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Western Balkans Caught in a Franco-German Fight

Demographic Developments in the Western Balkans, Moldova and Ukraine

Labour Market Institutions in the Western Balkans, Moldova and Ukraine

The Vienna Institute for International Economic Studies
Wiener Institut für Internationale Wirtschaftsvergleiche

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CONTENTS

Chart of the month: Two decades of disappointing convergence in the Western Balkans 1

Opinion Corner: Western Balkans caught in a Franco-German fight..... 2

Demographic developments in the Western Balkans, Moldova and Ukraine 5

Labour market institutions in the Western Balkans, Moldova and Ukraine.....12

Monthly and quarterly statistics for Central, East and Southeast Europe.....19

Index of subjects – January 2019 to January 2020 43

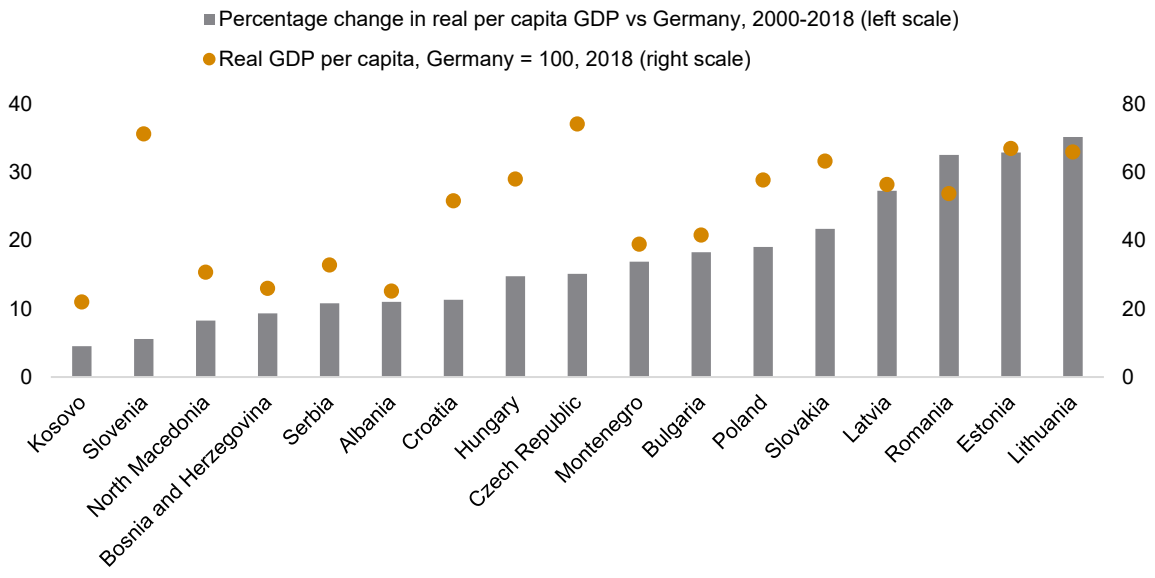
Save the date!
wiiw Spring Seminar
will take place on
Thursday, 26 March 2020

Chart of the month: Two decades of disappointing convergence in the Western Balkans

BY RICHARD GRIEVESON

2019 marked twenty years since the end of the war in Kosovo, and with it the cessation of formal hostilities in the former Yugoslavia. Although for the past two decades the region has been at peace, it has struggled to use this relative stability to achieve a high level of economic development in comparison with most of the rest of Central, East and Southeast Europe (CESEE). As the chart below shows, among CESEE countries five of the seven weakest rates of catch-up with Germany in 2000-2018 were in the Western Balkans (the other two were Slovenia and Croatia, both successor states of Yugoslavia, with a similar economic legacy as most of the Western Balkans). Moreover, the six Western Balkan economies are significantly poorer in per capita GDP terms than almost all EU-CEE countries. All else being equal, poorer countries should grow faster than richer ones. The disappointing performance of the Western Balkans therefore hints at serious political and institutional barriers to development. Overcoming these bottlenecks must be a priority for policymakers over the next two decades, both within the region and in Brussels.

Real GDP per capita, Germany = 100



Source: wiiw Annual Database.

Opinion Corner*: Western Balkans caught in a Franco-German fight

BY RICHARD GRIEVESON

2019 was a bad year for the EU enlargement prospects of the Western Balkans. Despite a green light from the European Commission, both North Macedonia and Albania were prevented from starting accession negotiations by the European Council. Even for Serbia and Montenegro, who have already started the accession process, the prospects of eventual membership appear distant.

The most significant country blocking EU accession is France, although others, especially the Netherlands and Denmark, quietly support Paris (at least in the case of Albania). In November 2019, the French government issued a 'non-paper' suggesting a new type of enlargement process. This non-paper included seven stages, dealing with familiar topics such as rule of law (stage 1) and employment and social policy (stage 3). More importantly, the non-paper outlined four principles that the new approach to enlargement should be based on: gradual association, stringent conditions, tangible benefits and reversibility.

UNPICKING THE FRENCH POSITION

The French position has been heavily criticised, not only in the six Western Balkan countries, but also by policymakers, journalists and academics in the rest of Europe. Many argue that the decision to block accession talks was unfair, and that the new approach has not been thought through properly. The French response to this is that they had tried various times, and in various formats, to bring up their objections to further enlargement under the current model. However, these concerns have been dismissed. Therefore, France has had no choice but to go for this 'nuclear' option.

In discussions with French policymakers, I have found the French position to be more coherent and considered than the dominant media narrative has suggested. The French position is presented as a sensible updating of the enlargement criteria for a new era of accession. It is now over 12 years since Romania and Bulgaria joined the EU, yet both remain under special monitoring related to corruption and the rule of law (the so-called Cooperation and Verification Mechanism, CVM). Many member states, not only France, believe that this shows that the two countries joined the EU too early, and should have undergone more serious reforms beforehand. The French therefore argue that their new strategy will help to avoid this situation in the future.

Two parts of the French proposal deserve particular attention. First, that the process of EU enlargement should be gradual. One can argue about the practicalities of this, but it is a reasonable and defensible position to hold. This fits with an argument made by wiiw and others in the past that greater EU funds should be made available during the accession process, for example.

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

The second part of the French proposal that is notable is the reversibility of the process. This appears to speak directly to the Bulgarian and Romanian cases. The idea that the EU integration process can go backwards as well as forwards could act as a more powerful incentive for reform than the current system. However, on this point I am much more sceptical.

IS THIS REALLY ABOUT THE WESTERN BALKANS?

It is clear that attitudes towards enlargement in the EU have changed more broadly than just in France. One recent survey showed that only around a quarter of Germans think that even "some" Western Balkan countries should join the EU someone in the next decade, for example.

However, there is a bigger question that lies behind the French actions of 2019: Is this really about the Western Balkans at all? France has never had a particularly big role in the region, nor has it even paid much attention to it in the past. The clear suspicion in much of Europe is that this is also about France's relationship with Germany.

From the perspective of French president Emmanuel Macron, frustration with Germany is understandable. Since coming to power, Mr Macron has tabled a series of serious proposals for reform of the EU and euro area. These proposals have almost all been outright rejected by Germany, without any serious counter-proposals. The French believe that the European project needs substantial reform to safeguard it against various political and economic threats. By contrast, the Germans seem to believe that minor, incremental steps will be enough.

President Macron has also initiated serious domestic reforms, which have been met with major political opposition and cost him a great deal of political capital. He likely hoped that these reforms would have gained him some credit in Berlin, but this does not seem to have been the case. Mr Macron is reported to be highly frustrated with the intransigence of German Chancellor Angela Merkel and her government. Their personal relationship has suffered. According to the New York Times, the two had the following exchange in November 2019 shortly after President Macron had talked to the Economist about the 'brain death' of NATO:

> *Merkel: 'I understand your desire for disruptive politics. But I'm tired of picking up the pieces. Over and over, I have to glue together the cups you have broken so that we can then sit down and have a cup of tea together.'*
>
> *Macron: 'I cannot sit there and act like nothing has happened.'*

On the issues of the EU and the euro area, I agree with President Macron. The apparent refusal of Germany to engage in any serious strategic thinking about the future of the EU and euro area is maddening. This may be quite heavily related to Chancellor Merkel's own personality (the verb *merkeln* is now used in German to mean doing nothing), but it clearly also reflects a broader institutional stasis in Europe's most important country. A generally risk-averse approach, reflexively legalistic approaches to any problem, and complacency produced by a couple of decades of relatively good economic performance, appear to have shaped a policy stance in Berlin that is highly resistant to change.

Behind this lies another key consideration about the French position in the EU. Pre-2004, the French position in the EU was arguably stronger. Most member states were fairly close neighbours, and countries that Paris had strong relationships with. The French language also had a much stronger role in the EU then. Since the enlargement of the EU in 2004, not only has the number of member states almost doubled, but the countries that have joined are mostly not historically close French allies. Few people in those countries speak French, and as a result the role of the French language within the EU has diminished. Moreover, the German economy has benefitted very strongly from the EU's eastward enlargement, while the economic benefits for France have been much less clear-cut. Both economically and politically, therefore, the 2004-13 accessions have been more positive for Germany than France. Adding the Western Balkans to the EU would probably go further in this direction from the French perspective.

BACK TO THE WESTERN BALKANS

So what does this all mean for the Western Balkans? Although the French have some problems related specifically to EU enlargement, it also appears clear that this issue is tangled up in a bigger Franco-German tussle about the future of the EU. To an extent, the Western Balkans have been caught in the crossfire.

In the short term, the concerning aspect of this is what it will do to reformers in the Western Balkans. Much of the good reform work of recent years, most obviously in North Macedonia, risks being undone. Whatever the true French intentions, it is inevitable that recent events will be seen by many in the Western Balkans as an indication that EU accession is decades away, if it is possible at all. Such a signal could discourage reform efforts more generally, and increase the appeal of other countries such as Russia and China.

France and Germany need to sort out their differences. This is in the interests of the whole European project. However, from the perspective of the Western Balkans, the apparent stalemate over the EU accession process is particularly problematic. Two decades on from the end of the war in Kosovo, major strides have been made in a host of areas. However, the region faces daunting challenges. Young, educated people are leaving the Western Balkans in droves. Economic growth remains generally disappointing, and is nowhere near enough to drive substantial and sustained convergence with even wealthier parts of CESEE, never mind Western Europe. Political tensions remain a stability risk in many parts of the region. A weakening of EU influence in the region at the expense of Russia and China is not in the interests of Brussels nor the Western Balkans.

Nobody in Western Europe should assume that all of these problems can remain contained within the Western Balkans. Tensions between Serbia and Kosovo, an increasingly assertive Chinese role, and the worsening refugee crisis in Bosnia and Herzegovina, are just three examples of worrying developments that could have implications outside the region. Although the US will have to continue to look after security in the Western Balkans (European countries have repeatedly shown themselves to be incapable of this), positive economic, social and political development will require a strong European (i.e. German and French) role. Without that, the Western Balkans will remain stuck at a low level of development and at risk of social and political instability, which is in nobody's interests.

Demographic developments in the Western Balkans, Moldova and Ukraine

BY ISILDA MARA

The Western Balkans, Moldova and Ukraine have registered strong population declines over the past two decades, due to both low birth rates and high outward migration. A further decline is expected until 2050 – by up to 35% in the case of Ukraine – resulting in demographic losses that may affect the convergence prospects of these countries.

RECENT TRENDS

In the past two decades, population growth in the Western Balkans, Moldova and Ukraine has been negative or close to zero. In a number of countries, both natural population trends – changes in birth and death rates – and outward migration have contributed negatively to population growth (Table 1 and Figure 1).[1] On the one hand, the birth rates in several countries of the region have more or less converged with the EU average of 1.57 (Figure 2). In Moldova and Bosnia and Herzegovina, they are even lower (around 1.3). The natural population decline has particularly affected Ukraine and Serbia, where the population has shrunk by around 5% over the last 10 years. By contrast, in Albania and Kosovo natural population growth has been strongly positive and significantly higher than in other countries, thanks to higher birth rates. Kosovo, in particular, has a much higher birth rate than the EU average (over 2.0).

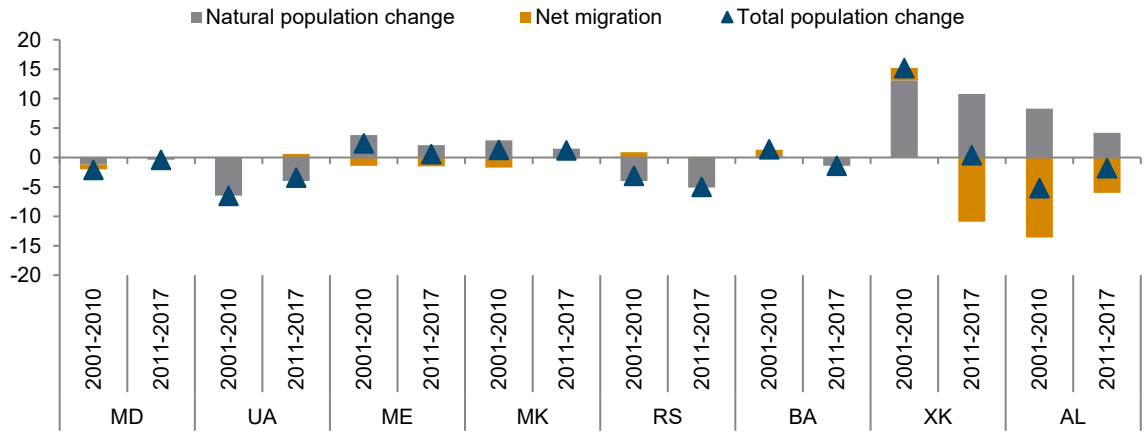
Table 1 / Average population, thousand people

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Albania	2,913	2,905	2,900	2,895	2,889	2,881	2,876	2,873	2,866
Bosnia and Herzegovina	3,843	3,840	3,836	3,531	3,526	3,518	3,511	3,504	3,500
Moldova 1)	3,562	3,560	3,560	3,559	3,556	3,554	3,552	3,549	3,549
Montenegro	619	620	621	621	622	622	622	622	625
North Macedonia	2,055	2,059	2,061	2,064	2,067	2,070	2,072	2,075	2,095
Serbia	7,291	7,237	7,201	7,167	7,132	7,095	7,058	7,021	6,986
Kosovo	1,775	1,796	1,807	1,818	1,813	1,788	1,778	1,791	1,813
Ukraine 2)	45,871	45,706	45,593	45,490	43,001	42,845	42,673	42,485	42,270

Notes: 1) Without Transnistria. 2) Starting from 2014, without Crimea and Sevastopol, but including Donbas (i.e. also the non-government-controlled area, with an estimated population of some 3 million).
Source: wiiw annual database, Eurostat.

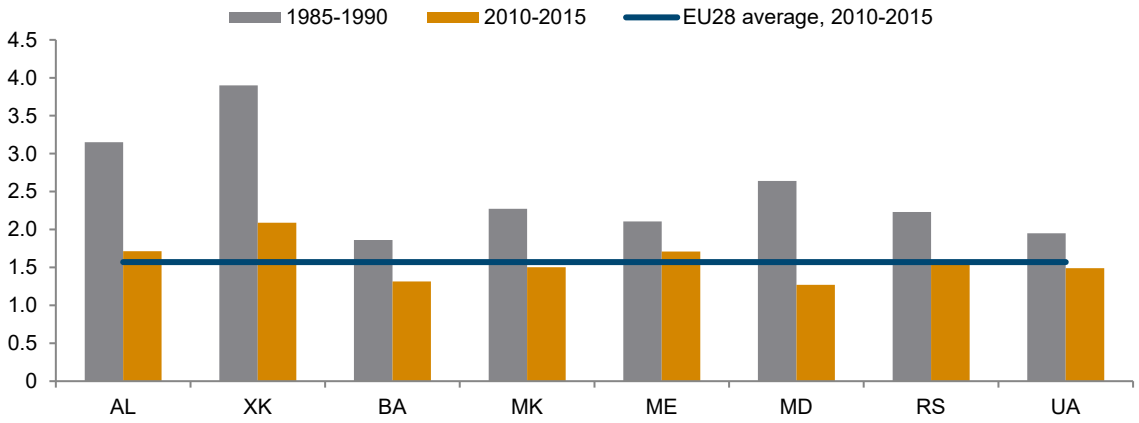
[1] For Ukraine, the extent of emigration is almost certainly massively underestimated by the Eurostat statistics (as well as by the official Ukrainian statistics). This is suggested, among other things, by the high number of Ukrainian migrants abroad (Figure 3).

Figure 1 / Natural population change and net migration, cumulative in %



Source: Eurostat.

Figure 2 / Birth rate, 1985-2015



Source: United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, DVD Edition.

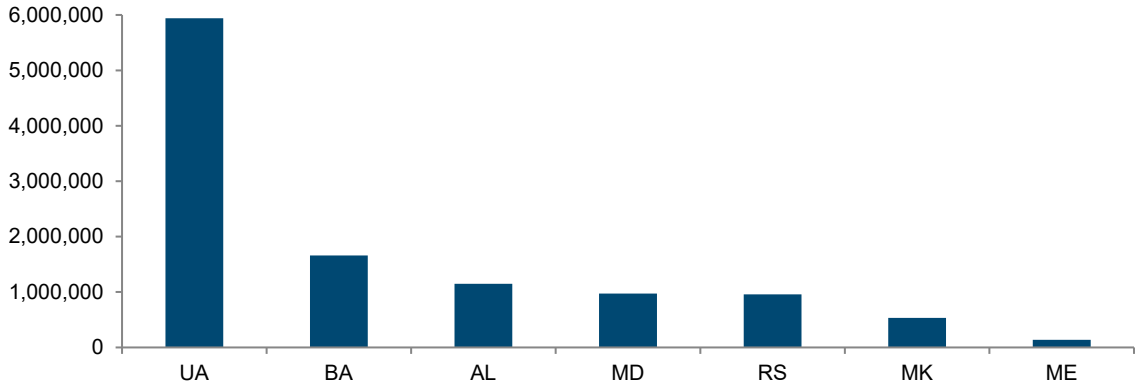
On the other hand, outward migration has also played an important role in the population dynamics, with varying impacts across countries. In general, the Western Balkans, Moldova and Ukraine have been net sending countries, and this has contributed to population loss. In Albania and Kosovo, high outward migration has offset – or indeed more than offset – the positive natural population growth. Figure 3 shows the estimated stock of migrants from these countries abroad. For Bosnia and Herzegovina, the estimated stock of migrants abroad is around 1.6 million, or 47% of the country's population (Figure 4). In the case of Ukraine, it is almost 6 million, or about 14% of the Ukrainian population.

Figure 5 shows the age and gender structure of immigrants from the Western Balkans, Moldova and Ukraine in the EU and EFTA Member States[2]. As can be seen, migrants from these countries are generally relatively young: of all the age cohorts, people aged 25-39 form the largest immigrant group.

[2] European Free Trade Association (EFTA) Member States include four European states: Iceland, Liechtenstein, Norway and Switzerland.

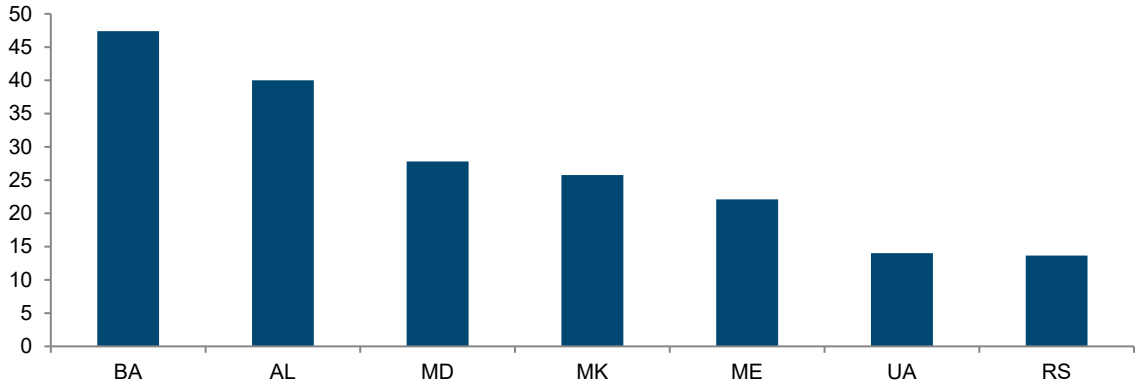
However, there are big differences in the gender structure of migrants: while migration from the Western Balkan countries, particularly Bosnia and Herzegovina and Kosovo, is mainly dominated by men, in the case of Ukraine and Moldova it is mainly women who emigrate.

Figure 3 / Estimated stock of migrants abroad, 2017



Note: Data on Kosovo are not available.
Source: United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, DVD Edition.

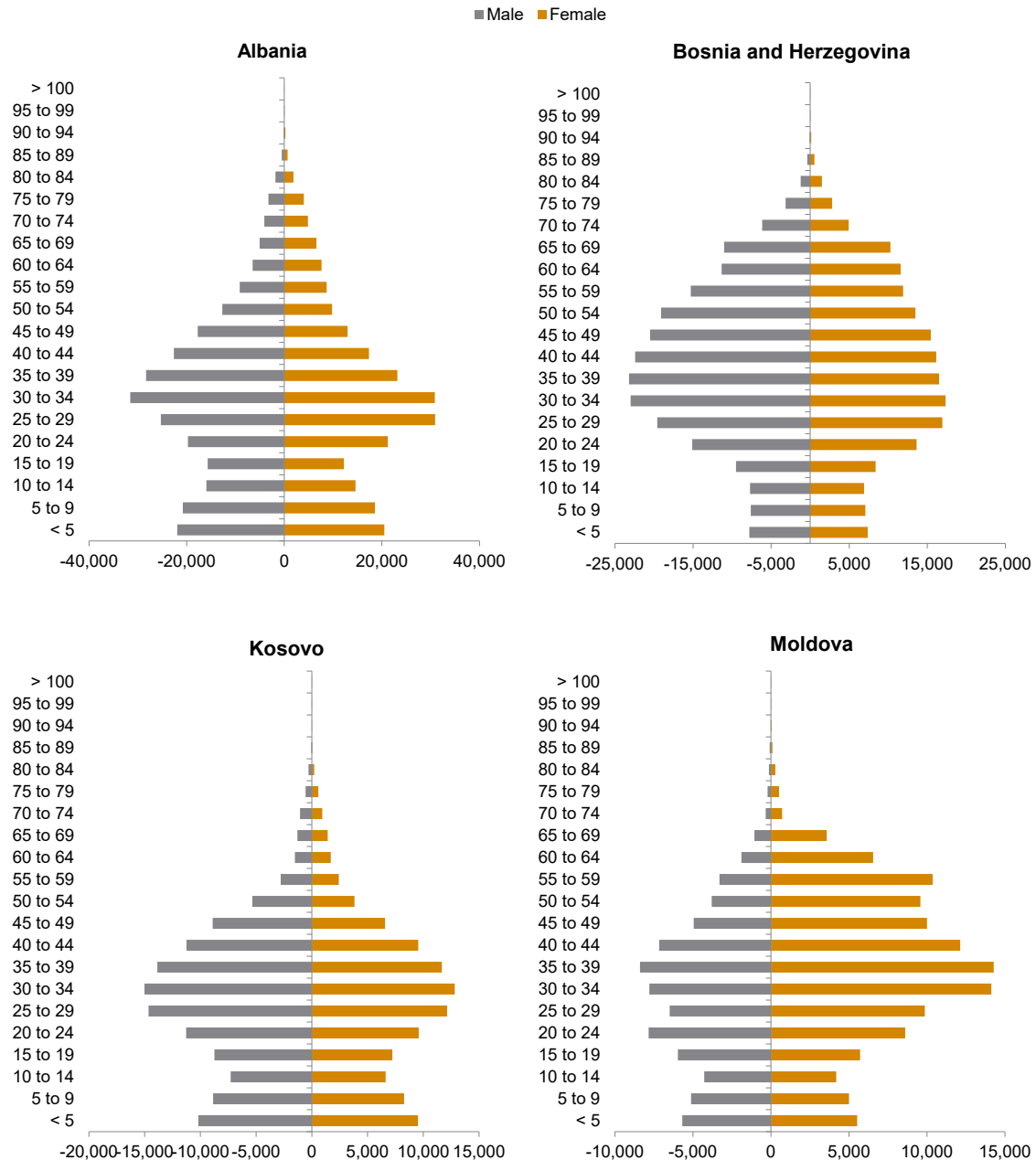
Figure 4 / Share of emigrants in total population in 2017, in %



Note: Data on Kosovo are not available.
Source: Own calculations, based on United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, DVD Edition.

The high unemployment in many countries of the region has been an important push factor for emigration. In the Western Balkans, in particular, emigration has been a way of avoiding an increase in unemployment. For example, the unemployment rate in Kosovo – despite recent improvements – is still close to 30%. It has also fallen in other Western Balkan countries, but remains twice as high as in EU-CEE or Western Europe, which will further encourage emigration from the region. In Moldova, however, the unemployment rate remains low, and its role as a push factor for emigration has been less pronounced.

Figure 5 / Age and sex structure of migrants from the Western Balkans, Moldova and Ukraine in the EU and EFTA, 2018



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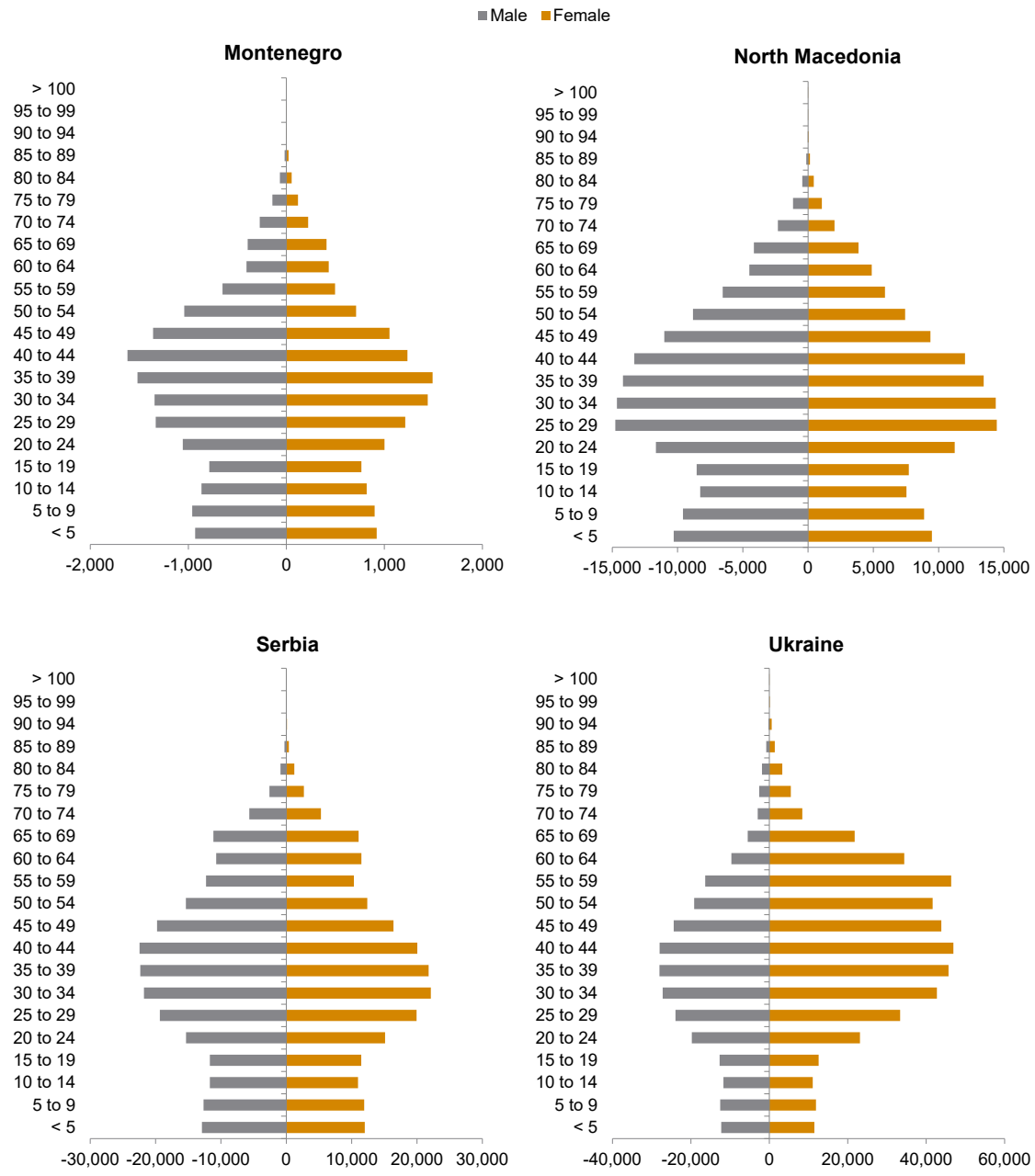


Source: Eurostat.

The wage gap between the Western Balkan countries, Moldova and Ukraine, on the one hand, and the EU and Russia, on the other, is also an important pull factor for emigration from the region. Although real wage levels have increased in all countries of the region in recent years, in many cases the gap has barely narrowed. In Moldova and Ukraine, in particular, the wage gap with the EU15 remains very big: the wage level in those two countries (at PPP) is less than a quarter of the EU15 level. Higher earnings prospects abroad continue to be a strong pull factor for this group of countries.

DEMOGRAPHIC FORECASTS UP TO 2050

According to UN projections, the working-age population in the Western Balkans, Moldova and Ukraine is expected to decline up until 2050.[3] Figure 6 shows two different scenarios for the UN population projections: (i) a constant natural population development and (ii) zero migration (for the assumptions underlying these scenarios, see Box 1). In both models, the working-age population aged 15-64 will shrink in all countries of the region.

BOX 1 / UN METHODOLOGY OF POPULATION FORECASTING

To produce population forecasts for individual countries, the UN uses a method based on forecasts for individual age cohorts. The population forecasts are based on three demographic components: birth rate, mortality rate and international migration, the future development of which may rest on various assumptions. The projections are always based on the population in 2015, as they are made for five-year age groups over a period of five years. Stochastic methods are used to predict the future development of the birth and mortality rates. Here we consider two population scenarios that differ depending on the assumption regarding the future development of the three demographic components mentioned above: the 'constant natural population development' scenario and the 'zero migration' scenario.

1. Scenario of a constant natural population development

› The birth rate remains constant in all countries and corresponds to the 2010-2015 level.

› The predicted mortality rates are based on the predicted development of life expectancy at birth (by sex), assuming that life expectancy increases over the forecast period.

› The migration forecasts are based on past trends, taking account of the migration policies of the countries. In general, the projected net migration flows are assumed to be constant until 2050, without taking account of the recent large fluctuations due to refugee and temporary labour flows.

2. Zero migration scenario

› A median future development of birth rates is assumed.

› The predicted mortality rates are based on the predicted development of life expectancy at birth (by sex), assuming that life expectancy increases over the forecast period.

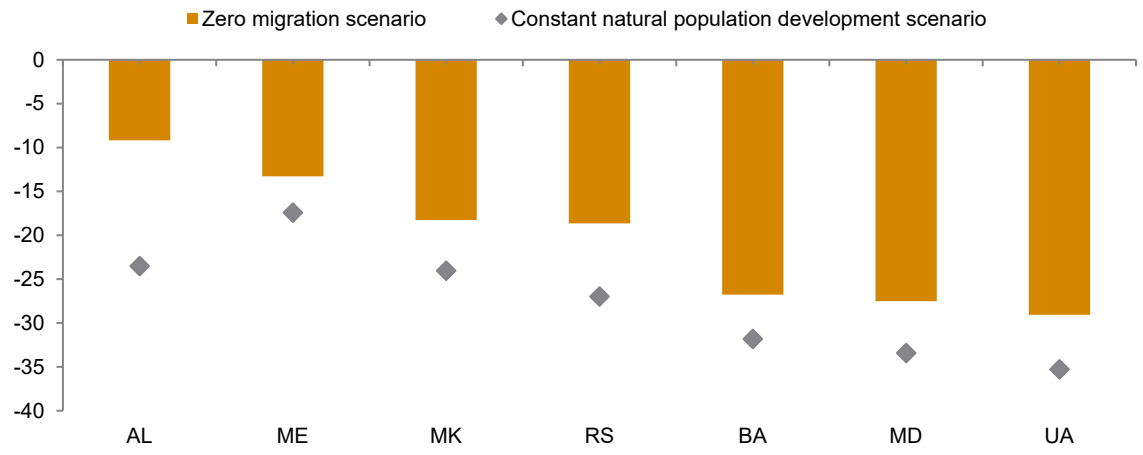
› For each country, net migration is set to zero from the period 2015-2020.

Source: United Nations, Department of Economic and Social Affairs, Population Division (2017), World Population Prospects: The 2017 Revision, Methodology of the United Nations Population Estimates and Projections, Working Paper No. ESA/P/WP.250. New York: United Nations.

In the first scenario, however, the population decline will be more pronounced, ranging from 17% (in Montenegro) to 35% (in Ukraine). In the second scenario, which assumes that there will be no outward migration, the decline would be less pronounced. For Albania, in particular, such a scenario would be very advantageous: without migration, the population would shrink by only 9%, instead of 24% as in the first scenario. For the other Western Balkan countries with currently high emigration rates, the result would be similar, i.e. the population decline would be significantly lower if emigration were close to zero.

[3] UN forecasts for Kosovo are not available.

Figure 6 / Expected change in working-age population in %, 2015-2050



Note: Data on Kosovo are not available.
Source: Own calculations, based on United Nations, Department of Economic and Social Affairs, Population Division (2017). World Population Prospects: The 2017 Revision, DVD Edition.

CONCLUSIONS

Overall, there have been significant demographic losses in the Western Balkan countries, Moldova and Ukraine, due to both the natural population development and the high outward migration. Migration will continue so long as the push and pull factors persist, so that the population of these countries is expected to shrink further in the coming few decades. In the short term, migration has positive effects, as it leads to higher private remittances from abroad and eases the domestic labour markets, benefiting the growth of wages. In the long run, however, demographic losses may affect the convergence prospects of these countries.

Labour market institutions in the Western Balkans, Moldova and Ukraine

BY SEBASTIAN LEITNER

The Western Balkans, Moldova and Ukraine have registered strong population declines over the past two decades, due to both low birth rates and high outward migration. A further decline is expected until 2050 – by up to 35% in the case of Ukraine – resulting in demographic losses that may affect the convergence prospects of these countries.

SOCIAL DIALOGUE

In most Northern and Western European countries,[1] wage setting occurs in the framework of institutionalised, stable social dialogue (European Commission, 2015, 2016b, 2018; Visser, 2016). Employers' associations and trade unions conclude regular agreements on wages and working conditions in the form of collective agreements at the level of the economic sectors. By contrast, in the countries of the Western Balkans, a dichotomous system of social dialogue has developed. On the one hand, in some countries (Bosnia and Herzegovina and Montenegro) the national level is important for wage setting – here general collective agreements valid for all workers and employees are agreed between the social partners. On the other hand, an increasing decentralisation of wage setting – a shift from sectoral to company level – can be observed. In the course of the ongoing restructuring of the economy, the ability to conclude collective agreements has declined in many sectors. Collective wage setting at company level has also declined sharply over the past 10 years. In many countries, previously state-owned privatised companies have been affected by insolvency, while takeovers by foreign investors have reduced the trade union presence. In addition, the corporate landscape that emerged during the transition is mostly dominated by small firms, making it more difficult to organise workers' interests. As a result, fewer and fewer employment contracts, especially in the private sector, are covered by collective agreements.

Table 1 gives an overview of the coverage by collective agreements since 2008. In Bosnia and Herzegovina and Montenegro there are generally applicable collective agreements covering all formal employment relationships; in addition, sectoral and company collective agreements offer improvements for a smaller proportion of employees. In many of the countries surveyed, the coverage rate in the public sector is relatively high – in some cases (almost) 100% – whereas it is much lower in the private sector. When comparing the rates, it should be noted that within total employment, the share of those in formal employment is much lower in the Western Balkan countries than in most EU countries. Thus, the scope of collective agreements in relation to total employment is in reality much smaller than it appears at first glance.

[1] Denmark, Finland, France, Italy, the Netherlands, Austria and Sweden (Visser, 2016).

Table 1 / Coverage by collective agreements

Share of employees in the formal sector whose employment contract is subject to a valid collective agreement, as %

	2008	2016
Albania	41	51
Bosnia and Herzegovina	(100/50)	(100/50)
Kosovo	35-40	30
Montenegro	(100/75)	(100/50)
North Macedonia	.	49
Serbia	30	25
Ukraine	55	46
Austria	**98**	**98**
Germany	61	56
France	98	99
United Kingdom	34	26
Romania	98	35

Note: Values in brackets indicate the degree of coverage by national general collective agreements of general application and the proportion of employees whose agreements are additionally covered by sectoral or works collective agreements. In some countries, the information for the next available year was used. No data are available for Moldova.
Source: Friedrich-Ebert-Stiftung (2010-2017), Visser (2016), ILO (2019).

Moreover, in recent years the proportion of those whose employment is based on a collective agreement has fallen steadily: only in Albania has the coverage rate increased. Whereas in Austria, sector-specific collective agreements cover almost all employment relationships, this is much less the case in the countries surveyed. Moreover, in most Northern and Western European countries, the coverage rate of collective agreements has remained relatively stable, compared to the Western Balkans, Moldova and Ukraine. However, a decline was observed in the UK in the wake of the economic crisis, as well as in some EU-CEE countries, such as Romania, Slovakia and Slovenia. This was also the case in Germany: the share of employment relationships covered by collective agreements fell from 68% at the beginning of the 2000s to 56% in 2016.

Even when employed in the formal sector, with collective bargaining coverage, workers in the countries surveyed have repeatedly been confronted with wage arrears. This has affected workers in both the private and the public sectors at times of economic downturn and public debt crises, particularly in Ukraine. But this is no longer a universal phenomenon. Most companies (some of them privatised) resort to wage arrears in order to delay insolvency, but the stricter legislation on insolvency proceedings has limited this practice. Particularly in structurally weak regions, however, employees are always prepared to accept wage arrears, due to the lack of other employment opportunities.

EMPLOYMENT PROTECTION

In the 1990s, employment protection in the successor states of former Yugoslavia was significantly higher than in many other transition countries, following the tradition of the self-governing economy. Even back in the early 2000s, however, this region also saw a significant reduction in notice periods and severance payments, for example. As a result of the economic crisis of 2008/2009, employment protection regulations were further liberalised in most countries of the Western Balkans. The reasoning behind the reduction in employment protection was that cutting the costs associated with terminating

employment increases employer flexibility, which should lead to increased recruitment (European Commission, 2016a). In Albania, Bosnia and Herzegovina and Montenegro, employment protection against the individual dismissal of permanent employees is now on a par with that found in Austria and Germany (Table 2). In Serbia and North Macedonia, as well as in Kosovo, it is more liberal. In the area of mass redundancies, the regulations in the Western Balkan countries are about as strict as in Austria and Germany.

In some countries of the region, employment protection for temporary workers has been reduced in recent years. This has created an incentive for fixed-term contracts, especially for young workers; the proportion of temporary workers has risen between 60% and 90% in Montenegro, Serbia and Croatia.

Table 2 / OECD employment protection indicators and the share of temporary employment

	Individual dismissals [1] permanent employment	Mass layoffs [1]	Temporary employees as % of all employees	
	2015	2015	2010	2017
Albania	2.2	3.1	17	12
Bosnia and Herzegovina	2.6	2.6	14	18
Kosovo[2]	1.7	3.1	73	70
Montenegro[3]	2.6	3.6	18	30
North Macedonia	1.9	3.3	17	14
Serbia	1.7	3.6	12	23
Austria[3]	**2.1**	**3.3**	**9**	**9**
Germany[3]	2.7	3.6	15	13
Croatia	2.3	2.3	13	21

Notes: No data available for Moldova and Ukraine.
1) The composite OECD indicators cover 21 aspects of employment protection. Their scale ranges from 0 (no restrictions on dismissals) to 6 (highly restricted possible); 2) Data for 2014 instead of 2015; 3) Data for 2013 instead of 2015.
Source: OECD (2019), ILO (2019).

A recent OECD analysis of the liberalisation of employment protection shows that a reduction in employment protection leads to an increase in unemployment in the short term, but in the medium term the share of permanent contracts in employment increases. Overall, the relaxation of employment protection leads to greater downward wage flexibility and weaker wage dynamics in phases of rising employment. In the medium term, the OECD anticipates positive effects arising from a relaxation of employment protection on the level of employment, albeit without taking into account secondary macroeconomic effects (OECD, 2016).

PASSIVE AND ACTIVE LABOUR MARKET POLICIES

A system of unemployment benefits ensuring physical survival can significantly influence the reservation wage of the active population, and thus also have an impact on the fluctuation of wages and the stability of aggregate demand. Table 3 shows that in many of the Western Balkan countries, Moldova and Ukraine, only a very small proportion of those seeking employment receive unemployment benefits. The high level of long-term unemployment in the countries of the Western Balkans, combined with the short maximum duration of the benefits, means that only a few jobseekers are able to receive income replacement from unemployment insurance. In addition, relatively few unemployed people register with employment offices, a prerequisite for receiving unemployment benefits. The reasons for this are the

usually low level of unemployment benefits and the low expectations of finding a job with the help of the employment office.

In most countries of the Western Balkans and Moldova, only about 10% or even less of the unemployed receive unemployment benefits. Only in Montenegro and Ukraine is the figure much higher: 35% and 20% (as of 2015), respectively. By contrast, in Austria and Germany all unemployed persons are eligible for benefits, although in some other EU member states (including many EU-CEE countries and Spain) the situation has worsened since 2005. Kosovo did not introduce an unemployment insurance system after it gained sovereignty, and thus there is no corresponding support in the event of job loss. There is only a system of means-tested social assistance at a very low level (approx. EUR 50 per month for single-person households in 2015). The other countries of the region also have social assistance systems in various areas: housing allowances, support for low-income families, etc.; but these benefits are usually too low to reduce poverty significantly. Of course, for households with little or no income from economic activity, they are essential for survival.

Table 3 / Unemployment assistance and active labour market policies

	Assistance recipients, as % of all unemployed		Expenditure on active labour market policies as % of GDP	
	2005	2015	2008	2017
Albania	6.7	6.9	0.02	0.05
Bosnia and Herzegovina	1.6	2.0	0.08	0.21
Kosovo	None	None	0.07	.
Montenegro	32.9	35.6	0.45	0.41
North Macedonia	10.7	11.5	0.06	0.12
Serbia	10.4	8.8	0.12	.
Moldova	6.5	10.5	.	.
Ukraine	40.3	21.9	0.11	0.03
Austria	**89.4**	**100.0**	**0.50**	**0.58**
Germany	92.1	100.0	0.55	0.26
Spain	65.1	45.3	0.59	0.44
Croatia	23.6	20.0	0.04	0.34
Romania	38.0	23.0	0.06	0.02

Source: ILO (2017), Kupets (2010), European Economic and Social Committee (2016), Numanović (2016), Oruč and Bartlett (2017).

A significant difference between Austria and the Western Balkan countries, Moldova and Ukraine is that in the latter the maximum possible duration of unemployment benefit is much shorter: in those countries, unemployment benefit cannot be claimed for more than 12 months. Only in Serbia, the Federation of Bosnia and Herzegovina, Montenegro and Ukraine is an extension possible in exceptional cases, e.g. if retirement is imminent or for insurance periods of 35 years or more. The low level of protection for the unemployed in most of the countries surveyed – compared to Austria – has the effect of forcing the unemployed to take up employment more quickly, regardless of conditions.

In addition to passive labour market policy (income security in the event of unemployment or early retirement), active labour market policy also plays a role. Active labour market policy measures include activities to increase the training and further education of jobseekers, the mobility of workers and the direct creation of jobs, especially for people who are difficult to place. The funding of active labour market policies in many Western Balkan countries is much lower than the EU average. In Albania and

Kosovo, in particular, few resources are available. The situation is different in Montenegro, where more than 0.4% of GDP has been spent on active measures in recent years. As in some EU-CEE countries, Bosnia and Herzegovina and North Macedonia have also seen a substantial increase in funds allocated for active labour market policies.

INFORMAL SECTOR

The term 'shadow economy' refers to legal and illegal economic activities that are carried out undeclared, and are therefore both exempt from taxation and outside the scope of labour law regulations. The larger the informal sector, the more difficult it is for trade unions to gain bargaining power or for there to be any functioning social partnership negotiation mechanisms at all. Medina and Schneider (2018) estimated the size of the shadow economy in Moldova and Ukraine at about 40% of the official gross domestic product in 2015 (Table 4). In the Western Balkans, the level of the shadow economy is also much higher than in the member states of the EU, ranging from 26% in Albania to 30% in North Macedonia and Bosnia and Herzegovina. Reforms of the tax, recording and control systems, as well as rising labour demand and emigration, are likely to have played a decisive part in the steady decline in the share of the shadow economy. However, in the Western Balkans it has been falling much more slowly than in EU-CEE.

Table 4 / Informal and formal sectors in a country comparison

	Shadow economy, as % of GDP		Workers in formal sector, as % of total employment	
	2000	2015	2008	2017
Albania	35	26	40	42
Bosnia and Herzegovina	34	30	73	75
Kosovo	.	.	75	69
Montenegro	37	29	80	78
North Macedonia	32	30	72	76
Serbia	33	28	66	69
Moldova	45	40	68	65
Ukraine	52	43	82	84
Austria	**9**	**9**	**87**	**88**
Germany	13	8	88	90
Spain	23	22	82	84
Bulgaria	35	21	88	88
Croatia	32	23	79	88
Romania	34	23	67	74

Sources: Shadow economy: Medina and Schneider (2018); North Macedonia and Serbia (2013 instead of 2015): Hassan and Schneider (2016); Employees – formal sector: ILOSTAT: ILO modelled estimates, March 2019; Kosovo (2012 instead of 2008): Labour Force Survey – Kosovo Agency of Statistics.

The extent of the shadow economy differs from that of informal employment. The latter includes employees (including family workers) and the self-employed (entrepreneurs or persons working on their own account) who are economically active without an employment contract and thus usually without social security. A high proportion of agriculture, micro-enterprises and sole proprietorships, especially in the service sector, favours informal activity. Besides agriculture, informal employment predominates in sectors such as services and tourism, construction and household services (Hazans, 2011).

By contrast, Table 4 shows the share of formally employed persons in total employment. Only these people are directly protected by labour legislation and worker protection measures, and only they could potentially benefit from collective agreements and most social protection measures. In the countries of the Western Balkans and Moldova, the proportion of formally employed workers is significantly lower than the average for the EU countries, including the EU-CEE countries. Only Romania has a similarly low share – there, too, the high level of employment in agriculture is decisive. For the same reason, Albania is also an outlier: in 2017, only 42% of employees there were formally employed; moreover, in many sectors employees work on their own account or as family members without an employment contract. In Ukraine, the share of the formally employed is surprisingly high at 84%, despite an estimated 43% share for the shadow economy. This can be explained by the system of 'envelope payments' practised in Ukraine (and Moldova) by many companies – the official wage is low, and the rest is handed over in an envelope.[2] In most of the countries in question, the share of formal employees in total employment increased between 2008 and 2017, but not in Kosovo, Montenegro or Moldova.

CONCLUSION

An analysis of the institutional framework conditions of the labour markets in the Western Balkan countries, Moldova and Ukraine has shown that collective bargaining mechanisms in those countries are much weaker than in Austria, for example. While the coverage rates in the public sector are usually relatively high, and collective agreements are still applied in a sizeable part of the privatised, formerly state-owned enterprises, the situation is different in the private sector. Due to the low organisation density of trade unions or employers' associations, collective agreements can usually only be concluded for a small number of sectors. Only Montenegro and Bosnia and Herzegovina still have general collective agreements. Tripartite social dialogue on labour legislation is often weak.

Employment protection regulations in the countries of the Western Balkans were substantially liberalised in the early 2000s, and further steps were taken in this direction following the economic crisis. As a result, the regulations on protection against dismissal in most countries are now approximately as strict as in Austria. In Serbia, North Macedonia and Kosovo, however, they are more liberal. The high level of long-term unemployment and the shorter maximum duration of unemployment benefits (compared to Austria) mean that only a small proportion of jobseekers in the Western Balkans, Moldova and Ukraine receive unemployment benefits. Thus, the reservation wage of jobseekers is much lower. In general, the lower social security for unemployed persons, especially for the long-term unemployed, favours a more rapid decline in unemployment rates. At the same time, wage increases are delayed during the upswing phase. Neither the passive nor the active labour market policy measures in these countries are as well designed as in most EU member states, including EU-CEE.

The extent of the shadow economy in the Western Balkans, Moldova and Ukraine is not only considerably greater than in Western Europe, but also than in EU-CEE. This has to do, on the one hand, with a higher share of agriculture in the economy and, on the other hand, with a high proportion of informal workers in the service sector. Since the beginning of the 2000s, though, the level of the shadow economy has declined slightly in these countries.

[2] At the same time, however, studies show that in most EU-CEE countries, this practice has decreased in the past decade (Horodnic, 2016).

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Monthly and quarterly statistics for Central, East and Southeast Europe

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

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Conventional signs and abbreviations used

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

The following national currencies are used:

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

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

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

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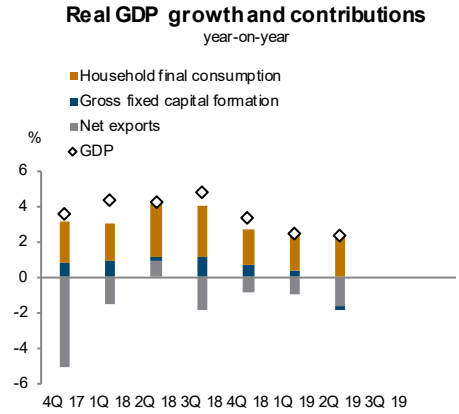
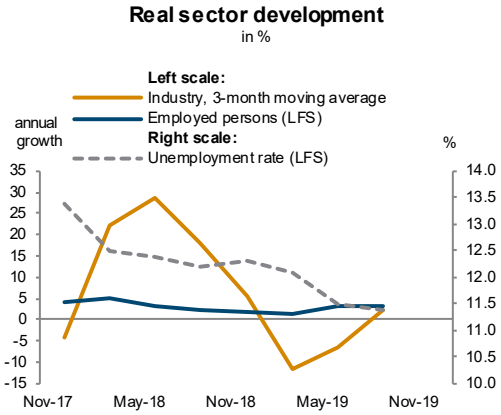
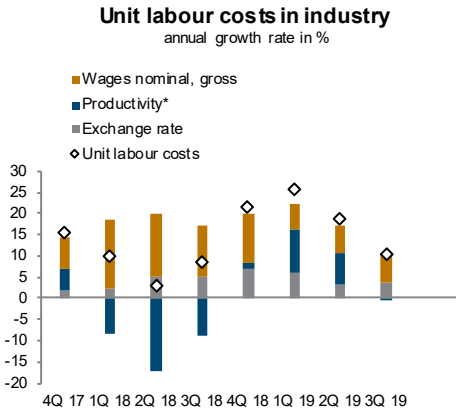
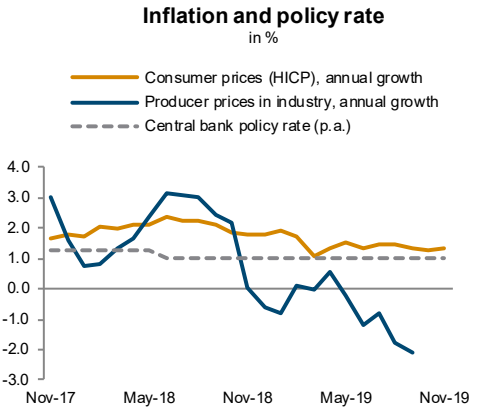
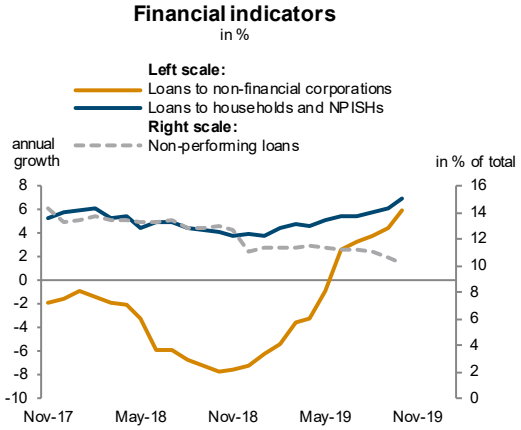
Albania

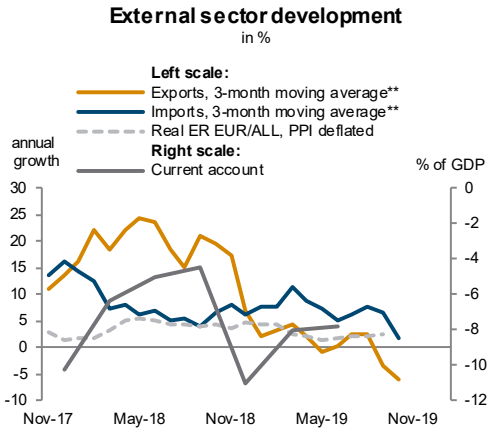












*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.
**EUR based.

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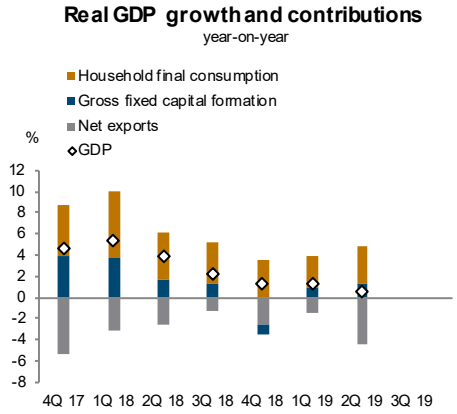
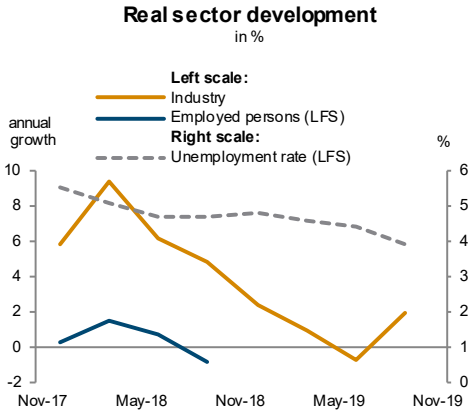
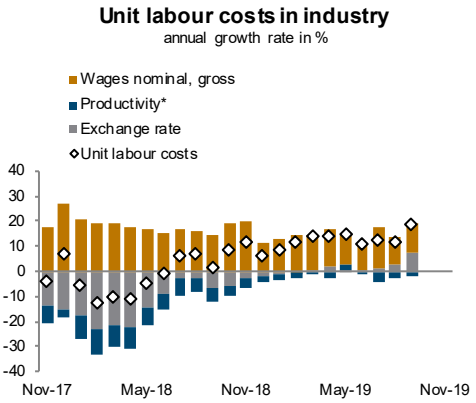
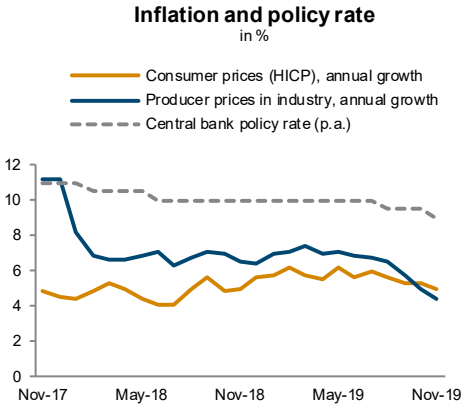
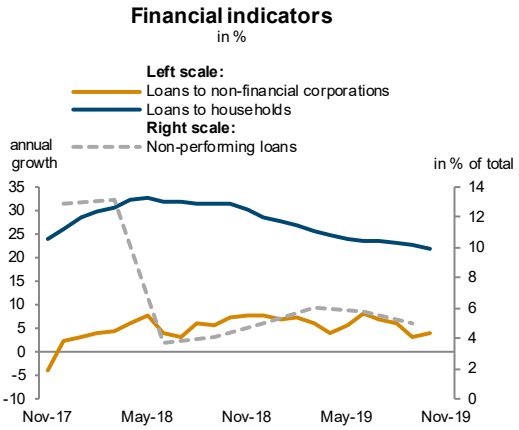
Belarus

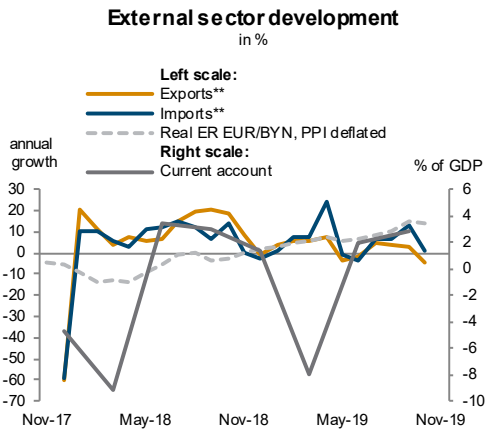












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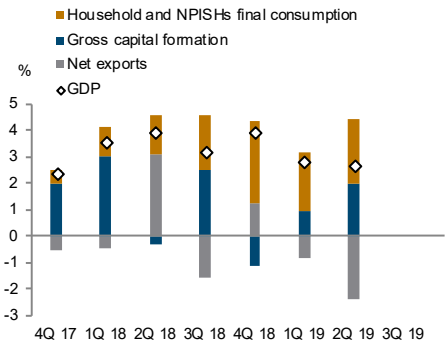
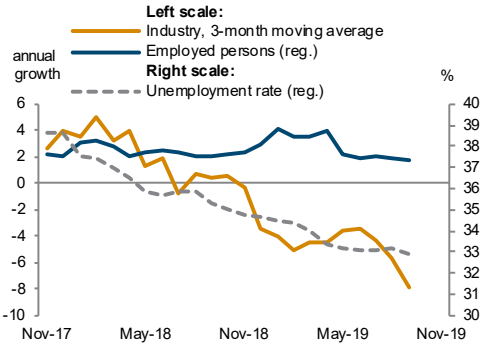
Bosnia and Herzegovina

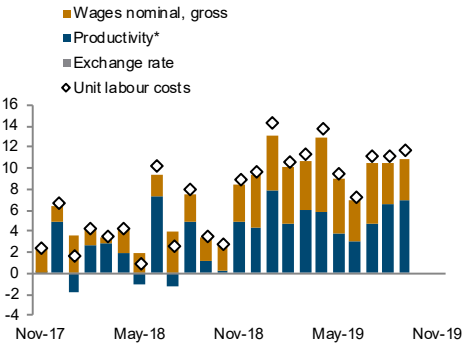
Real GDP growth and contributions
year-on-year



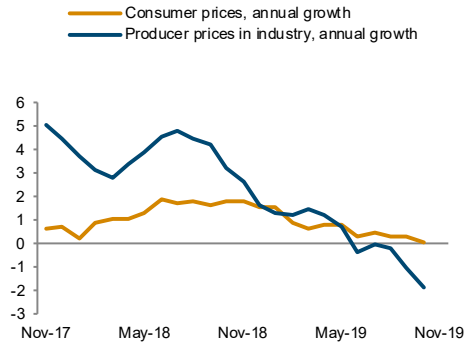
Real sector development
in %



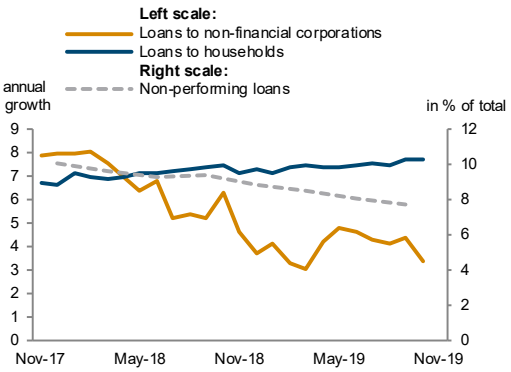
Unit labour costs in industry
annual growth rate in %



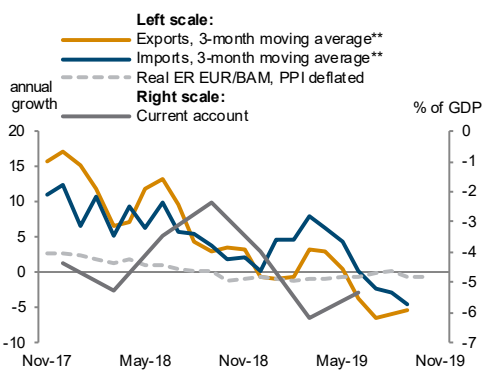
Inflation
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

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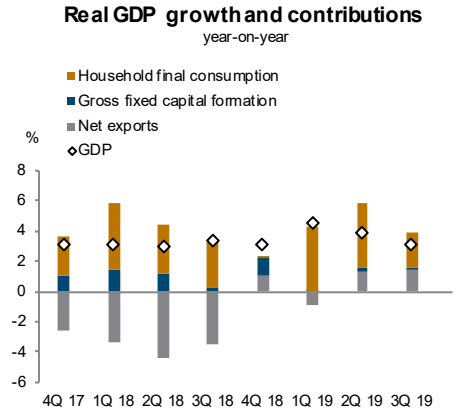
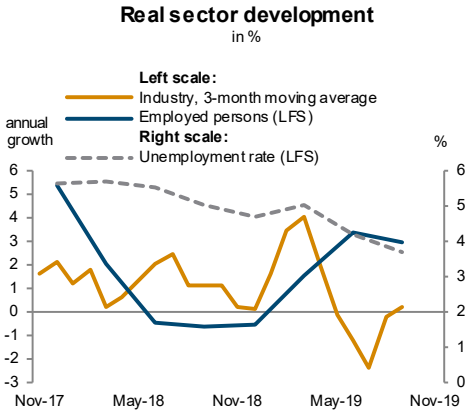
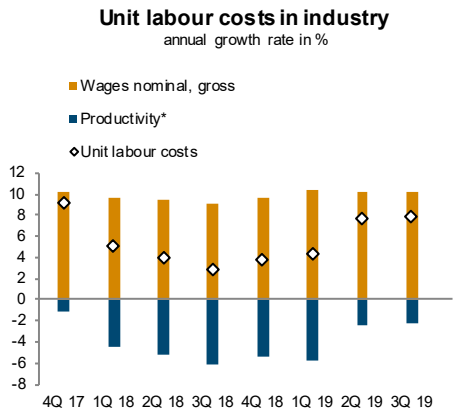
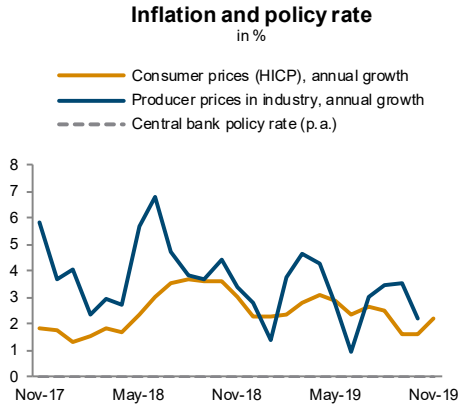
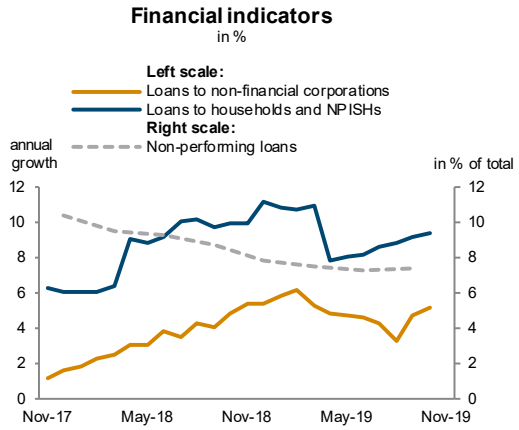
Bulgaria

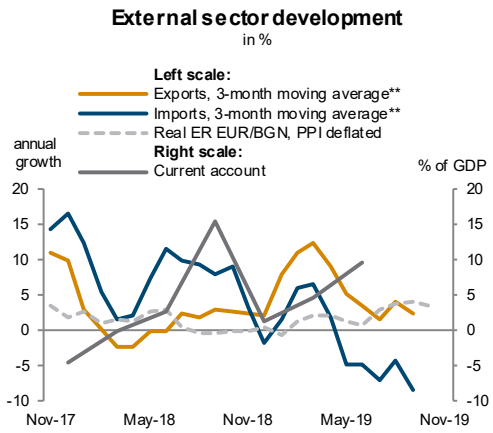












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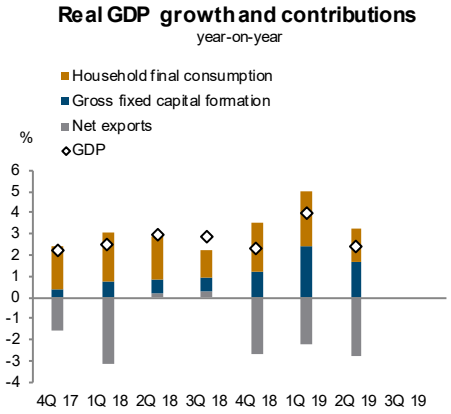
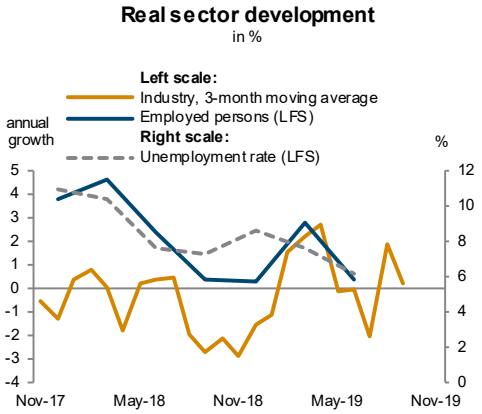
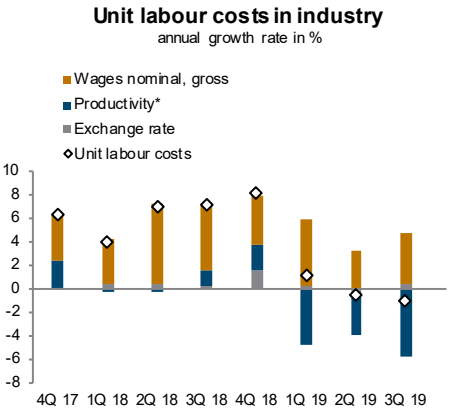
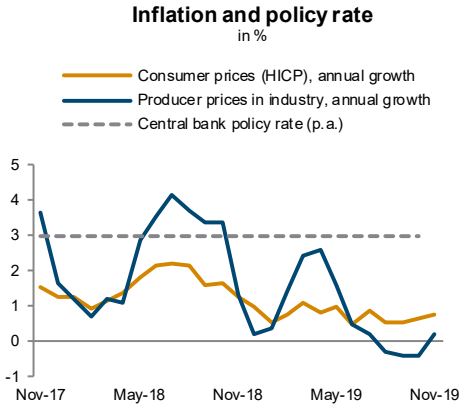
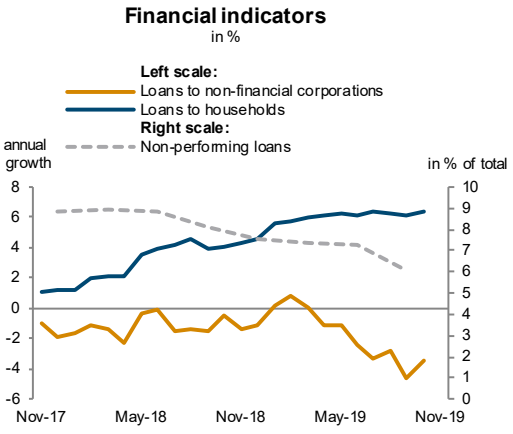
Croatia

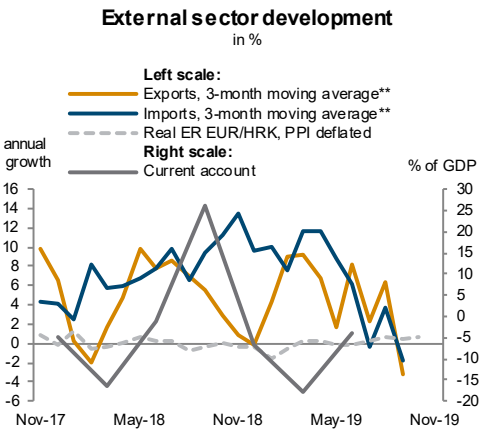












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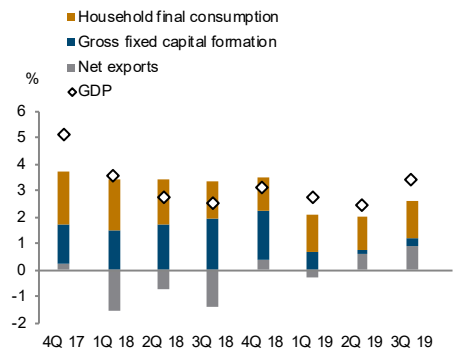
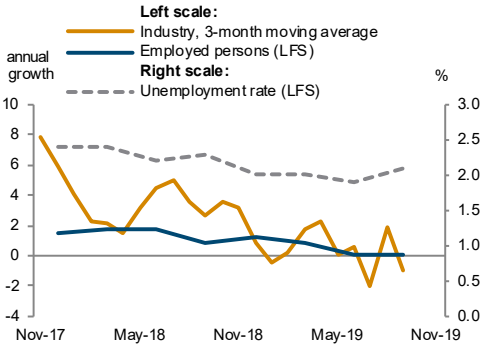
Czech Republic

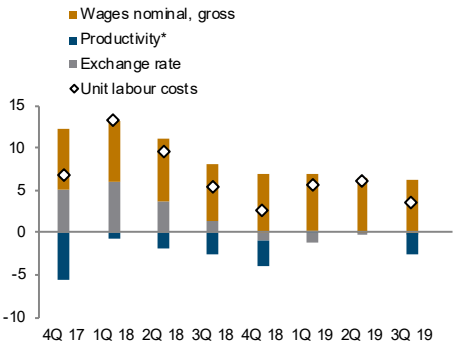
Real GDP growth and contributions
year-on-year



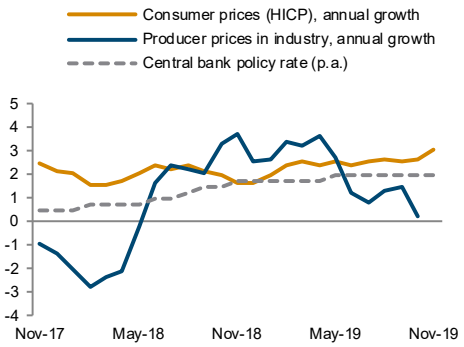
Real sector development
in %



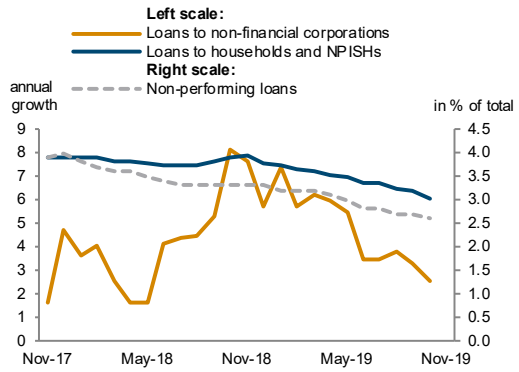
Unit labour costs in industry
annual growth rate in %



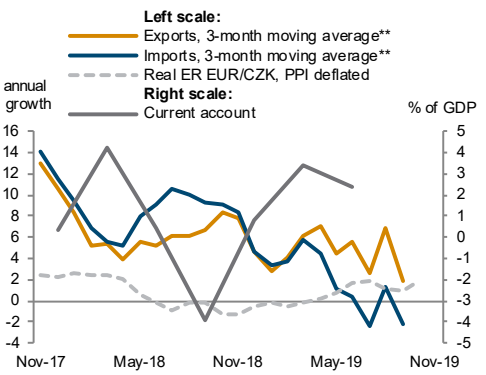
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

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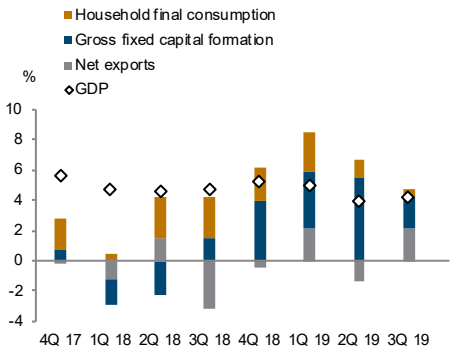
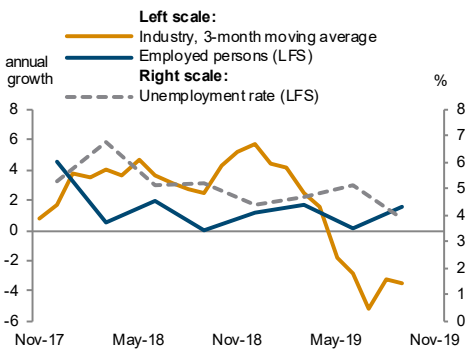
Estonia

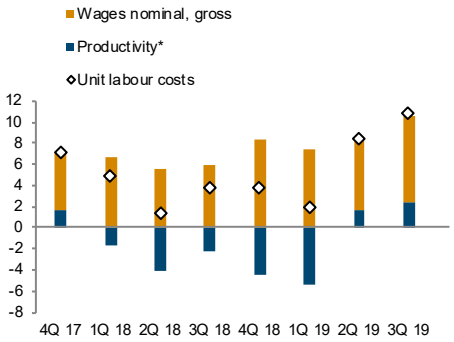
Real GDP growth and contributions
year-on-year



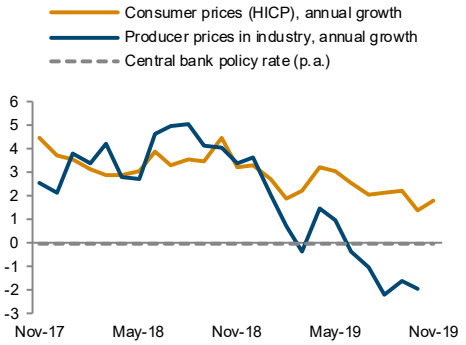
Real sector development
in %



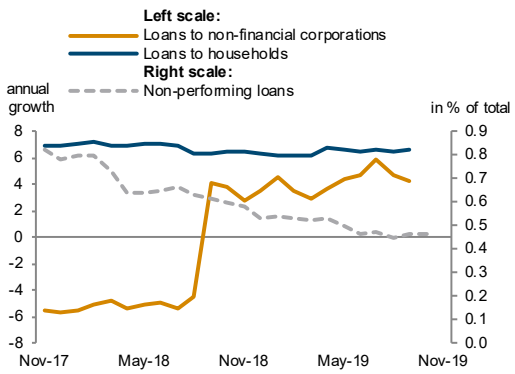
Unit labour costs in industry
annual growth rate in %



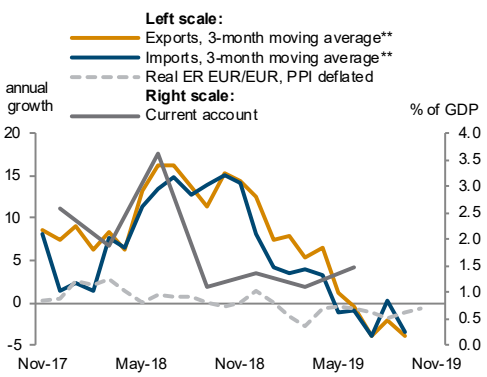
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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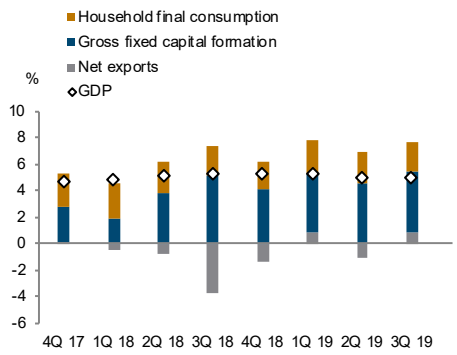
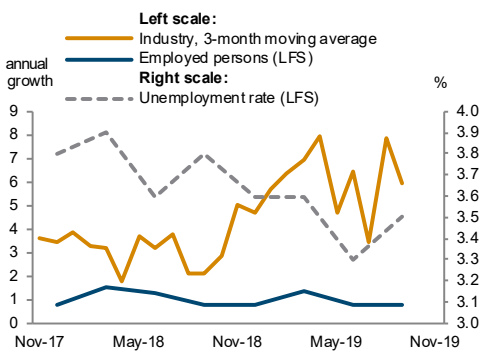
Hungary

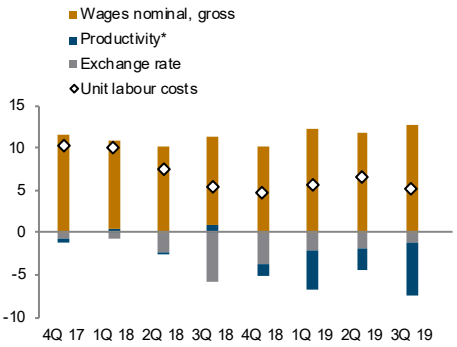
Real GDP growth and contributions
year-on-year



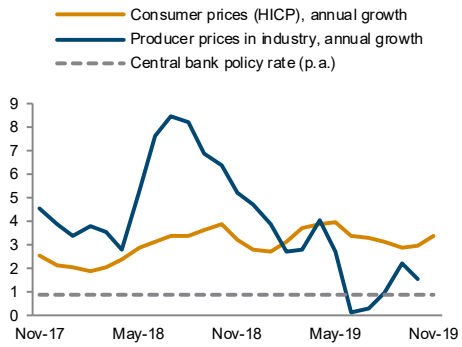
Real sector development
in %



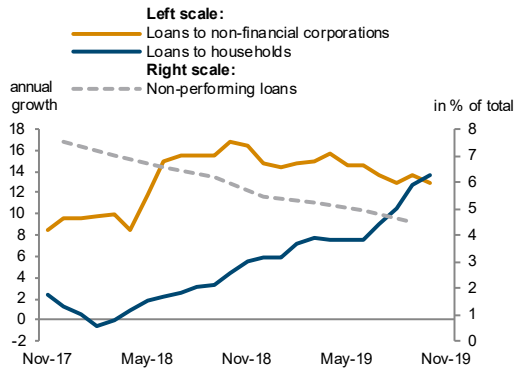
Unit labour costs in industry
annual growth rate in %



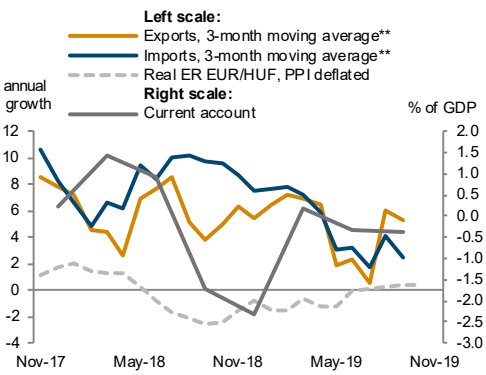
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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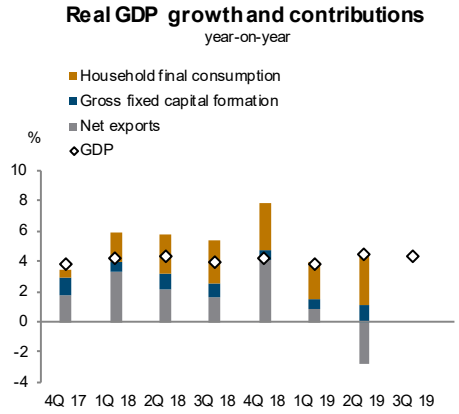
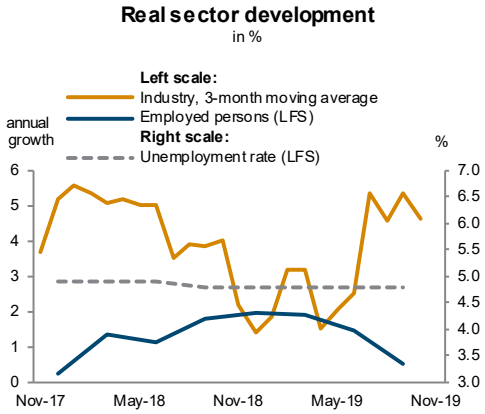
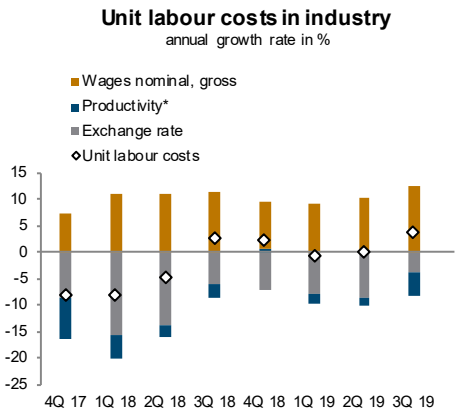
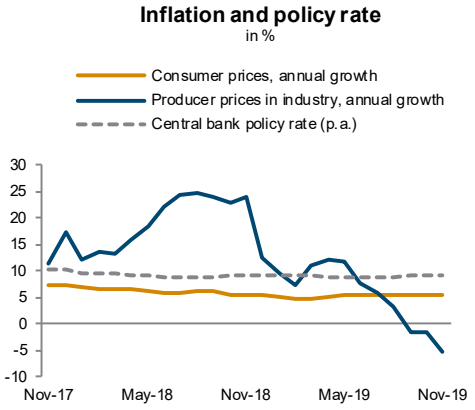
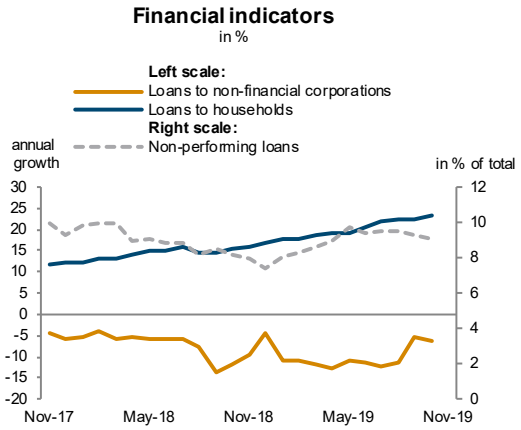
Kazakhstan

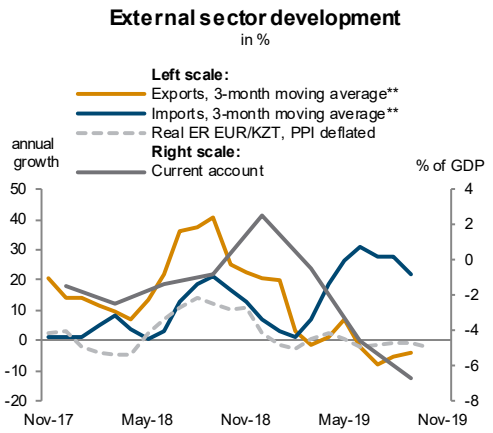












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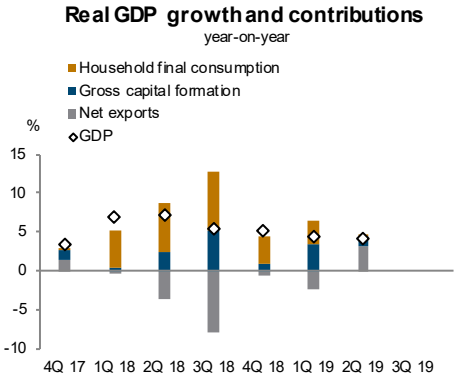
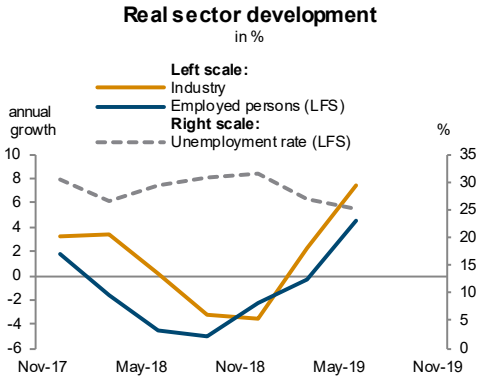
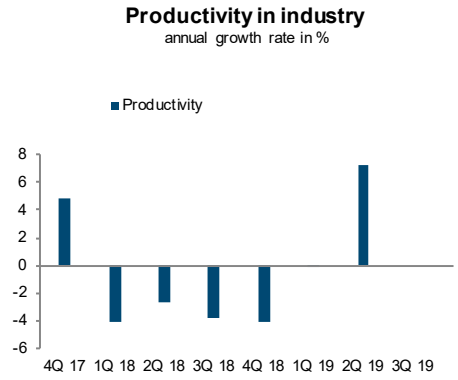
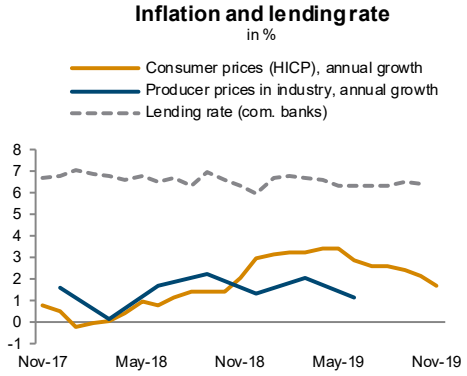
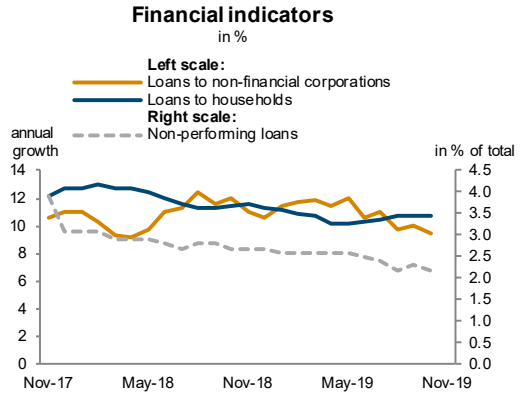
Kosovo

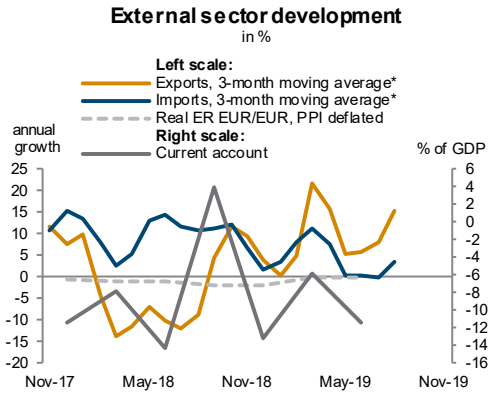












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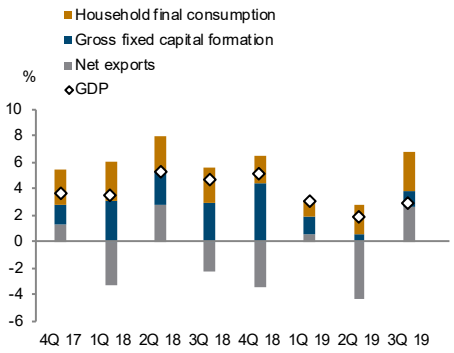
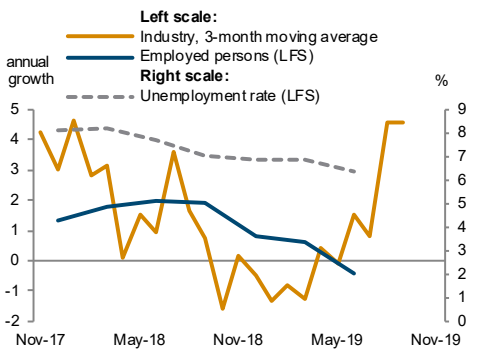
Latvia

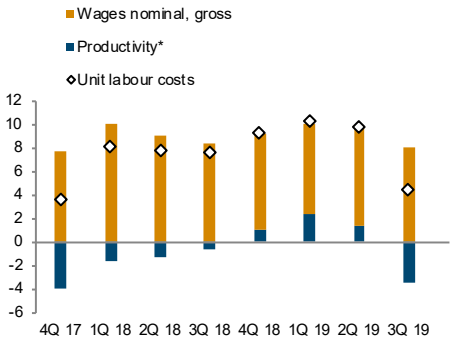
Real GDP growth and contributions
year-on-year



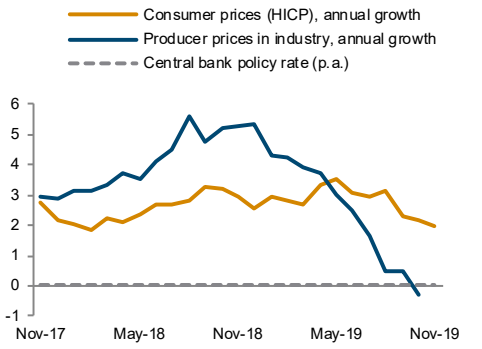
Real sector development
in %



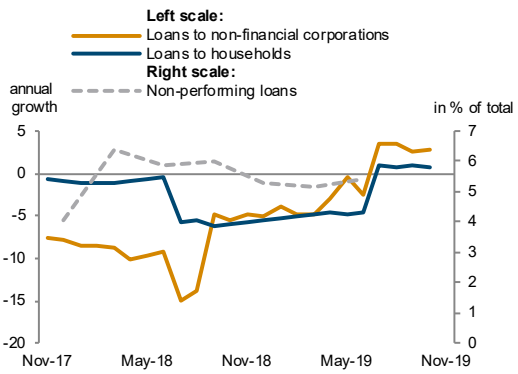
Unit labour costs in industry
annual growth rate in %



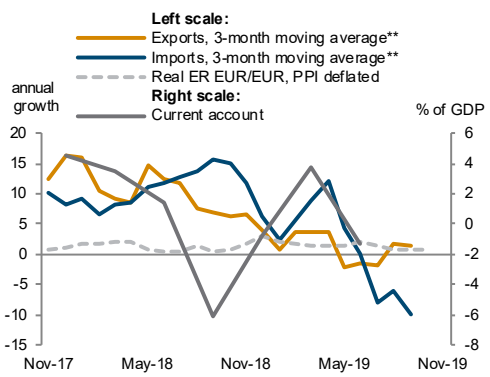
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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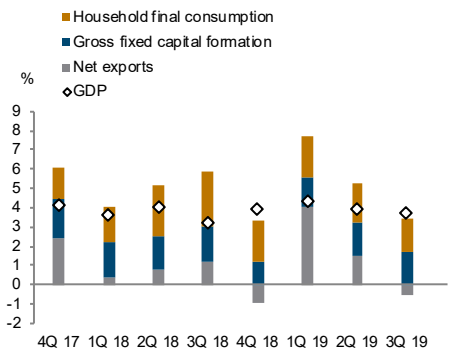
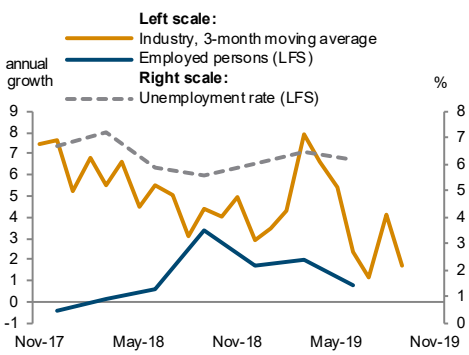
Lithuania

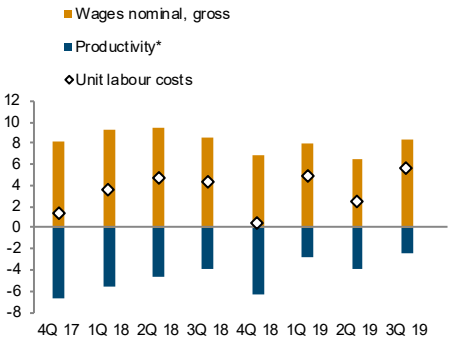
Real GDP growth and contributions
year-on-year



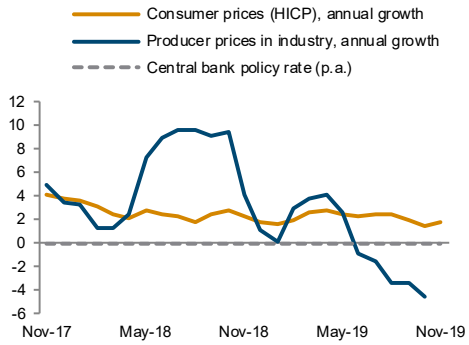
Real sector development
in %



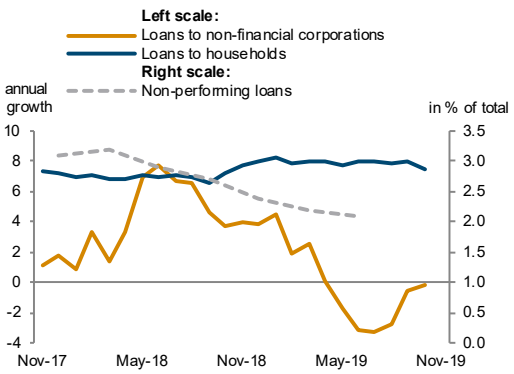
Unit labour costs in industry
annual growth rate in %



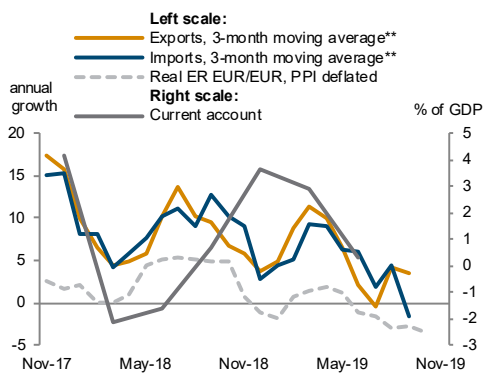
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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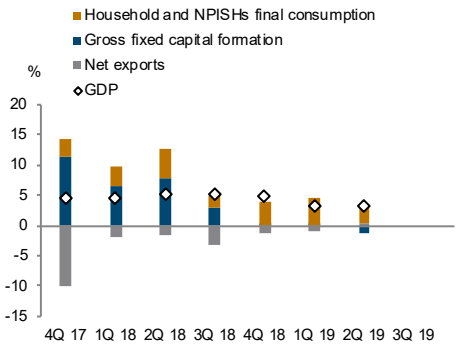
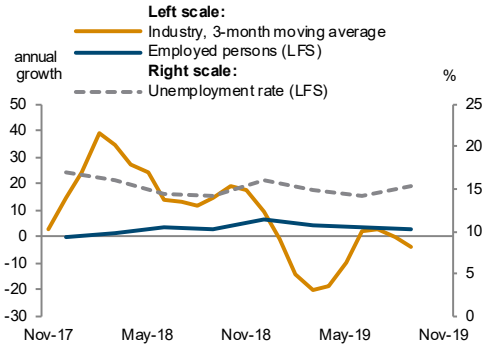
Montenegro

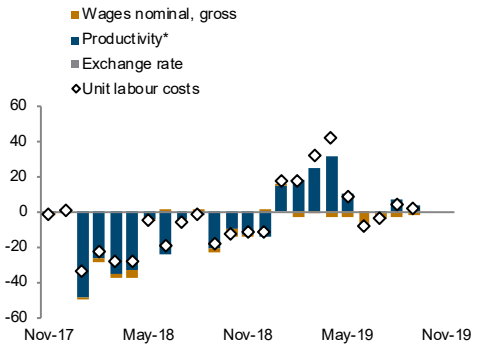
Real GDP growth and contributions
year-on-year



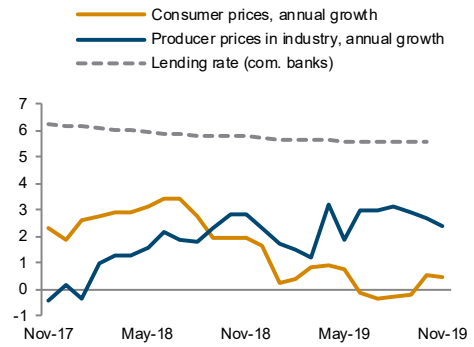
Real sector development
in %



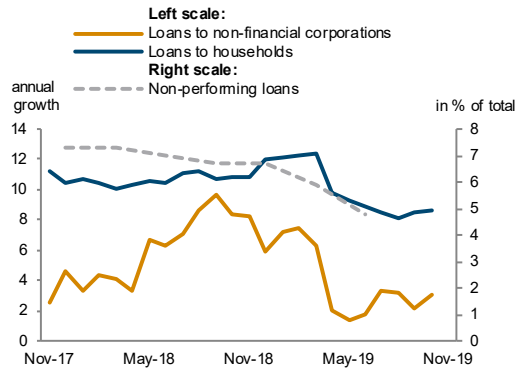
Unit labour costs in industry
annual growth rate in %



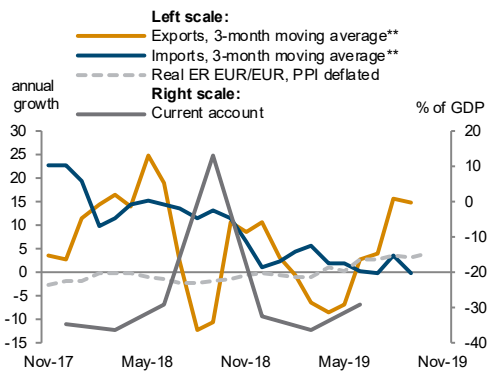
Inflation and lending rate
in %



Financial indicators
in %



External sector development
in %



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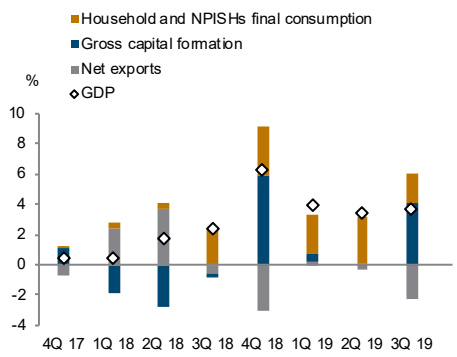
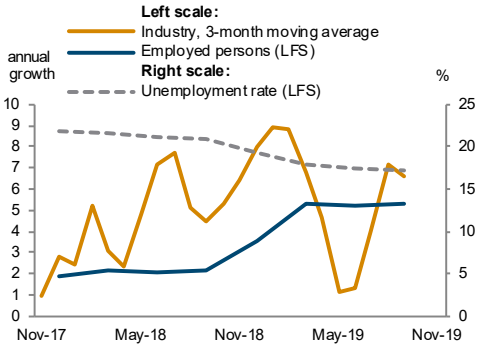
North Macedonia

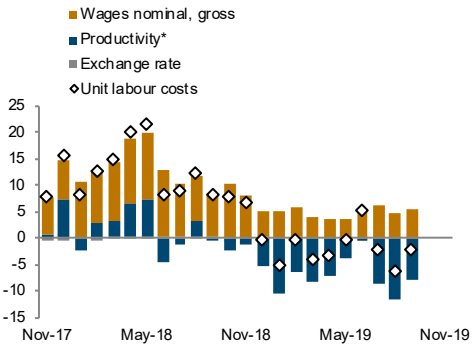
Real GDP growth and contributions
year-on-year



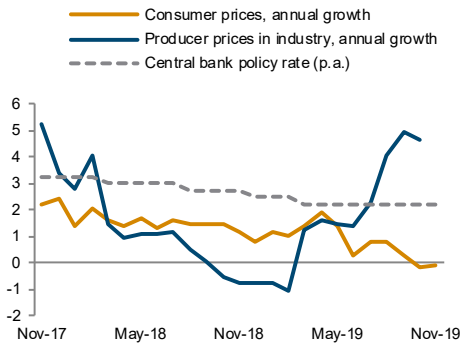
Real sector development
in %



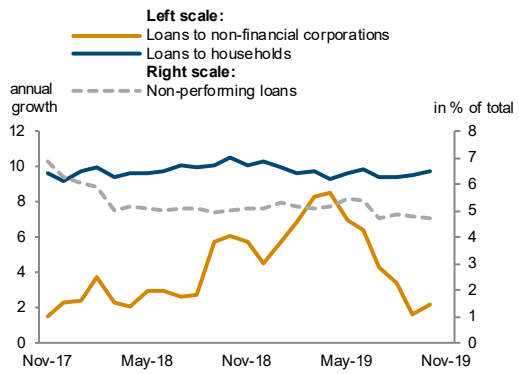
Unit labour costs in industry
annual growth rate in %



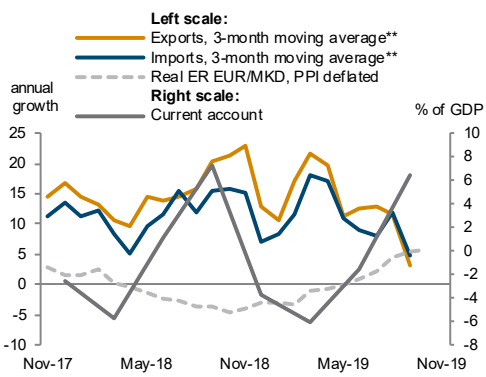
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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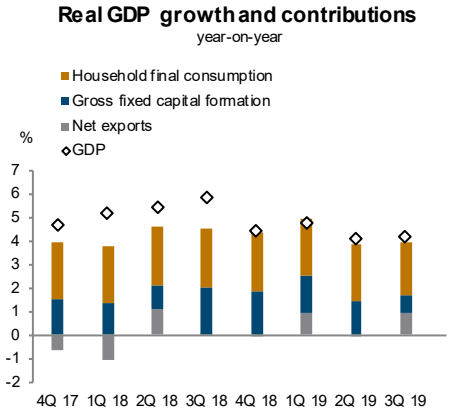
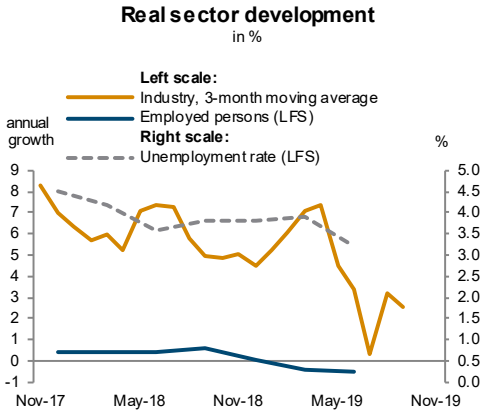
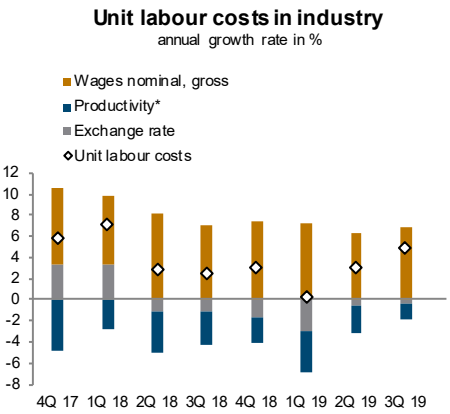
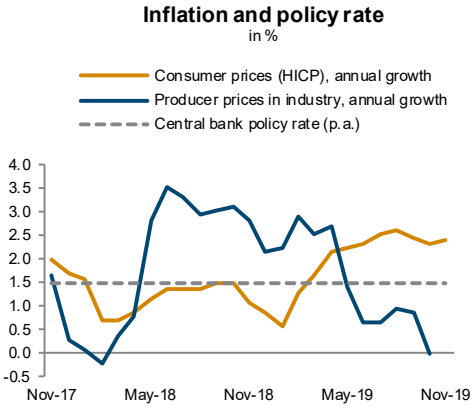
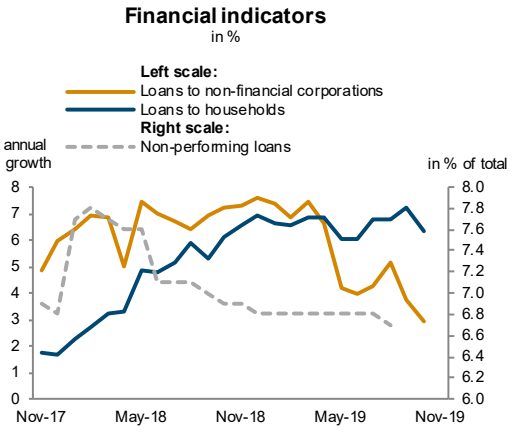
Poland

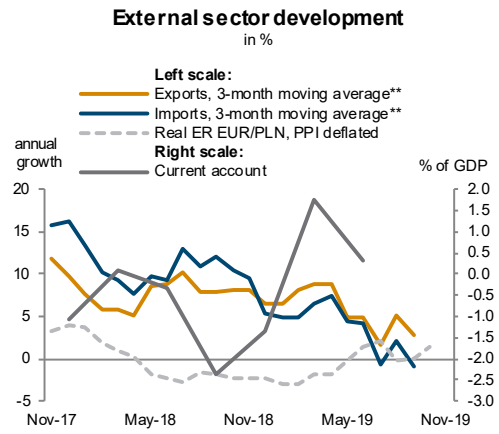












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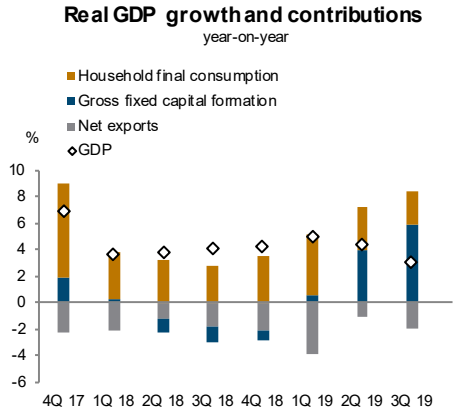
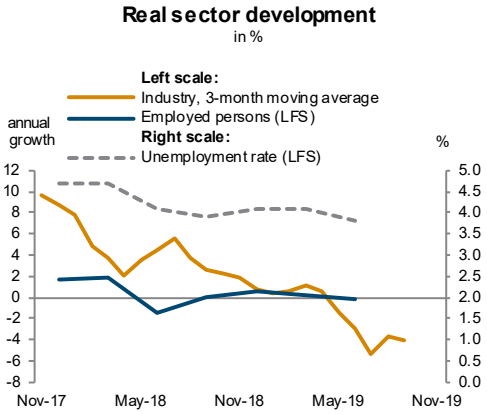
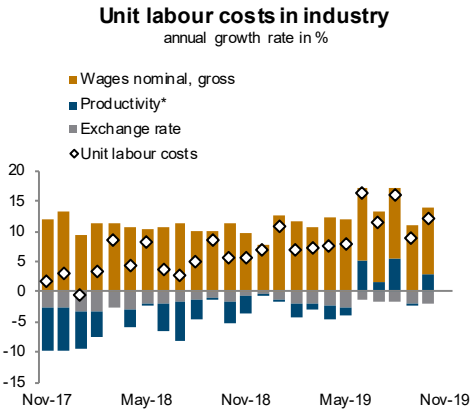
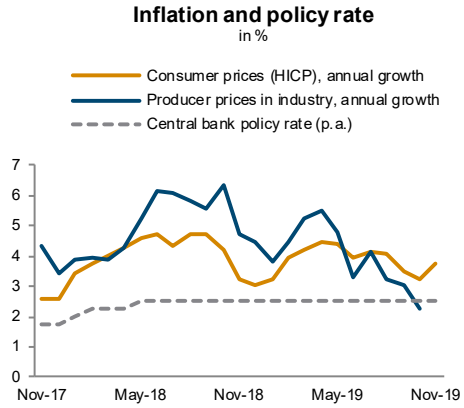
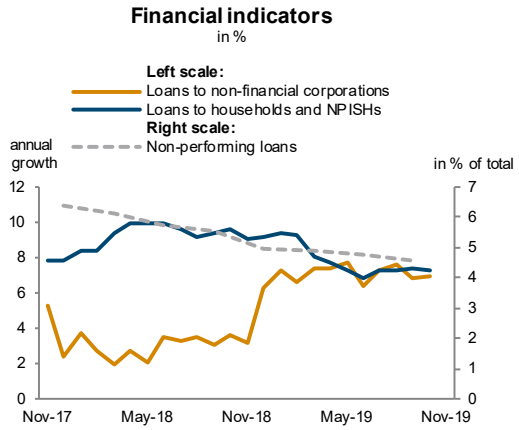
Romania

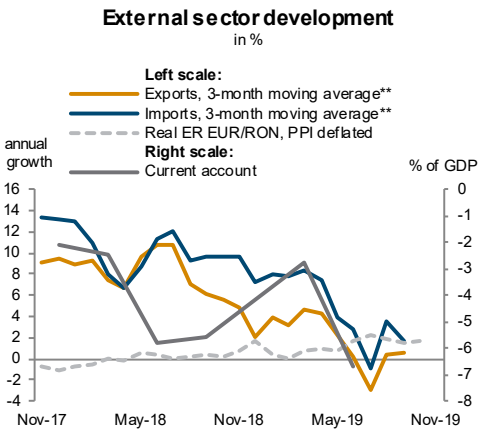












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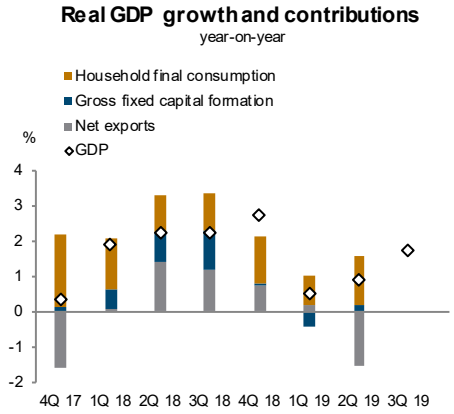
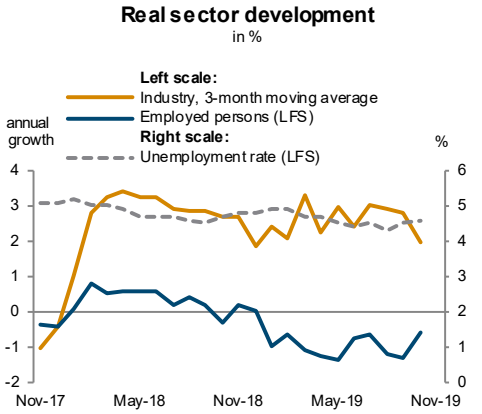
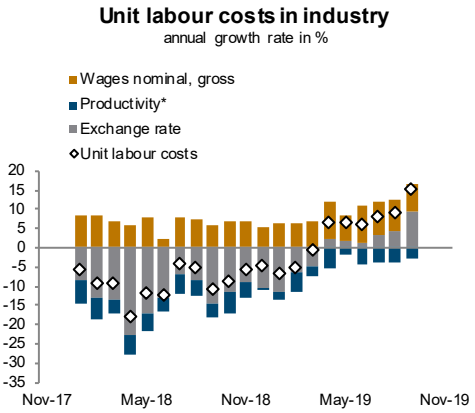
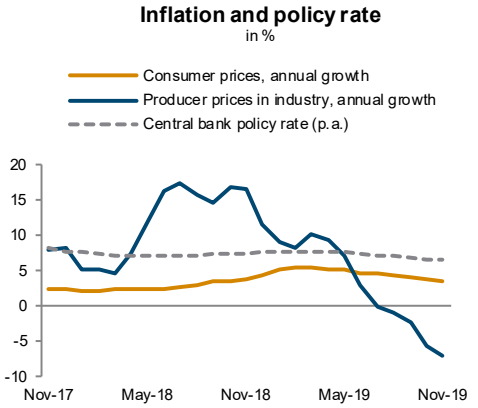
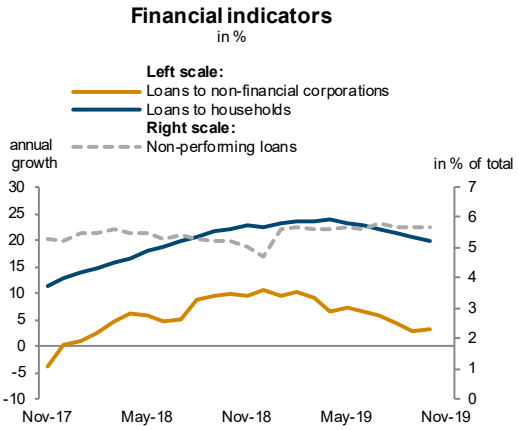
Russia

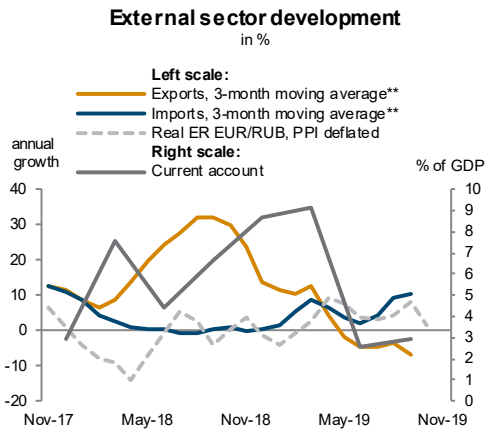












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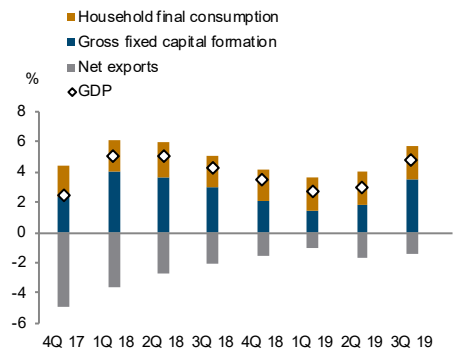
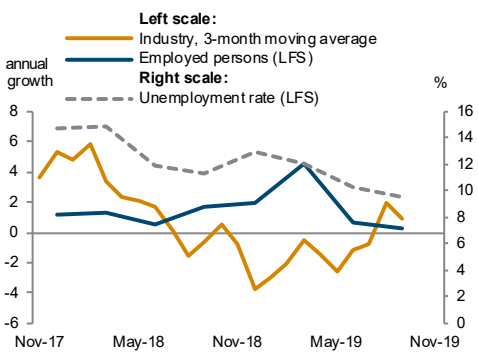
Serbia

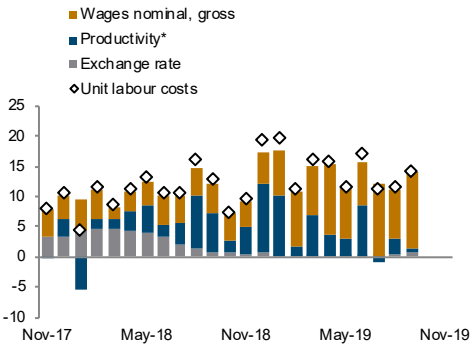
Real GDP growth and contributions
year-on-year



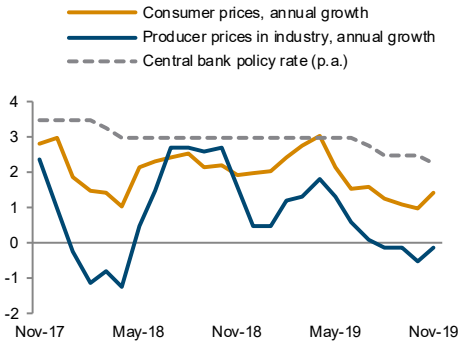
Real sector development
in %



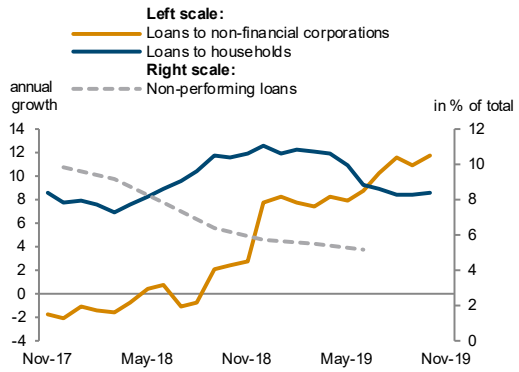
Unit labour costs in industry
annual growth rate in %



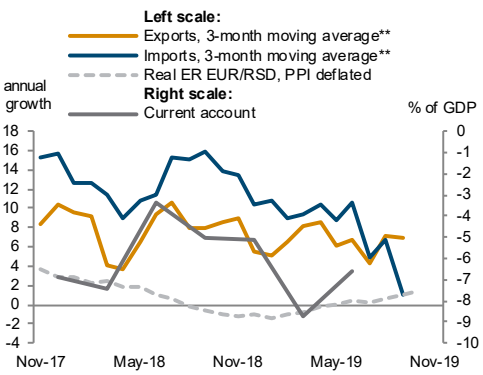
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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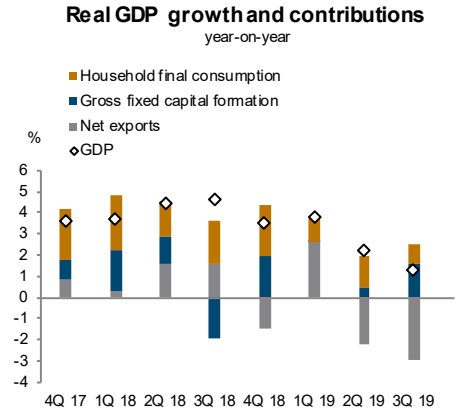
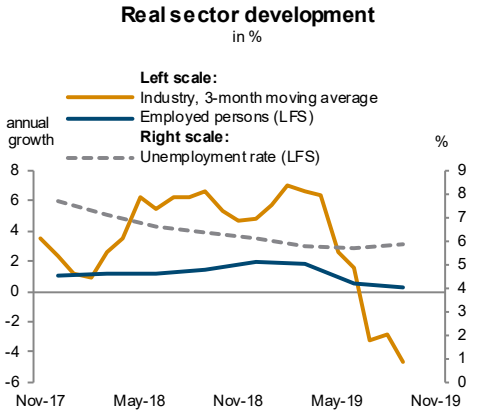
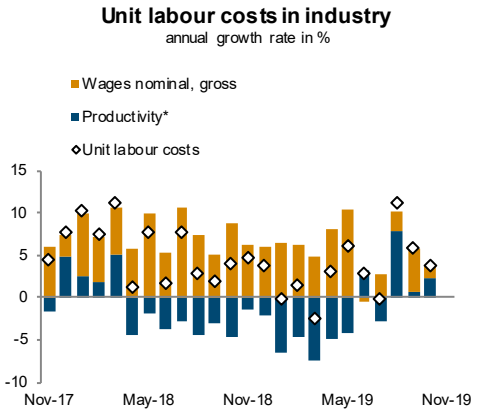
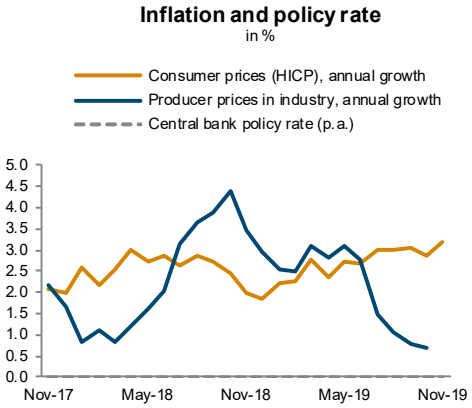
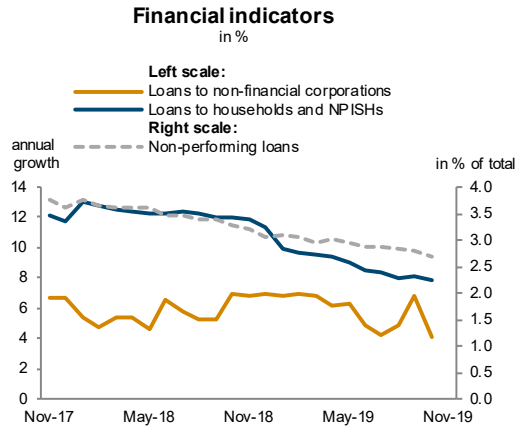
Slovakia

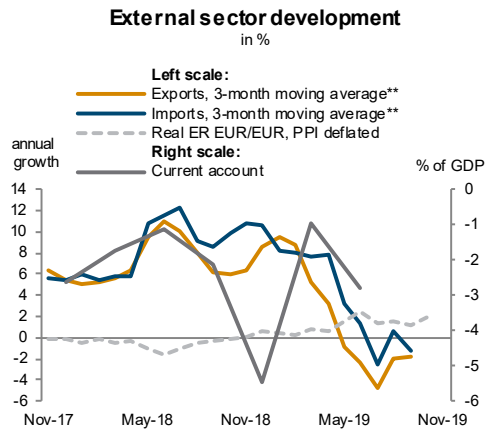












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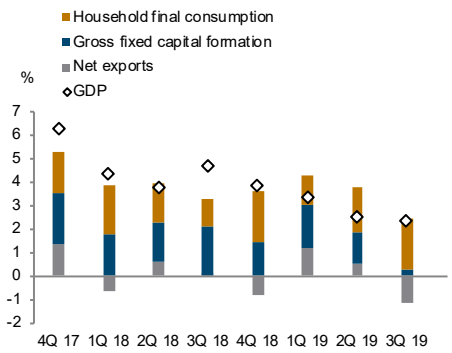
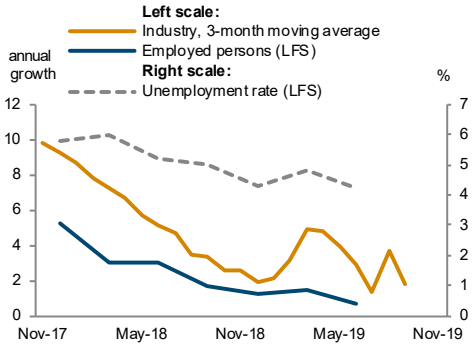
Slovenia

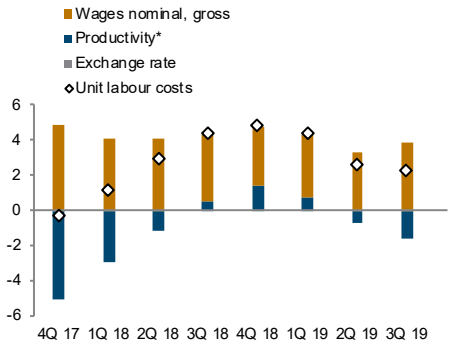
Real GDP growth and contributions
year-on-year



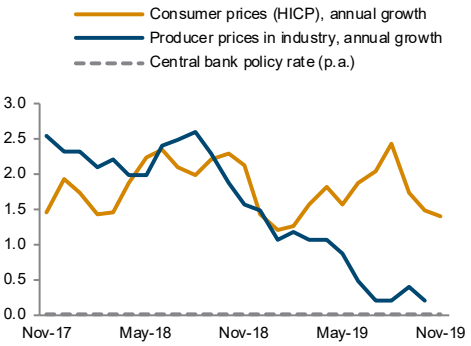
Real sector development
in %



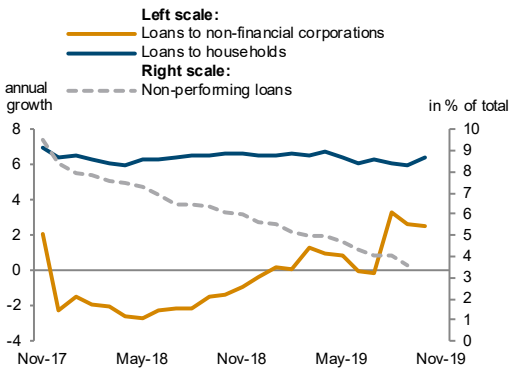
Unit labour costs in industry
annual growth rate in %



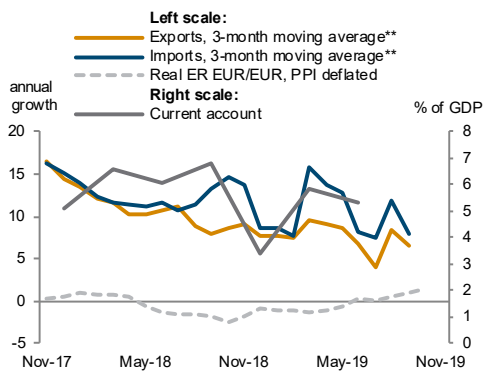
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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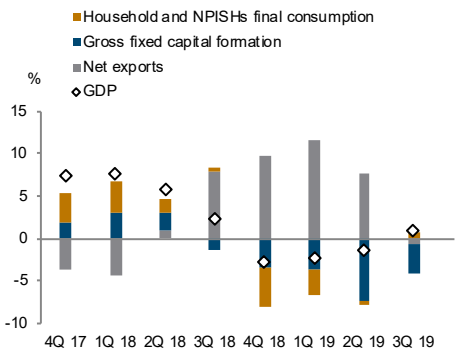
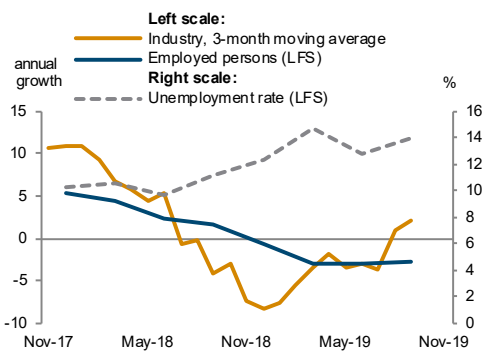
Turkey

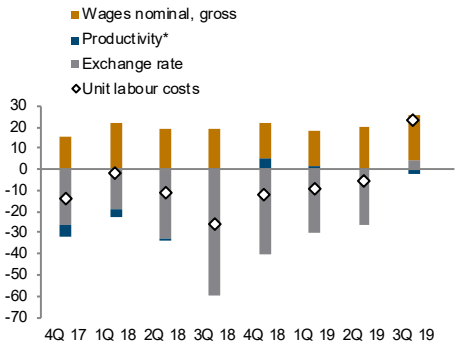
Real GDP growth and contributions
year-on-year



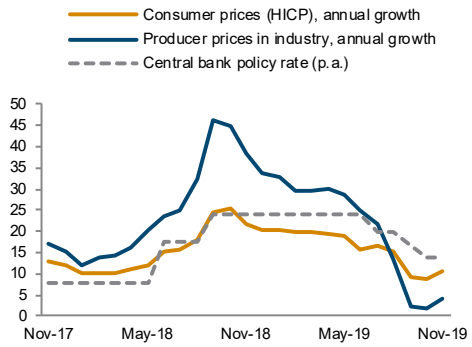
Real sector development
in %



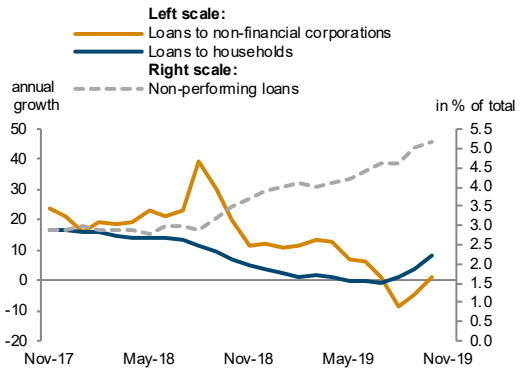
Unit labour costs in industry
annual growth rate in %



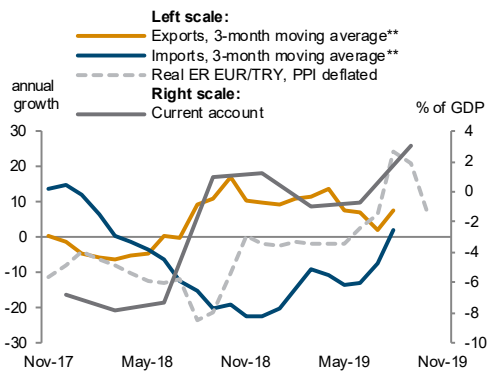
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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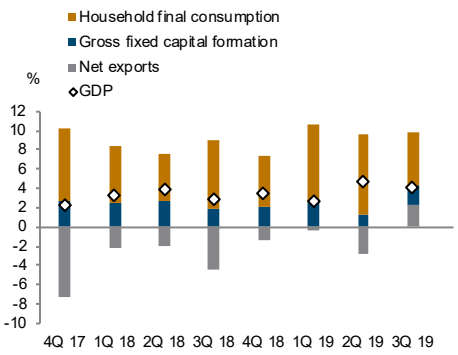
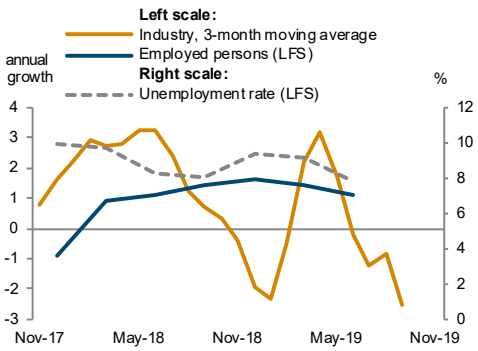
Ukraine

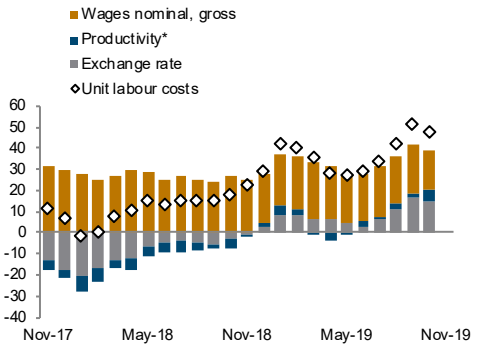
Real GDP growth and contributions
year-on-year



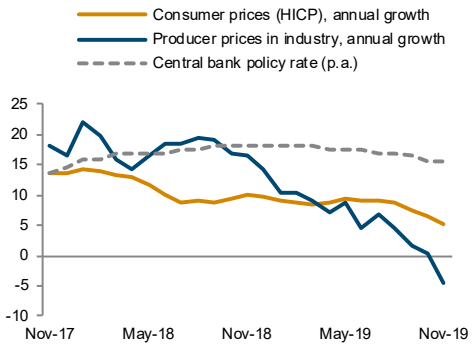
Real sector development
in %



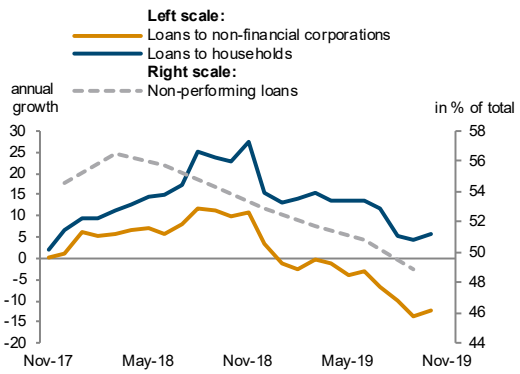
Unit labour costs in industry
annual growth rate in %



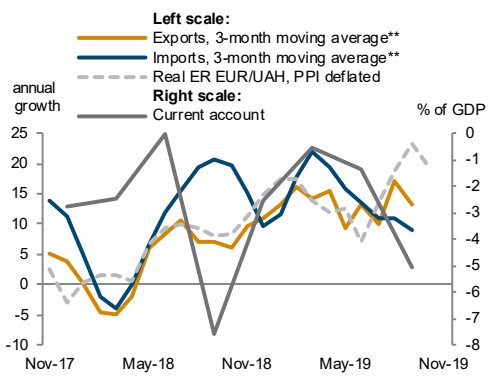
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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Index of subjects – January 2019 to January 2020

Albania	economic situation	2019/6
Austria	cross-border cooperation with Slovakia	2019/9
	integration of refugees	2019/7-8
	trade and transport links with CESEE	2019/9
Belarus	economic situation	2019/6
Bosnia and Herzegovina	economic situation	2019/6
Bulgaria	economic situation	2019/6
China	economic development and relations with the US	2019/10
	outward FDI	2019/1
Croatia	economic situation	2019/6
	strategy for euro adoption	2019/6
Czech Republic	economic situation	2019/6
Estonia	economic situation	2019/6
Hungary	economic situation	2019/6
Iran	nuclear programme, negotiations with the US	2019/12
Italy	fiscal policy	2019/12
Kazakhstan	economic situation	2019/6
Kosovo	economic situation	2019/6
Latvia	economic situation	2019/6
Lithuania	economic situation	2019/6
Moldova	economic situation	2019/6
Montenegro	economic situation	2019/6
North Macedonia	economic situation	2019/6
Poland	economic situation	2019/6
	minimum wage	2019/10
Romania	economic situation	2019/6
Russia	economic situation	2019/6
	fiscal rule and foreign exchange market	2019/2
	growth accounting, total factor productivity	2019/2
	oil taxation reforms	2019/2
Serbia	economic situation	2019/6
Slovakia	economic situation	2019/6
	cross-border cooperation with Austria	2019/9
Slovenia	economic situation	2019/6
Turkey	economic conundrum	2019/6
Ukraine	economic situation	2019/6
United Kingdom	economic model after Brexit	2019/9

(continued on the next page)

multi-country articles and statistical overviews

Central Asia regional trade integration ... 2019/4
connectivity in Europe ... 2019/10
digital revolution, robot adoption, and labour market ... 2019/5
digitisation in CESEE ... 2019/11
economic integration EU – EAEU ... 2019/4
economic integration EU – EAEU ... 2019/4
EU FTAs, optimal degree of trade liberalisation ... 2019/1
EU trade relations with developing countries ... 2019/1
Eurasian economic integration ... 2019/4
European investment gap (European Silk Road) ... 2019/3
globalisation and inequality ... 2019/12
investment trends in CESEE ... 2019/3
migration, EU policy ... 2019/7-8
migration of medical personnel ... 2019/7-8
natural interest rates ... 2019/5
outward FDI in EU-CEE ... 2019/3
robot adoption and employment in CESEE ... 2019/11
West Balkans: EU accession prospects ... 2020/1
West Balkans, Ukraine and Moldova: social situation ... 2019/11
West Balkans, Ukraine and Moldova: demographics ... 2020/1
West Balkans, Ukraine and Moldova: labour market institutions ... 2020/1

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IMPRESSUM

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Offenlegung nach § 25 Mediengesetz: Medieninhaber (Verleger): Verein "Wiener Institut für Internationale Wirtschaftsvergleiche", A 1060 Wien, Rahlgasse 3. Vereinszweck: Analyse der wirtschaftlichen Entwicklung der zentral- und osteuropäischen Länder sowie anderer Transformationswirtschaften sowohl mittels empirischer als auch theoretischer Studien und ihre Veröffentlichung; Erbringung von Beratungsleistungen für Regierungs- und Verwaltungsstellen, Firmen und Institutionen.

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