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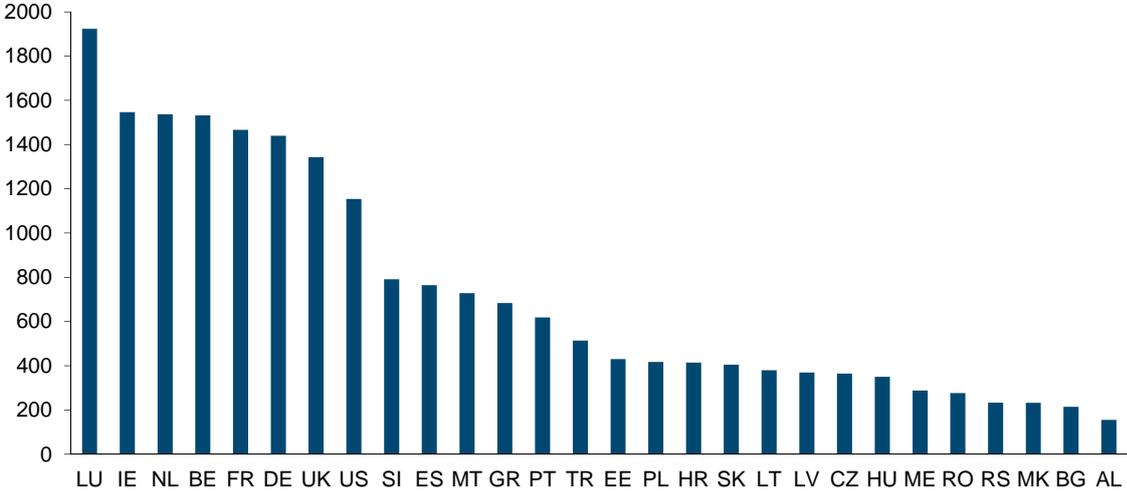
Bulgaria and Romania – Part of the Central European Manufacturing Core?

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Monthly minimum gross wage in selected countries, in EUR, mid-year 2016



Remark: US and PT data refer to January 2016.
Source: Eurostat statistics.

Opinion Corner: Is there an economic rationale for Poland – and other EU-CEE countries – to join the euro area?

ANSWERED BY LEON PODKAMINER

Professor Grzegorz W. Kołodko, twice Poland's Deputy Prime Minister and Finance Minister (1994–1997 and 2002–2003), has recently published a pamphlet appealing for Poland's speedy adoption of the euro. The pamphlet titled 'Will Poland Save Europe?' appeared in the influential Polish daily Rzeczpospolita on 3 January 2017. It rightly stressed the importance – for Poland – of stopping the creeping disintegration of the European Union and expressed the opinion that Poland's accession to the euro area would somehow reinvigorate the forces keeping the euro area (and thus Europe) united. Apart from serving Poland's vital long-term geopolitical interest (preservation of a strong, cohesive EU), the switchover would – so Kołodko – bring the country numerous economic benefits, both in the short- and long-term perspectives.

On 5 January 2017, Rzeczpospolita published a polemic with Kołodko's theses, authored by Leon Podkaminer (wiiw).

The polemic, titled 'Who Will Save Europe?', first disputes the economic advantages Poland was supposed to enjoy on adopting the euro, as claimed by Kołodko. The most essential of these advantages would follow the elimination of transaction costs necessitated by the exchanges of euros into Polish zlotys (and vice versa) on foreign trade transactions. Kołodko believes these costs total 'dozen or so billion zlotys' (equivalent to some EUR 4–5 billion) per year. In my opinion this estimate is grossly exaggerated. The whole Polish banking sector makes profits totalling about a dozen or so billion zlotys.

The elimination of the exchange rate risk was to bring another benefit: faster growth of capital formation which – according to Kołodko – has been depressed on account of uncertain profitability of production dependent on foreign trade. However, facts do not seem to support that argumentation. Investment dynamics (and levels) do not have any obvious links to the possession (or not) of an own currency. Gross fixed capital formation accounts for over 25% of GDP in Romania and the Czech Republic – two countries that have retained their own currencies. For Lithuania and Slovenia (both euro area members) the shares of investment in GDP are relatively low, about 20% (as in Poland). Moreover, the GDP investment shares in countries that have switched to the euro have fallen perceptibly: in Slovenia from over 28% in 2005 to 20% in 2015; in Slovakia from 29.7% to 23.2% respectively; in Lithuania from 23.4% to 19.3%; in Latvia from 31.3% to 22.6%; and in Estonia from 32.9% to 23.7%. In Poland, investments were seen to both rise at double-digit rates (as in 2014) or decline (as in 2013) – with unchanged national currency. Similarly, investment volatility is observed in the euro area. For instance, in Slovenia investment fell 13% in 2010. According to provisional estimates, in 2016 investment fell by 10% also in Latvia.

The supposition that euro adoption would accelerate Poland's GDP growth by 'approximately 0.5% yearly' is wishful thinking not supported by any solid calculation. (Ironically, in the Czech Republic one hears the opinion that euro adoption is likely to slow down growth by 0.5%.)

The last more important argument for an adoption of the euro would consist of lowered ('by about 2% of GDP') burden of servicing Poland's foreign (public) debt. However, right now the servicing of Poland's whole (domestic plus foreign) public debt costs the country 1.7% of GDP. This is much less than is the case for Slovenia (2.8%), not to mention Portugal (4.3%). Moreover, one has to bear in mind that the countries overburdened by the costs of servicing their public debts (Slovenia, Portugal, Greece etc.) have found themselves in their pitiable situation just because of their accession to the euro area. In 2000 the Slovenian public debt stood at 26% of GDP, Portugal's at 50% and Greece's at 105%. By 2016 these ratios had risen to over 80%, 130% and 180% respectively.

That much on the benefits which Poland and other countries of the EU-CEE region could gain: Romania, Hungary and the Czech Republic could gain from giving up their own currencies. (Interestingly, the Czech National Bank and Finance Ministry have recently found it fit to issue a joint statement on not setting a target date for initiating euro accession negotiations.)

Two other questions remain: on the costs of countries' giving up their own money, and on whether their giving up their own money would 'strengthen Europe'.

In my opinion the switchover to the euro carries a risk – bordering on certainty – of secular (or even irreversible) stagnation which is right now experienced by the South European euro area member states (as well as Slovenia). It is hard to imagine that the euro area would strengthen economically (and also politically) by having been joined by another lame national economy – another Portugal (or, in a perspective, another Greece).

There is one point on which I fully agree with Professor Kołodko: In economic terms the European Union drifts towards disintegration. For Poland the EU's disintegration would have fatal economic and political consequences. But right now Poland has no real bearing on what is happening to the EU. Poland could have influenced – rather marginally – the events during Donald Tusk's premiership, especially during Poland's EU Presidency (Poland's international standing was quite high then, unlike at present). But the possibility of influencing the course of economic policy in the EU remained unutilised. Poland has not saved Europe – and is not going to save it in the future, either.

Europe can be saved only and exclusively via a radical change of Germany's economic policy. German economic policy is a direct cause of the fatal tendencies observed in the euro area – and thus in the EU at large. First, the Maastricht Treaty ordering the fiscal and monetary policies in the euro area countries is an embodiment of German economic phobias and superstitions. Second, Germany's internal policy boils down to running aggressive mercantilism. Germany runs gigantic trade surpluses which directly or indirectly destabilise the economies of its West European partners. Moreover, these surpluses drive Germany's partners into rising debts vs. German banks. The policy has to be called aggressive because the trade surpluses are achieved at a cost of repressed German domestic wages, consumption and investment. Success on the 'export front' is the prevailing objective of that policy.

Bulgaria in the EU, 2007–2016: expectations and outcomes

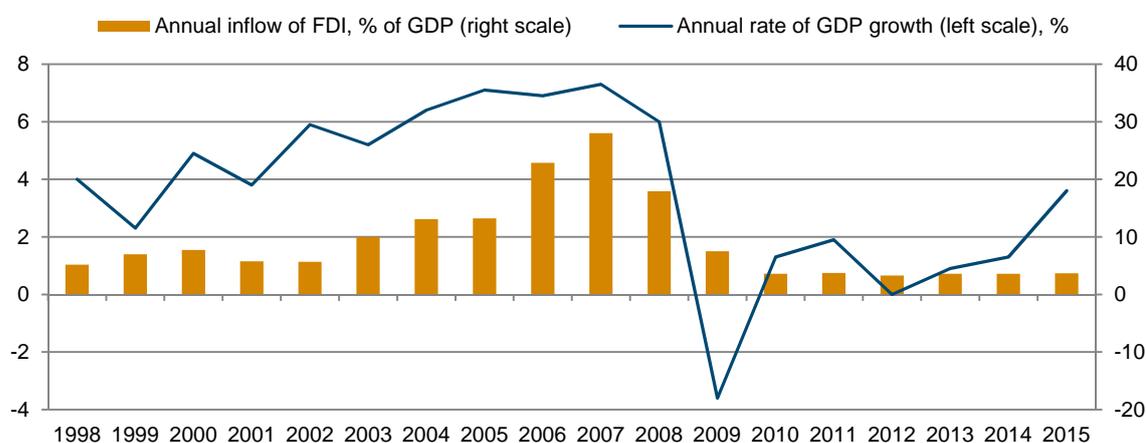
BY RUMEN DOBRINSKY

Bulgaria and Romania, two poor countries in the European periphery, managed to catch one of the last trains of the big EU Eastern Enlargement at a time which still was dominated by post-communist euphoria and a somewhat idyllic vision of a united Europe. Also, the 1990s and the first half of the 2000s were a period of growing prosperity in Europe as well as in most parts of the world. In such an environment it was not uncommon for the incumbent EU members to assign higher priority in enlargement decisions to benign political arguments over conservative economic logic and dry economic facts.

For Bulgaria, which experienced a grave transition crisis in the 1990s, the decade leading to EU accession was both a period of difficult economic transformation but also a time of great expectations of a new era of prosperity that was about to materialise with EU membership. The realistic prospect of EU membership was for Bulgaria – as for the other Central and East Europe countries – the single most important driver and catalyst of reforms, providing a powerful impetus to the economic and political transformation of these countries.

The systemic reforms implemented within the decade from 1997 to 2006 were also applauded by investors and FDI flooded into Bulgaria in the first half of the 2000s (Figure 1). Financial capital was also amply abundant in the form of foreign lending: gross private foreign debt jumped from 20% of GDP in 2002 to 100% of GDP in 2008. The period from 1999 to 2008 was a decade of high growth and catching up; the new investment contributed to economic revival and brought promises of prosperity, at least to some parts of the society.

Figure 1 / GDP growth and FDI inflows in Bulgaria, 1998–2015



Source: wiiw database.

FDI has been a key driver of economic restructuring and the modernisation of the Bulgarian economy ever since. While Bulgaria lost most of its inherited Soviet-type industry that did not manage to adjust to the new market environment, a process of gradual re-industrialisation and integration into EU and global value chains has been under way, driven by FDI. The ICT industry also saw a revival and the country became an attractive destination for the outsourcing of such services.

However, Bulgaria's first steps in the EU coincided with the global economic and financial crisis of 2008–2009 and the prolonged stagnation in many parts of the world that followed. Being small and open, Bulgaria's economy was highly susceptible to external shocks such as the sudden drop in external demand. But probably the most severe external shock was the drying up of capital inflows and their reversal after 2009: the annual FDI inflows in the period 2009–2015 averaged 4.1% of GDP, down from an average of 17.5% of GDP in the period 2003–2008 (Figure 1); gross private foreign debt dropped to 62% of GDP at the end of 2015, reflecting the process of deleveraging by the private sector which was triggered by the crisis.

In terms of macroeconomic stability, Bulgaria weathered the global crisis relatively successfully and with damage contained. One of the main factors for this was the prudent fiscal policy stance over a prolonged period after the establishment of a currency board in 1997. A second key factor was the relative flexibility of the labour market which helped to preserve competitiveness under the conditions of a currency board during and after the crisis.

However, the currency board has been both a blessing and a curse for the Bulgarian economy due the limited degree of policy freedom associated with it: under this arrangement monetary policy is absent altogether whereas the conduct of fiscal policy is severely restrained by sustainability considerations. Under these conditions, the economy becomes a hostage of the tidal movements of capital flows: periods of continuous inflows are generally benign for the economy, mobilising additional resources for domestic use; however, when capital inflows stop or change direction, policy-makers have virtually no instruments to offset the damaging effects caused by sudden reversals. The graphs in Figure 1 provide an illustration of the close statistical association between economic growth and capital (in this case FDI) flows in Bulgaria during the past two decades.

The irony in the case of Bulgaria is in the pure coincidence of the timing of the capital reversal with the country's accession to the EU. In consequence, the first years of Bulgaria's EU membership turned out to be a period of recession or near-stagnation and lack of visible catching up. The successful enclaves of the economy (the new manufacturing sectors and the ICT industry) were not sufficient to offset the overall economic sluggishness. Thus during the first decade as part of the EU, the Bulgarian economy was not delivering, or not delivering sufficiently, on one of the main expectations of the population associated with EU membership, that of increasing prosperity.

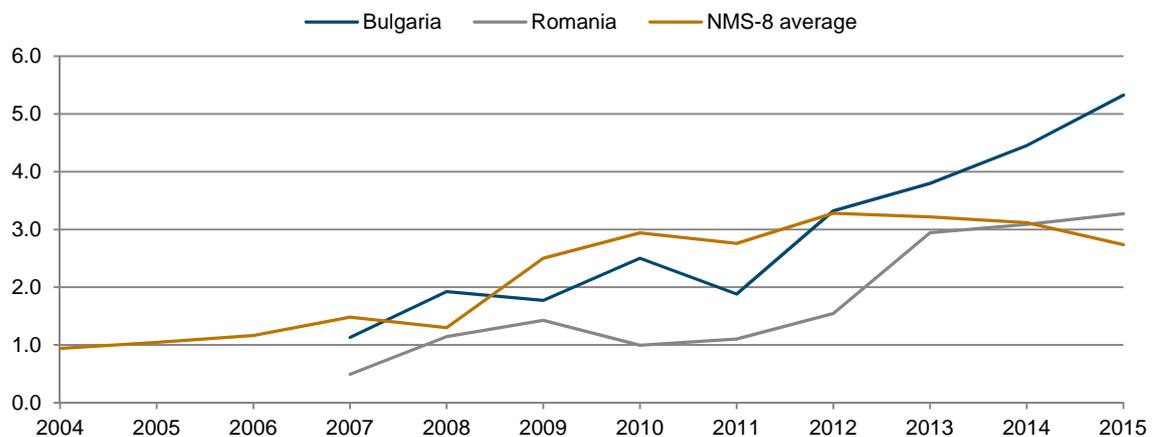
Bulgaria's cohabitation in the club with some of the old EU members has been somewhat awkward and uneasy. Some of the old members preserved – and still preserve – the reservations they had had towards Bulgaria's accession to the Union as there was no unanimous EU view at the time whether the country had met all provision of the *acquis communautaire*, in particular, in the areas of judicial reform as well as the fight against corruption and organised crime. The most conspicuous sign of these reservations is the regular monitoring mechanism which is still being applied to Bulgaria and Romania to assess progress under the Cooperation and Verification Mechanism in the above areas. Another sign of

persistent scepticism is the stubborn reluctance by some members of the Schengen Area to admit Bulgaria and Romania into the Area although, even according to the EC's rigorous assessment, the two countries have already met the technical criteria for membership.

However, the lingering hesitancy towards Bulgaria has been partly substantiated by the lack of visible progress in some key reform areas which had been part of the country's EU accession deal. In the first place this concerns the judiciary system, which remains highly inefficient and is perceived as corrupt. Once Bulgaria's accession to the EU was a fact, the reform zeal of Bulgarian politicians of all colour evaporated instantaneously and further progress has been next to nil. On the other hand, the EU's Cooperation and Verification Mechanism applied in the monitoring process has proved to be inefficient as an external anchor in that its critical conclusions have not been sufficient to instigate relevant response actions on the ground.

In retrospect, the main European focus of the efforts by Bulgaria's political elite during the past decade has been on the fund allocations from the EU budget. Actually, the buzz word on European policy as delivered by local politicians to the Bulgarian public has been 'European funds'. These specific efforts have been generally fruitful, although success varied over time: after 2012 Bulgaria recorded one of the highest positive net financial positions among the EU members and in 2015 it actually reported the largest net balance (Figure 2). Throughout the years 2008–2015 Bulgaria was more successful in absorbing EU funds than Romania and in the period 2012–2015 it surpassed the average of the NMS-8.

Figure 2 / Net financial position¹⁾ of the new EU Member States, % of GNI, 2004–2015



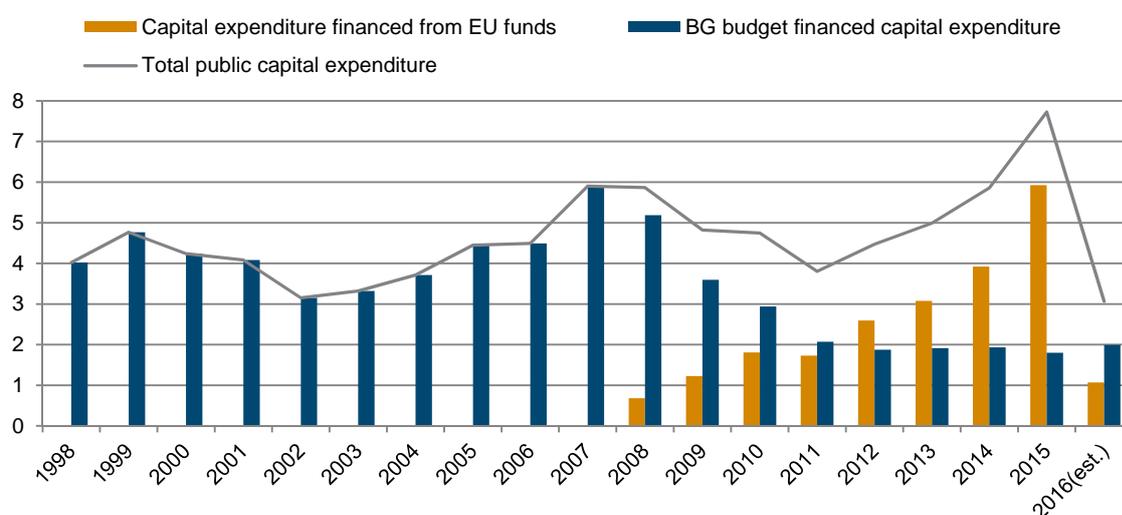
¹⁾ The difference between the EU budget allocations to the country and the country's own contribution to the EU budget.
Source: European Commission; author's calculations

While Bulgaria sought to be active in most EU programmes, the bulk of EU budget allocations to the country was apportioned to infrastructure development. The one genuine success story in this was the rapid extension of the metro in Sofia which was funded under different EU programmes. Highway construction as well as the upgrading of the railway network were also among the successful infrastructure projects.

At the same time, the successful absorption of EU funds in infrastructure development was also both a blessing and a curse for Bulgaria. In particular, over time, the preoccupation with 'EU funds' led to

serious undesirable shifts, indeed distortions, in Bulgaria's public investment policy and practice. In the first place, while total public capital expenditure as a percentage of GDP generally increased after EU accession thanks to the allocations from the EU budget, the share of public capital expenditure financed from the general government budget declined rapidly (Figure 3). Apart from that, the domestic public funding was allocated with priority as co-financing of EU-funded projects, while public investment programmes which were outside the outreach of EU funding enjoyed lower priority. And thirdly, the relative abundance of EU funding gave rise to expectations similar to the aid addiction syndrome.

Figure 3 / Public capital expenditure in Bulgaria, % of GDP, 1998–2016



Source: wiiw database; Bulgarian Ministry of Finance.

Summarising, EU funding was de facto crowding out, rather than crowing in, local public investment funding; Bulgarian public investment programmes became skewed towards infrastructure development at the expense of other areas of needed public investment such as the upgrading of dilapidated urban and municipal infrastructure (including schools and hospitals, public spaces, sewage and water supply infrastructure) and the rehabilitation of secondary and tertiary roads; the abundance of EU funding gave rise to policy complacency.

All these problems came to the surface in 2016 when, on the one hand, the carryovers from projects under the EU 2007–2013 Multiannual Financial Framework (MFF) were exhausted whereas Bulgaria incurred serious delays in launching new projects under the 2014–2020 MFF. While final results for the year as a whole were still not available at the moment of writing, preliminary estimates suggest that the situation with both the Bulgarian public investment programme and the absorption of EU funds in 2016 was catastrophic as compared to the previous several years.

However, Bulgaria's biggest problem with EU membership has been, and still is, the overall lack of strategy and vision regarding its own role in the Union. This issue has been visibly absent in political and policy debates both before and after accession. During the past decade Bulgaria not only never initiated any substantive issue or topic for an EU-wide debate but its own point of view has been practically missing in the debates initiated by other EU Member States at any level, from the top to the expert level. Thus Bulgaria voluntarily chose for itself the role of a passive observer and uninterested recipient of

important decisions with an EU-wide outreach that do affect the country, its economy and society. More fundamentally, Bulgaria's facelessness in the international arena reflects a general absence of vision and strategy both in the domestic policy and political debates in recent years and in the agendas of the main actors on the Bulgarian political scene.

Summing up, Bulgaria's decade as part of the EU has been one of mixed outcomes. On the one hand, in terms of macroeconomic stability, the economy proved to be resilient to turbulence and withstood successfully the shocks of the global financial crisis. On the other hand, economic performance during the past ten years was generally mediocre and the expected fast catching up with the more advanced EU economies did not materialise. One can clearly observe the dynamic sprouts of a modern new economy, closely integrated with global value chains and competitive in the international markets. But these are still not sufficient to shape the face of the economy in general and act as its genuine engines. Bulgaria managed to join successfully many EU programmes and benefited from considerable funding from the EU budget. However, the strategy targeting the mobilisation of large allocations from the EU budget did not always result in overall efficiency of public investment in the country.

Overall, if it is to become a full-fledged, reliable and self-confident EU member contributing constructively and comprehensively to common EU objectives as part of its own strategic goals, Bulgaria still faces a challenging learning process.

Romania: ten years of EU membership

BY GÁBOR HUNYA

A STORY OF MIXED SUCCESS

Ten years after its accession to the EU, Romanians keep showing a high rate of confidence in the European Union (68% tend to trust¹). They see the benefits of EU membership primarily in the freedom to travel and work abroad. 'Enthusiasm' was especially upbeat in the first two years of membership when more than 600,000 people left the country; another almost 300,000 emigrated in the following seven years (net migration balance, Eurostat). The number of those working or studying abroad temporarily is estimated at an additional 2.5 million.

Despite large emigration, Romania's economic growth has been remarkable: the volume of GDP grew by 30% between 2005 and 2015, which is the third highest rate among the EU-CEE countries after Poland and Slovakia.² Reflecting the effects of migration and economic growth, per capita GDP at PPP rose from 34% to 57% of the EU average in the same period. This is an important catch-up especially compared with the previous ten years (from 32% in 1995 to not more than 34% in 2005). But closing the development gap to the EU cannot take place overnight, not even in a decade or two. In the EU-wide ranking, Romania has overtaken only Bulgaria, making it the second least developed Member State. Although we lack a precise calculation of the contribution of EU membership to the improved macroeconomic performance, it is most likely that improved legal stability, FDI inflow and financial transfers from Brussels have decisively contributed to Romania's economic growth. When going into detail, however, one discovers several shortcomings in economic policy, doing business conditions and the rule of law. Many of these have to do with the pre-mature EU accession and the slowdown of the pace of reforms thereafter. Romania's institutions and administration are still not functioning well enough for the country to benefit in full from EU membership.

PRE-MATURE EU ACCESSION

The negotiations between 2000 and 2004 were spent with the implantation of the community rules and standards into the Romanian legal system and there was neither time nor capacity for their proper implementation. In the 2006 monitoring report³, the European Commission (EC) stated that 'the country made sufficient progress and would not put at risk the EU's core policies and its regulatory framework'. This reflected the interest of the EC being in an enlargement-friendly mood similar to the EU Member States ratifying Romania's accession treaty. When the European Court of Auditors (ECA) opposed the

¹ Standard Eurobarometer 83, Spring 2015.

² We do not stick to the 2007-2016 period in this analysis as most of the processes related to EU accession started earlier when the decision about membership was made, and also because no final data for 2016 are available at the time of writing.

³ Communication from the Commission – Monitoring report on the state of preparedness for EU membership of Bulgaria and Romania, Brussels, 26.9.2006, COM(2006) 549 final.

accession of Romania and Bulgaria on the grounds that EU money would not be spent efficiently, it was seen inopportune to change the process.⁴

The concern that Romania needed more time to prepare for accession, so that EU transfers could be absorbed in a more efficient way, has proved right. Lack of institutional capacity and wide-spread corruption has hindered the country to fully benefit from the EU funds. Of the EUR 15.5 billion allocated to Romania under the EU cohesion policy in 2007–2013 (to be supplemented by EUR 3.4 billion national co-funding), only 75% could be spent as of April 2016.⁵ The total sum amounted to 1.5% of the cumulative GDP, one of the lowest shares among EU members. There have been some remarkable results nevertheless, including the expansion of water and sewage infrastructure and the modernisation of public heating systems, while the huge funds spent on motorway construction resulted only in a fragmented network.

BOOM AND BUST ECONOMIC CYCLE OVERSHADOWS THE BENEFITS OF EU MEMBERSHIP

An overarching account of Romania's economic development since 2007 is primarily the story of managing the impact of the global financial crisis amid recurring political crises and only to a lesser extent an impact assessment of EU membership itself. The Romanian economy underwent a full-fledged boom-bust-boom cycle in the past ten years (Figure 1). Rapid capital inflows and pro-cyclical fiscal spending resulted in consumption booms both in 2006–2008 and in 2015–2016. Increasing instability in the first boom period triggered high inflation and currency devaluation, making the country highly vulnerable to the global financial crisis. That growth trajectory proved unsustainable thus GDP contracted in 2009 and 2010, then stagnated in 2011 and 2012. The modest but balanced post-crisis recovery of 2013–2014 was followed by an expansionary fiscal policy in 2015 leading to rapid growth especially in 2016. The difference between the two boom periods is that this time inflation is negative on account of VAT cuts and low international commodity prices and the external balance is in much better shape than in the earlier period. In other words, capital inflows have become more cautious and do not finance excessive current account deficits. As a result, the rate of economic growth in 2015–2016 has been only about half of what it used to be in 2006–2008.

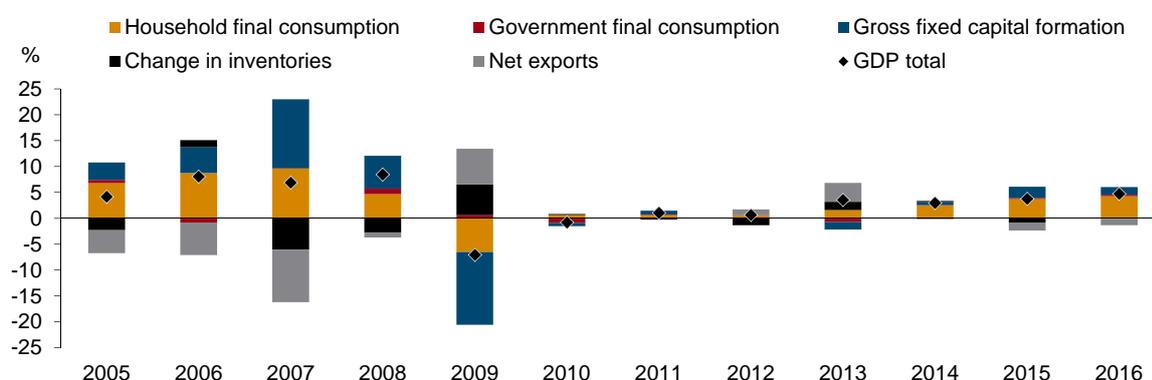
A more detailed account reveals that economic policy aggravated the impact of the global financial crisis. In 2008 Romania was heading towards unsustainable current account deficits – already before the financial crisis. Also fiscal deficits were on the increase on account of high public sector wage increases that the national liberal government handed out to win the 2008 elections. It failed to win despite a rise of fiscal expenditures on wages by 87% in nominal terms over two years. In 2009, fiscal deficits expanded to 7.5% of GDP, also on account of recession. The government had no credible economic policy of its own; none of the three governments in office during 2009–2010 had been able to come up with a fiscal programme that could be trusted and implemented. The authorities shifted the bulk of the uneasy task of economic policy-making to the IMF. In order to forestall a further deterioration of the situation, the government called the EC-IMF-WB troika for help. On 4 May 2009, the Executive Board of the IMF approved a '24-month Stand-By Arrangement for Romania to support an economic

⁴ <http://www.euractiv.com/section/enlargement/news/auditors-romania-and-bulgaria-were-not-ready-for-accession/>

⁵ Applica, Ismeri Europa and Cambridge Economic Associates, 'Country report Romania – Work Package 1 Ex post evaluation of Cohesion Policy programmes 2007–2013, focusing on the European Regional Development Fund (ERDF) and the Cohesion Fund (CF)', September 2016.

program to cushion the effects of the sharp drop in capital inflows while addressing the country's external and fiscal imbalances and strengthening the financial sector⁶. The programme combined short-term budget cuts with longer-term fiscal policy reforms as a condition for loans worth EUR 20 billion. As a result, the country entered a downward spiral of economic contraction and fiscal austerity. Expenditure cuts were enforced as of July 2010 in the form of public sector wages slashed by 25%. Additional fiscal revenues were accrued by the increase of the VAT rate from 19% to 24% and by broadening the scope of social security contributions. Fiscal stability was achieved, but the economy stagnated for another two years.

Figure 1 / Romania: Contribution to real GDP growth



Source: wiiw Annual Database incorporating national and Eurostat statistics, 2016 wiiw forecast, own calculations.

Romania emerged from the financial crisis with an export-led growth in 2013. The fiscal stance was kept restrictive and household consumption recovered only modestly. Abundant liquidity on capital markets and increasing trust brought down the cost of market financing. This happened although many of the structural reforms stipulated by the IMF accord remained pending. Fiscal arrears could be reduced, but the privatisation and restructuring of loss-making state-owned enterprises made little progress. Still, based on the improved financial situation, further fiscal austerity did not seem justified in the following years. Nevertheless, the Medium-Term Objective (MTO), an obligation under the preventive arm of the EU Stability and Growth Pact and the new IMF precautionary stand-by agreement, prescribed to bring down the structural budget deficit to 1% of GDP in 2015. The socialist-led government broke the commitment in order to increase both wages and investments which proved successful in the given circumstances. But the major aim of the 2016 tax reform implemented ahead of the December elections was mainly political – to bring back the VAT rate to the June 2010 level and increase public sector wages by as much as they had been cut in the austerity period. Fiscal policy swung back to expansion by which a ten-year cycle was completed. The political benefit could be reaped this time, bringing back a socialist-led coalition after a year spent under a caretaker government. A rare window of opportunity for improving institutional efficiency and structural change has opened up based on the achieved economic and political stability.

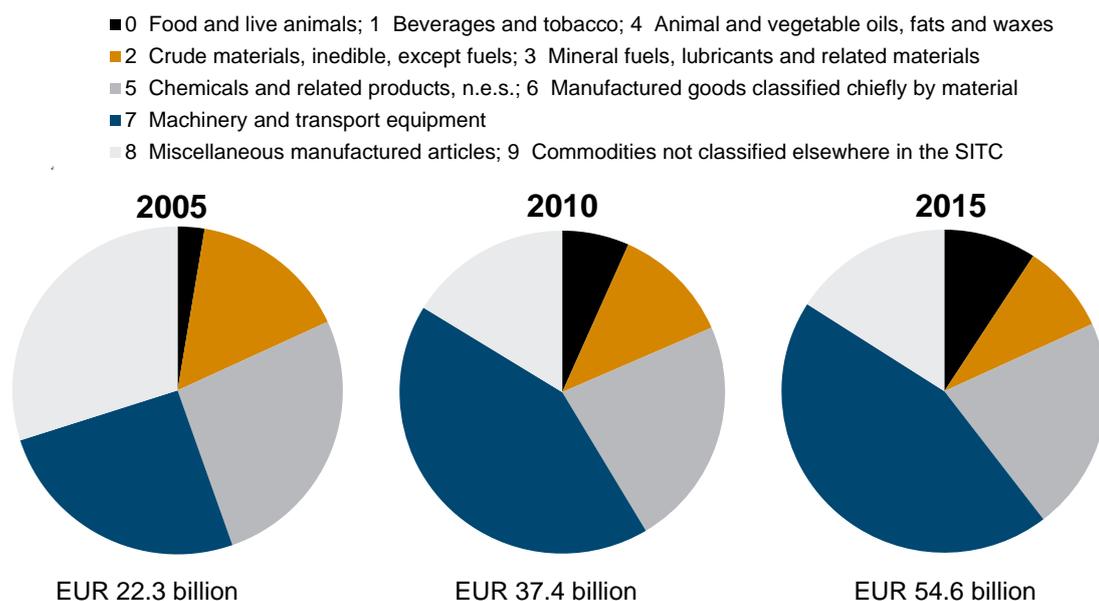
⁶ <http://www.imf.org/external/np/sec/pr/2009/pr09148.htm>

STRUCTURAL CHANGE GENERATED BY FDI

Meanwhile the real economy underwent remarkable structural changes away from agriculture and light industry to more sophisticated manufacturing and services. Improved competitiveness of the Romanian economy is expressed in expanding export volumes of both goods and services and the growing export share of machinery and transport equipment (Figure 2). This is to a large extent due to the activity of foreign investors that came to the country after the announcement of EU accession. FDI stocks per GDP increased from 27% in 2005 to 40% in 2015, and Romania climbed from the penultimate to the seventh place among the EU-CEE countries.

Most of the larger manufacturing FDI projects were implemented before the global financial crisis. In the post-crisis years, FDI inflow has not recovered to its pre-crisis level of 7% of GDP; it has stagnated at 2% in recent years. This is actually in line with the European trend of sluggish investment activity. The greenfield projects of recent years are smaller in value, and focus on the services sectors. As a result, Romania has emerged as an important hub in terms of ICT offshoring which has important positive impacts on the services balance of the current account.

Figure 2 / Romanian goods exports by SITC commodity groups, fob



Source: wiiw Annual Database incorporating national and Eurostat statistics.

FIERCE FIGHT AGAINST CORRUPTION WITH MIXED RESULTS

EU membership had an impact also on political transformation, the rule of law and the functioning of democracy. Continuing EU pressure, learning by doing as well as a generation change improved the administrative capacity over time. To safeguard the reform process after accession, the EC imposed continuous monitoring on areas not meeting the required standards such as the reform of the judicial system, elimination of corruption and the struggle against organised crime. Despite progress, the

Cooperation and Verification Mechanism (CVM) is still in place. Its recent report⁷ finds several issues pending including transparency and professionalism of public institutions.

The fight against corruption received much lip-service in the country also on account of the CVM reports, but policies and attitudes hardly changed for years. The turning point was marked when Adrian Nastase, Romania's prime minister between 2000 and 2004, was sentenced to prison for corruption in 2012. The decisive step was that the activity of the National Anticorruption Directorate (DNA), founded in 2003, was upgraded in 2013. Since then, this institution has been very actively investigating and prosecuting corruption-related offences such as bribery, graft, patronage and embezzlement. In 2015 the DNA finalised investigations concerning over 1,250 private and legal persons, including five ministers, 16 members of the chamber of deputies and five senators.⁸ In addition, Prime Minister Victor Ponta was indicted on charges of forgery and money-laundering which indirectly led to his abdication in November 2015.⁹ In 2016 the DNA's activity took on a more nation-wide character, expanding to the regional administration. Still it remains intransparent how the target persons of investigations are selected¹⁰ and how far the whole process will extend¹¹. The anti-corruption fight remains one-sided as long as transparency and coordination of legislation and jurisdiction is not provided. Under the current fuzzy system it is hardly possible for decision-makers to act in full accordance with the law and public interest which has a paralysing effect. In practice these problems can be fixed by coordinated efforts with the support of the CVM. Attention is all the more necessary as the new government does not have the fight against corruption on its agenda and the political attack of Socialist politicians (many of whom have been put under investigation) against the DNA has intensified.

ROMANIA SHOULD BE MORE ACTIVE IN SUPPORTING EU INTEGRATION

Finally, Romania may need a mobilising strategy and policy beyond the direct benefits provided by the EU, one that also contributes to the success of the European integration. Going beyond the position of a policy-taker is especially necessary under the current lack of orientation in the EU as a whole. Romania's role has not been destructive; the country has denied policy coordination with the Visegrad countries and does not support the nationalist line of Hungary and Poland. But even if not outspokenly, Romania's policy has never gone beyond nationalist self-interest. It would be in the interest of a less developed EU member to become active in shaping the European agenda if it wants to enjoy the benefits of the cohesion policy beyond 2020. Despite all the shortcoming and losses, EU transfers and policies benefiting Romania have not been in vain. By most indicators Romania is now a better place to live than before EU accession and the country offers good business opportunities to foreign investors.

⁷ Report from the Commission to the European Parliament and the Council – On Progress in Romania under the Cooperation and Verification Mechanism, Brussels, 27.1.2016, COM(2016) 41 final.

⁸ <http://www.pna.ro/results.xhtml>

⁹ See for details <https://www.theguardian.com/world/2015/nov/04/woman-leading-war-on-corruption-romania>

¹⁰ <http://globalriskinsights.com/2016/07/romania-anti-corruption-fight-sends-mixed-messages/>

¹¹ The political scientist Alina Mungiu-Pippidi, president of the Romanian Academic Society, hailed the DNA for prosecuting the corrupt political class what she called the trans-party mafia; <http://www.bbc.com/news/blogs-eu-31537338>. The historian Stefano Bottoni warned that Romania may become similar to Italy in the early 1990s, when the anti-mafia fight wiped out the former political class, destabilised the party system and gave rise to the rule of Berlusconi. Bottoni concludes that corruption and economic interests ruling in politics has not changed in its intensity but in its form; <http://www.miscareaderezistenta.ro/actualitate/36389-dna-critici-kovesi-bottoni>

Bulgaria and Romania – part of the Central European manufacturing core?

BY DORIS HANZL-WEISS

INTRODUCTION

Bulgaria and Romania joined the European Union in 2007, three years after their regional peers. Slovakia, Hungary, the Czech Republic and Poland have been integrated into the so-called Central European manufacturing core, under the auspices of Germany and also comprising Austria. The manufacturing core countries share a range of common characteristics: a large share of manufacturing in the economy, a pivotal role of Germany in organising production networks and a focus on certain manufacturing sectors with strong international value chain participation, including foremost transport equipment, but also electrical equipment, metals, machinery and the chemicals industry (IMF, 2013; Stöllinger, 2013). This paper wants to shed light on the question whether Bulgaria and Romania have also become part of the Central European manufacturing core and looks at manufacturing specialisation patterns in these two countries in comparison to the above-mentioned four Central and East European countries (CEE-4).

THE ROLE OF MANUFACTURING OVER TIME

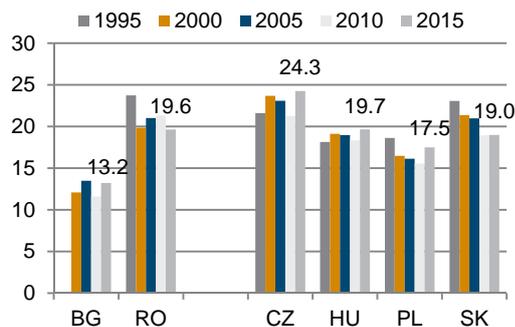
Overall, the share of manufacturing in GDP is declining worldwide (with some few exceptions), whereas the share of services is increasing (see Hanzl-Weiss and Stehrer, 2015). The CEE-4 as well as Bulgaria and Romania were strongly specialised in manufacturing after the fall of communism, due to the latter's favouring heavy industry over services. Between 1989 and 1993, these countries suffered from a severe transitional recession, leading to a strong de-industrialisation process. Thereafter, from 1995 to 2015, the share of manufacturing value added in GDP declined from 20%¹ to 13% in Bulgaria and from 24% to 20% in Romania (see Figure 1; Bulgaria 1996 is not included due to a different classification scheme, see footnote 1). However, most of the decline took place between 1995 and 2000, whereas shares have remained broadly constant since 2000. The decline of manufacturing was even more pronounced in terms of employment (see Figure 2).

In the CEE-4, manufacturing shares also declined in terms of employment and, in the case of Poland and Slovakia, also in terms of value added. In the Czech Republic and Hungary, however, manufacturing could expand its value added share and increased between 1995 and 2015. In these two countries, manufacturing accounted, respectively, for about 24% and 20% of GDP in 2015, whereas in Poland for 17.5% and in Slovakia for 19%. Thus, the share of manufacturing value added in the Central European manufacturing core countries ranges around 20% of GDP, in the case of the Czech Republic above that. Comparing the Bulgarian and Romanian shares with this figure, Romania also appears as a

¹ Data for 1996 and based on NACE Rev. 1, thus not fully comparable with Figure 1, which is based on the NACE Rev. 2 classification system. Manufacturing shares tend to be larger under the NACE Rev. 1 classification system and differences may make up as much as 4 percentage points (for instance, this was the case in Bulgaria for the year 2000).

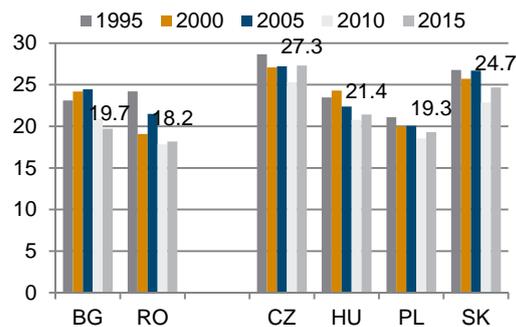
country strongly focused on manufacturing, whereas this is less the case for Bulgaria. Bulgaria shows the largest difference between value added and employment shares (6.5 percentage points), suggesting a more labour-intensive manufacturing structure.

Figure 1 / Manufacturing value added in % of GDP



Source: wiiw Annual Database, Eurostat.

Figure 2 / Manufacturing employment (LFS) in % of total employment

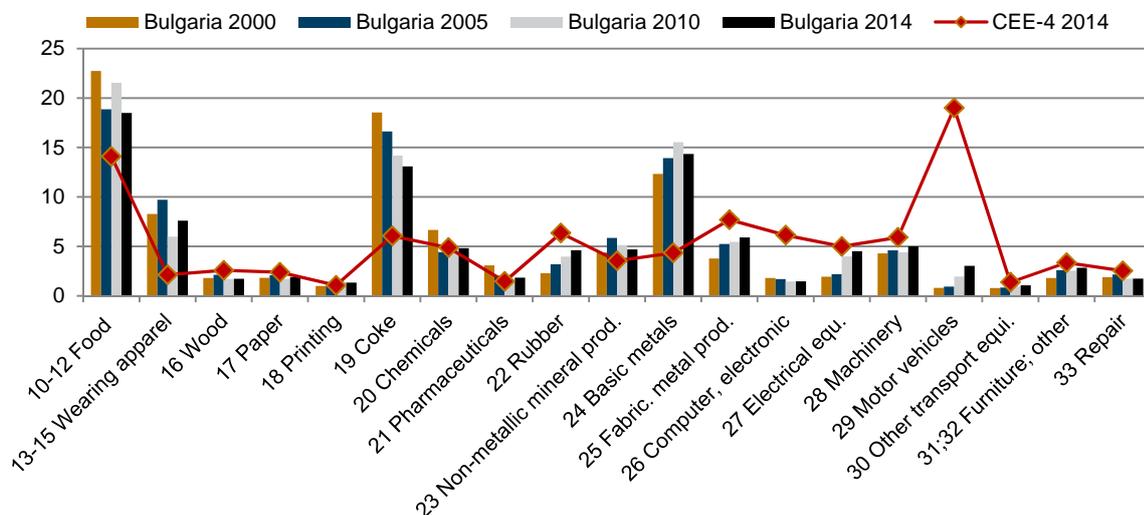


Source: wiiw Annual Database, Eurostat.

MANUFACTURING SPECIALISATION PATTERNS

Going into more detail, as shown in Figure 3, Bulgaria's largest manufacturing sectors – measured now in terms of output in 2014 – were the food industry (18%), coke and refined petroleum products (13%), basic metals (14%) and wearing apparel (8%). Thus, Bulgaria shows a decisively stronger specialisation in these four sectors compared to the CEE-4, while it has a deficit in computers & electronics and particularly motor vehicles. However, between 2000 and 2014, the importance of the largest manufacturing sectors declined, with the only exception of basic metals, while the shares of medium-sized sectors such as rubber, fabricated metal products, electrical equipment, machinery and also motor vehicles grew by two percentage points.

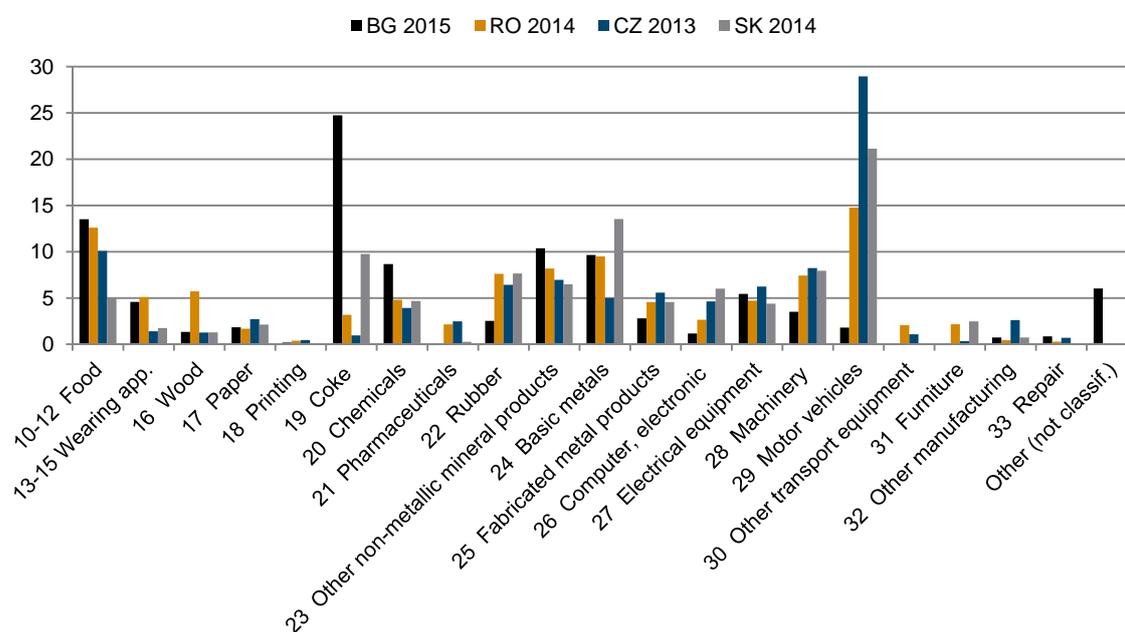
Figure 3 / Bulgaria: Manufacturing structure, as % of manufacturing output



Source: Eurostat National Accounts.

In the CEE-4, changes in the manufacturing structure were largely driven by the inflow of foreign direct investments (FDI). In Bulgaria, however, a smaller share of FDI went into the manufacturing sector than in the CEE-4. FDI inward stock in Bulgaria is strongly concentrated on the coke & refined petroleum products sector (investment by Russia's Lukoil in 1999), accounting for one fourth of FDI inward stock (see Figure 4). Larger parts of FDI also went into the food industry, other non-metallic mineral products, basic metals or the chemicals sector. Contrary to the CEE-4 and Romania, Bulgaria did not attract investment from any large car manufacturing firm, owing to its lack of historical experience as well as of historical ties with Western car manufacturing companies.

Figure 4 / The structure of FDI inward stock, in % of manufacturing



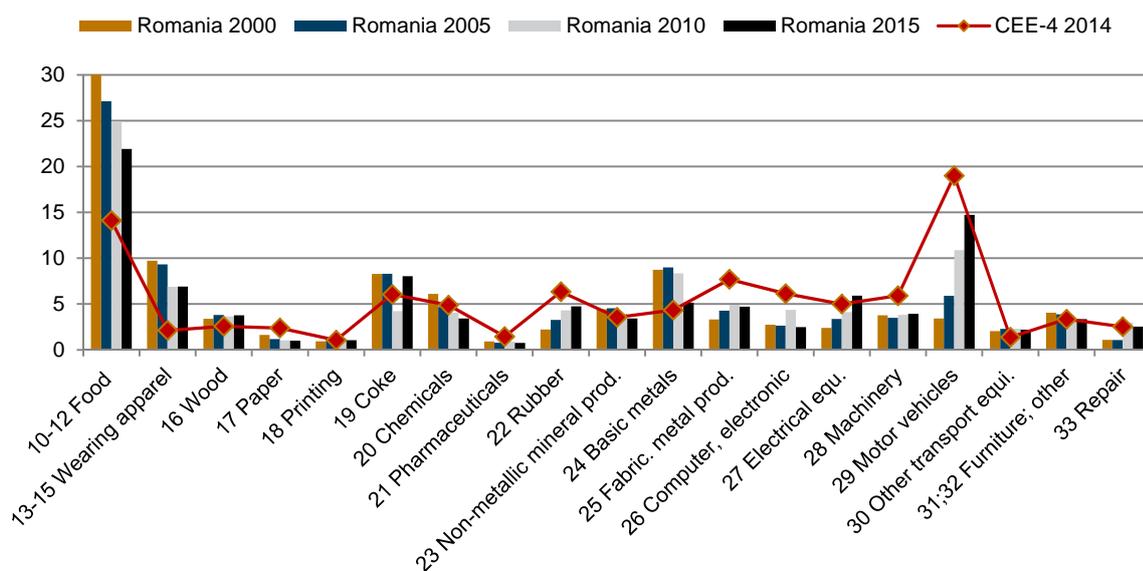
Source: wiiw FDI Database.

Turning to Romania (see Figure 5), manufacturing output was also heavily concentrated in 2015, with the food industry alone accounting for 22%. Motor vehicles took another 15%, followed by the coke and refined petroleum products sectors (8%) and wearing apparel (7%). In comparison to the CEE-4, Romania is more specialised in these sectors (except in motor vehicles). It shows a deficit in fabricated metal products, computers & electronics, machinery and also still motor vehicles. However, it has been especially this latter sector which gained 11 percentage points between 2000 and 2015, following a similar successful trend as in the CEE-4. At the same time, the shares of the food industry, wearing apparel, chemicals and basic metals (the latter only in the last five years) declined.

The Romanian manufacturing sector was able to attract a large share of FDI as did the CEE-4 countries. Motor vehicles now accounts for 15% of Romania's FDI inward stock in manufacturing (Figure 4). Automobile-Dacia is the largest Romanian company by turnover and – due to historical ties with Renault – also its subsidiary since 1999. It successfully produces cheap cars for export markets and produced nearly 400,000 cars in 2015. FDI went also into the food industry (13%), basic metals (10%), other non-metallic mineral products and the rubber industry (both 8%). Overall, the Romanian manufacturing structure seems to be more similar to the CEE-4 structure than the Bulgarian one, particularly on

account of the emergence and importance of the motor vehicle industry in the former country. However, both countries also show similarities and are still more focused on labour-intensive sectors and less on medium-to-high-tech sectors than the CEE-4.

Figure 5 / Romania: Manufacturing structure, as % of manufacturing output



Source: Eurostat National Accounts.

TRADE INTEGRATION AND LINKAGES WITH GERMANY

The importance of trade and the participation in value chains strongly characterise the manufacturing core countries of the CEE-4. Are Bulgaria and Romania also integrated into the German-Central European Supply Chain (IMF, 2013)? How strong are their trade linkages in general and linkages with Germany in particular?

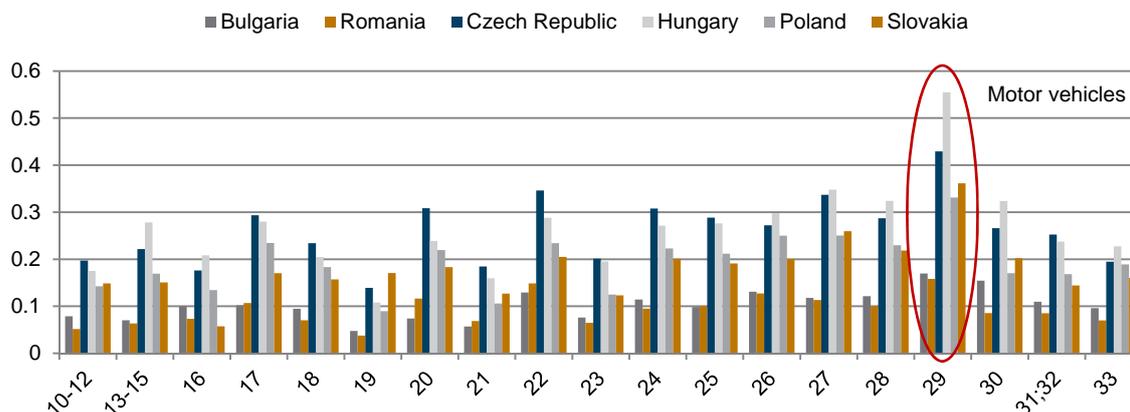
First we look at the importance of trade for the economy, measured by the share of the six main export industries as a percentage of GDP. Based on this indicator, Bulgaria and especially Romania (typically large countries have a lower trade share) are less integrated in international trade than the CEE-4. The share of the six largest export sectors accounts for almost 60% of GDP in Slovakia, 52% in Hungary and 46% in the Czech Republic. Bulgaria's share is somewhat smaller and stands at 32%, while Romania's is at 18%, similar to Poland's (20%).

Focusing on the export patterns, Romania is to some extent comparable to the group of CEE-4 countries, whereas Bulgaria shows a completely different export structure. CEE-4 countries are specialised in medium-to-high-tech products: motor vehicles are the main export category in all four countries. In addition, machinery & equipment, electrical machinery, radio, television & communication equipment as well as chemical exports stand out (see Hanzl-Weiss and Landesmann, 2016). Also in Romania these are the main export sectors (except radio, television & communication), together with agricultural products and basic metals (see Table 1). In contrast, Bulgaria's main export industries are basic metals, coke and also agricultural products.

Table 1 / Main six export industries in Bulgaria and Romania, 2013, million USD (NACE Rev. 1)

BULGARIA: Exports, million USD		in % of GDP	ROMANIA: Exports, million USD		in % of GDP
Main 6 export industries	17342	31.8	Main 6 export industries	33867	17.7
27 Basic metals	4342		34 Motor vehicles, trailers and semi-trailers	10039	
23 Coke, refined petroleum products and nuclear fuel	3878		31 Electrical machinery and apparatus n.e.c.	6714	
01 Products of agriculture, hunting and related services	2990		29 Machinery and equipment n.e.c.	5709	
24 Chemicals, chemical products and man-made fibres	2116		01 Products of agriculture, hunting and related services	4293	
29 Machinery and equipment n.e.c.	2032		24 Chemicals, chemical products and man-made fibres	3705	
15 Food products and beverages	1985		27 Basic metals	3406	

Source: UN COMTRADE, wiiw calculations.

Figure 6 / Backward linkages with Germany, 2014

Note: Based on the Leontief-inverse.

10-12 Manufacture of food products, beverages and tobacco products

13-15 Manufacture of textiles, wearing apparel and leather products

16 Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials

17 Manufacture of paper and paper products

18 Printing and reproduction of recorded media

19 Manufacture of coke and refined petroleum products

20 Manufacture of chemicals and chemical products

21 Manufacture of basic pharmaceutical products and pharmaceutical preparations

22 Manufacture of rubber and plastic products

23 Manufacture of other non-metallic mineral products

24 Manufacture of basic metals

25 Manufacture of fabricated metal products, except machinery and equipment

26 Manufacture of computer, electronic and optical products

27 Manufacture of electrical equipment

28 Manufacture of machinery and equipment n.e.c.

29 Manufacture of motor vehicles, trailers and semi-trailers

30 Manufacture of other transport equipment

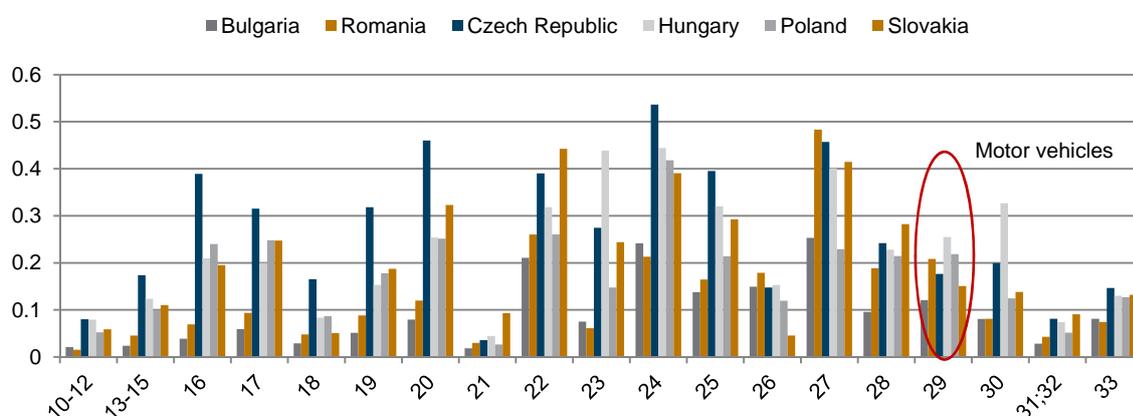
31;32 Manufacture of furniture; other manufacturing

33 Repair and installation of machinery and equipment

Source: WIOD (World Input-Output Database), wiiw calculations.

Focusing more on the role of Germany in supply chains, these are often cited in the context of the motor vehicles industry (Hanzl-Weiss and Stehrer, 2014). German car manufacturers were among the front runners in Eastern Europe after the fall of communism and acquired existing car companies or set up new ones in the CEE-4 countries. In this way the CEE-4 developed strong trade ties with Germany, sourcing intermediates from Germany for the assembly of cars (backward linkages) and producing intermediates as well (forward linkages). Figure 6 shows that backward linkages are especially pronounced for the CEE-4 in motor vehicles, while for Bulgaria and Romania they are decisively smaller. However, this pattern is also evident in the other manufacturing sectors.

Figure 7 / Forward linkages with Germany, 2014



Note: Based on the Gosh-inverse.

- 10-12 Manufacture of food products, beverages and tobacco products
- 13-15 Manufacture of textiles, wearing apparel and leather products
- 16 Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials
- 17 Manufacture of paper and paper products
- 18 Printing and reproduction of recorded media
- 19 Manufacture of coke and refined petroleum products
- 20 Manufacture of chemicals and chemical products
- 21 Manufacture of basic pharmaceutical products and pharmaceutical preparations
- 22 Manufacture of rubber and plastic products
- 23 Manufacture of other non-metallic mineral products
- 24 Manufacture of basic metals
- 25 Manufacture of fabricated metal products, except machinery and equipment
- 26 Manufacture of computer, electronic and optical products
- 27 Manufacture of electrical equipment
- 28 Manufacture of machinery and equipment n.e.c.
- 29 Manufacture of motor vehicles, trailers and semi-trailers
- 30 Manufacture of other transport equipment
- 31;32 Manufacture of furniture; other manufacturing
- 33 Repair and installation of machinery and equipment

Source: WIOD, wiiw calculations.

When looking at forward linkages (supply structures delivering to Germany), the pattern is similar but there is slightly more variation across industries and countries (e.g., the Czech Republic shows especially pronounced linkages) – see Figure 7. Bulgaria and Romania still exhibit on average smaller forward linkages with Germany. There are some interesting exceptions: Forward linkages are larger in Bulgaria and Romania than in the CEE-4 in two sectors: 26 – Computer, electronic and optical products

and in 27 – electrical equipment (in Romania). Linkages are similar in 29 – motor vehicles and in 28 – machinery (Romania). Linkages are smaller than in the CEE-4 but larger than in other sectors of manufacturing in 22 – rubber and 24 – basic metals. Overall, because of different patterns of FDI, links between Bulgaria and Romania on the one hand and Germany on the other hand are generally smaller than those between the CEE-4 and Germany.

CONCLUSIONS

Are Bulgaria and Romania part of the Central European manufacturing core? Using the narrow definition (specified by a large share of manufacturing in the economy, a pivotal role of Germany in organising production networks and a focus on certain manufacturing sectors with strong international value chain participation), the answer is no. Bulgaria and Romania have smaller linkages with Germany than the CEE-4 countries. However, if leaving aside the German focus and thus broadening the definition, Romania is also a country strongly focused on manufacturing, and has already shifted in the direction of the CEE manufacturing structure (on the account of motor vehicles). As such, Romania can now also be regarded as part of the manufacturing core. Bulgaria, by contrast, has a smaller manufacturing share, and its manufacturing output structure and export structure differ widely from those of the CEE-4 average; thus, it can hardly be considered as being part of the Central European manufacturing core.

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IMF (2013), 'IMF Multi-Country Report. German-Central European Supply Chain – Cluster Report', *IMF Country Report* No. 13/263, August.

Stöllinger, R. (2013), 'The Central European Manufacturing Core: What is Driving Regional Production Sharing?', *FIW Research Paper*.

The editors recommend for further reading*

Donald Trump and US policies

Economics and policy advice in Donald Trump's upcoming administration:

<http://baselinescenario.com/2016/12/23/larry-kudlow-and-economics-in-the-trump-administration/>

On the decline of US manufacturing: <https://www.brookings.edu/blog/order-from-chaos/2016/12/29/global-economic-forces-conspire-to-stymie-u-s-manufacturing/>

Why Trump's tariffs on Mexican cars probably won't stop job flight:

<https://www.bloomberg.com/graphics/2017-trump-mexico-auto-jobs/>

Paul Krugman on trade and tariffs:

http://krugman.blogs.nytimes.com/2016/12/27/tariffs-and-the-trade-balance-wonkish/?_r=0

Henry Kissinger is back:

<https://www.bloomberg.com/view/articles/2017-01-04/kissinger-s-washington-is-coming-back-around>

Migration

Branko Milanovic on migration:

<http://glineq.blogspot.co.at/2016/12/should-some-countries-cease-to-exist.html>

Rethinking labour mobility: <https://www.project-syndicate.org/commentary/displaced-workers-globalization-mobility-by-harold-james-2017-01>

Miscellaneous

Sergei Guriev on Putin's popularity:

<http://www.nytimes.com/2016/12/25/opinion/in-russia-its-not-the-economy-stupid.html>

On Turkish divisions: <http://www.the-tls.co.uk/articles/public/why-is-turkey-so-divided/>

On Polish developments: <https://newleftreview.org/II/102/leszek-koczanowicz-the-polish-case>

* Recommendation is not necessarily endorsement. The editors are grateful to Vladimir Gligorov, Philipp Heimberger and Gábor Hunya for their valuable contributions to this section.

Monthly and quarterly statistics for Central, East and Southeast Europe

The monthly and quarterly statistics cover **20 countries** of the CESEE region. The graphical form of presenting statistical data is intended to facilitate the **analysis of short-term macroeconomic developments**. The set of indicators captures tendencies in the real sector, pictures the situation in the labour market and inflation, reflects fiscal and monetary policy changes, and depicts external sector development.

Baseline data and a variety of other monthly and quarterly statistics, **country-specific** definitions of indicators and **methodological information** on particular time series are **available in the wiiw Monthly Database** under: <http://data.wiiw.ac.at/monthly-database.html>. Users regularly interested in a certain set of indicators may create a personalised query which can then be quickly downloaded for updates each month.

Conventional signs and abbreviations used

%	per cent
GDP	Gross Domestic Product
LFS	Labour Force Survey
HICP	Harmonized Index of Consumer Prices (for new EU Member States)
PPI	Producer Price Index
M1	Currency outside banks + demand deposits / narrow money (ECB definition)
M2	M1 + quasi-money / intermediate money (ECB definition)
p.a.	per annum
mn	million (10 ⁶)
bn	billion (10 ⁹)

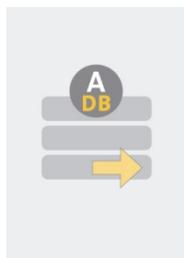
The following national currencies are used:

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

EUR euro – national currency for Montenegro and for the euro-area countries Estonia (from January 2011, euro-fixed before), Latvia (from January 2014, euro-fixed before), Lithuania (from January 2015, euro-fixed before), Slovakia (from January 2009, euro-fixed before) and Slovenia (from January 2007, euro-fixed before).

Sources of statistical data: Eurostat, National Statistical Offices, Central Banks and Public Employment Services; wiiw estimates.

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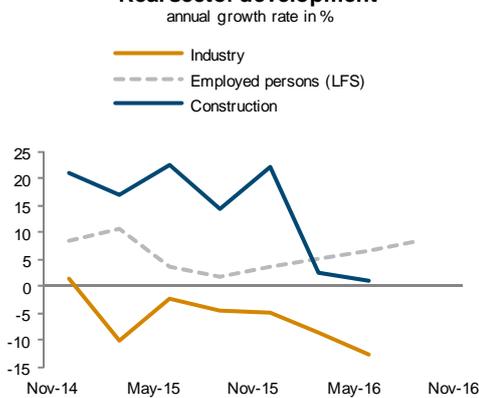
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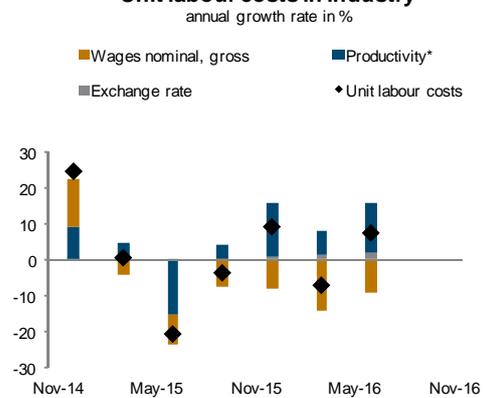
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Albania

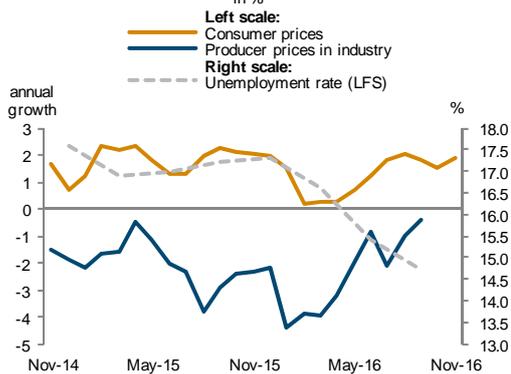
Real sector development



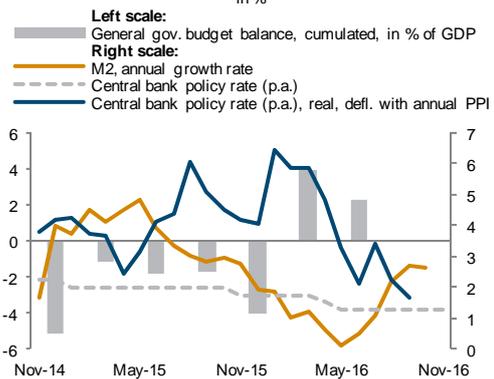
Unit labour costs in industry



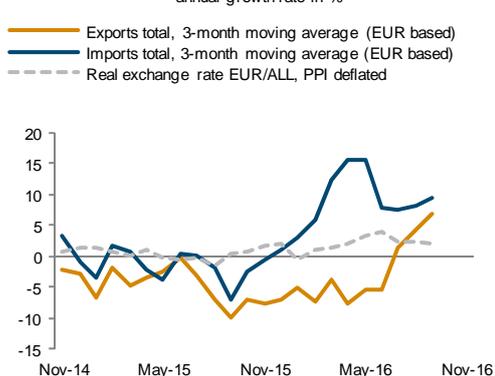
Inflation and unemployment



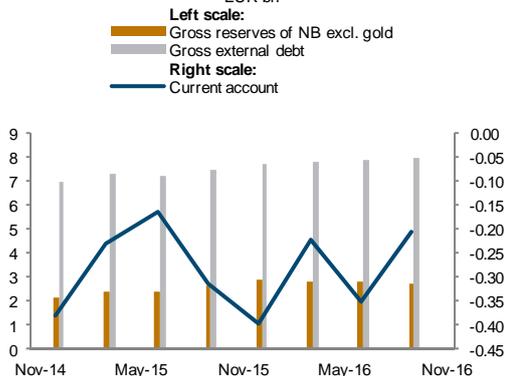
Fiscal and monetary policy



External sector development



External finance



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

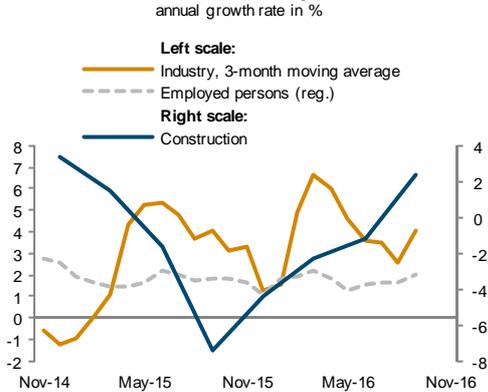
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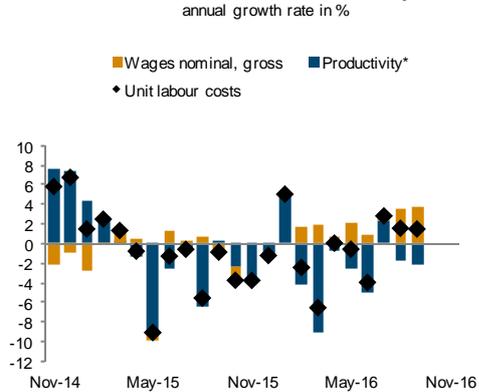
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Bosnia and Herzegovina

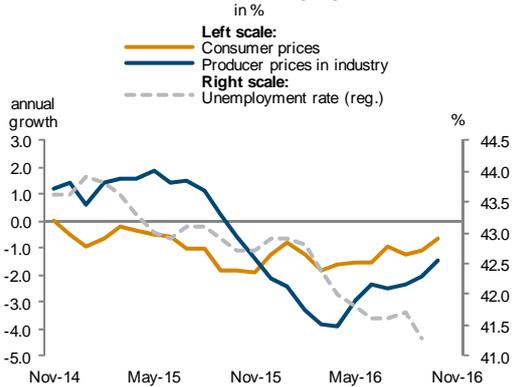
Real sector development



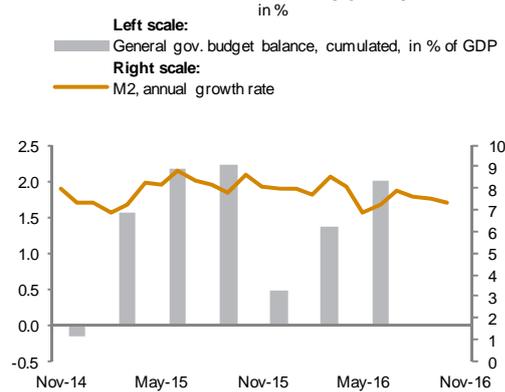
Unit labour costs in industry



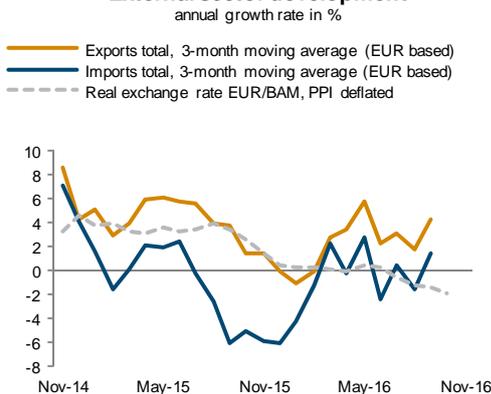
Inflation and unemployment



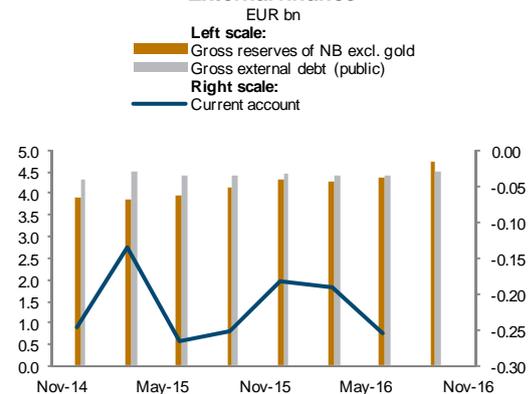
Fiscal and monetary policy



External sector development



External finance



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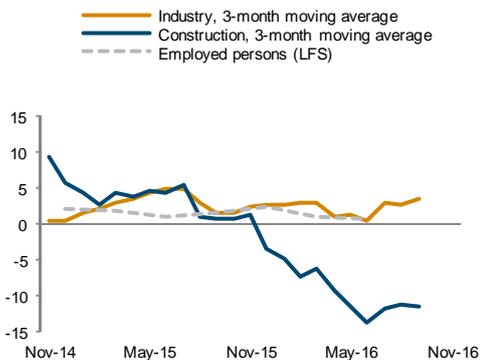
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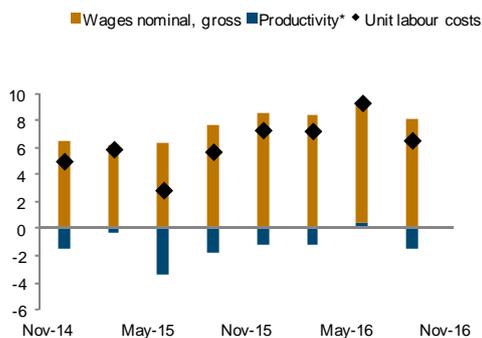
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Bulgaria

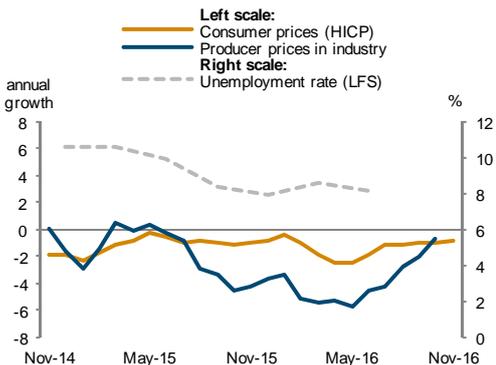
Real sector development
annual growth rate in %



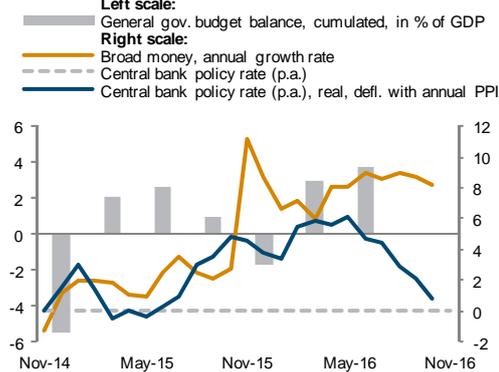
Unit labour costs in industry
annual growth rate in %



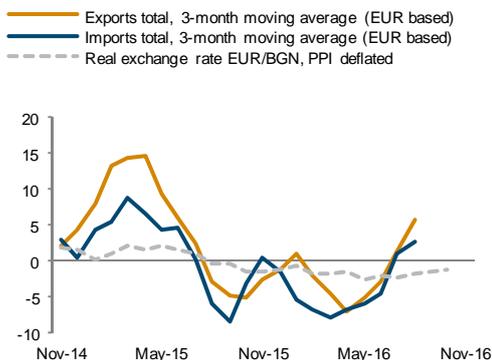
Inflation and unemployment
in %



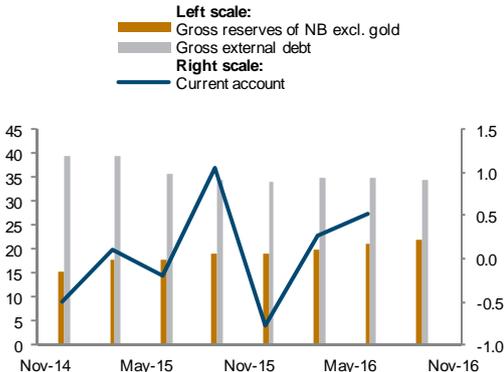
Fiscal and monetary policy
in %



External sector development
annual growth rate in %



External finance
EUR bn



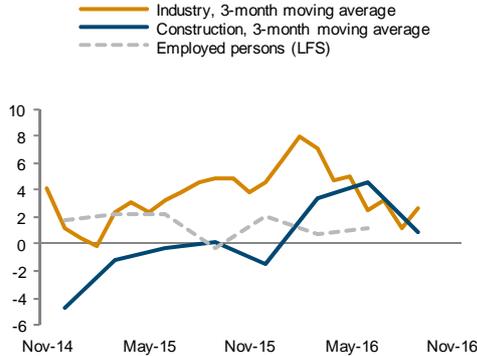
*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

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Croatia

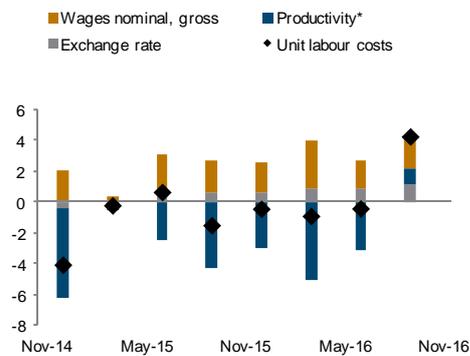
Real sector development

annual growth rate in %



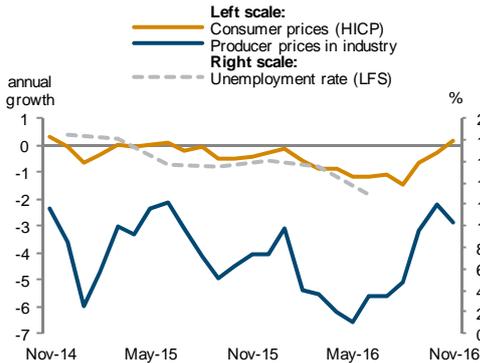
Unit labour costs in industry

annual growth rate in %



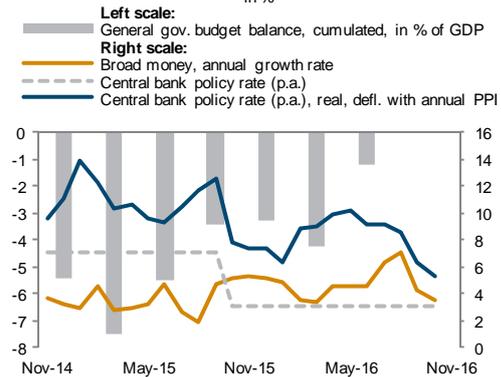
Inflation and unemployment

in %



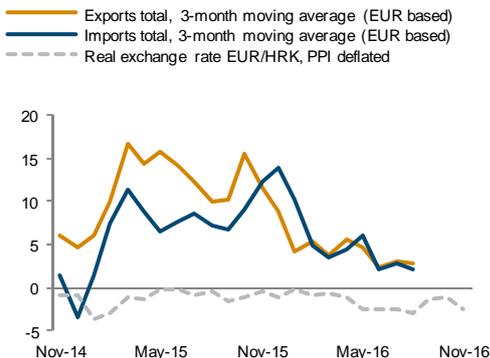
Fiscal and monetary policy

in %



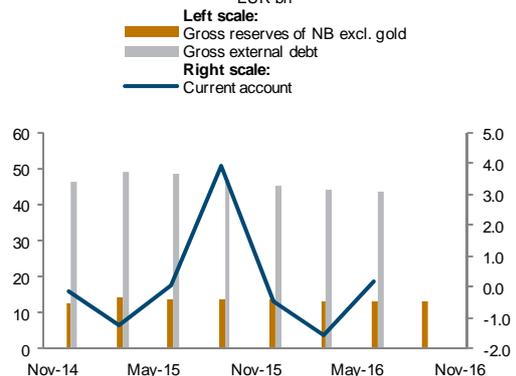
External sector development

annual growth rate in %



External finance

EUR bn



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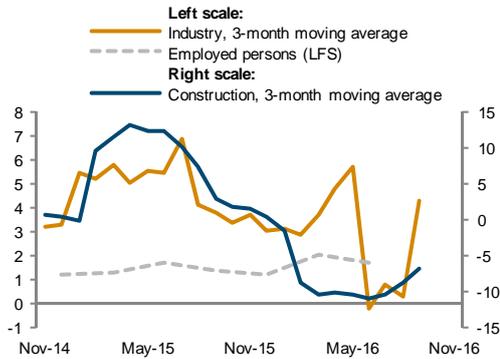
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Czech Republic

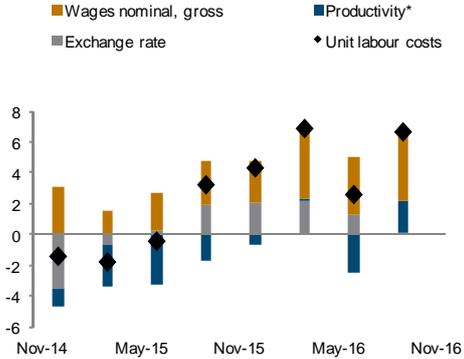
Real sector development

annual growth rate in %



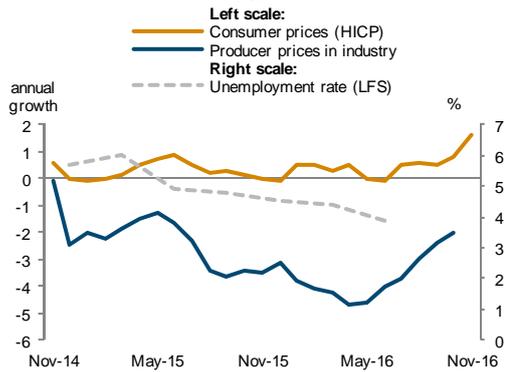
Unit labour costs in industry

annual growth rate in %



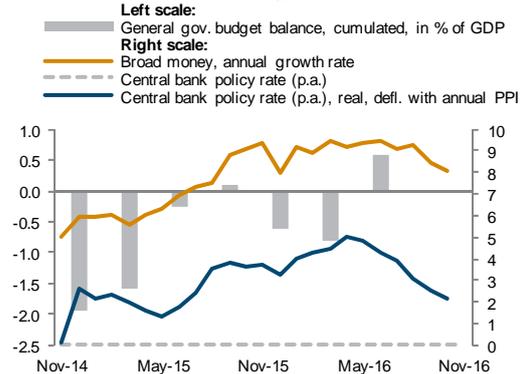
Inflation and unemployment

in %



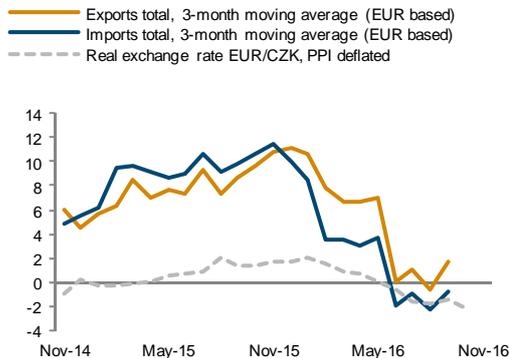
Fiscal and monetary policy

in %



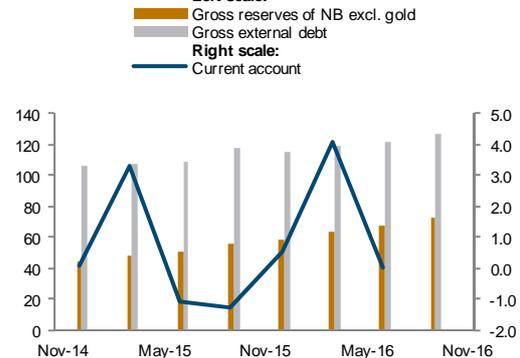
External sector development

annual growth rate in %



External finance

EUR bn



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

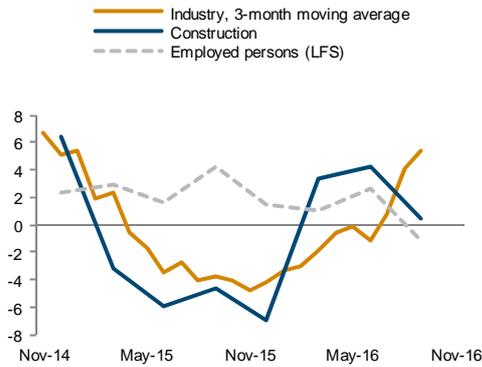
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

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

Estonia

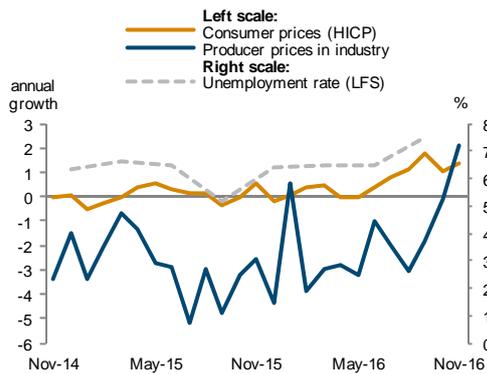
Real sector development
annual growth rate in %



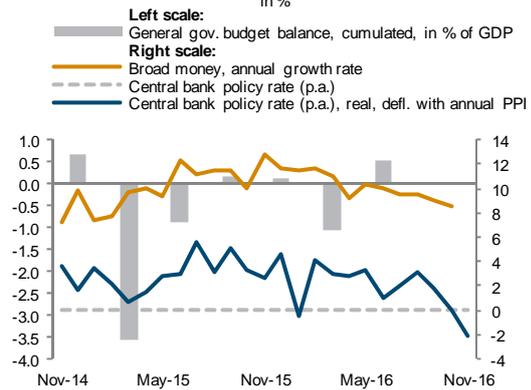
Unit labour costs in industry
annual growth rate in %



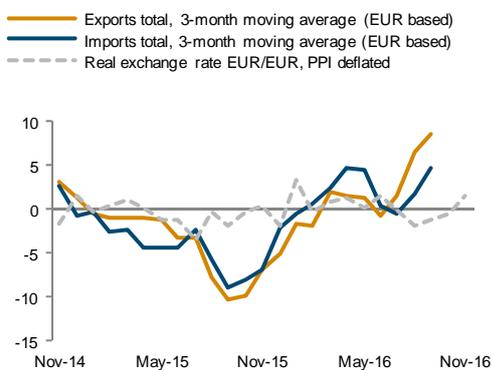
Inflation and unemployment
in %



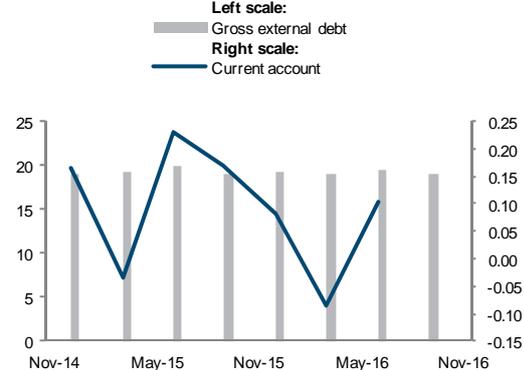
Fiscal and monetary policy
in %



External sector development
annual growth rate in %



External finance
EUR bn



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

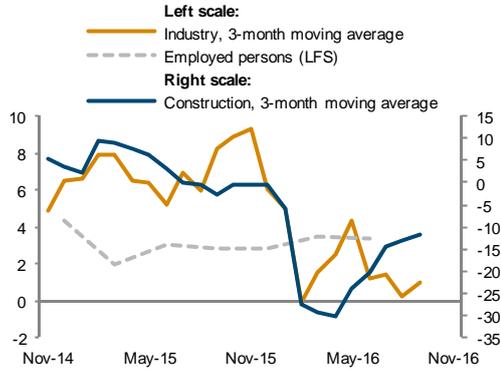
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Hungary

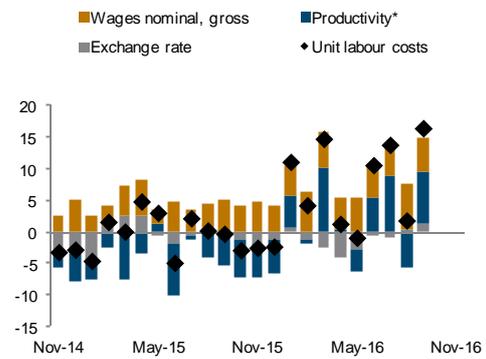
Real sector development

annual growth rate in %



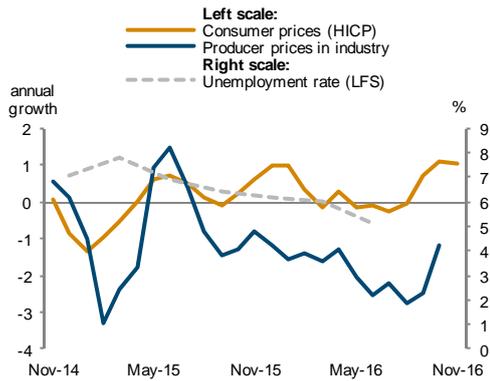
Unit labour costs in industry

annual growth rate in %



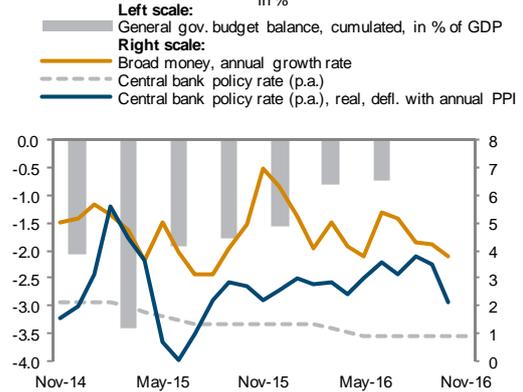
Inflation and unemployment

in %



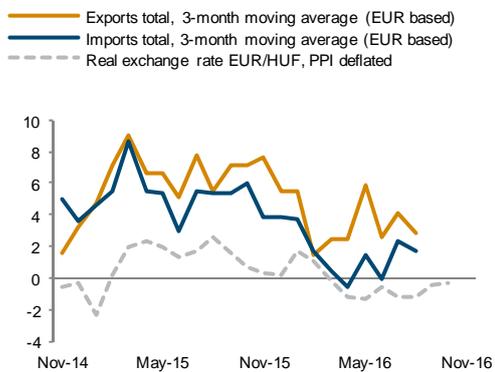
Fiscal and monetary policy

in %



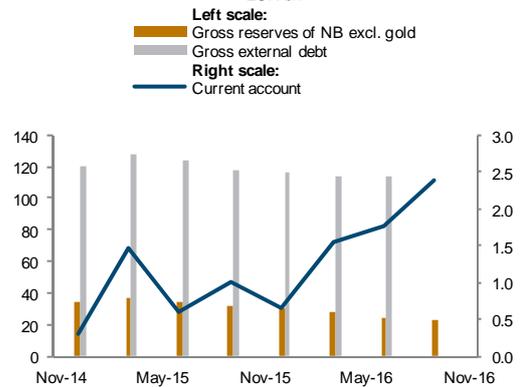
External sector development

annual growth rate in %



External finance

EUR bn



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

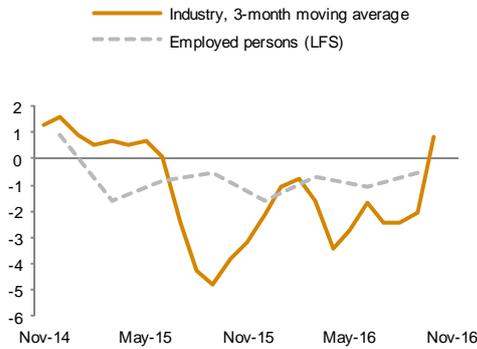
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

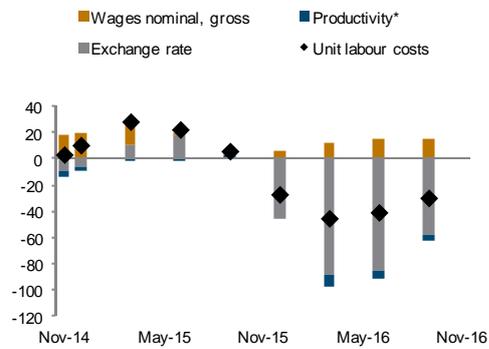
<http://data.wiiw.ac.at/monthly-database.html>

Kazakhstan

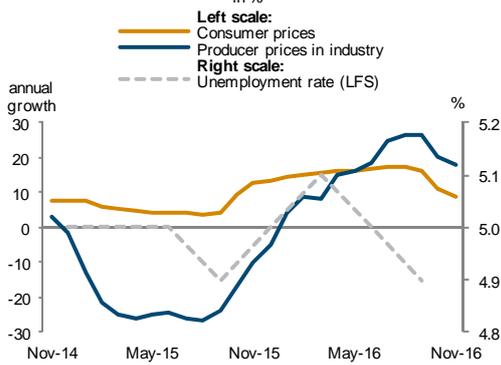
Real sector development
annual growth rate in %



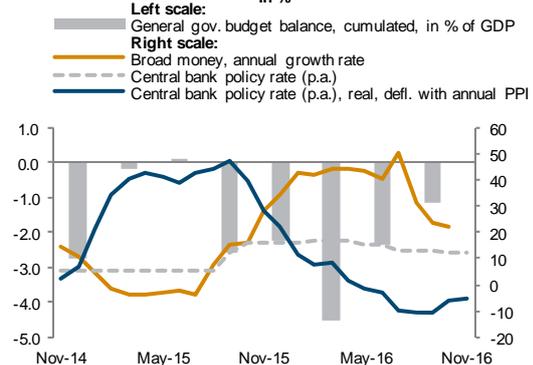
Unit labour costs in industry
annual growth rate in %



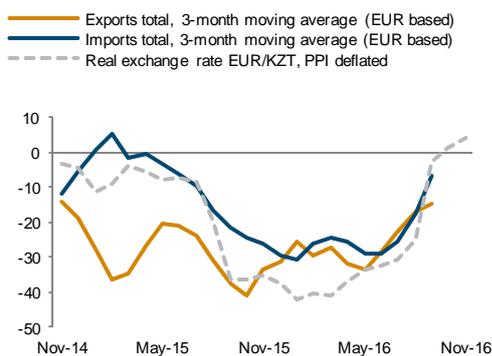
Inflation and unemployment
in %



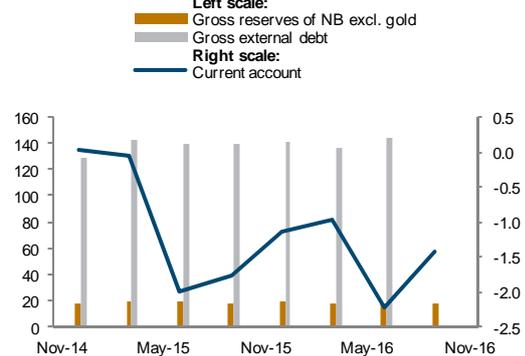
Fiscal and monetary policy
in %



External sector development
annual growth rate in %



External finance
EUR bn



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

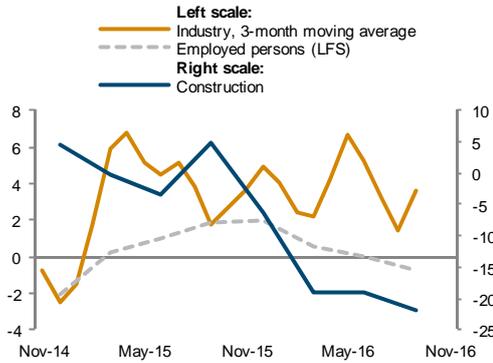
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Latvia

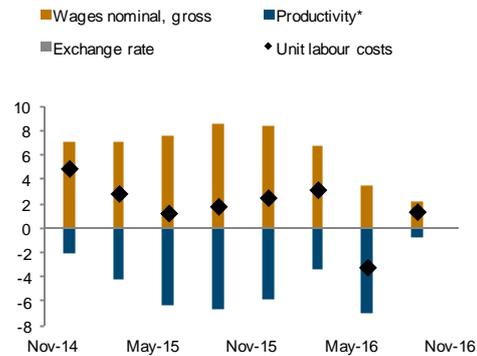
Real sector development

annual growth rate in %



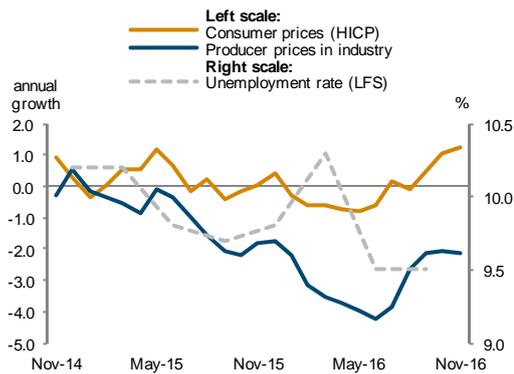
Unit labour costs in industry

annual growth rate in %



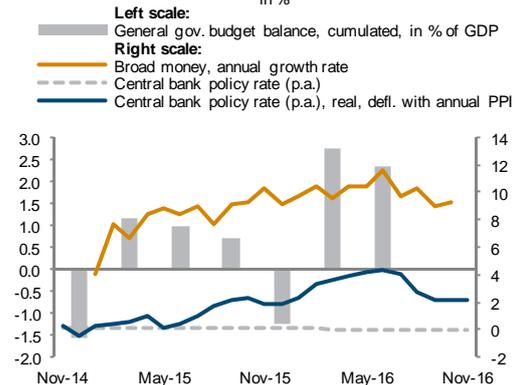
Inflation and unemployment

in %



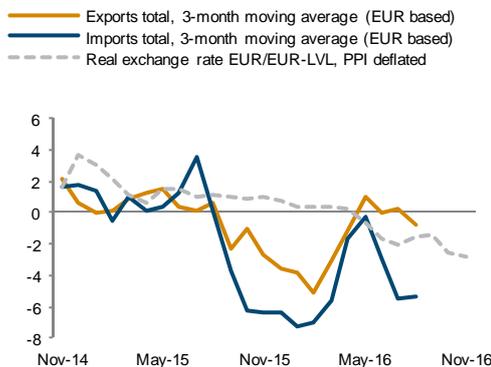
Fiscal and monetary policy

in %



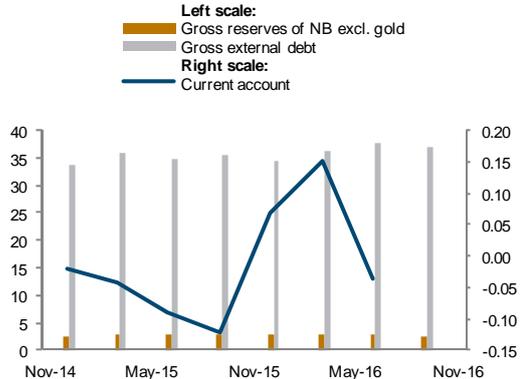
External sector development

annual growth rate in %



External finance

EUR bn



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

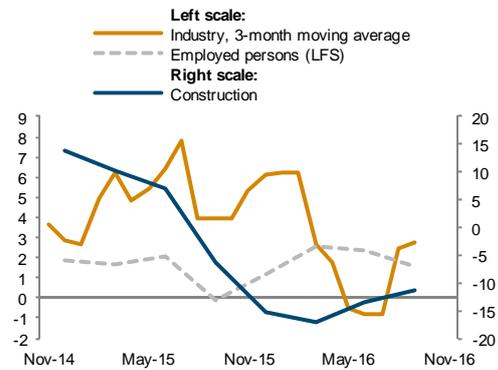
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

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

Lithuania

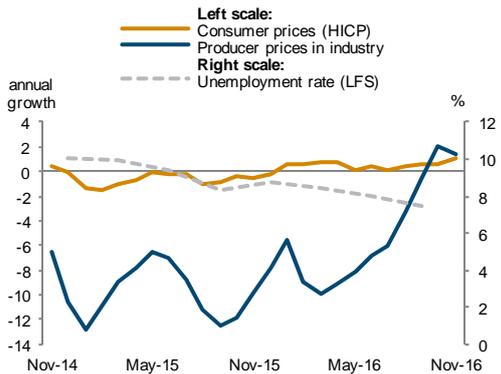
Real sector development
annual growth rate in %



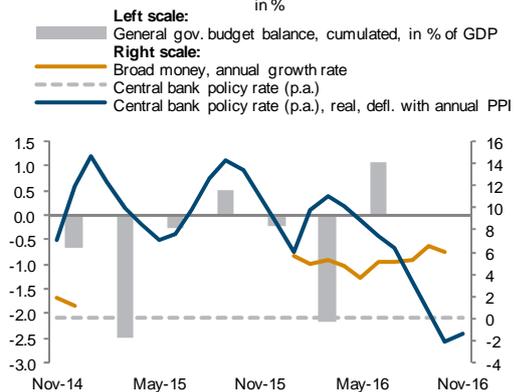
Unit labour costs in industry
annual growth rate in %



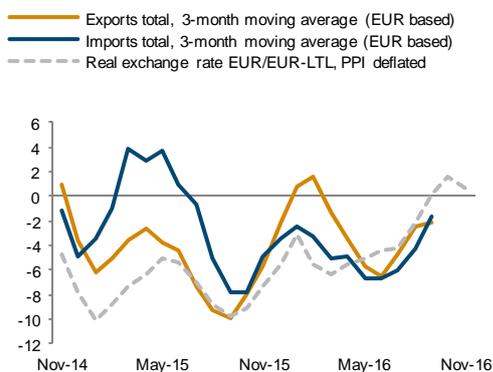
Inflation and unemployment
in %



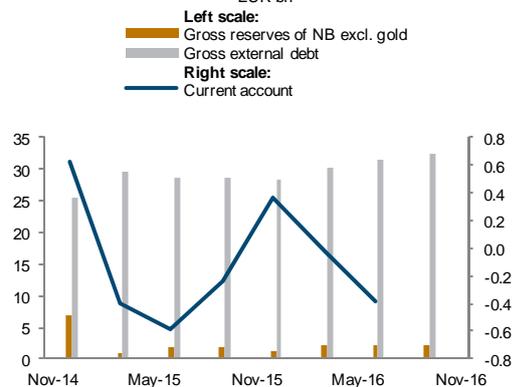
Fiscal and monetary policy
in %



External sector development
annual growth rate in %



External finance
EUR bn



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

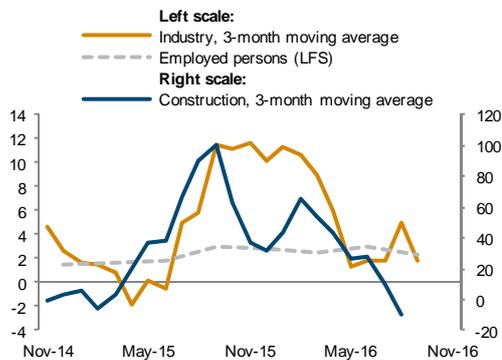
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Macedonia

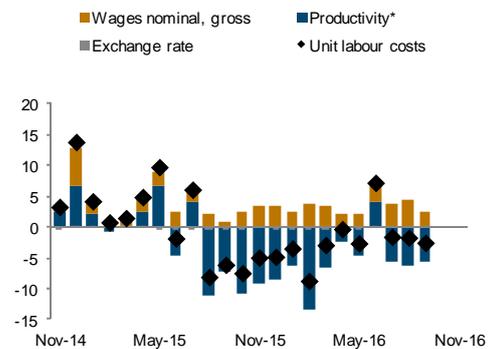
Real sector development

annual growth rate in %



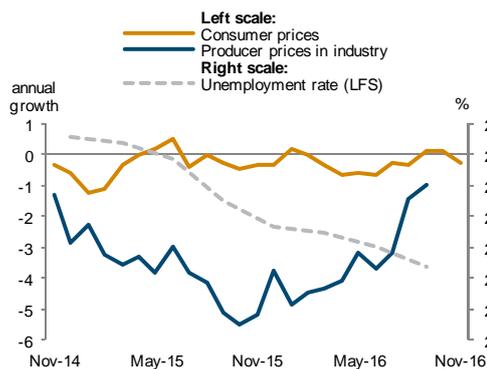
Unit labour costs in industry

annual growth rate in %



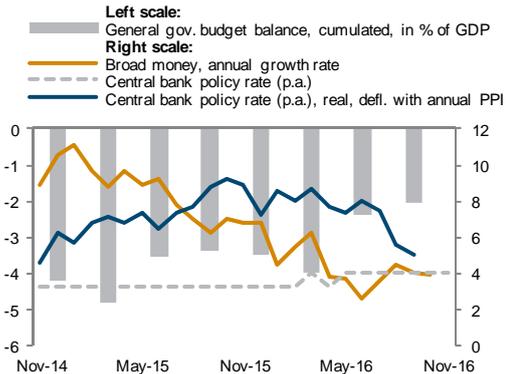
Inflation and unemployment

in %



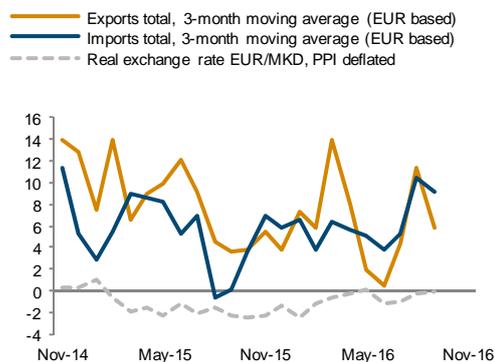
Fiscal and monetary policy

in %



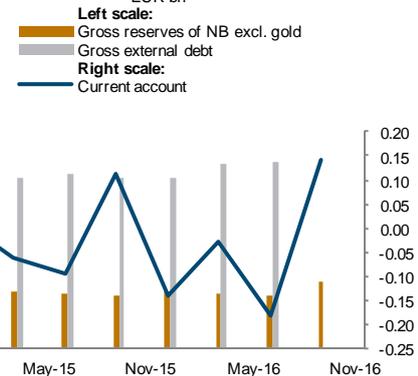
External sector development

annual growth rate in %



External finance

EUR bn



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

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

Montenegro

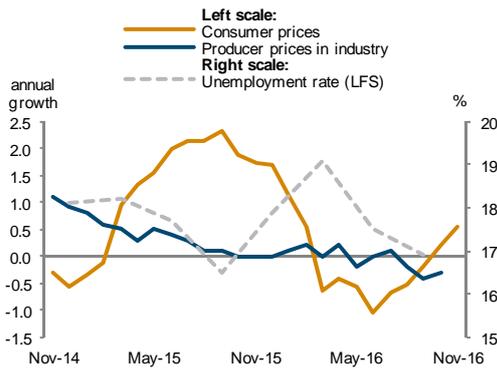
Real sector development
annual growth rate in %



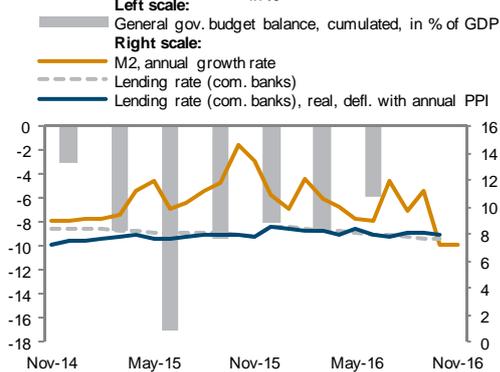
Unit labour costs in industry
annual growth rate in %



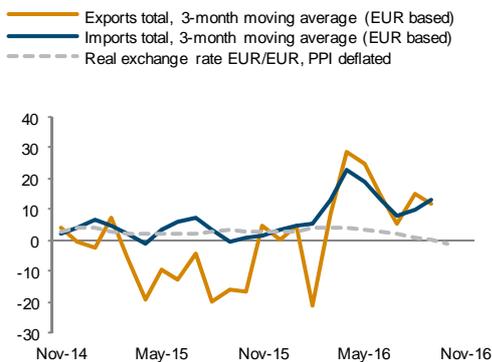
Inflation and unemployment
in %



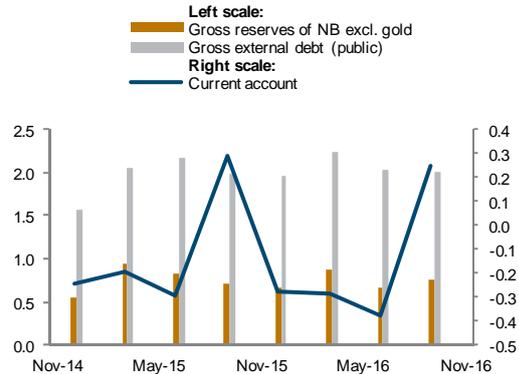
Fiscal and monetary policy
in %



External sector development
annual growth rate in %



External finance
EUR bn



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

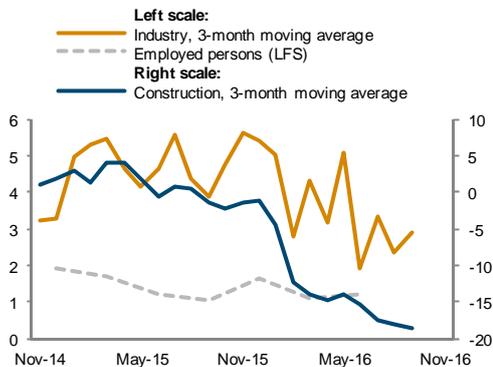
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Poland

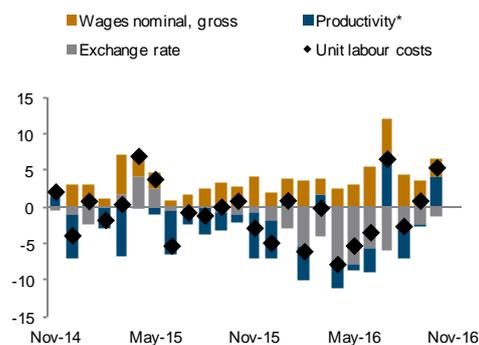
Real sector development

annual growth rate in %



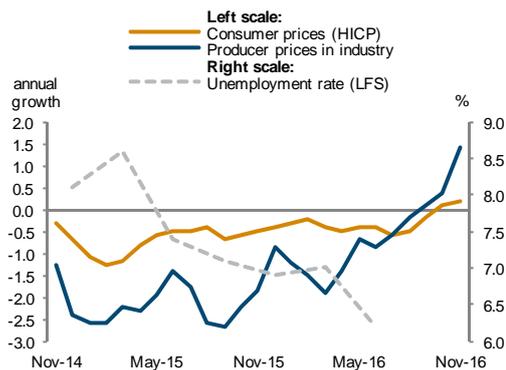
Unit labour costs in industry

annual growth rate in %



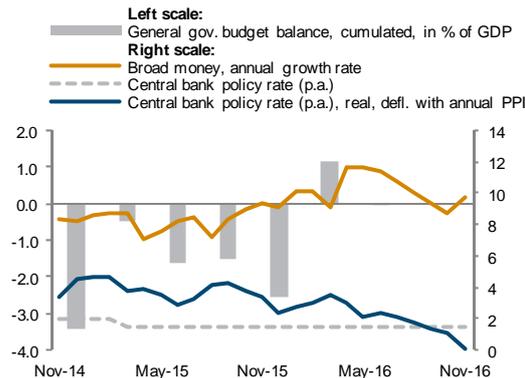
Inflation and unemployment

in %



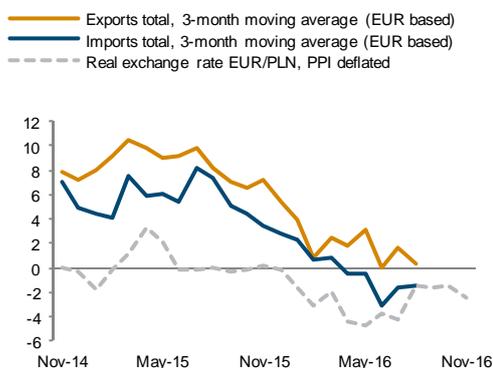
Fiscal and monetary policy

in %



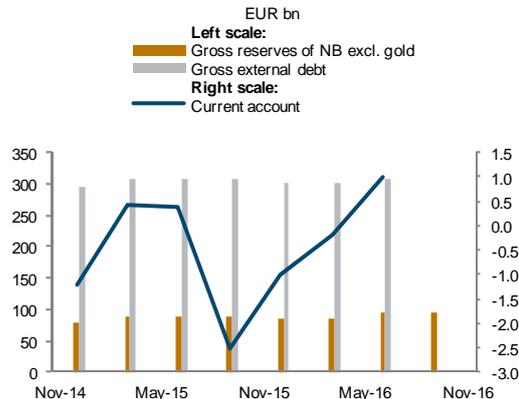
External sector development

annual growth rate in %



External finance

EUR bn



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

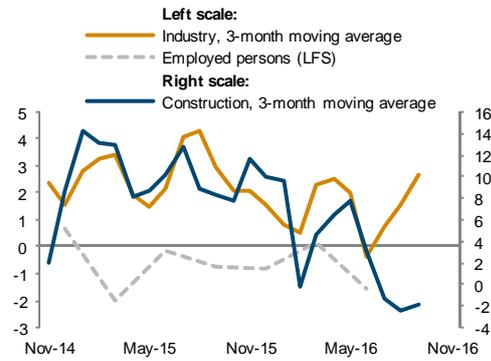
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

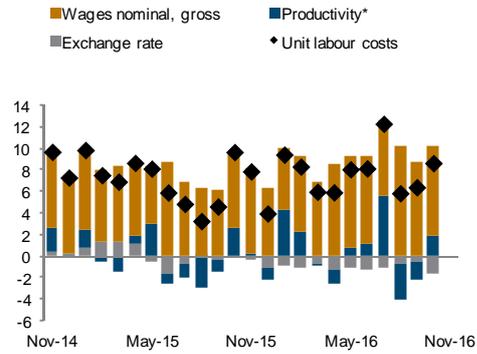
<http://data.wiiw.ac.at/monthly-database.html>

Romania

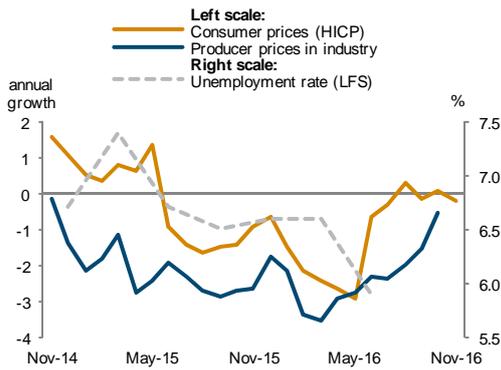
Real sector development
annual growth rate in %



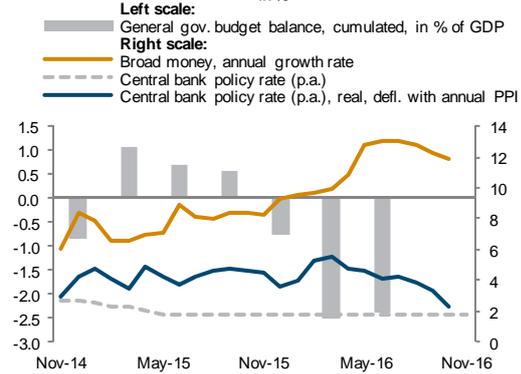
Unit labour costs in industry
annual growth rate in %



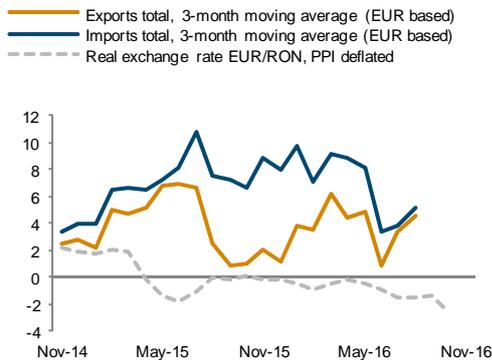
Inflation and unemployment
in %



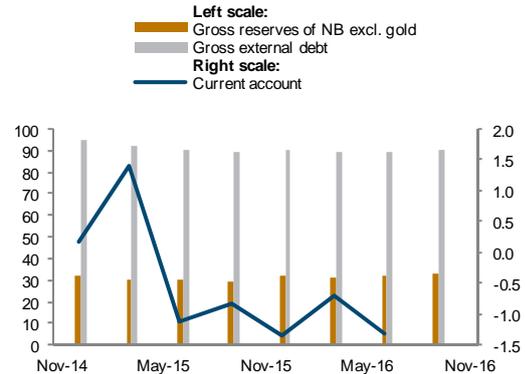
Fiscal and monetary policy
in %



External sector development
annual growth rate in %



External finance
EUR bn



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

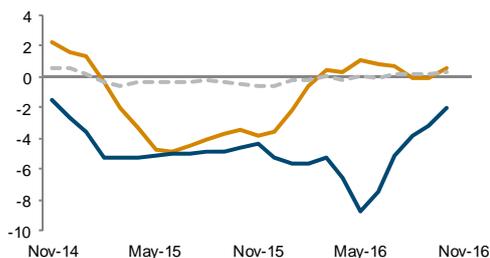
<http://data.wiiw.ac.at/monthly-database.html>

Russia

Real sector development

annual growth rate in %

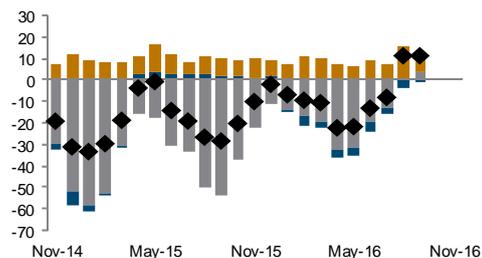
- Industry, 3-month moving average
- Construction, 3-month moving average
- - - Employed persons (LFS)



Unit labour costs in industry

annual growth rate in %

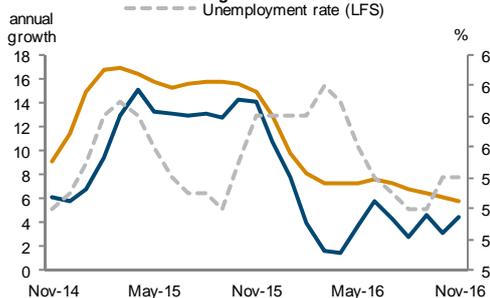
- Wages nominal, manuf., gross
- Exchange rate
- ◆ Productivity*
- ◆ Unit labour costs



Inflation and unemployment

in %

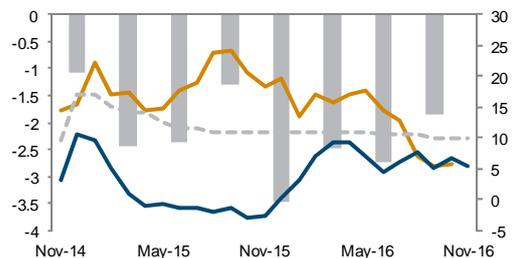
- Consumer prices
- Producer prices in industry
- - - Unemployment rate (LFS)



Fiscal and monetary policy

in %

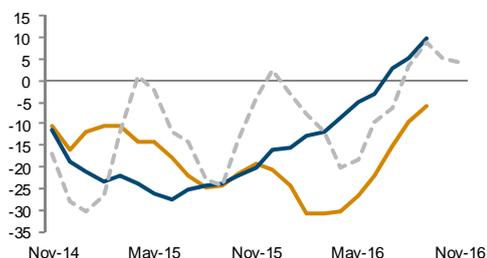
- General gov. budget balance, cumulated, in % of GDP
- M2, annual growth rate
- - - Central bank policy rate (p.a.)
- Central bank policy rate (p.a.), real, defl. with annual PPI



External sector development

annual growth rate in %

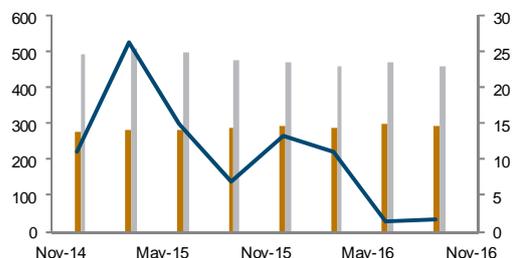
- Exports total, 3-month moving average (EUR based)
- Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/RUB, PPI deflated



External finance

EUR bn

- Gross reserves of NB excl. gold
- Gross external debt
- Current account



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

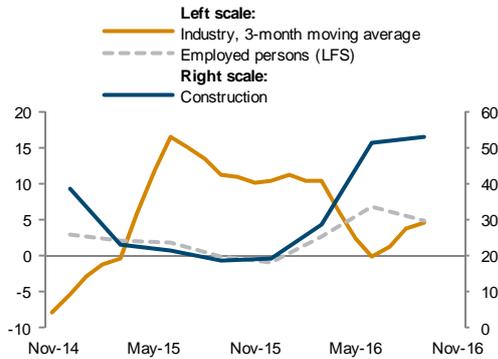
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

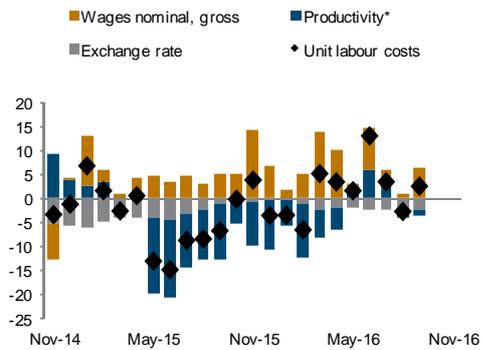
<http://data.wiiw.ac.at/monthly-database.html>

Serbia

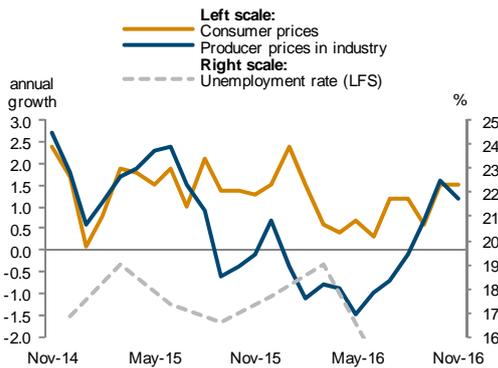
Real sector development
annual growth rate in %



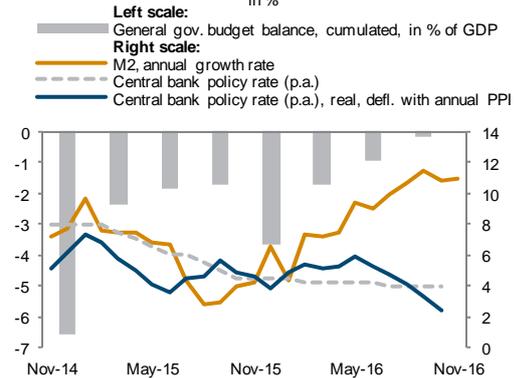
Unit labour costs in industry
annual growth rate in %



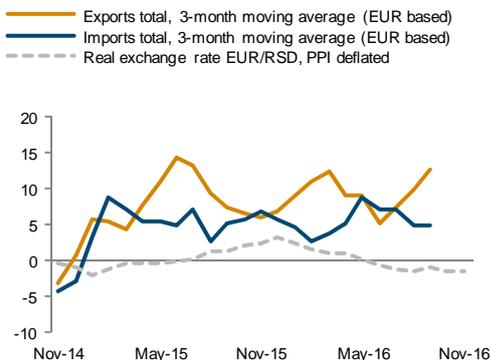
Inflation and unemployment
in %



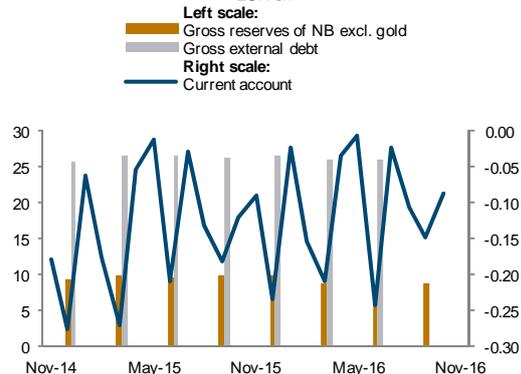
Fiscal and monetary policy
in %



External sector development
annual growth rate in %



External finance
EUR bn



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

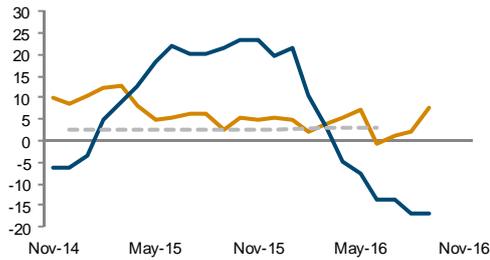
<http://data.wiiw.ac.at/monthly-database.html>

Slovakia

Real sector development

annual growth rate in %

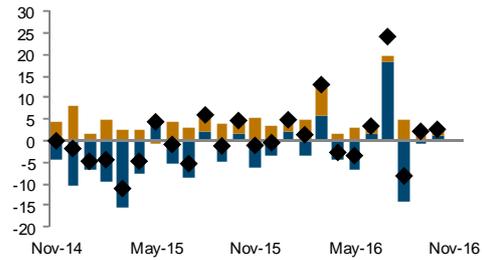
- Industry, 3-month moving average
- Construction, 3-month moving average
- - - Employed persons (LFS)



Unit labour costs in industry

annual growth rate in %

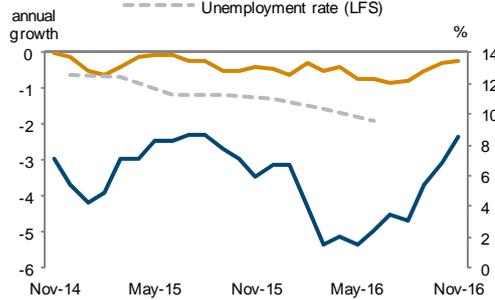
- Wages nominal, gross
- Productivity*
- ◆ Unit labour costs



Inflation and unemployment

in %

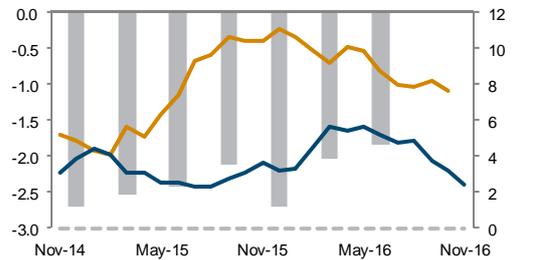
- Left scale: Consumer prices (HICP)
- Producer prices in industry
- Right scale: Unemployment rate (LFS)



Fiscal and monetary policy

in %

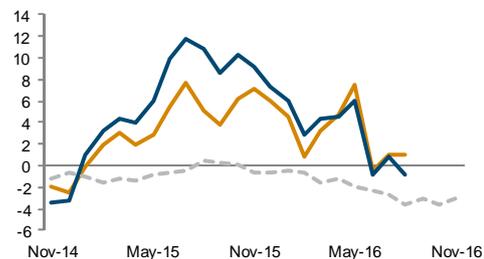
- Left scale: General gov. budget balance, cumulated, in % of GDP
- Right scale: Broad money, annual growth rate
- Central bank policy rate (p.a.)
- Central bank policy rate (p.a.), real, defl. with annual PPI



External sector development

annual growth rate in %

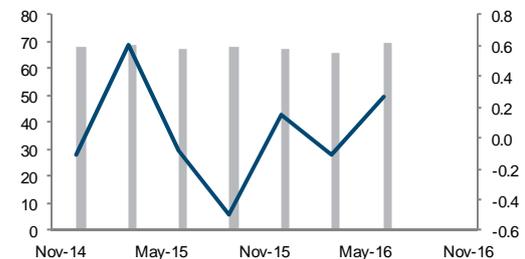
- Exports total, 3-month moving average (EUR based)
- Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/EUR, PPI deflated



External finance

EUR bn

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



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

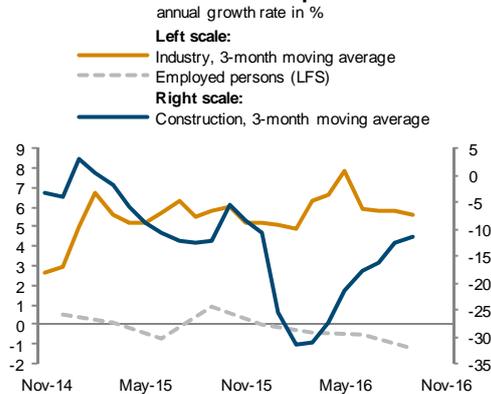
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

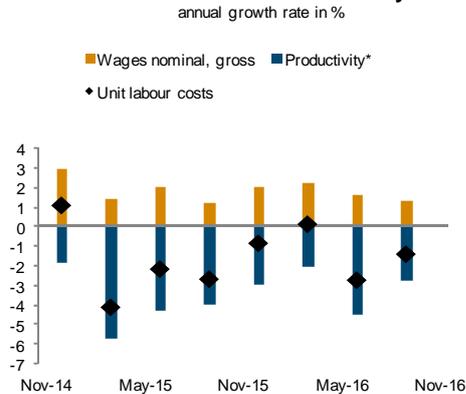
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Slovenia

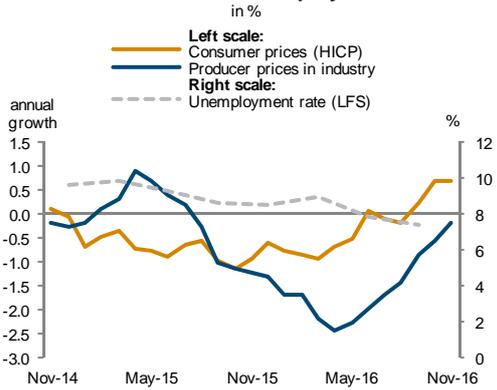
Real sector development



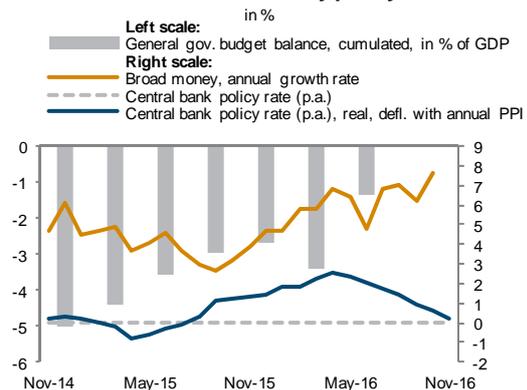
Unit labour costs in industry



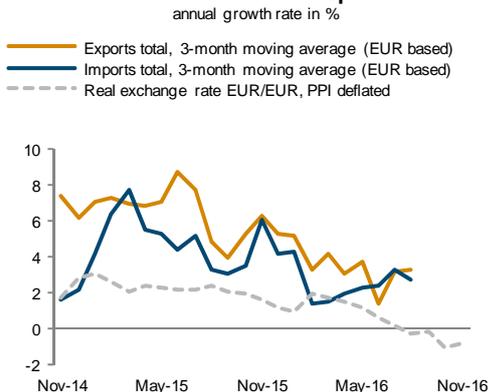
Inflation and unemployment



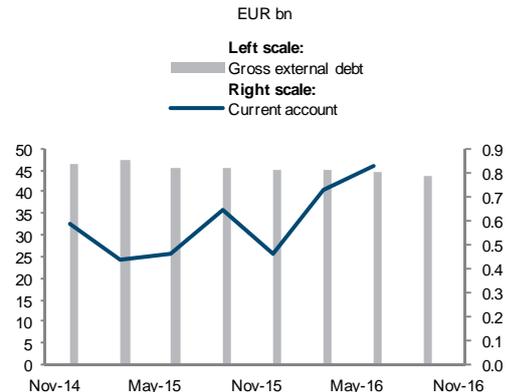
Fiscal and monetary policy



External sector development



External finance



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

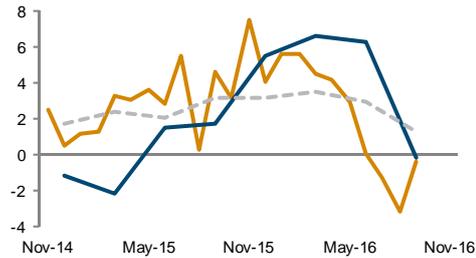
<http://data.wiiw.ac.at/monthly-database.html>

Turkey

Real sector development

annual growth rate in %

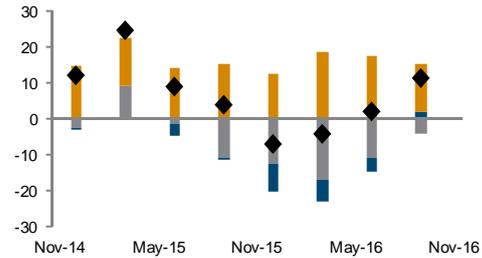
— Industry, 3-month moving average
— Construction
- - - Employed persons (LFS)



Unit labour costs in industry

annual growth rate in %

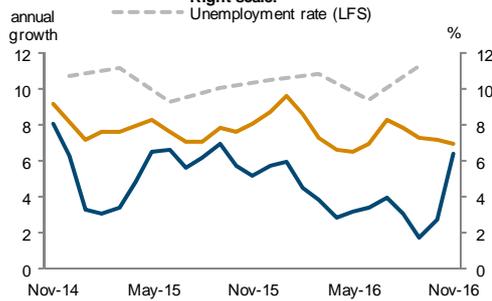
■ Wages nominal, gross
■ Exchange rate
■ Productivity*
◆ Unit labour costs



Inflation and unemployment

in %

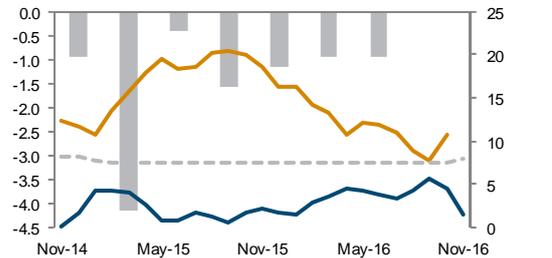
Left scale:
— Consumer prices (HICP)
— Producer prices in industry
Right scale:
- - - Unemployment rate (LFS)



Fiscal and monetary policy

in %

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



External sector development

annual growth rate in %

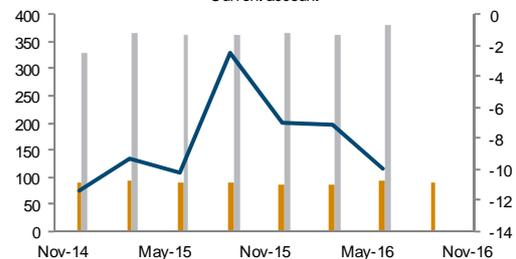
— Exports total, 3-month moving average (EUR based)
— Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/TRY, PPI deflated



External finance

EUR bn

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



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

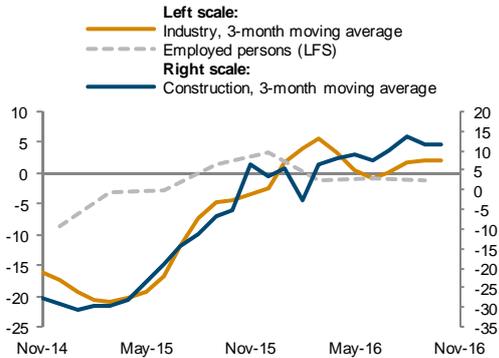
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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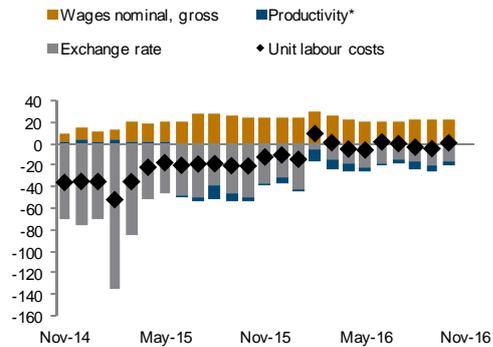
<http://data.wiiw.ac.at/monthly-database.html>

Ukraine

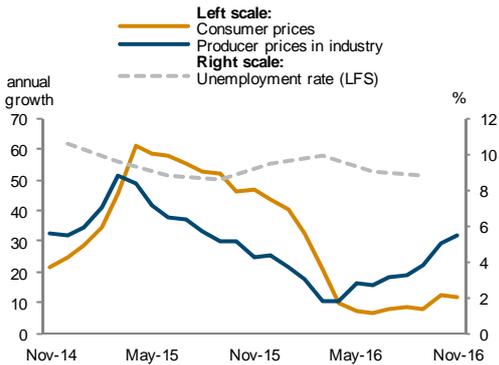
Real sector development
annual growth rate in %



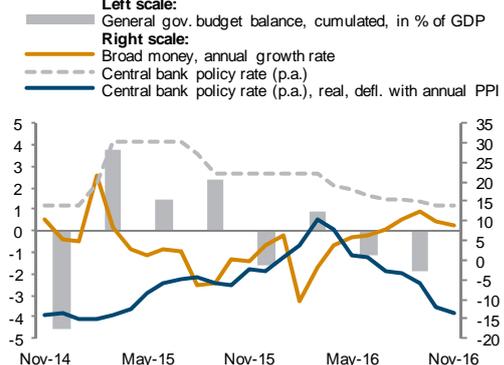
Unit labour costs in industry
annual growth rate in %



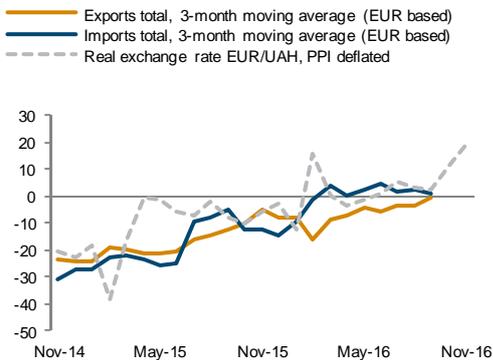
Inflation and unemployment
in %



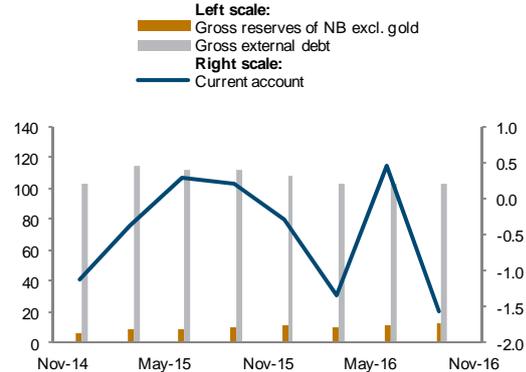
Fiscal and monetary policy
in %



External sector development
annual growth rate in %



External finance
EUR bn



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

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