

# Monthly Report

**Where Does Brexit Leave the EU and the European Integration Process?**

**Austria's Position in the EU Strategy for the Danube Region**

**Recent Developments of Austrian FDI in the CESEE Region – Banking is still Important**

**The Austrian Car Parts Industry: Winner or Loser of Integration?**





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DORIS HANZL-WEISS  
MARIO HOLZNER  
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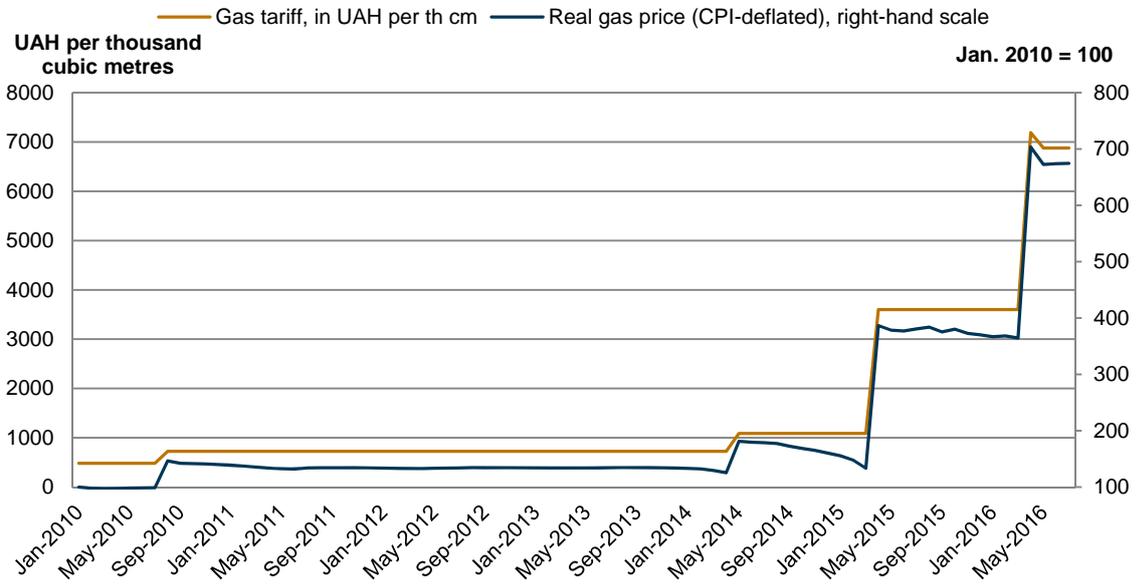
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### Ukraine: Natural gas tariff for households in 2010-2016

up to 2500 cubic metres per year, with meters



Source: Naftogaz of Ukraine, wiiw Monthly Database, own calculations.

## Opinion Corner: Where does Brexit leave the EU and the European integration process?

ANSWERED BY MICHAEL LANDESMANN

*Britain has voted on 23 June 2016 to leave the European Union and, as far as one can judge from today's perspective, this will indeed be the outcome of a lengthy negotiation process<sup>1</sup>. It does represent an historical break from a process which up to now meant a continuous expansion of the membership of the European Union to one in which both deepening as well as further widening is put into doubt and one could very well see such processes going into reverse.*

*Is Brexit the first link to break the chain, with the possibility of a general dismantling of the processes of European integration which characterised post-war Europe?*

*In order to tackle these questions, we should examine the underlying longer-run processes at work which do operate as centrifugal forces in the European integration processes. We start with the succession of shocks which the EU has been exposed to since 2008 and which brought into question the ability of policy-making structures to effectively deal with these:*

- › *First, there was the impact of the financial and ensuing economic crisis which affected the EU and the eurozone in particular more strongly than e.g. the United States.*
- › *Second, there was a major challenge of a coordinated response to the Russian invasion of Crimea and its continuous attempts to destabilise Ukraine.*
- › *Third, there has been the refugee crisis, which puts a severe strain on a joint response by European states and strained in particular the Schengen area.*
- › *Brexit is now a fourth shock in this sequence as it represents a break in the consistent post-war trend which saw the European integration project only moving in one direction, i.e. widening its membership over time.*

*On a political level, there are further challenging developments inside the EU itself which makes meeting the above challenges that much more difficult:*

*There are significant differences of interest amongst EU and eurozone members to deal with any of the above challenges: countries in unsustainable debt situations which push towards a joint 'shouldering' of the debt and more coordinated active fiscal policy and other countries which resist any 'mutualisation of debt'. There are countries which want to take a strong stance vis-à-vis Russia (Poland, the Baltics) and*

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<sup>1</sup> For an analysis of the complexity of the negotiation process around Brexit, see C. Grant (2016), 'Theresa May and her six-pack of difficult deals', Centre for European Reform (CER), London, 28 July.

*other countries which have energy, market and other geopolitical interests and want to go ‘soft on sanctions’ (Italy, Hungary, Austria, Greece). On the refugee crisis, contrarian positions emerged regarding some countries (and the EU Commission) advocating a joint allocation process of refugees and other countries – such as the Visegrád countries – which vehemently reject any joint approach. Lastly, on the Brexit negotiations the bargaining positions amongst the EU-27 are still going to be established, but there is little reason to assume that there will be a solid, joint position taken by all the EU-27 members.*

*Thus we have a situation in which the need for coordinated action to deal with the above series of challenges has never been greater, only to be faced with an actual situation in which the likelihood for joint action has been declining rapidly. It is a chicken-and-egg situation: to get more solidaric behaviour we would need to show that (national and) supra-national structures deliver reasonably successful solutions to the above challenges. On the other hand, the drift into non-solidaric behaviour means the challenges are not met and dissatisfaction with the current state of the European integration process increases further.*

*The signs of this drift are quite apparent: on the one hand, the rise of nationalist, populist parties and movements which challenge the European integration process and, on the other hand, the shift of ruling coalitions in some of the member countries (Hungary and Poland the obvious cases) in an anti-EU direction. The fear of this political destabilisation is currently rising further with another cycle of elections forthcoming in France, Germany, Austria etc.*

*So what is to be done?*

- › *Even to the most committed adherents of a ‘stabilisation policy’ it has by now dawned that there is a strong political fall-out from ignoring the social structural and income distributional effects of the economic strategy pursued over the past decades and particularly in response to the financial and economic crisis. There were benefits (most likely net benefits) from European and international economic integration but there were also losers. This is not different from the ‘Trump phenomenon’ in the United States.*
- › *It is also now generally acknowledged that there is a political backlash from ignoring these income distributional and labour market developments which led to an actual or felt ‘marginalisation’ of significant groups in EU societies and this gets reflected in the rise of populist parties and the popularity of the anti-EU and anti-migration stances of some EU member countries.*
- › *It follows that there is now more urgency (the political dimension having joined the economic dimension) to work on a way to emerge from the financial and economic stalemate which has affected the EU and particularly the eurozone (EZ) economy. We shall see whether specifically the member countries of the EZ are now able to move towards major reforms (completion of the banking union, resolution of debt problems which involves a certain degree of ‘mutualisation’; the initiation of a more significant public investment programme and a transitory move away from austerity policies while making credible moves towards long-run sustainability of the fiscal situation).*
- › *Further, one has to transform the image of the EU as simply a project of market integration while national states are the only institutions which people can turn to in order to obtain some degree of*

*social security acting as a buffer against 'shocks'. This requires the development of a visible 'social pillar' at the EU level, be it in the form of EU-sponsored youth employment programmes, some joint effort on unemployment benefits (which would also provide an EU-wide 'automatic stabiliser'), training programmes, etc. In all these areas initiatives at the EU level exist, but are too small and too invisible.*

*Most of the above are challenges that have been there (and been discussed) for quite some time going back to the period even before the financial and economic crisis. They have become much more haunting since the outbreak of the crisis and the obvious weakness of the EU's and the eurozone's policy-making structures to confront the challenges posed by it. They have put into question the very existence of the European integration process and its core elements: the benefits of the Single Market, the EMU and the Schengen system.*

*The latter has been challenged particularly by the **recent refugee crisis**. Up to now migration policy has been left in the domain of national and local governments. The refugee crisis made it clear that this is no longer possible. The demographic complementarity between an ageing European society and a neighbourhood (the Middle East, Northern Africa and also parts of sub-Saharan Africa) which combines fast population growth with frequent economic and social instability and even military conflict is dramatic and needs to be handled in a cooperative manner across Europe and with due sensitivity to developments in this neighbourhood. It is one of the astonishing failures of European integration that, while being a rich and technologically advanced continent, it generated so little positive spillover benefits for economic development in its neighbourhood regions. At the moment we stand at the very beginning of formulating a joint stance with regard to this huge potential migration challenge which the European continent will face for decades to come. This challenge can at any moment also articulate itself as a refugee crisis when developments in some neighbourhood region tip into outright military or inter-ethnic conflict.*

*So far European countries have responded to the refugee crisis as national states, violating in quite a few instances the borderless arrangements of the Schengen Agreement. It was a far cry from facing in a collective manner what will turn out a long-term challenge for the European continent. It is clear that a challenge of such depth and expected duration will require joint efforts in many directions: joint border control (which is so far the only point on which there has been some agreement), similar standards of asylum processing to avoid a 'race to the bottom', and coordination of integration policies. All of these would assist to prevent intra-EU mobility flows leading to very unequal patterns of allocation and integration of refugees across European countries and regions. It will take a while to move away from the existing national prerogative of dealing with extra-EU migration and refugee flows, but it will not be possible to avoid a strong cooperative effort in this respect and also mobilising substantial resources in relation to it.*

*The UK Referendum vote has also opened up the issue of the sensitivity of **intra-EU mobility**. It might be that this was a particularly sensitive issue specific to the UK (being the country that absorbed a high share of Eastern European migrants after the 2004 and 2007 EU enlargements). However, it is not inconceivable that other countries – following domestic political developments – might follow the UK in questioning the sustainability of the 'free movement of labour' commitment within the Single Market or the non-discriminatory access to social benefits by all EU citizens. It is conceivable – and might even be advisable to reduce potential future pressures – that an 'emergency clause' will be introduced to allow countries to impose temporary ceilings on EU mobility if they can prove that such mobility can cause*

*'undue pressures' on the labour market or on the social security system in particularly difficult circumstances. A similar 'emergency clause' would be appropriate if refugee flows exceed the capacity of a border country to look after and process asylum applications (viz. Greece, Italy, Croatia, Hungary). Invoking such a clause would allow such refugee flows to transit across the borders of the neighbouring EU states, thus violating the current Dublin Agreement (which would then have to be amended). In this way it would automatically lead to some burden sharing of large flows of refugees which exceed the processing capacity of the border countries of the EU.*

*Lastly let me deal with the implications of Brexit for the **EU's Common Foreign and Security Policy (CFSP)**. On the one hand, the UK's exit from the EU deprives the Union of a country with significant experience and also strategic resources in both these fields. On the other hand, the UK was probably the most resistant EU member with regard to moving towards a proper CFSP, objecting to any loss of independent conduct in these fields. The outcome of the UK referendum might very well open the door to a strengthening of CFSP, pushed by a strong German-French axis in this respect. This would be timely as challenges for such a policy have been building up with the Russian intervention in Ukraine, insecure developments in the Middle East and Northern Africa and also speaking with a unified voice in relation to global geo-political issues. Such strengthening of the EU's CFSP would be the more important as the world moves towards a multi-polar setting. The relationship with the UK could even become more constructive as the British fears of giving up sovereignty would disappear, but overlaps in interests between it and the remaining EU might emerge on many issues.*

*Summarising, Brexit is in the short run a major shock to the EU as it reversed for the first time a long tradition of countries wanting to join but not leave. It, however, also makes it very clear that efforts have to greatly increase to deal with structural problems in the policy-making frameworks of the EU that have led to dangerous centrifugal forces and political shifts in member countries towards EU scepticism. Major shifts in policy have to occur and increased coordinating efforts have to be made in order to deal with the major challenges that the European continent faces. Brexit has only increased the urgency to deal with these.*

# Austria's position in the EU Strategy for the Danube Region

BY ROMAN RÖMISCH

## INTRODUCTION

In a recent study wiiw analysed the latest trends and developments in the Central and East (CEE) and Southeast European (SEE) countries and their implications for Austrian regional policy, in particular with respect to the EU Strategy for the Danube Region.<sup>1</sup> The aim of the study was to contribute to the evaluation of current Austrian and European regional policy instruments as well as to the Austrian preparation for the post-2020 EU Cohesion Policy.

In an overview, the study analyses (a) the main (economic) trends in Austria and the CEE/SEE countries; (b) their trade, investment, labour market, transport and tourism relationships; and (c) Austrian regional policy in the national and European context. Based on this analysis, conclusions and recommendations for developing regional policy initiatives in Austria and the EU were drawn.

## DIFFERENCES BETWEEN AUSTRIA AND THE CEE/SEE COUNTRIES

Analysing the most important trends, in the period 2000-2014, in Austria and the CEE/SEE countries with respect to (a) population, (b) macroeconomic developments, (c) labour markets, productivity growth and wages, (d) the sectoral structure of the economies and (e) non-economic CEE/SEE convergence processes as regards governance, research and development, education, environment, energy and other aspects, the study finds the following:

The CEE/SEE region is a highly heterogeneous group of countries, not only in economic terms but also in many other aspects. Despite a rapid convergence process – interrupted, however, by the economic and financial crisis – there exist still major differences in the level of economic development between Austria and all CEE/SEE countries, as well as amongst the CEE/SEE countries. Austria's immediate neighbours, i.e. the Czech Republic, Slovakia, Hungary and Slovenia, and also Poland, have achieved a much higher level of economic development than Croatia, Bulgaria and Romania, which in turn are economically more advanced than the countries of the Western Balkans, i.e. Serbia, Montenegro, Macedonia and Kosovo.

These differences in economic development are mirrored by similar differences in the labour markets, including wage levels, as well as in non-economic areas such as the quality of governance, the educational system, R&D intensities as well as environmental and energy aspects. Only with respect to the economic (sectoral) structure do differences tend to be smaller or have even reversed, such as in

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<sup>1</sup> 'Impacts of recent trends in Central, East and Southeast Europe on regional policy in Austria – a framework for the Austrian participation in the EU Danube Region Strategy' (in German language, forthcoming), commissioned by the Federal Chancellery of Austria, Section IV/4 'Coordination – Regional planning and regional policy'.

high-technology-intensive manufacturing industries. Specialisation in these sectors is higher in the Czech Republic, Slovakia, Hungary and Slovenia than in Austria. Compared to these countries, Poland and Romania tend to specialise in medium-high-technology-intensive industries, while in the Western Balkan countries low- and medium-low-technology industries dominate.

From the macroeconomic perspective, Austria's competitiveness vis-à-vis the CEE/SEE countries was relatively stable from 2000 to 2014, though for individual sectors or regions in Austria the competitiveness may have changed. This however was not analysed in detail in the study.

Overall, the results suggest that the CEE/SEE countries will probably need a couple of more decades to (fully) converge towards Austrian or European levels of economic development. Given the importance of these countries for Austria, it thus seems advisable that any Austrian cross-border or transnational (regional) policy regarding the CEE/SEE countries adopts a long-run perspective.

It needs to be explored whether such (cross-border or transnational) policies are possibly more efficient if they are designed in an asymmetric way, i.e. giving more weight and attention to the less developed countries. Additionally it is worth contemplating whether such policies should focus on individual topics (such as environment, transport, governance etc.) or whether an integrated approach, i.e. setting up policy programmes and projects covering more topics simultaneously, would be more appropriate (given the wide range of development needs in the CEE/SEE countries).

## AUSTRIA'S INTEGRATION WITH THE CEE/SEE COUNTRIES

Analysing Austria's integration with the Danube Region countries in terms of foreign trade, investment, tourism, labour markets, migration and transport, the study shows the following.

Despite the relatively lower level of economic development of the CEE/SEE countries compared to the highly developed core countries of the EU, they are (in sum) an important trading partner and investment location for Austria. The study assumes that with increasing economic development these countries will gain even more importance, and in the long run (i.e. several decades) may even overtake Germany as Austria's main trading partner. Likewise, the CEE/SEE countries offer a large market potential for Austria's tourism sector, which, again, is likely to increase the more developed the CEE/SEE countries become. By contrast, the CEE/SEE countries pose no major threat to the competitiveness of Austria's tourism sector.

As far as migration is concerned, the study sees a mixed impact of migration from the CEE/SEE countries to Austria (there is almost no migration in the other direction). On the one hand, it generates a number of opportunities in terms of (a) an increase in purchasing power, (b) a stable development of population especially in regions with population decline because of low birth rates, thus facilitating the upkeep of (social) infrastructure, (c) compensation for the expected decline of the working-age population in Austria, (d) supply with highly educated labour and (e) the inflow of language and social skills facilitating the establishment of additional economic relations with the CEE/SEE countries.

On the other hand, there are also a number of risks involved with migration, such as (a) increasing pressures on the Austrian labour markets, especially in urban areas, (b) increased demand for housing space, increasing traffic, capacity limitations of public infrastructure in urban areas, and (c) the need for additional public measures for a smooth integration of migrants.

With respect to labour markets the study finds that only the further economic development of the CEE/SEE countries can relieve the current pressures on the Austrian labour markets. In the case of transport, Austria's integration with the CEE/SEE countries currently corresponds to the levels of economic development of these countries. For the future, qualitative upgrading of transport and logistics infrastructure needs to stay in the focus of economic policy.

## **POLICIES AND POLICY INSTRUMENTS**

The study also analysed Austria's national and European regional policies in relation to the CEE/SEE countries. It finds that the general attitude of Austria's regional policies towards the CEE/SEE countries has changed over time, from enthusiasm in the late 1990s and early 2000s to a more pragmatic, sometimes disillusioned view in present times. At the same time, national regional policy focused mostly on Austrian problems, only indirectly, if at all, taking into account the opportunities, challenges and risks emanating from the CEE/SEE countries.

The study finds that (European) cross-border and transnational policies follow a logical, consistent and targeting plan, but are at the same time overly complex. Thus, there is a large spatial overlap of policies in Austria, so that individual Austrian regions are covered by a large number of cross-border or transnational EU policies. This reduces the clarity of the individual policies and also makes it difficult for the regional administrations to identify with these policies.

Moreover, given the limited human resources of national and regional administrations, the wealth of policies causes severe strains and work overflows, leading to a 'policy congestion'. The implementation of policy programmes by way of competition for funds delivers high-quality bottom-up project applications. However, this organisational form is rather complex and costly, entails a large risk for applicants (especially for those with little resources for applications) and, moreover, makes the integration of these projects into the overall policy strategy difficult.

Additionally, all cross-border or transnational policies focus exclusively on cooperation and cooperative projects, while the major topic of competition amongst countries is left out (e.g. for foreign direct investment). This applies to both, European as well as Austrian regional policies, and in the case of the latter, organisational structures for the development of such regional competition policies are lacking.

## **CONCLUSIONS**

The analysis has shown that rapid economic development of the CEE/SEE countries is, in many respects, important for Austria. Thus it seems necessary that Austria keeps up its active role in cross-border and transnational policy programmes. Such an active role requires nourishing existing networks and building new ones not only for policy-makers but also to open doors for Austrian companies in the region.

Yet, currently it seems doubtful whether Austria can keep up this active role. In particular, (a) the lacking personal, financial and institutional capacities paired with (b) unfulfilled expectations regarding the speed of (not only economic) development and transition of the CEE/SEE countries and (c) an increasing complexity of programmes and programme administration, lead to the conclusions that there needs to

be a rethinking of to what extent and under which conditions Austria may maintain its leading role in cross-border and transnational policies.

If this active role is to be maintained, it is essential to analyse the organisational, financial and institutional framework in Austria with respect to its capacity and capability and to establish a new headline principle for Austrian cross-border and transnational policies. This evaluation or reflection on Austrian policies optimally should be done before the start of the next EU programming period. For this the following points and questions might be raised:

- › Is 'necessity' a useful principle for Austrian cross-border and transnational policies?
- › Are there thematic priorities that could be covered jointly by the regions in Austria (in order to concentrate know-how and resources)?
- › What are the changes needed or the requirements for a new programme architecture to return to a positive attitude of stakeholders towards the cross-border and transnational policies?
- › Which human, financial, institutional resources and organisational frameworks are necessary to keep up the active role of Austria? How can these be organised efficiently?

The convergence of the CEE/SEE countries is likely to also lead to an increase in, or at least to a shift in, competition vis-à-vis Austrian sectors and regions. However, in contrast to cooperation-based policies, there is a lack of institutional and organisational structures dealing with the analysis and formulation of policies with respect to competition. To bridge the gap between supporting the catching-up process in the CEE/SEE countries, on the one hand, and safeguarding the interest of Austrian firms and regions, on the other, it needs a clear and evidence-based basis for discussion. This is necessary in order to develop national positions in EU Cohesion Policy as well as national policies themselves (e.g. economic, transport, energy, social policies etc.). For this the following steps are required:

- › Strengthen evidence-based analysis of current and future fields of competition (by sectors and regions)
- › Foster further development of regional and sector-specific strategies, measures and instruments, both at national and regional level
- › Create an institutional framework for the assessment and evaluation of these analyses to develop adequate policies and strategies thereof
- › Start an Austrian-wide discussion process regarding post-2020 EU Cohesion Policy.

For this the following questions could be asked:

- › Is the provision of such an evidence-based analysis seen as a national or – as it is now – a regional task?
- › Which institutions could deliver such an analysis as a basis for the development of strategies and policies at the national level?
- › Which points or arguments are necessary to be taken into account in the elaboration of Austria's position for the future EU Cohesion Policy?

## Recent developments of Austrian FDI in the CESEE region – banking is still important

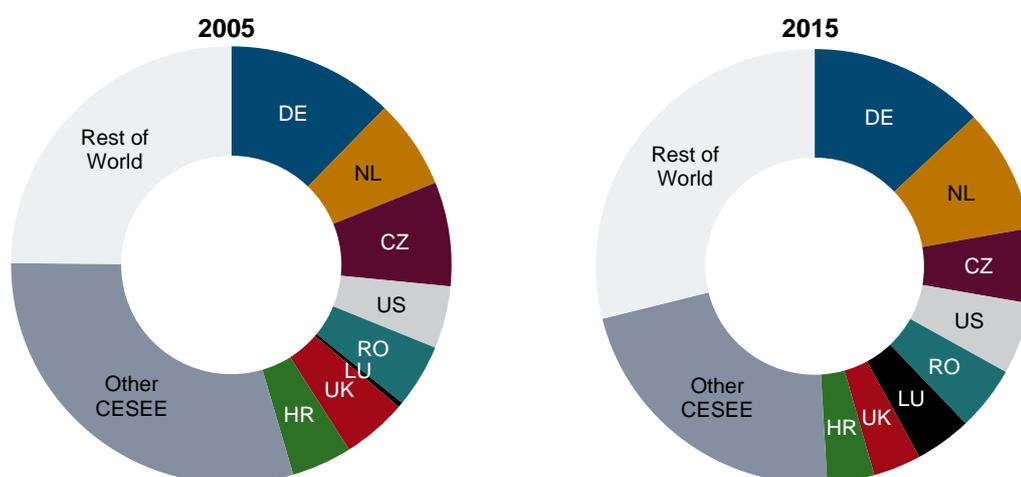
BY MARIO HOLZNER

### AUSTRIA'S OUTWARD FDI STOCK FURTHER INCREASING

Austria's total outward FDI stock in 2015 made up about 55% of the country's GDP. Concerning its composition, by far the largest share is still accounted for by financial intermediation – recently (2014) about 36% of the total stock. Only a few years earlier (2010) this share was above 41%. Higher risk awareness and market consolidation after the outbreak of the global financial crisis have caused this reduction. At the same time the share of outward FDI in professional, scientific and technical services activities has been strongly increasing. The absolute Austrian outward FDI stock continues to increase, from about EUR 100 billion in 2007 to about EUR 190 billion in 2015. For many countries, especially in Central, East and Southeast Europe (CESEE), Austria is among the top foreign investors. In Southeast Europe in particular, Austria leads the FDI inward stock statistics. Austrian investors rank first in Bosnia and Herzegovina, Croatia, Serbia and Slovenia, and second in Bulgaria, Macedonia, Romania, Slovakia and the Czech Republic. The country is among the top five foreign investors in Belarus, Hungary, Kosovo, Turkey and Ukraine and among the top ten in Albania, Poland, Montenegro and Kazakhstan. In Russia and the Baltics, Austria is far behind the top investor countries, ranking yet among the top 20 foreign investors.

**Figure 1 / Austrian FDI stocks abroad**

Top 8, shares in % (ranking according to 2015)



Note: According to BPM6 methodology (IMF Balance of Payments and International Investment Position Manual, 6<sup>th</sup> edition).

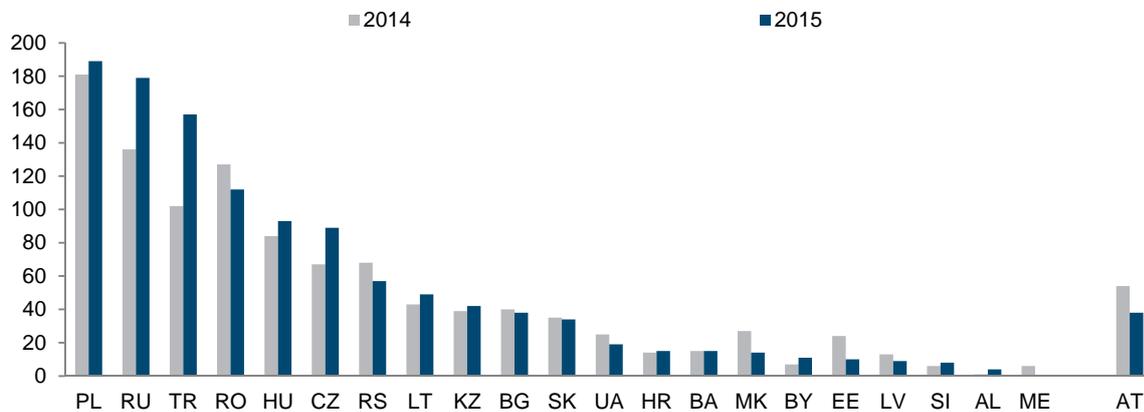
Source: Austrian National Bank (OeNB).

## DECLINING RELEVANCE OF CESEE FOR AUSTRIAN INVESTORS

In the year 2010 the CESEE countries still accounted for nearly half of Austrian FDI stocks abroad. By 2015 that share had fallen to only about one third (Figure 1). Shares of almost all countries of the region declined, particularly so of the crisis-afflicted countries Hungary and Russia, but also of the Czech Republic. By contrast, shares of the Netherlands and Luxembourg – two countries known for providing favourable conditions for businesses aiming at tax optimisation - increased noticeably. Along with the increasingly complex firm structures within multinational corporations, statistics on FDI are being decoupled from their importance for the real economy. Thus, information on greenfield projects is gaining in importance.

**Figure 2 / Number of new greenfield projects in CESEE and Austria, 2014 and 2015**

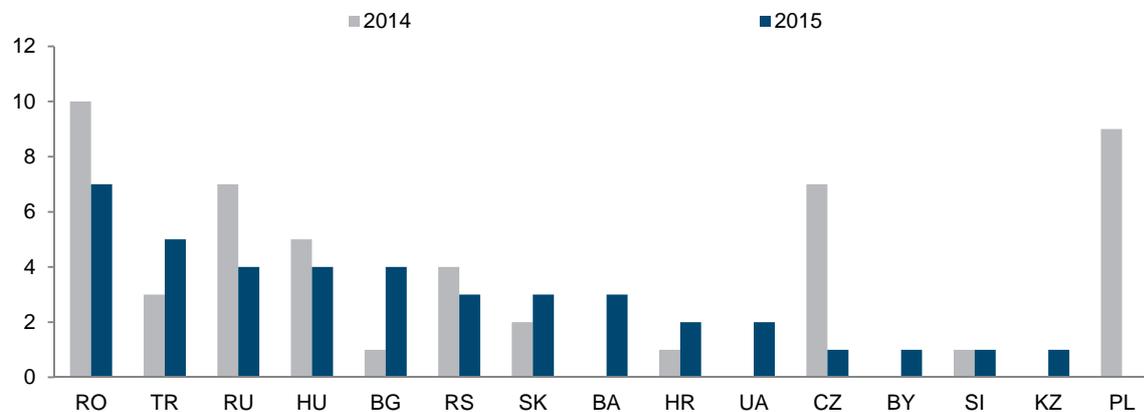
Ranking according to 2015



Source: fdimarkets.com.

**Figure 3 / Number of new greenfield projects in CESEE with Austria as investor, 2014 and 2015**

Ranking according to 2015



Source: fdimarkets.com.

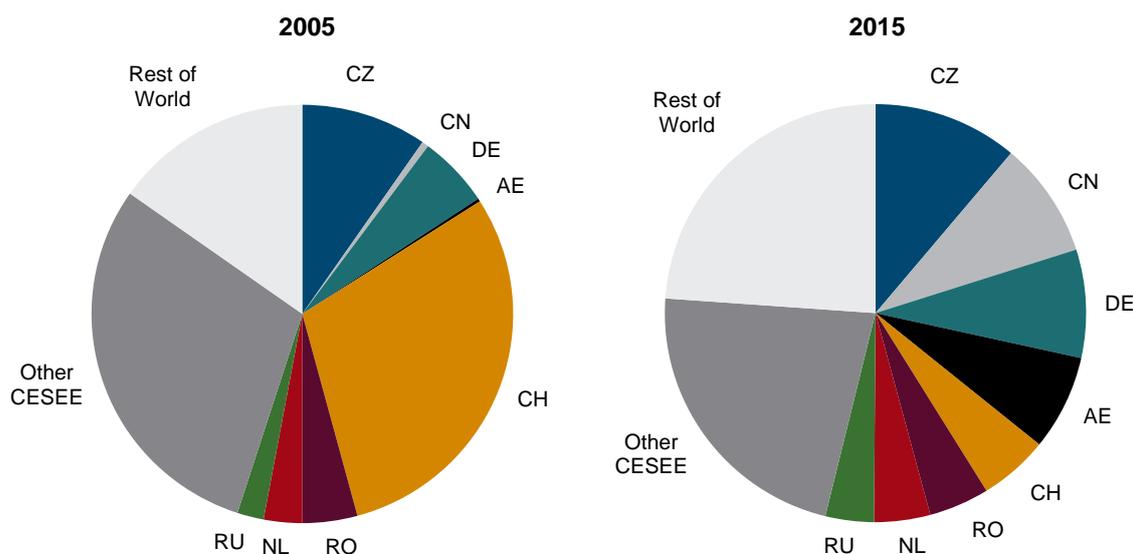
The biggest share of greenfield FDI in CESEE is going to the large countries in the region. First of all Poland, Russia, Turkey and Romania, but also Hungary and the Czech Republic attracted hundreds of business start-ups from abroad in the past several years (Figure 2), with the trend from 2014 to 2015 being mostly positive. Also Austria has been mainly active in the countries just mentioned, albeit often with a declining trend (Figure 3), investing primarily in transport, real estate, machine-building and financial services.

## AUSTRIA'S INCOME FROM FDI IN CESEE: TIME TO HARVEST

After a quarter of a century of Austrian FDI in the CESEE countries, the 'time to harvest' has come. In the year 2000 total income from FDI abroad amounted to slightly more than EUR 1 billion. Since 2011 that amount has been EUR 10 to 12 billion annually. The shares of the CESEE countries in total Austria's income from FDI range between about 40% and 50%. In 2015, five CESEE countries were among the top 10 source countries of Austrian FDI income, with the Czech Republic ranking first (Figure 4) and Romania, Russia, Croatia and Slovakia following on the ranks further below. Thus, it is mainly the direct investments in the EU-CEE countries among the countries in the region that lead to appreciable payouts. FDI income from the countries of the Western Balkans is still comparatively modest. Income from FDI in the CIS is varying widely, income from Russia in particular fluctuates from year to year. Russia's share in Austria's FDI income ranges between 2% and 10%. Other important countries of origin for Austrian FDI income are first of all China and Germany. Interestingly, relatively low income flows are observed for the tax-haven destinations the Netherlands and Luxembourg, which figure prominently in the data on Austrian FDI stocks abroad.

**Figure 4 / Austria's income from FDI abroad**

Top 8, shares in % (ranking according to 2015)



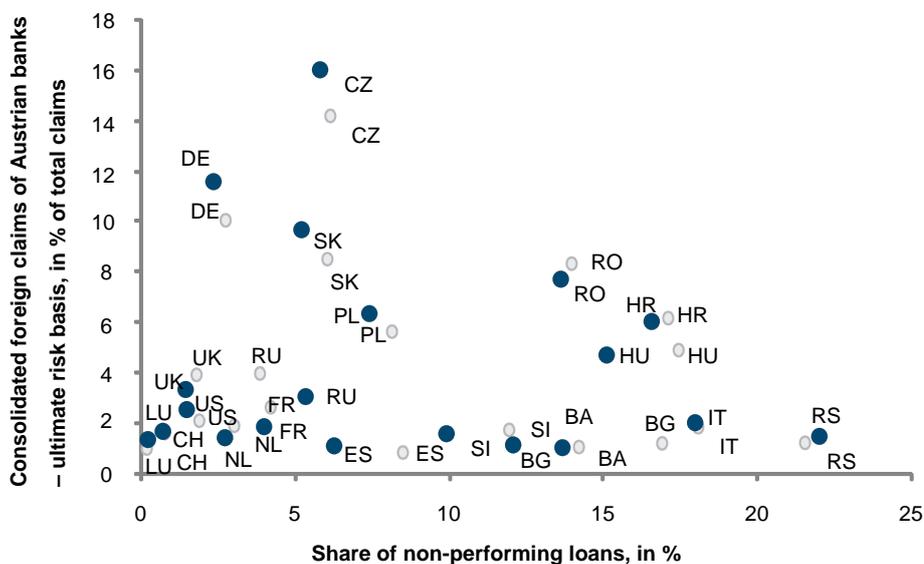
Note: According to BPM6 methodology.  
Source: Austrian National Bank (OeNB).

## AUSTRIAN BANKS: FOREIGN EXPOSURE DECLINING, PARTICULARLY IN 'RISKY' PARTS OF CESEE

Foreign claims of Austrian banks world-wide have decreased by some EUR 50 billion since the outbreak of the global financial crisis, to slightly more than EUR 300 billion in 2015. This mirrors the general trend of deleveraging in the banking sector, i.e. the lowering of the level of indebtedness via balance sheet contraction. However, banks' relative foreign exposure with respect to the Czech Republic, Slovakia and Poland in particular has increased (Figure 5) – i.e. in countries with comparatively low risk (in terms of the share of non-performing loans). For instance, the Czech Republic, still closely behind Germany in 2008, is now the clear number one with a share of 16% of Austrian banks' foreign claims (having risen by about one percentage point per year). Foreign claims in riskier markets such as Romania and Hungary have, however, decreased noticeably. Likewise, claims on Russia have declined considerably: although non-performing loans do not play an important role there, Russia can be considered a difficult market for foreign banks because of the high exchange rate risk and the political tensions, among other things.

**Figure 5 / Foreign claims of Austrian banks and share of non-performing loans**

Top 20, shares in % (ranking according to 2015)



Remark: Blue dots show 2015, grey dots show 2014.

Source: Foreign claims: BIS (lacking data according to OeNB for Ukraine in 2014, RBI for Albania, Kosovo, Russia and Belarus in 2014, RBI for Kosovo in 2015). Non-performing loans: national statistics for CESEE, IMF for other countries.

In conclusion, despite reductions of Austrian FDI in CESEE in recent years, Austrian enterprises are still among the top ten foreign investors in most of the region, ranking particularly high in the Balkans. Also, it has to be noted that FDI income has reached substantial levels in the most recent period. Annually about five billion euro of Austrian FDI income is generated in CESEE. Though banking has lost some of its importance in the structure of Austrian FDI, financial intermediation is still the dominant sector. Nevertheless, risk awareness has increased strongly after the outbreak of the global financial crisis and also Austrian banks have reduced their exposure especially to markets perceived as perilous.

# The Austrian car parts industry: winner or loser of integration?

BY DORIS HANZL-WEISS

## INTRODUCTION

Austria has a large and important car parts industry, which strongly depends on exports to Germany. With the integration of the Central and Eastern European countries (CEECs) into the EU, new linkages within the European automotive industry developed, in particular between Germany and the CEECs – the so-called ‘German-Central European supply chain’<sup>1</sup>. In this article we will examine in which way Austria’s car parts industry has been affected by these changes and how linkages have developed since then between Austria, Germany and the CEECs.

## STYLISTED FACTS ON THE AUTOMOTIVE SECTOR IN THE REGION

In Austria, the automotive sector (NACE Rev. 2, 29) accounted for 8% of manufacturing production in 2014 and thus belonged to the largest sectors in manufacturing (behind machinery, food, and basic metals industries). Car parts (NACE Rev. 2, 29.2 and 29.3) are an integrated and important part of the automotive sector. Assembly of motor cars (NACE Rev. 2, 29.1) is also present in Austria, albeit on a small scale (about 109,000 passenger cars were produced in Austria in 2015). The automotive industry expanded its share from 1995 onwards, accounting for 6% of manufacturing production then, peaked between 2004 and 2007 with an almost 11% share, only to fall in the wake of the 2009 crisis and to stabilise at around 8% in recent years. The main car manufacturing companies in Austria include: Magna Steyr, BMW Motoren GmbH, Opel Wien GmbH (formerly GM Powertrain Austria, Vienna, Aspern), MAN Truck & Bus AG, Robert Bosch AG, AVL List, Miba, Zizala Lichtsysteme GmbH, Pankl Racing, Remus & Sebring Holding, Ventrex Automotive GmbH.<sup>2</sup>

By comparison, the automotive industry in the neighbouring countries saw an unprecedented surge and success in the last two decades. In the Czech Republic, Hungary, and especially Slovakia, the automotive industry has become the most important manufacturing sector and now holds shares of 25% of manufacturing production in the former two countries and 33% in the latter. In Poland and Slovenia the automotive sector also plays a prominent role with 11% (see Figure 1). The region benefited from a strong inflow of foreign direct investment already after the collapse of communism. German car companies were among the front runners in this process: Volkswagen formed joint ventures with already existing companies in the Czech Republic (Škoda Auto) and Slovakia (VW Bratislava), and was active in Poland (light commercial vehicles) and Hungary (Audi). Further, Renault engaged in Slovenia and Romania (Dacia), and in Fiat in Poland. But also in the 2000s, a number of new greenfield plants were

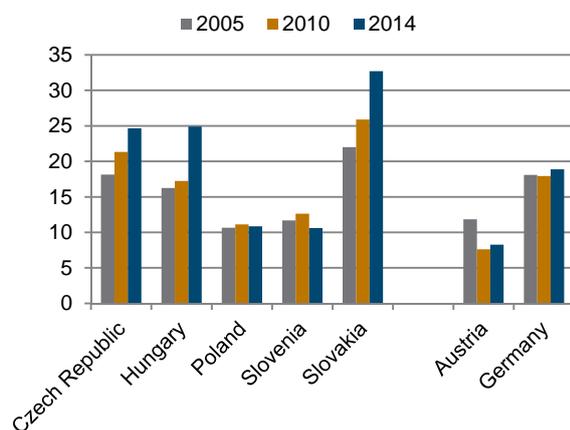
<sup>1</sup> See IMF (2013).

<sup>2</sup> See Austrian Business Agency (ABA), <http://investinaustria.at/de/sectoren/automobilindustrie/>

built in the region (PSA Peugeot Citroën and Kia in Slovakia; Toyota Peugeot Citroën and Hyundai in the Czech Republic), with that of Mercedes in Hungary being the most recent one.<sup>3</sup> The Czech Republic and Slovakia produced 1.3 million and 1 million of passenger cars in 2015 respectively.<sup>4</sup>

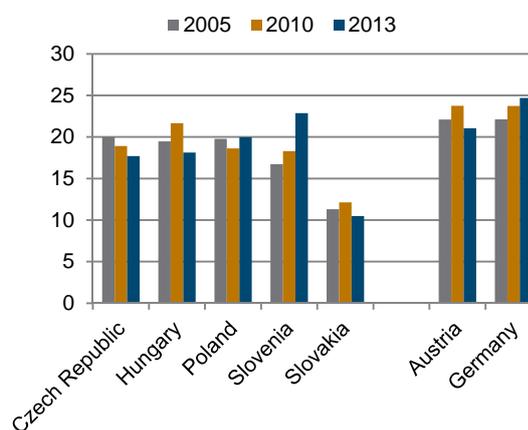
For the Austrian automotive industry, the opening-up of the Central and Eastern European countries and their accession to the EU brought about new chances, such as new trade opportunities, but also threats, including the relocation of companies to low-cost countries (e.g. tyre production). Austrian companies addressed these new challenges also by implementing FDI projects in the neighbouring countries (e.g. Zizala or Miba in the Czech Republic and in Slovakia). Overall, the Austrian automotive industry seems to have coped well with these new challenges and retained high value added in Austria (see Figure 2).

**Figure 1 / Share of the automotive industry (NACE Rev. 2, 29) in manufacturing production, selected countries, in %**



Note: For Slovakia 2006 instead of 2005 share.  
Source: Eurostat SBS.

**Figure 2 / Share of value added in production, automotive industry (NACE Rev. 2, 29), selected countries, in %**



Note: For Slovakia 2006 instead of 2005 share.  
Source: Eurostat SBS.

## AUSTRIAN CAR PARTS TRADE IN DETAIL: SHIFT IN TRADING PARTNERS

Overall, the automotive sector plays a major role in Austrian foreign trade, being the second most important export sector and accounting for 11% of total exports in 2015. Nominal exports of the automotive sector (NACE Rev. 2, 29) increased from EUR 9.4 billion in 2000 to 14.3 billion in 2015, while imports rose from EUR 9.5 billion in 2000 to 14.0 billion in the same period, resulting in a small trade surplus in the automotive sector in 2015. A more pronounced trade surplus was registered between 2004 and 2008<sup>5</sup> (in the other years it was small or even negative). The export and import structure within the automotive sector is quite similar: In 2015, motor vehicles (NACE Rev. 2, 29.1) made up 66% of exports, bodies for motor vehicles (NACE Rev. 2, 29.2) 3%, and parts and accessories (NACE Rev. 2, 29.3) 31%. In the case of imports, the respective shares were 67%, 3% and 31%. The

<sup>3</sup> See Hanzl-Weiss and Stehrer (2014). In 2015, British Jaguar Land Rover announced to build a new assembly plant in Slovakia, starting production in late 2018/2019.

<sup>4</sup> Poland 535,000; Hungary 490,000; Slovenia 133,000. See International Organization of Motor Vehicle Manufacturers, <http://www.oica.net/>

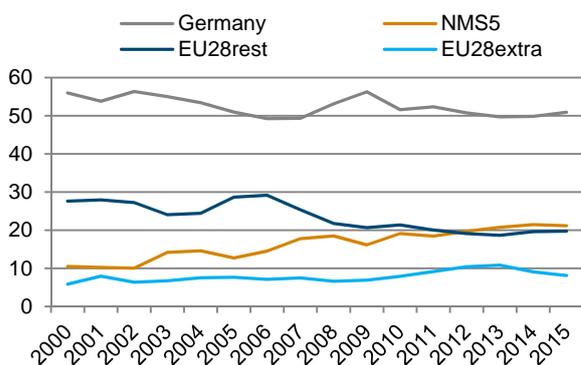
<sup>5</sup> This was due to the highest numbers of cars assembled in these years, about 200,000 (250,000 in 2006).

main trading partner was and is Germany, accounting for 43% of automotive exports and 49% of automotive imports in 2015.

Looking in more detail at parts and accessories (NACE Rev. 2, 29.3), Austrian car parts exports rose from EUR 2.5 billion in 2000 to 4.4 billion in 2015.<sup>6</sup> Regarding main trading partners (see Figure 3), Germany ranked first, accounting for 56% of Austrian car parts exports in 2000 but falling slightly to 51% in 2015. The share of car parts exports going to the new Member States (NMS-5, including the Czech Republic, Hungary, Poland, Slovakia and Slovenia) nearly doubled from 11% in 2000 to 21% in 2015. Exports to the rest of the EU-28 accounted for 28% in 2000 and fell to 19% in 2015, while the share of exports to extra-EU countries remained fairly constant (6% to 8%). Overall, although the dominance of Germany as the main export destination for Austrian car parts still persists, the importance of the NMS export partners has increased tremendously. Following Germany, car parts exports in 2015 went mainly to: Hungary (7.4%), Slovakia (6.3%)<sup>7</sup>, Spain (5.9%), Great Britain (5.2%), the Czech Republic (3.3%), Poland (3.2%) and Italy (2.1%).

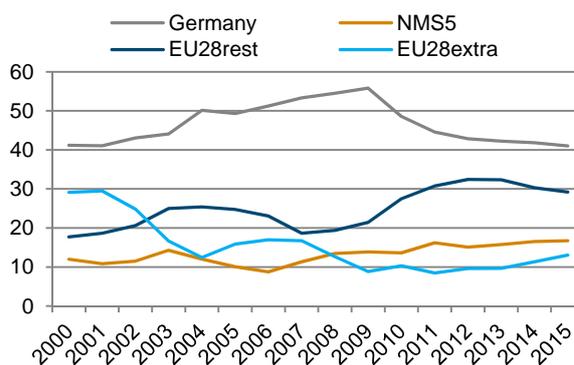
Car parts imports increased from EUR 3.2 billion in 2000 to 4.3 billion in 2015. Looking at the main trading partners (see Figure 4), Germany again ranks first, accounting for 41% of Austrian car parts imports both in 2000 and 2015 (although its share rose steeply up until 2009, to 56%, and fell again thereafter). Imports from the NMS-5 accounted for a share of 12% in 2000 and increased to 17% in 2015, while those from the rest of the EU-28 soared from 18% to 29%. By contrast, imports from outside the EU-28 accounted for 30% of all imports in 2000 but fell to 13% by 2015. Overall, the main shift in the shares of car parts imports occurred between extra-EU and the rest of the EU-28. Following Germany, in 2015 car parts were sourced mainly from: Italy (7.8%), the Czech Republic (5.8%), France (4.6%), Belgium (4.6%), Hungary (4.1%), Slovakia (2.8%) and Sweden (2.8%).

**Figure 3 / Austria: Exports of parts and accessories for motor vehicles (NACE Rev. 2, 29.3), shares of main trading partners, in %**



Source: Eurostat Comext.

**Figure 4 / Austria: Imports of parts and accessories for motor vehicles (NACE Rev. 2, 29.3), shares of main trading partners, in %**



Source: Eurostat Comext.

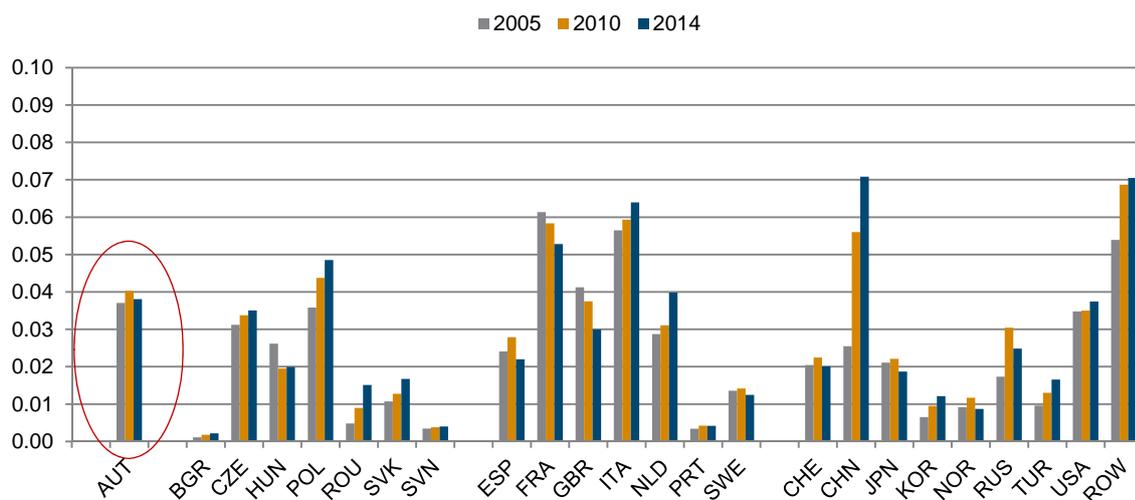
<sup>6</sup> For a more detailed and encompassing analysis of the Austrian car parts industry see Türkan (2009).

<sup>7</sup> However, one has to keep in mind the so-called 'Rotterdam effect' in the trade data. Car parts that come to Austria via the airport in Schwechat but are then transferred to Slovakia are recorded as Austrian exports to Slovakia; hence Austrian car parts exports to Slovakia might be overstated. The VW Bratislava plant is located right on the border of Austria.

## LINKAGES RE-EXAMINED: THE GERMAN VIEW

Taking now a broader approach concerning the interlinkages between countries, we examine the backward and forward linkages of the car manufacturing industry (NACE Rev. 2, 29) using the World Input-Output Database.<sup>8</sup> Looking at these linkages for the Austrian automotive industry reveals a similar picture as provided by the import and export figures above. We will look at the position of the Austrian automotive sector from a German viewpoint. Germany's backward linkages provide a picture of its sourcing structure. As can be seen in Figure 5, Germany has strong backward linkages with Austria which stayed fairly constant over time (between 2005 and 2014) while linkages with the NMS increased, except for Hungary. Germany has strong and growing ties with Poland and the Czech Republic, followed by Hungary, Slovakia and Romania. Within the EU, Germany has strong backward linkages with France, Italy, the Netherlands and Great Britain. Outside the EU, linkages with the USA and China are most pronounced; they saw an unprecedented surge in the period examined and are now the strongest of all countries.

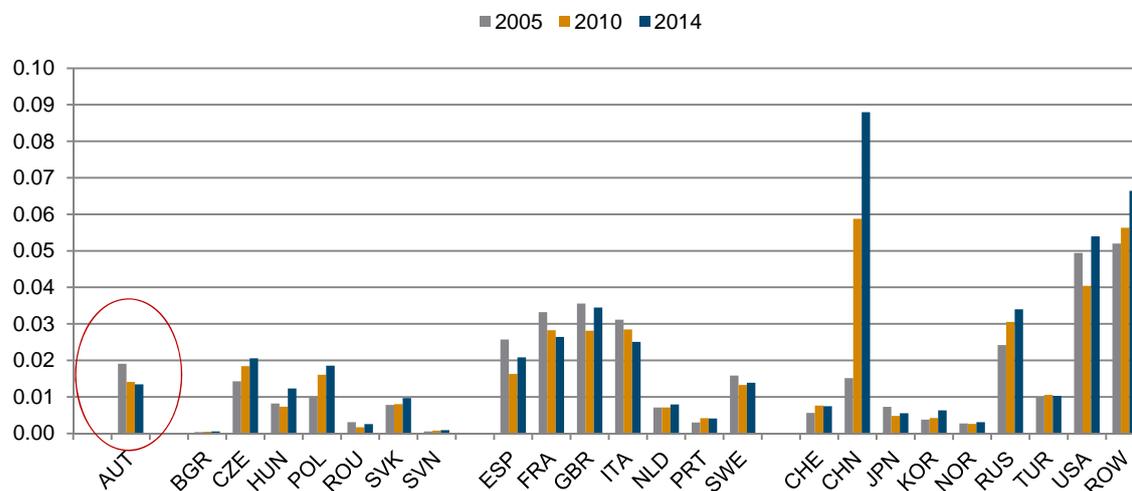
**Figure 5: Germany: Backward linkages (output multiplier for transport equipment, NACE Rev. 2, 29)**



Source: WIOD release 2016 (preliminary).

<sup>8</sup> This has the advantage of not only capturing direct trade ties (car parts as above), but also linkages with related sectors (e.g. rubber, electrical engineering, services) as well as indirect linkages (so-called second-round effects). This is done by either looking at the backward linkages (linkages to upstream sectors) or forward linkages (linkages to downstream sectors) based on the output multiplier. The output multiplier for a sector  $j$  is defined as the total value of production in all sectors of the economy that is necessary in order to satisfy a one EUR worth of final demand for sectors  $j$ 's output.

**Figure 6 / Germany: Forward linkages (output multiplier for transport equipment, NACE Rev. 2, 29)**



Source: WIOD release 2016 (preliminary).

Regarding Germany's forward linkages in the car manufacturing industry, these are smaller than backward linkages with respect to all European countries (see Figure 6). Forward linkages with Austria decreased between 2005 and 2010, while forward linkages with the Central European countries increased. Again, linkages with China grew the most, now being the most important among all countries.

## CONCLUSIONS

The car parts industry is an important segment of Austrian manufacturing and an important exporter, strongly depending on exports to Germany. The opening-up of the CEECs has brought about the emergence of the German-CEE supply chain and new challenges for Austria. As a result, Austrian-German ties declined in favour of Austrian-NMS-5 ties as German FDI has moved to these countries. The geographical trade pattern shifted noticeably from Germany to the NMS, although the strong dependence on Germany has still remained. Overall, however, with total export volumes increasing, Austria has kept its position as a main supplier to Germany and maintained high value added within the country, Austria's car parts industry appears to be a winner of integration – keeping Germany as an important market and winning the NMS on top of that.

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- IMF (2013), 'German-Central European Supply Chain', *IMF Country Report* No.13/263, August.
- Türkan, K. (2009), 'Vertical Intra-Industry Trade: An Empirical Examination of Austria's Auto-Parts Industry', *FIW Working Paper* No. 30, May.

## The editors recommend for further reading\*

### Brexit

When and how to trigger article 50: <http://www.msn.com/en-gb/news/uknews/theresa-may-will-trigger-brexit-negotiations-without-commons-vote/ar-BBw69In?ocid=spartanntp>

Barry Eichengreen on Brexit:

<https://www.project-syndicate.org/print/small-uk-export-boost-since-brexit-vote-by-barry-eichengreen-2016-09>

No more post-Brexit money for NHS:

<http://www.theguardian.com/politics/2016/sep/10/brexit-camp-abandons-350-million-pound-nhs-pledge>.

On NHS (National Health Service in the UK) and what to expect:

<http://www.the-tls.co.uk/articles/public/end-of-the-nhs/>.

Krugman on Brexit:

<http://krugman.blogs.nytimes.com/2016/09/06/thinking-about-brexit-fast-and-slow/>.

Wren-Lewis on the need for a second referendum:

<https://mainlymacro.blogspot.co.at/2016/08/why-we-must-have-second-referendum.html>

Portes rediscovers the Condorcet Paradox in the Brexit context: [http://www.niesr.ac.uk/blog/condorcet-paradox-work-rock-paper-scissors-eu-referendum#.V8FB\\_B1OK71](http://www.niesr.ac.uk/blog/condorcet-paradox-work-rock-paper-scissors-eu-referendum#.V8FB_B1OK71)

Nicolas Veron on the decline of the City of London:

<http://www.prospectmagazine.co.uk/features/capital-flight-london-economy-brexit-business>

### Macro

Paul Romer on the trouble with macroeconomics:

[https://www.law.yale.edu/system/files/area/workshop/leo/the\\_trouble\\_with\\_macro\\_economics.pdf](https://www.law.yale.edu/system/files/area/workshop/leo/the_trouble_with_macro_economics.pdf)

On public investment when the interest rate is stuck at zero:

<http://voxeu.org/article/public-investment-stimulus-spillovers-eurozone>

Krugman on Sims:

<http://krugman.blogs.nytimes.com/2016/08/30/chris-and-the-ricardianoids-wonkish>

Brad DeLong on Sims and Krugman:

<http://equitablegrowth.org/equitableblog/unpleasant-fiscal-dominance/>.

### Russia

Governors in Russia: <http://www.nytimes.com/2016/09/09/opinion/how-do-you-get-to-be-a-governor-in-vladimir-putins-russia.html?ref=opinion>

Essay by Bennett:

<http://www.the-american-interest.com/2016/09/13/will-russia-overextend-itself/>

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\* Recommendation is not necessarily endorsement. The editors are grateful to Vladimir Gligorov for his valuable contribution to this section.

# Monthly and quarterly statistics for Central, East and Southeast Europe

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

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

## Conventional signs and abbreviations used

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

The following national currencies are used:

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

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

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

### Online database access



**wiiw Annual Database**



**wiiw Monthly Database**



**wiiw FDI Database**

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# Albania

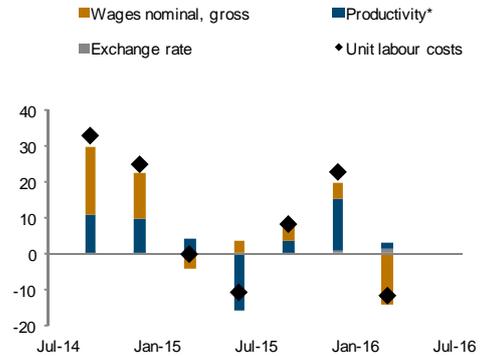
## Real sector development

annual growth rate in %



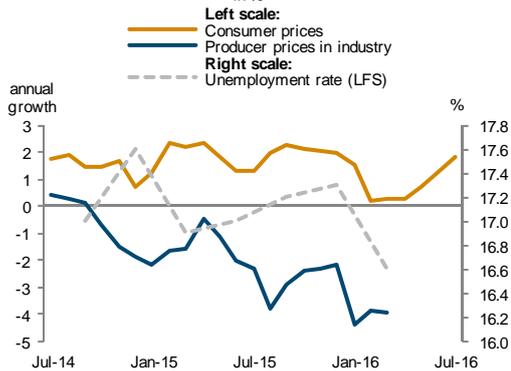
## Unit labour costs in industry

annual growth rate in %



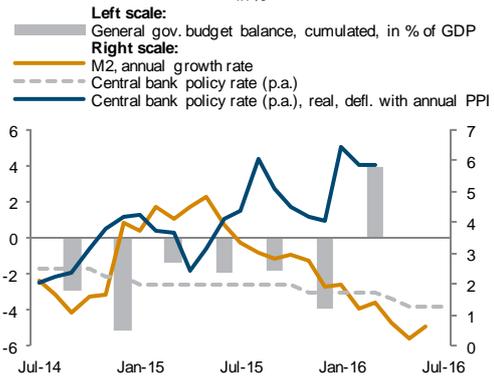
## Inflation and unemployment

in %



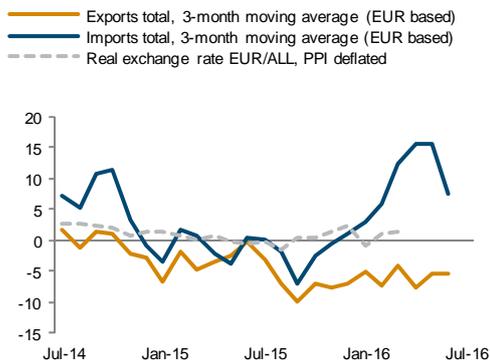
## Fiscal and monetary policy

in %



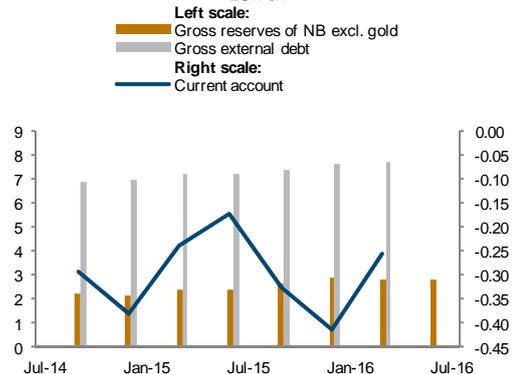
## External sector development

annual growth rate in %



## External finance

EUR bn



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

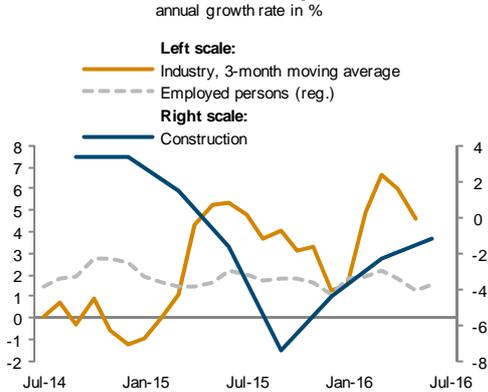
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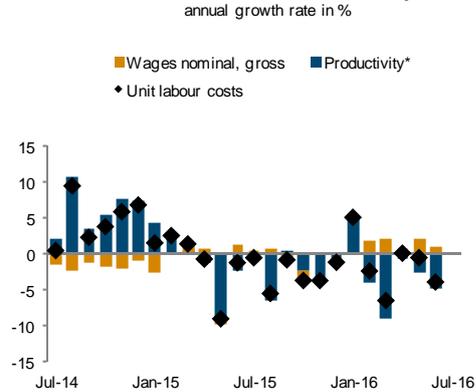
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# Bosnia and Herzegovina

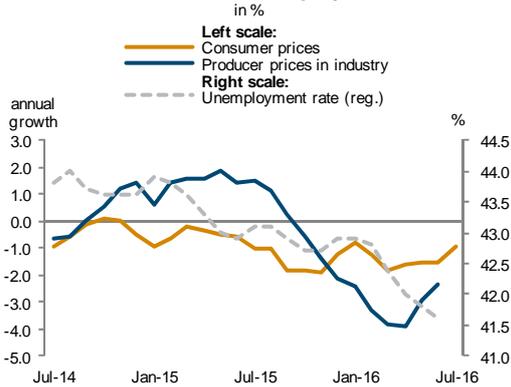
## Real sector development



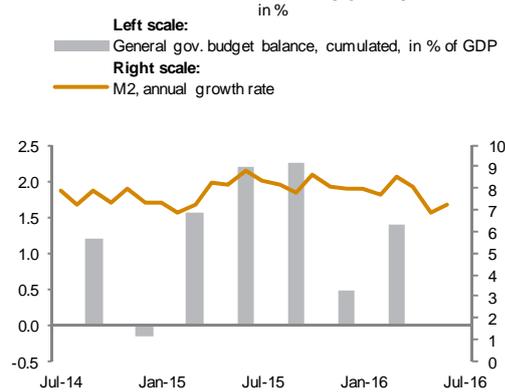
## Unit labour costs in industry



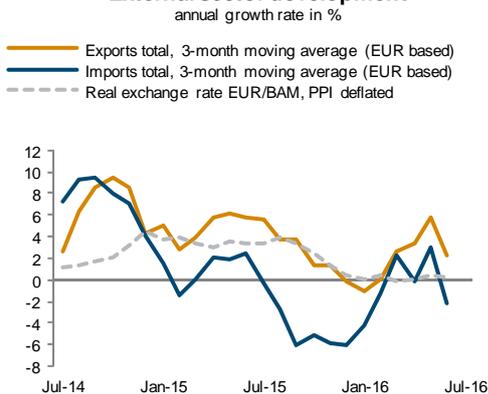
## Inflation and unemployment



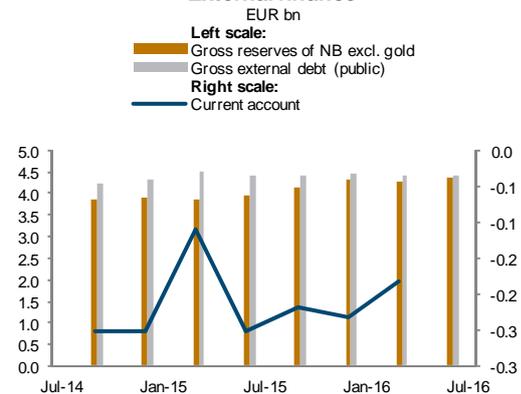
## Fiscal and monetary policy



## External sector development



## External finance



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

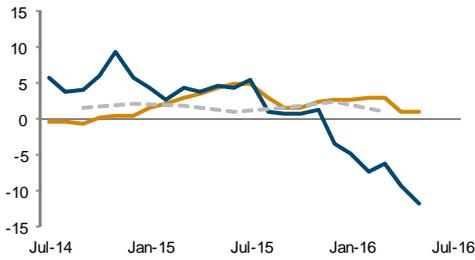
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# Bulgaria

## Real sector development

annual growth rate in %

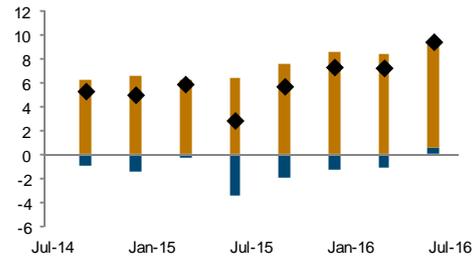
- Industry, 3-month moving average
- Construction, 3-month moving average
- - - Employed persons (LFS)



## Unit labour costs in industry

annual growth rate in %

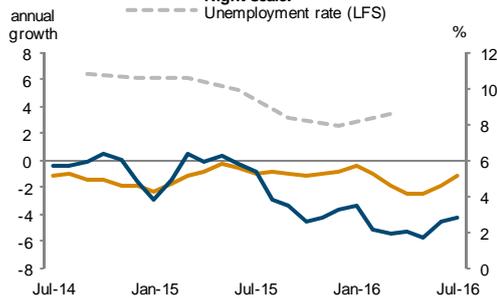
- Wages nominal, gross
- Productivity\*
- ◆ Unit labour costs



## Inflation and unemployment

in %

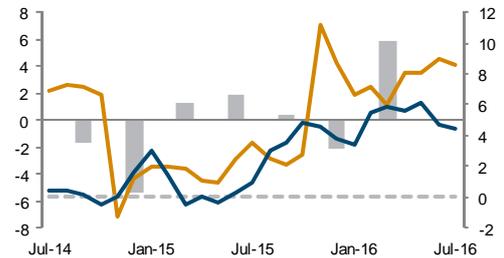
- Left scale:**
- Consumer prices (HICP)
- Producer prices in industry
- Right scale:**
- - - Unemployment rate (LFS)



## Fiscal and monetary policy

in %

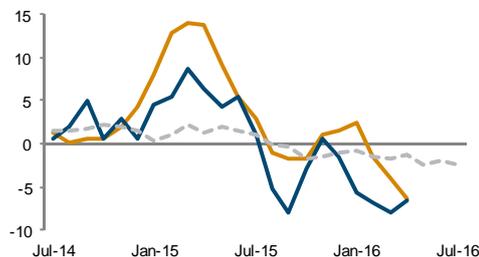
- Left scale:**
- General gov. budget balance, cumulated, in % of GDP
- Right scale:**
- Broad money, annual growth rate
- - - Central bank policy rate (p.a.)
- Central bank policy rate (p.a.), real, defl. with annual PPI



## External sector development

annual growth rate in %

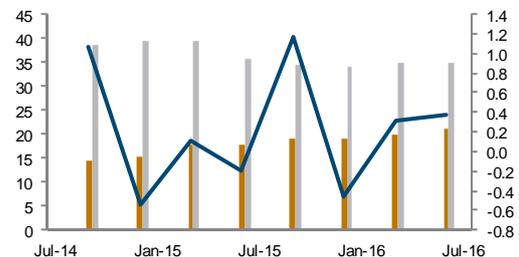
- Exports total, 3-month moving average (EUR based)
- Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/BGN, PPI deflated



## External finance

EUR bn

- Left scale:**
- Gross reserves of NB excl. gold
- Gross external debt
- Right scale:**
- Current account



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

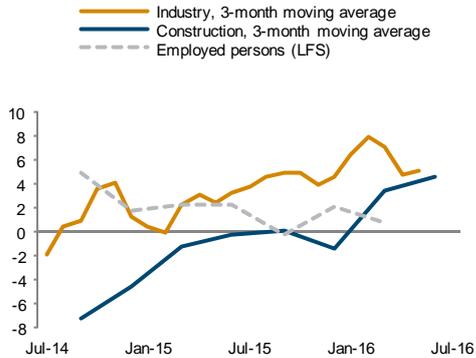
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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# Croatia

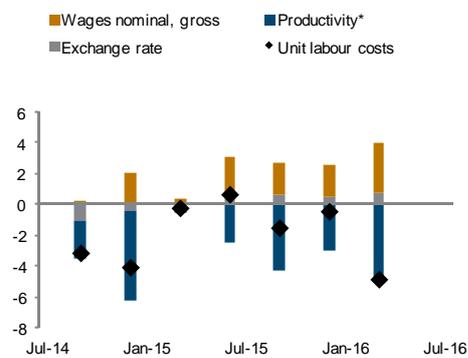
## Real sector development

annual growth rate in %



## Unit labour costs in industry

annual growth rate in %



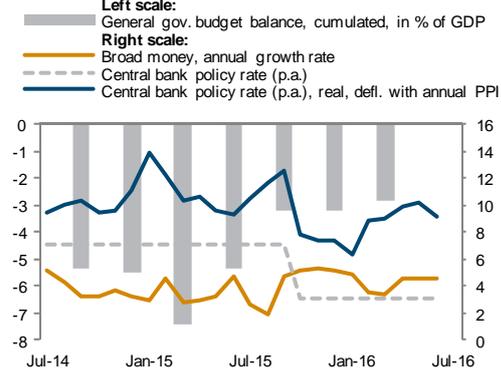
## Inflation and unemployment

in %



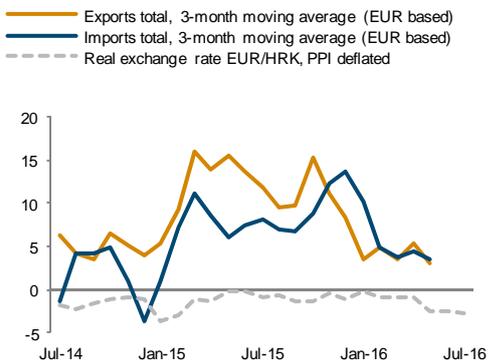
## Fiscal and monetary policy

in %



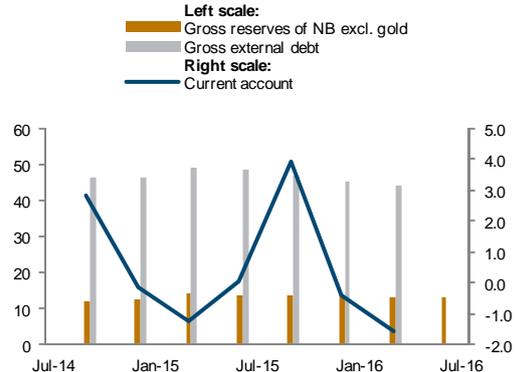
## External sector development

annual growth rate in %



## External finance

EUR bn



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

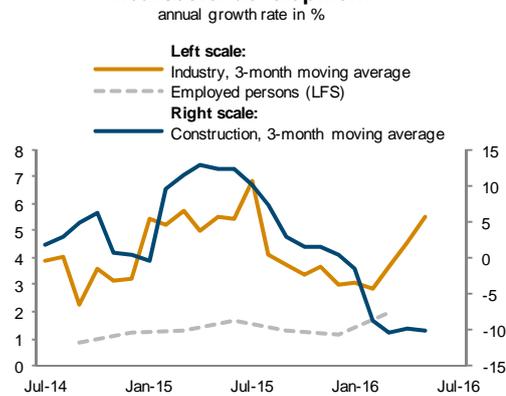
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

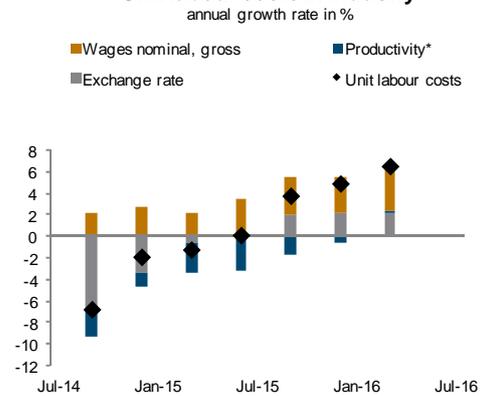
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# Czech Republic

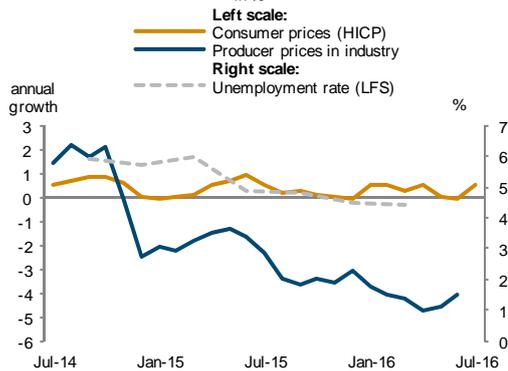
## Real sector development



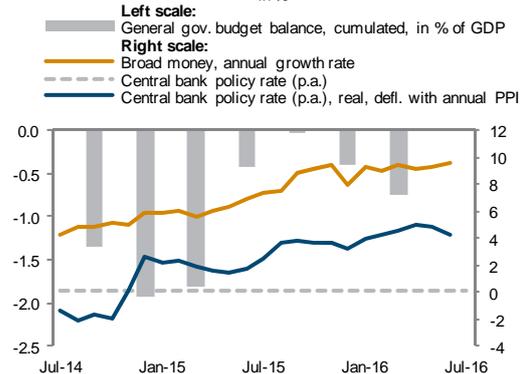
## Unit labour costs in industry



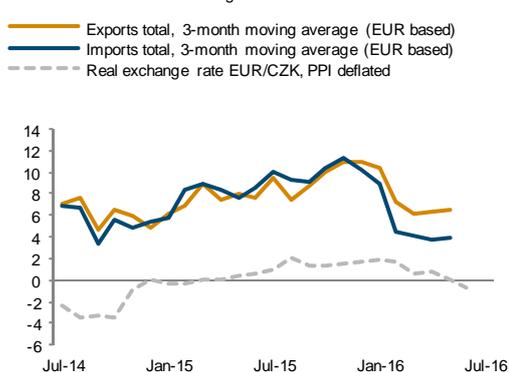
## Inflation and unemployment



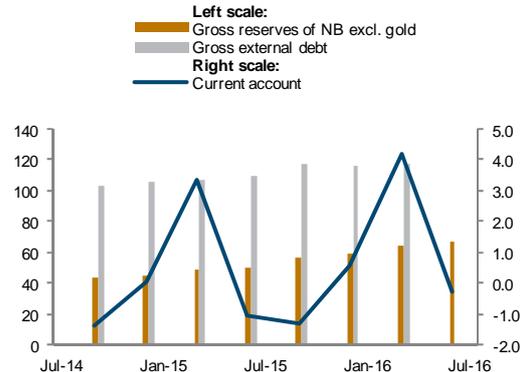
## Fiscal and monetary policy



## External sector development



## External finance



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

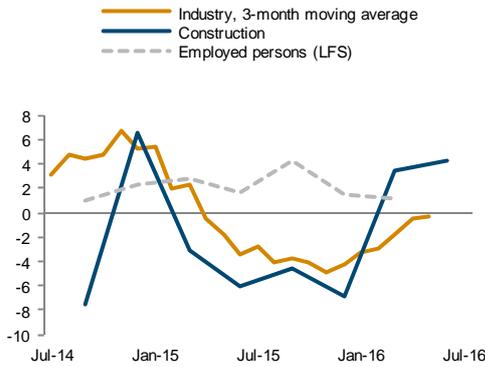
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

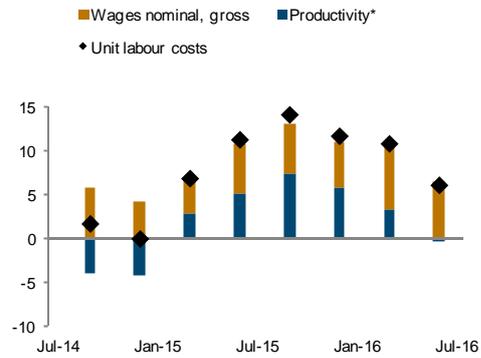
<http://data.wiiw.ac.at/monthly-database.html>

# Estonia

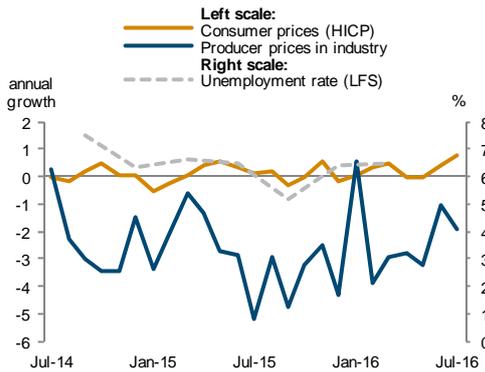
**Real sector development**  
annual growth rate in %



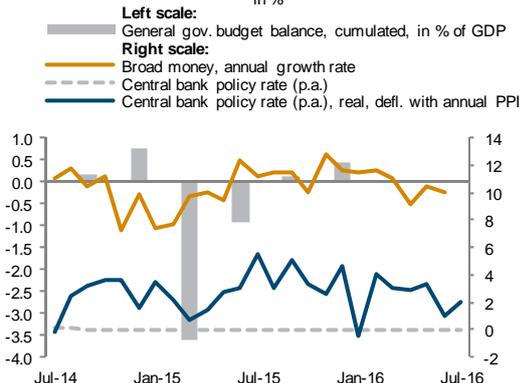
**Unit labour costs in industry**  
annual growth rate in %



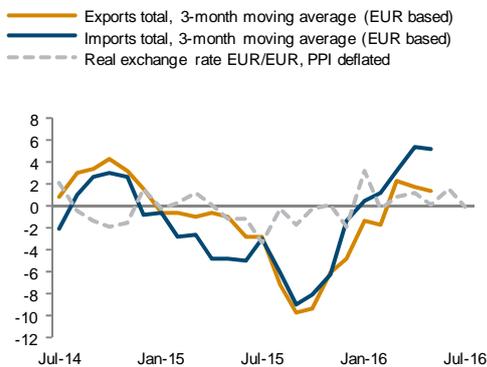
**Inflation and unemployment**  
in %



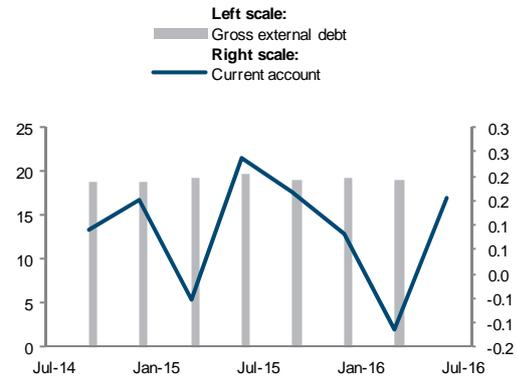
**Fiscal and monetary policy**  
in %



**External sector development**  
annual growth rate in %



**External finance**  
EUR bn



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

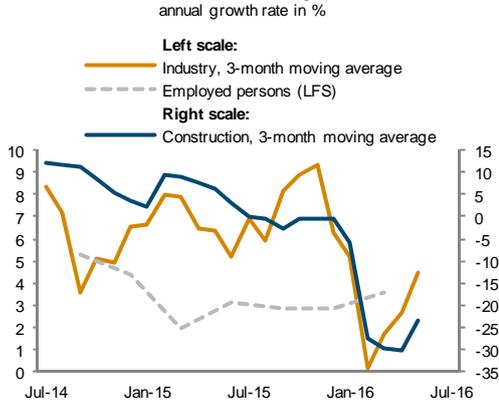
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

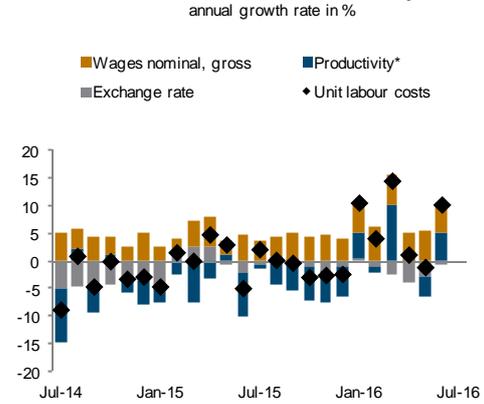
<http://data.wiiw.ac.at/monthly-database.html>

# Hungary

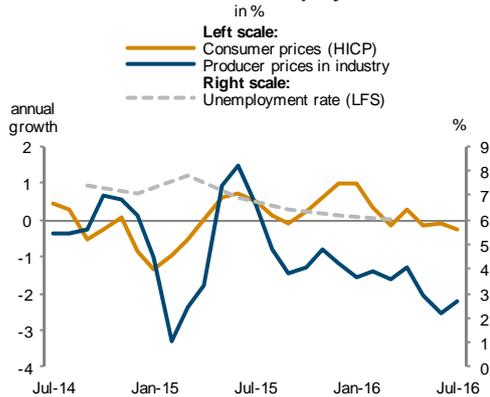
## Real sector development



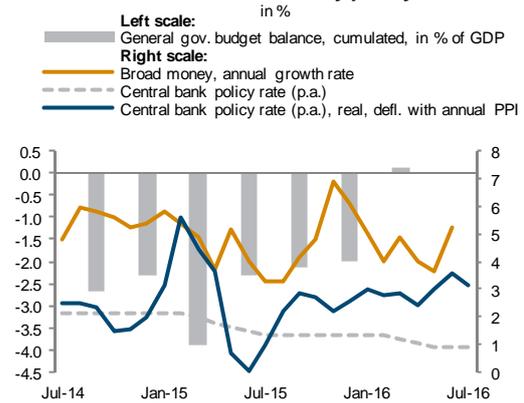
## Unit labour costs in industry



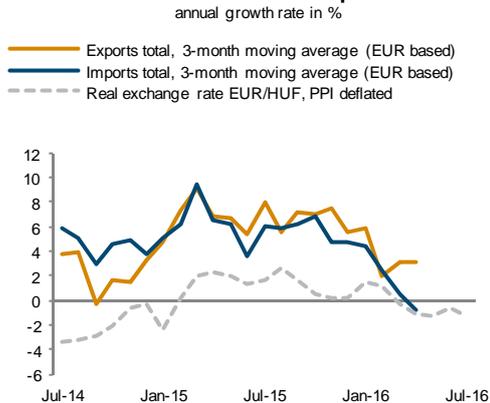
## Inflation and unemployment



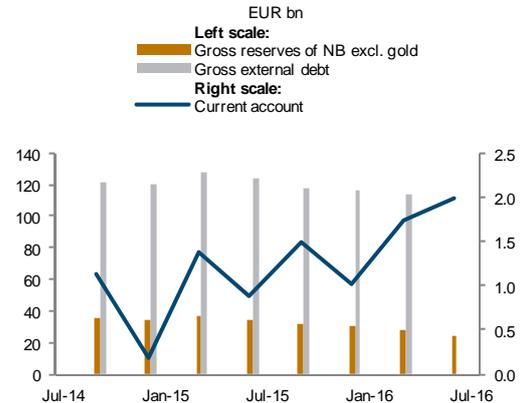
## Fiscal and monetary policy



## External sector development



## External finance



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

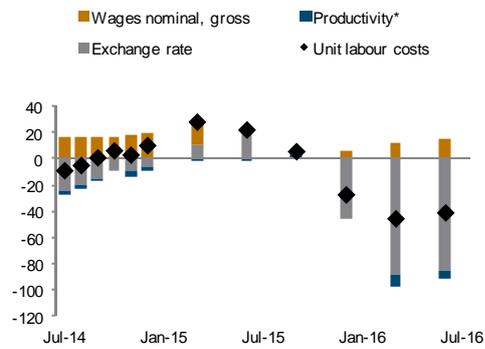
<http://data.wiiw.ac.at/monthly-database.html>

# Kazakhstan

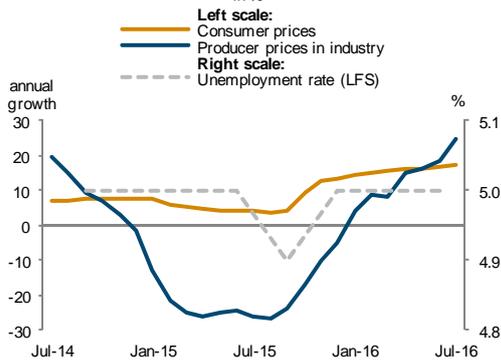
**Real sector development**  
annual growth rate in %



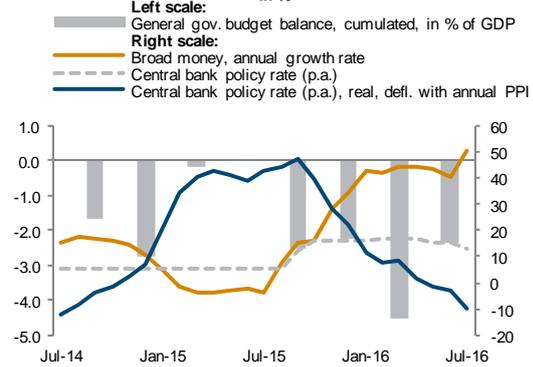
**Unit labour costs in industry**  
annual growth rate in %



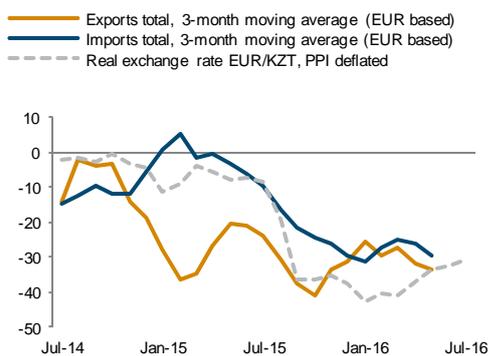
**Inflation and unemployment**  
in %



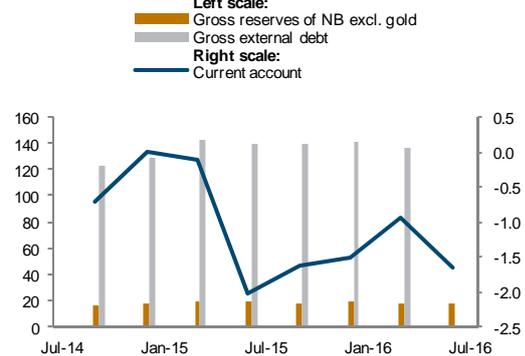
**Fiscal and monetary policy**  
in %



**External sector development**  
annual growth rate in %



**External finance**  
EUR bn



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

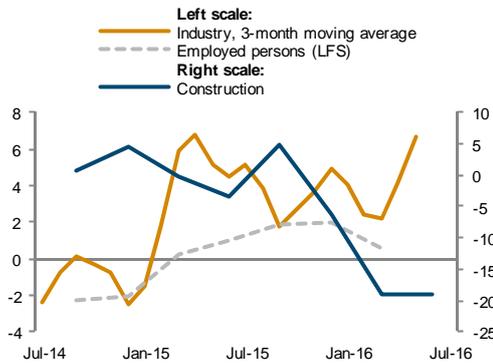
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

# Latvia

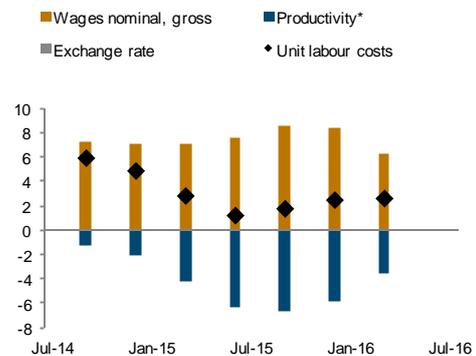
## Real sector development

annual growth rate in %



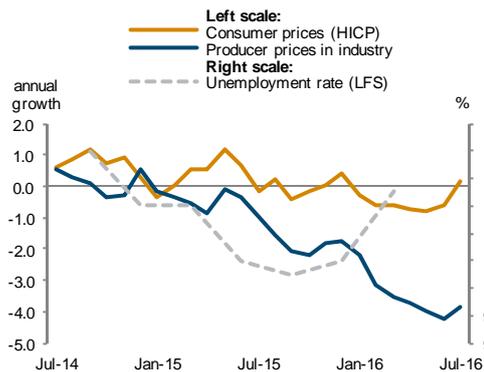
## Unit labour costs in industry

annual growth rate in %



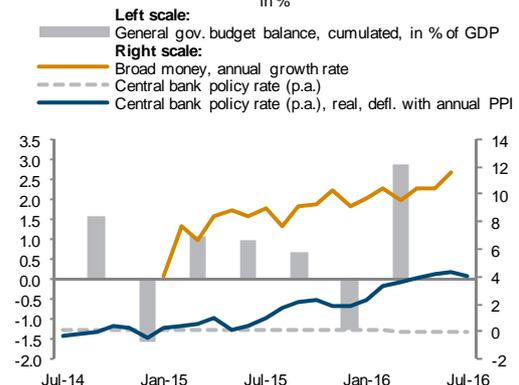
## Inflation and unemployment

in %



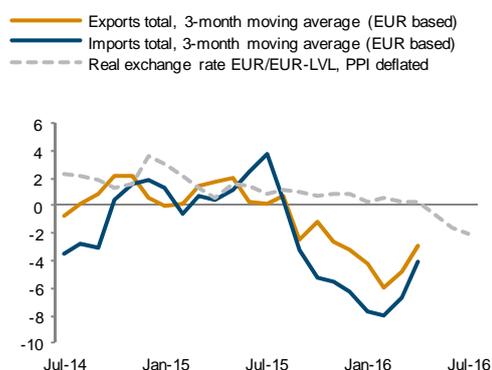
## Fiscal and monetary policy

in %



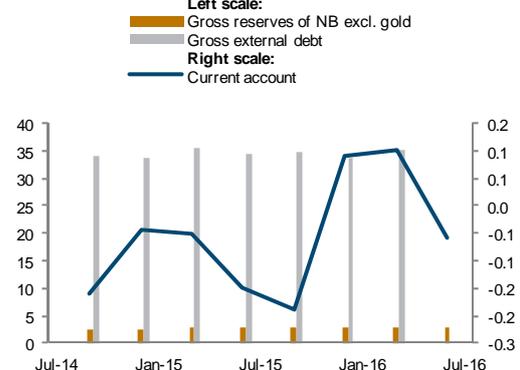
## External sector development

annual growth rate in %



## External finance

EUR bn



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

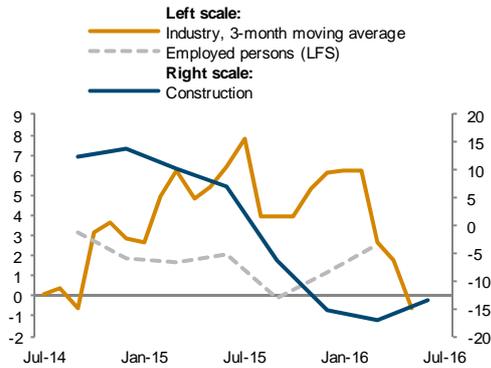
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

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

# Lithuania

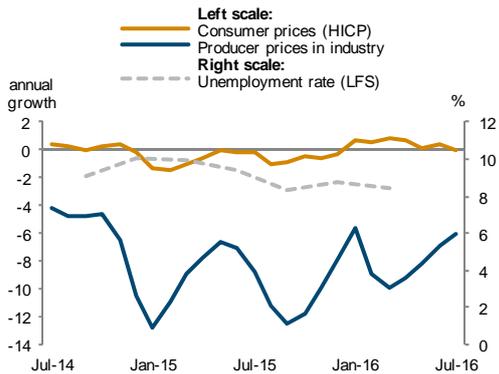
**Real sector development**  
annual growth rate in %



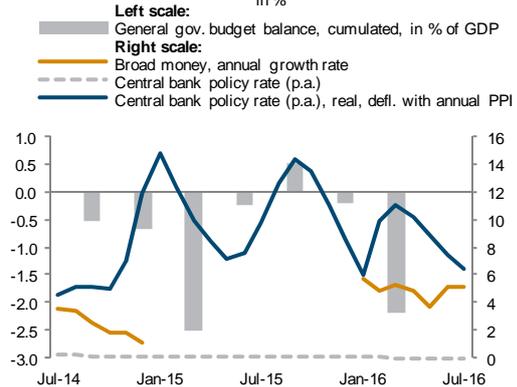
**Unit labour costs in industry**  
annual growth rate in %



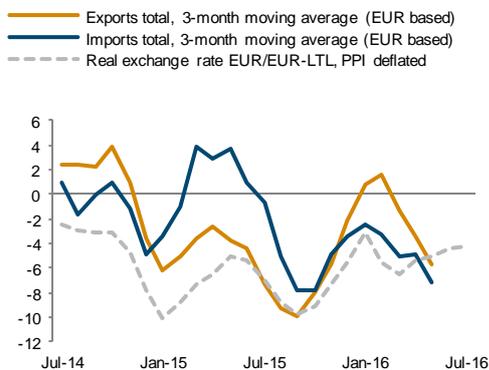
**Inflation and unemployment**  
in %



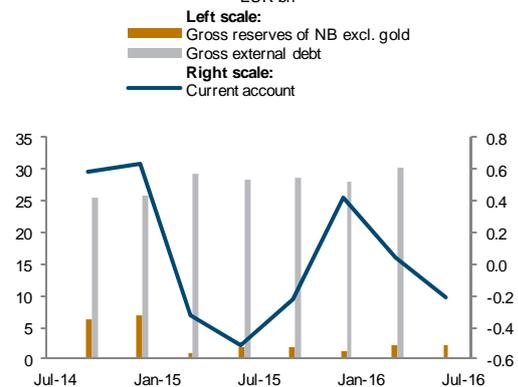
**Fiscal and monetary policy**  
in %



**External sector development**  
annual growth rate in %



**External finance**  
EUR bn



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

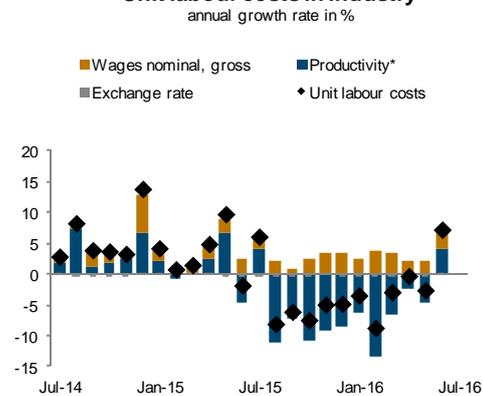
<http://data.wiiw.ac.at/monthly-database.html>

# Macedonia

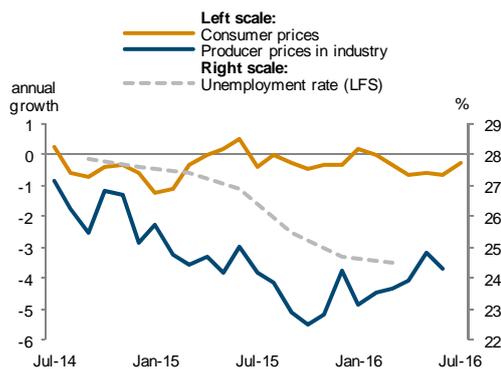
## Real sector development



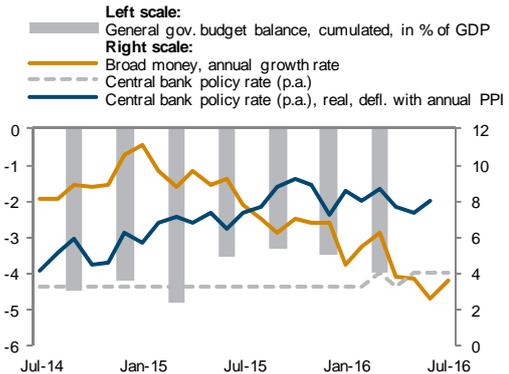
## Unit labour costs in industry



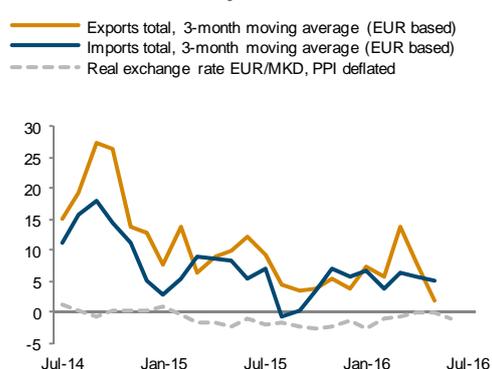
## Inflation and unemployment



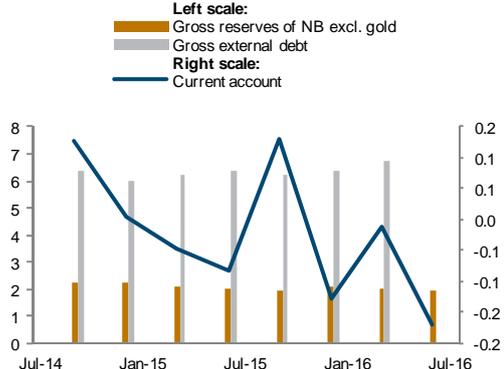
## Fiscal and monetary policy



## External sector development



## External finance



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

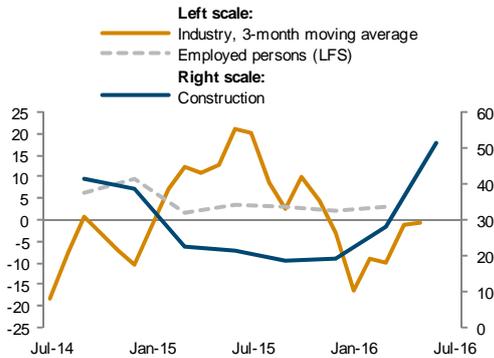
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

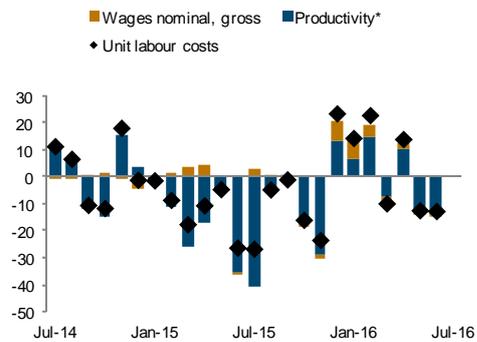
<http://data.wiiw.ac.at/monthly-database.html>

# Montenegro

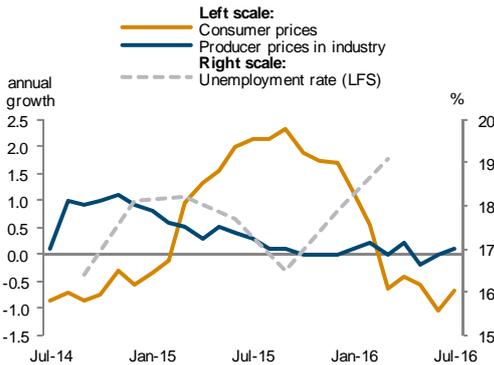
**Real sector development**  
annual growth rate in %



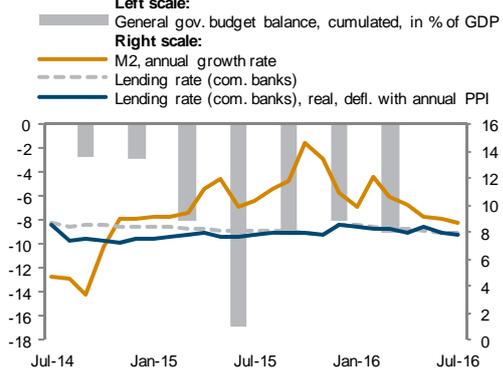
**Unit labour costs in industry**  
annual growth rate in %



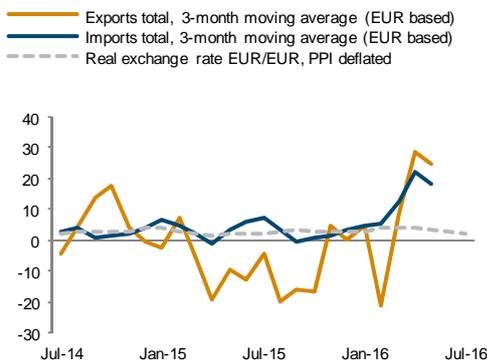
**Inflation and unemployment**  
in %



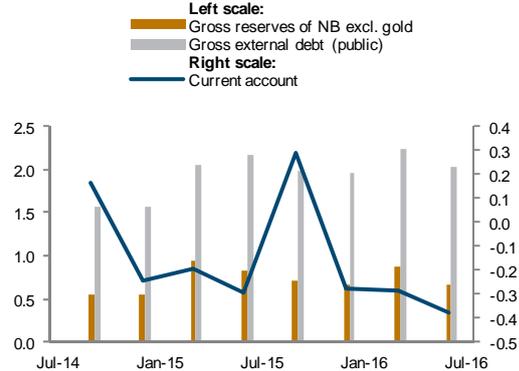
**Fiscal and monetary policy**  
in %



**External sector development**  
annual growth rate in %



**External finance**  
EUR bn



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

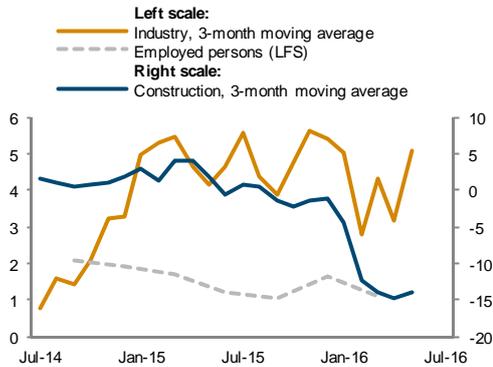
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

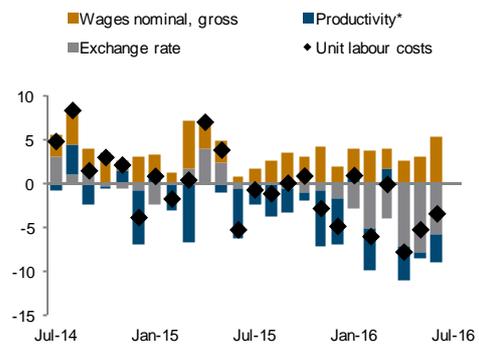
<http://data.wiiw.ac.at/monthly-database.html>

# Poland

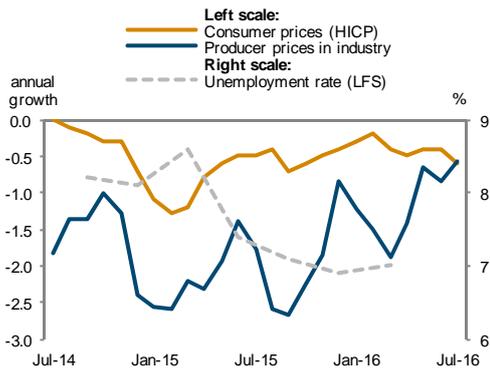
**Real sector development**  
annual growth rate in %



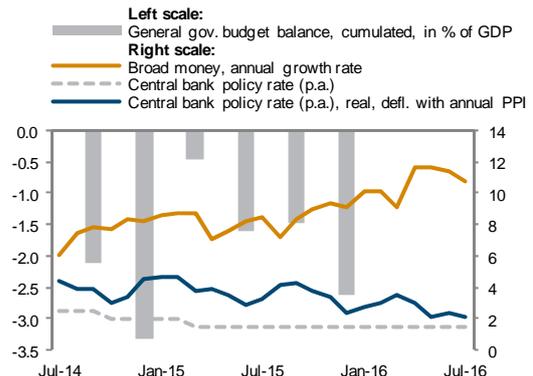
**Unit labour costs in industry**  
annual growth rate in %



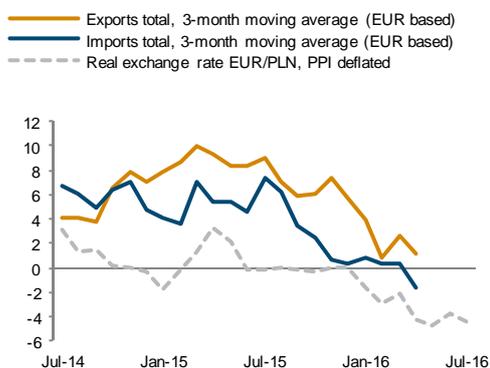
**Inflation and unemployment**  
in %



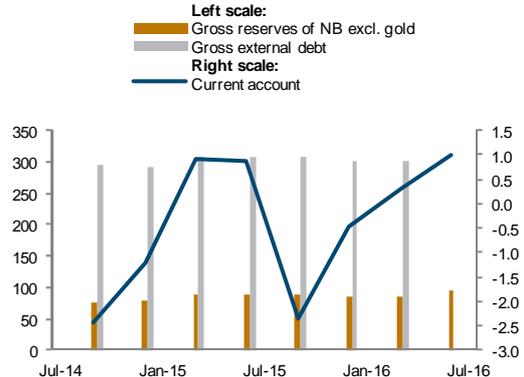
**Fiscal and monetary policy**  
in %



**External sector development**  
annual growth rate in %



**External finance**  
EUR bn



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

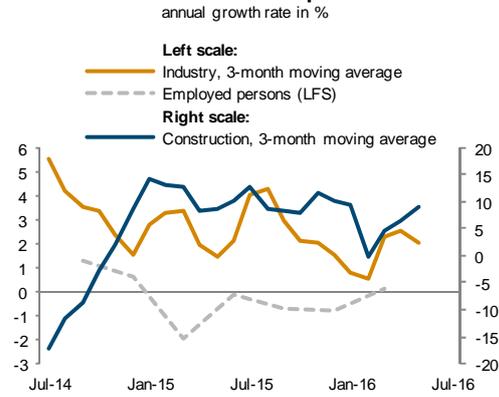
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

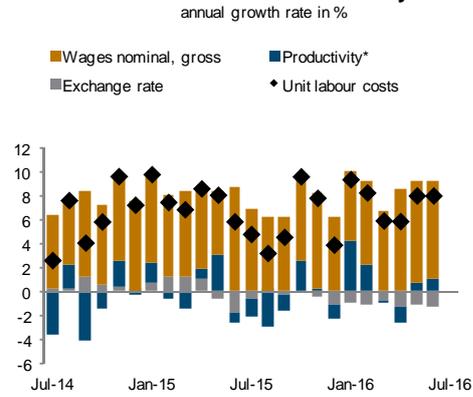
<http://data.wiiw.ac.at/monthly-database.html>

# Romania

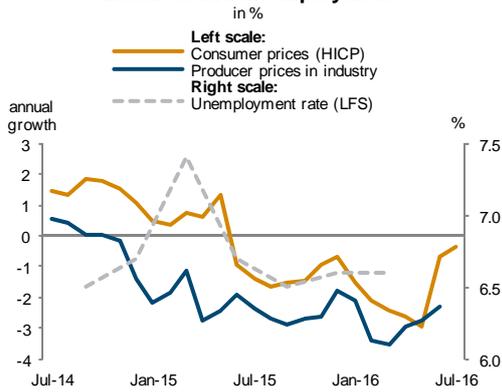
## Real sector development



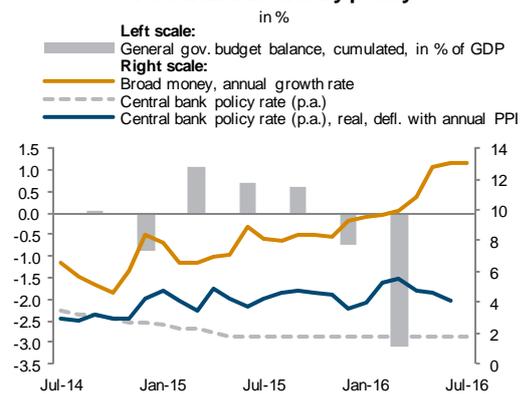
## Unit labour costs in industry



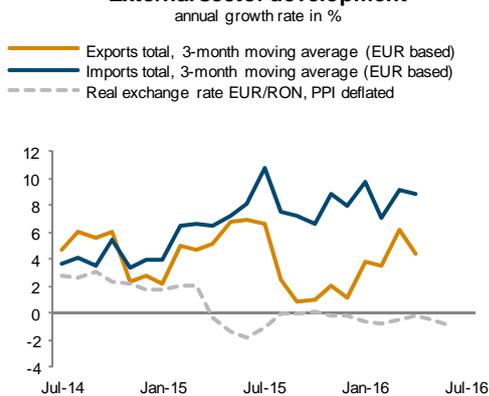
## Inflation and unemployment



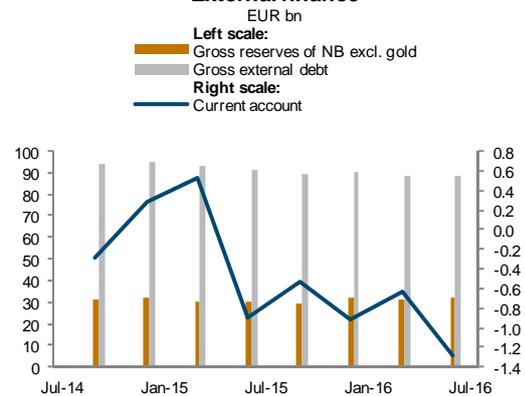
## Fiscal and monetary policy



## External sector development



## External finance



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

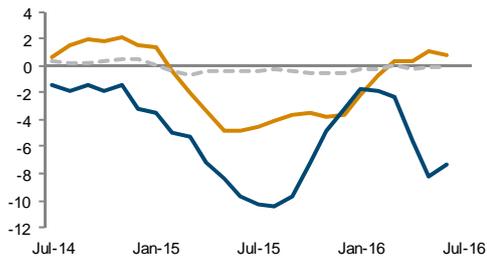
<http://data.wiiw.ac.at/monthly-database.html>

# Russia

## Real sector development

annual growth rate in %

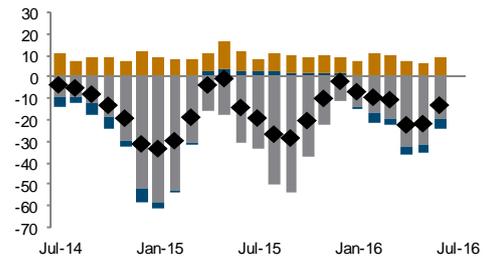
- Industry, 3-month moving average
- Construction, 3-month moving average
- - - Employed persons (LFS)



## Unit labour costs in industry

annual growth rate in %

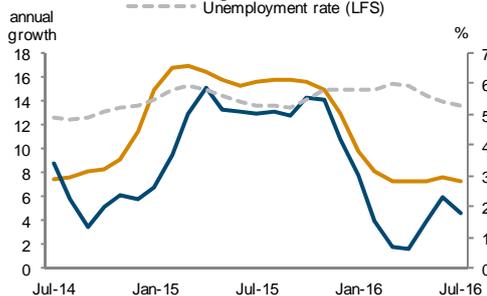
- Wages nominal, manuf., gross
- Exchange rate
- ◆ Productivity\*
- ◆ Unit labour costs



## Inflation and unemployment

in %

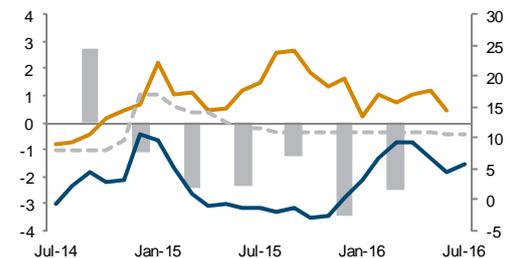
- Consumer prices
  - Producer prices in industry
  - - - Unemployment rate (LFS)
- Left scale:  
Right scale:



## Fiscal and monetary policy

in %

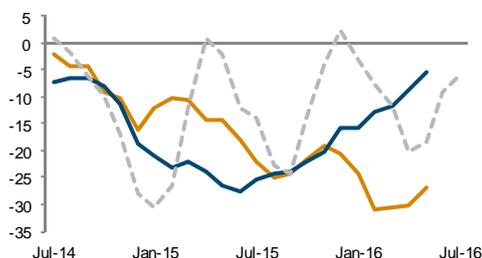
- General gov. budget balance, cumulated, in % of GDP
  - M2, annual growth rate
  - - - Central bank policy rate (p.a.)
  - Central bank policy rate (p.a.), real, defl. with annual PPI
- Left scale:  
Right scale:



## External sector development

annual growth rate in %

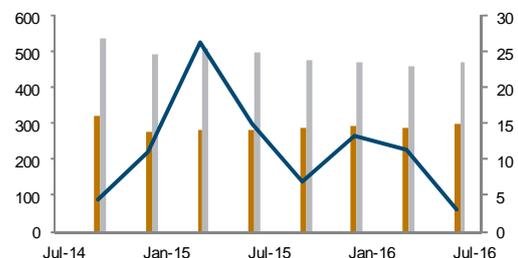
- Exports total, 3-month moving average (EUR based)
- Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/RUB, PPI deflated



## External finance

EUR bn

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



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

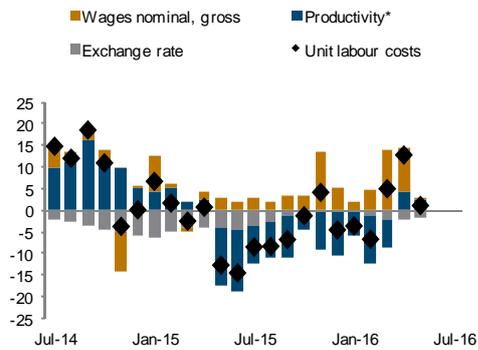
<http://data.wiiw.ac.at/monthly-database.html>

# Serbia

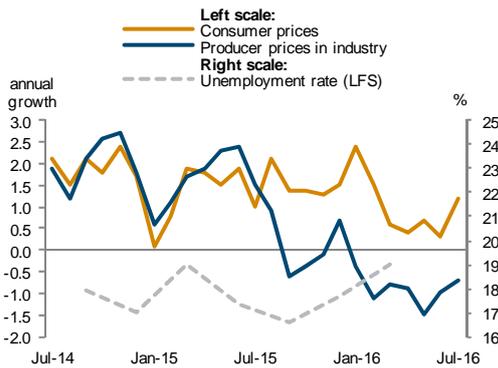
**Real sector development**  
annual growth rate in %



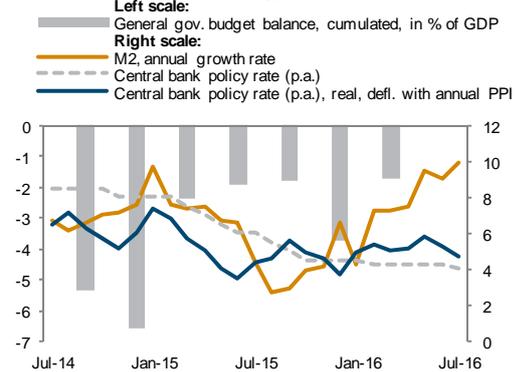
**Unit labour costs in industry**  
annual growth rate in %



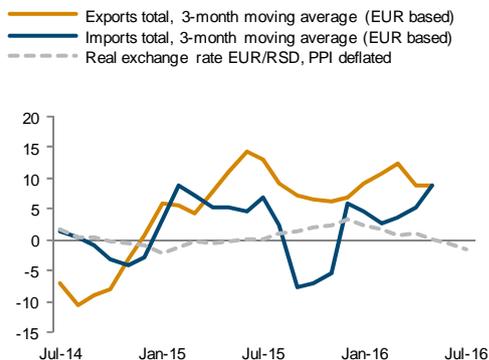
**Inflation and unemployment**  
in %



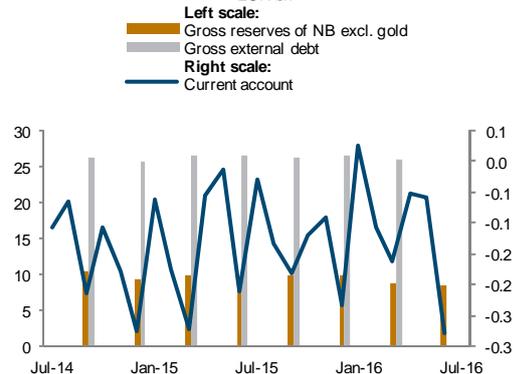
**Fiscal and monetary policy**  
in %



**External sector development**  
annual growth rate in %



**External finance**  
EUR bn



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

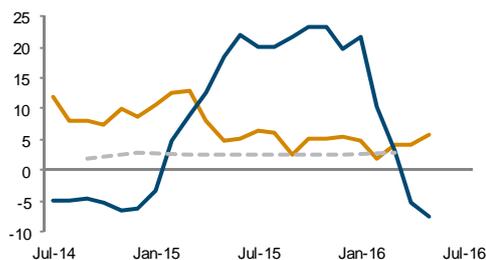
<http://data.wiiw.ac.at/monthly-database.html>

# Slovakia

## Real sector development

annual growth rate in %

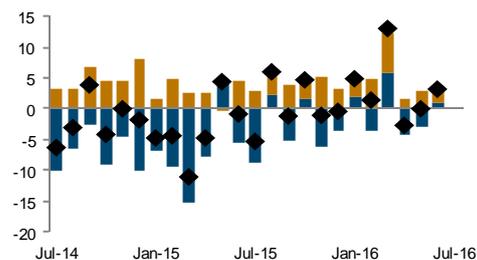
- Industry, 3-month moving average
- Construction, 3-month moving average
- - - Employed persons (LFS)



## Unit labour costs in industry

annual growth rate in %

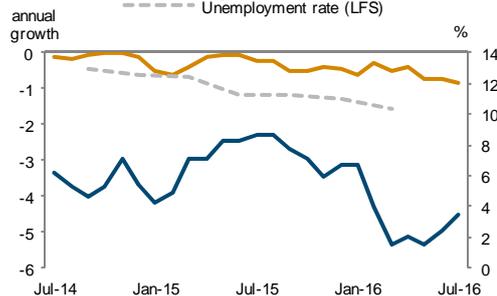
- Wages nominal, gross
- Productivity\*
- ◆ Unit labour costs



## Inflation and unemployment

in %

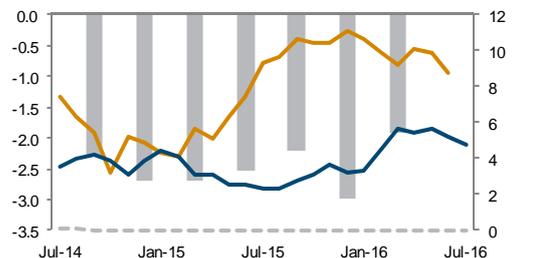
- Consumer prices (HICP)
- Producer prices in industry
- - - Unemployment rate (LFS)



## Fiscal and monetary policy

in %

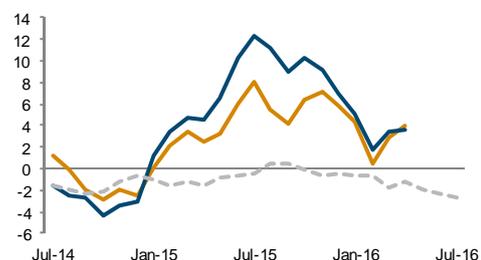
- General gov. budget balance, cumulated, in % of GDP
- Broad money, annual growth rate
- Central bank policy rate (p.a.)
- Central bank policy rate (p.a.), real, defl. with annual PPI



## External sector development

annual growth rate in %

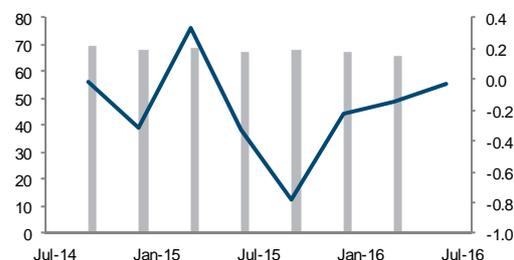
- Exports total, 3-month moving average (EUR based)
- Imports total, 3-month moving average (EUR based)
- - - Real exchange rate EUR/EUR, PPI deflated



## External finance

EUR bn

- Gross external debt
- Current account



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

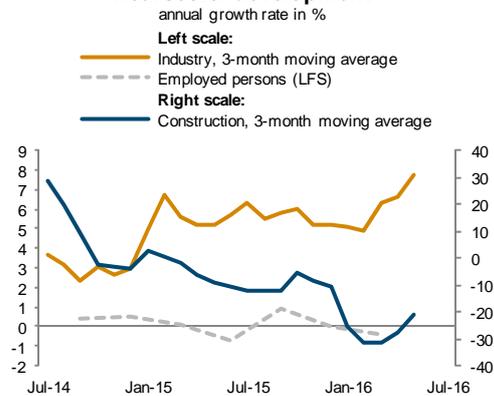
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

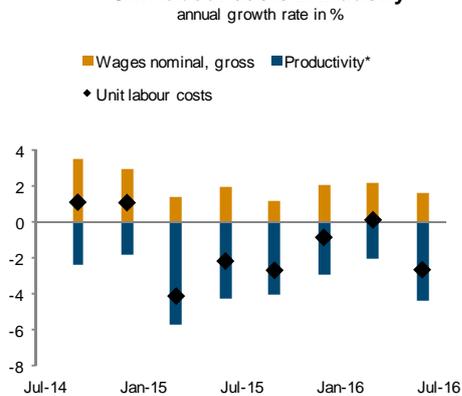
<http://data.wiiw.ac.at/monthly-database.html>

# Slovenia

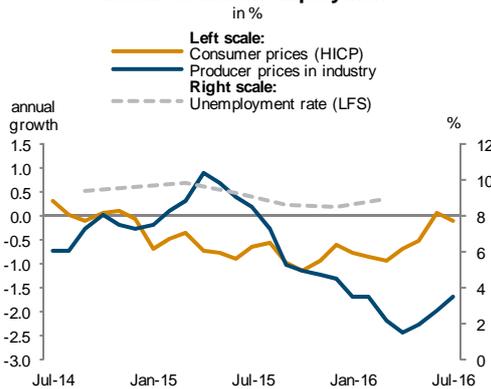
## Real sector development



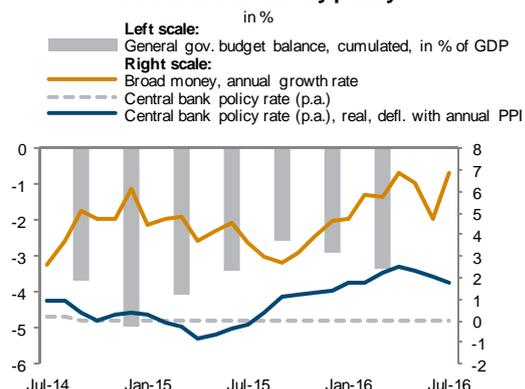
## Unit labour costs in industry



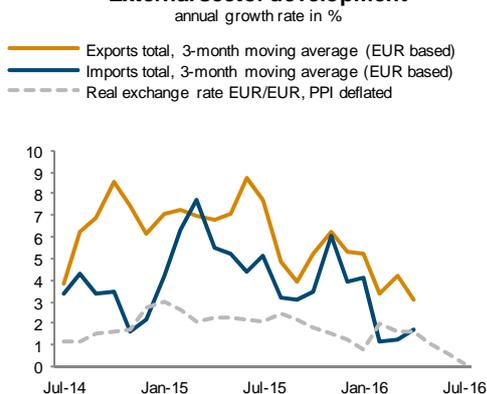
## Inflation and unemployment



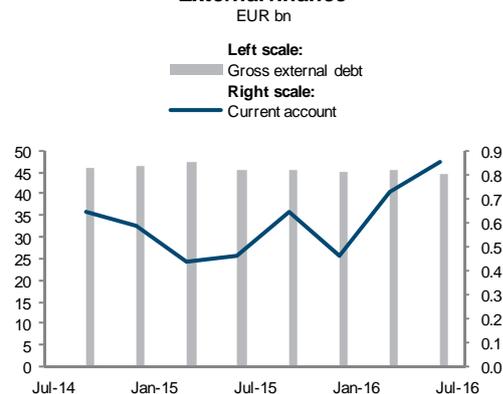
## Fiscal and monetary policy



## External sector development



## External finance



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

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

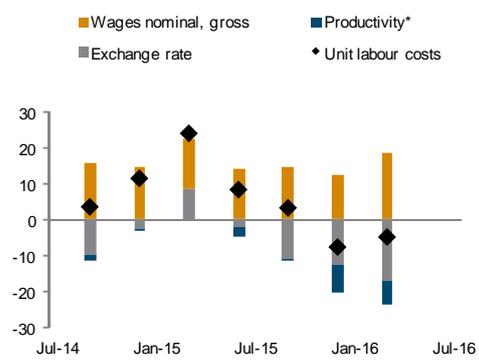
<http://data.wiiw.ac.at/monthly-database.html>

# Turkey

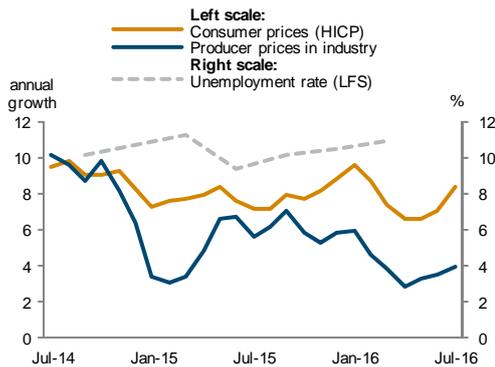
**Real sector development**  
annual growth rate in %



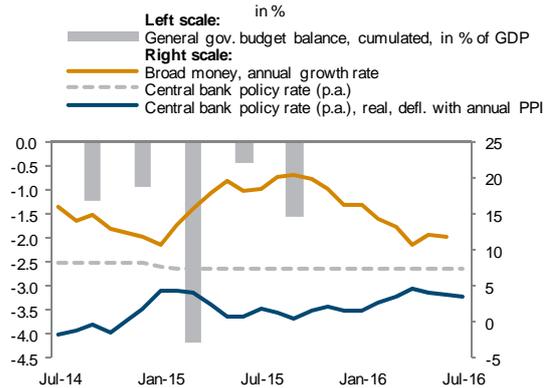
**Unit labour costs in industry**  
annual growth rate in %



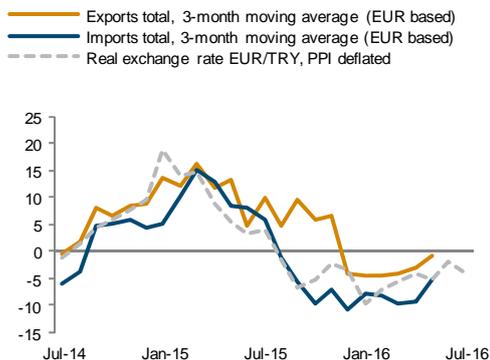
**Inflation and unemployment**  
in %



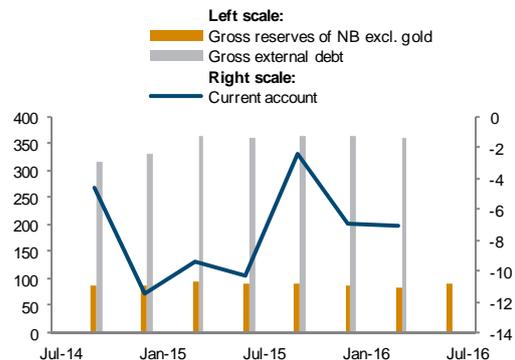
**Fiscal and monetary policy**  
in %



**External sector development**  
annual growth rate in %



**External finance**  
EUR bn



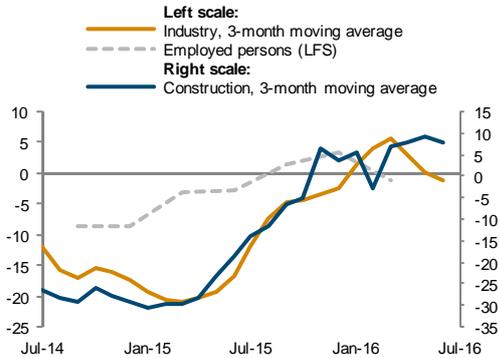
\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.  
Baseline data, country-specific definitions and methodological breaks in time series are available under:  
<http://data.wiiw.ac.at/monthly-database.html>

# Ukraine

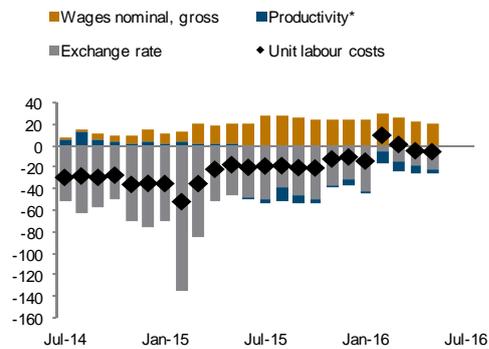
## Real sector development

annual growth rate in %



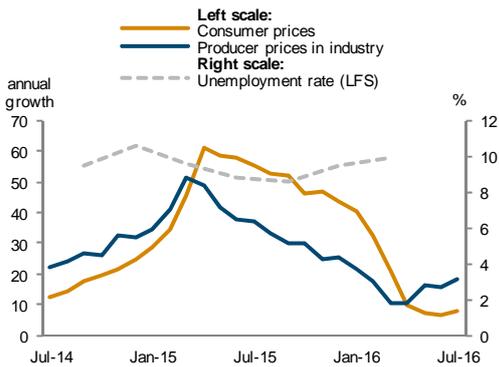
## Unit labour costs in industry

annual growth rate in %



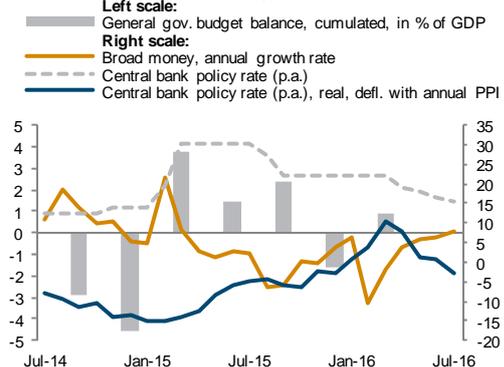
## Inflation and unemployment

in %



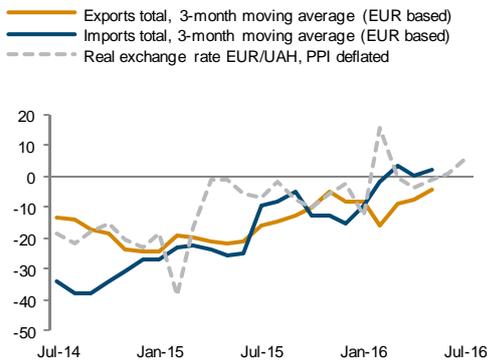
## Fiscal and monetary policy

in %



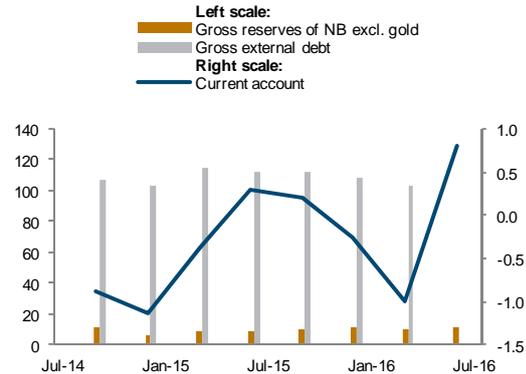
## External sector development

annual growth rate in %



## External finance

EUR bn



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

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