

How to Fill Europe's Investment Gap

**Recent Investment Trends in CESEE Countries:
Supply-side Fundamentals of the Catch-up are Weak**

**Outward FDI and Intra-regional Integration of
EU-CEE11 Countries**

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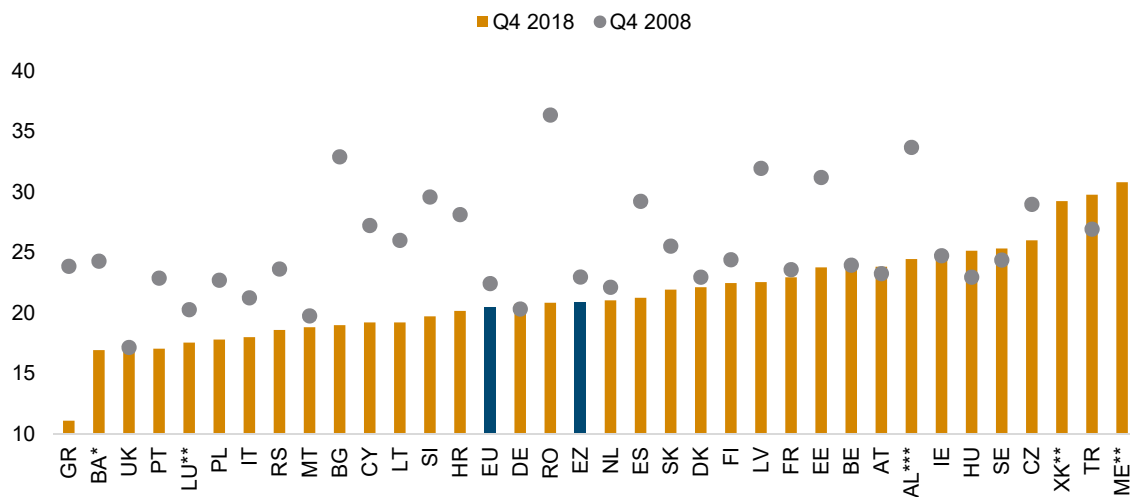
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Chart of the month: European investment since the crisis

BY RICHARD GRIEVESON

Since the global financial crisis, gross fixed capital formation has declined as a share of GDP in most countries of the EU, the Western Balkans and Turkey. Of the countries for which comparable data are available, only in six has gross fixed capital formation as a share of GDP increased over the past decade – Germany, Austria, Ireland, Hungary, Sweden and Turkey. Apart from Hungary and Turkey (where idiosyncratic factors are at work), these increases have been negligible. In the rest of Europe, often quite severe declines have been recorded. At the end of 2018, investment as a share of GDP compared with ten years earlier had fallen by nine percentage points (pp) in Albania and Latvia, 10pp in Slovenia, 13pp in Greece, 14pp in Bulgaria, and 16pp in Romania. The decline in European investment in the years following the crisis was much greater than in the US or Japan.

Gross fixed capital formation, % of GDP, 4-quarter trailing average



* = Q4 2017, ** = Q3 2018, *** = Q2 2018.

Source: Eurostat.

The explanations for the decline in investment are numerous. In the crisis-hit countries such as Greece, it reflects a collapse in confidence, dearth of interesting opportunities for firms, harsh fiscal austerity (government investment programmes were often the first to be cut) and a lack of access to finance. For many other countries, these factors have also been present, albeit to a lesser extent. A legacy of pre-crisis over-investment also contributed in some countries, as did general uncertainty in the wake of the global financial and then eurozone crises, and a focus on paying down debt.

However, access to finance, at least for most companies, has been quite good in recent years, not least since the European Central Bank launched its quantitative easing programme in 2015. Business confidence appears to have returned, with many surveys at or close to post-crisis highs during much of 2017-2018. In many countries in the EU CEE11, real CPI-adjusted interest rates have been and remain negative.

That investment remains weak in this context suggests the possibility of deeper problems. Moreover, the risk of a wider global trade war, and the apparently quite significant slowdown in growth in the eurozone, could further reduce firms' appetite to make big capital outlays. An austerity bias persists in much of the eurozone, not least in Germany, which makes a surge in (often much-needed) public investment unlikely. Years of under-investment will also negatively impact the region's already not especially positive long-term growth prospects.

Opinion Corner^{*} : How to fill Europe's investment gap

BY MARIO HOLZNER

Investment in the EU has been declining since the outbreak of the global financial crisis. While Europe was indulging in self-destructive austerity, China was inter alia building a huge high-speed rail network. Given the big weight of German public investment in the EU, it is pivotal that Germany reverses the course of its fiscal policy. In this column we suggest a coordinated pan-European infrastructure investment project inspired by the Chinese Belt and Road Initiative – the 'European Silk Road'.

In the long run, investment is among the most important growth drivers – if not the most important one. Technological advancement and improved human capital endowment cannot translate properly into economic dynamism if no investment goes into productive capacities employing these new technologies and skills. Since the outbreak of the global financial crisis and the subsequent deleveraging process European economic agents' willingness to invest has declined, as expectations about the future have deteriorated. Overall spending restraint and the related savings glut and export surplus are only symptoms of this lack of confidence, which is deeply rooted in the private sector. Moreover, this did not even change during the recovery of the European economy in 2015-2017.

The most important reason for this 'bad equilibrium' is that the only force that could push the European economy into a 'good equilibrium' – the public sector – is limiting itself. The political leadership (with little grounding in macroeconomics) is propagating balanced budgets or even budget surpluses. This neglect of an active and expansionary economic policy has come at a very high cost. Apart from a whole generation of unemployed youth, Europe's weight in the global economy has been shrinking dramatically.

While Europe was indulging in self-destructive austerity, China was inter alia building a 27,000 km long high-speed rail network (about two thirds of the global high-speed rail network), with another 11,000 km under construction.¹ This was part of a counter-cyclical public investment programme which helped China to keep up high GDP growth rates. Moreover, China is the only global player taking responsibility for the world economy by financing investment projects around the world under its Belt and Road Initiative – inter alia also in Central, East and Southeast Europe (CESEE). In the Western Balkans, Chinese construction loans are as important as the EU's. European Commissioner for European Neighbourhood Policy and Enlargement Johannes Hahn has acknowledged that the EU has 'underestimated' China's reach in the Balkans.²

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

¹ <https://www.railjournal.com/passenger/high-speed/ten-years-27000km-china-celebrates-a-decade-of-high-speed/>

² <https://www.ft.com/content/4ba18efa-377b-11e9-b72b-2c7f526ca5d0>

A COLLAPSE IN EU INVESTMENT SPENDING

According to the European Statistical Office (Eurostat), gross fixed capital formation as a share of GDP in the EU declined from 21.5% in the five years before the outbreak of the global financial crisis to 20.6% in the following five-year period, and further to 19.7% in the most recent period 2013-2017. Over the whole 15-year period the bloc's main economy – Germany – had an almost flat investment rate at an average of 19.8% of GDP. The EU Member States in Central and Eastern Europe (EU-CEE) had traditionally higher investment shares in GDP in the course of their economic catch-up process, but have more recently converged towards the low German levels (an average of 26.5% in 2003-2007, 23.8% in 2008-2012 and 21.4% in 2013-2017).

It is only due to the EU (and Chinese) co-financing of infrastructure projects in EU-CEE that the public investment share in the region is substantially higher than the EU average, let alone Germany. However, the average share of EU-CEE general government gross fixed capital formation in GDP decreased from 4.7% in the five-year period after the crisis outbreak to 4.1% in the most recent 2013-2017 period. The shares for the EU average were 3.4% and 2.8%, respectively. And in Germany it declined from 2.3% to 2.1%. However, higher EU-CEE public investment rates are only partially able to make up for the extremely low German ones. As a share of overall EU public investment, the EU-CEE represents about 11% and Germany 14%.

WILL GERMANY CHANGE?

Given the big weight of German public investment in the EU, it is pivotal that Germany reverses the course of its fiscal policy. So far, there have been little indications that this will happen. In 2018, Germany achieved a record budget surplus of incredible EUR 58 bn³ (i.e. 1.7% of GDP). In addition, the German Federal Statistical Office recently published new data showing that between 2003 and 2018 public net fixed capital formation was negative in every single year, accumulating to a depreciation of public infrastructure in Germany of EUR 87 bn.⁴

This happened at a time when Germany was mostly paying negative interest rates on public debt. German 2- and 5-year Bund yields are still negative. The situation can be described as intellectually embarrassing. Moreover, the interest rates are set to remain below zero. The European Central Bank (ECB) announced on 7 March 2019⁵ that its policy interest rates will remain at the current record low levels at least through the end of 2019, that the ECB will reinvest the securities purchased under the asset purchase programme, and that a new round of cheap long-term loans to banks willing to expand lending (TLTRO-III) will be introduced. The question arises whether the ECB will be ever able to abandon monetary stimulus, at least in the foreseeable future.⁶

One of the legal impediments to a more expansionary fiscal policy in Germany is the German Debt Brake – the 'Schuldenbremse'. Anglo-Saxon economists have been arguing for a long time against similar fiscal rules.⁷ However, it is fairly new that also German economists start to question the

³ https://www.destatis.de/EN/PressServices/Press/pr/2019/02/PE19_065_813.html

⁴ <https://twitter.com/KeineWunder/status/1100723877053980672>

⁵ <https://www.ecb.europa.eu/press/pr/date/2019/html/ecb.mp190307~7d8a9d2665.en.html>

⁶ <https://www.ft.com/content/7ca851de-40de-11e9-b896-fe36ec32aece>

⁷ <https://mainlymacro.blogspot.com/2019/03/is-german-debt-brake-worst-fiscal-rule.html>

'Schuldenbremse', including the director of the employer-oriented German Economic Institute.⁸ Also, given the increasing pressure from populist parties throughout Europe, the German government might change its mind and move to a more cooperative stance that has the potential to stabilise the euro area with the help of increased investment and as a consequence higher economic growth. This is all the more important given the current cyclical downturn.

A EUROPEAN SILK ROAD!

One option would be a coordinated pan-European infrastructure investment project inspired by the Chinese initiative. In a recent study, wiiw suggested the construction of a 'European Silk Road'.⁹ There, we argue for a 'Big Push' in infrastructure investments in greater Europe. We propose the building of a European Silk Road, which connects the industrial centres in the west with the populous, but less developed regions in the east of the continent and is thereby meant to generate more growth and employment in the short and long run.

After its completion, the European Silk Road would extend overland by around 11,000 km on a northern route from Lisbon to Uralsk on the Russian-Kazakh border and on a southern route from Milan to Volgograd and Baku. The central parts are the route from Lyon to Moscow in the north and from Milan to Constanța in the south. The southern route would link Central Europe with the Black Sea area and the Caspian Sea littoral states.

A state-of-the-art motorway and high-speed railway line with a string of logistics centres, seaports, river ports and airports would set new European standards, among others in e-mobility. The full extension would cost around EUR 1,000 bn or approximately 8% of the gross domestic product of the countries situated along its two routes. The costs relative to the EU's economic output amount to about 7%.

According to a conservative estimate, the European Silk Road could lead to a cumulated economic growth of 3.5% on average and an increase in employment of around 2 million along its routes in the course of an investment period of 10 years. Under favourable circumstances and at continued low interest rates, an employment creation of over 7 million could be expected in greater Europe.

⁸ <https://www.handelsblatt.com/politik/deutschland/defizitregel-oekonomen-stellen-schuldenbremse-infrage/24035638.html>

⁹ <https://wiiw.ac.at/a-european-silk-road--p-4608.html>

Recent investment trends in CESEE countries: supply-side fundamentals of the catch-up are weak

BY LEON PODKAMINER

It is suggested that capital formation in CESEE countries is insufficient for safeguarding a sustained income catch-up with the developed countries. The recent slowdown in investment growth which started in 2009 yet cannot be blamed on inadequate investment profitability. In fact, profitability is generally much higher than in the years 1995-2005.

INTRODUCTION

Gross fixed capital formation (GFCF, or investment in short) is an important, although generally rather volatile, component of aggregate output (or GDP). As long as an economy operates below its productive capacity, the higher investment the higher is – ceteris paribus – GDP. A short-term increase in investment – when not achieved at the expense of consumption or the foreign trade balance – augments GDP growth.

In the longer run investment of proper magnitude (and structure) is vital because by adding to the existing capital stock, it co-determines (together with the labour force available, its qualifications and other – institutional – factors) the productive capacity of any economy. With inadequate productive capacity the long-term output growth may stagnate even when aggregate demand stays sufficiently strong.

It is generally assumed that the less developed countries (including the CESEE countries) will gradually catch up, in terms of per capita output, with the highly developed ones (the 'West'). The catch-up implies, among other things, also convergence in terms of productive capacities – and thus in the levels of productive capital stocks. Coming to parity with the West as far as capital stocks are concerned requires that the investment volumes in CESEE are sufficiently higher than in the West.

PREMATURE CONVERGENCE IN TERMS OF THE AGGREGATE INVESTMENT/GDP SHARES

Volumes of investment in the CESEE countries are much lower than in the West (as will be discussed later on). At best one observes the CESEE countries' GDP investment shares converging to the West European levels. Since 1995 the GDP shares of investment in the CESEE countries have generally been higher than in Western Europe, the latter represented by the euro area-12 (see Table 1). However, the differentials between the shares for the EU CEE-11 group ('the new EU Member States') and the

euro area (EA-12), which were quite large during the boom years 2006-2009, have narrowed afterwards (see Figure 1).

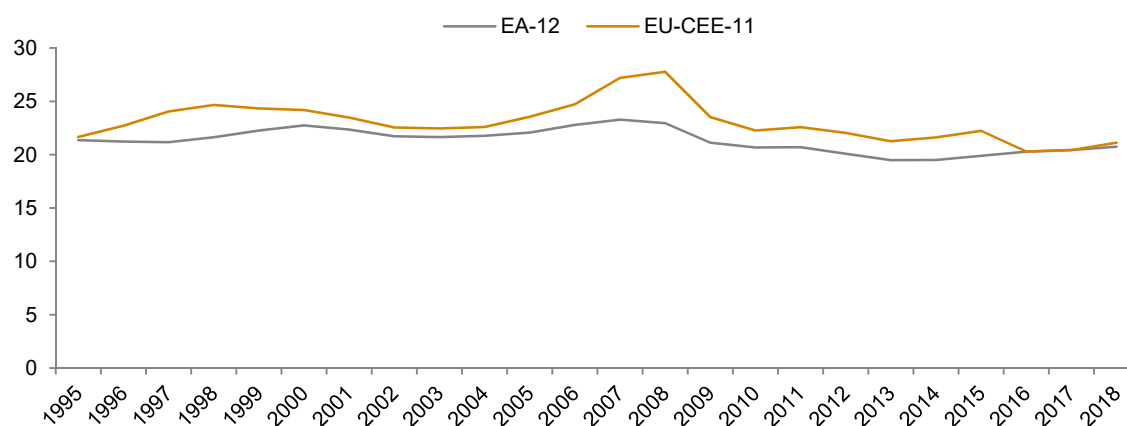
Table 1 / GDP shares of gross fixed capital formation, 2000, 2006, 2012 and 2018, in %

	2000	2006	2012	2018
Bulgaria	16.8	27.6	21.3	19.3
Czech Republic	30.6	28.0	25.9	25.4
Estonia	26.6	36.7	28.6	23.9
Croatia	20.0	26.6	19.6	20.0
Latvia	25.2	34.2	25.4	22.1
Lithuania	19.1	25.9	17.4	20.0
Hungary	25.4	23.5	19.3	24.4
Poland	23.7	20.4	19.8	18.2
Romania	19.3	26.4	27.4	22.9
Slovenia	27.3	27.8	19.2	19.4
Slovakia	27.3	27.3	21.2	22.9
EU-CEE-11	24.2	24.7	22.0	21.1
North Macedonia	20.3	20.1	23.4	20.8
Turkey	22.3	28.7	27.3	30.8
Montenegro	17.6	22.8	19.8	30.6
Serbia	14.1	22.3	21.2	18.8
Albania	31.9	38.1	26.5	24.4
Bosnia and Herzegovina	.	22.6	18.6	18.4
Belarus	25.2	29.7	33.4	25.0
Kazakhstan	17.3	30.2	22.8	22.0
Russia	16.9	18.5	21.5	21.1
Ukraine	19.7	24.4	19.4	17.4
EA-12	22.7	22.8	20.1	20.7

Notes: The shares for 2018 are provisional. The EA-12 and EU-CEE-11 aggregates (investment and GDP) are calculated using the current purchasing power parities (PPPs).

Source: AMECO and wiiw database.

Figure 1 / GDP shares of gross fixed capital formation for EA-12 and EU-CEE-11 since 1995, in %

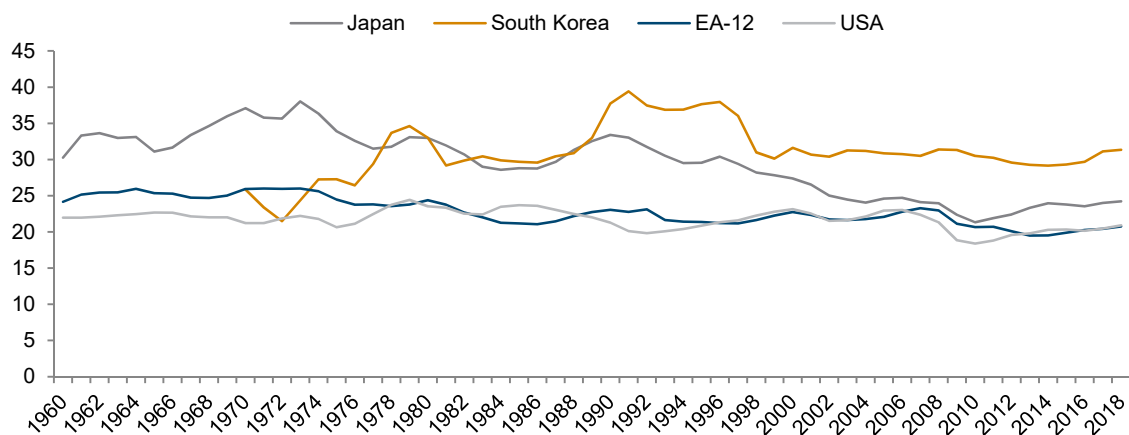


Notes: The EA-12 and EU-CEE-11 aggregates (investment and GDP) are calculated using the current purchasing power parities.

Source: AMECO.

History demonstrates that countries which experienced longer periods of fast growth in the past had also sustained prolonged phases of high investment shares. This was the case of Japan and South Korea (see Figure 2) as well as of Western Europe (EA-12). As can be seen from Figure 2, until 1982 Japan's investment share exceeded the 30% mark by a wide margin. South Korea's share has been higher than 30% since about 1978 (and much higher in the late 1980s and early 1990s). Until 1974 the investment share for the EA-12 group was also relatively high (around 25% on average) – at least when compared with the 20.3% for more recent years (2008-2018). This contrasts with the performance of the EU-CEE-11 group, for which the average investment share for the recent years (2009-2018) has been about 21.8%.

Figure 2 / GDP shares of gross fixed capital formation for the USA, Japan, South Korea and EA-12 since 1960, in %



Source: AMECO.

The investment share tends to be positively related to the GDP growth of the economies in question. The average annual real GDP growth rate for EA-12 was 5.2% (years 1961-1973), 6.4% for Japan (years 1961-1990) and 6.9% for South Korea (years 1971-2018). For the EU-CEE-11, the average GDP growth rate was 3.4% in 1995-2018 and 2.3% in 2009-2018.¹ For 2019 and 2020, wiiw expects for the EU-CEE-11 group GDP growth rates of 3.2% and 3.0% respectively.²

INVESTMENT IN MACHINERY AND EQUIPMENT IS STILL COMPARATIVELY LOW

The overall GFCF consists of several components including, inter alia, investment in dwellings and investment in machinery and equipment. The former investment is not only less significant for the expansion of productive capacities but is also more prone to periodical expansions driven by speculative sentiments rather than by rational business calculations (as was experienced by many countries during the run-up to the recent global financial crisis). It is rather obvious that one is well advised to focus the analysis of longer-term tendencies primarily on investment in machinery and equipment.

¹ Source: wiiw database.

² See wiiw Spring 2019 Forecast Report.

In terms of the investment composition, the CESEE countries may seem to have an advantage over EA-12. On average the investment in dwellings accounted for over 26% of the total GFCF for the EA-12 group (years 2008-2018) while the respective shares for individual CESEE countries (excepting North Macedonia and Albania) were less than 15%. Conversely, the shares of investment in machinery and equipment were definitely higher in most CESEE countries than in EA-12. The average (unweighted) share of investment in machinery and equipment in EU-CEE-11 was over 38% (years 2008-2018) against the average (weighted) 30% share for EA-12.

However, despite the fact that the *shares* of investments in machinery and equipment are higher in CESEE than in EA-12, in terms of *real per capita volumes* (allowing for purchasing power parities with respect to investment in machinery and equipment) of such investments, CESEE countries fall short of the West (see Table 2).

Table 2 / Per capita volumes (at purchasing power parities) of investment in machinery and equipment in 2005 and 2014 (Germany = 100)

	2005	2014
North Macedonia	8.7	16.0
Montenegro	11.5	17.3
Bosnia and Herzegovina	15.5	16.4
Serbia	16.5	18.5
Russia	17.3	37.8
Albania	20.4	8.5
Turkey	21.6	45.5
Bulgaria	22.1	28.5
Romania	22.7	40.5
Poland	26.9	40.6
Lithuania	31.7	38.6
Croatia	42.3	33.5
Hungary	44.6	55.0
Slovakia	49.2	74.5
Latvia	50.5	45.8
Estonia	54.0	73.6
Czech Republic	57.4	83.7
Slovenia	79.1	64.2
Japan	101.3	116.8
United States	119.5	135.1
Austria	126.3	104.4

Source: OECD (<https://stats.oecd.org/Index.aspx?DataSetCode=PPP2014>).

As can be seen from Table 2, in terms of real volumes of investment in machinery and equipment only the Czech Republic fares reasonably well – in comparison to Germany. (Germany itself trails behind the US and Japan.) The investment gaps for Slovenia, Slovakia and Estonia are considerable – and rather huge for the remaining CESEE countries.

If the volumes of investment remain that much lower than in Germany, it is rather unlikely that most CESEE countries will ever catch up with Germany in terms of production capacities. For this to happen the unit physical productivity of items of machinery and equipment invested in the CESEE countries

would have to be much higher than the physical productivity of identical items invested in Germany.³ However, there is little reason to believe that e.g. an industrial robot installed in a Hungarian car factory would be operating twice faster than an identical robot installed in a German car factory. Concluding, the numbers currently available do not justify an expectation of a sustained long-term catch-up of CESEE countries with the West, in terms of productive capacities. By implication, it would be premature to claim these countries would necessarily have to catch up with the West in terms of per capita incomes in the foreseeable future. For this to happen, they would have to see per capita investment sufficiently larger than in the West.

INADEQUATE SAVINGS OR PROFITABILITY DO NOT SEEM TO HAVE DEPRESSED INVESTMENT

The sums of money invested by any firm augmenting its stock of fixed assets may depend on the stock of savings accumulated by that firm (or by its willing lenders) in the past. It is however an elementary mistake (exposed already by Lord Keynes) to maintain that the magnitude of *aggregate* national investment in a year (or quarter) is determined by the total of sums saved during that year (or quarter). Causality runs in the opposite direction: at the macro level, current investment determines current savings – with the latter mirroring the former. The existence of monetary (or financial) savings accumulated in the past may be conducive to – but is not necessary for – high investment.⁴ The suggestion that investment is too low because so are savings is incorrect. In particular, the suggestion that higher household savings automatically result in higher investment is incorrect generally.⁵

Investment by any individual profit-oriented firm can be restricted by low expected financial returns on that investment (e.g. when interest rates are relatively high or when for some reason the profit rates are relatively low and falling).

Does this dictum remain valid on a *macroeconomic* level? Is low/falling average profitability a likely cause of falling investments by an average profit-oriented firm? This is an empirical question that is hard to answer because the data needed for this is hard to come by. AMECO⁶ reports time series on *net returns on net capital stocks*. This item makes use of the total capital stocks *net of depreciation*. Necessarily, the net capital stock is a somewhat arbitrary entity. In addition, it deals with capital stocks of the entire economy, combining the stocks of capital of the profit-oriented sector with the stocks of capital of the public sector. Also the 'net returns' category may be misleading because it does not distinguish between the returns of the profit-oriented and the public sectors. Thus, AMECO data on the net returns on net capital stocks are very rough approximations to the non-existent measures of firms' aggregate profitability. Figure 3 shows long-term trends in net returns on net capital stocks in EA-12, Germany and the United States. As can be seen, profitability declined in Germany (and in EA-12) in the 1960s and

³ Items much differing in terms of physical productivity could not be termed 'identical'. Their relative prices (and PPPs) would have to reflect the productivity differentials.

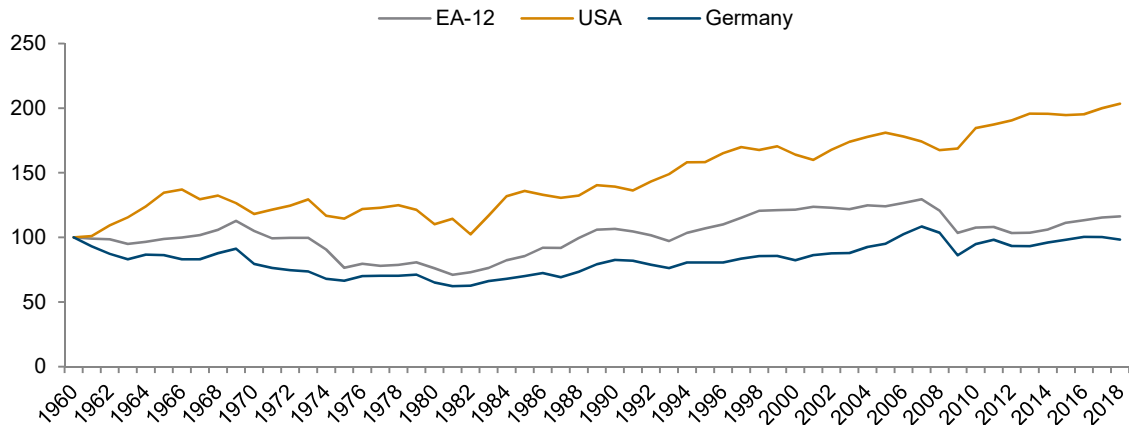
⁴ Most CESEE countries emerged from WWII without any 'financial savings' whatsoever. And yet very high investment (reconstruction and industrialisation) started almost right away in most of them.

⁵ Only under full utilisation of an economy's productive capacity higher household saving (i.e. lower consumption) may be necessary for higher investment. Such conditions prevailed under the 'planned economy' systems (or in the market economies during times of war).

⁶ AMECO is the annual macro-economic database of the European Commission's Directorate General for Economic and Financial Affairs.

1970s – precisely when investment shares were relatively high. Since the early 1980s profitability has been on the rise (also – very strongly – in the US). But that development went together with *declining* GDP shares of investment.

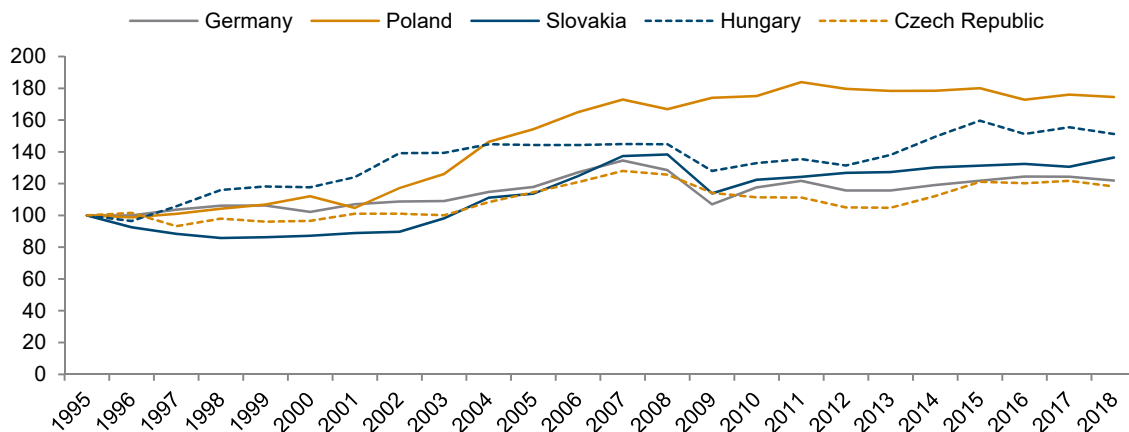
Figure 3 / Net returns on net capital stock for EA-12, USA and Germany since 1960 (1960 = 100)



Source: Own calculations based on AMECO data.

A similar dissociation of profitability and investment seems to obtain for EU-CEE-11. Figure 4 shows that profitability in the major EU-CEE countries was rather depressed until about 2003 – and generally much higher later on (especially after 2012-13). But investment shares were much higher in the second half of the 1990s and in the early 2000s – and have declined after 2009.

Figure 4 / Net returns on net capital stock for Germany, Poland, Hungary, Slovakia and the Czech Republic since 1995 (1995 = 100)



Source: AMECO.

STRONGER EXPANSION OF AGGREGATE DEMAND MAY BE NEEDED FOR A FASTER GROWTH OF INVESTMENT

In a market economy, profit-oriented firms are expected to expand productive capacities when faced with the prospects of higher (and profitable) sales. When the prospects of higher sales remain subdued it would be irrational for such firms to engage in such expansions. It can be argued that the secular weakening of investment in the high-income part of the global economy which started in the first half of the 1970s may have been related to the weakening of the growth of aggregate consumer demand.⁷ The weakening of consumer demand itself may be seen as a necessary by-product of the evolving functional income distribution whereby the GDP wage share has been declining (making space for the rising GDP share of profits).

The hypothesis that long-term growth depends not only on the proper pace of capital formation but – equally – on a proper pace of growth of demand deserves to be further examined. If valid, that hypothesis would suggest that the economic policies of the developed countries (and of the EU in particular) would have to be radically overhauled. Under changed EU economic policy paradigms, capital formation in CESEE countries could become much faster, thus possibly speeding up their economic convergence to the West.

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⁷ See e.g. Podkaminer (2015, 2018 and 2019).

Outward FDI and intra-regional integration of EU-CEE11 countries

BY GÁBOR HUNYA

Outward FDI is still of much smaller magnitude than inward FDI in EU-CEE11, while the net FDI position is only loosely linked to the level of economic development. The level of outward FDI has increased over time but not in all countries of the region. A significant share of outward FDI has been within the region but the share of intra-regional investment has declined in the case of the larger investors.

INTRODUCTION

Outward FDI can act as an important source of competitiveness. The capability of investing abroad indicates that a country/company has superior knowledge, technology or capital power relative to its competitors (Dunning, 1981). An outward investor is able to organise its international activity and generate income abroad to finance its development. The ability to invest abroad can be attained as the result of economic development, corporate growth and technological advance of the investing country/company. Less developed countries do not invest abroad, in general; outward FDI starts to take off much later than FDI inflows. According to the investment development path (IDP) paradigm (Narula and Guimón, 2010), catching-up countries import more capital than they export, while developed countries are usually equally strong capital importers and exporters. Development level and country size explain much of the intensity of FDI engagement; smaller countries are usually more open to international trade and capital flows than large countries. Countries involved in FDI have passed from a one-sidedly capital importing position to capital exports as they were becoming more developed while the geographic orientation of FDI has been in conformity with gravity, the proximity bias of FDI. These general characteristics of FDI are largely valid for EU-CEE11¹, but with important modifications to be explored in this article.

OUTWARD FDI ACTIVITY ON THE INCREASE, BUT LITTLE CHANGE IN THE NET FDI POSITION

More developed countries in EU-CEE11 invest more abroad than those with lower per capita GDP, but there are exceptions. In 2017 (or 2016; data for the latest available year) the highest amount of outward FDI stock² (OFDI) was recorded in Poland and Hungary, at close to EUR 25 billion each, followed by the

¹ EU-CEE11: the Central and East European EU Member States Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

² Outward FDI stock is a more proper indicator to express the size and change of foreign engagement than the highly volatile FDI outflow.

Czech Republic with EUR 20 billion (Table 1).³ Other countries export significantly smaller amounts of direct investment capital and Romania is almost absent from the list of capital exporters.

Corrected for country size and level of development, Estonia and Hungary stand out with the highest amounts of OFDI relative to GDP, 28% and 20% respectively. Slovenia, the Czech Republic (the two most developed countries of the region) and less developed Croatia follow with somewhat more than 10%, while the rest of the region shows relatively small engagement in outward FDI activity. Poland, the region's largest investor, is with 5% still way behind of what would follow from its size and level of development. The relatively large internal market allows Polish companies to escape internationalisation until a later stage of corporate growth. Also Slovakia's FDI export is rather small relative to GDP which cannot be explained by country size. The least developed among the EU-CEE11, Bulgaria and Romania, perform in line with their level of development, while Croatia and Hungary are above it. Between 2010 and 2017/2016, the amount of OFDI increased in all EU-CEE11 economies except Romania and Slovenia. It declined as a percentage of GDP also in Bulgaria and Estonia.

Table 1 / Outward FDI stock (OFDI) in nominal EUR and in percent of GDP

	OFDI EUR million		OFDI in % of GDP	
	2010	2017	2010	2017
Bulgaria	1933.3	2302.4	5.1	4.5
Croatia	3325.0	5114.2	7.4	10.4
Czech Republic	11165.7	19934.5	7.1	10.4 ¹⁾
Estonia	4149.6	6511.9	28.2	27.6
Hungary	16702.4	24857.4	16.9	20.0
Latvia	669.6	1592.0	3.8	5.9
Lithuania	1576.7	2944.4	5.6	7.0
Poland	12279.5	24950.7	3.4	5.3
Romania	1130.6	631.9	0.9	0.3 ¹⁾
Slovakia	2586.8	2693.3	3.8	3.2 ¹⁾
Slovenia	6097.4	5909.2	16.8	13.7

Note: 1) 2016 instead of 2017.

Source: wiiw FDI Database.

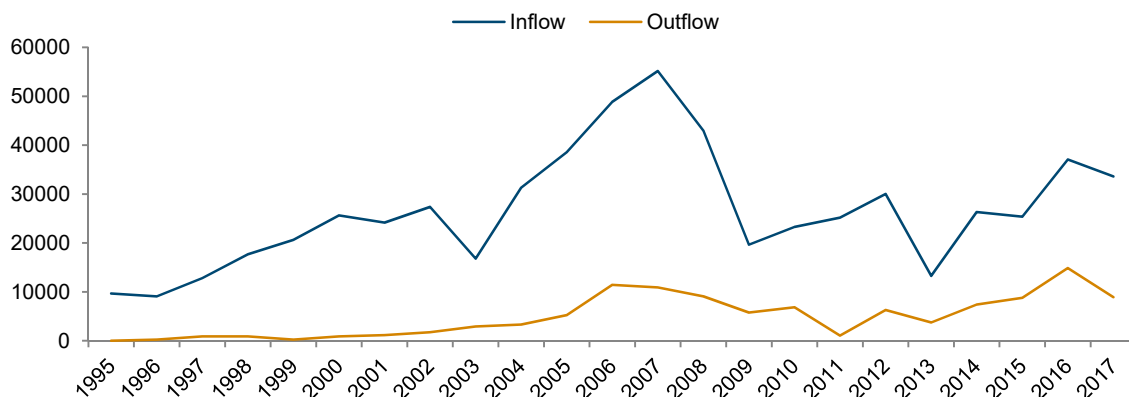
FDI outflows and inflows have taken a parallel path in general (Figure 1) meaning that they changed in accordance with external conditions. They followed the European business cycle and the changes in the internationalisation of European firms. FDI in both directions culminated in 2006-2007 and fell back in subsequent years of the international financial crisis. After a minor recovery, they fell again in the course of the euro crisis. A significant and lasting recovery started in 2014, and the 2017 setback seems limited and temporary. Inflows are at about two thirds of the pre-crisis level in the last two years, while outflows have reached the pre-crisis peak. Both amounts are in nominal euro terms, thus still well below 2007 in real terms.

The financial crisis and the euro crisis had both short-term and long-term impacts on outward FDI. Disinvestments, the withdrawal of exported assets (negative FDI flow), diminished the FDI stock of Estonia and Slovenia. In the early 2010s indirect investments of Scandinavian banks in Estonia serving Latvian and Lithuanian customers were restructured into FDI in the other two Baltic countries. As to Slovenia, some of the large companies with subsidiaries in the former Yugoslavia ran into financial difficulties and divested. The global and long-term impacts of the financial crisis on FDI are also at work

³ For detailed data please consult the wiiw FDI Database and the annual wiiw FDI Reports (Hunya, 2018).

in the EU-CEE11: elevated risk awareness of investors, growing protectionism of states, preference given to national champions and increasing state control hinder the recovery of international investment activity. Inward investors to the region have by now used the local market and resource potential. Some EU-CEE11 companies, on the other hand, have found the local market too small for development and stepped up their activities in foreign markets.

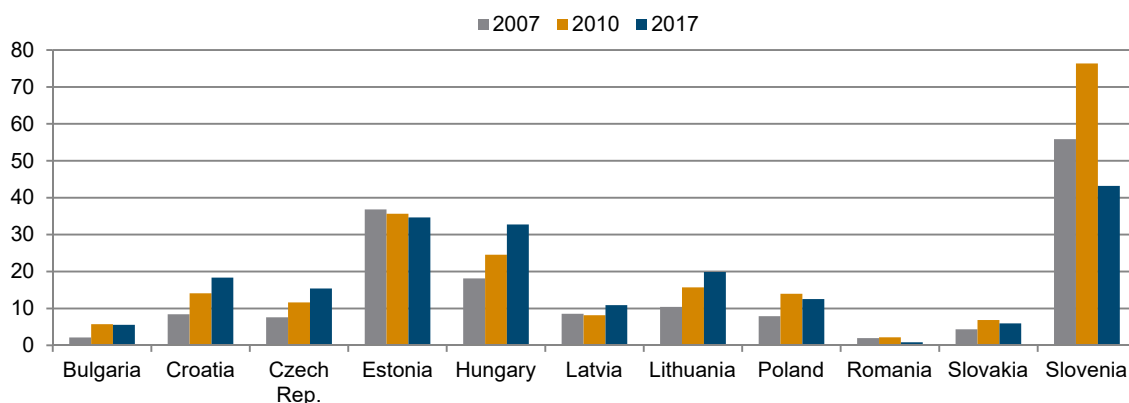
Figure 1 / FDI inflow and outflow on EU-CEE11, 1995-2017, EUR million



Source: wiiw FDI Database.

Outward FDI is still much lower than inward FDI in all EU-CEE11 countries. This is in line with their level of development, but EU-CEE11 countries correspond only partly to IDP. The net FDI position reflects the gap between inward and outward FDI. Comparing FDI positions in relation to GDP between countries and points of time shows the correspondence to the IDP theorem (Figure 2).

Figure 2 / Relative net FDI position



Remark: Inward minus outward FDI stock as a percentage of GDP.

Source: wiiw FDI Database.

In line with IDP, highly developed Slovenia has the most balanced net FDI position; the least developed Romania and Bulgaria show the largest gap. Changes over time do not support IDP in the case of the most developed countries. The net FDI position of countries which had very high outward investments already before the financial crisis declined later (Estonia and Slovenia). The large gap due to very low

outward investment activity in Bulgaria, Romania and Slovakia remained the same. The former two of these countries have probably not yet reached the level of development where outward FDI takes off. Slovakia is an outlier, developed but not investing abroad, which may be the result of the dominance of foreign subsidiaries and the lack of large domestically owned companies. Poland has received increasing inward investments since 2010 and the outward investments could not keep pace with it. All in all, only five out of eleven countries show a take-off in outward investments strong enough to narrow the gap to inward investments.

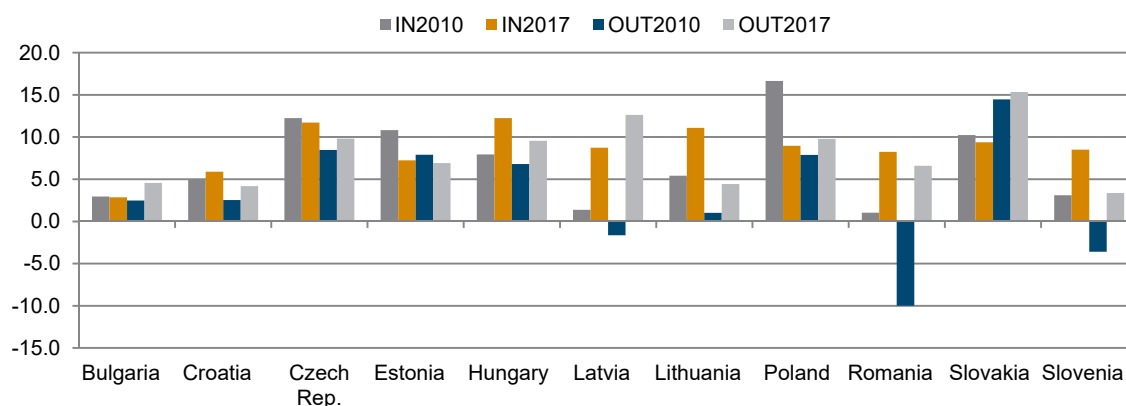
Narula and Guimón (2010) have made a valid point: 'The shape and characteristics of the IDP in these countries are heavily influenced by the transition from socialism to capitalism taking place during the 1990s and the subsequent accession into the EU of many of these countries in the mid-2000s. These structural shocks make comparisons with other developed or developing countries rather misleading.'

The IDP position and the involvement in OFDI of each EU-CEE11 country is a combination of economic, policy and transition-dependent factors. One group of countries became owners of foreign assets by the split-up of a former common country. This explains the origin of much of the OFDI of the Czech Republic, Croatia and Slovenia. The Baltic countries do not have mutual past ownership despite being split off from the same former state. But, investors had initially treated them as one region and locational advantages attracted FDI to Estonia to become the headquarters for investments in Latvia and Lithuania. This changed when each of the Baltic states embarked on more stable economic growth.

SOMEWHAT LOWER PROFITABILITY OF OUTWARD THAN OF INWARD INVESTMENTS

The FDI-related income generated by OFDI is below that earned by inward investors in seven of the EU-CEE11 in 2017. As to the main investing countries, the Czech Republic, Hungary and Poland, the rate of return was close to 10%, which is good by international standards but lower than that of inward investors with the exception of Poland. The relatively small amounts of Latvian and Slovak OFDI are highly profitable, while Croatian and Slovenian OFDI attains only small profits on investments in a period of low growth and high corporate restructuring needs.

Figure 3 / Rate of return on inward and outward FDI, 2010 and 2017, in %



Remark: Rate of return on FDI = FDI-related income as recorded in the balance of payments per FDI stock; own calculation.
Source: wiiw FDI Database and Annual Database.

EU-CEE11 MULTINATIONAL COMPANIES – SMALL NUMBER OF LARGE ONES

The number of foreign affiliates headquartered in EU-CEE11 (data are available for 9 countries) is rather small but they generate significant turnover and employment in the host countries (Table 2). The number of foreign affiliates of Czech and Slovenian multinational companies (MNCs) declined from 2010 to 2016 and so did the employment in these affiliates; the turnover, however, fell only in the case of Slovenian subsidiaries – based on Eurostat FATS (statistics on the structure and activity of foreign affiliates) data. The reason for that fall in turnover must be the same as for the declining FDI stocks and related to the economic crisis in this country. All indicators of Hungarian foreign affiliates stagnated between 2010 and 2016 despite continuous outward FDI activity. Capital-intensive affiliates invested a lot just to keep up turnover and employment. Also the number of larger Hungarian MNCs stagnated. Major increases in foreign affiliates' activity took place in the case of MNCs registered in Croatia, Latvia and Lithuania, in line with the increase in OFDI. High employment figures in foreign subsidiaries by Croatian and Lithuanian companies are due to companies active in retail trade⁴.

Table 2 / Main characteristics of outward foreign affiliates from EU-CEE11 countries

	Number of enterprises		Turnover EUR million		Number of employed	
	2010	2016	2010	2016	2010	2016
Czech Republic	487	233	4926	6530	32285	30423
Croatia	189	305	2409	7579	20561	43913
Latvia	286	436	1208	2623	6263	8600
Lithuania	420	972	2436	5365	24645	46595
Hungary	261	261	13638	13998	38667	39993
Poland	1626	2151	19557	23972	80835	107672
Romania	62	101	298	510	1513	4343
Slovenia	1729	986	6851	5799	52553	35212
Slovakia	321	478	1553	1953	14514	14349

Remark: Sectors covered: industry, construction and services (except public administration, defence, compulsory social security).

Source: Eurostat, FATS.

FDI data include investments both by locally owned MNCs and by affiliates of foreign firms investing in third countries, called indirect FDI. Efforts to separate the two have not been successful (Kalotay and Sass, 2018). Individual company information is available, however. The Czech used car trader AAA Holding with subsidiaries all across the region was bought by Abris Capital Partners, a private equity group, in 2014, but still appears as a Czech outward investor.⁵

A further distinction is necessary between privatised, still partially state-owned national champions and grassroots companies. Some of the region's flagship investors are former state-owned enterprises: the energy company CEZ in the Czech Republic, the oil company MOL, the commercial bank OTP and the pharma company Richter Gedeon in Hungary, or the oil and chemical company PKN Orlen in Poland. These relatively large MNCs have established wide international networks, mainly in the other parts of

⁴ Maxima, the Lithuanian retail chain, operates in Lithuania, Latvia, Estonia, Poland and Bulgaria and is the largest Lithuanian company and the largest employer in the Baltic states. (<https://www.maximagrupe.eu>)

⁵ <http://www.czechmarketplace.cz/news/919-abris-signs-contracts-for-acquisition-of->

EU-CEE11, and account for a large part of their home country's OFDI (Sass, 2018). They were established in the privatisation process by public offering. Some of the foreign affiliates of Slovenian and Croatian companies originate from pre-transition times.

Newly established large EU-CEE11 multinationals with activity across the region include the real estate developers TriGranit from Hungary⁶, CTP Invest from the Czech Republic and ECH Investment from Poland. These countries also host some manufacturing and IT service companies which are small or medium in size by international standards but specialise in niche products and have a multinational presence in development and sales.

INTRA-REGIONAL CROSS-BORDER INVESTMENTS – NARROWING CROSS-COUNTRY DIFFERENCES

The host country distribution of OFDI is blurred by indirect investments just as in the case of inward FDI (Hunya, 2018). Many companies invest in tax havens before the capital reaches its final destination. A distortion is that the final destination may be the investing country itself (round tripping). The Netherlands, Luxembourg and Cyprus are the top immediate investment targets for all of EU-CEE11 with the exception of Slovenia, which owns the capital in former Yugoslav countries directly. Only one major neighbouring country destination precedes the tax haven among the host countries of OFDI from Estonia, Croatian, Hungary, Latvia and Slovakia. Hungary is a special case in so far as Israel (a round tripping location) is a more important destination than any EU country except Croatia where MOL is a 50% owner of the oil company INA.

The share of mutual FDI⁷ is between one quarter and one half of EU-CEE11 countries' OFDI (Table 3). These countries are usually not used as transit locations for indirect investments; on the contrary, they may host EU-CEE11 capital via third countries.

Table 3 / Outward FDI stock of EU-CEE11 in EU-CEE11 and Serbia

	EUR million			% of total OFDI		
	2007	2010	2017	2007	2010	2017
Bulgaria	117	230	540	21.2	19.6	23.5
Croatia	1079	1022	1960	41.8	30.7	38.3
Czech Republic	2496	3211	5347	42.9	28.8	29.0 ¹⁾
Estonia	2790	2303	2750	66.5	55.5	42.2
Hungary	5861	6492	10210	52.7	38.9	41.1
Latvia	125	270	700	19.5	40.3	44.0
Lithuania	504	502	1148	47.0	31.8	39.0
Poland	2473	4650	6769	17.1	14.0	27.1
Romania	338	376	362	40.1	33.2	49.8 ¹⁾
Slovakia	891	1431	1146	70.3	55.3	45.6 ¹⁾
Slovenia	3121	3400	2978	57.2	55.8	50.4

Note: 1) 2016.

Source: wiiw FDI Database.

⁶ Texas Pacific Group (TPG) acquired a major part of TriGranit in 2015 and sold it to the transnational investor Revetas and Alternative Investments & Manager Selection Group of Goldman Sachs Asset Management in 2018. (<https://trigranit.com/revetas-announces-acquisition-of-trigranit-from-tpg-real-estate/>)

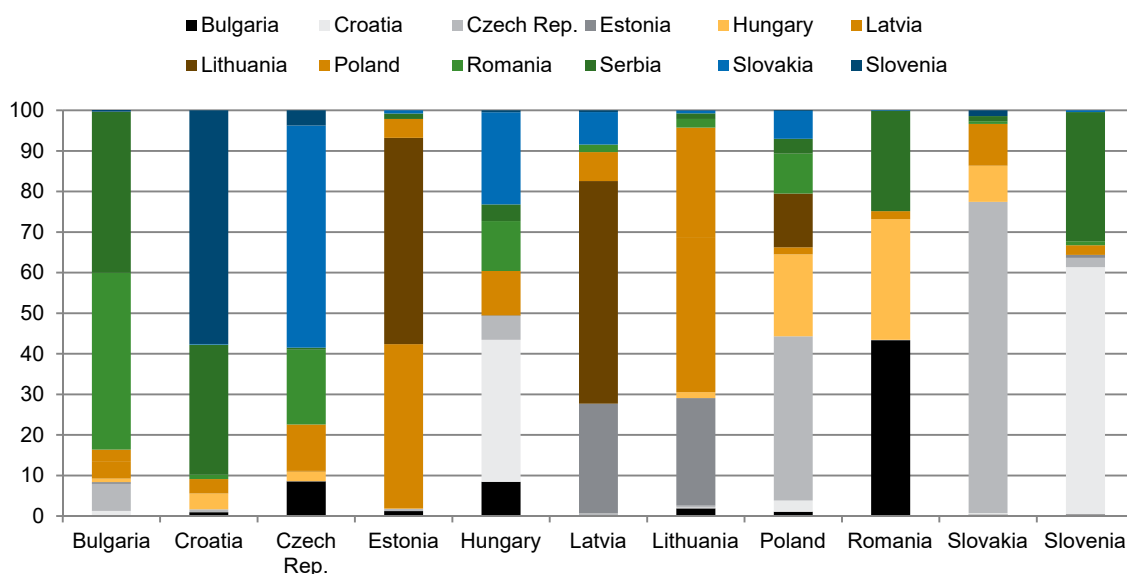
⁷ Serbia was added as the most important host country of EU-CEE11 FDI in the Western Balkans. Serbia is no outward investor in the EU-CEE11; it owns foreign assets mainly in the Serbian part of Bosnia and Herzegovina.

The highest share of OFDI from EU-CEE11 plus Serbia appears in Slovenia and Romania (50%) and the lowest in Bulgaria, the Czech Republic and Poland (below 30%). The extreme cases of Bulgaria and Romania do not need special attention due to the very low amount of OFDI. On the other side, the Czech Republic and Poland are large investors with a relatively wide regional distribution and therefore limited concentration in the region. Hungary's OFDI in the region is of the highest volume among the EU-CEE11 which is 40% of the total (Table 3).

The change in shares from 2010 to 2017 is significant in some countries and the trend is towards decreasing differences. Higher regional OFDI shares were reported by eight countries, mainly those which had low OFDI or low EU-CEE11 shares in 2010 (Poland and Latvia), and lower by those with the highest regional shares in 2010 (Estonia, Slovenia and Slovakia).

The first two target countries receive the overwhelming part of each investing country's OFDI in the region (Figure 4). Slovakia invests mainly in the Czech Republic; Romania and Serbia are the almost exclusive targets of Bulgarian outward investments; Slovenia and Serbia for Croatia; Croatia and Serbia for Slovenia. The Baltic countries invest mainly among themselves, although also Poland is an important target for Lithuanian investments. Romania has three targets for its tiny amount of OFDI, namely Bulgaria, Hungary and Serbia. Slovakia hosts more than half of the Czech investments in the region, the rest of which goes mainly to Romania, Poland and Bulgaria. Polish OFDI is the most diversified among the countries in the region with 40% in the Czech Republic, 20% in Hungary and 13% in Lithuania. Croatia and Slovakia are the main targets for Hungary, mostly on account of the oil company MOL. But the share of these destinations has declined since 2010, giving way to Romania and Poland. Hungary is the only country with a trend towards diversification among the countries in the region.

Figure 4 / EU-CEE11's outward FDI stock by destination in EU-CEE11 countries and Serbia, in %, 2017¹⁾



Note: 1) 2016 instead of 2017 for the Czech Republic, Romania and Slovakia.

Source: wiiw FDI Database

FATS data are based on direct majority ownership thus tax havens do not show up as investors. For companies from Poland and the Czech Republic, the investment target with the highest turnover in 2016 was Germany with one quarter of the total, the country which accounted only for 5% of the Polish OFDI and 3% of the Czech. The foreign affiliates of both countries in Germany are active in unspecified services sectors as well as in construction. Germany is an insignificant destination for the other EU-CEE11 countries both as an FDI target and in terms of business turnover. Russia is important from the viewpoint of foreign turnover for MNEs based in Poland, Hungary and the Baltic countries; Italy only for Hungary, and the US only for Poland. The rest of the turnover is generated mainly within the EU-CEE11 region.

Table 4 / Share of EU-CEE11 and Serbia in the number, turnover and jobs of outward foreign affiliates of EU-CEE11 countries, % of total (see Table 2)

	Number of enterprises		Turnover		Job creation	
	2010	2016	2010	2016	2010	2016
Czech Republic	63.7	53.6	65.9	57.0	55.7	53.6
Croatia	33.3	41.3	55.6	81.2	24.2	77.7
Latvia	57.3	45.9	27.2	15.6	51.5	53.0
Lithuania	47.9	57.2	62.6	70.0	34.5	65.4
Hungary	52.9	52.9	58.3	63.8	65.2	63.0
Poland	23.3	25.7	33.9	28.6	20.4	27.8
Romania	38.7	51.5	15.8	56.7	8.9	62.2
Slovenia	56.1	57.7	53.0	50.4	95.4	59.1
Slovakia	71.3	69.7	62.3	70.7	50.1	50.3

Remark: Industry, construction and services (except public administration, defence, compulsory social security); no data for Bulgaria and Estonia.

Source: Eurostat, FATS.

The importance of intra-regional FDI is higher if measured by the indicators of outward foreign affiliates than based on the share in FDI stock. At least half of the foreign affiliates of six EU-CEE11 countries out of nine are located in the EU-CEE11 plus Serbia (Table 4). The regional share is above 50% in terms of turnover in the case of seven countries, and of eight countries in terms of job creation. Only Poland maintains its outlier position with limited activity in the region on account of its activity in Germany.

CONCLUSIONS

The outward FDI activity of EU-CEE11 countries still bears the imprint of transition. High engagement in OFDI is the result of country split-up or the creation of national champions in the privatisation process. The dominant position of foreign investors in many sectors of EU-CEE11 economies most probably limits the development of local MNCs.

There are a small numbers of relatively large MNCs in EU-CEE11 active in the energy, oil and chemical sectors. They are almost absent in the more technology-intensive manufacturing sectors, but more numerous in construction, trade and real estate development.

The engagement in OFDI has increased over time except in the least developed countries of the region. The relative net FDI position improved only in half of the countries in line with the IDP theorem. A significant part of the OFDI is located within the region, concentrating in only two host countries.

EU-CEE11 countries invested between one quarter and one half of OFDI within the region plus Serbia. Cross-country differences in intra-regional concentration have historical reasons and are decreasing over time. Differences are higher in terms of foreign affiliates' turnover and employment than in terms of invested capital due to sectoral specialisation.

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Monthly and quarterly statistics for Central, East and Southeast Europe

The monthly and quarterly statistics cover **22 countries** of the CESEE region. The graphical form of presenting statistical data is intended to facilitate the **analysis of short-term macroeconomic developments**. The set of indicators captures trends in the real and monetary sectors of the economy, in the labour market, as well as in the financial and external sectors.

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Conventional signs and abbreviations used

%	per cent
ER	exchange rate
GDP	Gross Domestic Product
HICP	Harmonized Index of Consumer Prices (for new EU Member States)
LFS	Labour Force Survey
NPISHs	Non-profit institutions serving households
p.a.	per annum
PPI	Producer Price Index
reg.	registered

The following national currencies are used:

ALL	Albanian lek	HRK	Croatian kuna	RON	Romanian leu
BAM	Bosnian convertible mark	HUF	Hungarian forint	RSD	Serbian dinar
BGN	Bulgarian lev	KZT	Kazakh tenge	RUB	Russian rouble
BYN	Belarusian rouble	MKD	Macedonian denar	TRY	Turkish lira
CZK	Czech koruna	PLN	Polish zloty	UAH	Ukrainian hryvnia
EUR	euro – national currency for Montenegro, Kosovo and for the euro-area countries Estonia (from January 2011, euro-fixed before), Latvia (from January 2014, euro-fixed before), Lithuania (from January 2015, euro-fixed before), Slovakia (from January 2009, euro-fixed before) and Slovenia (from January 2007, euro-fixed before).				

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

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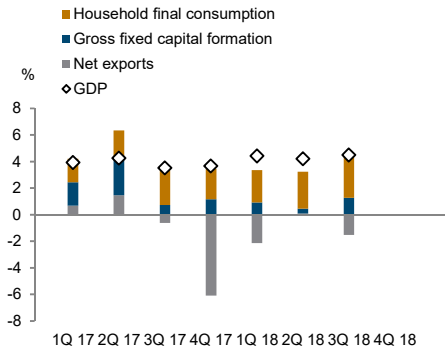
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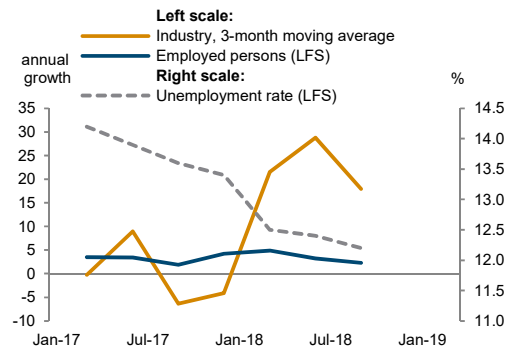
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Albania

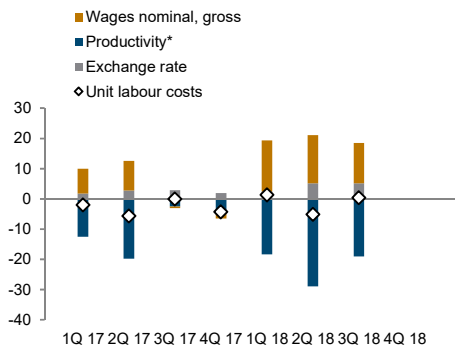
Real GDP growth and contributions
year-on-year



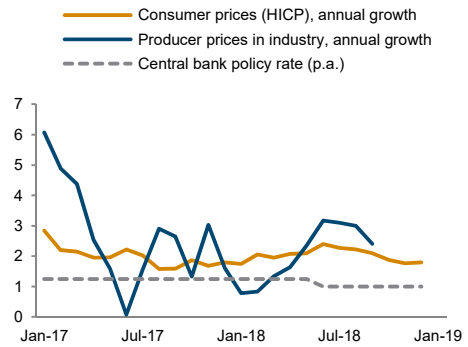
Real sector development
in %



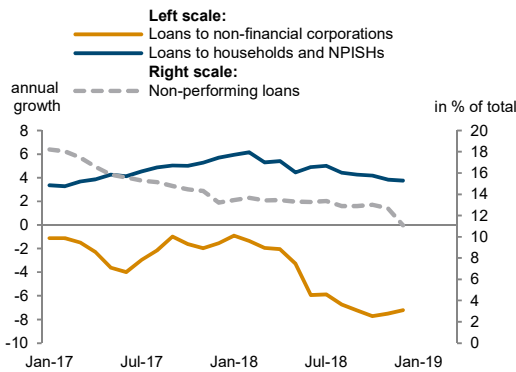
Unit labour costs in industry
annual growth rate in %



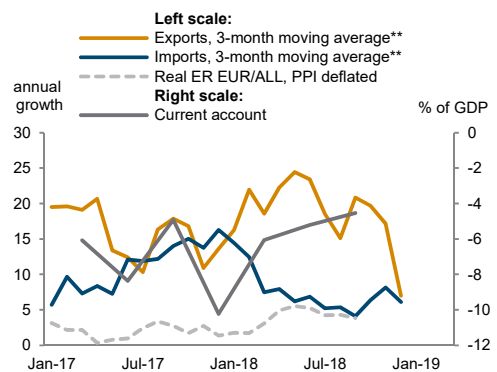
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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

**EUR based.

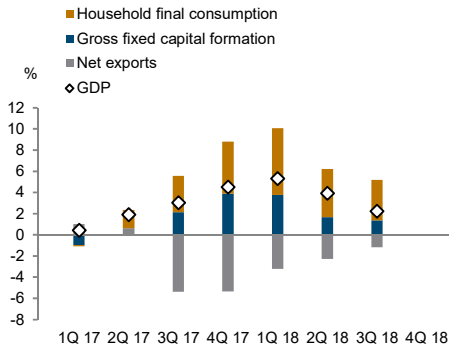
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

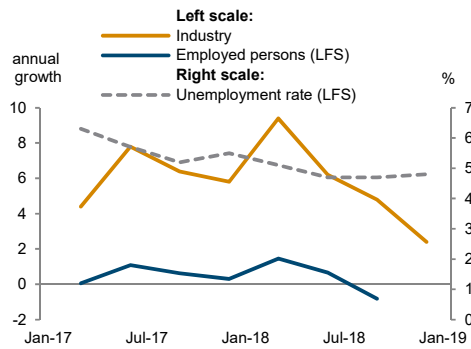
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Belarus

Real GDP growth and contributions
year-on-year



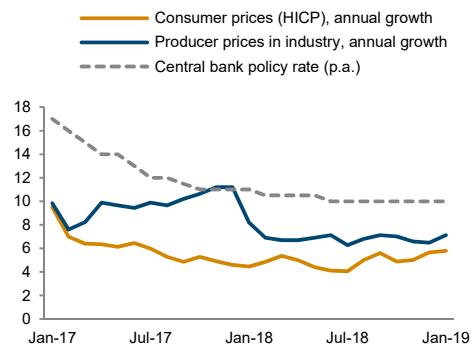
Real sector development
in %



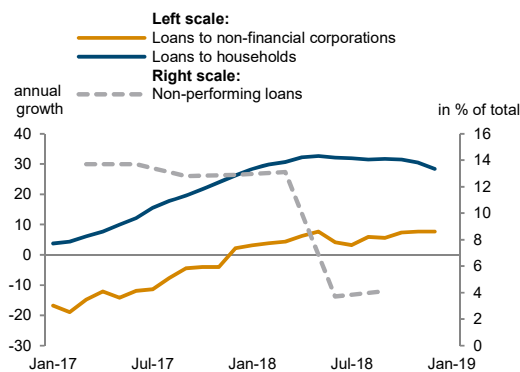
Unit labour costs in industry
annual growth rate in %



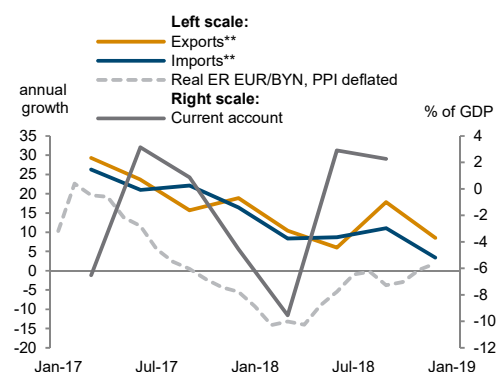
Inflation and policy rate
in %



Financial indicators
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External sector development
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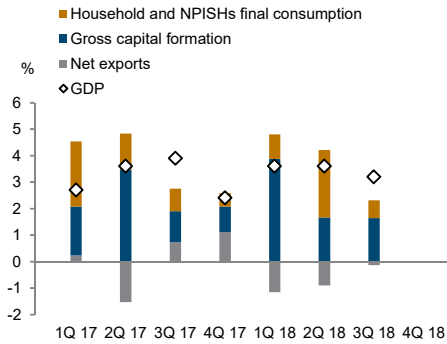
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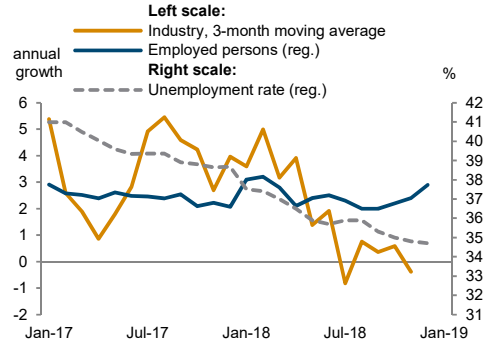
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Bosnia and Herzegovina

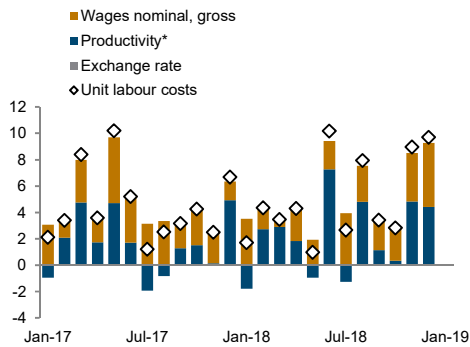
Real GDP growth and contributions
year-on-year



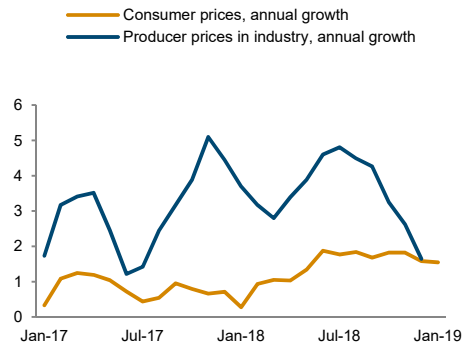
Real sector development
in %



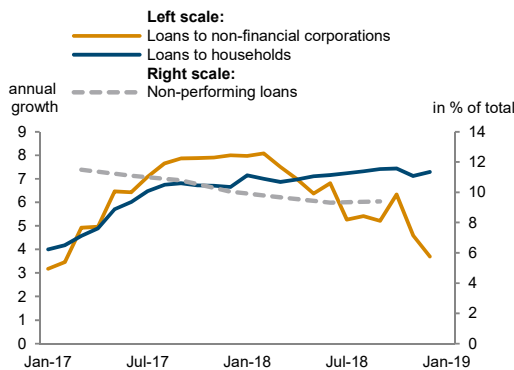
Unit labour costs in industry
annual growth rate in %



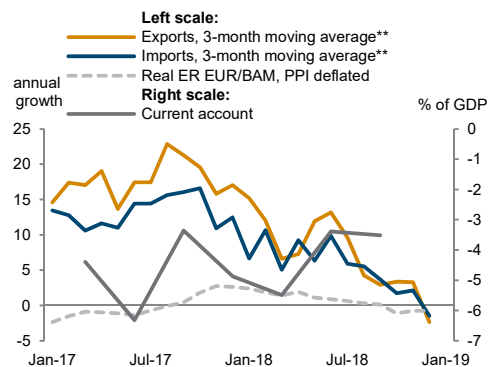
Inflation
in %



Financial indicators
in %



External sector development
in %

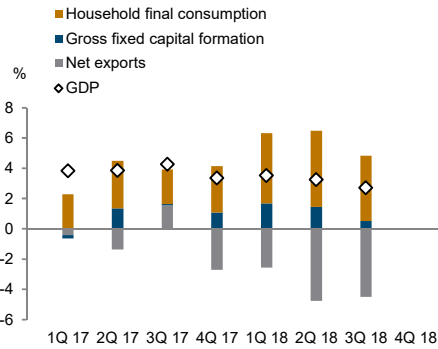


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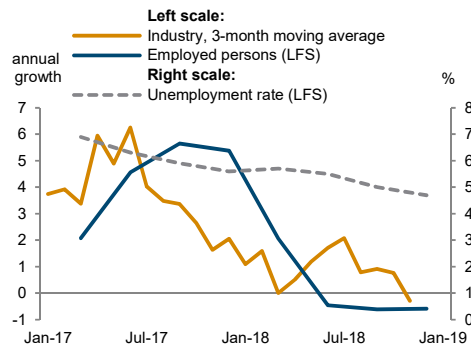
Source: wiiw Monthly Database incorporating Eurostat and national statistics.
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Bulgaria

Real GDP growth and contributions
year-on-year



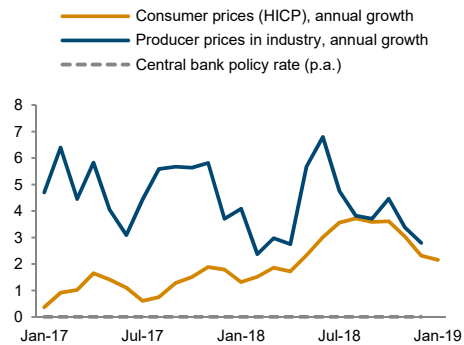
Real sector development
in %



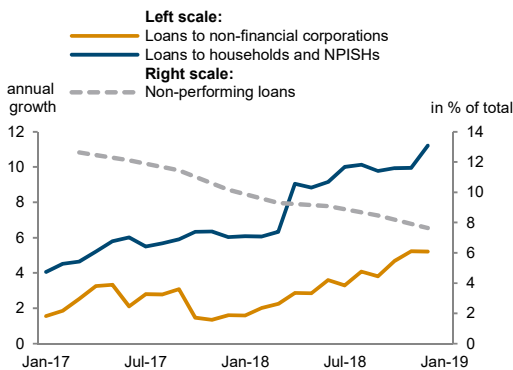
Unit labour costs in industry
annual growth rate in %



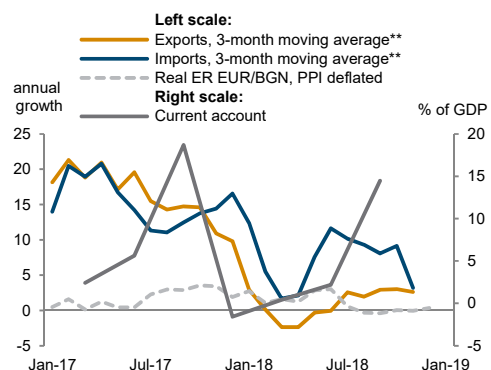
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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

**EUR based.

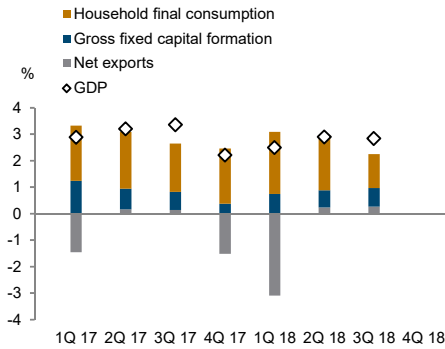
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

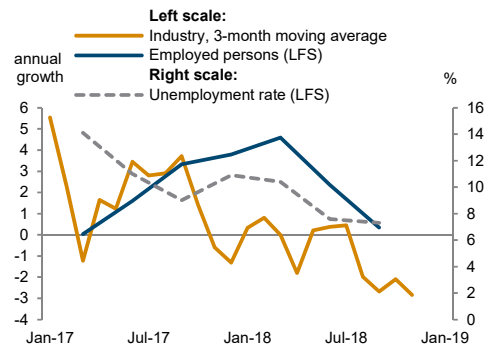
<https://data.wiiw.ac.at/monthly-database.html>

Croatia

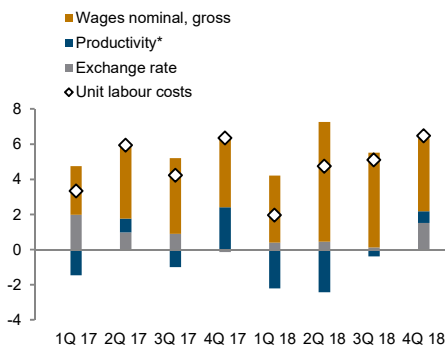
Real GDP growth and contributions
year-on-year



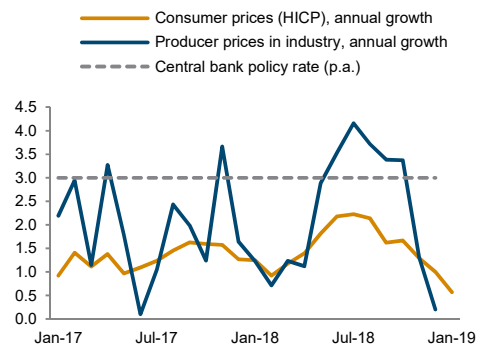
Real sector development
in %



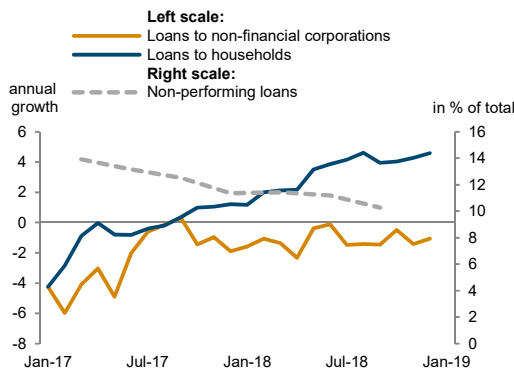
Unit labour costs in industry
annual growth rate in %



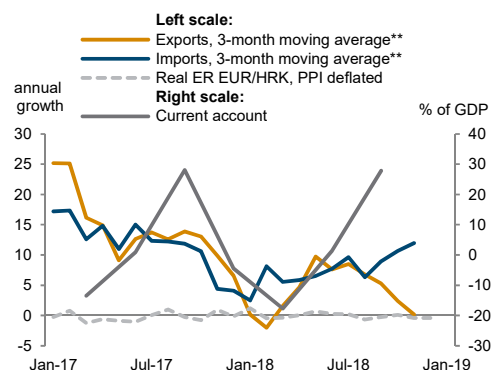
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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

**EUR based.

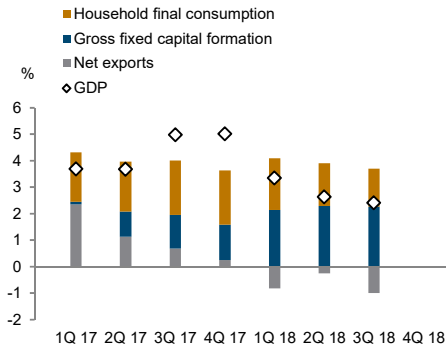
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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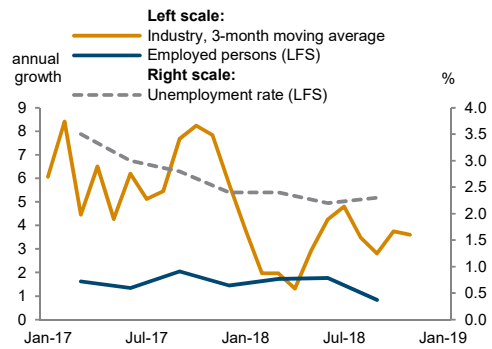
<https://data.wiiw.ac.at/monthly-database.html>

Czech Republic

Real GDP growth and contributions
year-on-year



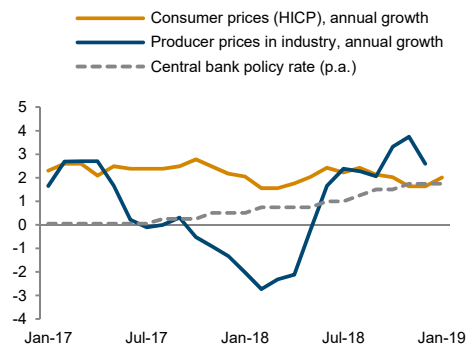
Real sector development
in %



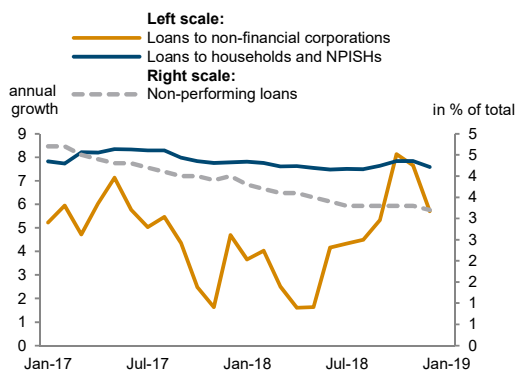
Unit labour costs in industry
annual growth rate in %



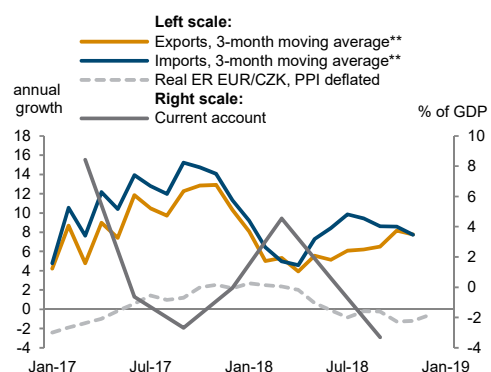
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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

**EUR based.

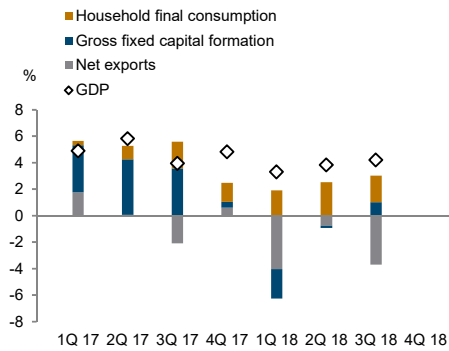
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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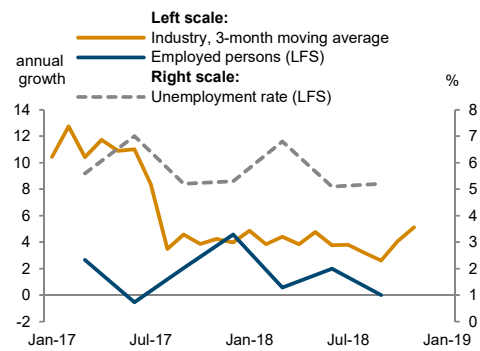
<https://data.wiiw.ac.at/monthly-database.html>

Estonia

Real GDP growth and contributions
year-on-year



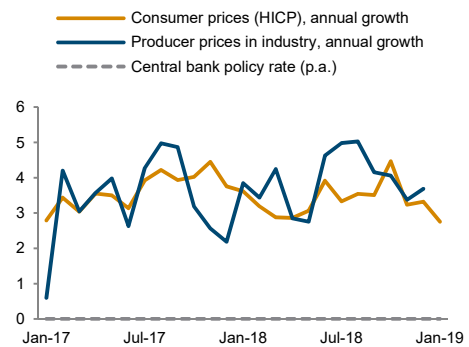
Real sector development
in %



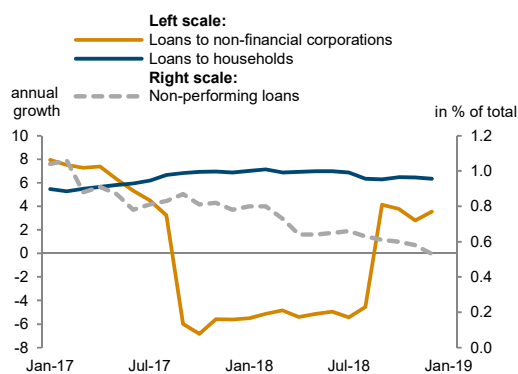
Unit labour costs in industry
annual growth rate in %



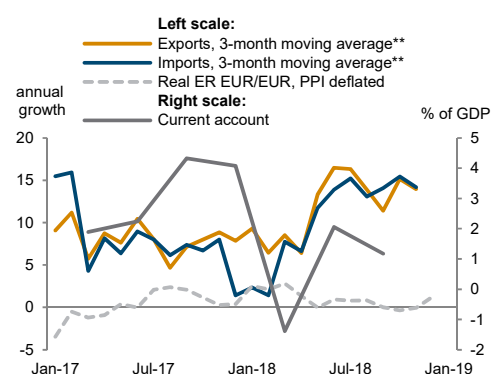
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

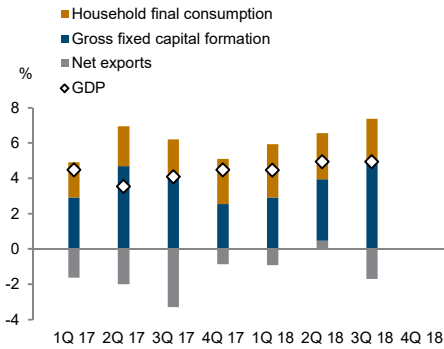
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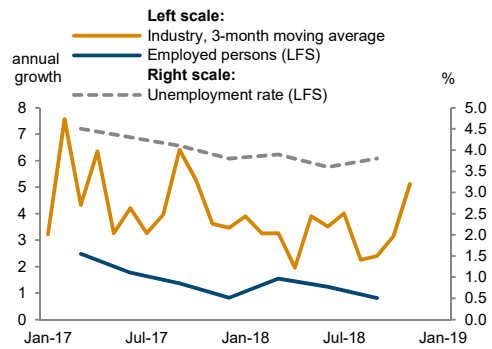
<https://data.wiiw.ac.at/monthly-database.html>

Hungary

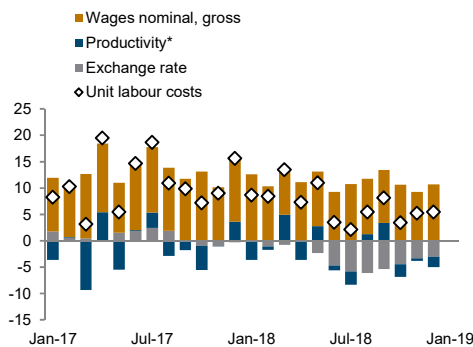
Real GDP growth and contributions
year-on-year



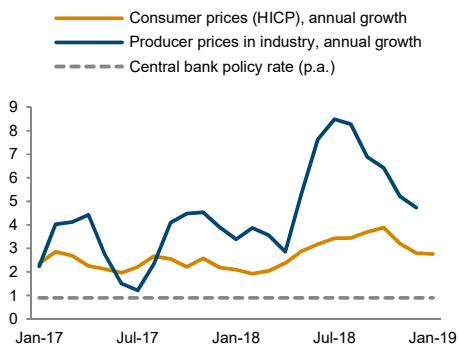
Real sector development
in %



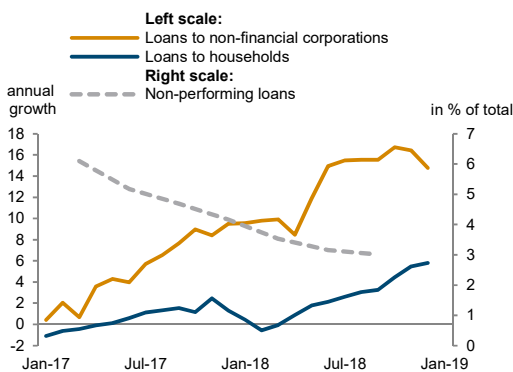
Unit labour costs in industry
annual growth rate in %



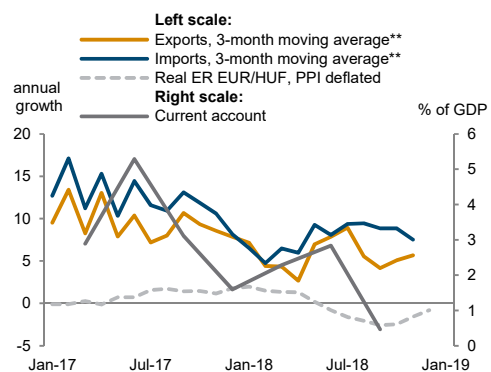
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

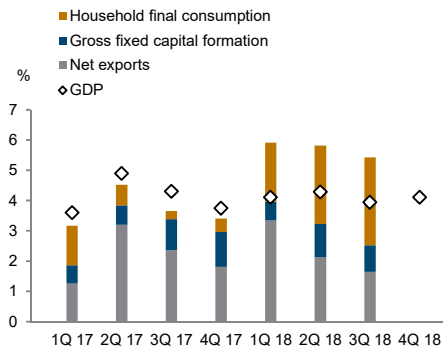
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Kazakhstan

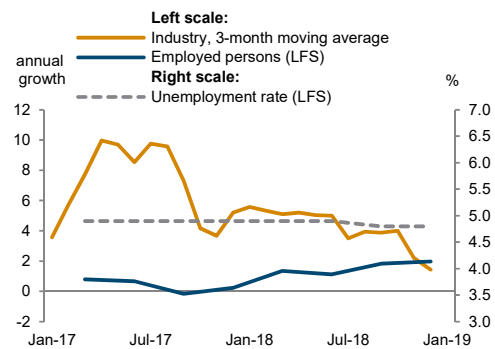
Real GDP growth and contributions

year-on-year



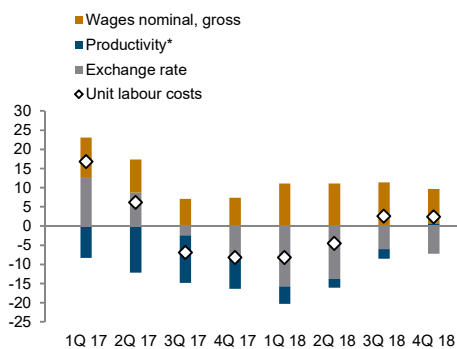
Real sector development

in %



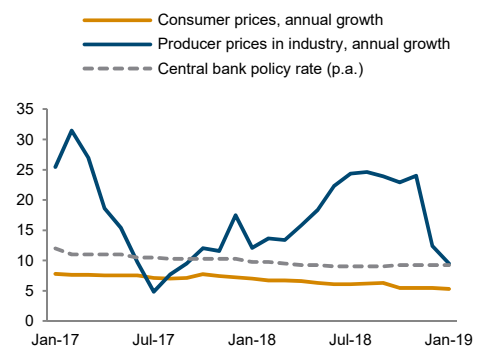
Unit labour costs in industry

annual growth rate in %



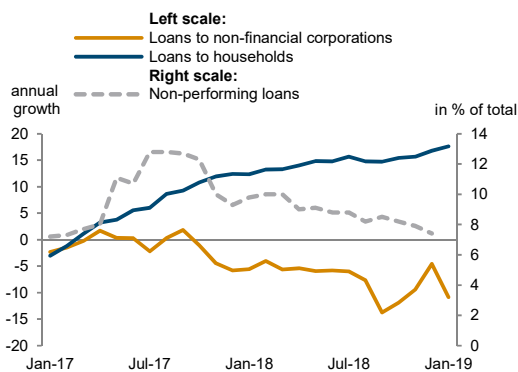
Inflation and policy rate

in %



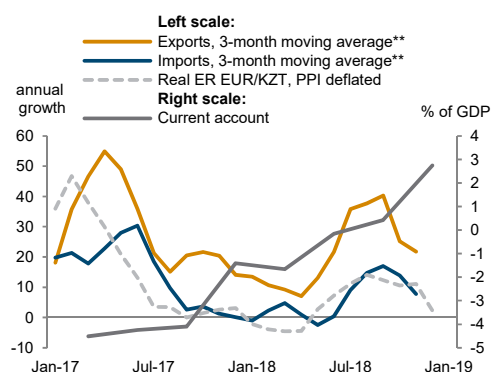
Financial indicators

in %



External sector development

in %



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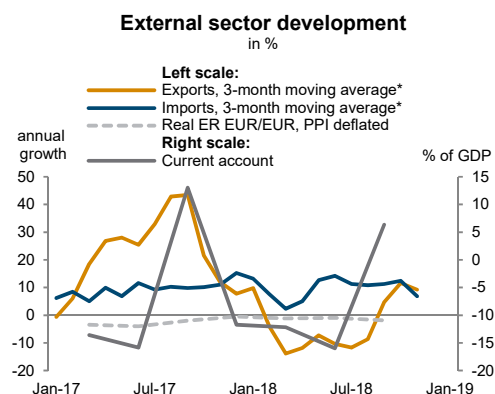
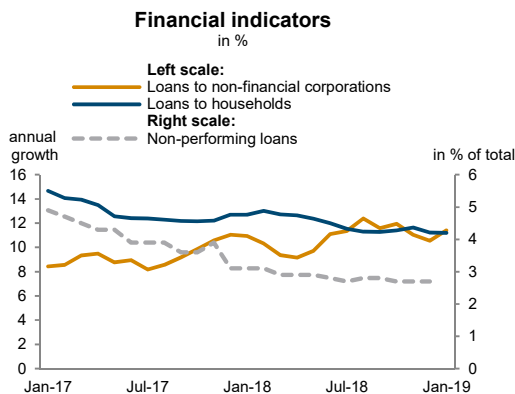
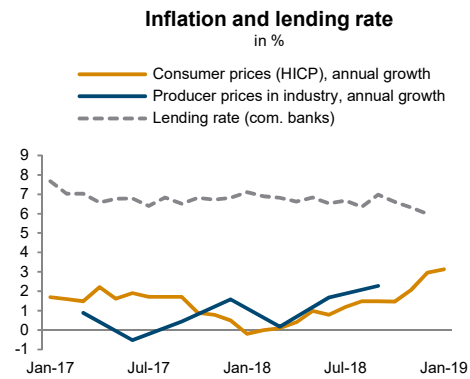
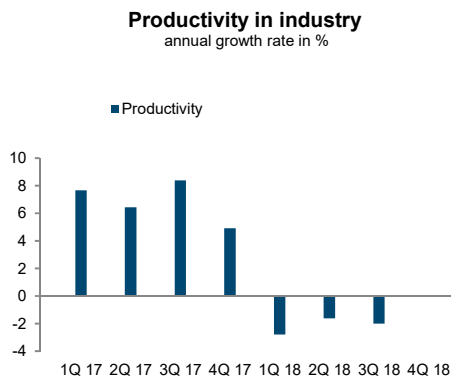
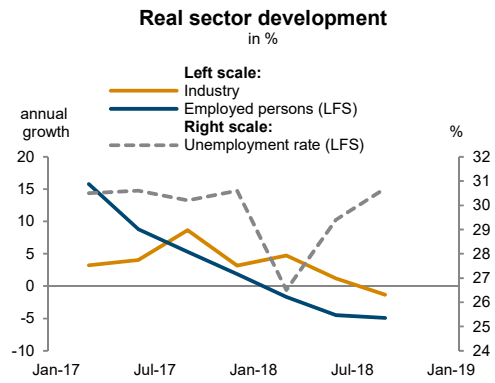
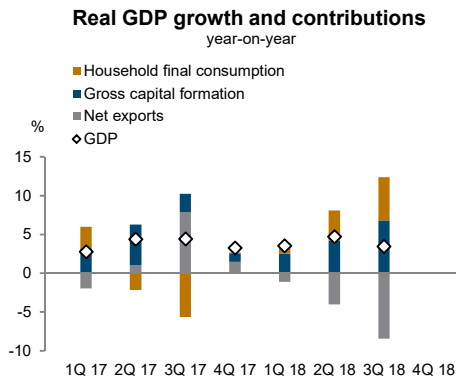
**EUR based.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

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

Kosovo



*EUR based.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

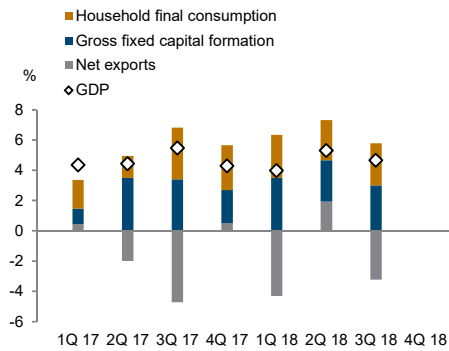
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Latvia

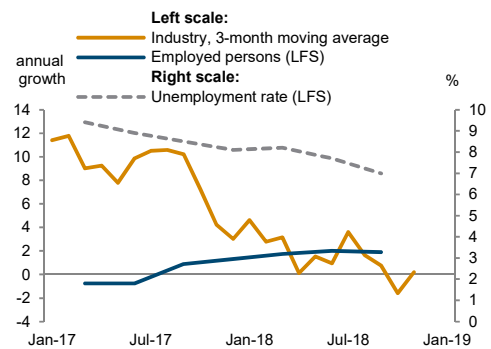
Real GDP growth and contributions

year-on-year



Real sector development

in %



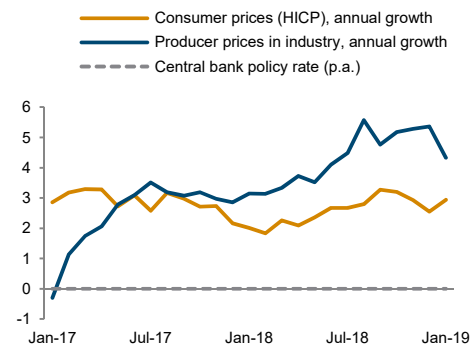
Unit labour costs in industry

annual growth rate in %



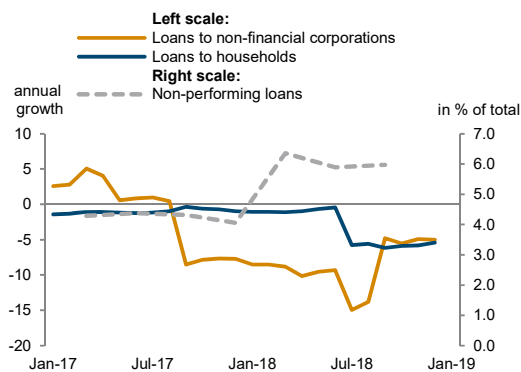
Inflation and policy rate

in %



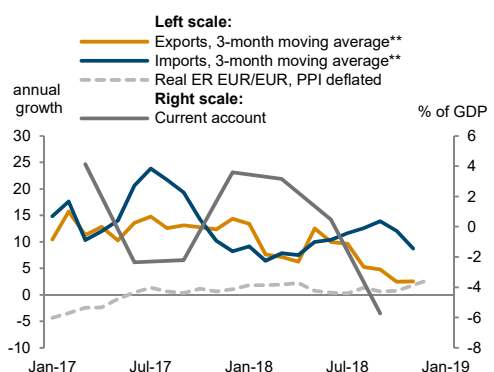
Financial indicators

in %



External sector development

in %



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**EUR based.

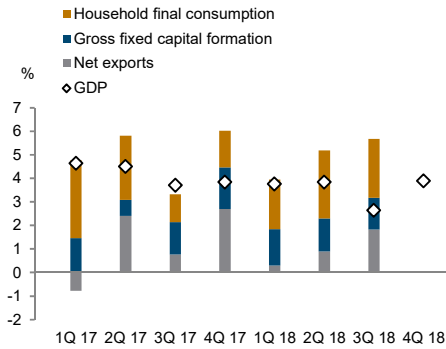
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Baseline data, country-specific definitions and methodological breaks in time series are available under:

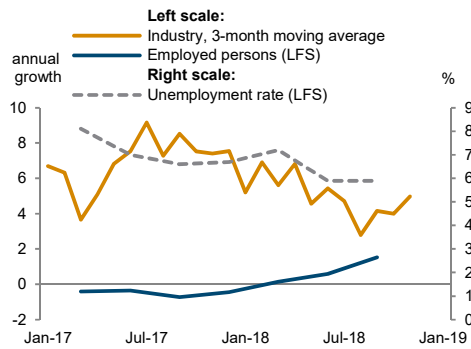
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Lithuania

Real GDP growth and contributions
year-on-year



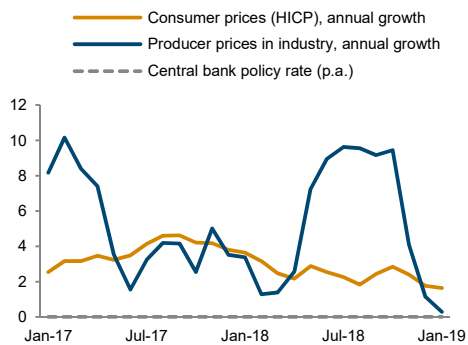
Real sector development
in %



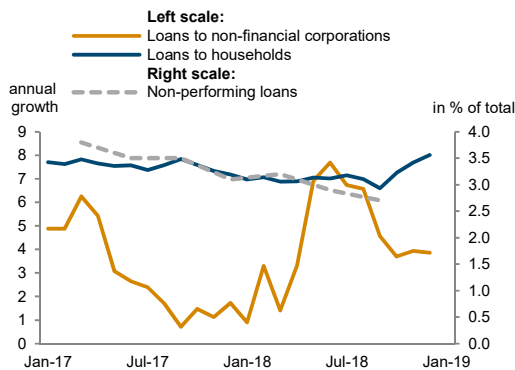
Unit labour costs in industry
annual growth rate in %



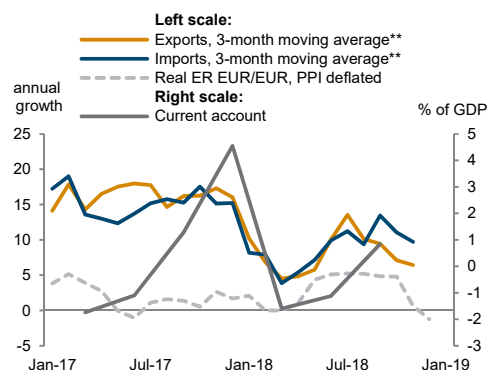
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

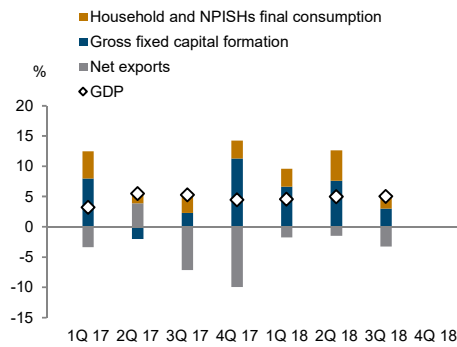
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Baseline data, country-specific definitions and methodological breaks in time series are available under:

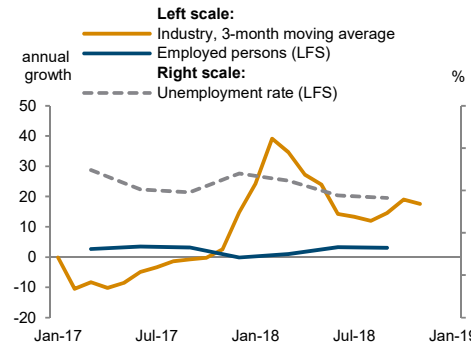
<https://data.wiiw.ac.at/monthly-database.html>

Montenegro

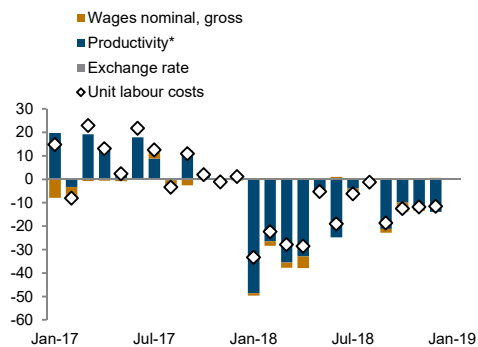
Real GDP growth and contributions
year-on-year



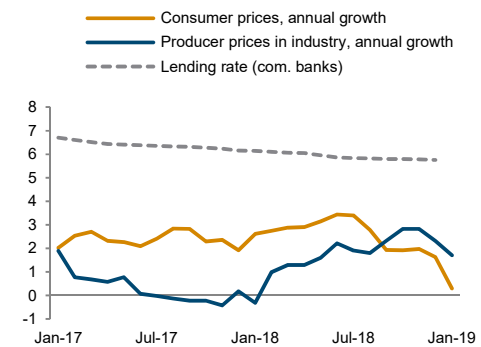
Real sector development
in %



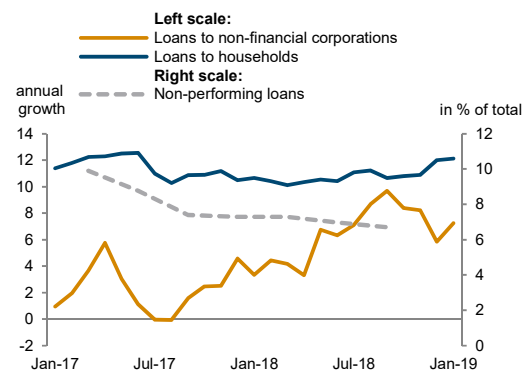
Unit labour costs in industry
annual growth rate in %



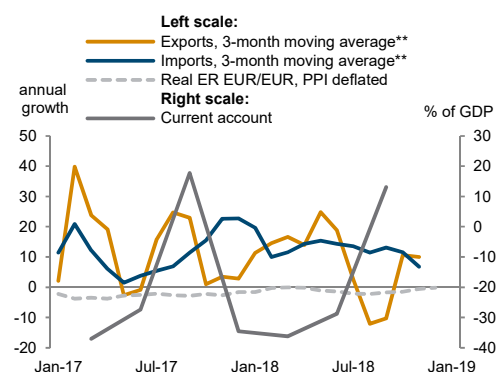
Inflation and lending rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

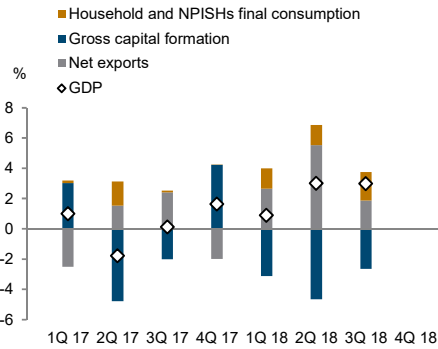
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

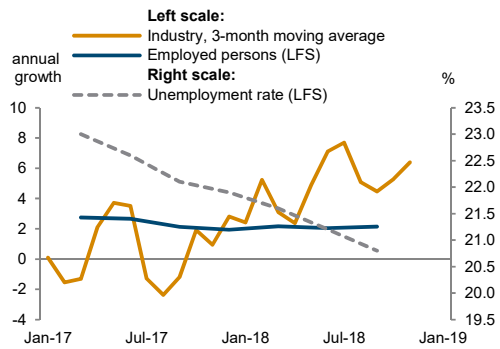
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North Macedonia

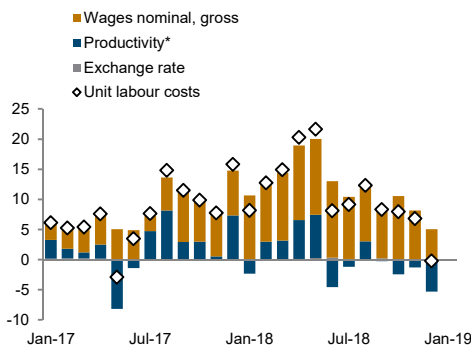
Real GDP growth and contributions
year-on-year



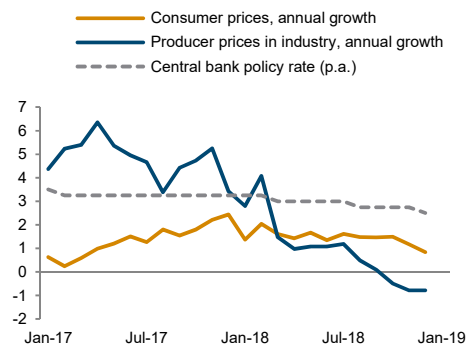
Real sector development
in %



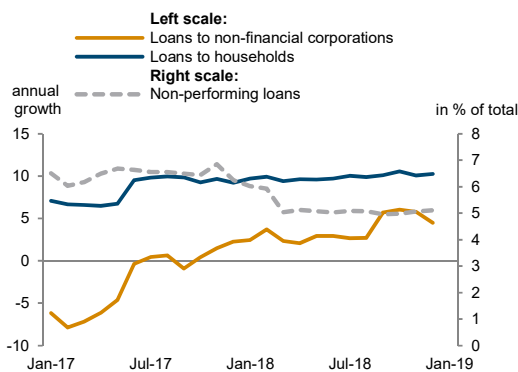
Unit labour costs in industry
annual growth rate in %



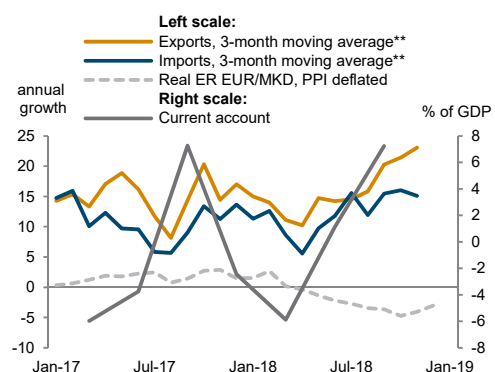
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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 **EUR based.

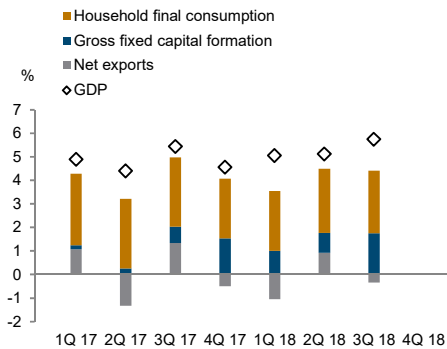
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

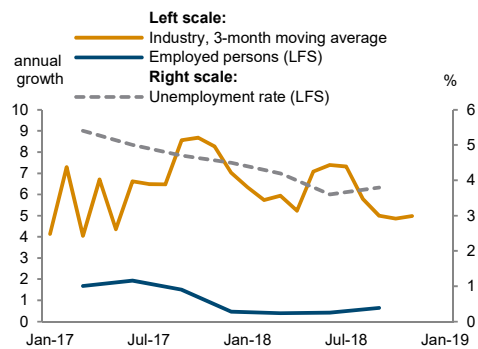
<https://data.wiiw.ac.at/monthly-database.html>

Poland

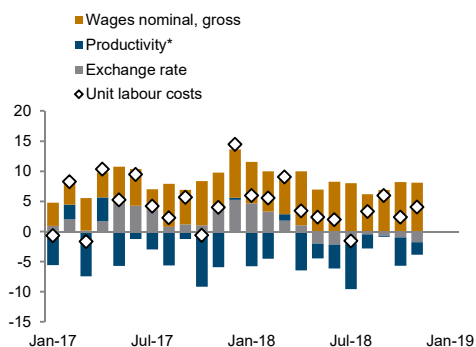
Real GDP growth and contributions
year-on-year



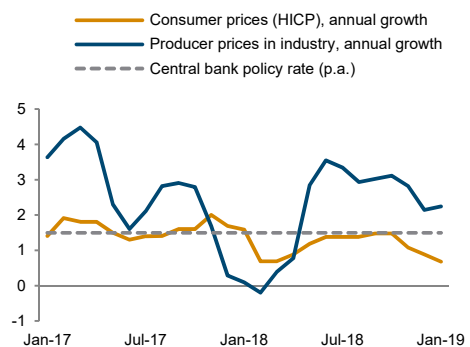
Real sector development
in %



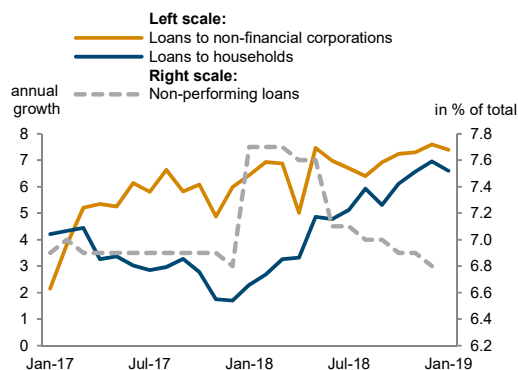
Unit labour costs in industry
annual growth rate in %



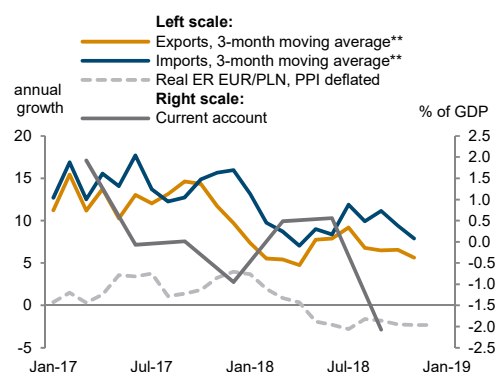
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

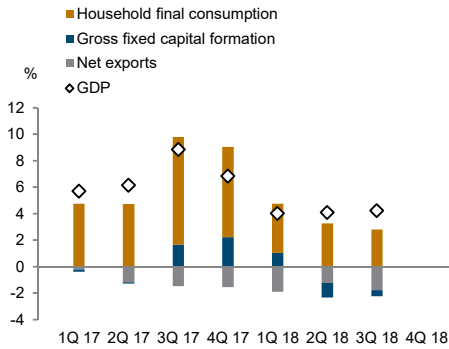
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

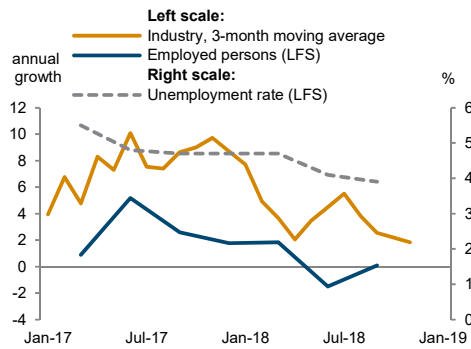
<https://data.wiiw.ac.at/monthly-database.html>

Romania

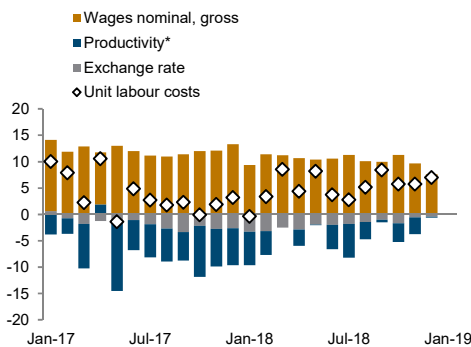
Real GDP growth and contributions
year-on-year



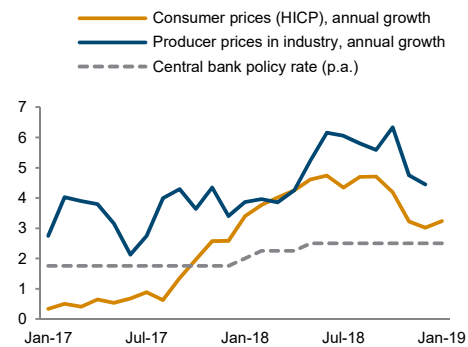
Real sector development
in %



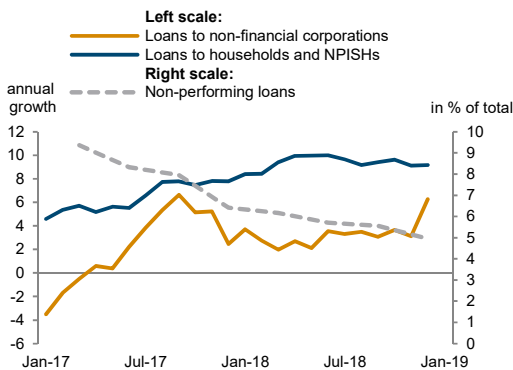
Unit labour costs in industry
annual growth rate in %



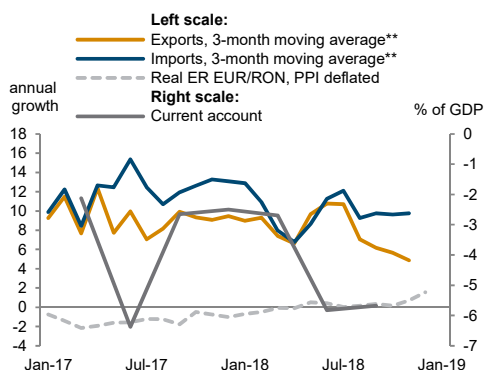
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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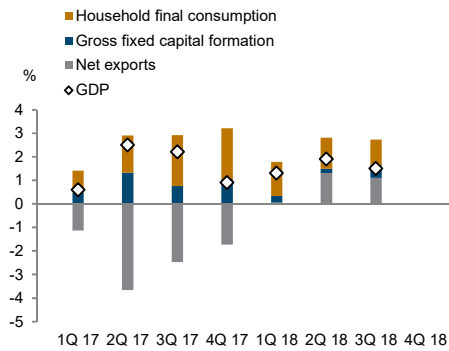
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

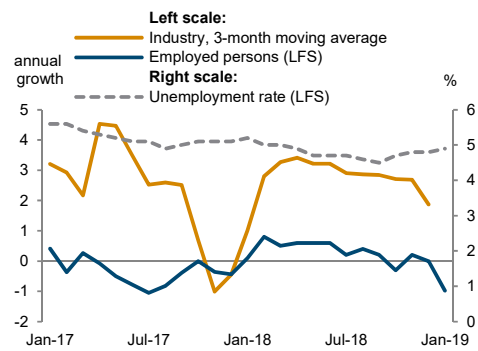
<https://data.wiiw.ac.at/monthly-database.html>

Russia

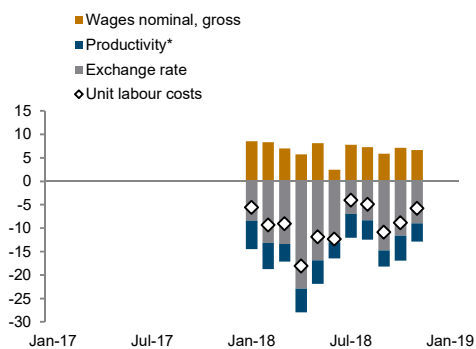
Real GDP growth and contributions
year-on-year



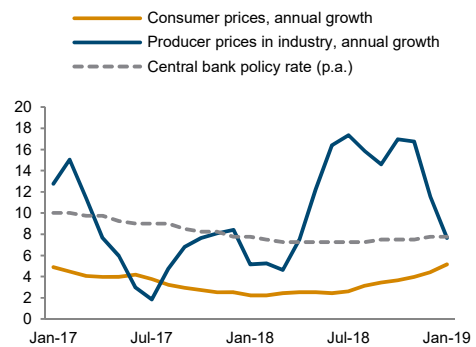
Real sector development
in %



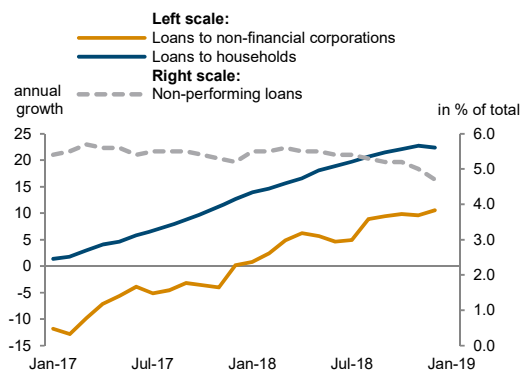
Unit labour costs in industry
annual growth rate in %



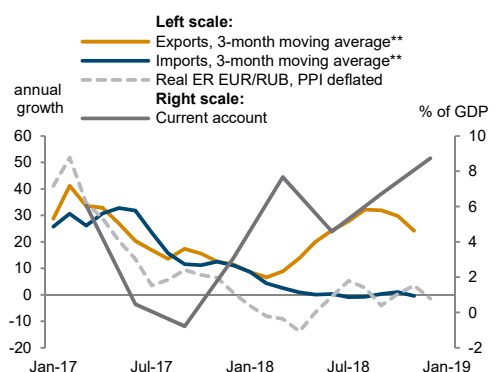
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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

**EUR based.

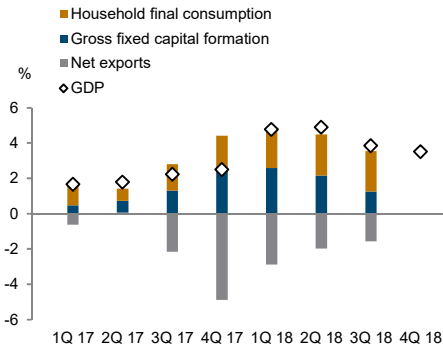
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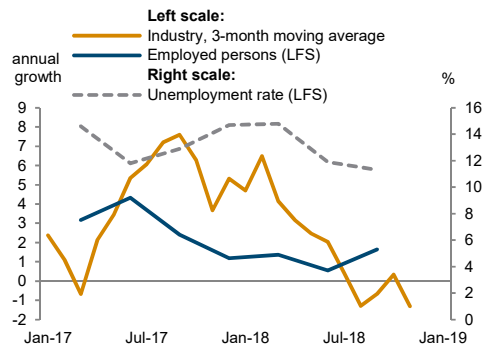
<https://data.wiiw.ac.at/monthly-database.html>

Serbia

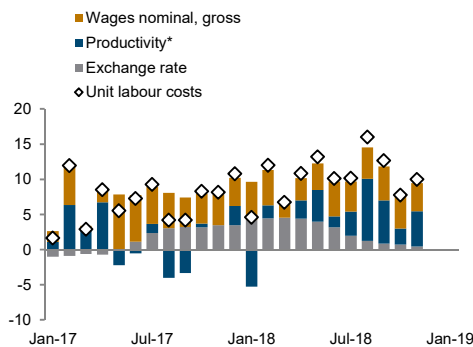
Real GDP growth and contributions
year-on-year



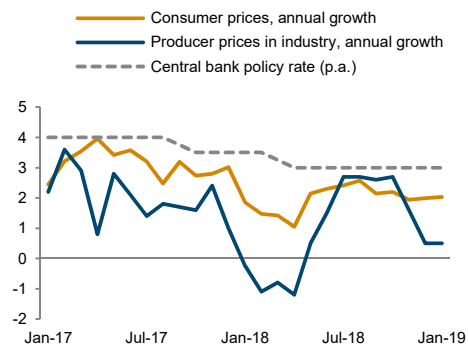
Real sector development
in %



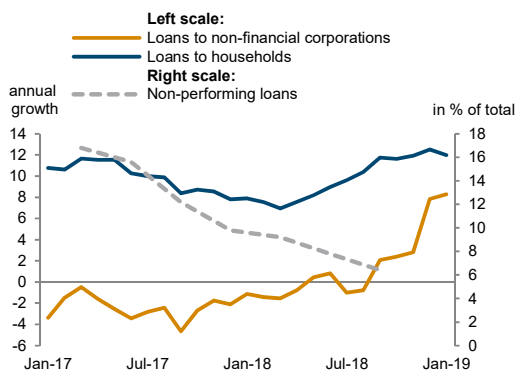
Unit labour costs in industry
annual growth rate in %



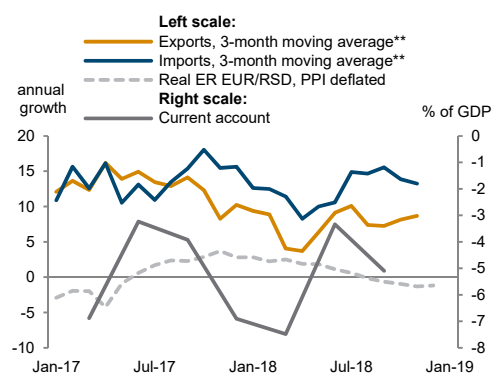
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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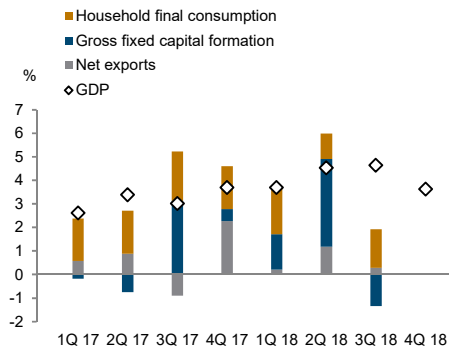
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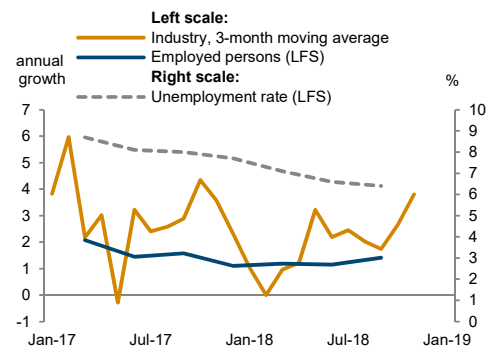
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Slovakia

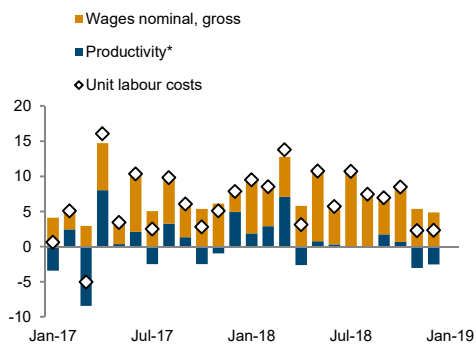
Real GDP growth and contributions
year-on-year



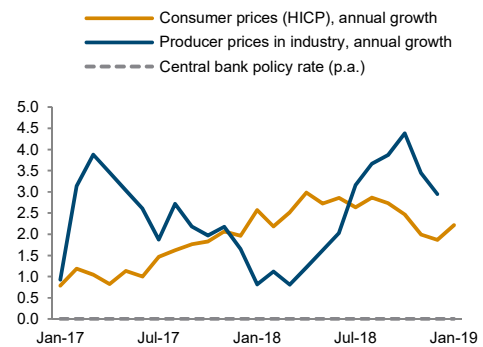
Real sector development
in %



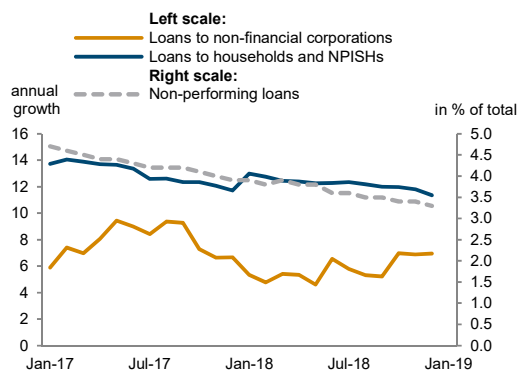
Unit labour costs in industry
annual growth rate in %



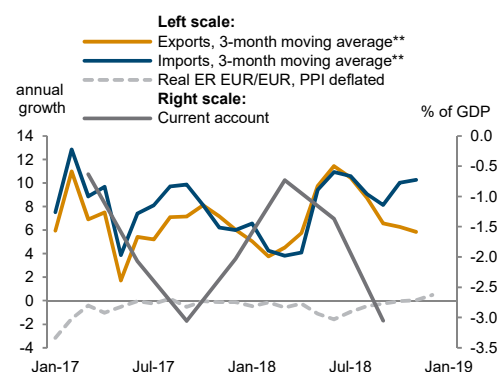
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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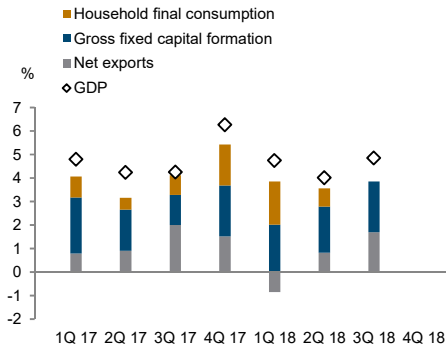
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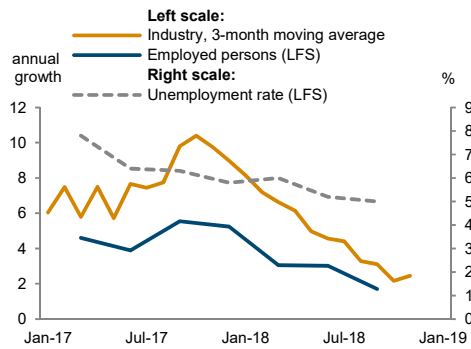
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Slovenia

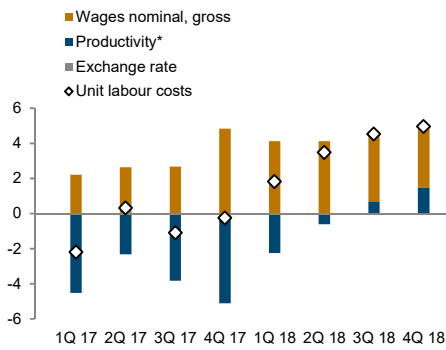
Real GDP growth and contributions
year-on-year



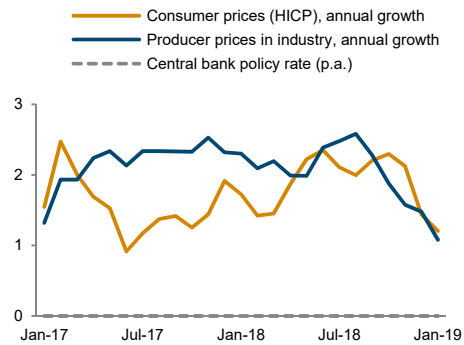
Real sector development
in %



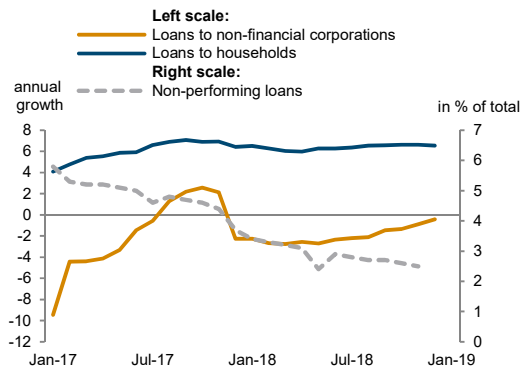
Unit labour costs in industry
annual growth rate in %



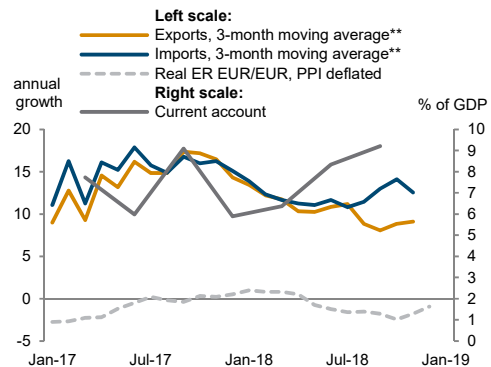
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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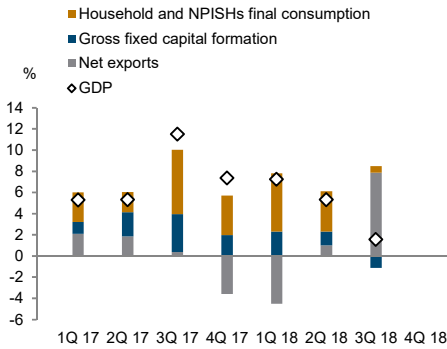
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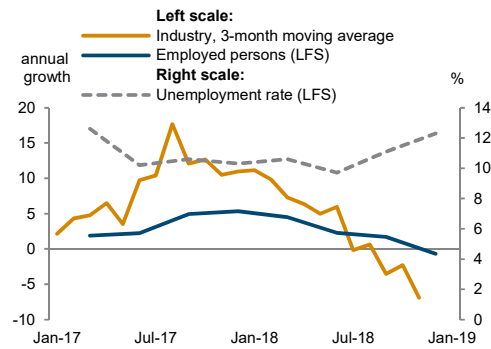
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Turkey

Real GDP growth and contributions
year-on-year



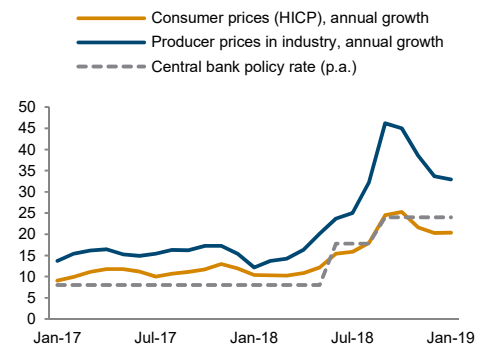
Real sector development
in %



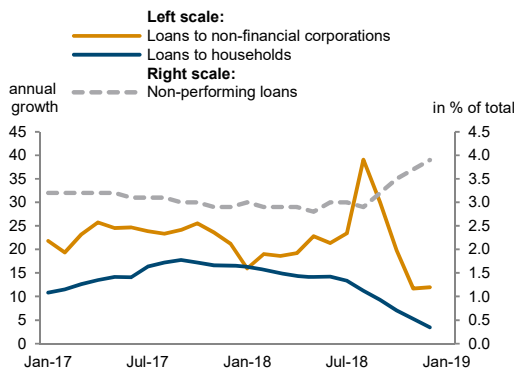
Unit labour costs in industry
annual growth rate in %



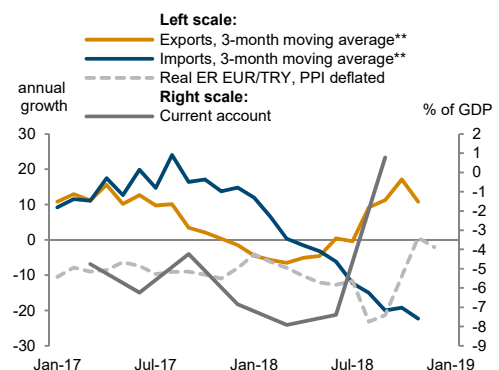
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %

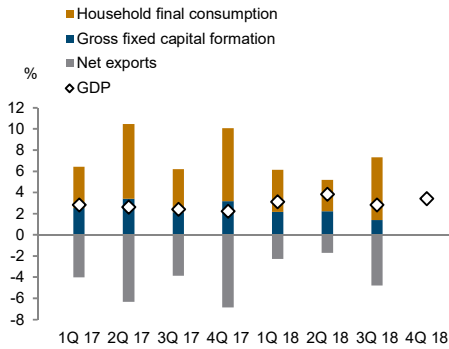


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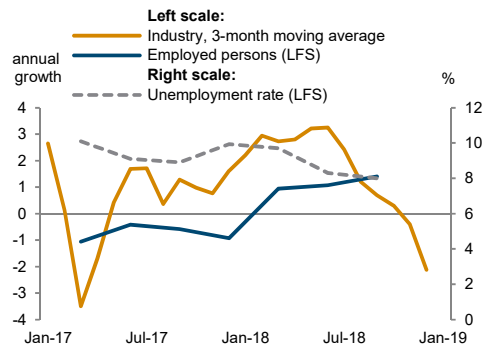
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Ukraine

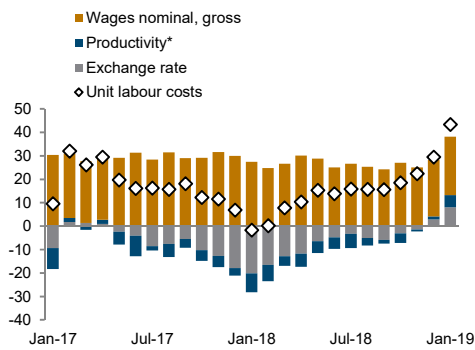
Real GDP growth and contributions
year-on-year



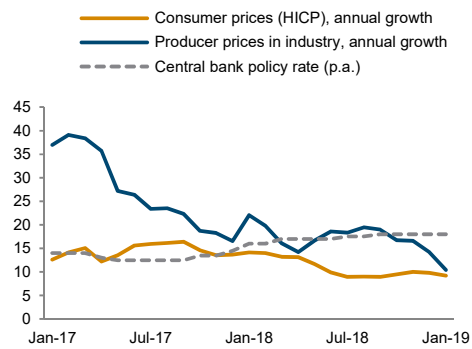
Real sector development
in %



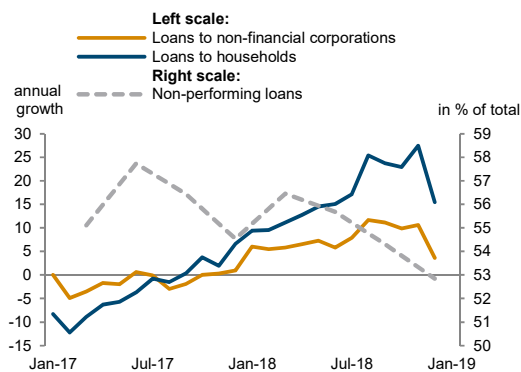
Unit labour costs in industry
annual growth rate in %



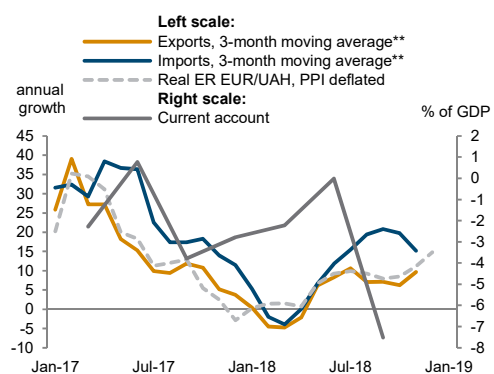
Inflation and policy rate
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