

# Monthly Report | 1/09

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*Please note: wiiw is moving to new premises!*

*Our new address, as of 20 February 2009, is*

***Rahlgasse 3, 1060 Vienna.***

*Phone and fax numbers as well as e-mail address remain the same.*



## The Chinese automotive industry in a global context

BY WALTRAUT URBAN AND BIN WANG\*

In the year 2007, 8.9 million vehicles were produced in China: thus the country ranked third after Japan (11.6 million) and the USA (10.8 million) and ahead of the European auto giant Germany (6.2 million).<sup>1</sup> China has also become the second biggest vehicle market after the USA, with sales of domestically produced vehicles reaching 8.79 million and imports 314,000 units in 2007. Ten years earlier, with a production of a mere 1.5 million vehicles, China had not even ranked among the top 10 vehicle manufacturers of the world. In terms of production shares, vehicles 'made in China' accounted for 2.9% of the world's total in 1997, but reached 12.2% in 2007 (see Table 1). The stunning production growth was driven by sino-foreign joint ventures, with all major automobile companies of the world trying to gain a foothold in the huge vehicle market in China. But in the last couple of years, Chinese brands have been challenging foreign brands on the domestic market and on third markets as well, by exports but also by direct investments abroad, particularly in emerging markets such as Russia, the Middle East, Iran and Latin America – yet eyeing the US and the European markets as well.

The production and sales of vehicles in China started to accelerate in the 1990s, but took off in 2002. Over the period 2002-2007, average annual growth rates reached 25% compared to 4.4%

worldwide. China's vehicle production did not only expand much faster than in the advanced countries with a well-established automotive industry (USA, Japan, Germany), but rose also faster than in other emerging markets such as India (19%) or Thailand (18%) and also more rapidly than in the new 'auto cluster' in Central and Eastern Europe, including the Czech Republic (12%), Hungary (12%), Poland (14%), Slovakia (21%) and probably Romania (23%). Only in Turkey did the production of vehicles rise even faster than in China (25.3%), because of a very strong increase in the output of commercial vehicles (30.2%). In China, production growth was mainly due to the enormous expansion of passenger vehicles, rising 44% annually, while output of commercial vehicles expanded only at 7.8% on average.

Table 1

### The world's top 10 vehicle producers 2007

Rank	Countries	Production in mn units	shares in total in %
1	Japan	11,596	15.9
2	USA	10,781	14.7
3	<b>China</b>	<b>8,882</b>	<b>12.2</b>
4	Germany	6,213	8.5
5	South Korea	4,086	5.6
6	France	3,019	4.1
7	Brazil	2,971	4.1
8	Spain	2,890	4.0
9	Canada	2,578	3.5
10	India	2,307	3.2
	World total	73,102	100.0

Source: OICA, International Organization of Motor-vehicle Manufacturers.

\* Bin Wang is a graduate from the Technical University of Vienna and currently with the European Chamber of Commerce in Singapore.

<sup>1</sup> Out of the total number of vehicles produced in China in 2007, 6.4 million were passenger vehicles and 2.5 million commercial cars. Passenger vehicles include passenger cars (sedans), sports utility vehicles (SUVs), multi-purpose vehicles (MPVs), and mini-vans and mini-buses respectively. Commercial vehicles include heavy trucks and buses. With regard to commercial vehicles, China's production even surpassed Japan's and ranked second worldwide.

### Milestones in China's history of motorization

The first car produced in China was a truck under the brand name 'Jiefang' ('Liberation') by the First Automotive Works Corp (FAW) in 1956. By 1985, there existed already 114 vehicle producers and 2366 parts & components suppliers in China, but they produced mainly low-tech commercial vehicles, in particular for the use in agriculture. Passenger cars, exclusively for the use of top

government officials, were manufactured in very small numbers only. In order to catch up with the modern automotive industry, the Chinese government voted in favour of a 'market for technology' policy. While heavily protecting the Chinese market from imports, it allowed selected foreign automakers to put up joint ventures (JVs) with Chinese companies, expecting them to transfer advanced technologies to their local counterparts. The first JV, 'Beijing Jeep', was concluded in 1983 between American Motors Corporation (AMC)<sup>2</sup> and Beijing Automotive Industry Holding (BAIC), owned by the Beijing municipality. In 1984, the first passenger car JV was put up between the German Volkswagen AG and the state-owned Shanghai Automotive Industry Corporation (SAIC). In 1991, another JV was established between Volkswagen and First Automotive Works (FAW), consolidating VW's position as a market leader in passenger cars. Other JVs followed, for instance between PSA Peugeot Citroen and Dongfeng Motor Co or between Suzuki and Chang'an Group.

In 1994, China's first 'Automobile Industry Policy' was released, with the aim to make the automotive industry a 'pillar industry' of the national economy. The new policy called for the restructuring and concentration of the scattered vehicle industry, for an upgrading of product quality and technology and aimed at raising development capacity by the use of both domestic and overseas funds. Exports and foreign direct investments were encouraged. Supporting measures included preferential bank loans, tax exemptions and special support for big enterprises. On the demand side, the policy encouraged individual car purchases by calling on local and regional governments to abolish existing administrative hurdles restraining private car ownership and to adopt active measures to supply the necessary infrastructure, such as filling stations, parking lots and driving schools. Altogether, this triggered a number of new JVs, such as General Motors with SAIC (1998) and Honda with Guangzhou Auto Group (1998). At the

same time, the industry remained one of the most protected and most regulated sectors of the economy, particularly with regard to foreign direct investment: The foreign stake in a JV producing whole automobiles, motorcycles or engines was limited to a maximum of 50%; overseas firms were allowed no more than two JVs to assemble the same category of vehicles (e.g. passenger cars); each JV had to balance its need for foreign exchange with exports of its own products, and frequently special local input requirements were stated in the JV contracts. The next milestone in the development of the automotive industry was China's entry into the World Trade organization (WTO), becoming effective on 1 January 2002.

### **Unleashing consumer demand – the impact of China's WTO entry in 2002**

Before its WTO entry, China had some of the world's highest car tariffs and prices. Tariffs reached 200% in the 1980s, 80-100% in the 1990s, and stood at 70-80% in 2001. Upon WTO accession, China committed itself to a stepwise reduction of tariffs, in order to reach a level of 25% for whole vehicles and 10-14% for vehicle parts, by the middle of 2006. Also, existing import quotas on vehicles and parts thereof had to be removed completely by 1 January 2005. Lower tariffs and increasing competition on the Chinese auto market led to a significant fall in prices, which all of a sudden made cars affordable for the emerging Chinese urban middle class.<sup>3</sup> Also, in 2002, loans for the financing of private cars became available. As a consequence, sales of passenger cars shot up 56% in 2002 and 75% in 2003, and domestic production rose 57% and 86% respectively. 2002 may be called the first year of the 'owned-car era', comparable to Japan in 1966. After a temporary slowdown in 2004 and 2005<sup>4</sup>, car sales picked up

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<sup>3</sup> After a steep rise in 2002 (+60%), profits in the car industry began to fall to a 'normal' level. In 2003, profits for major carmakers in China still stood at 20% compared to 5% in developed countries. In 2004 the profit margin was only 9%, in 2005 it reached about 5%.

<sup>4</sup> This dent was caused by dampening measures of the Chinese government to prevent an overheating of the economy in general and of the vehicle industry in particular.

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<sup>2</sup> AMC was bought by Chrysler in 1987.

quickly and reached growth rates of 30% in 2006 and 22% in 2007. The new capacities came from the expansion of old and new sino-foreign JVs, but also from expanding domestic manufacturers, supported by the new Auto Policy launched in 2004.

### **China's New Auto Policy and other government support measures**

In 2004, the Chinese government revised its 1994 policy for the automobile industry in the light of WTO rules and with the goal to boost own development capabilities. Chinese vehicles, with their own intellectual property rights, should account for more than 50% of China's auto sales by 2010. The state was going to provide financial assistance for research and development projects. Domestic producers should be able to develop key components and systems. The restructuring of China's fragmented auto industry should be accelerated by forming several larger groups, through mergers and acquisitions and strategic alliances to bring down costs, in particular development, sales and after-sales costs. The government also called on Chinese automakers to step up exports or to extend direct investment abroad promising financial support and tax rebates. As most Chinese automakers are still state-owned, the government's influence on the sector's development is substantial.

With regard to foreign investors, existing local content and export requirements were cancelled to comply with WTO rules; the maximum-50%-share rule was kept for vehicle producers but relaxed for making components, including engines. The only exception are JVs established in export processing zones and targeting only overseas markets (e.g. Honda in the export processing zone of Guangzhou, exporting 100%).<sup>5</sup> Also, foreign investors were allowed to create more than two JV plants to produce the same categories of vehicles, if they joined forces with their existing Chinese partners to merge other companies in China – local or foreign –

<sup>5</sup> In June 2005, the first China-made Hondas (the Jazz hatchback) were shipped to Europe with Germany as the first destination.

in order to promote concentration. However, one of the Chinese shareholders must have a bigger stake than all foreign investors together.

In 2007, when drawing up the new 'Foreign Investment Industry Catalogue', the Chinese government subsumed the manufacture of whole vehicles, of advanced electronic components and of brakes and engines as well as R&D in these fields under the class of industries where foreign direct investment is 'encouraged'.

Finally, in the light of rising oil imports, the Chinese government has started to promote investment in electric and in gasoline-electric hybrid cars with the aim that 10% of Chinese cars should run on alternative fuels by 2012.<sup>6</sup>

### **The Chinese car market – Chinese brands making inroads**

Before the beginning of the auto boom in 2002, the supply of passenger cars in China was clearly dominated by sino-foreign JVs, with domestic brands taking a share of less than 10%. But attracted by high profits and the large market potential, and supported by government policy, Chinese automakers began to fiercely penetrate the market with their own brands, reaching market shares of 18% in 2004, 24% in 2005, 27% in 2006 and 28% in 2007 – partly by imitating and even copying foreign brands and selling them at lower costs. Chery Automobile, for instance, is blamed for copying the Daewoo Matiz (Chery QQ3) as well as the Toyota RAV 4 and Honda CR-V (Chery Tiggo 3); FAW for imitating the exterior design of the Mercedes E series and of the Audi A6 and A8. Geely's model 'Chinese Dragon' has Daewoo design and a Toyota motor.

In 2007, local manufacturers including sino-foreign JVs sold 8.8 million vehicles in China, out of which

<sup>6</sup> In 2006, in an effort to promote the use of smaller, more fuel effective vehicles, cities which had restrictions on small cars driving on their roads abolished these restrictions. Also, in the second quarter of 2006, the excise tax for large-engined vehicles was raised.

6.3 million were passenger vehicles (4.7 million cars, 341,798 SUVs and 1.2 million mini-vans). Only 314,000 vehicles, mainly passenger cars, were imported. The main segments on the passenger vehicle market in China are taken by compact cars (about 22%), subcompact cars (15%) and midsize cars (12%). Mini-cars, luxury sedans, special utility vehicles (SUVs) and multi-purpose vehicles (MPVs) take shares of less than 5% each. But luxury cars and small MPVs are growing fastest, while sales of mini- and subcompact cars are expanding at a very slow pace. Obviously, despite rising fuel prices, Chinese like to buy a car as big as they can afford.

Table 2

**Domestic and foreign brands on the Chinese passenger vehicle market 2007**

Nationality	Market share (%)	Brands (market share)
China	29.1	Chery (7.5%), Geely (4.7%), FAW (4.4%), Zhonghua (2.5%), BYD (1.8%), Changan (1.8%)
Japan	28.3	Toyota (7.3%), Honda (7.2%), Nissan (4.8%), Mazda (4.7%), Suzuki (3.3%), Mitsubishi (0.9%)
EU	21.5	VW (15.8%), PSA (4.3%), BMW (0.6%), Fiat (0.6%), Volvo (0.1%)
USA	12.8	GM (10.3%), Ford (2.2%), Daimler-Chrysler (0.3%)
South Korea	8.3	Hyundai (6%), Kia (2%)

\* January and February 2007 only; China Daily, 21-28 April 2007.

Source: Michael J. Dunne, J.D. Power and Associates, PPT 18 April 2008, China Daily, 21-28 April 2007.

With respect to the origin of brands, Chinese and Japanese brands were taking the lead in 2007, with an about 28% market share each, followed by European (23%), US (13%) and South Korean brands (7%). In terms of manufacturer, the market leader is still VW, followed by General Motors and the Chinese company Chery. Among the Chinese brands, Chery is followed by Geely, First Automotive Works (FAW), Zhonghua (manufactured by Brilliance Automotive), BYD and Changan (see Table 2 for their respective market shares).

*Chery Automobile Co., Ltd* is located in Wuhu, Anhui province. It is owned by the Anhui provincial government and is not involved in any foreign JV so far; it currently produces ten different models. The most famous model is the Chery QQ3, a subcompact car. Apart from being the best selling passenger car brand in China, Chery is also the largest exporter of passenger cars, including to the European market. *Geely Holding Group* in Taizhou province is the biggest private automaker. A recent model is the Geely Panda. It has a cooperation agreement with Daewoo to design vehicle models and components.<sup>7</sup> *First Automotive Works (FAW)* is a 100% state-owned, traditional producer of trucks and buses. But apart from its JVs (with Toyota/Mazda and VW), FAW has its own brand for passenger cars, the famous 'Hong Qi' (Red Flag). 'Zhonghua' is the main brand of passenger cars of the manufacturer *Brilliance China Automotive Holdings*, situated in Shenyang, Liaoning province. It was established as an exempted company with limited liability under the laws of Bermuda and is listed on the New York and the Hong Kong stock exchanges, but 39.4% of its shares are held by the state-owned Huachen Automotive Group. Brilliance has a technical cooperation with BMW, is drawing from Italian design and targets the premium market segment in China. Models include the Zunchi, Junjie and Kubao (September 2007).<sup>8</sup> In 2007 it entered the European market under the brand name Brilliance (BS6, BS4 Splendor). *BYD Auto* is a subsidiary of BYD Company Ltd., a Hong Kong-listed high-tech private enterprise which is one of the world's leading manufacturers of rechargeable batteries. It is based on four main industry areas in Shenzhen, Shanghai, X'ian and Beijing. Its models include high-, medium- and low-end cars, and are named accordingly F3, F6, F8 and F1. In November 2008, BYD announced that it will start selling China's first mass-produced electric car. BYD cars are exported as well. 'Changan' is the domestic brand of *Changan Motor Company*, a large traditional

<sup>7</sup> Geely also has a JV with a British automaker to produce the famous 'London Cabs'.

<sup>8</sup> Brilliance also has a JV with BMW, producing the 3 and 4 series.

vehicle manufacturer famous for its mini vehicles. Until recently Changan cars were only produced under the licence or in cooperation with Suzuki.<sup>9</sup> The company's first own branded car, the Changan CM8, was launched in 2005; in 2007 the small successful Changan Benben followed. In the same year, the company produced the first Chinese-branded hybrid car. Other Chinese brands worth mentioning are Great Wall Motors, Soueast, Liebao (of the Changfeng Group) and Roewe (of SAIC); after the partnership between Hainan Motor works and Mazda (Haima Mazda Motor Co.) was terminated in 2006, Haima became a local brand as well, starting exports to Russia in 2007.

Altogether, the Chinese car industry is very fragmented and many new models and new producers are joining every year trying to tap the huge potential market. Currently, there are 81 automotive brands (but only 25 have a market share larger than 1%) and 47 carmakers on the Chinese market, to be compared with only 47 brands and 16 producers in the USA. Despite political pressure for consolidation, the few M&As in the Chinese auto industry are thwarted by the number of new entrants in the market.<sup>10</sup> Typically, they are coming from related branches, such as the aircraft industry (Harbin Aircraft, Guizhou Aviation Industry) or motorcycles (Chongqing Lifan) or have been producing *commercial* vehicles before (e.g. Jianghuai-JAC, Dongfeng).

While at the beginning of the auto boom in China, Chinese brands made inroads mainly in the segment of cheap or small cars, domestic brand manufacturers have now started to target the market for compact and midsize cars.

<sup>9</sup> The cars produced in Changan's joint venture with Ford and Mazda are marketed under the Ford and Mazda brand respectively.

<sup>10</sup> In 2002, for instance, FAW acquired a majority stake from TAIC in Tianjin Automotive Xiali to form Tianjin FAW Xiali. In December 2007, SAIC and Nanjing Automotive Industrial Corporation merged to become the largest Chinese vehicle producer. In January 2008, Dongfeng Motor Corp. bought the Harbin Hafei Automobile Industry Group.

### Imports focusing on high-end cars

Given the huge size of the Chinese vehicle market, imports play a minor role, hovering around 3% of total sales between 2002 and 2007, as most overseas vehicle producers have decided to serve the Chinese market via production JVs rather than exports. But due to the rapid expansion of the Chinese market after the country's WTO entry, vehicle imports have nevertheless increased strongly. Total vehicle imports reached 120,000 units in 2002 and 310,000 units in 2007, increasing at an average annual rate of 21%. The increase in value terms was even faster (28%), indicating rising unit values and an upgrading of the model structure respectively. The increase in value terms was particularly fast in the boom years 2006 and 2007. In 2007, China's total motor vehicle imports amounted to USD 10,926 million, of which passenger cars accounted for USD 9,839 million (see Table 3). Among them, premium cars (with a cylinder capacity of more than 3000 cc) took the lion's share (such as Mercedes S-Classe, BMW 7 series, VW Tuareg). In 2007, China's most important import source of cars in terms of units was Japan, but in terms of value Germany ranked first. Similarly, Korean cars ranked third in terms of units, followed by US cars, but in value terms US imports ranked higher. Other relevant suppliers were Slovakia (e.g. VW Tuareg), the United Kingdom, Sweden, Austria, France, Italy and Belgium. Altogether, the EU countries supplied more than half of all imports (52%), Japan 27% and the USA 10%.

Imports of auto parts have expanded rapidly as well; in value terms, imports were nearly as high as those of complete vehicles in 2007 (see Table 3). This is surprising, given the fast expansion and upgrading of the components industry in China and the rising share of local content in most cars. Obviously, the over-proportionate increase in the demand for and supply of larger and more expensive cars, which depend more heavily on sophisticated components not yet available in China, has supported these imports. In 2007, the

Table 3

China's exports and imports of motor vehicles

		2002	2003	2004	2005	2006	2007	av. annual growth in %
		2002-2007						
<b>Exports (USD mn)</b>	HS 2002 <sup>1)</sup>							
Motor vehicles and chassis <sup>2)</sup>	8702 to 8706	267	418	781	1,903	2,938	6,810	91.1
Parts of motor vehicles incl. bodies <sup>2)</sup>	8707, 8708	1,842	2,416	4,411	6,580	8,876	12,277	46.1
<b>Total<sup>2)</sup></b>		<b>2,109</b>	<b>2,833</b>	<b>5,191</b>	<b>8,483</b>	<b>11,814</b>	<b>19,087</b>	55.4
out of which:								
Passenger cars <sup>3)</sup>	8703	48	114	317	850	1,536	2,810	125.8
Trucks <sup>3)</sup>	8704	89	159	277	687	1,184	2,737	98.6
Buses <sup>3)</sup>	8702	48	43	81	197	416	899	79.4
<i>Vehicles and rel. parts &amp; accessories<sup>4)</sup></i>	<i>HS 87 total</i>	<i>5,793</i>	<i>8,097</i>	<i>11,823</i>	<i>16,594</i>	<i>22,373</i>	<i>31,804</i>	<i>40.6</i>
<b>Imports (USD mn)</b>	HS 2002 <sup>1)</sup>							
Motor vehicles and chassis <sup>2)</sup>	8702 to 8706	3,174	5,210	5,333	5,113	7,518	10,926	28.0
Parts of motor vehicles incl. bodies <sup>2)</sup>	8707, 8708	2,996	6,264	7,326	6,723	9,034	10,642	28.9
<b>Total<sup>2)</sup></b>		<b>6,170</b>	<b>11,474</b>	<b>12,660</b>	<b>11,836</b>	<b>16,552</b>	<b>21,568</b>	28.4
out of which:								
Passenger cars <sup>3)</sup>	8703	2,609	4,444	4,602	4,691	6,951	9,839	30.4
Trucks <sup>3)</sup>	8704	284	426	404	197	335	817	23.5
Buses <sup>3)</sup>	8702	86	75	57	50	69	55	-8.6
<i>Vehicles and rel. parts &amp; accessories<sup>4)</sup></i>	<i>HS 87 total</i>	<i>6,474</i>	<i>11,787</i>	<i>13,102</i>	<i>12,309</i>	<i>17,052</i>	<i>22,069</i>	<i>27.8</i>
<b>Trade balance (USD mn)</b>	HS 2002 <sup>1)</sup>							
Motor vehicles and chassis <sup>2)</sup>	8702 to 8706	-2,907	-4,792	-4,553	-3,210	-4,580	-4,116	
Parts of motor vehicles incl. bodies <sup>2)</sup>	8707, 8708	-1,154	-3,848	-2,916	-143	-158	1,635	
<b>Total<sup>2)</sup></b>		<b>-4,061</b>	<b>-8,640</b>	<b>-7,468</b>	<b>-3,353</b>	<b>-4,738</b>	<b>-2,481</b>	
out of which:								
Passenger cars <sup>3)</sup>	8703	-2,561	-4,330	-4,285	-3,841	-5,414	-7,029	
Trucks <sup>3)</sup>	8704	-196	-267	-128	489	849	1,920	
Buses <sup>3)</sup>	8702	-37	-33	24	147	347	845	
<b>Number of vehicles exported</b>		20,000	48,000	78,000	173,000	342,400	612,700	98.3
<b>Number of vehicles imported</b>		128,195	172,680	175,000	162,500	228,011	314,000	19.6
<b>Balance</b>		-108,195	-124,680	-97,000	10,500	114,389	298,700	

1) Trade nomenclature: Harmonized System (HS) 2002.

Sources: 2) China Statistical Yearbook, various issues, 'Main export (import) commodities', UN Comtrade database (2007). - 3) UN Comtrade database. - 4) China Statistical Yearbook, various issues, 'Value of Imports and Exports by HS Section and Division' and UN Comtrade database (2007).

major suppliers of components were Japan, Germany, Korea and the USA.

**Chinese vehicles penetrating foreign markets by exports and direct investment**

The number of Chinese vehicles exported is still small relative to production (6.9%), but is rising

very fast. In 2002, only 20,000 vehicles were exported from China, but in 2007 their number reached 612,770 units, virtually doubling every year. Also, the number of vehicles exported was double the number of units imported in the same year (314,000). However, in terms of value, Chinese exports reached only USD 6,810 million in 2007, significantly less than the value of imports,

indicating much lower unit values of exports than of imports, due to the different product structure as well as the lower quality of exported vehicles. In 2007, more than half of Chinese exports were cheap commercial cars (trucks and buses) going to developing countries and emerging economies (USD 3636 million). But exports of passenger cars are catching up, growing faster than those of commercial vehicles. Most of them are Chinese brands, mainly mini-vans, small cars and (light) SUVs and MPVs, which are targeting the growing demand in developing and emerging markets in Asia (in particular the Middle East), in Africa and recently also in Latin America. The largest Chinese exporters of passenger cars are Chery Automobile, Geely and Brilliance, but SAIC/Nanjing Automobile, Great Wall and Changfeng figure prominently as well. Chinese-branded cars have also started to enter the European and the US markets (e.g. Chery, Brilliance, BYD), although without any great success so far. Following the Korean model, Chinese car manufacturers begin to export at a very early stage of their product cycle. They often do not understand the foreign markets properly and are taking the risk of failures such as the JMC Landwind (an SUV from Jiangling Motors Co), which scored very badly in the EuroNCAP-crash test. In 2006, three fifths of China's car exporters sold less than 10 units a year.<sup>11</sup> European, Japanese and US car manufacturers are not using their JVs in China as export platforms to a large extent, as China is not considered a very competitive location for car production in a global context, taking into account the relatively high cost for components, the logistics and the reverse duties. An important exception is Guangzhou Honda, exporting 100% of the Accords produced, and the production of the Toyota hybrid model Prius in Changchun. Both are targeting the German market, among others. But given the still low overall

level of Chinese car exports, the exports from JVs nevertheless take a significant share.

In 2007, the top market for cars 'made in China', including Chinese brands and sino-foreign JVs, was Russia, followed by Ukraine, the UK, Venezuela, Germany, Italy, Syria and Poland and by various developing countries around the globe.

As the vehicle market in less developed countries is often heavily protected by tariff and non-tariff barriers to trade and as the transport infrastructure is also poor, many Chinese vehicle companies have put up assembly lines or production JVs to step up their exports to these countries. Thus, for instance, Chery is producing cars in Iran, Egypt, Uruguay and Malaysia; Changan has factories in Malaysia and Pakistan and will soon assemble cars in Iran; SAIC has overseas sites in Egypt, Vietnam and North Korea; and all big Chinese automakers are having, or are planning, some kind of production or production cooperation in Russia.

### Prospects

In the medium- and long-term perspective, with per capita incomes rising further, the Chinese car market will continue to grow strongly. Currently, there are 44 vehicles (17 private cars) per 1000 persons on Chinese roads, the world average is 120 (USA: 750). Various experts forecast annual vehicle sales in China to reach 16-19 million units by 2020 (equal to the average annual sales in the USA during the past ten years); vehicles in use will reach around 140 million in that year (2007: 44 million). According to information from the State Information Centre, more than 10 million households wish to buy a car in the short to medium run.

Because of this enormous market potential, all major car manufacturers of the world have established one or more JVs in China. In the past several years, both foreign and domestic investors have heavily increased their production capacities, and they are continuing to do so, although there is already a glut on the Chinese auto market. Therefore, imports will remain confined to high-

<sup>11</sup> However, on 1 March 2007, the government implemented an auto export licensing regulation to prevent uncontrolled growth and to weed out firms that are too small to compete internationally. As a result, half of the 100 odd Chinese vehicle exporters may be banned from selling their wares in foreign markets.

quality cars and niche products, and competition on the Chinese car market will stay fierce or even increase, as Chinese brands, supported by government policy, will try to get into the higher value added end of the market. Also, there are possible stumbling blocks to the longer-term demand expansion as envisaged now, such as a lower than expected growth of the Chinese economy, government restrictions on car use for reasons of environmental protection or to save energy, and a strong rise in the costs of petrol.

In the short term, the negative impacts of the current global financial and economic crises will aggravate the existing glut. The weakening of demand may also change the demand structure, away from large and luxurious cars to more economical ones, favouring Chinese relative to foreign brands. Also, facing weaker demand at

home, Chinese manufacturers will push more aggressively onto markets abroad. Thus, for European car manufacturers, the slowing down of demand in China will not only dampen their exports to China and the domestic sales of their JVs there, but will also increase the competitive pressure on their exports to third markets, in particular to developing countries and emerging economies and in the segments of small cars and SUVs, the main fields of Chinese exports. The Chinese car makers, in turn, will only in the longer run be able to penetrate the more advanced markets in Europe, the USA and Japan, because of these countries' relatively high technological and environmental standards for cars. However, there is a certain chance for Chinese manufacturers to enter advanced markets by 'leap-frogging' technology in the field of alternative-fuel driven vehicles, such as electric or hybrid cars.

## Index of global tolerance: a quantitative analysis based on 'World Values Survey' data

BY ARNO TAUSCH\*

Europe, confronted with a plurality of values, tries to come to terms with multiculturalism. A behavioural approach is being firmly established in the debate about 'global Islam' and the future of the European continent. Ronald T. Inglehart, Mansoor Moaddel and Thorleif Pettersson introduced the necessary empirical elements into a value-loaded debate, otherwise characterized by such terms as 'leading culture' or 'guiding culture'.

There are hardly any international comparative data on values across cultures – if it were not for the *World Values Survey*. A generation of political scientists, headed by Michigan University's Ronald T. Inglehart, have studied global and Muslim values for more than two decades now and made their data freely available on the Internet (<http://www.worldvaluessurvey.org/>). Their gigantic project, analysing global values and global value change in now over 80 countries is based on advanced social survey methodology, and uses questionnaires and sampling methods that are unparalleled in the social science profession.

The data from the *World Values Survey* can be used to project a scale of global tolerance. To develop a statistical 'yardstick' of discrimination and exclusion is crucially important for Europe. In 1997, the EU member states approved unanimously the Treaty of Amsterdam. Article 13 of this Treaty granted the Community new powers to combat discrimination on the grounds of gender, racial or ethnic origin, religion or belief, disability, age or sexual orientation. The Treaty of Amsterdam came into force in 1999; since then, the following new EC laws, or Directives, have been enacted in the area of anti-discrimination: the Racial Equality Directive,

2000/43/EC and the Employment Equality Directive, 2000/78/EC. The Council Directive 2000/43/EC implements the principle of equal treatment between persons irrespective of racial or ethnic origin, and Council Directive 2000/78/EC establishes a general framework for equal treatment in employment and occupation.

To assess the totality of tolerance in Europe and in the world, we now propose to construct a non-parametric index of 'global tolerance', which combines the following World Values Survey data with sufficient availability on the percentages per total population overcoming xenophobia and racism. More specifically, five population shares are taken account of:

- People tolerant of neighbours of a different race
- People considering tolerance and respect for other people as important child qualities
- People not saying men should have more right to a job than women
- People tolerant of immigrants/foreign workers as neighbours
- People tolerant of homosexual neighbours

The country values are projected onto a scale from 0 to 1, 0 being the least tolerant country, 1 the most tolerant country, according to standard UNDP methodology. The results of this exercise are given in Table 1 below.

Assuming that tolerance can be adequately measured by our index, the tolerance was most pronounced in the following political cultures:

- Sweden, Netherlands, Iceland, Denmark, Canada, France, United States, Australia, Finland, New Zealand, Luxembourg.

The worst offenders, lacking a climate of tolerance, as operationalized by our index, were:

- Turkey, Bangladesh, Republic of Korea, Jordan, Algeria, Egypt, Armenia, Nigeria, Indonesia, Azerbaijan, India.

\* Adjunct Professor of Political Science at Innsbruck University.

Table 1

## Global Tolerance Index – the four components and the composite index

	overcoming racism	education for tolerance and respect	accepting gender empowerment	accepting foreign workers	accepting homosexual neighbours	Global tolerance index
Albania [2002]	0.597	0.717	0.331	0.783	0.161	0.518
Algeria [2002]	0.632	0.127	0.208	0.675	0.180	0.364
Argentina [1999]	0.971	0.499	0.645	0.947	0.775	0.768
Armenia [1997]	0.759	0.000	0.329	0.704	0.153	0.389
Australia [1995]	0.967	0.732	0.721	0.967	0.749	0.827
Austria [1999]	0.939	0.522	0.575	0.850	0.742	0.726
Azerbaijan [1997]	0.860	0.243	0.293	0.731	0.078	0.441
Bangladesh [2002]	0.000	0.510	0.171	0.000	0.950	0.326
Belarus [2000]	0.798	0.540	0.675	0.774	0.357	0.629
Belgium [1999]	0.798	0.785	0.737	0.757	0.823	0.780
Bosnia and Herzegovina [2001]	0.845	0.528	0.504	0.655	0.348	0.576
Brazil [1997]	0.996	0.249	0.014	0.983	0.733	0.595
Bulgaria [1999]	0.630	0.247	0.476	0.658	0.452	0.493
Canada [2000]	0.987	0.730	0.832	0.974	0.828	0.870
Chile [2000]	0.906	0.626	0.545	0.873	0.667	0.723
China [2001]	0.825	0.549	0.454	0.791	0.256	0.575
Czech Rep. [1999]	0.895	0.331	0.698	0.738	0.800	0.692
Denmark [1999]	0.929	0.882	0.948	0.875	0.919	0.910
Dominican R. [1996]	0.769	0.442	0.705	0.768	0.505	0.638
Egypt [2000]	0.085	0.367	0.000	0.384	0.996	0.366
Estonia [1999]	0.816	0.519	0.800	0.715	0.530	0.676
Finland [2000]	0.857	0.778	0.881	0.837	0.784	0.827
France [1999]	0.908	0.834	0.723	0.853	0.841	0.832
Georgia [1996]	0.899	0.129	0.269	0.870	0.217	0.477
W. Germany [1999]	0.974	0.571	0.589	0.924	0.866	0.785
Great Britain [1999]	0.912	0.796	0.674	0.799	0.753	0.787
Greece [1999]	0.828	0.093	0.769	0.827	0.728	0.649
Iceland [1999]	0.991	0.814	1.000	0.992	0.920	0.943
India [2001]	0.432	0.336	0.329	0.447	0.707	0.450
Indonesia [2001]	0.535	0.322	0.424	0.416	0.445	0.428
Iran [2000]	0.686	0.240	0.237	0.890	0.991	0.609
Ireland [1999]	0.857	0.603	0.816	0.851	0.722	0.770
Italy [1999]	0.811	0.603	0.601	0.783	0.708	0.701
Jordan [2001]	0.747	0.429	0.126	0.421	0.000	0.344
Kyrgyzstan [2003]	0.770	0.388	0.415	0.732	0.329	0.527
Latvia [1999]	0.967	0.478	0.736	0.887	0.538	0.721
Lithuania [1999]	0.895	0.209	0.670	0.673	0.314	0.552
Luxembourg [1999]	0.945	0.673	0.677	0.909	0.811	0.803
Macedonia [2001]	0.762	0.610	0.371	0.751	0.456	0.590
Malta [1999]	0.767	0.286	0.466	0.802	0.598	0.584
Mexico [2000]	0.816	0.503	0.590	0.817	0.547	0.655
Morocco [2001]	0.838	0.587	0.080	0.743	0.055	0.461

(Table 1 continued)

Table 1 (continued)

	overcoming racism	education for tolerance and respect	accepting gender empowerment	accepting foreign workers	accepting homosexual neighbours	Global tolerance index
Netherlands [1999]	0.964	0.968	0.887	0.961	0.937	0.944
New Zealand [1998]	0.993	0.669	0.676	0.955	0.773	0.813
Nigeria [2000]	0.597	0.243	0.314	0.605	0.252	0.402
Norway [1996]	0.918	0.397	0.845	0.887	0.855	0.780
Pakistan [2001]	0.942	0.104	0.186	0.588	1.000	0.564
Peru [2001]	0.874	0.549	0.710	0.870	0.500	0.701
Philippines [2001]	0.728	0.265	0.161	0.802	0.760	0.543
Poland [1999]	0.788	0.719	0.505	0.675	0.439	0.625
Portugal [1999]	0.926	0.385	0.624	1.000	0.744	0.736
R. of Korea [2001]	0.535	0.370	0.284	0.314	0.163	0.333
Moldova [2002]	0.877	0.669	0.410	0.748	0.213	0.583
Romania [1999]	0.686	0.224	0.501	0.712	0.337	0.492
Russian Fed. [1999]	0.919	0.424	0.554	0.867	0.412	0.635
Serbia [2001]	0.948	0.365	0.606	0.918	0.501	0.668
Singapore [2002]	0.968	0.485	0.565	0.638	0.536	0.638
Slovakia [1999]	0.790	0.195	0.575	0.684	0.553	0.560
Slovenia [1999]	0.863	0.492	0.718	0.791	0.550	0.683
South Africa [2001]	0.695	0.583	0.595	0.565	0.530	0.594
Spain [2000]	0.870	0.649	0.720	0.872	0.850	0.792
Sweden [1999]	1.000	1.000	0.990	0.995	0.938	0.985
Switzerland [1996]	0.910	0.701	0.589	0.884	0.812	0.779
Tanzania [2001]	0.795	0.798	0.596	0.768	0.247	0.641
Turkey [2001]	0.546	0.206	0.362	0.336	0.085	0.307
Uganda [2001]	0.773	0.190	0.504	0.837	0.227	0.506
Ukraine [1999]	0.884	0.388	0.635	0.808	0.332	0.609
United States [1999]	0.921	0.705	0.868	0.882	0.763	0.828
Uruguay [1996]	0.938	0.483	0.018	0.929	0.676	0.609
Venezuela [2000]	0.812	0.707	0.556	0.762	0.417	0.651
Viet Nam [2001]	0.571	0.442	0.477	0.529	0.608	0.525
Zimbabwe [2001]	0.750	0.676	0.578	0.721	0.324	0.610

Table 2 gives the ranks for the 25 EU countries (data for Cyprus and Hungary are missing) among the 72 nations surveyed. As can be seen, there is a deep divide between the ‘old’ and ‘new’ EU

member states – with the former much more tolerant. Significantly, the two countries that acceded most recently appear to rank especially badly.

Table 2

1 Sweden	2 Netherlands	4 Denmark	6 France	9 Finland	11 Luxembourg
12 Spain	13 Great Britain	14 Germany West	15 Belgium	18 Ireland	20 Portugal
21 Austria	23 Latvia	24 Italy	26 Czech Rep.	27 Slovenia	28 Estonia
32 Greece	38 Poland	46 Malta	51 Slovakia	52 Lithuania	58 Bulgaria
59 Romania					

### The northward migration of global intolerance?

Importantly, it turns out that the predominantly Muslim countries fare quite badly in terms of the global tolerance index (see Table 3).

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Table 3

40 Iran	48 Bosnia & Herzegovina	50 Pakistan	54 Kyrgyzstan	56 Albania
61 Morocco	63 Azerbaijan	64 Indonesia	65 Nigeria	67 Egypt
68 Algeria	69 Jordan	71 Bangladesh	72 Turkey	

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It is perhaps politically absolutely incorrect to assume that the future of tolerance in the world – and particularly in the recipient countries of immigration – also has to do with the systematic fostering of a climate of the Enlightenment among the immigrant populations in the North themselves, and not just in the mainstream political cultures of the immigration-receiving countries. The idea that the immigrant communities in the North must be required to participate actively in the climate of tolerance of overall society, and that they must leave behind the often virulent racism, Anti-Semitism, Romaphobia and homophobia of their countries and/or cultures of origin, is a clear consequence of our quantitative data and as such

cannot be denied. The consequences of the failure to adjust to the tolerant standards of the host countries must perhaps be seriously taken into account while considering official policies towards migration. It is perhaps even less politically correct to observe extremely high levels of intolerance in some countries commonly considered as potential EU members. As is well known, the admission to the EU requires the satisfaction of various political, institutional and economic criteria. But it would seem advisable that the EU entry of these countries be postponed until also the societal values and attitudes in these countries converge to those of the core members of the present European Union.

## Some reflections on the crisis management in the EU\*

BY LEON PODKAMINER

### The Memorandum of Understanding on Cross-Border Financial Stability: unspecific, non-binding – and irrelevant

*'Do you see the Memorandum of Understanding<sup>1</sup> as sufficient in case of solvency problems of banks or insurance companies in the EU...?'*

It may be useful to start with a succinct account of the nature of the said Memorandum. Thus, it is made clear from the very beginning that *'This Memorandum does not create any legal commitment for any of the Parties to intervene in favour of anyone affected by a financial crisis'* (p. 2). Instead, *'Those Parties [to the Memorandum] that have specific common financial stability concerns are encouraged to develop Voluntary Specific Cooperation Agreements (VSCA) with a view to provide for more specific and detailed procedures and arrangements of crisis management and resolution for their respective countries and in relevant contexts'* (p. 2).

The Memorandum turns out to be rather unspecific on the desirable content of the VSCA. While it defines some new (?) institutions (Domestic Standing Groups, Cross-Border Stability Groups, etc.) it leaves the real, non-trivial, content of the duties of the parties to the Memorandum and of the institutions brought to life undefined – and that despite the lavishness of the wording.

\* This is a short version of a text written following a request from the European Parliament's Committee on Economic and Monetary Affairs (November 2008). The long version is accessible at [www.europarl.europa.eu/activities/committees/editoDisplay.do?menuId=2037&id=1&body=ECON&language=EN](http://www.europarl.europa.eu/activities/committees/editoDisplay.do?menuId=2037&id=1&body=ECON&language=EN).

<sup>1</sup> *Memorandum of Understanding on Cooperation Between the Financial Supervisory Authorities, Central Banks and Finance Ministries of the European Union on Cross-Border Financial Stability* (ECFIN/CEFCPE (2008)REP/53106 REV), dated 1 June 2008.

Finally, one learns that the provisions of the Memorandum, unspecific as they are, *'are not legally binding and may not give rise to any legal claim on behalf of the Party or third parties in the course of their practical implementation'*, and that they *'do not prejudice or assume any particular decisions or remedies to be taken in crisis situations'* (p. 10).

Given the unspecific content of the Memorandum, the document cannot play any role – positive or otherwise – in case of emerging solvency problems. Moreover, even if the Memorandum were precisely specific on any concrete cross-country crisis issue, being non-binding it would be of little practical importance (unless voluntarily accepted by the relevant authorities). Concluding, in my opinion the Memorandum is actually irrelevant. I am not aware of any reference to that Memorandum being made while commenting on any steps already taken in response to the crisis developments in Europe.<sup>2</sup> Nor am I aware of any reference made to the Memorandum in the (quite abundant) literature concerned with the cross-border aspects of the current financial crisis.

### A proposal by Messrs. Gros & Micossi deserves discussion. And we would still need some specific EU arrangements

*'... would we need a more structured EU framework (see e.g. "Crisis management tools for the euro-area" by Daniel Gros and Stefano Micossi from 30 September 2008) for handling ... systematic risks ... of ... non-cooperative games, such as in the case of the Irish comprehensive guarantees on all bank deposits...?'*

<sup>2</sup> The Presidency conclusions to the European Council held in Brussels on 15-16 October ignore the Memorandum. Instead they postulate the establishment of 'an informal warning, information-exchange and evaluation mechanism (the financial crisis cell)' and suggest that the national supervisors 'meet at least once a month to exchange information'.

### The Gros-Micossi proposals

Daniel Gros and Stefano Micossi<sup>3</sup> looked into the rescue of Fortis, the Belgian-Dutch banking and insurance group (with extensive activities also in other countries). Following mounting ‘problems’, Fortis was partly taken over by the governments of Belgium, the Netherlands and Luxembourg. The authors observe that there was no European solution to the Fortis crisis because the ECB can only provide liquidity against a collateral. The ECB is not in a position (legally but also because of its own modest resources) to prevent a collapse of any insolvent financial institution. In the absence of a European Treasury, only the national authorities can resolve a solvency crisis. In case of Fortis it proved relatively easy to cut the group into three pieces, and to share the cost among the three governments. This – according to the authors – need not be the case should other large EU financial groups active in many countries approach a failure: *‘when failure comes and governments step in, burden-sharing among national treasuries and issues of equal treatment of creditors and depositors in different countries are bound to be controversial, delaying decisions.’*

It is this consideration that prompted Gros and Micossi to propose two urgent actions. The first one introduces *‘a new European statute of EU-chartered banks ... for banks with significant operations in more than one member state’*. These banks would have access to the ECB liquidity support and would be supervised by a new authority closely associated with the ECB. The second action stipulates that *‘a contingency fund for organizing rescue operations at the EU level should be created at the European Investment Bank’*.

While the latter action looks quite uncontroversial and seems possible to carry out (though of course it would take some time and effort to agree on the principles governing the financing of that EIB-managed fund and of its eventual interventions), one may have some doubts about

the former. The creation of a separate Union authority regulating and supervising a class of banks – that would cease (?) to be subjected to regulation and supervision at the national levels – would be bound to be a very, very long process. Even if successfully completed, that process would probably require further time- and effort-consuming institutional changes. First of all, there would have to be a deep-pocketed Union fiscal authority capable of salvaging a ‘stateless’ bank in case of its impending *insolvency*. Further open questions remain. Would the *national* fiscal authorities be prohibited from e.g. supporting their *national* chunks of a stateless bank? Which authority (or authorities) would decide on the fate of a failing stateless bank? Finally, would this arrangement really prevent conflicts and controversies over the treatment of creditors and depositors in different countries?

In a later (and quite recent) text<sup>4</sup>, Daniel Gros and Stefano Micossi do not make any reference to the idea of separate arrangements for the supervision of banks with significant operations in more than one state. This could suggest that this idea has been shelved, even by its originators. However, they stick to – and develop further – their original idea of a contingency EU rescue fund. The novelty of this new version is that the fund *‘... would issue bonds on the international market with the explicit guarantee of the EU member states ... The resources [thus collected] would be used mainly for bank recapitalization, especially for those banks that “gamble for resurrection” rather than accept the heavy-handed interference of national governments. The fund could also beef up the funding of existing EU instruments for balance-of-payments assistance to countries on the EU periphery ...’*

In my opinion this idea deserves serious consideration.

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<sup>3</sup> Available at [www.ceps.eu](http://www.ceps.eu).

<sup>4</sup> ‘A call for a European Financial Stability Fund’, dated 30 October ([www.voxeu.com](http://www.voxeu.com)).

### On some other specific arrangements concerning the cross-border issues

No doubt the Irish comprehensive guarantee on bank deposits (and other liabilities) has strengthened (at least temporarily) the position of the Irish banks vis-à-vis the ones incorporated in other countries. This was an instance of a *beggar-thy-neighbour* tactics that could have been prevented by binding agreements harmonizing the public guarantee policies across the EU. Given the fact that such agreements do not exist – and that the voluntary cooperation does not appear to be working – it is hard to blame any country for the moves they considered proper. Other countries are free to follow suit. In fact the Irish tactics has had a limited following. That decision is not universally considered proper – even in countries that face ‘unfair’ competitive advantages now enjoyed by banks domiciled in countries that guarantee all deposits. This fact suggests that coming to a binding agreement harmonizing the national policies on the matter considered<sup>5</sup> would not have been easy (or possible).

There are other specific cross-country issues that would deserve to be usefully regulated at the Union level. The first is about the provision of guarantees for unsecured cross-country intra-bank lending. It has been proposed that such lending be guaranteed by the fiscal authority of the country in which the lending bank is domiciled. I would rather suggest it is the fiscal authority of the country housing the borrowing bank which should issue the guarantee. In any case, the binding framework on the provision of guarantees on unsecured intra-bank cross-border lending must wait until binding regulations are in place in ALL individual countries, regulating public guarantees for unsecured intra-*domestic*-bank lending. There is yet another issue that is not officially discussed – but which is worrying some observers as having possibly harmful effects. This relates to the eventuality that the large parent banks (as a rule domiciled in the

‘old’ EU) would find it expedient to raid the vaults of the daughter banks in the new member states. Although such events do not seem likely<sup>6</sup>, one may perhaps appreciate some explicit formal framework that would help regulate eventual conflicts – should the need arise. No doubt, having such a framework might strengthen confidence in the existing arrangements.

### Do not panic over the European banks becoming too big to be saved: the Benelux lesson

*‘Have the biggest European banks possibly become too big to fail and too big to save with the existing instruments? What may we learn, in this context, from the most recent events in the EU, such as in the Benelux and Irish cases?’*

Messrs. Gros and Micossi seem to have also originated the idea that the largest European banks have become not only too big to fail but also too big to be saved.<sup>7</sup> They justify the idea with the following verbal exercise:

*‘For example, the total liabilities of Deutsche Bank (leverage ratio over 50!) amount to around 2,000 billion euro ... or over 80% of the GDP of Germany. This is simply too much for the Bundesbank or even the German state to contemplate, given that the German budget is bound by the rules of the Stability Pact and the German government cannot order (unlike the US Treasury) to issue more currency. The total liabilities of Barclays of around 1,300 billion pounds (leverage ratio over 60!) surpasses Britain’s GDP. Fortis bank, which has been in the news recently, has a leverage ratio of*

<sup>5</sup> Quite similarly, ‘non-cooperative games’ are in fact played when it comes to the recapitalization of domestic banks with the public treasury resources of individual countries.

<sup>6</sup> As a rule, the NMS daughter banks of the ‘old’ EU parent banks generate profits even if their parents make losses. It is quite hard to imagine the circumstances in which a parent bank would want to terminate its financially successful offspring – especially if it had guaranteed access to liquidity and capital support in the home country. A better (and ‘honest’) alternative to raiding its own daughter would be just to sell it. (Fortis is currently in the process of selling its Polish subsidiary.)

<sup>7</sup> ‘The beginning of the end game’, dated 20 September ([www.voxeu.org](http://www.voxeu.org)).

*'only' 33, but its liabilities are several times larger than the GDP of its home county (Belgium).'*<sup>8</sup>

The first problem with this passage is that it unnecessarily dramatizes the size of the leverage (assets/equity) ratios. The ratios currently observed are indeed high by historical standards. But the real issue now is the quality of the assets in relation to the bank's capital, not its sheer quantity. Having a leverage ratio of, say, 10 is not a guarantee of bank solvency – just as having a ratio of 50 is not a sure sign of impending failure. Secondly, I do not see any point in relating a bank's liabilities to the GDP of its home country. Such a relating would make some sense should ALL banks' assets turn worthless. As far as one knows, this is NOT something that characterizes – even remotely – the present situation in Europe or elsewhere (excepting perhaps Iceland).

The Fortis case convincingly demonstrates that neither excessively-looking leverage ratios, nor a bank's liabilities that are 'several times larger than the GDP of its home country' make a bank too big to save. Moreover, it may be added that the resources needed for saving Fortis were actually quite low – especially in relation to the GDP. The Benelux governments spent EUR 11.2 billion on the initial bailout package. This was complemented by a further EUR 16.8 billion spent by the Dutch government purchasing the local operations of Fortis. Let us agree that the total of EUR 27 billion spent<sup>8</sup> is dwarfed by the combined GDP of the Benelux in 2007 (which amounted to over EUR 938 billion). Notice too that the bailout went smoothly despite the fact that the consolidated liabilities of Fortis stood at 89% (!) of the Benelux GDP.

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<sup>8</sup> This sum does not represent a cost – or a burden somehow decreasing the size of GDP – but rather an investment outlay that may even produce a tangible financial return to governments in the future. Of course, for the time being the sum in question must be reflected in higher public debt levels. In so far as higher public debt can contribute to higher costs of its financing (via e.g. possibly rising yields on government bonds) investing public money in banks is not yet entirely costless.

### **Liquidity and solvency crises intimately related**

*How and at which moment did/does, in the present case, a liquidity crisis turn into a solvency crisis? Has the present crisis shaken our conceptual understanding of liquidity vs. solvency in the financial industry in general?*

The liquidity and solvency problems have been with us for about a year before assuming crisis proportions. An exact dating of the beginning of crises is of course problematic. The unsecured money market rates jumped rather sharply in September 2008. This may pass for the starting date of the liquidity crisis. The start of the solvency crisis may perhaps be dated more precisely at the 15 September when Lehman Bros was allowed to fail.

Our conceptual understanding of liquidity vs. solvency is not affected by the present crisis. Liquidity and solvency problems – which are quite distinct in 'normal' circumstances – become intimately related in 'abnormal' circumstances. The mutually-reinforcing dynamics of the joint liquidity-cum-solvency crisis is quite simple. The basic underlying process runs more or less like this: (1) The perception of rising risks of insolvencies in the banking sector immobilizes much of the short-term inter-bank lending (banks, unable to discriminate between solvent and risky partners, cease to trust each other). Thus we have a liquidity crisis: some banks (short of liquidity) are unable to meet current obligations while others, having liquidity surpluses, rather sit on idle cash balances (or prefer investing in safe government paper, or deposit reserves with the national banks). (2) The illiquid banks (even if eventually solvent provided short-term loans were available) unable to meet their short-term obligations are then pushed into bankruptcy. This involves forced sales ('fire-sales') of their (possibly valuable) assets. This depresses these assets' prices. In effect, the value of other banks that may have had the same assets on their books (e.g. accepted as collateral) is depreciating. Such banks may suddenly become de facto insolvent. But that reduces the overall confidence in banks generally even further. Moreover, the

enhanced liquidity preference tends to be reflected in higher interest rates on loans to the real economy (households and non-financial firms) and (possibly) insufficient volume of lending to the real economy. This, in turn, is not only affecting negatively the real economy, but also tends to hit back the banking sector (e.g. by forcing into default many of the banks' own clients).

### **A measure of higher inflation is needed**

The policy actions aiming at increasing banks' capital (and solvency) as well as at reviving inter-market lending (via e.g. guaranteeing such lending) are now commonly considered necessary. However, these actions need not be sufficient to end the crisis. First, high official interest rates as administered by (some) central banks may prevent the recovery of lending to the real economy. Second, even low interest rates need not revive lending. Firms and households which have accumulated excessive debts are unlikely to ask for more loans while the banks (even the recapitalized ones) are unlikely to return to their recent indiscriminate lending practices anytime soon. One must count with the possibility of recession and deflation, i.e. with a *deflationary slump*. And, as history teaches, that would constitute the *real* crisis. To counter the eventuality of the current financial crisis turning into something much worse, one would need to (1) postulate decisive, concerted, fiscal impulses around the world (already announced in China); and (2) allow a measure of higher inflation which could help restore the households' and firms' ability to service their outstanding debts out of higher (nominal) incomes.

### **Too early to draw lessons from the US experience**

*What may we learn from the crisis management and resolution ... in the USA?*

It is still too early to talk about the resolution of the crisis – in the USA or elsewhere. We are still witnessing desperate efforts to contain it. At best we can learn something about the lessons from the crisis management so far. One basic lesson seems

to be that, in the current circumstances, banks cannot be allowed to go bankrupt: letting the Lehman Brothers fail appears to have had devastating effects worldwide. The second (negative) lesson is that a piecemeal approach is likely to be both costly and ineffective in stabilizing the crisis: speed and decisiveness are essential, as well as comprehensiveness. The jury is out on more specific measures taken – it will take some time for these measures to have observable effects. At this moment the controversy still rages (in the USA) on the merits of e.g. the Paulson plan.<sup>9</sup> Moreover, the plan's implementation appears to involve significant modifications (for instance, more resources than initially planned are to go for the acquisition of equity in the troubled financial firms).

### **Fragmented fiscal responses in the EU vs. single action in the USA.**

#### **Active FED vs. passive ECB**

*What are the main differences between the institutional set-ups with regard to crisis management and resolution in the EU and the USA?*

The first main difference is this: in the USA there is a *single* fiscal authority behind a *single* crisis management policy. By contrast, there is no European crisis management policy as there is no single fiscal authority that could formulate and implement a single policy for all European countries. The voluntary cooperation framework does not seem to be really operating. Moreover, the crisis management approaches of the authorities of individual EU countries not only differ from one another. Apparently, 'non-cooperative games' are played in the EU (even among the euro area countries) whereby actions taken by the

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<sup>9</sup> This plan stipulated (among other things) the absorption of 'toxic assets' held by banks and (innovatively) also by non-banks. One aim was to infuse more liquidity into the financial system. Perhaps more importantly, it was to prevent massive 'fire-sale' of troubled assets which could push many more agents into insolvency.

authorities of one country can aggravate the situation in the partner countries.

The second important difference is that the US fiscal authorities seem ready to make much bolder decisions on expanding the public sector deficit and the debt level than is likely in any euro area country. The policymakers in the EU countries seem to be hostages to the Growth and Stability Pact.

Last, but not least, the US Federal Reserve and the European Central Bank differ radically as far as their institutional set-ups are concerned. Their mandates and responsibilities are different, and so are their operational strategies. The important point is that the FED, being less 'independent' than the ECB, has been much more active in its response to the first signs of the crisis. The FED policy interest rates have been subject to consecutive strong

reductions starting already in August 2007. But that was not the ECB's approach, which kept its interest rates unchanged all along. The folly culminated in July 2008, when the ECB *raised* its interest rates. Until 8 October the spread between the ECB main policy rate and its FED equivalent stood at 225 basis points. When, on 8 October, amidst the signs of a panic overwhelming the global financial markets, the major central banks worldwide lowered their interest rates, the ECB joined in rather reluctantly – leaving the spread vs. the FED rate unchanged. The FED rate stands now at 1%, vs. the ECB's 3.25%. The passivity of the ECB vs. the activity of the FED indicates that the crisis will be easier to contain in the US than in the euro area. Higher interest rates in Europe cannot contribute positively to the resolution of the liquidity crisis – while they can certainly help to choke the real activity.

## STATISTICAL ANNEX

### Selected monthly data on the economic situation in Southeast Europe, Russia and Ukraine

**Please note:**

As of January 2009 the new wiiw Monthly Database is available, replacing the former one. The database

- has been enlarged by five new countries: **Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia**
- is presented in a new design with improved download features
- allows for a simplified query combining indicators and countries
- offers free sample data and charts for an easy overview

Registered users can login with their current password.

*wiiw* Members have **free online access** to the wiiw Monthly Database.

To receive your personal password, please go to <http://mdb.wiiw.ac.at>

## A L B A N I A: Selected monthly data on the economic situation 2007 to 2008

(updated mid of Dec 2008)

		2007				2008											
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
<b>LABOUR</b>																	
Employment, end of period	th. persons	935.7	.	.	939.0	.	.	939.3	.	.	965.9	.	.	.	.	.	
Employment, end of period	CMFY	100.1	.	.	100.4	.	.	100.7	.	.	103.5	.	.	.	.	.	
Unemployment, end of period	th. persons	142.2	.	.	142.8	.	.	140.8	.	.	140.0	.	.	.	.	.	
Unemployment rate	%	13.2	.	.	13.2	.	.	13.0	.	.	12.7	.	.	.	.	.	
<b>PRICES</b>																	
Consumer	PM	0.9	-0.1	0.2	1.3	0.5	1.0	0.9	-0.4	-1.0	-0.8	-0.6	0.6	1.1	0.1	-0.1	
Consumer	CMFY	4.4	4.2	3.5	3.0	3.0	3.6	4.6	4.4	4.2	4.0	3.7	2.5	2.7	2.9	2.6	
Consumer	CCPY	2.7	2.9	2.9	2.9	3.0	3.3	3.7	3.9	4.0	4.0	3.9	3.8	3.6	3.6	3.5	
Producer, in industry	PM	0.3	1.9	-0.1	0.0	2.8	0.6	0.1	0.6	0.4	0.5	-0.3	-0.3	0.6	.	.	
Producer, in industry	CMFY	5.1	6.2	4.8	4.4	6.9	7.6	7.7	7.0	7.3	7.9	7.4	6.8	7.2	.	.	
Producer, in industry	CCPY	2.9	3.2	3.4	3.5	6.9	7.3	7.4	7.3	7.3	7.4	7.4	7.3	7.3	.	.	
<b>FOREIGN TRADE<sup>1)2)</sup></b>																	
Exports total (fob), cumulated	EUR mn	585	652	727	782	61	132	205	289	372	466	556	620	706	.	.	
Imports total (cif), cumulated	EUR mn	2171	2447	2762	3048	239	506	772	1057	1356	1654	1962	2255	2551	.	.	
Trade balance, cumulated	EUR mn	-1586	-1795	-2035	-2266	-178	-374	-567	-768	-984	-1188	-1406	-1635	-1845	.	.	
<b>FOREIGN FINANCE</b>																	
Current account, cumulated	EUR mn	-534	-621	-735	-831	-64	-162	-247	-369	-483	-591	.	.	.	.	.	
<b>EXCHANGE RATE</b>																	
ALL/USD, monthly average	nominal	89.19	86.05	83.01	83.03	83.39	83.90	80.32	77.79	78.45	78.52	77.24	81.12	85.65	92.82	96.84	
ALL/EUR, monthly average	nominal	123.83	122.39	121.78	120.91	122.61	123.69	124.59	122.68	122.08	122.03	121.87	121.44	123.05	123.13	123.29	
USD/ALL, calculated with CPI <sup>3)</sup>	real, Jan04=100	114.8	118.7	122.4	124.1	123.5	123.8	129.3	132.2	128.7	126.3	127.0	122.1	117.1	108.1	103.5	
USD/ALL, calculated with PPI <sup>3)</sup>	real, Jan04=100	113.5	119.0	120.2	120.4	121.7	120.5	122.5	125.3	121.1	119.1	117.9	115.2	111.2	.	.	
EUR/ALL, calculated with CPI <sup>3)</sup>	real, Jan04=100	108.1	108.7	108.9	110.7	109.9	109.6	108.9	109.7	108.4	107.2	106.8	107.8	107.3	107.3	107.0	
EUR/ALL, calculated with PPI <sup>3)</sup>	real, Jan04=100	110.7	113.3	112.6	113.2	113.6	112.5	111.0	112.3	111.7	110.8	109.8	110.7	110.3	.	.	
<b>DOMESTIC FINANCE</b>																	
M0, end of period	ALL bn	147.6	143.6	143.0	155.0	147.0	147.1	146.8	146.2	145.0	145.8	150.8	152.3	152.7	165.3	.	
M1, end of period	ALL bn	221.1	217.3	218.1	246.6	230.4	225.1	219.2	219.6	219.5	223.3	230.1	230.8	232.0	244.4	.	
M2, end of period	ALL bn	715.9	719.0	716.6	761.2	762.7	765.1	756.8	760.8	758.5	772.9	786.1	810.0	821.3	806.7	.	
M2, end of period	CMFY	14.2	13.2	12.3	12.9	12.6	11.8	10.3	10.5	10.1	13.2	13.4	12.9	14.7	12.2	.	
NB base rate (p.a.),end of period	%	6.0	6.0	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	
NB base rate (p.a.),end of period <sup>4)</sup>	real, %	0.8	-0.2	1.4	1.8	-0.6	-1.3	-1.4	-0.7	-1.0	-1.5	-1.1	-0.5	-0.9	.	.	
<b>BUDGET</b>																	
General gov.budget balance, cum.	ALL bn	10206	9027	4710	-34119	.	.	10352	9341	5921	-2431	-5587	-8904	-8395	-16786	.	

1) Based on cumulated national currency and converted with the average exchange rate.

2) Cumulation starting January and ending December each year.

3) Adjusted for domestic and foreign (US resp. EU) inflation. Values more than 100 mean real appreciation.

4) Deflated with annual PPI.

## B O S N I A and H E R Z E G O V I N A: Selected monthly data on the economic situation 2007 to 2008

(updated mid of Dec 2008)

		2007				2008											
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
<b>PRODUCTION</b>																	
Industry, total <sup>1)</sup>	real, CMPY	5.2	6.5	4.3	-0.3	7.3	11.1	-1.6	6.6	5.5	8.1	9.8	5.5	11.6	10.6	.	
Industry, total <sup>1)</sup>	real, CCPY	7.6	7.5	7.1	6.4	7.3	9.2	5.3	5.5	5.5	6.0	6.6	6.4	7.0	7.4	.	
Industry, total <sup>1)</sup>	real, 3MMA	5.8	5.3	3.5	3.8	6.0	5.6	5.4	3.5	6.7	7.8	7.8	9.0	9.2	.	.	
<b>LABOUR</b>																	
Employees <sup>2)</sup>	th. persons	694.5	694.7	693.0	697.7	697.9	699.5	702.1	703.8	704.6	704.6	705.2	704.8	706.0	.	.	
Employees <sup>2)</sup>	CMPY	104.8	104.8	104.4	105.1	103.5	103.5	103.5	103.6	103.6	103.0	102.1	102.0	101.7	.	.	
Unemployment, end of period <sup>3)</sup>	th. persons	520.4	520.0	518.2	515.7	516.8	517.2	509.6	499.9	494.0	489.7	488.4	484.8	480.3	.	.	
Unemployment rate	%	42.8	42.8	42.8	42.5	42.5	42.5	42.1	41.5	41.2	41.0	40.9	40.8	40.5	.	.	
<b>WAGES, SALARIES</b>																	
Total economy, gross	BAM	965	978	998	1007	1000	1060	1074	1094	1115	1108	1130	1131	1148	.	.	
Total economy, gross	real, CMPY	8.0	6.9	7.5	5.4	3.7	9.4	8.4	8.5	8.1	6.8	8.5	7.2	9.4	.	.	
Total economy, gross	EUR	493	500	510	515	511	542	549	559	570	567	578	578	587	.	.	
<b>PRICES</b>																	
Consumer	PM	0.8	2.1	1.1	1.1	1.4	0.4	1.0	-0.4	0.9	0.9	0.1	0.1	0.1	0.7	.	
Consumer	CMPY	1.6	3.0	4.0	5.0	6.1	6.2	7.1	7.4	8.2	9.6	9.9	9.5	8.8	7.3	.	
Consumer	CCPY	0.7	0.9	1.2	1.5	6.1	6.1	6.4	6.7	7.0	7.4	7.8	8.0	8.1	8.0	.	
<b>FOREIGN TRADE<sup>4)5)</sup></b>																	
Exports total (fob), cumulated	EUR mn	2255	2528	2799	3035	248	527	801	1092	1399	1713	2037	2316	2631	2929	.	
Imports total (cif), cumulated	EUR mn	5159	5833	6484	7106	512	1178	2016	2758	3488	4217	4984	5691	6446	7235	.	
Trade balance, cumulated	EUR mn	-2904	-3305	-3686	-4071	-263	-651	-1215	-1667	-2089	-2504	-2948	-3375	-3815	-4306	.	
Exports to EU-27 (fob), cumulated	EUR mn	1313	1469	1619	1738	147	304	458	619	800	977	1151	1295	1464	1631	.	
Imports from EU-27 (cif), cumulated	EUR mn	2461	2779	3093	3397	244	566	893	1247	1588	1915	2266	2590	2965	3371	.	
Trade balance with EU-27, cumulated	EUR mn	-1148	-1310	-1475	-1658	-96	-262	-435	-628	-788	-939	-1115	-1295	-1501	-1740	.	
<b>FOREIGN FINANCE</b>																	
Current account, cumulated <sup>4)</sup>	EUR mn	-918	.	.	-1396	.	.	-409	.	.	-924	.	.	.	.	.	
<b>EXCHANGE RATE</b>																	
BAM/USD, monthly average	nominal	1.409	1.375	1.334	1.342	1.329	1.328	1.263	1.242	1.257	1.258	1.240	1.304	1.362	1.464	1.536	
BAM/EUR, monthly average	nominal	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	1.956	
USD/BAM, calculated with CPI <sup>6)</sup>	real, Jan04=100	105.7	110.4	114.2	114.9	117.1	117.4	123.5	124.5	123.0	122.8	124.1	118.6	113.8	106.6	.	
EUR/BAM, calculated with CPI <sup>6)</sup>	real, Jan04=100	99.6	101.2	101.8	102.5	104.1	104.1	104.3	103.4	103.7	104.2	104.4	104.6	104.4	105.1	.	
<b>DOMESTIC FINANCE</b>																	
M0, end of period	BAM mn	2086	2066	2065	2185	2044	2075	2061	2134	2125	2076	2152	2168	2131	2279	.	
M1, end of period	BAM mn	5944	6014	5944	6160	5904	5940	6006	6089	6071	6032	6144	6242	6198	6045	.	
M2, end of period	BAM mn	11694	11869	11928	12250	12226	12281	12402	12608	12726	12793	13079	13275	13426	12759	.	
M2, end of period	CMPY	22.8	22.8	22.0	21.6	20.4	18.4	18.1	17.4	15.8	14.3	14.9	14.7	14.8	7.5	.	

1) Federation of B&H and Srpska weighted by wiiw.

2) Sum of employees in Federation of B&H, Republic Srpska and District Brcko, calculated by wiiw.

3) Sum of unemployed persons in Federation B&H, Republic Srpska and District Brcko, calculated by wiiw.

4) Based on cumulated national currency and converted with the average exchange rate.

5) Cumulation starting January and ending December each year.

6) Adjusted for domestic and foreign (US resp. EU) inflation. Values more than 100 mean real appreciation.

## C R O A T I A: Selected monthly data on the economic situation 2007 to 2008

(updated mid of Dec 2008)

		2007				2008										
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
<b>PRODUCTION</b>																
Industry, total <sup>1)</sup>	real, CMPY	2.0	5.4	2.5	1.5	6.7	8.2	0.1	6.9	-2.1	7.2	1.9	-4.5	3.0	-0.7	.
Industry, total <sup>1)</sup>	real, CCPY	6.4	6.3	6.0	5.6	6.7	7.5	4.8	5.3	3.7	4.3	3.9	2.9	2.9	2.5	.
Industry, total <sup>1)</sup>	real, 3MMA	3.4	3.3	3.1	3.4	5.3	4.8	4.9	1.5	3.8	2.2	1.5	0.2	-0.7	.	.
Construction, total, effect. work. time <sup>1)</sup>	real, CMPY	-1.0	4.1	0.0	2.1	10.6	15.0	5.8	21.4	6.5	14.8	15.0	2.0	18.0	.	.
<b>LABOUR</b>																
Employment total	th. persons	1230.9	1227.1	1224.0	1215.8	1210.1	1208.0	1213.8	1220.9	1230.7	1239.0	1245.1	1245.0	1241.8	1237.6	.
Employees in industry	th. persons	294.3	294.6	294.7	291.8	290.6	290.6	291.0	290.8	291.2	291.0	290.7	290.2	289.6	289.3	.
Unemployment, end of period	th. persons	246.2	250.1	253.2	254.5	261.1	260.1	255.5	245.2	232.8	222.3	219.7	219.3	222.2	228.5	233.7
Unemployment rate	%	14.1	14.3	14.5	14.7	14.8	14.7	14.5	13.9	13.2	12.5	12.4	12.3	12.6	12.9	13.2
Labour productivity, industry <sup>1)</sup>	CCPY	5.9	5.9	5.5	5.2	7.3	8.2	5.6	6.3	4.8	5.4	5.2	4.2	4.3	4.1	.
Unit labour costs, exchr. adj. (EUR) <sup>1)</sup>	CCPY	-0.6	-0.1	-0.1	0.1	0.6	2.6	2.9	2.6	4.2	3.1	3.4	3.9	4.2	.	.
<b>WAGES, SALARIES</b>																
Total economy, gross	HRK	6890	7096	7521	7255	7357	7340	7404	7395	7625	7478	7580	7489	7526	.	.
Total economy, gross	real, CMPY	1.6	3.2	1.3	-0.1	1.1	2.9	0.5	1.4	0.9	-1.6	-1.1	-1.6	2.7	.	.
Total economy, gross	EUR	942	969	1025	992	1004	1010	1019	1018	1051	1032	1048	1041	1056	.	.
Industry, gross	EUR	874	914	958	901	933	948	930	942	980	954	980	946	984	.	.
<b>PRICES</b>																
Consumer	PM	1.2	0.3	1.0	1.2	0.7	-0.1	0.6	0.7	1.1	0.7	0.1	-0.3	0.2	-0.1	-0.1
Consumer	CMPY	3.9	4.3	4.6	5.8	6.2	5.8	5.7	5.7	6.4	7.6	8.4	7.4	6.4	5.9	4.7
Consumer	CCPY	2.2	2.4	2.6	2.9	6.2	6.0	5.9	5.9	6.0	6.2	6.5	6.7	6.6	6.6	6.4
Producer, in industry	PM	0.6	0.4	0.6	0.4	2.3	0.3	0.8	0.4	1.3	1.3	2.4	-0.1	-0.1	-1.1	-1.5
Producer, in industry	CMPY	4.5	4.9	5.4	5.8	7.4	7.5	7.6	7.7	8.7	9.6	12.0	11.0	10.3	8.8	6.5
Producer, in industry	CCPY	2.7	3.0	3.2	3.4	7.4	7.5	7.6	7.5	7.8	8.1	8.6	9.0	9.1	9.0	8.8
<b>FOREIGN TRADE<sup>2)3)</sup></b>																
Exports total (fob), cumulated	EUR mn	6575	7483	8268	9002	701	1463	2176	2980	3821	4618	5631	6337	7223	8020	.
Imports total (cif), cumulated	EUR mn	13862	15688	17335	18833	1522	3159	4860	6816	8615	10516	12432	14032	15961	17774	.
Trade balance, cumulated	EUR mn	-7287	-8205	-9067	-9830	-821	-1696	-2683	-3836	-4793	-5898	-6801	-7695	-8738	-9754	.
Exports to EU-27 (fob), cumulated	EUR mn	3989	4569	5048	5440	434	889	1360	1833	2319	2852	3425	3841	4386	4902	.
Imports from EU-27 (cif), cumulated	EUR mn	9090	10212	11250	12202	882	1904	3056	4381	5529	6760	7990	8956	10161	11376	.
Trade balance with EU-27, cumulated	EUR mn	-5101	-5643	-6203	-6762	-448	-1014	-1696	-2548	-3210	-3909	-4565	-5115	-5776	-6474	.
<b>FOREIGN FINANCE</b>																
Current account, cumulated <sup>4)</sup>	EUR mn	-1320	.	.	-3230	.	.	-2523	.	.	-4332	.	.	.	.	.
<b>EXCHANGE RATE</b>																
HRK/USD, monthly average	nominal	5.275	5.149	5.005	5.023	4.987	4.933	4.689	4.606	4.664	4.665	4.580	4.797	4.955	5.355	5.609
HRK/EUR, monthly average	nominal	7.313	7.321	7.340	7.315	7.327	7.267	7.267	7.266	7.255	7.247	7.230	7.196	7.126	7.158	7.141
USD/HRK, calculated with CPI <sup>5)</sup>	real, Jan04=100	113.9	116.8	120.5	121.7	122.8	123.8	129.8	132.3	131.0	130.6	132.5	126.6	123.0	113.7	108.4
USD/HRK, calculated with PPI <sup>6)</sup>	real, Jan04=100	107.4	109.7	110.8	111.0	112.9	113.4	116.9	117.7	114.3	113.4	115.5	113.3	111.0	101.6	95.5
EUR/HRK, calculated with CPI <sup>5)</sup>	real, Jan04=100	107.5	107.1	107.4	108.6	109.4	109.7	109.5	109.8	110.5	110.9	111.4	111.6	112.6	112.0	112.1
EUR/HRK, calculated with PPI <sup>6)</sup>	real, Jan04=100	105.0	104.6	103.8	104.4	105.6	106.0	106.1	105.5	105.5	105.6	107.5	108.7	110.0	109.8	108.4
<b>DOMESTIC FINANCE</b>																
M0, end of period	HRK bn	15.6	15.5	15.9	16.0	15.3	15.2	15.3	15.8	16.2	16.9	17.6	17.6	16.6	17.0	.
M1, end of period	HRK bn	49.9	53.2	54.2	57.9	52.2	51.2	52.8	52.7	53.2	54.4	55.5	55.7	53.7	52.7	.
Broad money, end of period	HRK bn	197.7	204.4	207.6	215.5	208.4	209.6	211.6	212.9	212.9	216.0	221.2	226.4	226.9	223.5	.
Broad money, end of period	CMPY	11.9	13.2	15.6	18.1	13.9	14.7	14.4	13.8	12.3	11.1	9.9	9.2	14.7	9.3	.
Discount rate (p.a.), end of period	%	4.5	4.5	4.5	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Discount rate (p.a.), end of period <sup>6)</sup>	real, %	0.0	-0.4	-0.9	3.0	1.5	1.4	1.3	1.2	0.3	-0.5	-2.7	-1.8	-1.2	0.2	2.3
<b>BUDGET</b>																
Central gov. budget balance, cum. <sup>7)</sup>	HRK mn	805	327	-900	-3500	1963	1680	1383	3062	2992	2957	3772	3633	.	.	.

1) In business entities with more than 20 persons employed.

2) Based on cumulated national currency and converted with the average exchange rate.

3) Cumulation starting January and ending December each year.

4) Calculated from USD to NCU to EUR using the official average exchange rate.

5) Adjusted for domestic and foreign (US resp. EU) inflation. Values more than 100 mean real appreciation.

6) Deflated with annual PPI.

7) Consolidated central government budget.

## M A C E D O N I A: Selected monthly data on the economic situation 2007 to 2008

(updated mid of Dec 2008)

		2007				2008											
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
<b>PRODUCTION</b>																	
Industry, total <sup>1)</sup>	real, CMPY	6.3	10.6	5.4	2.6	13.6	7.0	-1.4	6.2	17.6	12.2	14.7	8.5	13.7	-9.9	.	
Industry, total <sup>1)</sup>	real, CCPY	2.9	3.8	3.9	3.8	13.6	10.1	5.8	5.9	8.3	9.0	9.9	9.7	10.2	7.8	.	
Industry, total <sup>1)</sup>	real, 3MMA	11.3	11.6	7.3	7.1	7.2	5.8	3.8	7.2	11.9	14.8	11.8	12.4	3.7	.	.	
<b>LABOUR</b>																	
Employees <sup>1)</sup>	th. persons	255.3	255.1	255.3	256.6	255.0	255.6	255.9	256.8	257.9	257.8	258.2	257.4	256.9	.	.	
Employees in industry <sup>1)</sup>	th. persons	90.3	90.2	89.9	90.1	88.6	88.4	88.4	88.8	89.3	89.2	89.1	88.4	87.8	.	.	
Unemployment, quarterly average <sup>2)</sup>	th. persons	311.1	.	.	316.2	.	.	319.9	.	.	310.4	.	.	.	.	.	
Unemployment rate <sup>2)</sup>	%	34.2	.	.	34.7	.	.	34.8	.	.	33.8	.	.	.	.	.	
Labour productivity, industry <sup>1)</sup>	CCPY	10.1	10.3	9.8	8.9	13.5	10.3	6.0	6.1	8.5	9.6	10.5	10.5	11.0	.	.	
Unit labour costs, exchr. adj.(EUR) <sup>1)</sup>	CCPY	-5.3	-5.3	-4.9	-3.8	-4.6	-3.5	0.4	-0.1	-2.4	-2.9	-3.7	-4.0	-4.2	.	.	
<b>WAGES, SALARIES</b>																	
Total economy, gross	MKD	24971	25889	25397	25435	25349	24799	25289	25412	25612	25673	25739	25758	27513	.	.	
Total economy, gross	real, CMPY	4.1	6.0	2.2	3.9	2.6	-0.8	-0.4	-1.2	-0.3	0.1	0.5	0.5	3.9	.	.	
Total economy, gross	EUR	408	423	415	415	413	404	413	414	418	420	421	421	450	.	.	
Industry, gross	EUR	352	371	359	364	368	349	361	365	368	374	370	372	384	.	.	
<b>PRICES</b>																	
Consumer	PM	0.9	0.5	1.4	1.2	1.6	0.8	0.8	0.4	0.2	0.3	-0.9	-0.2	-0.2	0.7	0.2	
Consumer	CMPY	3.1	3.5	4.8	6.2	7.4	8.3	8.8	8.8	8.3	8.7	8.1	7.2	6.0	6.2	5.0	
Consumer	CCPY	1.3	1.5	1.8	2.2	7.4	7.9	8.2	8.3	8.3	8.4	8.3	8.2	8.0	7.8	7.5	
Producer, in industry	PM	-0.9	1.3	2.6	-0.3	1.1	-0.2	2.5	0.7	3.4	2.8	2.3	-2.2	-0.3	-3.3	.	
Producer, in industry	CMPY	1.6	5.3	8.7	6.9	9.6	10.2	11.7	10.7	14.4	15.7	17.2	13.8	14.4	9.2	.	
Producer, in industry	CCPY	1.1	1.5	2.2	2.5	9.6	9.9	10.5	10.5	11.3	12.1	12.8	13.0	13.1	12.7	.	
<b>FOREIGN TRADE<sup>3)4)</sup></b>																	
Exports total (fob), cumulated	EUR mn	1810	2026	2235	2449	182	397	612	842	1102	1352	1619	1820	2062	2293	.	
Imports total (cif), cumulated	EUR mn	2603	3045	3421	3814	308	683	1054	1442	1857	2299	2761	3149	3525	3947	.	
Trade balance, cumulated	EUR mn	-793	-1018	-1186	-1365	-126	-285	-442	-600	-755	-947	-1142	-1328	-1463	-1654	.	
Exports to EU-27 (fob), cumulated	EUR mn	1204	1340	1468	1593	114	251	384	524	662	803	984	1100	1240	1373	.	
Imports from EU-27 (cif), cumulated	EUR mn	1305	1521	1696	1888	165	298	469	663	863	1077	1305	1476	1664	1870	.	
Trade balance with EU-27, cumulated	EUR mn	-101	-181	-228	-295	-51	-47	-85	-139	-201	-273	-321	-377	-423	-497	.	
<b>FOREIGN FINANCE</b>																	
Current account, cumulated	EUR mn	-83	-141	-261	-415	-41	-123	-205	-278	-343	-455	-510	-565	.	.	.	
<b>EXCHANGE RATE</b>																	
MKD/USD, monthly average	nominal	44.08	43.04	41.74	42.02	41.69	41.63	39.54	38.90	39.37	39.33	38.79	40.79	42.59	45.79	48.27	
MKD/EUR, monthly average	nominal	61.18	61.18	61.20	61.23	61.34	61.32	61.21	61.37	61.23	61.17	61.18	61.18	61.17	61.20	61.41	
USD/MKD, calculated with CPI <sup>5)</sup>	real, Jan04=100	101.9	104.6	108.6	109.3	111.4	112.2	118.0	119.7	117.6	116.9	116.9	111.4	106.6	99.8	94.9	
USD/MKD, calculated with PPI <sup>5)</sup>	real, Jan04=100	103.8	107.0	110.4	109.5	110.2	109.0	114.5	115.3	114.4	115.3	116.8	111.7	108.1	97.2	.	
EUR/MKD, calculated with CPI <sup>5)</sup>	real, Jan04=100	96.0	96.0	96.8	97.5	99.1	99.5	99.7	99.4	99.2	99.2	98.4	98.2	97.8	98.3	98.2	
EUR/MKD, calculated with PPI <sup>5)</sup>	real, Jan04=100	101.4	102.0	103.5	102.9	102.9	102.0	104.0	103.4	105.6	107.3	108.9	107.3	107.3	105.2	.	
<b>DOMESTIC FINANCE</b>																	
M0, end of period	UAH bn	16.7	16.6	16.3	17.9	16.4	16.2	15.7	16.3	16.4	16.2	16.8	16.4	16.6	16.6	.	
M1, end of period	UAH bn	39.3	38.6	39.8	45.8	43.0	43.9	42.6	44.3	46.1	47.4	46.1	47.6	47.6	46.6	.	
Broad money, end of period <sup>6)</sup>	UAH bn	160.9	162.3	166.2	175.0	175.3	178.1	177.3	181.8	185.8	188.4	191.1	195.7	196.0	193.7	.	
Broad money, end of period <sup>6)</sup>	CMPY	29.9	27.4	27.9	29.5	29.6	27.9	25.3	23.3	22.9	21.4	20.0	22.2	21.9	19.3	.	
NB discount rate (p.a.),end of period	%	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	.	
NB discount rate (p.a.),end of period <sup>7)</sup>	real, %	4.8	1.1	-2.0	-0.4	-2.8	-3.4	-4.6	-3.8	-6.9	-7.9	-9.1	-6.4	-6.9	-2.4	.	
<b>BUDGET</b>																	
General gov.budget balance, cum. <sup>8)</sup>	UAH mn	10438	12037	10836	2173	1627	720	4219	4886	4651	4474	5411	6902	10913	.	.	

1) In business entities with more than 10 persons employed.

2) Based on labour force survey.

3) Based on cumulated USD and converted using the ECB EUR/USD average foreign exchange reference rate.

4) Cumulation starting January and ending December each year.

5) Adjusted for domestic and foreign (US resp. EU) inflation. Values more than 100 mean real appreciation.

6) M2 plus restricted deposits (in denar and in foreign currency) plus non-monetary deposits over 1 year.

7) Deflated with annual PPI.

8) Central government budget plus extra-budgetary funds

## MONTENEGRO: Selected monthly data on the economic situation 2007 to 2008

(updated mid of Dec 2008)

		2007				2008										
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
<b>PRODUCTION</b>																
Industry, total	real, CMPY	-1.8	27.8	5.8	7.7	13.1	19.0	2.4	-8.1	-9.9	5.6	3.5	-4.8	12.0	.	.
Industry, total	real, CCPY	-4.2	-1.4	-0.7	0.1	13.1	16.2	11.1	6.2	3.0	3.4	3.4	2.4	3.5	.	.
Industry, total	real, 3MMA	9.4	9.6	13.0	8.5	13.0	11.1	4.2	-4.9	-4.3	-0.2	1.3	3.7	.	.	.
<b>LABOUR</b>																
Employment <sup>1)</sup>	th. persons	158.2	157.5	157.7	159.2	160.4	161.1	162.7	162.3	166.0	170.1	168.9	168.5	167.7	168.6	.
Employment in industry	th. persons	35.3	35.2	33.9	34.1	34.4	34.4	34.7	33.4	34.0	34.4	34.1	34.1	33.9	33.9	.
Unemployment, end of period	th. persons	31.2	31.6	31.8	31.5	31.3	31.5	31.3	30.3	30.0	29.1	28.7	28.1	28.3	28.7	.
Unemployment rate	%	16.5	16.7	16.8	16.5	16.3	16.3	16.1	15.7	15.3	14.6	14.5	14.3	14.6	14.5	.
Labour productivity, industry	CCPY	-2.7	0.4	1.6	2.4	15.5	18.7	13.2	9.2	6.2	6.5	6.6	5.6	6.9	.	.
Unit labour costs, exch.r. adj.(EUR)	CCPY	13.9	11.0	9.7	9.1	16.8	-0.9	1.4	4.3	7.5	9.0	9.1	10.0	8.7	.	.
<b>WAGES, SALARIES</b>																
Total economy, gross	EUR	508	522	539	554	564	584	578	588	602	623	610	625	630	621	.
Total economy, gross	real, CMPY	8.4	14.4	14.5	12.8	16.0	13.5	13.5	11.7	12.7	12.5	13.9	14.7	14.3	10.4	.
Industry, gross	EUR	618	597	594	588	620	624	607	612	671	730	673	679	720	683	.
<b>PRICES</b>																
Consumer	PM	2.1	0.7	1.0	0.3	1.4	0.1	0.4	1.2	1.0	1.2	-0.4	0.3	1.0	0.0	.
Consumer	CMPY	6.6	6.9	7.6	7.6	8.8	8.8	9.0	9.9	10.3	12.3	10.0	9.7	8.5	7.7	.
Consumer	CCPY	3.3	3.7	4.0	4.3	8.8	8.8	8.9	9.1	9.4	9.9	9.9	9.9	9.7	9.5	.
Producer, in industry	PM	0.2	0.3	2.9	0.2	2.1	0.8	2.8	0.5	1.1	5.5	0.1	1.2	-1.0	.	.
Producer, in industry	CMPY	10.1	10.9	13.9	14.6	16.3	16.0	16.4	15.1	16.5	22.7	17.2	19.0	17.6	.	.
Producer, in industry	CCPY	7.2	7.6	8.1	8.7	16.3	16.2	16.2	15.9	16.1	17.2	17.2	17.4	17.4	.	.
<b>FOREIGN TRADE<sup>2)</sup></b>																
Exports total (fob), cumulated	EUR mn	495	.	.	660	.	.	111	.	.	276	.	.	.	.	.
Imports total (cif), cumulated	EUR mn	1258	.	.	2001	.	.	415	.	.	964	.	.	.	.	.
Trade balance, cumulated	EUR mn	-763	.	.	-1342	.	.	-305	.	.	-689	.	.	.	.	.
<b>FOREIGN FINANCE</b>																
Current account, cumulated	EUR mn	-269	.	.	-825	.	.	-293	.	.	-616	.	.	.	.	.
<b>EXCHANGE RATE</b>																
EUR/USD, monthly average	nominal	0.720	0.703	0.681	0.686	0.679	0.678	0.644	0.635	0.643	0.643	0.634	0.668	0.696	0.751	0.785
USD/EUR, calculated with CPI <sup>3)</sup>	real, Jan04=100	90.9	89.2	86.7	87.8	87.6	87.4	82.6	81.9	83.1	83.3	81.4	86.3	90.9	98.1	.
USD/EUR, calculated with PPI <sup>3)</sup>	real, Jan04=100	90.1	87.7	85.3	86.3	86.1	85.8	81.5	79.4	78.9	81.6	78.7	86.3	90.2	.	.
<b>BUDGET</b>																
General gov.budget balance, cum.	EUR mn	188	.	.	179	.	.	42	.	.	81	.	.	157	.	.

1) Excluding individual farmers.

2) Cumulation starting January and ending December each year.

3) Adjusted for domestic and foreign (US resp. EU) inflation. Values more than 100 mean real appreciation.

## S E R B I A: Selected monthly data on the economic situation 2007 to 2008

(updated mid of Dec 2008)

		2007				2008											
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
<b>PRODUCTION</b>																	
Industry, total	real, CMPY	0.0	4.1	-2.5	-0.5	3.3	11.6	2.1	2.5	2.1	2.0	5.0	-4.4	3.0	-3.2	.	
Industry, total	real, CCPY	4.9	4.8	4.1	3.6	3.3	7.4	5.5	4.7	4.2	3.8	4.0	2.9	2.9	2.2	.	
Industry, total	real, 3MMA	3.6	0.6	0.4	-0.1	4.4	5.5	5.1	2.2	2.2	3.0	0.8	1.2	-1.6	.	.	
<b>LABOUR</b>																	
Employees total	th. persons	1428.0	1425.0	1422.0	1418.0	1416.0	1413.0	1432.0	1429.0	1428.0	1426.0	1424.0	1423.0	.	.	.	
Employees in industry	th. persons	.	.	.	.	.	.	.	.	.	.	.	.	.	.	.	
Unemployment, end of period	th. persons	808.2	797.2	785.1	785.1	793.0	796.0	795.1	798.0	773.3	756.5	744.8	733.7	.	.	.	
Unemployment rate	%	25.6	25.3	25.1	25.1	25.3	25.4	25.2	25.1	24.7	24.4	24.1	23.8	.	.	.	
Labour productivity, industry	CCPY	13.4	12.9	11.6	11.0	10.1	13.8	11.3	10.3	9.4	13.1	12.6	10.9	.	.	.	
Unit labour costs, exchr. adj.(EUR)	CCPY	14.3	13.9	13.2	13.2	-4.5	-2.9	1.0	3.8	5.4	2.5	3.9	.	.	.	.	
<b>WAGES, SALARIES</b>																	
Total economy, gross	RSD	39308	40082	41010	48122	39331	43218	42873	45355	44835	45608	46115	46222	46015	47883	.	
Total economy, gross	real, CMPY	10.8	11.6	9.4	3.9	3.5	8.2	3.3	5.4	2.7	1.0	2.3	5.5	4.2	6.9	.	
Total economy, gross <sup>1)</sup>	EUR	498	519	484	607	475	518	521	566	544	577	599	605	601	563	.	
Industry, gross <sup>1)</sup>	EUR	436	435	404	503	426	448	448	488	473	526	526	.	.	.	.	
<b>PRICES</b>																	
Consumer	PM	1.8	0.5	1.6	1.5	0.8	0.6	1.6	1.8	1.6	0.5	-1.1	0.1	0.9	1.9	0.0	
Consumer	CMPY	9.0	9.9	10.6	11.9	12.4	13.4	14.4	15.3	15.2	15.4	14.4	11.2	10.2	11.8	10.0	
Consumer	CCPY	4.9	5.4	5.9	6.4	12.4	12.9	13.4	13.9	14.2	14.4	14.4	14.0	13.5	13.3	13.0	
Producer, in industry	PM	0.8	0.8	1.2	1.0	2.6	0.7	1.7	1.0	1.2	1.2	1.0	0.8	-0.3	0.1	-0.4	
Producer, in industry	CMPY	5.7	6.9	8.5	9.8	12.1	12.9	14.1	14.3	13.0	13.6	14.8	14.9	13.7	12.9	11.1	
Producer, in industry	CCPY	5.5	5.7	5.9	6.2	12.1	12.5	13.0	13.4	13.3	13.3	13.5	13.7	13.7	13.6	13.4	
<b>FOREIGN TRADE<sup>2)3)</sup></b>																	
Exports total (fob), cumulated	EUR mn	4757	5338	5865	6428	468	1047	1675	2296	2977	3662	4406	5058	5733	6339	.	
Imports total (cif), cumulated	EUR mn	9431	10717	11850	13150	1011	2241	3611	4985	6339	7748	9179	10390	11782	13083	.	
Trade balance, cumulated	EUR mn	-4674	-5380	-5985	-6721	-544	-1195	-1936	-2688	-3362	-4087	-4773	-5332	-6049	-6743	.	
Exports to EU-27 (fob), cumulated	EUR mn	2463	2729	2995	3249	259	549	858	1162	1481	1919	2192	2419	2812	3088	.	
Imports from EU-27 (cif), cumulated	EUR mn	5329	5978	6609	7341	480	1156	1917	2697	3437	4211	5052	5602	5087	7031	.	
Trade balance with EU-27, cumulated	EUR mn	-2866	-3250	-3614	-4093	-221	-608	-1059	-1535	-1956	-2293	-2860	-3182	-2275	-3944	.	
<b>FOREIGN FINANCE</b>																	
Current account, cumulated <sup>4)</sup>	EUR mn	-3329	.	.	-5002	.	.	-1148	.	.	-3126	.	.	.	.	.	
<b>EXCHANGE RATE</b>																	
RSD/USD, end of month	nominal	55.68	53.49	57.45	53.73	55.58	54.97	52.13	51.46	53.09	50.01	49.40	51.79	53.78	66.33	.	
RSD/EUR, end of month	nominal	78.86	77.24	84.75	79.33	82.77	83.46	82.31	80.13	82.43	78.98	76.99	76.44	76.60	84.99	.	
USD/RSD, calculated with CPI <sup>5)</sup>	real, Jan04=100	134.0	139.9	131.4	142.8	138.4	140.5	149.2	152.9	149.4	157.8	159.1	151.2	146.3	118.0	.	
USD/RSD, calculated with PPI <sup>6)</sup>	real, Jan04=100	119.2	124.2	114.1	123.5	120.9	121.9	127.2	128.2	122.0	128.3	128.2	120.2	113.2	90.0	.	
EUR/RSD, calculated with CPI <sup>5)</sup>	real, Jan04=100	121.5	124.0	114.2	123.4	119.5	118.7	121.3	126.3	123.9	129.5	133.0	134.2	134.9	121.5	.	
EUR/RSD, calculated with PPI <sup>6)</sup>	real, Jan04=100	112.0	114.4	104.4	112.4	109.5	108.6	111.2	114.2	110.7	115.4	118.7	121.4	120.9	109.0	.	
<b>DOMESTIC FINANCE</b>																	
M0, end of period	RSD bn	65.4	61.6	64.3	77.0	73.9	78.0	70.3	72.4	74.1	69.5	69.2	70.5	71.6	77.3	.	
M1, end of period	RSD bn	218.4	214.6	223.0	248.9	236.7	240.0	227.2	225.8	230.6	225.5	213.6	218.3	222.0	222.8	.	
Broad money, end of period <sup>6)</sup>	RSD bn	791.5	791.9	878.0	903.9	936.3	939.0	953.5	942.8	979.0	947.2	936.5	966.7	985.1	974.3	.	
Broad money, end of period <sup>6)</sup>	CMPY	39.9	39.7	50.0	42.5	50.4	46.5	42.5	39.3	39.4	33.7	25.6	23.7	24.5	23.0	.	
NB discount rate (p.a.), end of period	%	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	
NB discount rate (p.a.), end of period <sup>7)</sup>	real, %	2.6	1.5	0.0	-1.2	-3.2	-3.9	-4.9	-5.1	-4.0	-4.4	-5.5	-5.6	-4.5	-3.9	-2.3	
<b>BUDGET</b>																	
Central gov. budget balance, cum. <sup>8)</sup>	RSD mn	33611	34825	31069	-38692	3456	251	-729	-7945	-16885	-19146	-10637	-17219	-17983	-17412	-32179	

1) Calculation from NCU to EUR using the official end of month exchange rate.

2) Based on cumulated national currency and converted with the end of month exchange rate.

3) Cumulation starting January and ending December each year.

4) Calculated from USD to NCU to EUR using the official end of month exchange rate.

5) Adjusted for domestic and foreign (US resp. EU) inflation. Values more than 100 mean real appreciation.

6) Excl. gov. deposits, excl. frozen foreign currency savings deposits.

7) Deflated with annual PPI.

8) Including net lending.

## R U S S I A: Selected monthly data on the economic situation 2007 to 2008

(updated mid of Dec 2008)

		2007				2008											
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
<b>PRODUCTION</b>																	
Industry, total <sup>1)</sup>	real, CMPY	2.8	6.0	5.2	5.7	4.5	7.5	6.6	9.2	6.7	0.8	3.1	4.8	6.4	1.7	-8.7	
Industry, total <sup>1)</sup>	real, CCPY	6.6	6.6	6.4	6.4	4.5	6.0	6.2	6.9	6.9	5.8	5.4	5.4	5.5	5.1	3.7	
Industry, total <sup>1)</sup>	real, 3MMA	4.1	4.7	5.6	5.2	5.9	6.2	7.7	7.5	5.5	3.5	2.9	4.8	4.2	-0.3	.	
Construction, total	real, CMPY	13.6	14.1	12.9	25.8	30.3	30.0	27.0	21.8	17.2	16.2	12.1	6.4	9.8	5.9	.	
<b>LABOUR<sup>2)</sup></b>																	
Employment total, quarterly average	th. persons	71620	.	.	70814	.	.	69491	.	.	71631	.	.	72136	.	.	
Unemployment, quarterly average	th. persons	4264	.	.	4246	.	.	5308	.	.	4097	.	.	4472	.	.	
Unemployment rate	%	5.6	.	.	5.7	.	.	7.1	.	.	5.4	.	.	5.8	.	.	
<b>WAGES, SALARIES</b>																	
Total economy, gross	RUB	13677	13986	14656	18591	14771	15354	16172	16538	16643	17715	17758	17244	17739	18093	.	
Total economy, gross	real, CMPY	12.3	14.2	16.2	16.5	14.8	15.9	14.6	15.9	13.0	12.2	14.3	13.0	12.8	13.2	.	
Total economy, gross	EUR	389	395	408	519	411	425	440	446	451	481	482	476	488	513	.	
Industry, gross <sup>3)</sup>	EUR	375	389	389	454	392	397	414	421	424	440	459	460	461	.	.	
<b>PRICES</b>																	
Consumer	PM	0.8	1.6	1.2	1.1	2.3	1.2	1.2	1.4	1.4	1.0	0.5	0.4	0.8	0.9	0.8	
Consumer	CMPY	9.5	10.9	11.5	11.9	12.6	12.6	13.3	14.2	15.1	15.1	14.7	15.0	15.0	14.2	13.8	
Consumer	CCPY	8.3	8.6	8.9	9.1	12.6	12.6	12.8	13.2	13.6	13.8	14.0	14.1	14.2	14.2	14.2	
Producer, in industry	PM	-0.6	-0.1	3.1	3.7	1.6	0.7	0.7	4.5	3.5	4.9	5.4	0.5	-5.0	-6.6	.	
Producer, in industry	CMPY	12.1	15.2	21.8	25.1	24.7	25.7	26.7	26.9	24.7	27.6	33.5	31.5	25.7	17.5	.	
Producer, in industry	CCPY	11.9	12.2	13.1	14.1	24.7	25.2	25.7	26.0	25.7	26.1	27.2	27.8	27.5	26.5	.	
<b>FOREIGN TRADE<sup>5(6)</sup></b>																	
Exports total, cumulated	EUR mn	180932	205386	230132	256762	23273	47039	72450	97944	125329	153502	183429	213698	243778	.	.	
Imports total, cumulated	EUR mn	101825	116150	130242	145783	9382	22616	36642	51765	66335	81536	98600	115333	132754	.	.	
Trade balance, cumulated	EUR mn	79107	89235	99891	110979	13891	24423	35808	46178	58993	71966	84829	98364	111025	.	.	
<b>FOREIGN FINANCE</b>																	
Current account, cumulated <sup>7)</sup>	EUR mn	38902	.	.	55703	.	.	25047	.	.	41617	.	.	34399	.	.	
<b>EXCHANGE RATE</b>																	
RUB/USD, monthly average	nominal	25.344	24.894	24.474	24.566	24.501	24.535	23.761	23.513	23.730	23.638	23.351	24.135	25.286	26.356	27.311	
RUB/EUR, monthly average	nominal	35.162	35.401	35.901	35.796	35.982	36.123	36.786	37.064	36.892	36.799	36.839	36.260	36.340	35.286	34.739	
USD/RUB, calculated with CPI <sup>8)</sup>	real, Jan04=100	144.3	149.0	152.3	153.5	156.7	158.0	163.7	166.7	166.2	166.8	168.9	164.7	158.6	153.5	149.3	
USD/RUB, calculated with PPI <sup>8)</sup>	real, Jan04=100	168.3	169.9	173.9	180.0	181.0	180.2	182.3	189.5	188.6	194.6	202.7	202.8	186.3	167.0	.	
EUR/RUB, calculated with CPI <sup>8)</sup>	real, Jan04=100	136.0	136.5	135.5	136.9	139.6	140.1	138.1	138.4	140.1	141.3	141.9	144.8	145.3	150.9	154.5	
EUR/RUB, calculated with PPI <sup>8)</sup>	real, Jan04=100	164.3	161.9	162.8	169.0	169.2	168.5	165.5	169.9	174.1	180.8	188.8	194.3	184.7	180.1	.	
<b>DOMESTIC FINANCE</b>																	
M0, end of period	RUB bn	3220.9	3259.1	3373.4	3702.2	3465.7	3487.6	3475.5	3601.4	3656.2	3724.9	3807.2	3887.4	3904.2	3962.2	.	
M1, end of period <sup>9)</sup>	RUB bn	7088.4	6714.3	7285.8	7974.3	7616.6	7571.1	7716.1	7304.4	7533.2	7814.1	7777.3	7963.2	8005.2	7549.1	.	
M2, end of period <sup>9)</sup>	RUB bn	12693.8	12695.0	13500.6	14628.0	14365.7	14650.3	14918.3	14851.5	15395.9	15926.6	15760.2	16195.6	16067.8	15460.3	.	
M2, end of period <sup>9)</sup>	CMPY	42.7	41.5	46.2	44.2	45.0	44.0	36.9	32.7	29.5	32.4	30.4	31.1	26.6	21.8	.	
Refinancing rate (p.a.), end of period	%	10.0	10.0	10.0	10.0	10.0	10.3	10.3	10.5	10.5	10.8	11.0	11.0	11.0	11.0	12.0	
Refinancing rate (p.a.), end of period <sup>10)</sup>	real, %	-1.9	-4.5	-9.7	-12.0	-11.8	-12.3	-13.0	-12.9	-11.4	-13.2	-16.9	-15.6	-11.7	-5.5	.	
<b>BUDGET</b>																	
Central gov. budget balance, cum.	RUB bn	1623.3	2106.2	1824.9	1796.1	300.6	464.0	600.0	1139.2	1311.7	1375.1	2118.9	2347.2	.	.	.	

1) According to NACE C+D+E.

2) Based on labour force survey.

3) Manufacturing industry only (D according to NACE).

4) Based on cumulated USD and converted using the ECB EUR/USD average foreign exchange reference rate.

5) Cumulation starting January and ending December each year.

6) Calculated from USD to NCU to EUR using the official average exchange rate.

7) Adjusted for domestic and foreign (US resp. EU) inflation. Values more than 100 mean real appreciation.

8) Deflated with annual PPI.

## U K R A I N E: Selected monthly data on the economic situation 2007 to 2008

(updated mid of Dec 2008)

		2007				2008											
		Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
<b>PRODUCTION</b>																	
Industry, total	real, CMPY	8.4	13.7	7.9	5.5	5.7	11.5	5.8	8.3	8.3	5.2	5.1	-0.5	-4.5	-19.8	-28.6	
Industry, total	real, CCPY	10.7	11.0	10.7	10.2	5.7	8.8	7.8	8.0	8.0	7.5	7.3	6.3	5.1	2.2	-0.7	
Industry, total	real, 3MMA	10.3	10.0	9.0	6.4	7.6	7.7	8.5	7.5	7.3	6.2	3.3	0.0	-8.3	-17.6		
<b>LABOUR</b>																	
Employees <sup>1)</sup>	th. persons	11392	11410	11386	11317	11367	11416	11467	11459	11430	11441	11451	11428	11387	11358	.	
Employees in industry <sup>1)</sup>	th. persons	3266	3275	3267	3247	3243	3248	3249	3231	3211	3206	3197	3185	3169	3156	.	
Unemployment, end of period	th. persons	580.0	553.7	587.0	642.3	662.8	671.1	639.6	611.7	573.0	538.1	518.7	509.5	513.6	530.1	.	
Unemployment rate	%	2.1	2.0	2.1	2.3	2.4	2.4	2.3	2.2	2.0	1.9	1.8	1.8	1.8	1.9	.	
Labour productivity, industry <sup>1)</sup>	CCPY	13.2	13.5	13.2	12.6	7.5	10.7	9.7	9.9	9.9	9.5	9.4	8.5	7.3	4.5	.	
Unit labour costs, exch.r. adj.(EUR) <sup>1)</sup>	CCPY	4.8	4.3	4.2	4.6	9.4	8.3	6.9	6.0	6.2	7.3	8.3	10.1	12.9	17.0	.	
<b>WAGES, SALARIES<sup>1)</sup></b>																	
Total economy, gross	UAH	1426	1475	1485	1675	1521	1633	1702	1735	1774	1883	1930	1872	1916	1917	.	
Total economy, gross	real, CMPY	14.7	18.1	16.7	12.5	14.6	17.3	9.6	8.9	6.0	6.5	7.1	6.3	7.9	5.5	.	
Total economy, gross	EUR	204	205	201	228	205	220	218	218	229	250	253	257	274	284	.	
Industry, gross	EUR	229	233	229	252	237	246	250	248	260	272	284	296	313	313	.	
<b>PRICES</b>																	
Consumer	PM	2.2	2.9	2.2	2.1	2.9	2.7	3.8	3.1	1.3	0.8	-0.5	-0.1	1.1	1.7	1.5	
Consumer	CMPY	14.4	14.8	15.2	16.6	19.4	21.9	26.2	30.2	31.1	29.3	26.8	26.0	24.6	23.2	22.3	
Consumer	CCPY	11.9	12.2	12.5	12.8	19.4	20.6	22.5	24.4	25.8	26.4	26.4	26.4	26.2	25.8	25.5	
Producer, in industry	PM	1.1	2.2	1.0	3.2	2.3	3.0	6.6	6.6	3.7	4.2	3.6	1.8	-1.8	-1.4	-6.5	
Producer, in industry	CMPY	19.7	19.7	20.0	23.2	23.2	25.6	31.7	37.5	39.4	43.7	46.4	47.0	42.7	37.7	27.5	
Producer, in industry	CCPY	18.9	19.0	19.1	19.5	23.2	24.4	26.9	29.6	31.7	33.7	35.6	37.1	37.8	37.8	36.8	
<b>FOREIGN TRADE<sup>2)3)</sup></b>																	
Exports total (fob), cumulated	EUR mn	26520	29580	32616	35931	2484	5667	9195	12750	16806	21257	26120	30589	35195	39539	.	
Imports total (cif), cumulated	EUR mn	31498	35659	39655	44264	2557	6425	10824	17610	22577	27688	33308	38738	44580	50231	.	
Trade balance, cumulated	EUR mn	-4978	-6079	-7039	-8333	-72	-758	-1629	-4860	-5771	-6431	-7188	-8150	-9385	-10692	.	
<b>FOREIGN FINANCE</b>																	
Current account, cumulated <sup>4)</sup>	EUR mn	-1500	.	.	-3849	.	.	-2457	.	.	-4427	.	.	-5519	-6984	.	
<b>EXCHANGE RATE</b>																	
UAH/USD, monthly average	nominal	5.050	5.050	5.050	5.050	5.050	5.050	5.050	5.050	4.986	4.852	4.843	4.845	4.853	5.043	6.004	
UAH/EUR, monthly average	nominal	7.006	7.181	7.404	7.358	7.427	7.436	7.813	7.962	7.757	7.535	7.641	7.291	6.985	6.755	7.651	
USD/UAH, calculated with CPI <sup>6)</sup>	real, Jan04=100	138.8	142.5	144.6	147.8	151.4	155.1	159.6	163.6	166.5	170.7	169.3	169.8	171.5	167.9	143.1	
USD/UAH, calculated with PPI <sup>6)</sup>	real, Jan04=100	152.1	154.3	152.1	157.3	158.8	162.0	168.0	176.2	179.7	188.5	191.0	200.0	198.6	188.5	148.0	
EUR/UAH, calculated with CPI <sup>6)</sup>	real, Jan04=100	130.8	130.6	128.8	131.8	134.7	137.5	134.7	135.8	140.3	145.0	142.4	149.1	156.9	165.0	147.8	
EUR/UAH, calculated with PPI <sup>6)</sup>	real, Jan04=100	148.5	147.0	142.5	147.7	148.3	151.4	152.6	158.0	165.8	175.5	177.9	191.2	196.6	203.3	167.8	
<b>DOMESTIC FINANCE</b>																	
M0, end of period	UAH bn	96.8	99.0	101.5	111.1	105.4	106.9	109.8	116.1	118.8	124.7	130.9	134.0	133.6	146.3	.	
M1, end of period	UAH bn	164.5	164.8	168.6	181.7	173.4	174.5	183.7	188.6	189.0	201.1	207.8	212.6	214.8	217.2	.	
Broad money, end of period	UAH bn	348.2	354.2	365.6	396.2	391.3	398.1	416.0	429.6	429.7	450.6	467.2	474.9	477.7	481.1	.	
Broad money, end of period	CMPY	48.3	48.5	49.8	51.7	52.7	52.3	52.7	52.2	49.1	48.7	47.4	44.4	37.2	35.8	.	
Refinancing rate (p.a.), end of period	%	8.0	8.0	8.0	8.0	10.0	10.0	10.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	
Refinancing rate (p.a.), end of period <sup>5)</sup>	real, %	-9.7	-9.7	-10.0	-12.4	-10.7	-12.4	-16.5	-18.6	-19.7	-22.1	-23.5	-23.8	-21.5	-18.7	-12.1	
<b>BUDGET</b>																	
General gov. budget balance, cum.	UAH mn	5822	4223	5925	-7671	3974	5823	5670	5360	11843	6544	6643	14415	11762	7348	.	

1) Excluding small firms.

2) Based on cumulated USD and converted using the ECB EUR/USD average foreign exchange reference rate.

3) Cumulation starting January and ending December each year.

4) Calculated from USD to NCU to EUR using the official average exchange rate.

5) Adjusted for domestic and foreign (US resp. EU) inflation. Values more than 100 mean real appreciation.

6) Deflated with annual PPI.

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