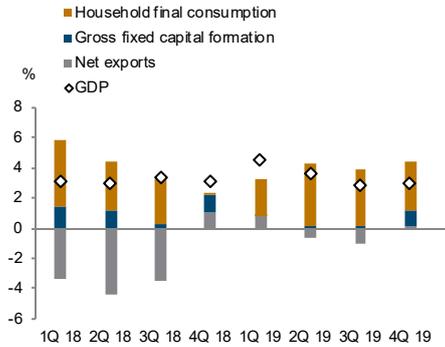
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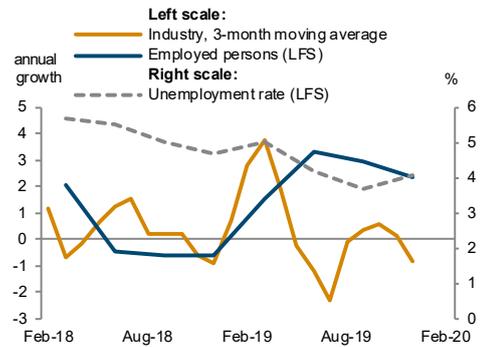
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Bulgaria

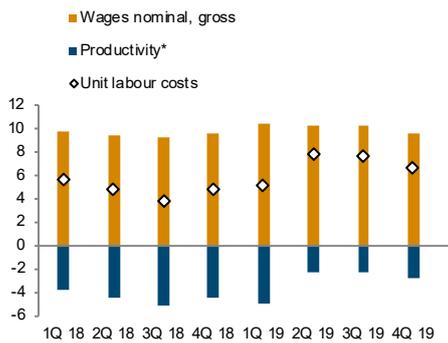
Real GDP growth and contributions
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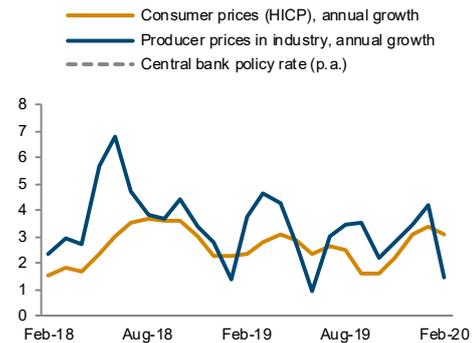
Real sector development
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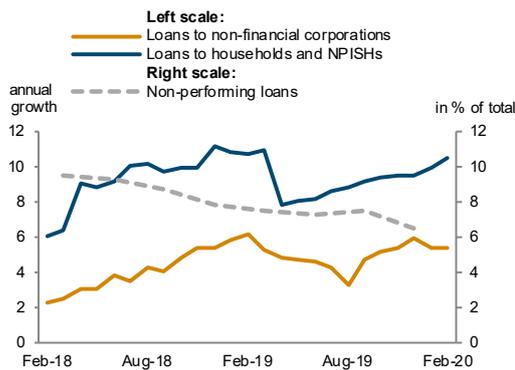
Unit labour costs in industry
annual growth rate in %



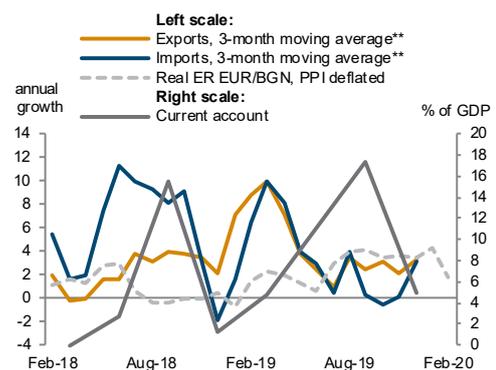
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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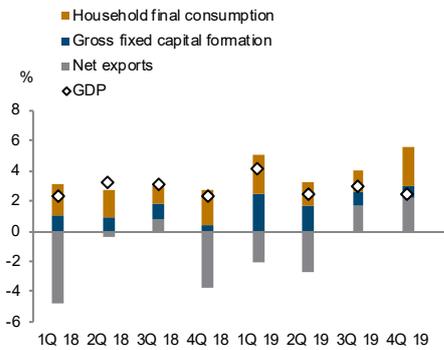
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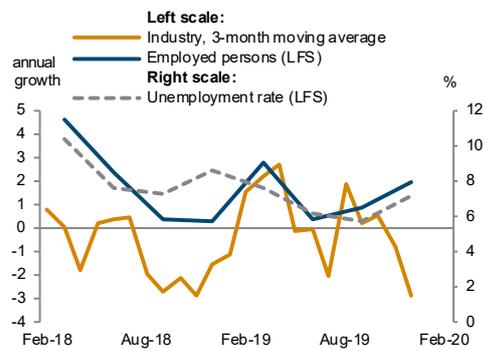
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Croatia

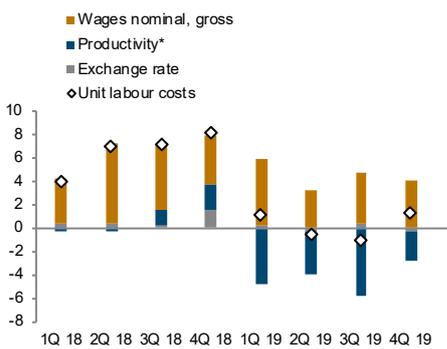
Real GDP growth and contributions
year-on-year



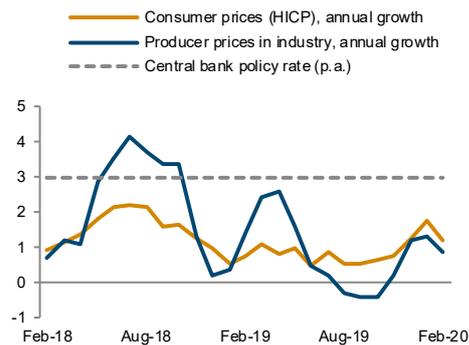
Real sector development
in %



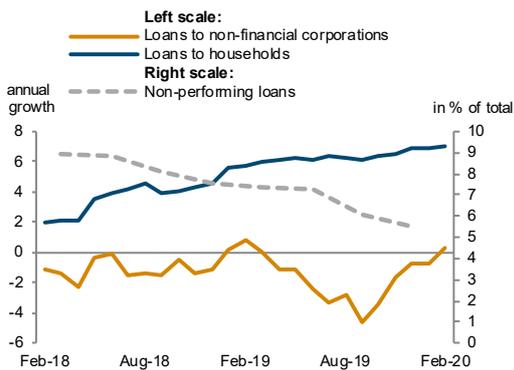
Unit labour costs in industry
annual growth rate in %



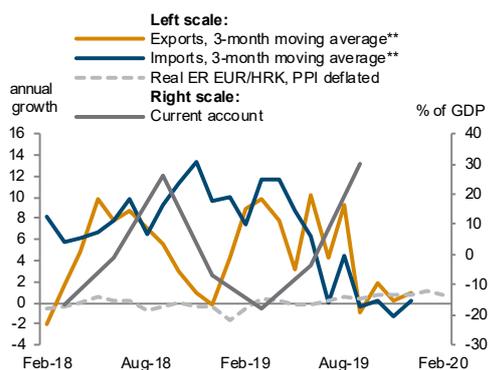
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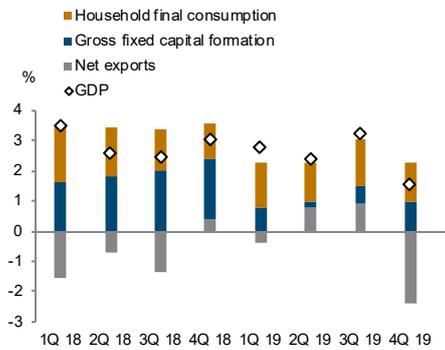
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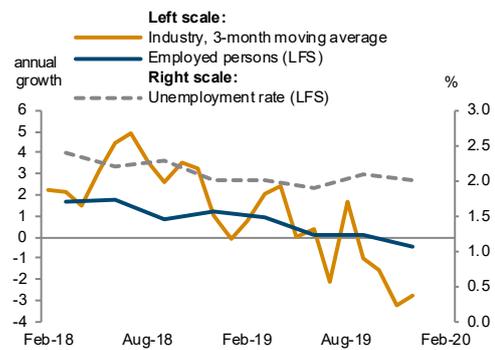
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Czech Republic

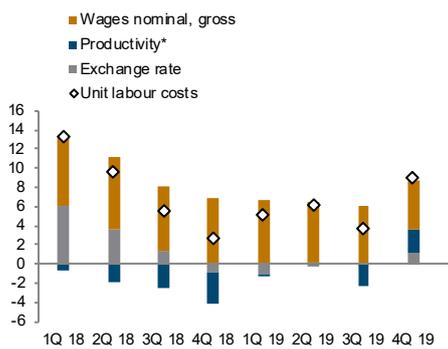
Real GDP growth and contributions
year-on-year



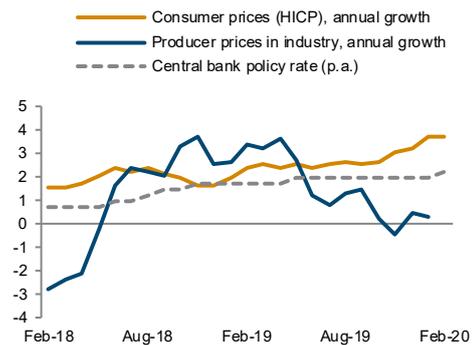
Real sector development
in %



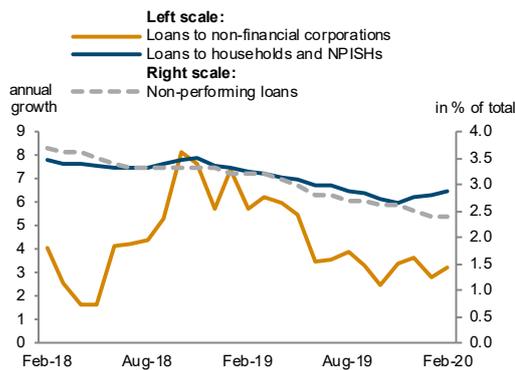
Unit labour costs in industry
annual growth rate in %



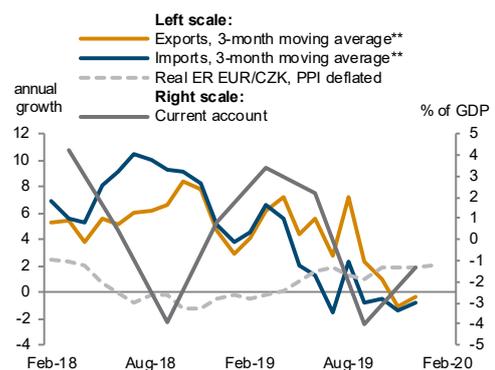
Inflation and policy rate
in %



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.

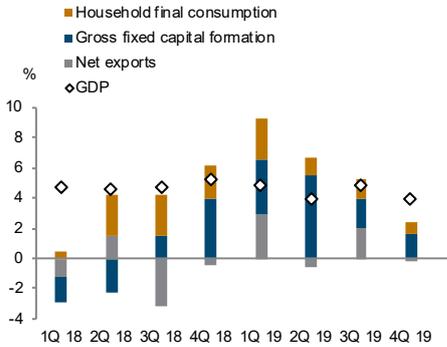
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

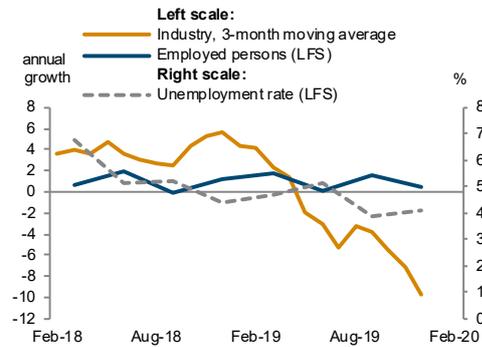
<https://data.wiiw.ac.at/monthly-database.html>

Estonia

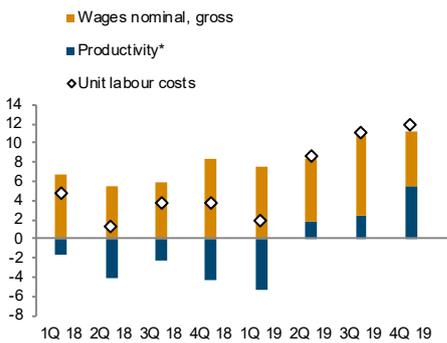
Real GDP growth and contributions
year-on-year



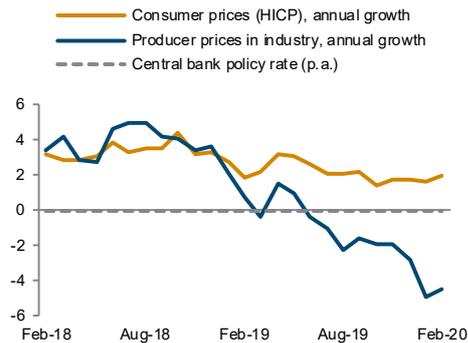
Real sector development
in %



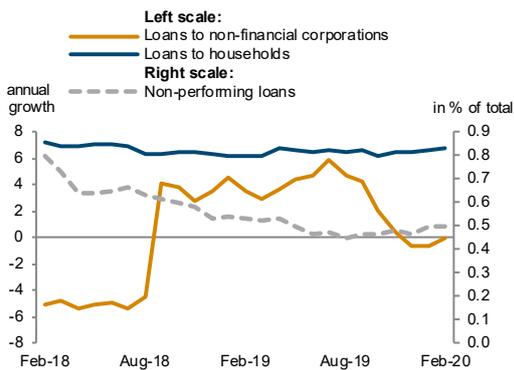
Unit labour costs in industry
annual growth rate in %



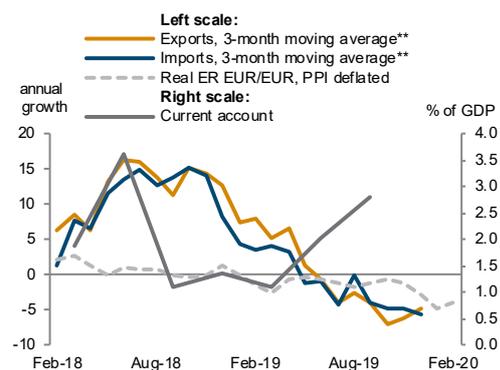
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

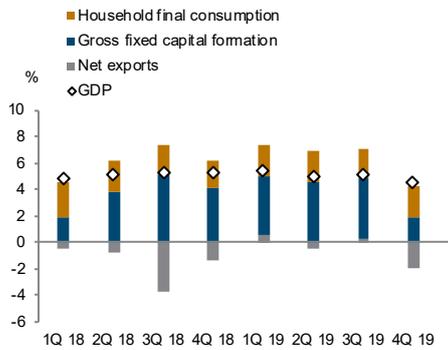
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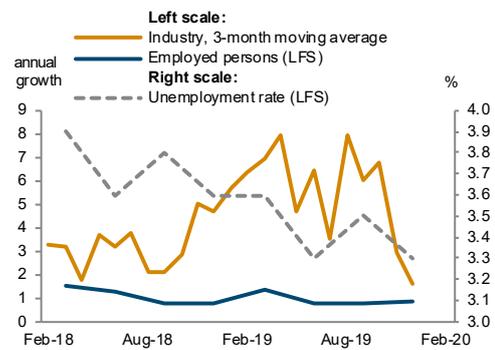
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Hungary

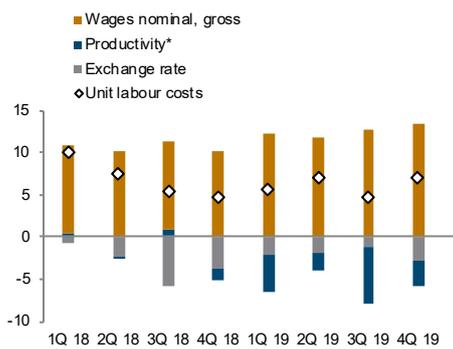
Real GDP growth and contributions
year-on-year



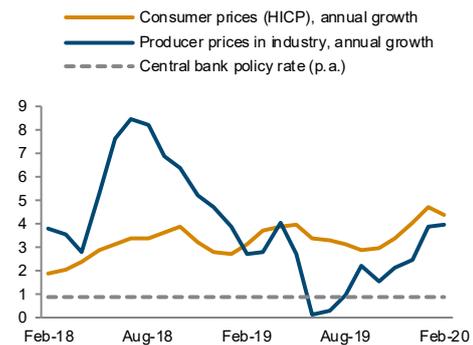
Real sector development
in %



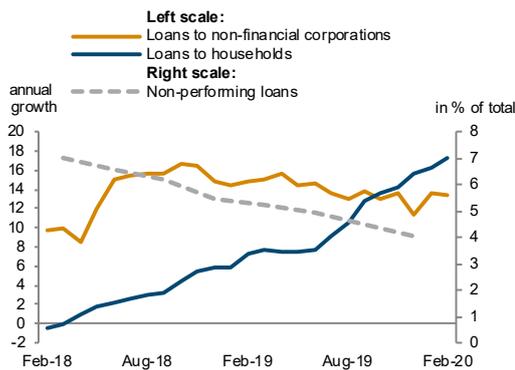
Unit labour costs in industry
annual growth rate in %



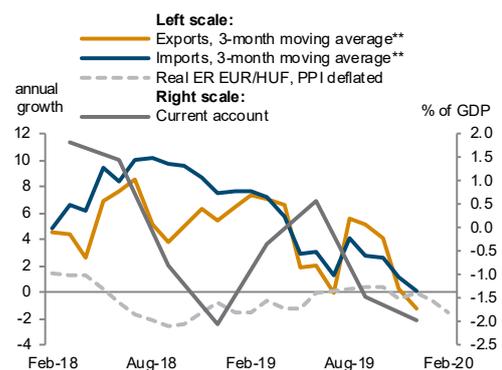
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

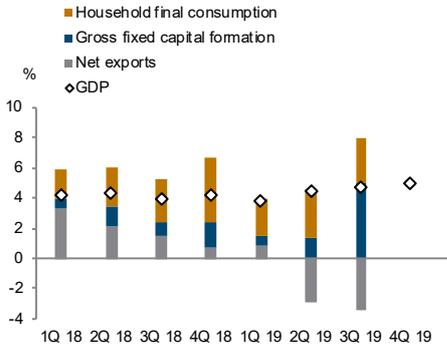
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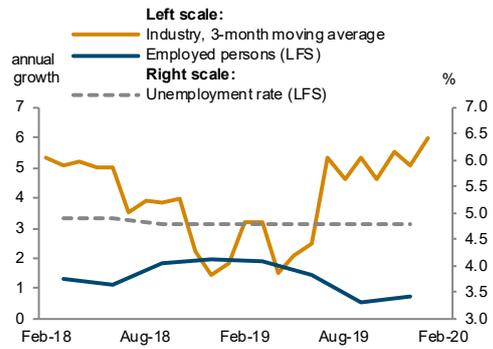
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Kazakhstan

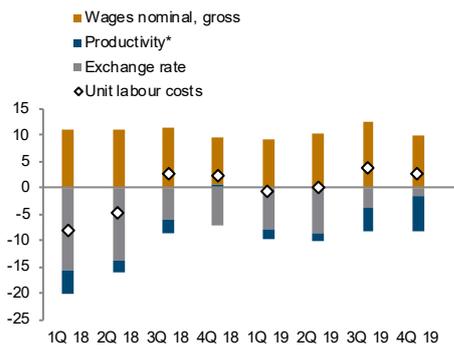
Real GDP growth and contributions
year-on-year



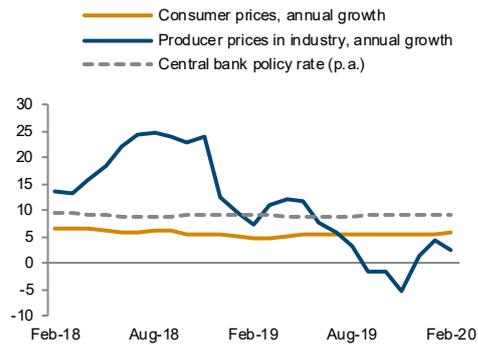
Real sector development
in %



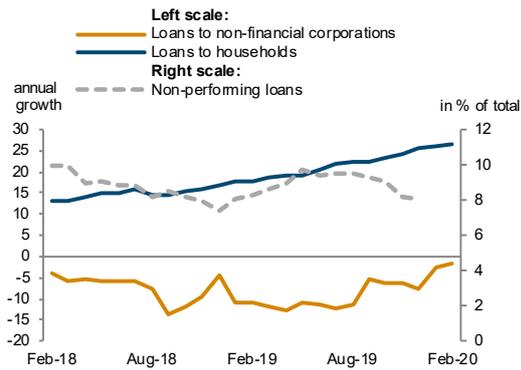
Unit labour costs in industry
annual growth rate in %



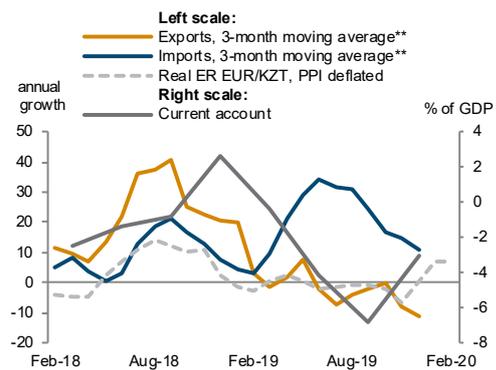
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

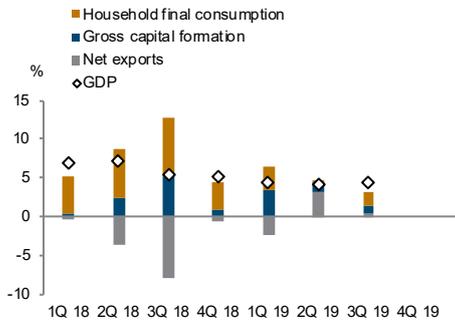
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

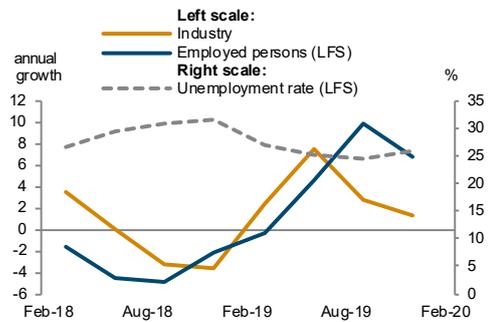
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Kosovo

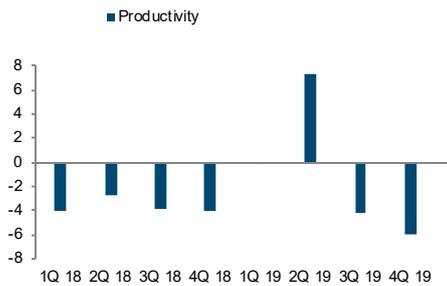
Real GDP growth and contributions
year-on-year



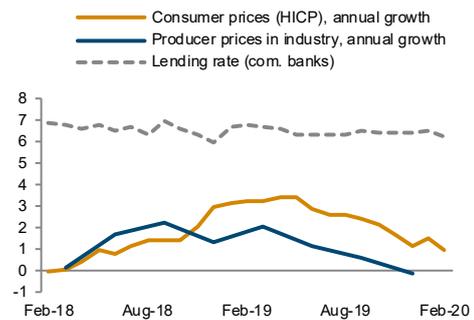
Real sector development
in %



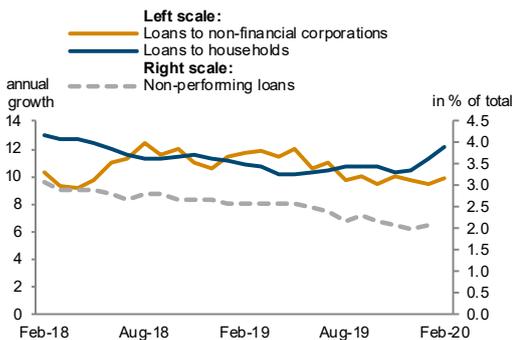
Productivity in industry
annual growth rate in %



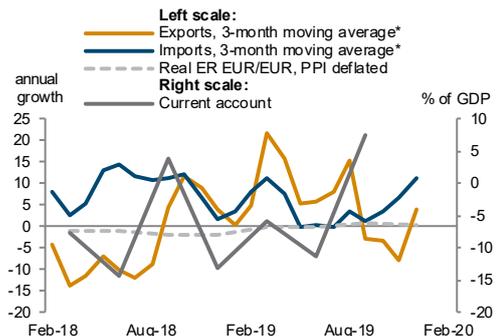
Inflation and lending rate
in %



Financial indicators
in %



External sector development
in %



*EUR based.

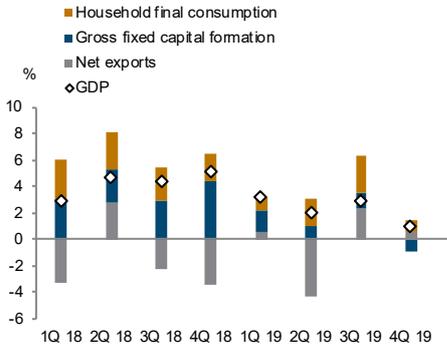
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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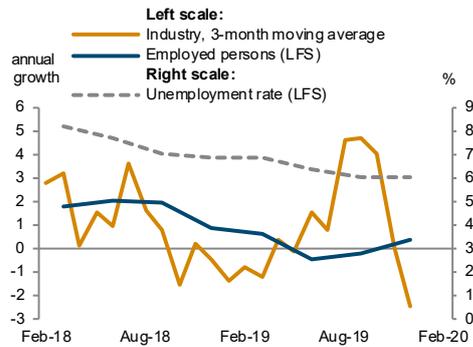
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Latvia

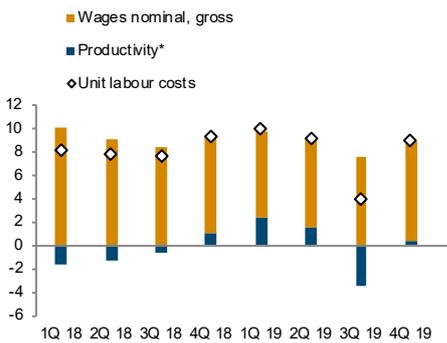
Real GDP growth and contributions
year-on-year



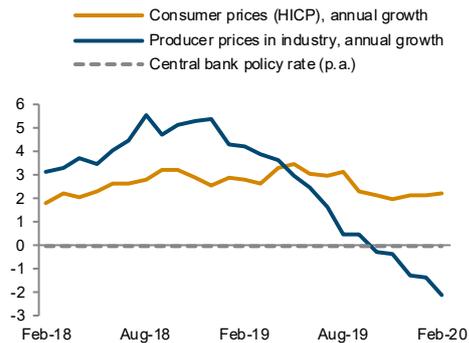
Real sector development
in %



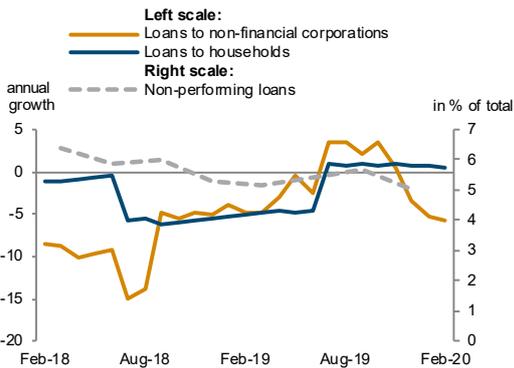
Unit labour costs in industry
annual growth rate in %



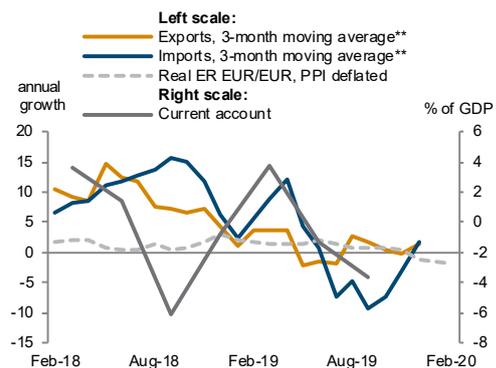
Inflation and policy rate
in %



Financial indicators
in %



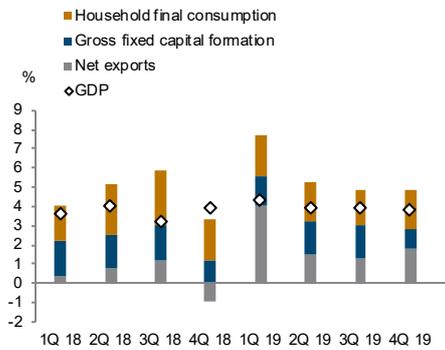
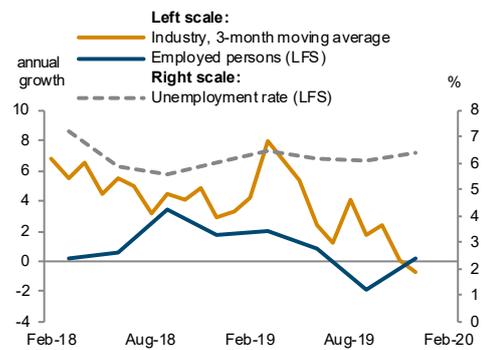
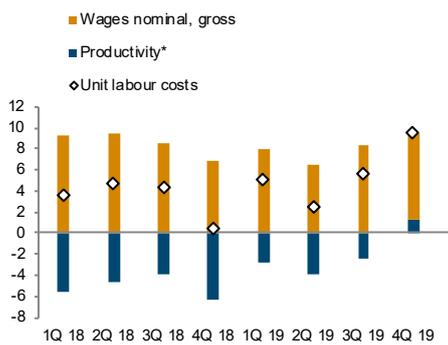
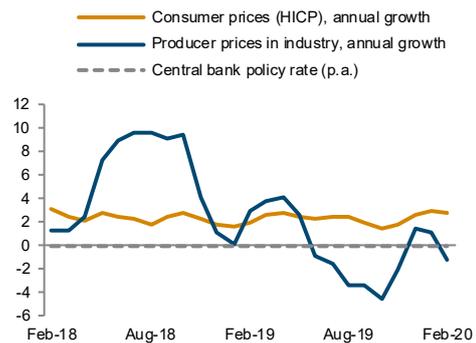
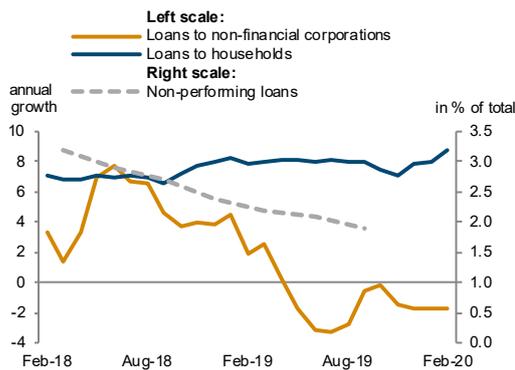
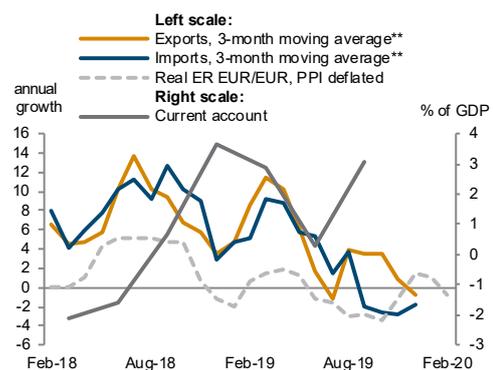
External sector development
in %



*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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Lithuania

Real GDP growth and contributions
year-on-year**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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**EUR based.

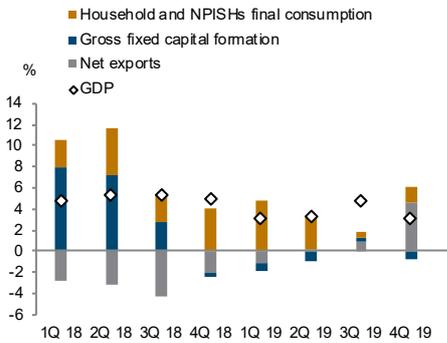
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Baseline data, country-specific definitions and methodological breaks in time series are available under:

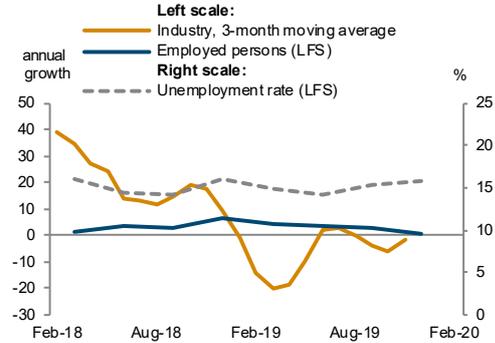
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Montenegro

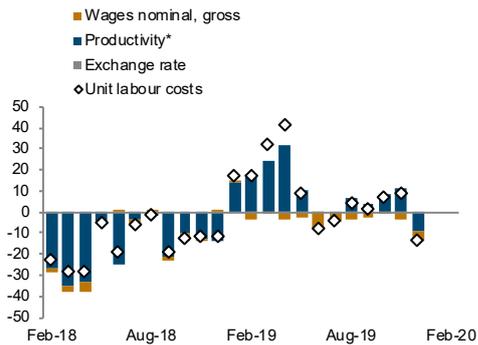
Real GDP growth and contributions
year-on-year



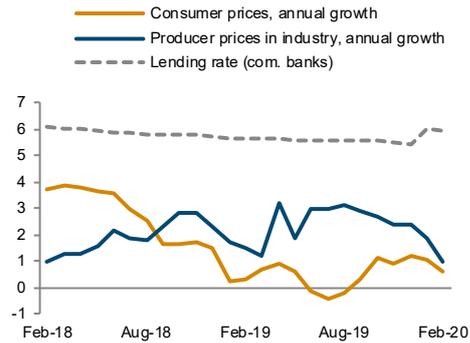
Real sector development
in %



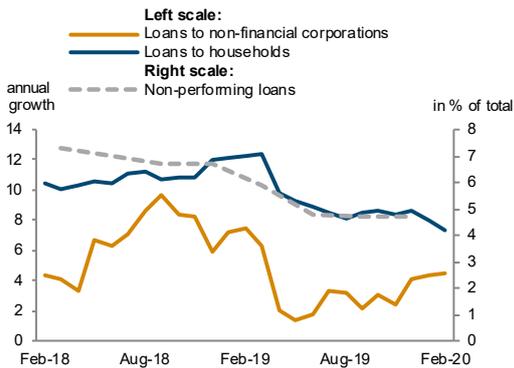
Unit labour costs in industry
annual growth rate in %



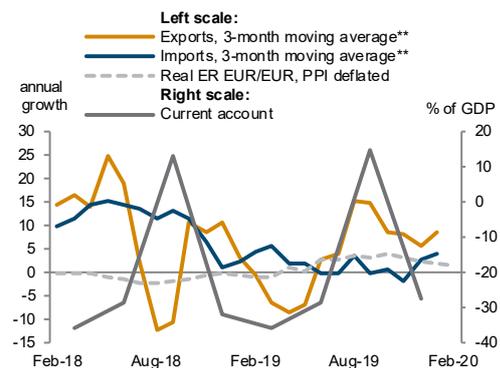
Inflation and lending rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

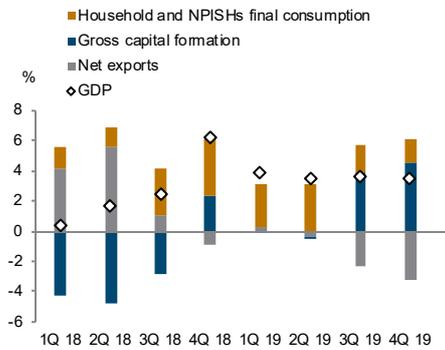
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

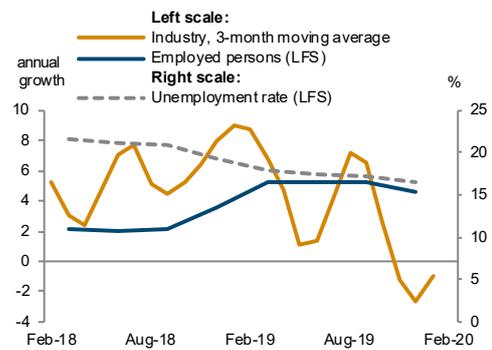
<https://data.wiiw.ac.at/monthly-database.html>

North Macedonia

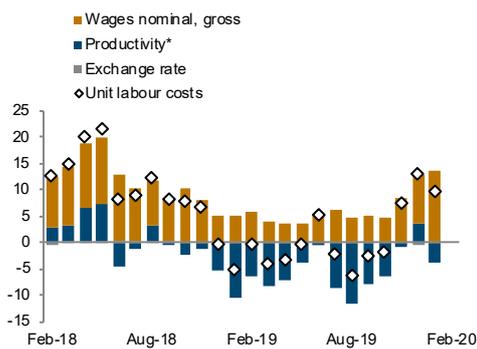
Real GDP growth and contributions
year-on-year



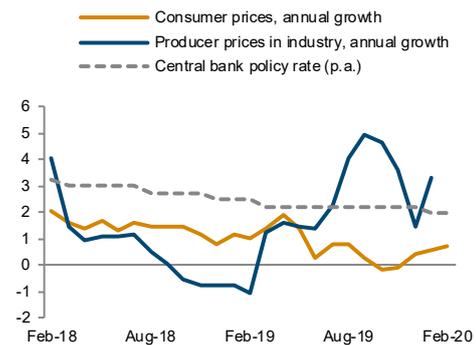
Real sector development
in %



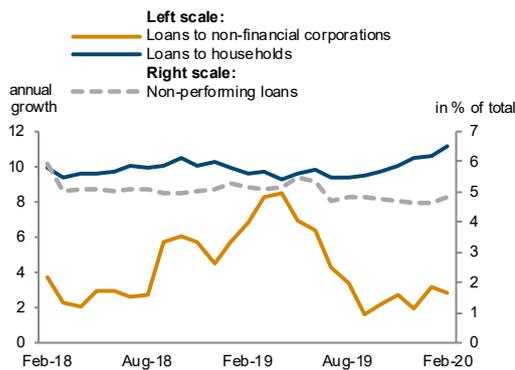
Unit labour costs in industry
annual growth rate in %



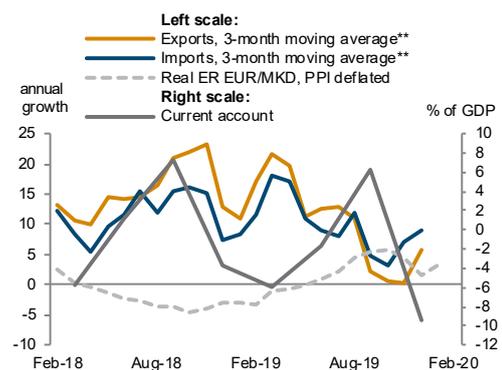
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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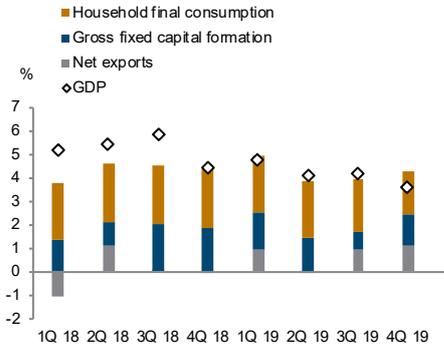
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

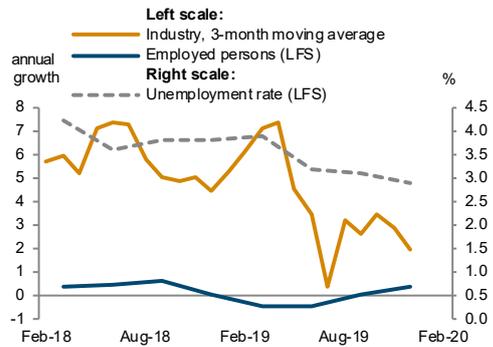
<https://data.wiiw.ac.at/monthly-database.html>

Poland

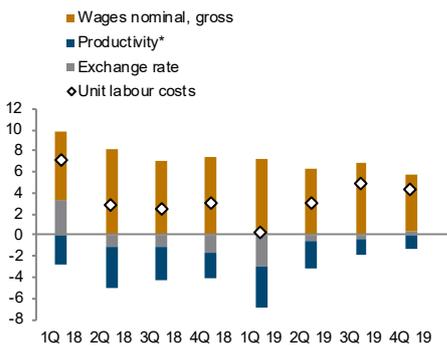
Real GDP growth and contributions
year-on-year



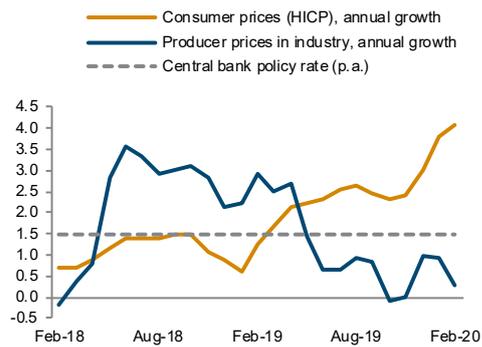
Real sector development
in %



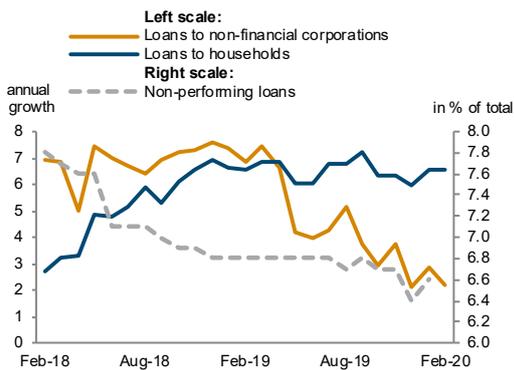
Unit labour costs in industry
annual growth rate in %



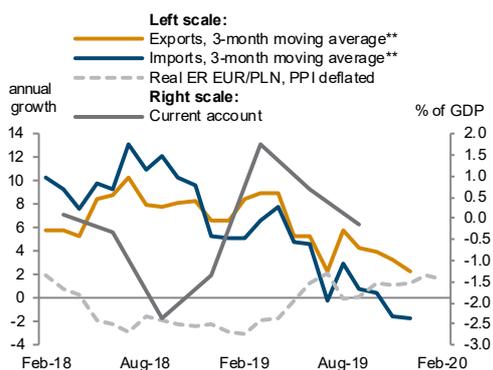
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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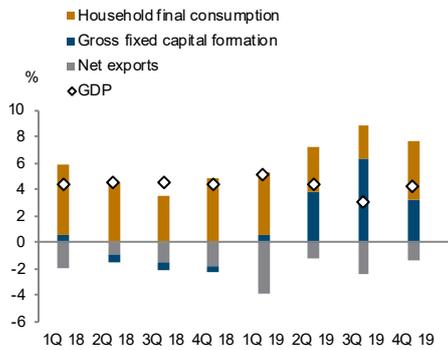
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

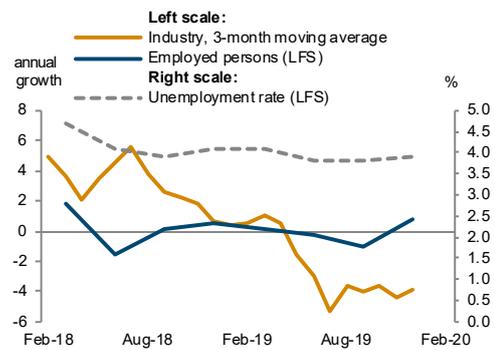
<https://data.wiiw.ac.at/monthly-database.html>

Romania

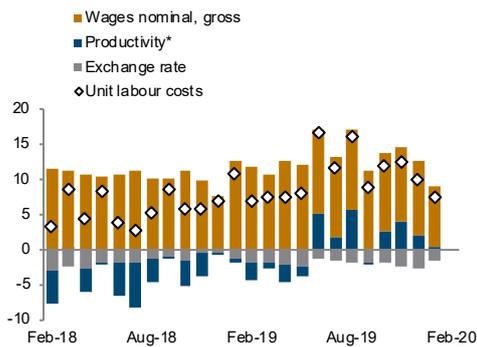
Real GDP growth and contributions
year-on-year



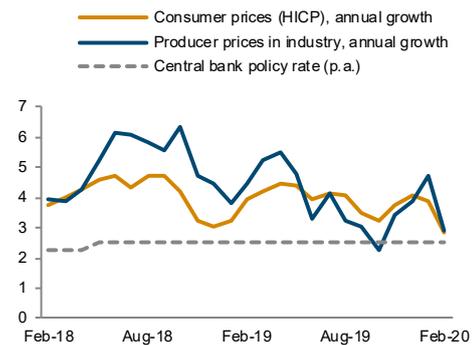
Real sector development
in %



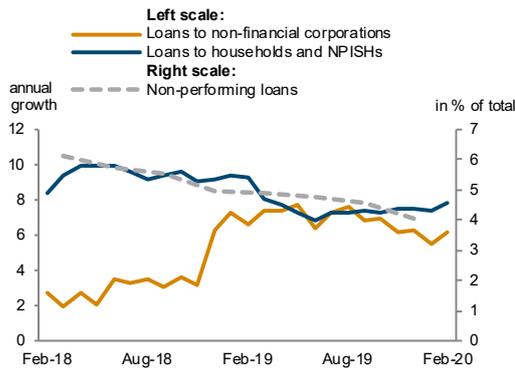
Unit labour costs in industry
annual growth rate in %



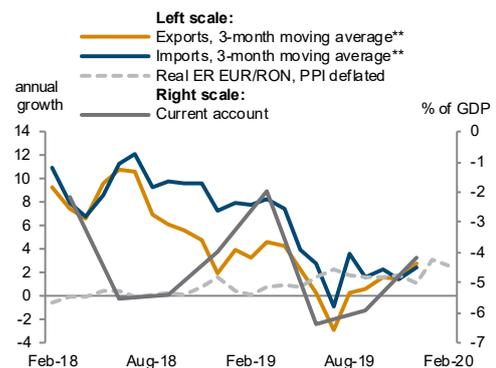
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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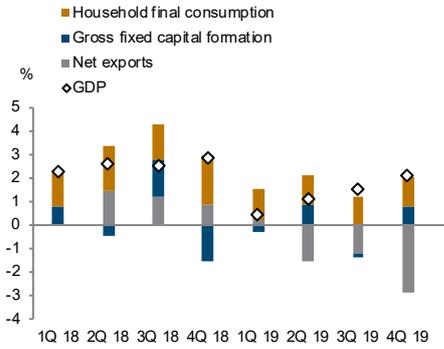
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

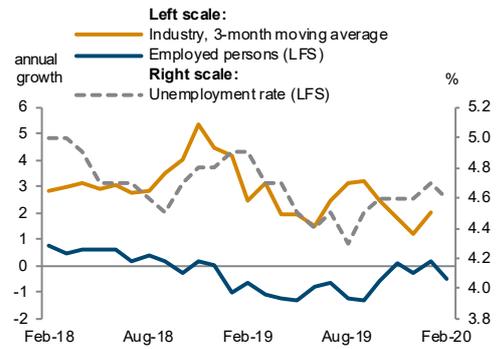
<https://data.wiiw.ac.at/monthly-database.html>

Russia

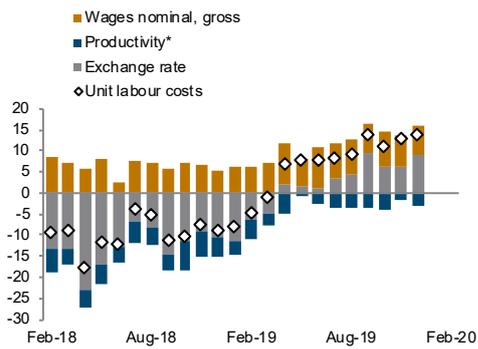
Real GDP growth and contributions
year-on-year



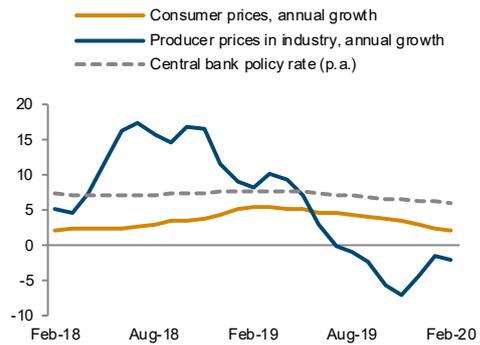
Real sector development
in %



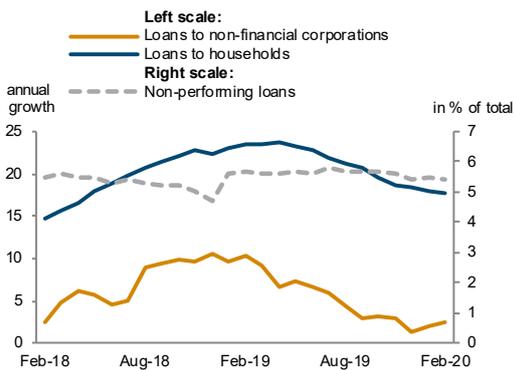
Unit labour costs in industry
annual growth rate in %



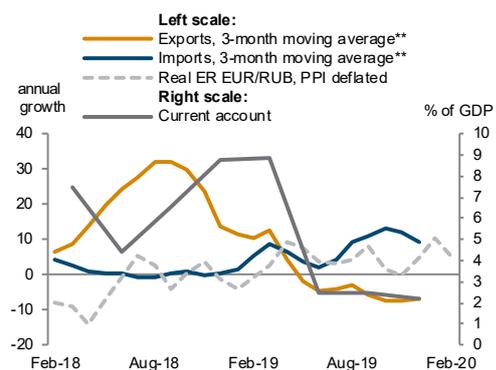
Inflation and policy rate
in %



Financial indicators
in %



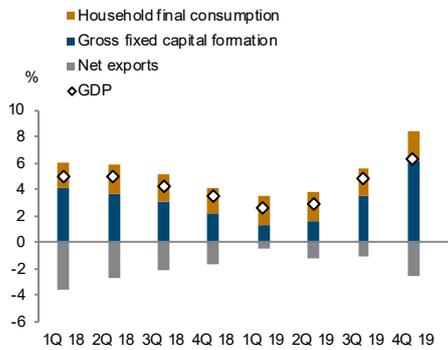
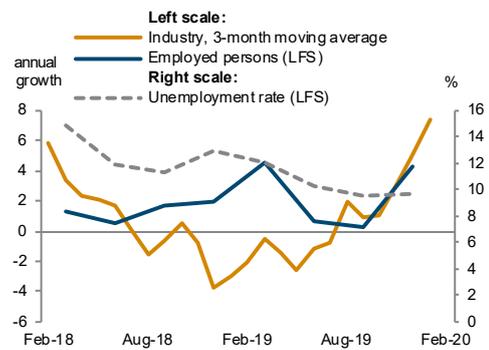
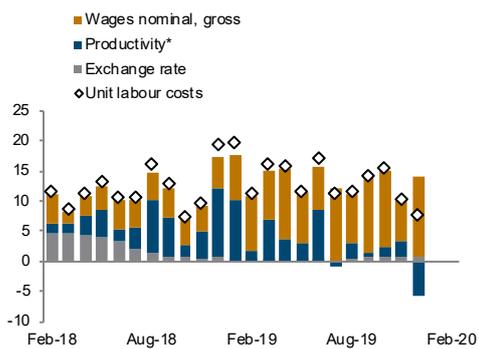
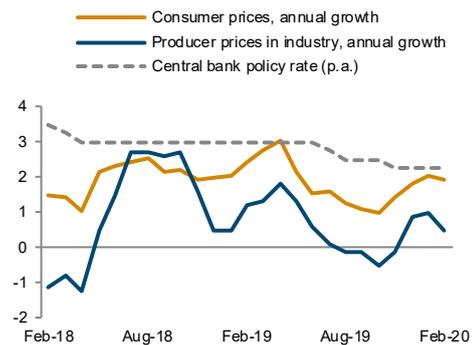
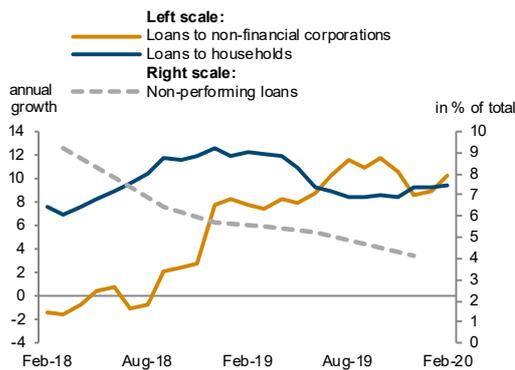
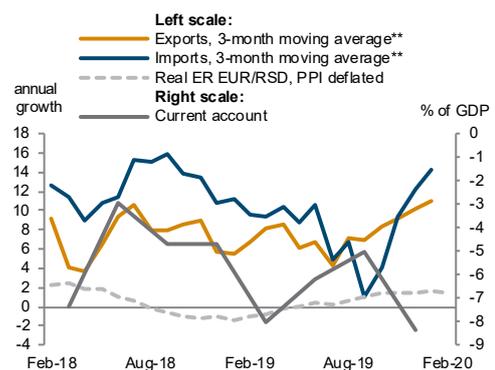
External sector development
in %



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Serbia

Real GDP growth and contributions
year-on-year**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.

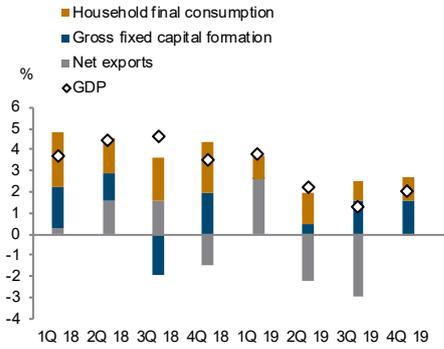
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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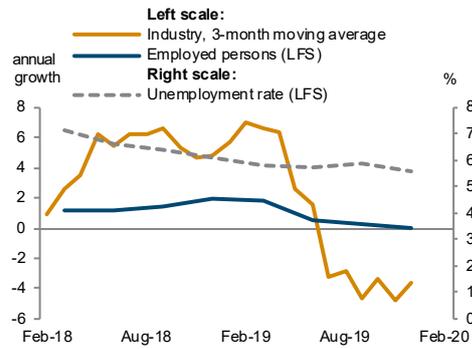
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Slovakia

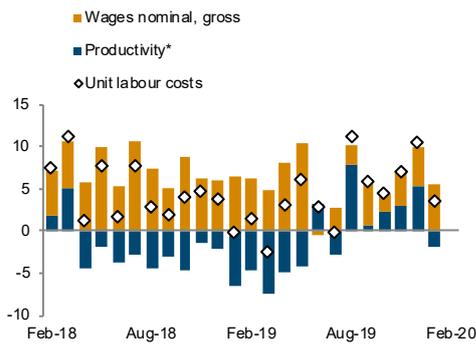
Real GDP growth and contributions
year-on-year



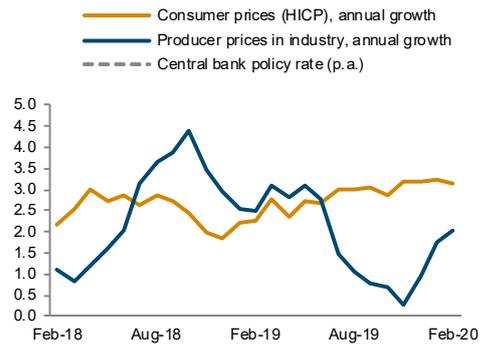
Real sector development
in %



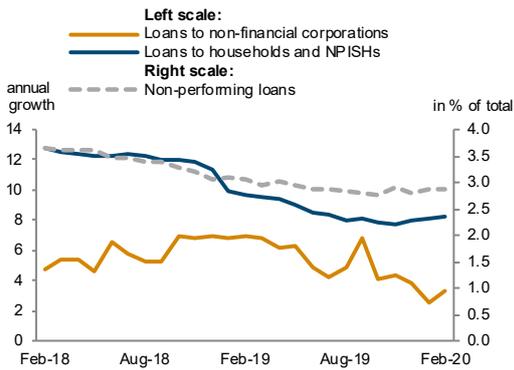
Unit labour costs in industry
annual growth rate in %



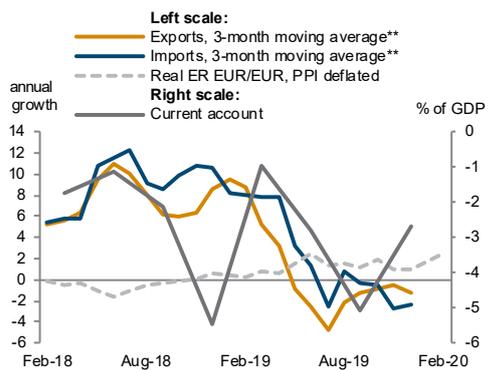
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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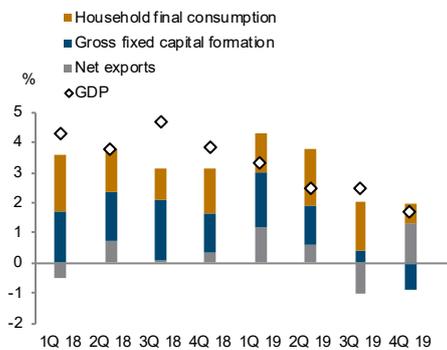
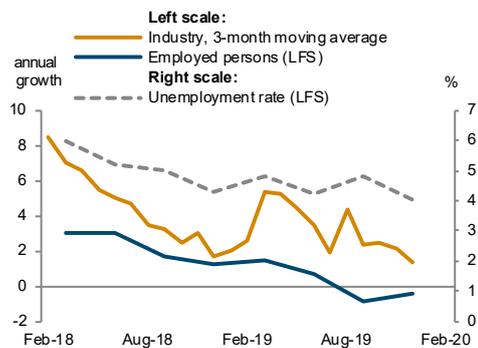
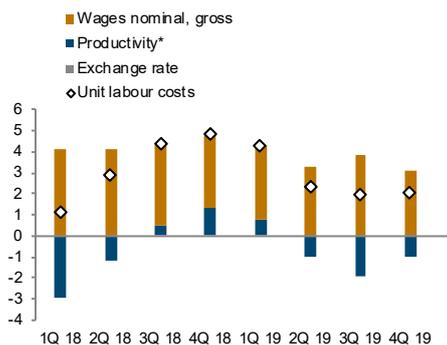
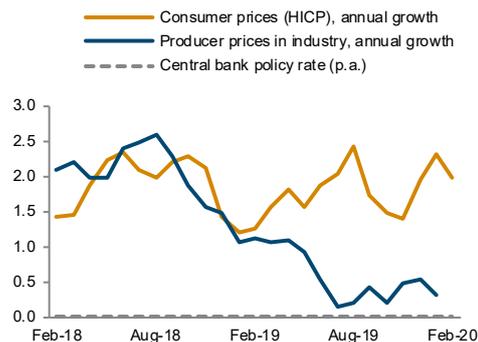
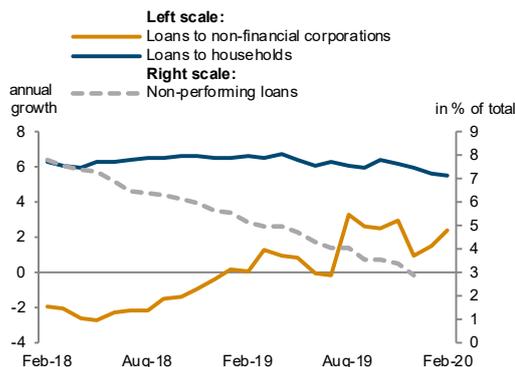
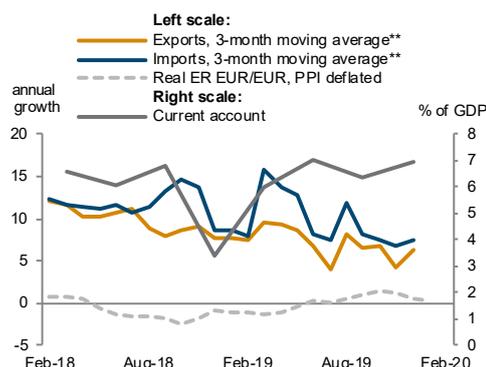
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Slovenia

Real GDP growth and contributions
year-on-year**Real sector development**
in %**Unit labour costs in industry**
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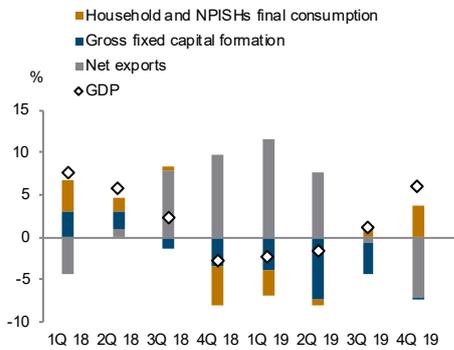
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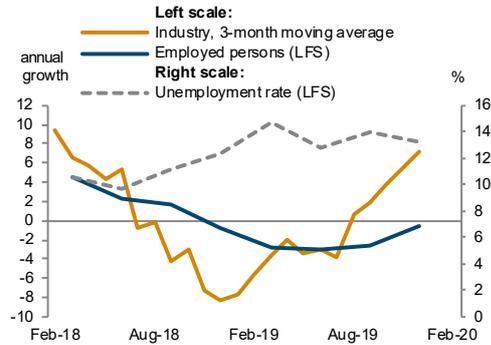
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Turkey

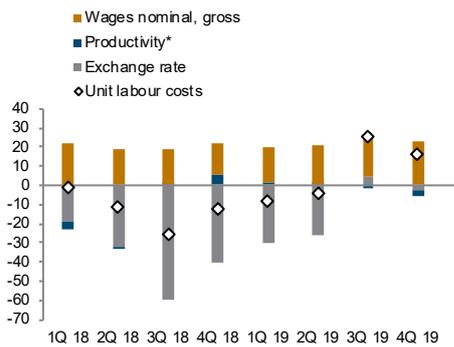
Real GDP growth and contributions
year-on-year



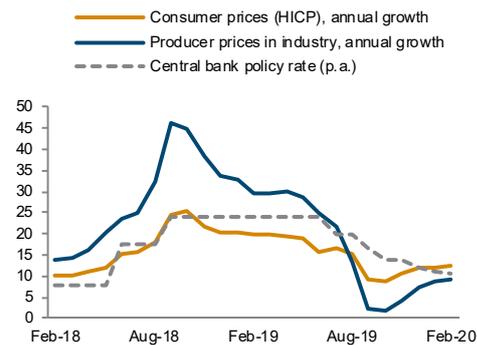
Real sector development
in %



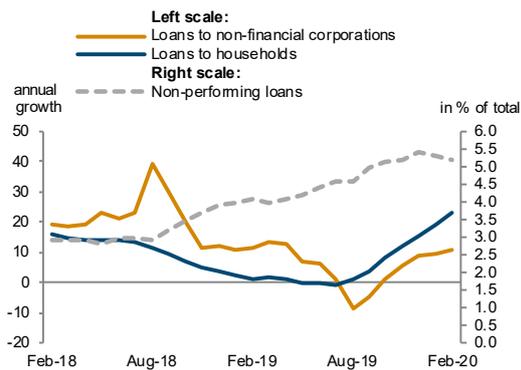
Unit labour costs in industry
annual growth rate in %



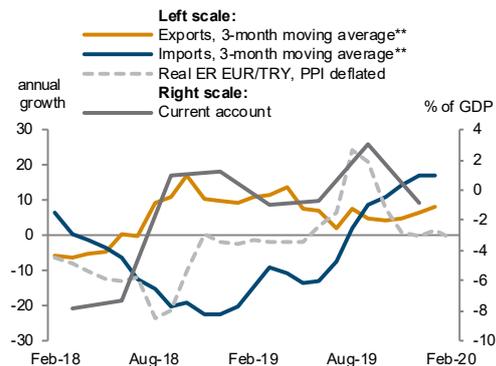
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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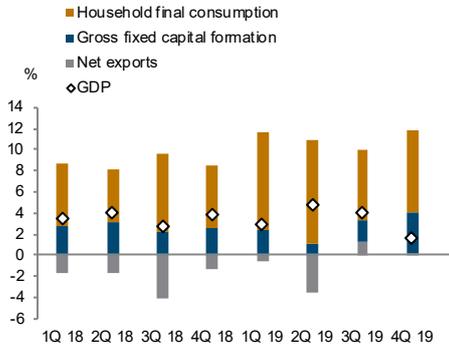
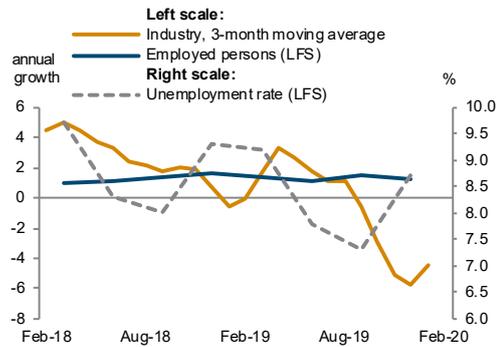
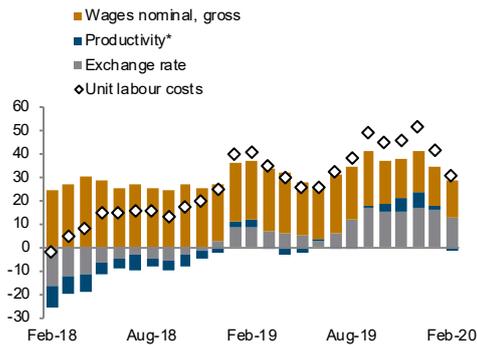
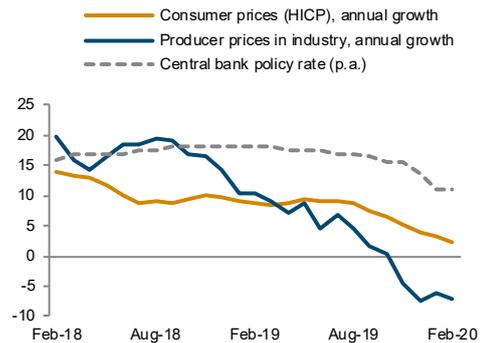
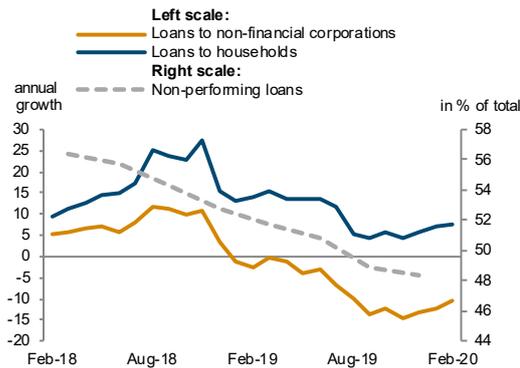
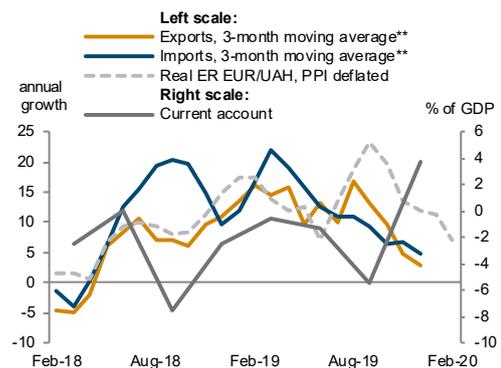
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Ukraine

Real GDP growth and contributions
year-on-year**Real sector development**
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Economic editor: Vasily Astrov

IMPRESSUM

Herausgeber, Verleger, Eigentümer und Hersteller:

Verein „Wiener Institut für Internationale Wirtschaftsvergleiche“ (wiiw),
Wien 6, Rahlgasse 3

ZVR-Zahl: 329995655

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

Nachdruck nur auszugsweise und mit genauer Quellenangabe gestattet.

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