

Special Issue: 25 Years Break-up of Czechoslovakia**Is the Separation of Czechoslovakia a Success Story?****Two States that Are No More****Catching-up Process: 25 Years since the 'Velvet Divorce'****Twenty-five Years of Structural Change**

wiiw Spring Seminar
12 April 2018

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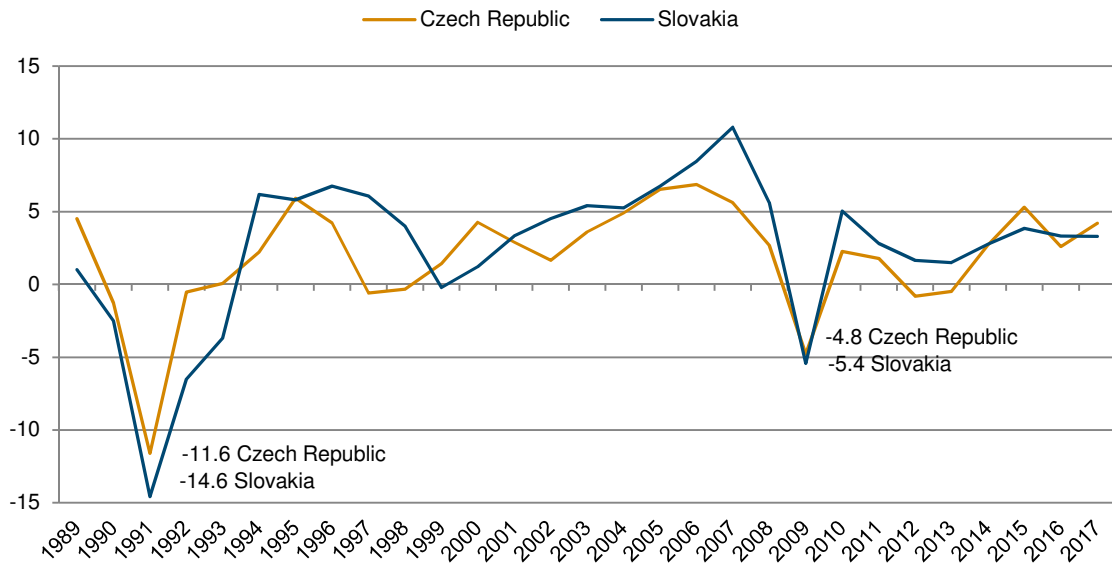
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wiiw Spring Seminar
will take place on
Thursday, 12 April 2018

Real GDP growth rate in the Czech Republic and Slovakia, in %, 1989-2017



Source: wiiw Annual Database, 2017: wiiw estimates.

Opinion Corner: Is the separation of Czechoslovakia a success story?

ANSWERED BY IVAN MIKLOŠ¹

Immediately at the beginning, I have to stress that at the time of separation I was strongly against it; now I think it was not only necessary but also the best real solution while, at the same time, I consider both my positions correct and accurate. Maybe this looks strange but I will try to explain.

It is very important that every historical event is put in real context. Czechoslovakia existed from 1918 to 1993 with a break during World War II (1939-1945). Before the creation of the common state, the Czech lands were economically the most developed, industrial part of the Austro-Hungarian Empire while the Slovak part was one of the least developed, rural areas.

It was only during the first two decades of the common state when the country existed in conditions of market economy and liberal democracy (1918-1939). For the majority of its existence (more than 40 years), the country had a centrally planned economy and communist dictatorship. From an economic point of view it means that the significant majority of the Slovak economy (especially industry) was created during the command economy while the relevant part of Czech industry was created earlier and under market conditions. The Czech economy was not only more developed but also more efficient and more oriented to Western markets, while Slovak industry was less efficient and less competitive and much more oriented to the Soviet bloc market.

As a result of this, at the time when the communist regime failed and the Soviet bloc 'market' collapsed, the economic consequences for the Slovak part of the common state were much more difficult than for the Czech one. The best illustration of this was the difference in unemployment rates immediately after reform was started on 1 January 1991. A few weeks after a comprehensive package of reform measures had been imposed (one year after a similar package had been implemented in Poland), unemployment started to rise, though very unevenly. While in the Czech part of the country it was around 3%, in the Slovak part it jumped to 11-12%.

Under these conditions it was natural that people's dissatisfaction and frustration with reforms was stronger in the Slovak part of the common state. Nationalists and populists immediately took advantage of this mood by arguing that the reform strategy was wrong, at least for Slovak conditions. They did not propose any realistic alternative reform strategy, rather they just sharply criticised the existing one that was managed from the federal level, i.e. from Prague. At the same time many Slovaks aspired to change the common state's rules in a way that would give them more power and responsibility to choose their own destiny. These often legitimate demands were not always met with understanding. Even more

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problematically, the Slovak emancipation agenda was seized by populists and demagogues whose demands made it impossible for the common state to function.

In this situation, the division of Czechoslovakia was an inevitable consequence of the June 1992 general parliamentary election results. While in the Czech Republic the pro-federal and pro-reform party of Václav Klaus won, in Slovakia Vladimír Mečiar's anti-reform and anti-federal party gained an overwhelming victory.

Why was I (as well as the majority of Slovaks and Czechs at that time) against the division of the common state? I was afraid that the Slovak Republic under a new leadership would not continue reforms and integration efforts to become a member of the EU together with our neighbours in Visegrád 4. Indeed, this threat quickly materialised. The governments under Mečiar's leadership led the country in the direction of autocracy, corruption, lack of reforms and mismanagement. The inevitable consequences were not only exclusion from integration into NATO, the EU and the OECD but also macroeconomic imbalances, no progress in restructuring of the economy, no foreign direct investment, etc. Slovakia was lagging behind and isolated in every important sense.

In 1998, pro-reform and pro-integration parties took power in Slovakia and during the two governments of Mikuláš Dzurinda, the country completely changed its destiny and image. The first Dzurinda government repaired the most important deviations from Mečiar's era and prepared the preconditions for catching up with the other Visegrád 4 countries in EU integration efforts. Yet from an economic point of view, the most important reforms were implemented during the second Dzurinda government (2002-2006). During 2003, a comprehensive package of structural reforms was prepared and the majority of these reforms were implemented from 1 January 2004 on. The most important were public finance reform, tax reform, labour reform, pension reform, social system reform, health care reform and fiscal decentralisation.

Slovakia joined the EU on 1 May 2004 as part of the first wave of enlargement. Our reforms earned us a great deal of respect. The World Bank named Slovakia the world's leading economic reformer in 2004. Formerly the 'black hole of Europe' (as Slovakia was called by the former US secretary of state Madeleine Albright), the country became Europe's reformist 'tiger', outperforming its Visegrád 4 neighbours in the EU integration process by the adoption of the euro on 1 January 2009.

There are a lot of data and figures that illustrate the positive results of the reforms but the most illustrative is a comparison in economic development between the two former parts of Czechoslovakia. When the common state was divided in January 1993, Slovak GDP per capita was less than two thirds of the Czech one (62%). After the two Dzurinda governments, and especially after the reforms of the second Dzurinda government, Slovakia achieved much higher economic growth than the Czech Republic and, as a result of this, Slovak GDP per capita reached 90% of the Czech level in 2008 and 94% in 2012. Between 2004 and 2012, Slovakia moved its GDP per capita level by 19 pp (from 57% to 76%) closer to the EU average while the Czech Republic moved by only 3 pp (from 78% to 81%).

From 2006 until now (with a short break in 2010-2012), Slovakia has been managed by three governments of Robert Fico. Some reforms were reversed, some untouched, but most importantly Fico's government did almost nothing in pushing new and necessary reforms. As a result of this, the

convergence progress has been negligible and the small difference between Slovakia and the Czech Republic has remained over recent years.

From today's perspective, it is possible to argue that the division of the country 25 years ago was inevitable because of the problems, tensions and differences inherited from 40 years of a communist regime and command economy. Both parts, the Czech Republic and Slovakia, now belong among the most successful post-communist countries and Slovakia, thanks to Dzurinda's reforms, was able to succeed and almost catch up economically with its elder brother's level.

Finally, the separation was probably a better solution than trying to hold the federation together. The tensions between our nations could have become unmanageable with a potential to escalate. We Slovaks had to mature and learn to take responsibility for ourselves and not blame somebody else for our problems and hardships. The Slovak success story was only possible to achieve because of two preconditions. Firstly, we were still part of Czechoslovakia at the critically important time of the beginning of reforms (1990-1992). If Slovakia had been an independent country after communism failed, I am afraid that reforms would have been chaotic and mismanaged – similar to those in Bulgaria, Romania or Ukraine at that time. The second precondition of our success was our own reforms during the Dzurinda governments.

The best evidence of the successful separation is not only economic convergence but, even more so, the fact that relations between our nations have remained warm, firm and friendly.

Two states that are no more

BY VLADIMIR GLIGOROV

INTRODUCTION

A hundred years ago, in the aftermath of World War I, two new, multi-ethnic states – the Republic of Czechoslovakia and the Kingdom of Serbs, Croats, and Slovenes, thereafter Yugoslavia – were formed about one month apart (the former on 28 October, the latter on 1 December 1918). Yugoslavia broke up in 1991, with the secession of Slovenia and Croatia, while Czechoslovakia dissolved 25 years ago on 1 January 1993. The beginnings of the two states were similar, yet their histories dissimilar, and their dissolutions as different as they could be.

SELF-DETERMINATION

The two new countries came about on the newly-formulated principle of self-determination of peoples by then US President Wilson.¹ The principle legitimises secessions, in particular from empires, e.g. from Austro-Hungary. The principle has had a complex history of which perhaps three aspects are the most important. One is that it was supported by the emerging Soviet Russia and then the Soviet Union and then the Communists everywhere. The other is the tricky question of what constitutes the self, the people or the nation in question. The last is procedural, i.e. how is the will of the people determined?²

The support by the Soviet Union of the principle of self-determination with the right to secession proved important in the dissolutions of Czechoslovakia and Yugoslavia, while it was the Wilson Declaration which was conducive to their formation. Both countries turned Communist after World War II which influenced the arguments for secession both in legal terms and in terms of their political legitimacy (as Communists supported national self-determination).

The second aspect proved to be crucial and not only in these cases. In that respect, the writings of Tomáš Masaryk are particularly important.³ How is the collective self to be defined? He points out the linguistic principle of national identity, but then adds the racial element (Slavism in this case), and then the democratic one. In the Yugoslav case, the former two were also important while the democratic aspect was not.

However, given the multi-ethnic, multi-confessional and multi-racial character of the two new states, the issue of the determination of the will of the people is particularly important, as that will has a territorial extension. In other words, ethnicity, or the self, however defined, is not coextensive with the state or with the people that is to determine whether it prefers to secede or not. In the case of the formation of

¹ President Wilson announced his Fourteen Points on 8 January 1918.

² For more on all that see Gligorov (1994).

³ See Masaryk (1915 and 1918).

Czechoslovakia and Yugoslavia, the territorial question was solved by the war, as the victors imposed their terms on the losing countries. So, the territorial extension was determined by the war, and thus the self was determined too. Additional choice procedures of self-determination were not needed at the point of creation which is one of the reasons why there were enduring constitutional problems, in particular in the case of Yugoslavia.

In the case of the founding fathers of Czechoslovakia, of Masaryk in particular, the new state was to be seen within the context of New Europe,⁴ it was seen as an element of the European political integration rather than disintegration. It is interesting here to point to the characteristic which distinguishes liberal nationalism from that of either communist or nationalist populism. Perhaps the simplest way to highlight it is to refer to Keynes' discussion of the post-World War I reconstruction of Europe. In *The Economic Consequences of the Peace* (1919), Keynes voiced his dissatisfaction with the reluctance of Wilson and the US to engage more actively in the post-war European reconstruction and he also pointed out that the liberal trading system needed to be re-established especially because of the proliferation of states, and small states at that, as the consequence of the dissolution of European empires. This is similar to the position taken by Masaryk that new small states should be part of the European political and economic space, which was to prove important in the eventual decision to dissolve the union of Czechs and Slovaks in 1993.

FAIRNESS BETWEEN NATIONS

A problem which dogged both Czechoslovakia and Yugoslavia was a constitutional one: how to reconcile central with regional interests? Even more so if those regional interests are coextensive with those of the constituent nations – in whatever collective identity sense – so that the issue of fairness among nations arises.

The literature on the dissolutions of states or federations highlighted the issue of fiscal fairness in the aftermath of the collapse of socialist federations or unions in Europe (Alesina and Spolaore, 1997; Bolton and Roland, 1997). Both more developed regions and the less developed ones may argue that they are being treated unfairly. In the case of Czechoslovakia, the less developed and smaller, in population, region of Slovakia was voicing complaints that it was not treated fairly. In the case of Yugoslavia, it was the more developed regions that were complaining that their resources were being transferred to the less developed ones.

Indeed, the complaint was as old as the common South Slavic state (Bicanic, 1938). In the case of Czechoslovakia, it was raised prominently in the Czechoslovak Spring of 1968. The response in both cases was federalisation, which was easier to argue for in the context of the Soviet legacy of support for self-determination. The 1968 reformists were supportive of the federalisation of Czechoslovakia to secure the support of Slovaks and so were the Soviet invaders and for the same reason – so the state was federalised in 1968. Similarly, in Yugoslavia, there were successive bouts of federalisation with the intent of securing the support of the more developed regions for a common state.

Initially, the issue was more about the spending side of the budget – the conflict was about the distribution of investments. This is understandable in socialist systems with state monopoly of investments given almost exclusive state ownership, close to 100% of all assets in Czechoslovakia. In

⁴ Ibid.

the Yugoslav case, the central government's investments were practically discontinued in the mid-1960s. There, taxation was the main issue. In the case of Czechoslovakia (and also the Soviet Union, another federation that broke up at approximately the same time), fiscal decentralisation was attempted just before the dissolution of the common state. The search for a fair system of taxation in a multinational country proved insolvable, though it played a much more crucial role in the Yugoslav case than in the case of Czechoslovakia.

The other fairness issue is the one of territorial division. This is where there is a major difference between the two states. In the case of Czechoslovakia, there were no territorial issues to settle or at least they were not raised. In the case of Yugoslavia, however, that was the major problem. Once secession was contemplated by some of the regions, the issue of determination of the will to secede came up, and that had territorial implications. That in part explains the use, or lack of use, of referenda as the way to determine the will of the self in the self-determination process.

Czechoslovakia dissolved on the basis of the inter-governmental or between-leadership agreement; Yugoslavia, or rather its regions, on the advice of the Badinter Commission, held referenda in order to determine the extent of support for the independence in the constituent republics of the federation.⁵ That raised territorial issues, as it mattered who is entitled to vote or not. Once there is a conflict over a territory, the probability that force will be used increases, especially if one or more of the conflicting parties in the conflict feels it is favoured by the balance of powers internally and externally (the latter was the case of Serbia).

Thus, Czechoslovakia dissolved peacefully without popular consent, while Yugoslavia dissolved violently with popular consent.

THE 'EUROPEAN EFFECT'

Masaryk believed that Czechoslovakia would prove to be economically even more successful than it already had been within Austro-Hungary because it would not have to support the less developed regions of the Empire. Also, in the context of New Europe, the post-World War I Europe, security could be supplied by the European system of nation states so any kind of German or Russian empires were not needed any more and their influence should be constrained. So, the New Europe should be conducive to welfare and security of the new, though small, state. This did not work out the first time around as World War II interfered and Czechoslovakia was occupied and dissolved, however, the motivation was revived after the start of the collapse of the socialist system in 1989. The international environment was quite different, so the issue of the separation of the Czech Republic from the Slovak Republic became one of mostly fiscal devolution within the single EU market. Both parts of Czechoslovakia, or rather of their respective governments, expected to do better if they forged their accession to the EU and their development policies within the EU alone. There was no additional advantage to being part of a larger, though still small, common country which would still be part of the EU.

This 'EU effect' is also detectable in a number of other countries (from Ireland and Spain to Romania and Bulgaria) but it worked mostly for their stabilisation rather than dissolution. Again, the key additional

⁵ The Badinter Commission (consisting of five presidents of European states' Supreme Courts) was set up by the European Economic Community to provide it with advice ahead of the International Conference on Yugoslavia which was held in late August 1991.

element was the existence or non-existence of potential or actual conflict over a territory. In multinational states, where internal territorial divisions are not clear, national self-determination may lead to violent conflicts. Where there are no such conflicts, fiscal devolution or fiscal agreement are peaceful ways to deal with the issue of fairness among nations.

Thus, the 'EU effect' can go both ways. On one hand, secession is less consequential, as in the case of Czechoslovakia, as it boils down to fiscal devolution (Gligorov 2017). On the other hand, it may have less of a mobilisation power if it threatens the membership of the single market. As both the Czech Republic and Slovakia expected to join the EU, this second effect played no role, and with no territorial issues to settle, peaceful dissolution was the least consequential of potential outcomes. Also, as referenda were avoided, no issue of the authenticity of the will to self-determination was raised. Otherwise, an impasse could have been reached with e.g. the majority in one country voting for secession and of the other against it and the overall majority going either way.

In the case of countries already in the EU, secession may prove problematic precisely because of the issue of seceding not only from a state but also from the EU. The latter would be the problem sensed by Masaryk and Keynes after World War I: as long as the EU is the main provider of security and the single market, with the welfare enhancing potential of the latter, it does not matter whether a country is small or big, but it does matter whether it is within the EU or not.

CONCLUSION

Peaceful self-determination and secession may prove advantageous in terms of fairness as long as it is legal, or at least considered legitimate, if it does not raise territorial issues, and if it takes place within an international order which minimises the costs to security, welfare, and democratic decision-making. In the case of Czechoslovakia these conditions were satisfied, while in the case of Yugoslavia they were not. Both countries started with the same nationalist and even racial, Slavic, justification of the right to self-determination and eventually fell victim to the same nationalist logic, with the one opting for peaceful means and the other for violent ways.

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Catching-up process: 25 years since the 'Velvet Divorce'

BY TOMÁŠ HOLUB¹

INTRODUCTION

In addition to dominant historical and political reasons, the peaceful split ('Velvet Divorce') of Czechoslovakia in 1993 also had a socio-economic background. It was related to different levels of economic development of the two parts of the dissolved federal state. The Czech Republic was traditionally richer, a difference going back – at least – to the 19th century, when the Czech lands had constituted the most industrialised part of the former Austro-Hungarian Empire, while Slovakia remained a mostly rural region of Hungary in those times. This big discrepancy between the two parts of Czechoslovakia remained in place through the interwar period.² Slovakia then underwent rapid industrialisation during the communist period, but it was strongly concentrated in heavy engineering, including weapon production, which suffered heavily in the first years of economic transformation. The Slovak population thus perceived that the costs of transition – designed in Prague – were borne disproportionately by their economy. On the other hand, the Czechs were uncomfortable with the persistent fiscal transfer that was directed from the Czech Republic to Slovakia to partly offset the differences in economic performance.

Twenty-five years after the separation of the two countries, it is thus relevant to ask to what extent has Slovakia managed to catch-up economically with the Czech Republic. This question can, of course, be studied within the context of how much the two countries have converged to the European Union that they both joined in 2004. At the same time, it is interesting to study in which way have the channels of convergence been affected by monetary policy choices, including Slovakia's entry into the eurozone in 2009.

GDP CATCHING-UP PROCESS

In 1993, i.e. immediately after the separation, the Czech per capita GDP measured in purchasing power standards (PPS) stood at 63% of the EU average, which then consisted of 15 'old' Member States (EU-15). At the same time, Slovakia was slightly below 40% of the EU-15 average (see Figure 1). In other words, its level of economic development barely reached two thirds of the Czech counterpart. A quarter century later, the Czech GDP increased to 83% of the EU-15 average³, which is certainly

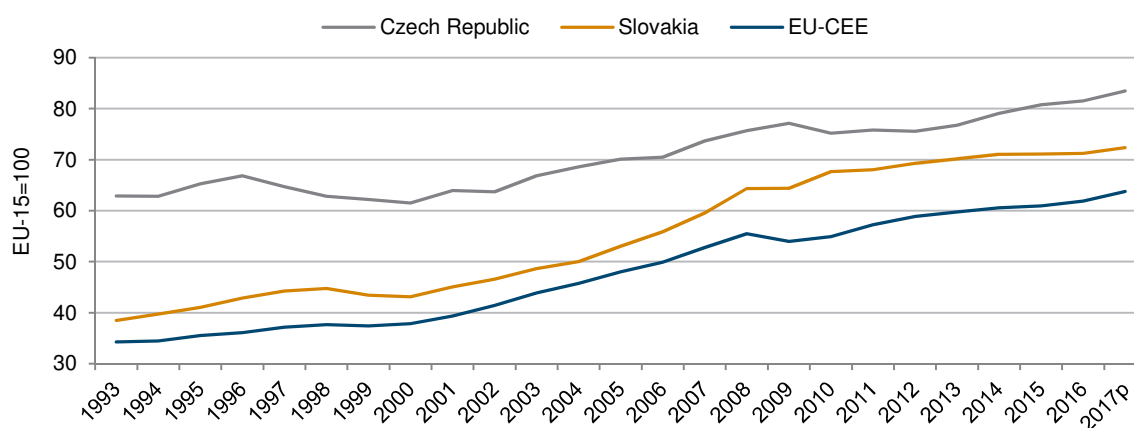
¹ Executive Director, Monetary Department, Czech National Bank; Associate Professor, Institute of Economic Studies, Faculty of Social Sciences, Charles University, Prague. The usual disclaimers apply.

² See Půlpán (1993), who mentions that the Slovak per capita national income reached less than one half of the Czech level before WWII. Interwar Czechoslovakia also included Carpathian Ruthenia, a part of current Ukraine, which was even much less developed than Slovakia.

³ The figures for 2017 used in this article rely on the European Commission's projections as presented in the AMECO database.

significant progress. But as shown in Figure 1, this progress faints in comparison with the Slovak increase to 72% of the EU-15 average. The eastern part of the former federation thus now has a per capita production level approaching 90% of the Czech one. Hence, the two countries have not only caught up to a considerable extent with the living standards of advanced European states, which was a key ambition at the beginning of their political and economic transition, but have at the same time become much more similar in their bilateral comparison.⁴

Figure 1 / Per capita GDP (in PPS, EU-15 = 100)



Note: EU-CEE means an unweighted average of nine Central and East European EU Member States (all EU-CEE countries excluding the Czech Republic and Slovakia).

Source: AMECO database.

One may, of course, ask if the significant narrowing of the gap between the two countries is a reflection of the Czech catching-up process with the EU-15 being disappointingly slow or of the Slovak catching-up being impressively fast. While the public perception in the Czech Republic seems to lean towards the former explanation, Figure 1 would suggest that it is a combination of the two. It shows an unweighted average of per capita GDP in PPS in nine Central and East European EU Member States as a benchmark,⁵ which was close to 35% of the EU-15 average in 1993, i.e. somewhat below the Slovak level. Currently, this benchmark is approaching 65% of the EU-15. This means that it has come closer to the Czech level, which may be seen to some extent as a natural reflection of the convergence process, with poorer countries growing faster.

However, Figure 1 also illustrates that the gap between the Czech Republic and the benchmark countries narrowed most visibly in 1997-2000, and then also in 2011-2013, i.e. during two home-made economic recessions in the Czech Republic. The first one was related to the Czech currency and banking crises at the end of last millennium. The second one was linked to a 'double-dip' profile coinciding with the eurozone sovereign debt crisis and associated with a sharp domestic fiscal restriction, weak confidence and deflationary tendencies. Recently, the Czech economic growth has

⁴ This is true also regarding the structure of their economies. Both countries are among the most industrialised EU countries, with the share of industry exceeding 30% of GDP, compared to 20% for the eurozone. They also share a heavy concentration in the automotive sector (for more details on the specialisation patterns, see the contribution on 'Twenty-five years of structural change' in this report).

⁵ The group includes all EU-CEE Member States except the Czech Republic and Slovakia.

resumed and has on average aligned with that in EU-CEE, keeping the GDP per capita difference broadly stable.

At the same time, Slovakia has significantly outperformed the EU-CEE benchmark over the long run. As Figure 1 shows, much of this is largely attributable to the impressive Slovak developments in 2004-2008. It is thus linked to the fast reform momentum ahead of the EU entry which was needed to make it into the first round of EU enlargement after lagging behind under V. Mečiar's government and to the liberalisation policies that also continued under the second right-wing government of Prime Minister M. Dzurinda. The reforms implemented under his administration remained in place to a large extent even under the subsequent social democratic governments, even though the overall taxation of labour has gone up again in Slovakia.⁶

Another observation relates to Slovakia's euro adoption in 2009. Unless one believes that the benefits of this step largely materialised before the actual entry into the eurozone, it does not seem to have brought significant convergence benefits so far. Since then, the Slovak per capita GDP has developed more or less in tandem with the EU-CEE average. Overall, it has also increased – relative to the EU-15 average – to a similar extent as the Czech GDP per capita, even though there were differences in their performances in some sub-periods (Figure 1).⁷

The achieved degree of convergence between the two countries becomes even more apparent if one looks at the GDP in PPS not relative to the whole population, but per person employed. This indicator is currently the same in the Czech Republic and Slovakia at 77% of the EU-15 average.⁸ The remaining difference between the two countries in terms of their per capita GDP levels thus cannot be attributed to a difference in labour productivity but is solely a reflection of an ongoing gap in terms of employment. In particular, the ratio of employed persons to total population reaches almost exactly one half in the Czech Republic, marginally above the 1993 level. In Slovakia, the corresponding ratio is only 44%, which is up by about five percentage points compared to 1995, but still visibly below the Czech level. This ongoing difference is partly a reflection of a higher general unemployment rate in Slovakia, which was on average around 8% in 2017, while only 3% in the Czech Republic. This creates some scope for further convergence between the two countries in the coming years as the Slovak unemployment rate is expected to continue in its declining trend, while the already very low unemployment rate in the Czech Republic limits the scope for any further decreases. The remaining part of the difference in the employment ratios, which may have more persistent roots, is due to a somewhat lower level of labour force participation in Slovakia relative to the Czech case.

⁶ In 2007, the overall taxation of labour (at the average wage level) in Slovakia was lower than in the Czech Republic by almost 5 percentage points. By 2016, the difference had gone down to 1.5 percentage point. On the other hand, Slovakia remains somewhat behind the Czech Republic in all key components of the Global Competitiveness Index, as well as in the overall Ease of Doing Business, i.e. in the standard measures of institutional quality.

⁷ The proponents of euro adoption often argue that by eliminating the exchange rate risk, it boosts foreign direct investment from the eurozone. However, the stock of Slovak FDI from the eurozone currently reaches 45% of GDP, and is marginally lower than in 2008. On the other hand, the corresponding Czech figure is more than 60% of GDP, compared to less than 50% in 2008 (see CNB, 2017).

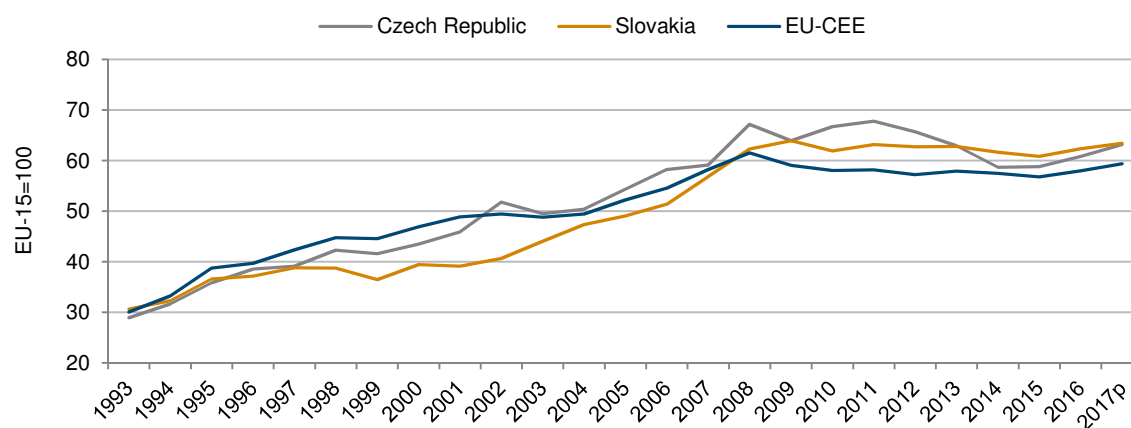
⁸ In 1995, i.e. the first year for which data are available for both countries, the GDP in PPS per person employed in the Czech Republic stood at 56% of the EU-15, while in Slovakia it was 44%.

PRICE-LEVEL CONVERGENCE AND REAL EXCHANGE RATE APPRECIATION

In line with the general pattern of economic convergence, the increasing GDP per capita level has been accompanied by catching up in terms of their price level relative to the EU-15 in both the Czech Republic and Slovakia. As shown in Figure 2, both countries started with their GDP price level at around 30% of the EU-15 average in 1993. This was very close to the EU-CEE benchmark. Currently, the GDP price levels of the Czech Republic and Slovakia have converged perfectly at 63% of the EU-15 level, while the unweighted EU-CEE average is slightly lower. It is also worth noting that all of the catch-up took place before the global crisis. Since 2009, the price levels relative to the EU-15 have been broadly flat in all three cases (with only a temporary decline in the Czech Republic related to the use of the CZK's nominal exchange rate as an unconventional monetary policy instrument which included its depreciation by about 5% and then maintaining a floor vis-à-vis the euro⁹).

That said, the Czech and Slovak prices still remain below the level that would correspond to their level of economic development. A panel data regression for 36 European countries in 1995-2016 suggests that the observed Czech price level is about 20 percentage points lower compared to the estimated relationship.¹⁰ In Slovakia, the difference from the empirical estimate is about 11 percentage points. The greater disparity in the Czech case, to a large extent, reflects the fact that its per capita GDP in PPS exaggerates its productivity level in per employee terms by about 6 percentage points (see above). In any case, the two countries have room for further price level convergence in the future that may be somewhat faster than their catching-up process in terms of the per capita GDP level.

Figure 2 / Price level of GDP (EU-15=100)



Source: Eurostat.

Increasing price level is by definition linked to a real equilibrium exchange rate appreciation trend. Figure 3 displays the real exchange rates vis-à-vis the euro, deflated by the harmonised index of consumer prices (HICP).¹¹ It can be seen that the real exchange rate of Czech koruna (CZK) has strengthened by nearly 100% since 1993, which is close to the average real appreciation for the EU-CEE over the same period. The Slovak real exchange rate has appreciated even more, i.e. by

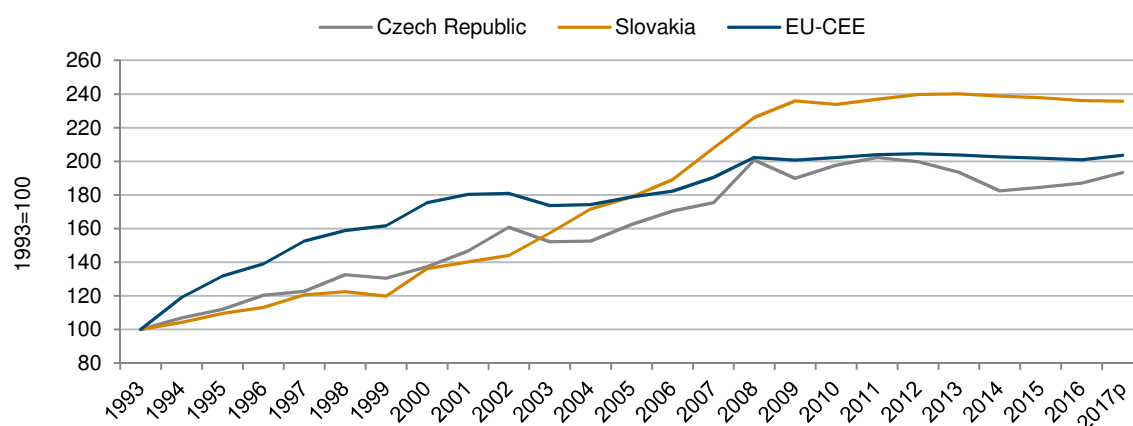
⁹ See Franta et al. (2014).

¹⁰ See CNB (2017).

¹¹ For 1993-1995, HICP figures that were unavailable were extrapolated using national CPI measures.

135%. As with the price level catch-up, the appreciation trend lasted until 2008, but has stopped since the global crisis. In fact, the CZK temporarily depreciated in real terms in 2013-2016, related to the CNB's aforementioned unconventional monetary policy measure. However, it has gone up again, initially due to a positive inflation differential, and recently, mainly due to a nominal exchange rate appreciation after the floor was discontinued in April 2017. In Slovakia, on the other hand, the real exchange rate has followed a slight depreciation trend in recent years, linked to its low inflation or even temporary deflation.

Figure 3 / Real exchange rate to the euro (HICP-based; 1993 = 100)



Source: Eurostat; AMECO database; own computations.

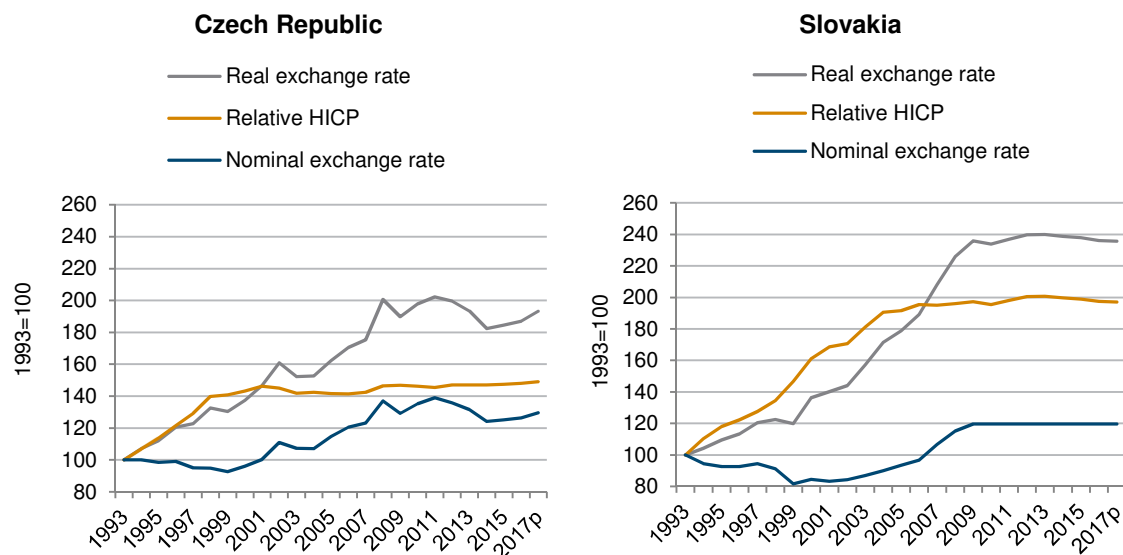
Monetary policy choices of the two countries affected the channels through which the real exchange rate appreciation manifested itself. Relative to 1993, more appreciation came through an inflation differential than via the nominal exchange rate appreciation channel in both countries (Figure 4). However, this difference is much more apparent in Slovakia where the inflation differential channel was clearly dominant until 2004 while the nominal exchange rate even depreciated somewhat.¹² It was only in the run-up to the euro adoption when the nominal exchange rate appreciation of the SKK took over, while inflation in Slovakia went down toward the eurozone level to meet the Maastricht price stability criterion. On the other hand, much of the Czech disinflation process was accomplished by the year 1999 and the real exchange rate appreciation trend subsequently relied on nominal strengthening of the currency.

The Slovak euro adoption in 2009 has not affected the long-run convergence channels so far, given the absence of any real exchange appreciation trend not just in Slovakia, but across the EU-CEE region since the global crisis. It has 'only' made the Slovak real exchange rate more stable compared to the Czech case, in which nominal exchange rate flexibility has allowed for larger moves in the real exchange rate of CZK, which served as a shock absorber during the crisis. However, a long-run difference between the two countries may appear in the future. With the CNB's 2% inflation target, which is close to the ECB's definition of price stability (below but close to 2%), the inflation channel is likely to play only a minor role in the Czech case, and the convergence trend will thus mainly rely on nominal appreciation of the CZK. On the other hand, Slovakia has given up the nominal exchange rate channel, so that the real

¹² See Komárek et al. (2010).

exchange rate appreciation trend¹³ will have to manifest itself in a positive inflation differential vis-à-vis the eurozone average.

Figure 4 / Decomposition of real exchange rate developments (HICP-based; 1993 = 100)



Source: Eurostat; AMECO database; own computations.

CATCHING UP IN TERMS OF WAGE LEVELS

Another significant element of the convergence process, which has been receiving increasing attention from the general public in recent years, is the evolution of wage levels relative to the advanced EU countries. It is closely linked with GDP per capita catching up as well as with the price level convergence and the long-term real exchange rate appreciation trend. All these variables are simultaneously affected by the evolution in labour productivity mainly in the tradable sector (through the Balassa-Samuelson effect).

In PPS¹⁴, Czech wages were roughly at 64% of the EU-15 average in 2017, which is only slightly higher than the 61% level in Slovakia and the EU-CEE average (59%). This compares to less than 40% in the Czech Republic back in 1993.¹⁵ The almost perfect convergence of all the three current wage levels reflects the aligned level of labour productivity as measured by GDP in PPS per person employed. The same is true for the nominal wage, expressed in euros, as shown in Figure 5. It is currently close to 40% of the EU-15 average in the Czech Republic and Slovakia, and only slightly lower for the EU-CEE average. This level may seem disappointingly low after nearly three decades of economic transformation, however, it is almost four times higher than the level in 1993-1995. At the same time, it is obvious that the period since the outbreak of the recent global crisis has been a lost decade in this

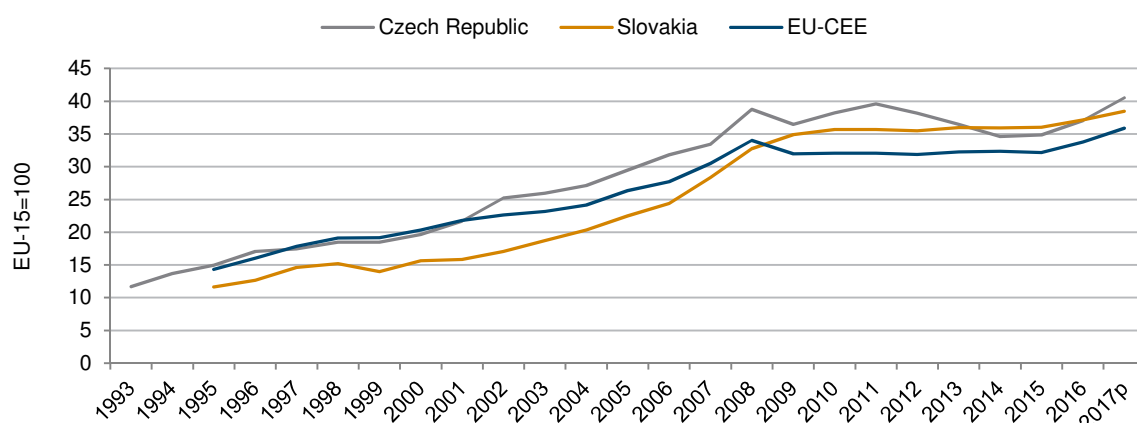
¹³ CNB (2017) estimated this trend at 0.4-2.7% per year for the Czech Republic, and 0.1-2.1% for Slovakia.

¹⁴ The wages in PPS describe the purchasing power of wages on the domestic market, while the indicator in euros reveals the external purchasing power and – together with the productivity level in the tradable sector – co-determines the economy's external price competitiveness.

¹⁵ The figures for Slovakia (32%) and EU-CEE (34%) are only available from 1995.

respect in line with the interrupted GDP catching-up process and stagnation in the comparative price levels and real exchange rates. The last two years have, however, brought a renewed convergence trend which is likely to continue in the coming years.

Figure 5 / Nominal compensation per employee (in EUR; EU-15 = 100)



Source: Eurostat; AMECO database; own computations.

CONCLUSION

Twenty-five years after their 'Velvet Divorce', the Czech Republic and Slovakia have become quite similar as regards the level of their economic development. Ironically, they would thus now be much better suited – purely in economic terms – to share a common state than they were in the actual common history. There has been a significant convergence in their per capita GDP in PPS levels, labour productivity and price levels relative to the EU-15. The same applies to the current very similar wage levels (both in PPS and in euros). This means that Slovakia has managed to catch up to the EU-15 level more rapidly than its Czech counterpart which may be seen as a reward for its ambitious reform agenda in the run-up to EU accession as well as the subsequently accomplished liberalisation process under PM Dzurinda's governments. On the other hand, the Czech Republic lagged behind, mainly in the 1997-1999 period related to its currency and subsequent banking crises and also during the most recent recession of 2011-2013. A part of the lost ground is, however, now being regained thanks to the strong GDP growth rates recorded by the Czech economy in recent years.

So far, the speed and pattern of the catching-up process in Slovakia has not been visibly affected by its euro adoption in 2009, except for in the run-up to its entry. But going forward, being in the eurozone implies that the price level convergence (and related real exchange rate appreciation) in Slovakia will have to proceed via an inflation differential vis-à-vis the eurozone average. On the other hand, the Czech Republic is likely to rely on a gradual nominal exchange rate appreciation trend as in the pre-crisis period.

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Komárek, L., K. Koprnická and P. Král (2010), 'Dlouhodobá reálná apreciacie jako fenomén ekonomické konvergence' (Long-Term Real Appreciation as a Phenomenon of Economic Convergence), *Politická ekonomie*, Vol. 58, No. 1, pp. 70-91, available at <https://www.vse.cz/polek/720>.

Půlpán, K. (1993), 'Nástin českých a československých hospodářských dějin do roku 1990', Vydavatelství Karolinum, Prague.

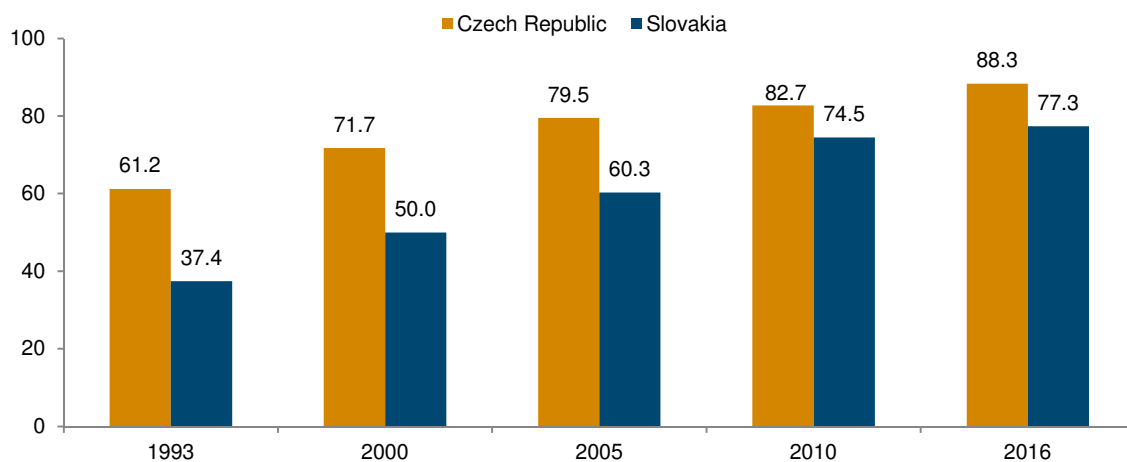
Twenty-five years of structural change

BY DORIS HANZL-WEISS¹

INTRODUCTION

Czechoslovakia ceased to exist on 31 December 1992 and the two new independent states emerged on 1 January 1993. This split was also named the ‘Velvet Divorce’. During the following quarter century, Slovakia showed exceptionally strong growth performance which was stronger than in the Czech Republic – contrary to some initial expectations. Slovakia increased its GDP per capita level (in % of the EU-28 average) by 40 percentage points, from 37% in 1993 to 77% in 2016. The Czech Republic rose by only 27 percentage points during this period, starting at 61% of the EU average GDP level in 1993 and going up to 88% in 2016 (for comparison: Hungary and Poland reached approximately 70%). What have been the reasons for this success especially in Slovakia? In this article, we search for an answer with a focus on structural issues during the 25 years of independence.

Figure 1 / GDP per capita at current PPPs, European Union (28) average = 100



Source: wiiw Annual Database incorporating national and Eurostat statistics.

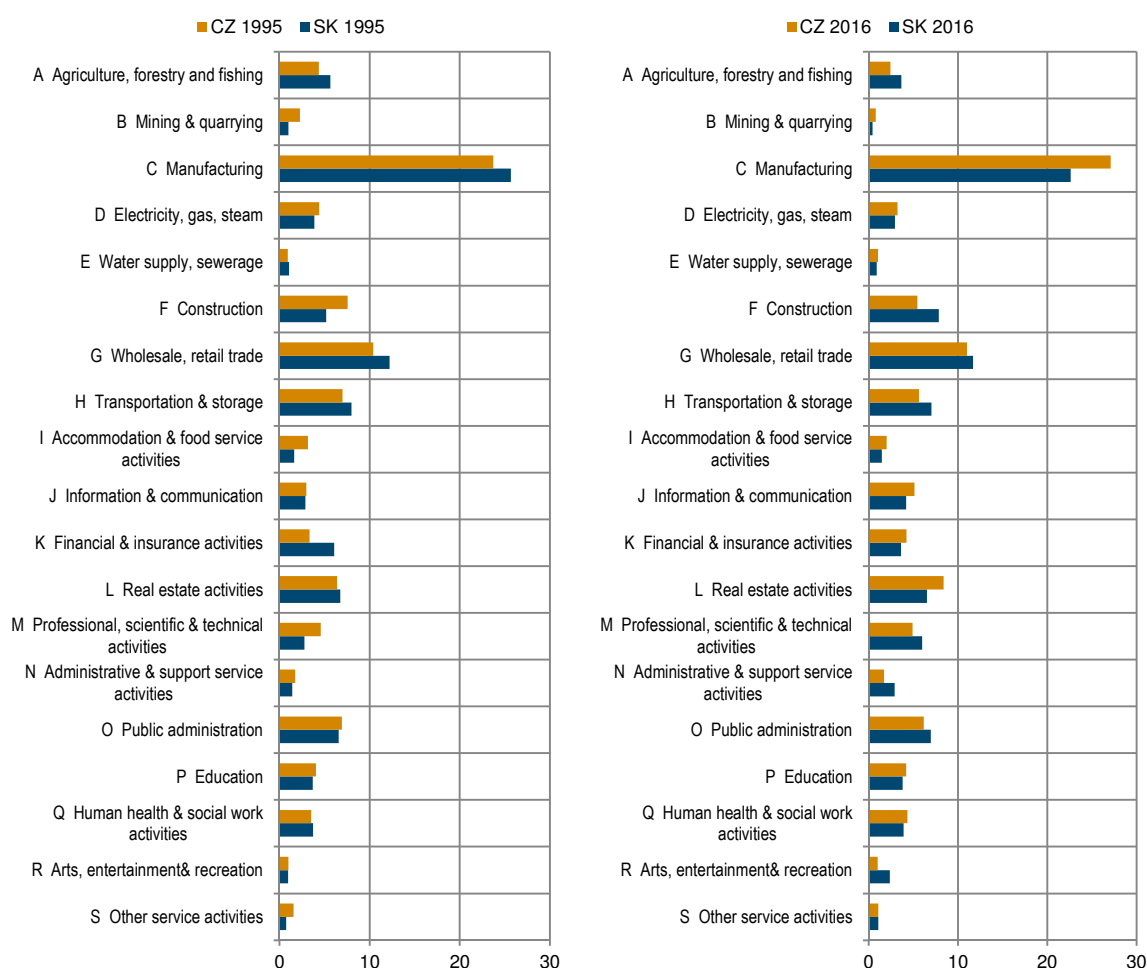
STRUCTURAL DIFFERENCES AT THE BEGINNING OF THE 1990S

Looking back at the start of the 1990s, after the collapse of communism, former Czechoslovakia was struggling with a transformational recession. Having to cope with the breakup of former COMECON-export markets, reorientation to the West and building up of market structures at home, GDP declined strongly between 1990 and 1993. However, Slovakia was hit harder than the Czech Republic. One of the reasons was related to structural issues.

¹ Many thanks to the assistance by Zdenek Lukas, wiiw's long-standing former country expert for Slovakia.

Bohemia and Moravia were already among the highly industrialised regions before World War II whereas Slovakia was a largely agrarian area up until the second half of the 20th century. During the communist regime, Slovakia was industrialised in line with the common Stalinist pattern. The USSR considered Slovakia a strategically highly important region and supported the establishment of arms production and heavy industry on its territory. It was the main supplier of raw materials as well as the main customer of Slovakia's arms production then. After the collapse of communism, the peace-oriented politics of the Federal Government – dominated by Czech politicians – led to the closure of many arms factories and – as two thirds of arms production was located in Slovakia – mainly hit Slovak firms.² At least 35,000 people lost their jobs at that time.³ Dissatisfaction over this measure, which was perceived as unequal treatment of both constituent republics in reforms not taking into account the differences in production structures, was an important contributing factor to the dissolution of Czechoslovakia in 1993.⁴

Figure 2 / Gross value added by sector, in % of total, 1995 and 2016



Source: wiiw Annual Database.

² Lukas (1992).

³ Fath et al. (1993). However, when taking into account also up- and downstream sectors, the estimated job losses were about 100,000.

⁴ Lukas (1999).

A glimpse at the structure of the economy in 1995 shows that Slovakia had slightly larger shares in value added compared to the Czech Republic in agriculture, manufacturing, wholesale & retail trade, transportation & storage and financial services (see Figure 2, left hand panel).

STRUCTURAL CHANGE THROUGH FDI

Strong inflow of FDI helped to transform the economies both of the Czech and Slovak Republics. The inflow of FDI started to take off later in Slovakia than in the Czech Republic. The authoritarian regime of Vladimír Mečiar until 1998 left Slovakia in international isolation, non-transparent privatisation and cronyism. Only with the change of government in 1998 and the new government of Mikuláš Dzurinda were important reforms started and re-orientation towards the European Union began. The main drafter of the Slovak economic reforms at the time was the Minister of Finance, Ivan Mikloš. Accession prospects and then accession to the EU, which finally took place on 1 January 2004, and later the euro introduction in 2009, stimulated necessary reforms again and increased the inflow of FDI into Slovakia.⁵ Overall, by 2016, the Czech Republic had possessed more FDI stock per capita (EUR 10,333) than Slovakia (EUR 7,635). The structure of FDI stock was, however, very similar: 33% went into manufacturing in both countries, 27% (CZ) and 25% (SK) into the financial and insurance sector and 10% (CZ) and 9% (SK) into wholesale and retail trade.

FDI helped structural change (see Figure 2, right-hand panel). Quite interestingly, manufacturing in both countries retained its overall importance. While in the Czech Republic, the share of manufacturing even grew by 3pp until 2016 and now holds 27% of gross value added (GVA), in Slovakia it declined by 3 pp and now holds 24% of GVA. Overall, the inclusion of both countries in the German-Central European supply chains – together with Hungary and Poland – has helped to retain a large manufacturing sector in both countries.⁶ As a consequence, the Czech Republic and Slovakia now belong to the European manufacturing ‘core’ countries.

Other changes in the output structure occurred as well: The share of agriculture declined in both countries by 2 pp of GVA. In the Czech Republic, the construction sector became smaller (-2pp) while the information & communication sector, on the contrary, grew (+2pp). In Slovakia, the construction sector as well as professional, scientific & technical activities gained in importance (+3pp) while the financial sector lost some space (-2.5pp).

STRUCTURAL SIMILARITIES IN MANUFACTURING TODAY

Within manufacturing, the main recipient of FDI in both countries has been the automotive industry. This sector accounted for nearly 30% of total FDI stock in the Czech Republic (2013) and 21% in Slovakia (2014).⁷ In fact, in both countries, Volkswagen has been one of the major investors having arrived in Czechoslovakia in 1991. Volkswagen formed joint-ventures with already existing car producers which then became Škoda Auto and VW Bratislava respectively, laying the foundations for a revitalised automotive industry in both countries.

⁵ Hanzl-Weiss (2013), Stolarik (2016).

⁶ IMF (2013).

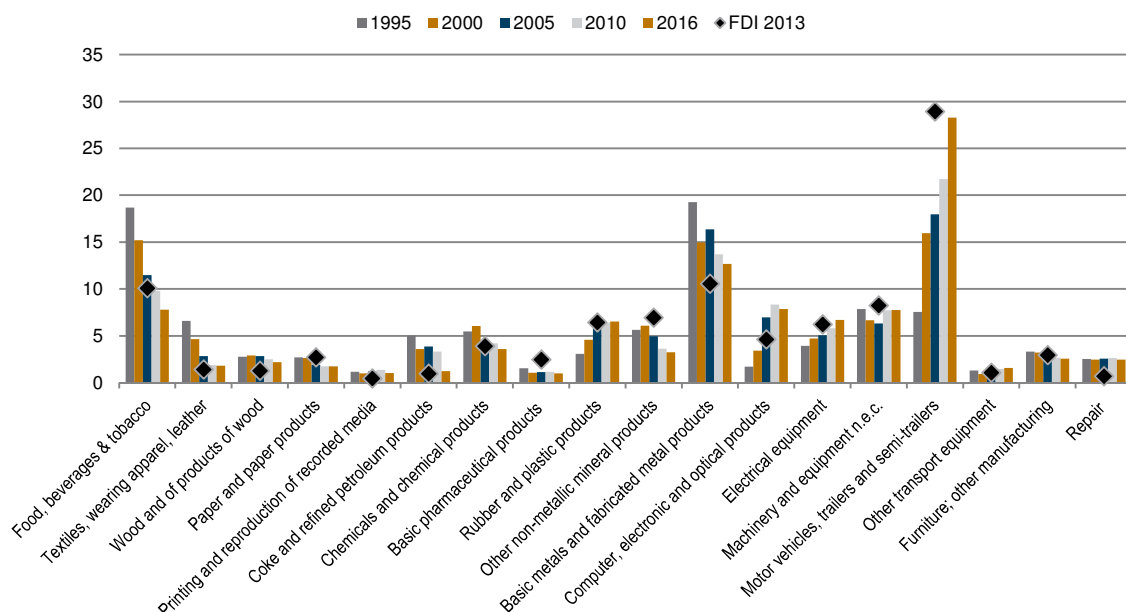
⁷ Latest data available.

After this first wave of privatisation and investments in the 1990s, the automotive industry in both countries continued to attract FDI in the 2000s as well. Choosing Slovakia, PSA Peugeot Citröen announced plans to build a greenfield car plant in 2003 in Trnava followed by Kia Motors in 2004 in Žilina. Production started in both plants in 2006. Locating in the Czech Republic, Toyota Peugeot Citröen made an investment decision in 2002 and started production in early 2005 in Kolín. Hyundai announced plans to invest in the Czech Republic in 2005, following its sister company KIA, and the plant was completed in 2008 in Nošovice (right at the Czech border to Slovakia). With production of about 1 million passenger cars in 2016, Slovakia is now the largest per capita car producer in the world. The Czech Republic produced about 1.3 million passenger cars in 2016. Currently, Jaguar Land Rover is building a car production site in Slovakia (in Nitra), which plans to start operation at the end of 2018/2019, and thus become Slovakia's fourth major car producer.

The production structures within manufacturing are quite similar in the Czech Republic and Slovakia as well (see Figure 3 and Figure 4). The automotive industry is the largest sector in both countries, accounting for 35% of manufacturing output in Slovakia and 28% in the Czech Republic. The second most important sector is the basic metals & fabricated metal products sector, with shares of 14% (SK) and 13% (CZ), followed by the computer, electronic and optical products sector which accounts for 8% of manufacturing output in both countries.

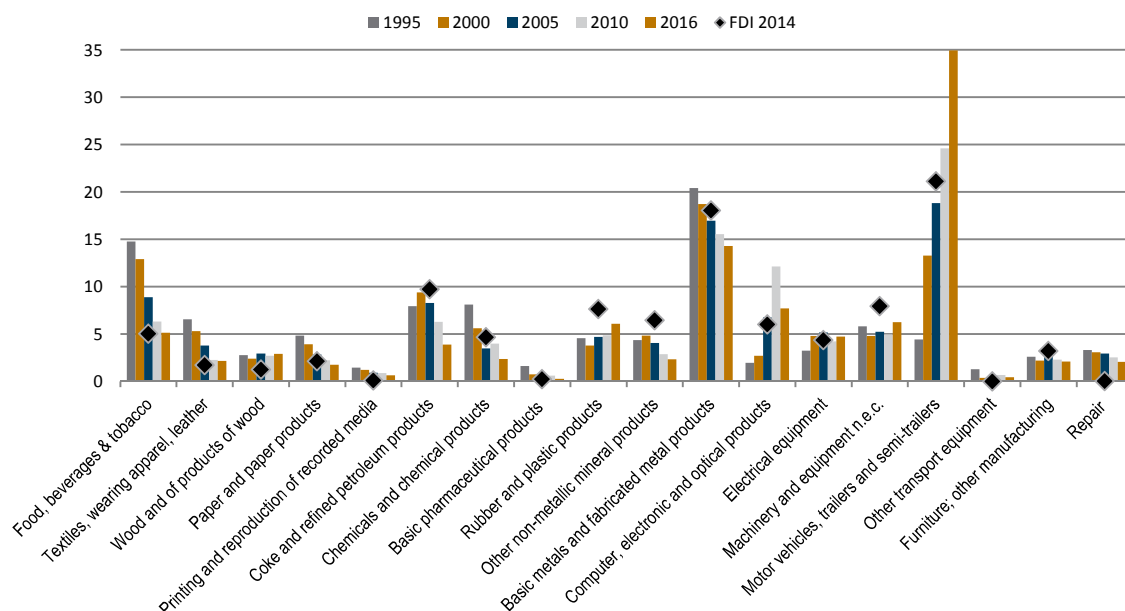
In 2016 the average share of value added in total manufacturing output was 22% for Slovakia and 28% for the Czech Republic. For the automotive industry, however, due to the importance of imports of many car parts, this share was decisively smaller and reached only 12% in Slovakia and 20% in the Czech Republic.

Figure 3 / Czech Republic: Manufacturing structure over time and FDI inward stock for 2013, in % of total manufacturing output



Source: Eurostat, wiiw FDI Database.

Figure 4 / Slovakia: Manufacturing structure over time and FDI inward stock for 2014, in % of total manufacturing output



Source: Eurostat, wiiw FDI Database.

Forming the basis of manufacturing structure, the largest manufacturing companies in both countries belong to the same sectors (see Table 1): the automotive sector as well as the petroleum and metals sectors. While the automotive sector had a successful year 2016, petroleum and metals companies performed negatively.

Table 1 / Largest manufacturing companies in the combined market of the Czech Republic and Slovakia

Rank	TOP 500	1)	Country	Company Name	Sector	Turnover in EUR mn, 2016	Change in turnover 2015/2016	Employment 2016
1	2	CZ	SKODA AUTO A.S.	Automotive & transport	12,876	10.5	23,700	
2	5	SK	VOLKSWAGEN SLOVAKIA A.S.	Automotive & transport	7,587	5.0	12,300	
3	10	SK	KIA MOTORS SLOVAKIA S.R.O.	Automotive & transport	5,566	9.7	3,605	
4	11	CZ	HYUNDAI MOTOR MANUFACTURING CZECH S.R.O.	Automotive & transport	5,282	13.6	2,585	
5	26	CZ	UNIPETROL RPA, S.R.O.	Minerals, chemicals, petroleum, plastics & pharma	3,047	-19.4	1,800	
6	27	SK	SLOVNAFT A.S.	Minerals, chemicals, petroleum, plastics & pharma	2,906	-14.9	2,316	
7	29	SK	SAMSUNG ELECTRONICS SLOVAKIA S.R.O.	Electronics, information & telecommunication	2,841	2.5	1,457	
8	37	SK	PCA SLOVAKIA S.R.O.	Automotive & transport	2,510	2.6	2,535	
9	51	CZ	CONTINENTAL AUTOMOTIVE CZECH REPUBLIC S.R.O.	Automotive & transport	2,148	8.4	7,000	
10	54	CZ	CONTINENTAL BARUM S.R.O.	Automotive & transport	2,088	-2.2	3,600	
11	60	SK	U.S. STEEL KOŠICE S.R.O.	Metals	2,017	-3.0	10,093	
12	65	CZ	MORAVIA STEEL A.S.	Metals	1,867	-12.3	300	

Note: 1) Based on the list from COFACE (2017), COFACE CEE TOP 500 RANKING.
Source: COFACE (2017).

CONCLUDING REMARKS

Both the Czech Republic and Slovakia performed well after the split of the former Czechoslovakia and increased their GDP per capita levels extraordinarily well since then. In addition, both countries managed to build up similar economic structures over the last 25 years, whereby the role of manufacturing in the Czech Republic has increased, while that in Slovakia, on the contrary, went down somewhat (reflecting not least the decline in military production in the course of transition). Both countries are now focusing heavily on the automotive industry, which greatly benefited from large inflows of FDI, and are closely integrated in cross-border value-added chains, particularly with Germany.

However, as mentioned above, economic growth in Slovakia has been faster than in the Czech Republic. One of the reasons may have been better work moral given the persistently higher unemployment in Slovakia compared to the Czech Republic. In fact, the unemployed rate (LFS) was 5-7 percentage points higher in Slovakia during the last ten years (in 2016, for instance, 4% in the Czech Republic and 9.7% in Slovakia). Indeed, Slovak workers might have had a lower willingness to strike in the past, leaving aside the most recent strike in Volkswagen Bratislava in June 2017.

Good relations prevail further on between the two countries. The Czech Republic is Slovakia's second most important trading partner after Germany and also vice versa: Slovakia is the second largest export partner (after Germany) for the Czech Republic. The similar language facilitates cross-border connections, both in cultural fields (studying at universities) and in the labour market.

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The editors recommend for further reading*

Protests in Iran

On the dangers of regime change: https://www.theguardian.com/world/2018/jan/01/iran-enemies-wise-not-wish-regime-change?CMP=Share_iOSApp_Other

Iran's path to democracy: https://www.foreignaffairs.com/reviews/review-essay/2017-12-12/reform-or-revolution?cid=nlc-fa_fatoday-20180101

Trump's tax cuts

Paul Krugman on corporate tax cuts in the US: <https://www.nytimes.com/2017/12/24/opinion/trickle-down-not-now-and-not-for-a-while-at-best-wonkish.html?partner=rss&emc=rss&r=0>

On tax cuts lessons from the great depression:
https://www.washingtonpost.com/news/posteverything/wp/2017/11/30/im-a-depression-historian-the-gop-tax-bill-is-straight-out-of-1929/?utm_term=.d623d827b2a0

Russia-US relations

Is there a new Cold War? https://www.politico.com/magazine/story/2017/12/22/donald-trump-vladimir-putin-cold-war-216157?lo=ap_e1

On assurances given to Russia on NATO expansion: <http://nationalinterest.org/blog/the-buzz/newly-declassified-documents-gorbachev-told-nato-wouldnt-23629>

Miscellaneous

On the rate of return in the last 150 years: <http://voxeu.org/article/rate-return-everything>

On the success of industrial policy in South Korea: http://voxdev.org/topic/firms-trade/manufacturing-revolutions-role-industrial-policy-south-korea-s-industrialisation?utm_source=dlvr.it&utm_medium=twitter

On the geopolitics of reserve currencies: <http://voxeu.org/article/geopolitics-international-currency-choice>

On immigration and real wages: <https://mainlymacro.blogspot.co.at/2017/12/immigration-and-real-wages-reality-and.html?m=1>

* Recommendation is not necessarily endorsement. The editors are grateful to Mahdi Ghodsi, Vladimir Gligorov and Mario Holzner for their 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 trends in the real and monetary sectors of the economy, in the labour market, as well as in the financial and external sectors.

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: <https://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

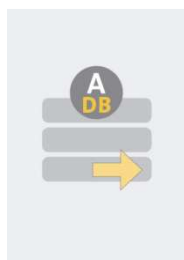
%	per cent
ER	exchange rate
GDP	Gross Domestic Product
HICP	Harmonized Index of Consumer Prices (for new EU Member States)
LFS	Labour Force Survey
NPISHs	Non-profit institutions serving households
p.a.	per annum
PPI	Producer Price Index
reg.	registered

The following national currencies are used:

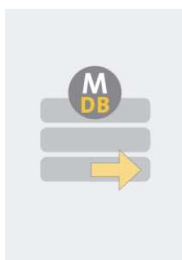
ALL	Albanian lek	HUF	Hungarian forint	RSD	Serbian dinar
BAM	Bosnian convertible mark	KZT	Kazakh tenge	RUB	Russian rouble
BGN	Bulgarian lev	MKD	Macedonian denar	TRY	Turkish lira
CZK	Czech koruna	PLN	Polish zloty	UAH	Ukrainian hryvnia
HRK	Croatian kuna	RON	Romanian leu		
EUR	euro – national currency for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

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

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wiiw Annual Database



wiiw Monthly Database



wiiw FDI Database

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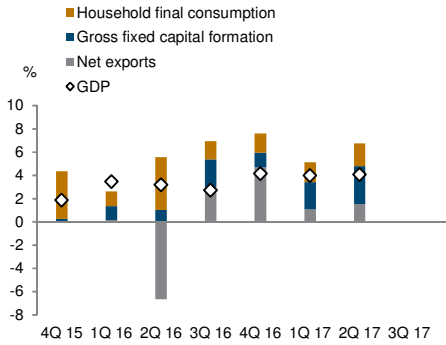
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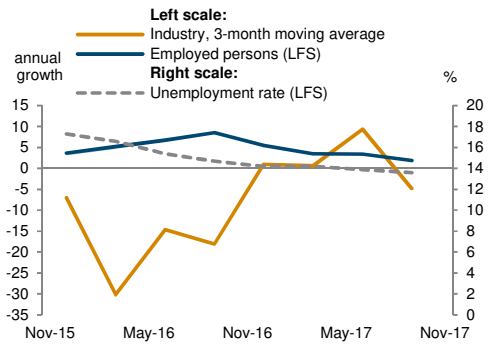
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Albania

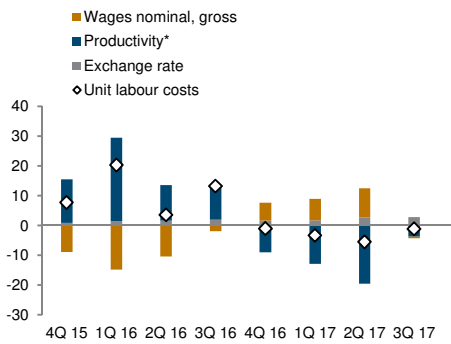
Real GDP growth and contributions
year-on-year



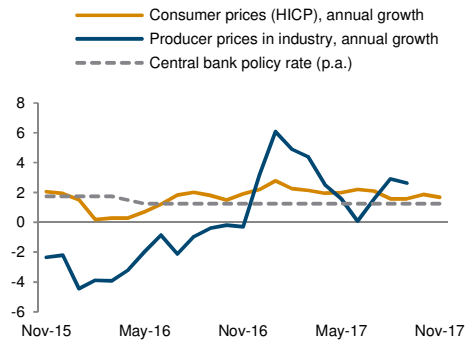
Real sector development
in %



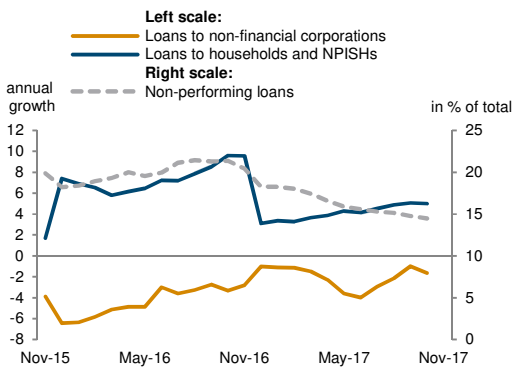
Unit labour costs in industry
annual growth rate in %



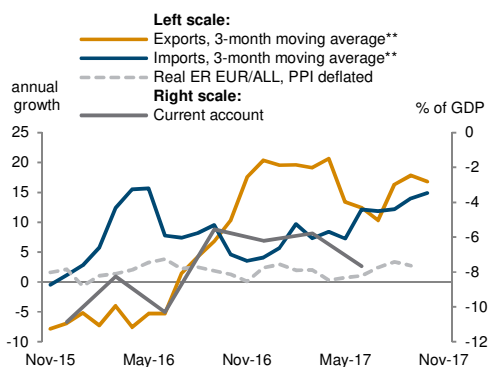
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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

**EUR based.

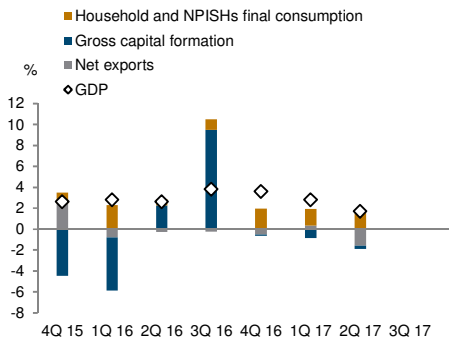
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

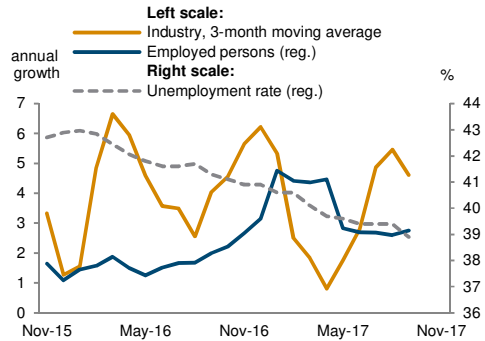
<https://data.wiiw.ac.at/monthly-database.html>

Bosnia and Herzegovina

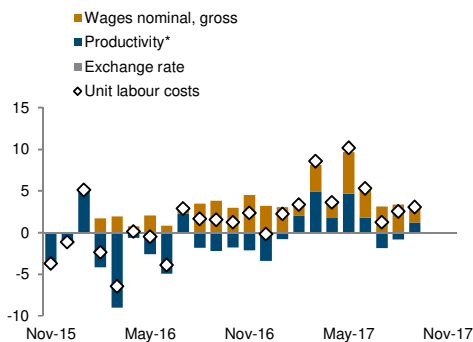
Real GDP growth and contributions
year-on-year



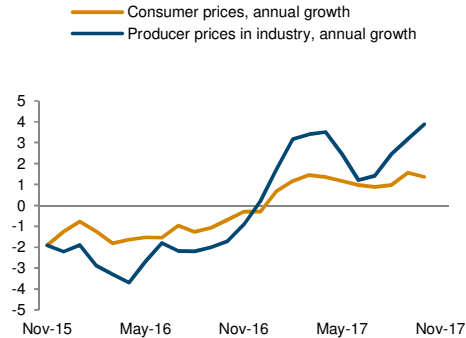
Real sector development
in %



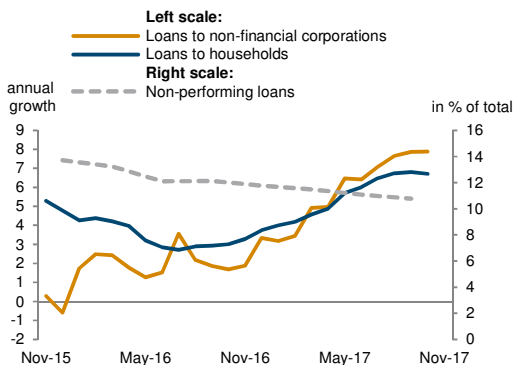
Unit labour costs in industry
annual growth rate in %



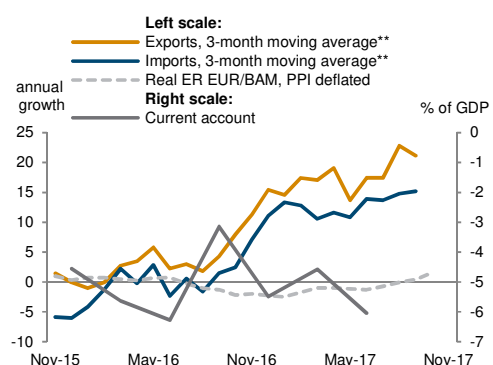
Inflation
in %



Financial indicators
in %



External sector development
in %



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

**EUR based.

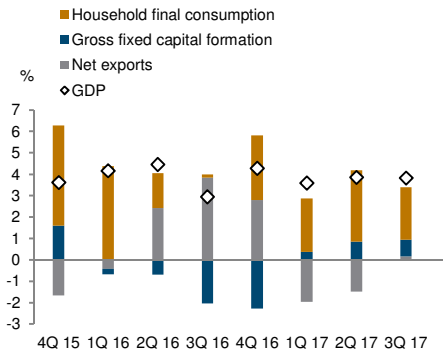
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

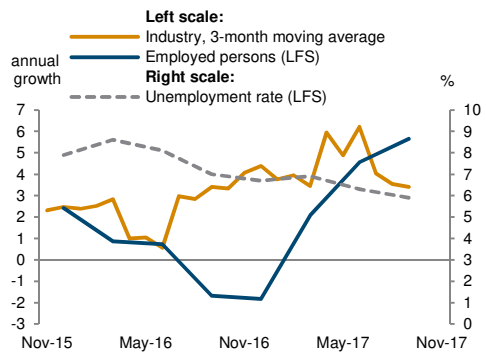
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Bulgaria

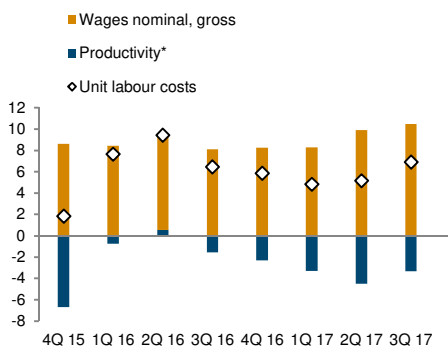
Real GDP growth and contributions
year-on-year



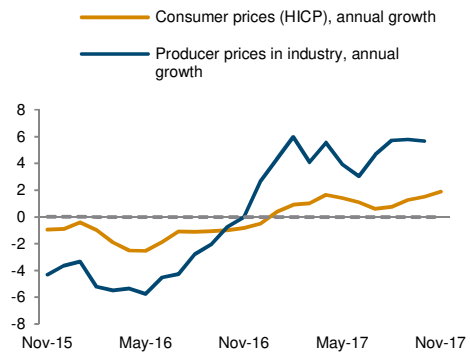
Real sector development
in %



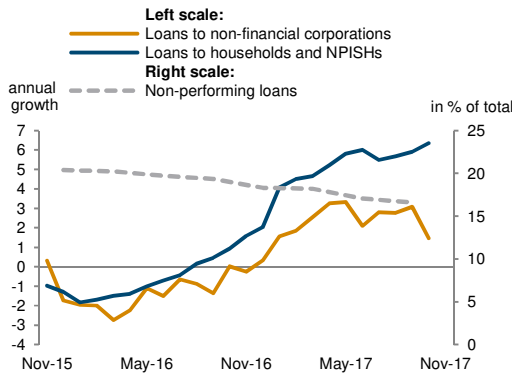
Unit labour costs in industry
annual growth rate in %



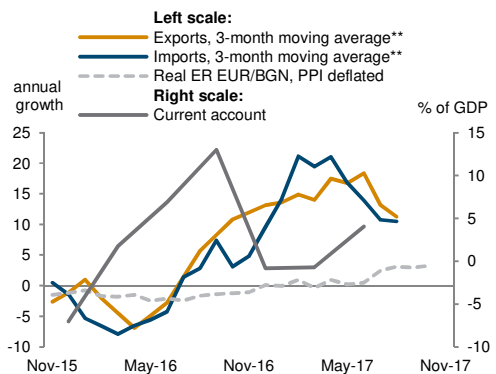
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %

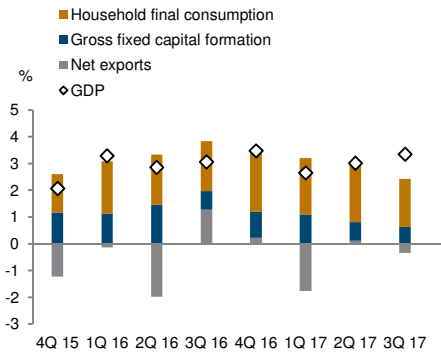


*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.
 **EUR based.

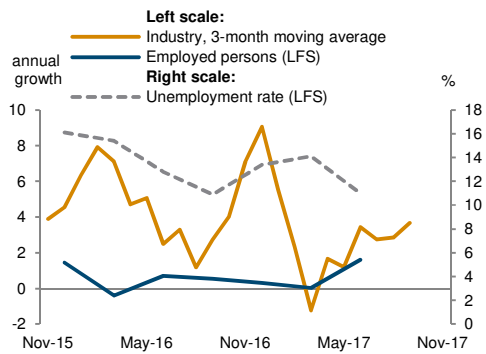
Source: wiiw Monthly Database incorporating Eurostat and national statistics.
 Baseline data, country-specific definitions and methodological breaks in time series are available under:
<https://data.wiiw.ac.at/monthly-database.html>

Croatia

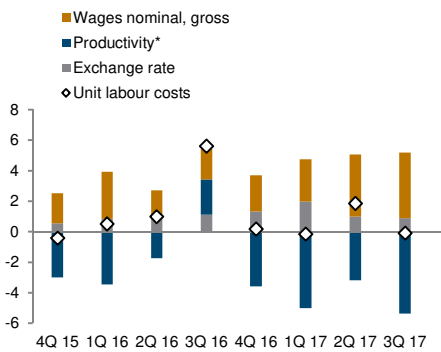
Real GDP growth and contributions
year-on-year



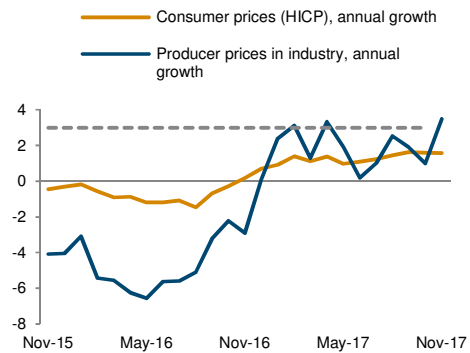
Real sector development
in %



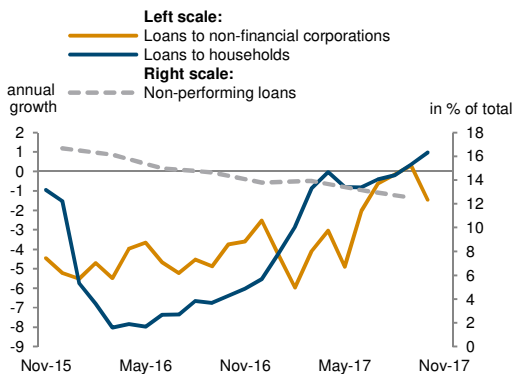
Unit labour costs in industry
annual growth rate in %



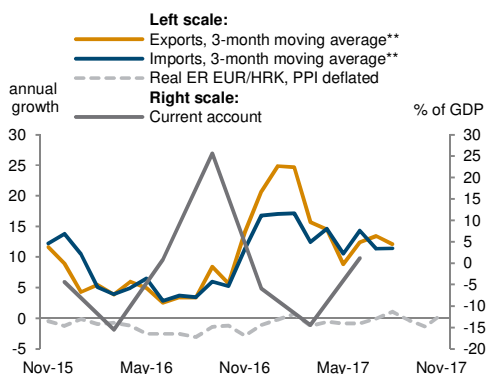
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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 **EUR based.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

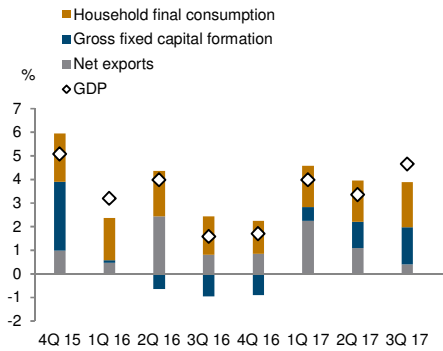
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Czech Republic

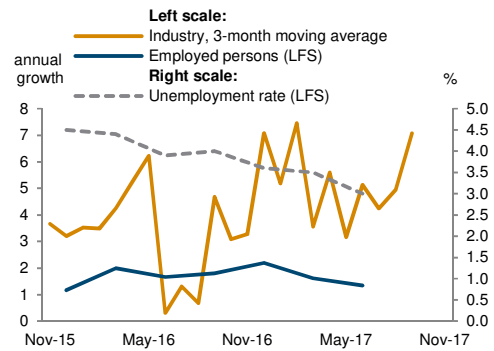
Real GDP growth and contributions

year-on-year



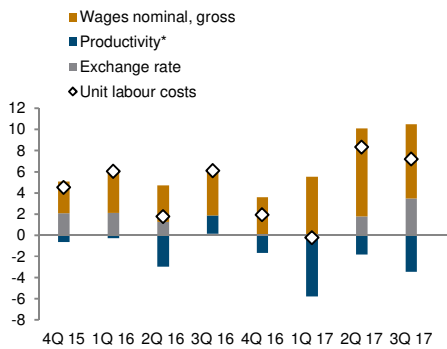
Real sector development

in %



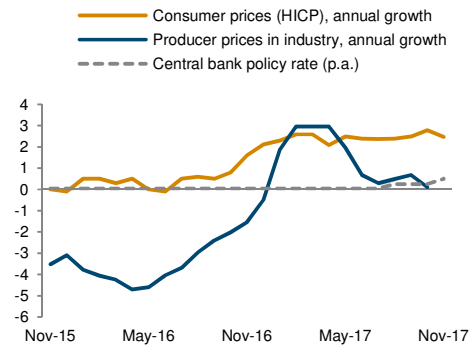
Unit labour costs in industry

annual growth rate in %



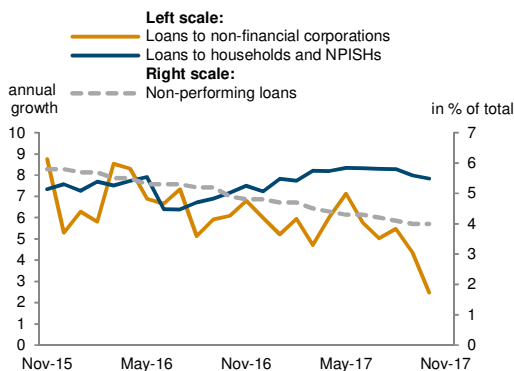
Inflation and policy rate

in %



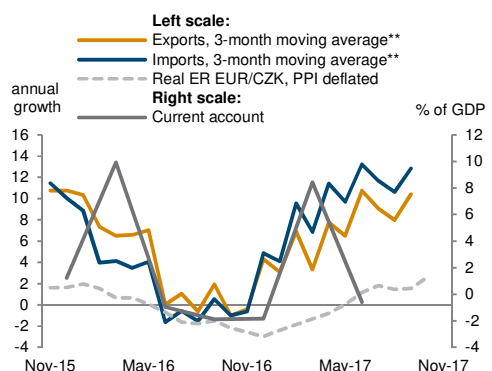
Financial indicators

in %



External sector development

in %



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**EUR based.

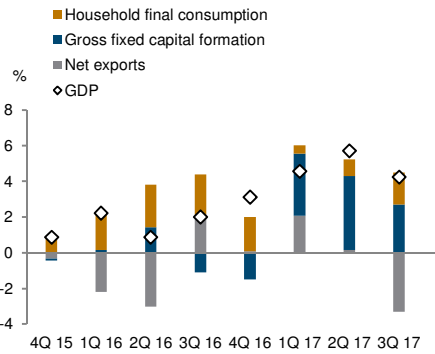
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Baseline data, country-specific definitions and methodological breaks in time series are available under:

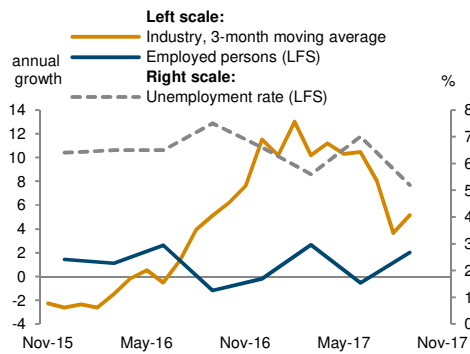
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Estonia

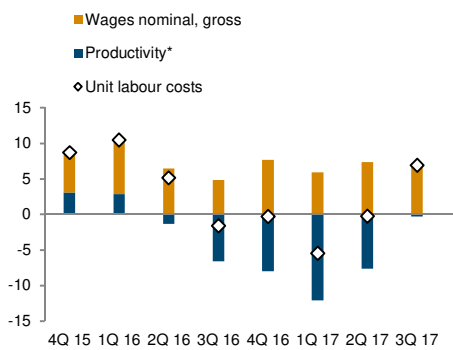
Real GDP growth and contributions
year-on-year



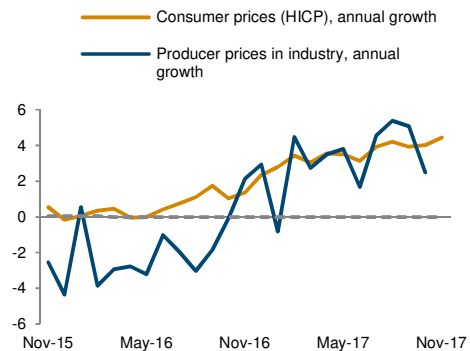
Real sector development
in %



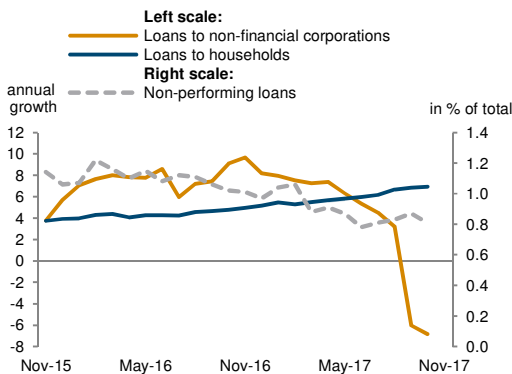
Unit labour costs in industry
annual growth rate in %



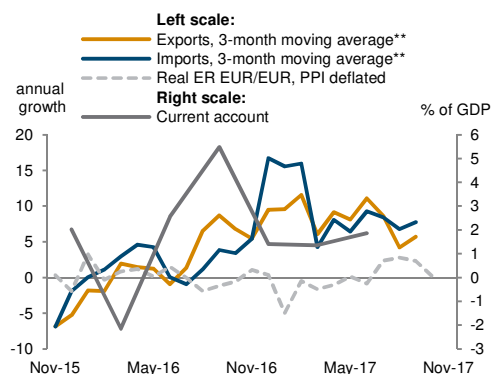
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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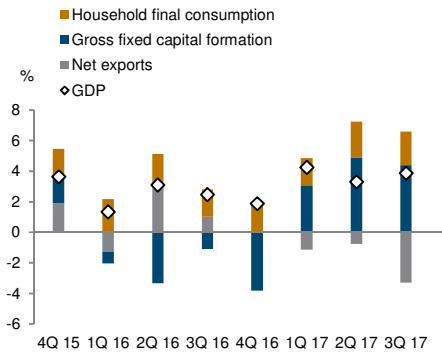
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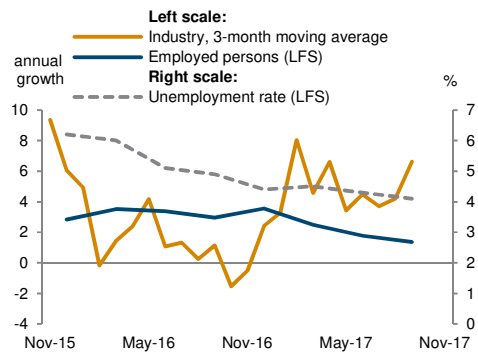
<https://data.wiiw.ac.at/monthly-database.html>

Hungary

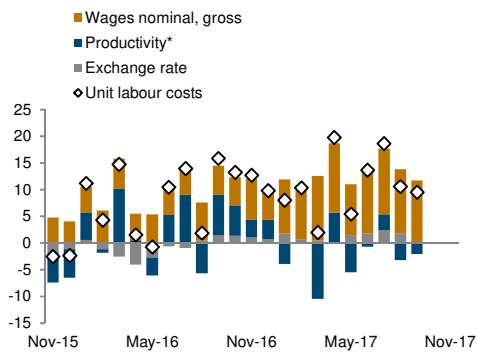
Real GDP growth and contributions
year-on-year



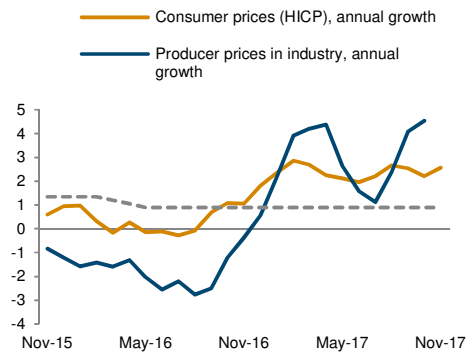
Real sector development
in %



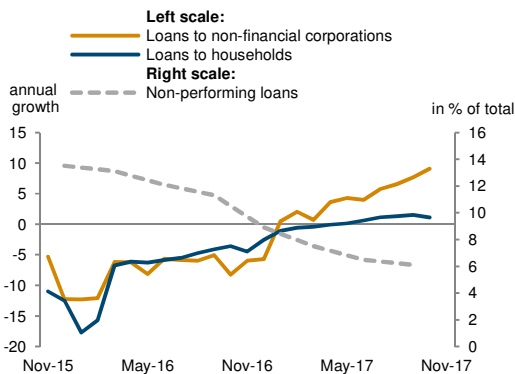
Unit labour costs in industry
annual growth rate in %



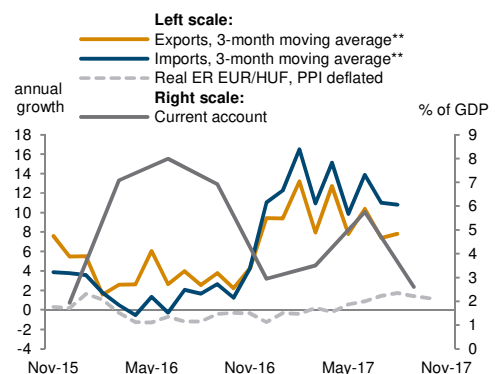
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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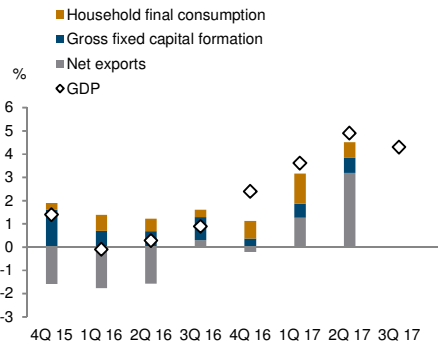
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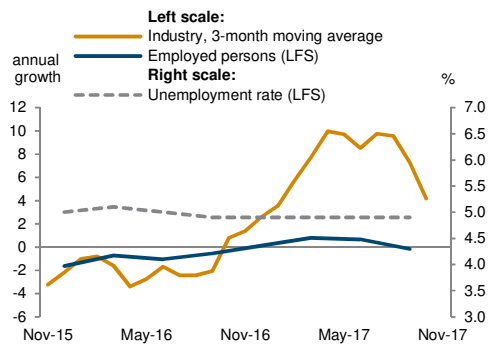
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Kazakhstan

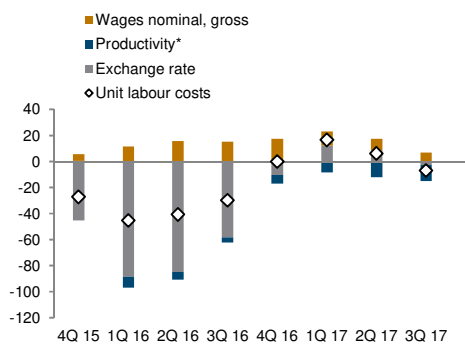
Real GDP growth and contributions
year-on-year



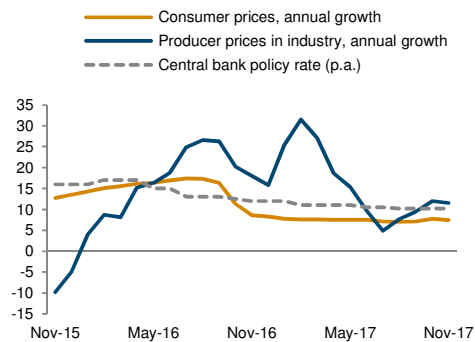
Real sector development
in %



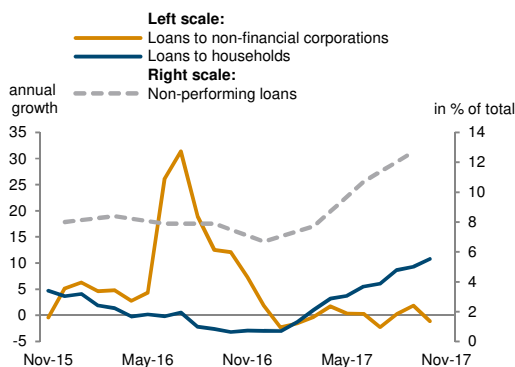
Unit labour costs in industry
annual growth rate in %



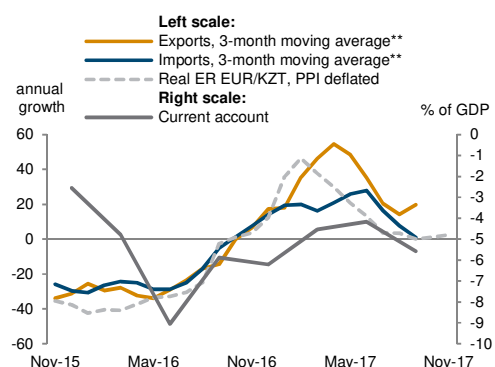
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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Source: wiiw Monthly Database incorporating Eurostat and national statistics.

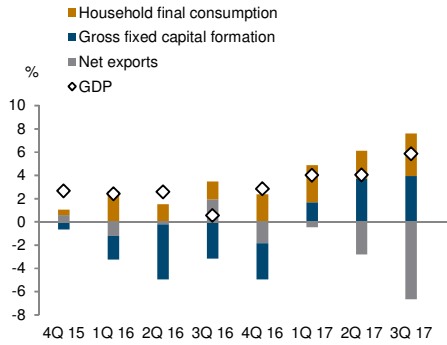
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Latvia

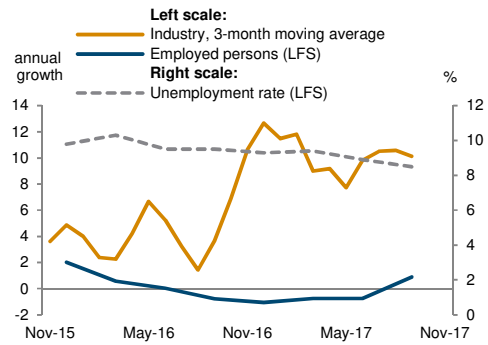
Real GDP growth and contributions

year-on-year



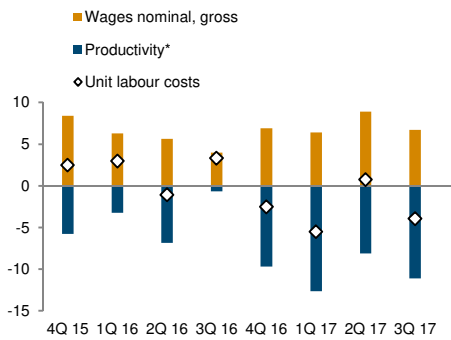
Real sector development

in %



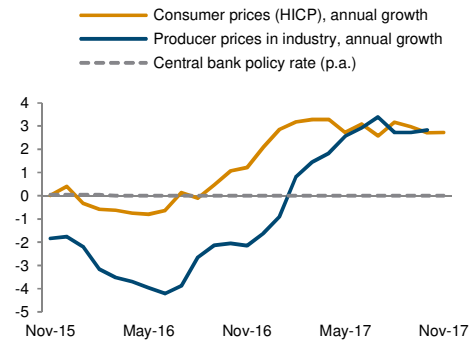
Unit labour costs in industry

annual growth rate in %



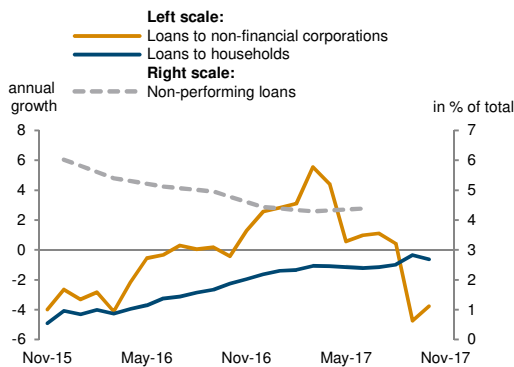
Inflation and policy rate

in %



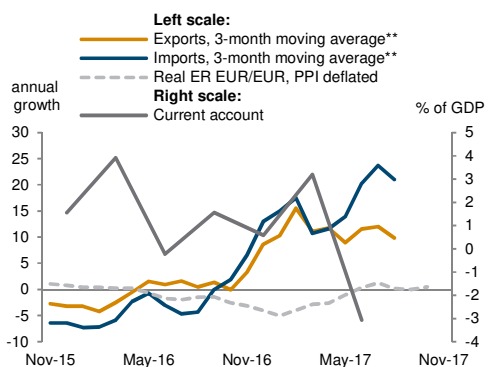
Financial indicators

in %



External sector development

in %



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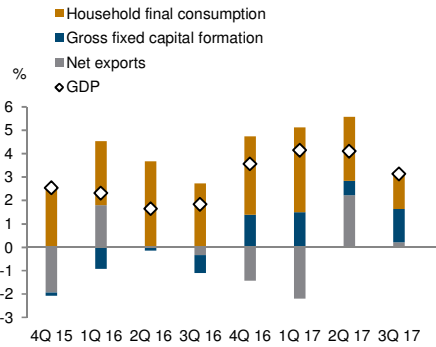
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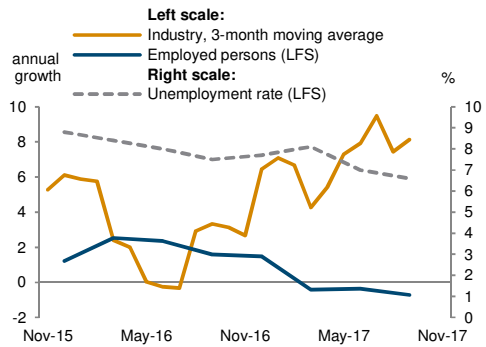
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Lithuania

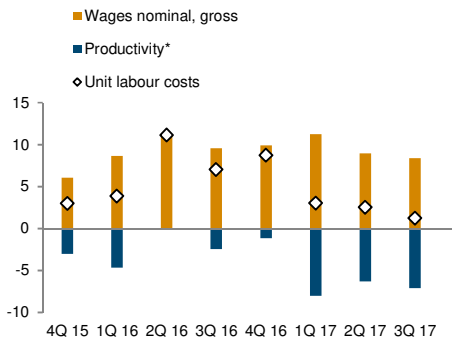
Real GDP growth and contributions
year-on-year



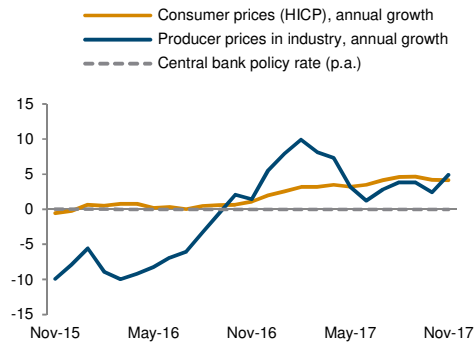
Real sector development
in %



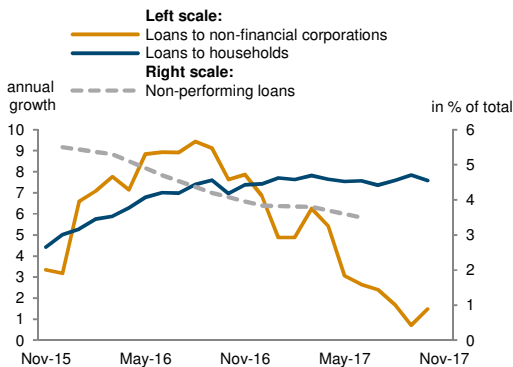
Unit labour costs in industry
annual growth rate in %



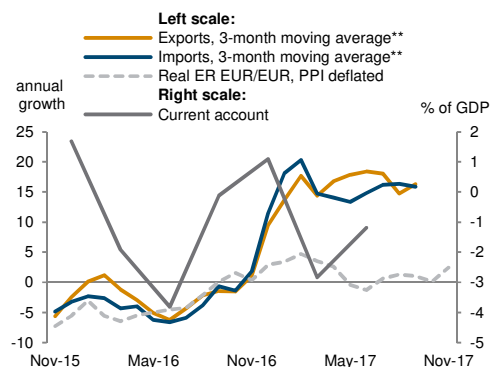
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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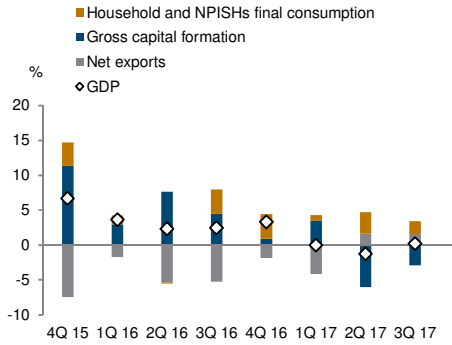
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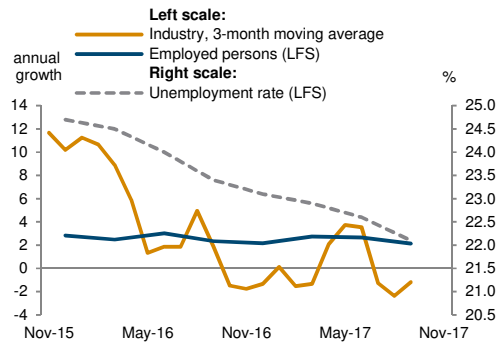
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Macedonia

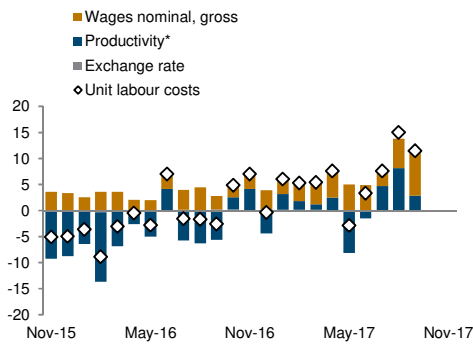
Real GDP growth and contributions
year-on-year



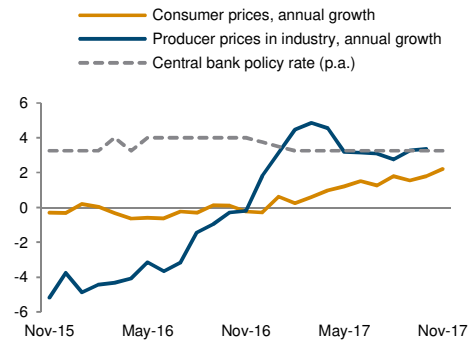
Real sector development
in %



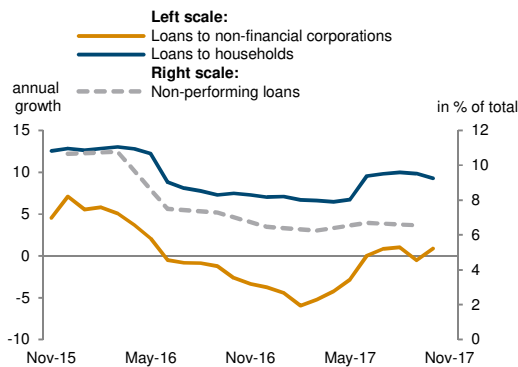
Unit labour costs in industry
annual growth rate in %



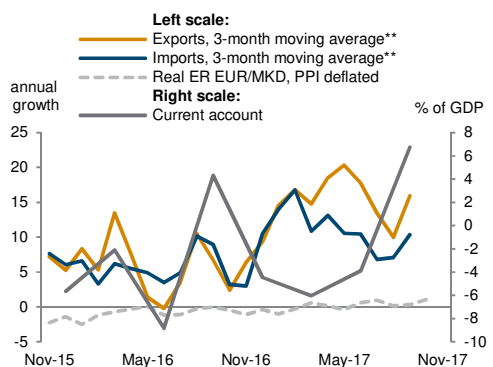
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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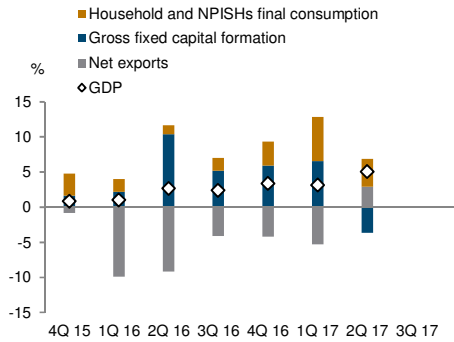
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

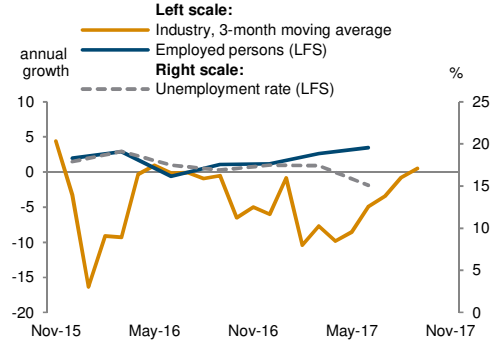
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Montenegro

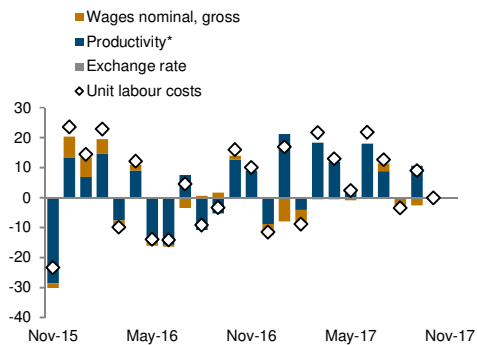
Real GDP growth and contributions
year-on-year



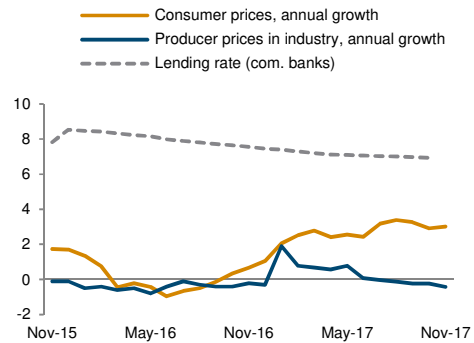
Real sector development
in %



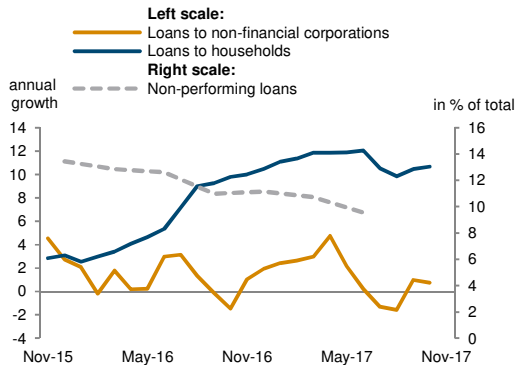
Unit labour costs in industry
annual growth rate in %



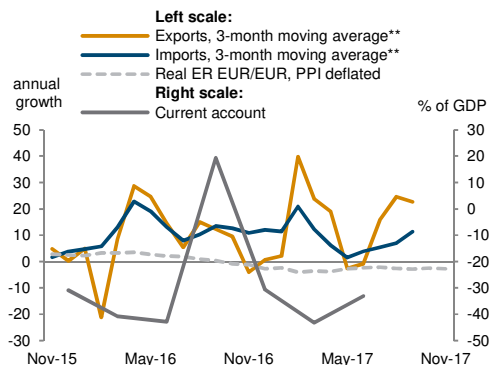
Inflation and lending rate
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

Source: wiiw Monthly Database incorporating Eurostat and national statistics.

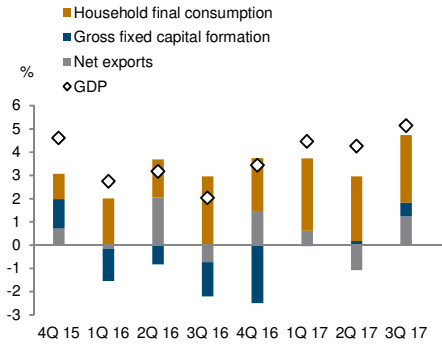
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

Poland

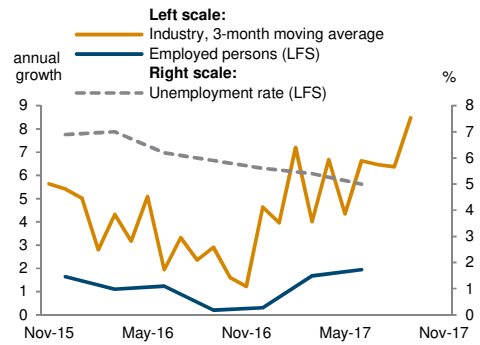
Real GDP growth and contributions

year-on-year



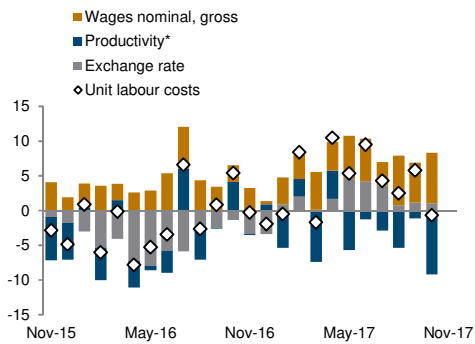
Real sector development

in %



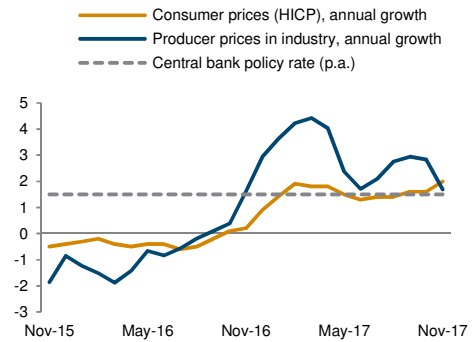
Unit labour costs in industry

annual growth rate in %



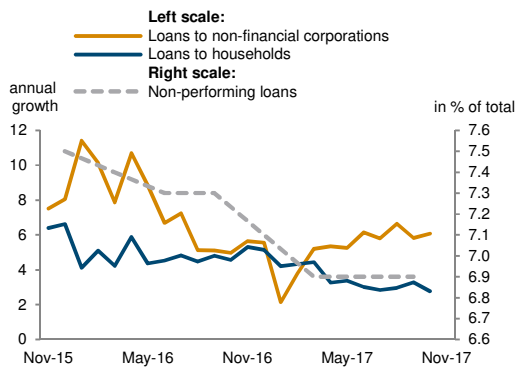
Inflation and policy rate

in %



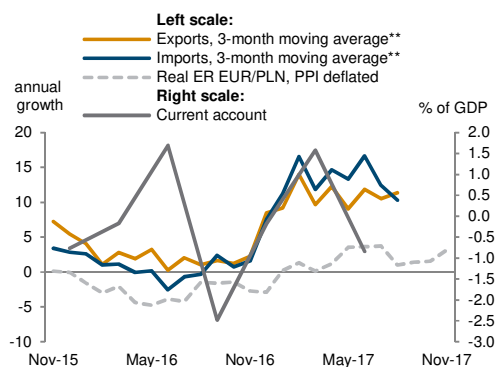
Financial indicators

in %



External sector development

in %



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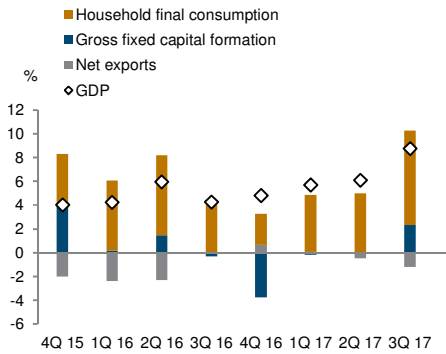
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

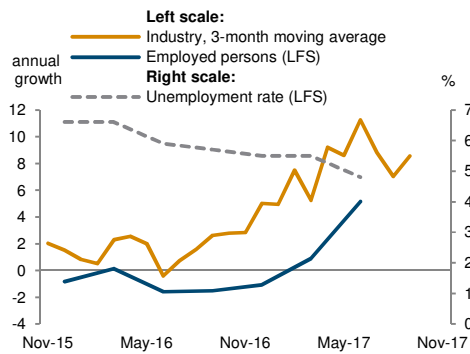
<https://data.wiiw.ac.at/monthly-database.html>

Romania

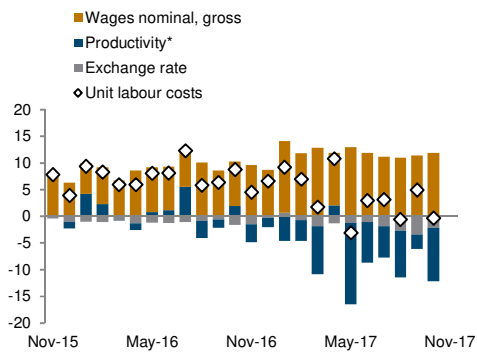
Real GDP growth and contributions
year-on-year



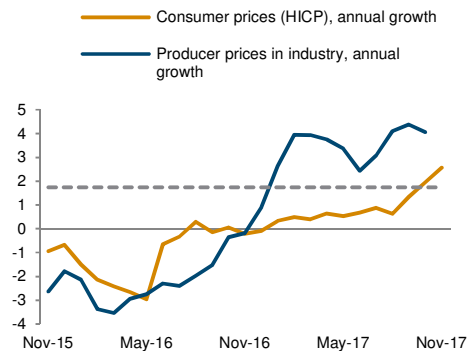
Real sector development
in %



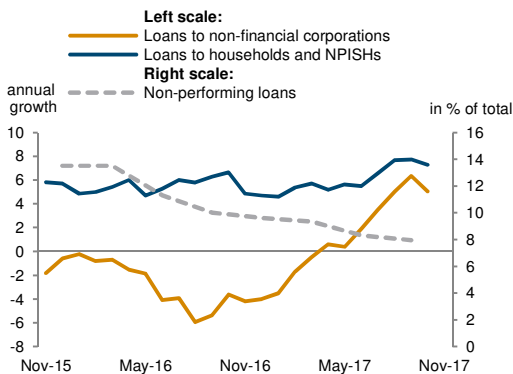
Unit labour costs in industry
annual growth rate in %



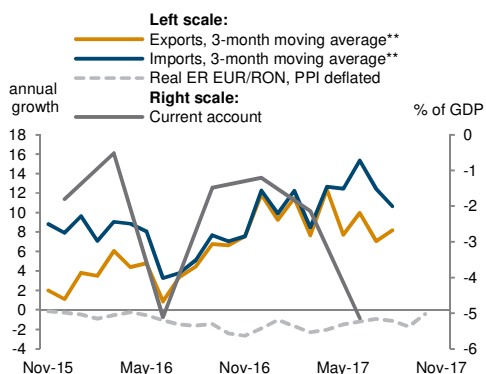
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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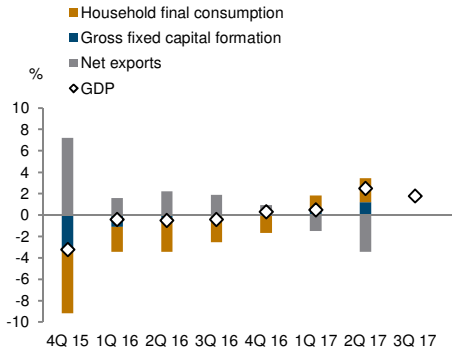
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

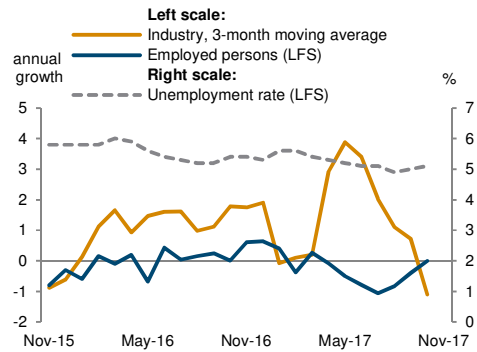
<https://data.wiiw.ac.at/monthly-database.html>

Russia

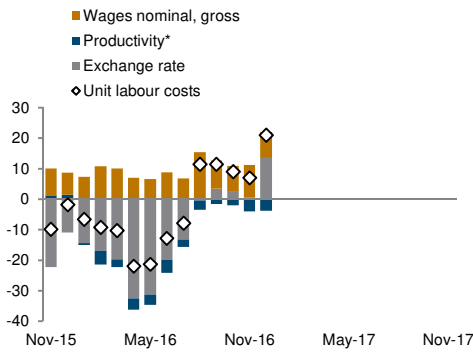
Real GDP growth and contributions
year-on-year



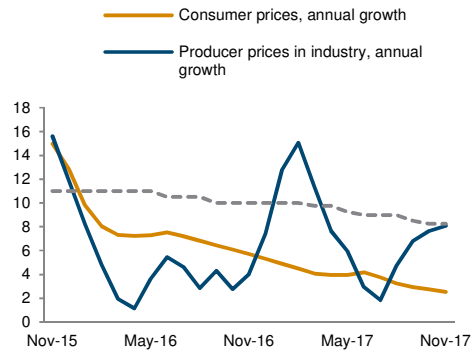
Real sector development
in %



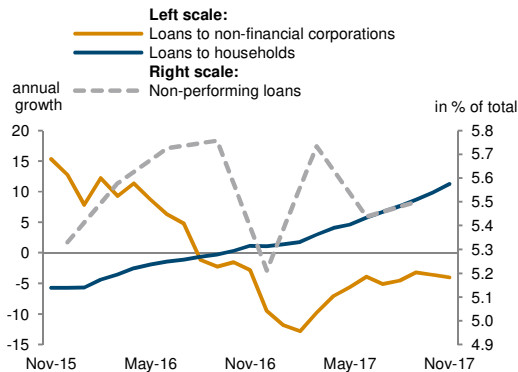
Unit labour costs in industry
annual growth rate in %



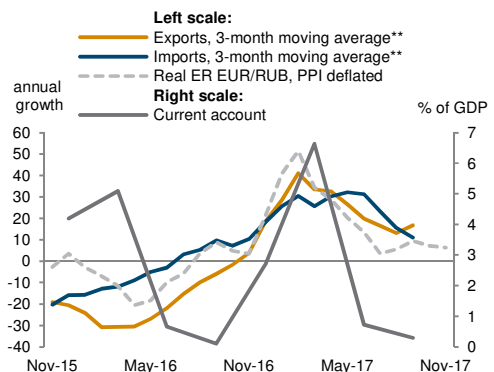
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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

**EUR based.

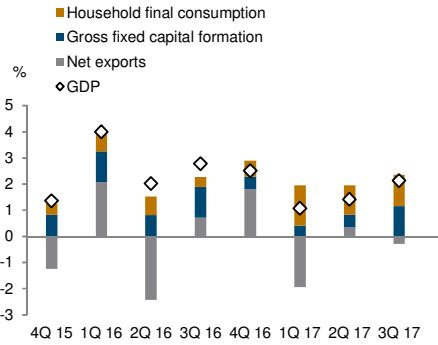
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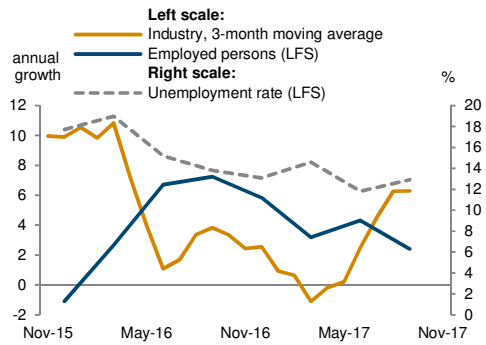
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Serbia

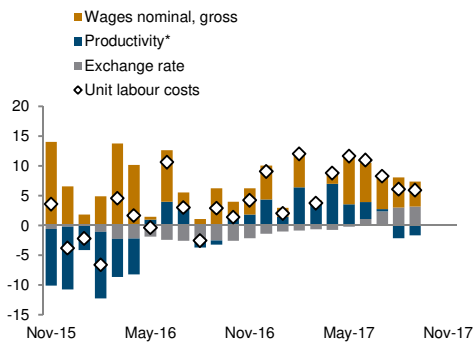
Real GDP growth and contributions
year-on-year



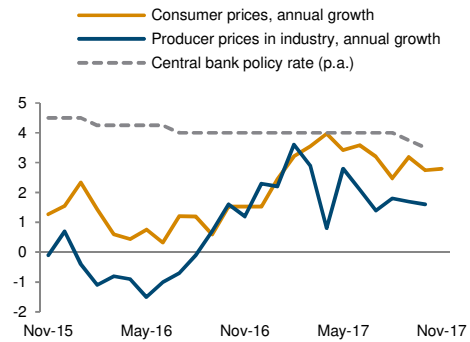
Real sector development
in %



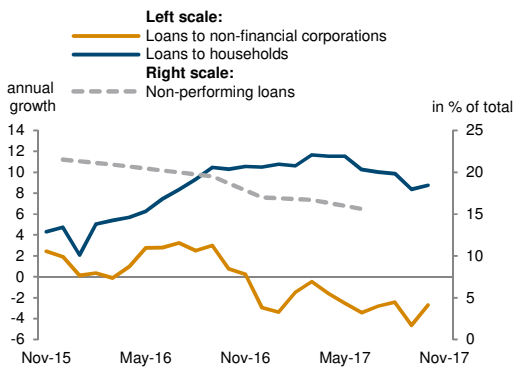
Unit labour costs in industry
annual growth rate in %



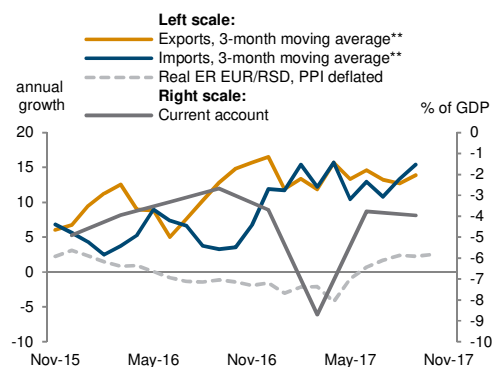
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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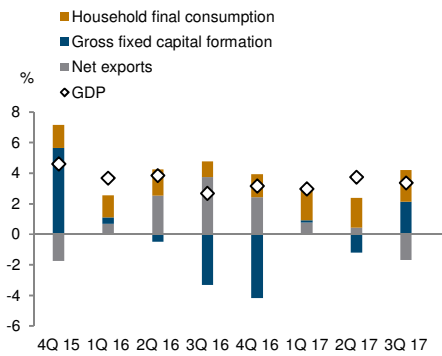
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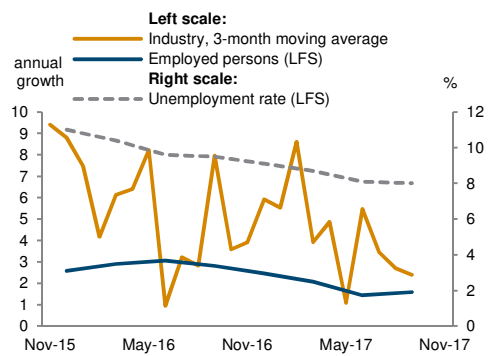
<https://data.wiiw.ac.at/monthly-database.html>

Slovakia

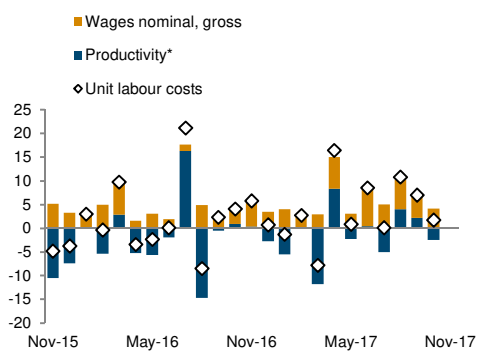
Real GDP growth and contributions
year-on-year



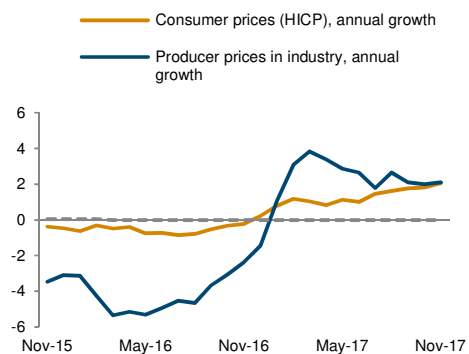
Real sector development
in %



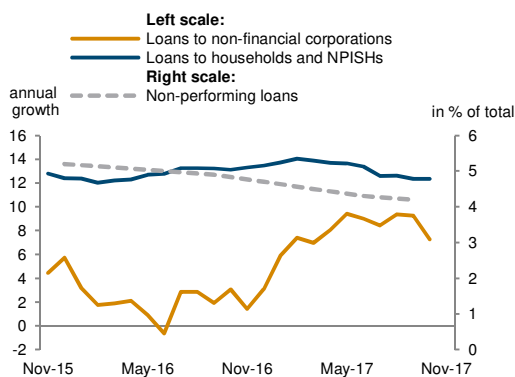
Unit labour costs in industry
annual growth rate in %



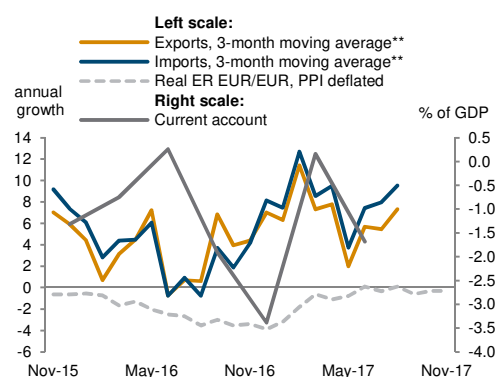
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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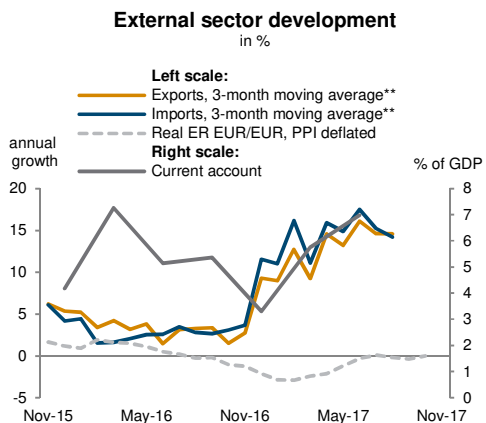
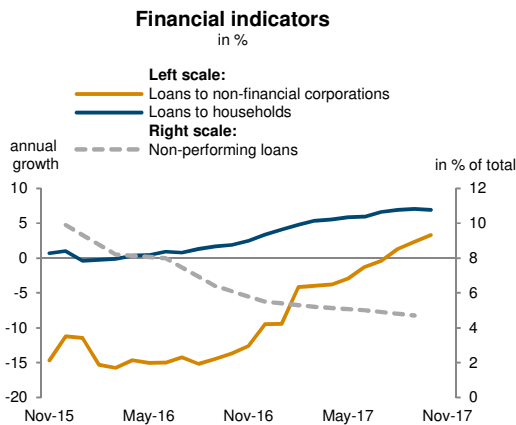
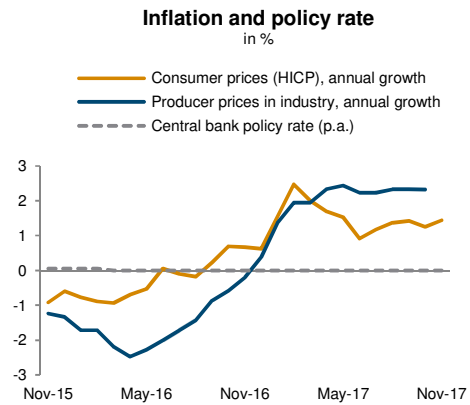
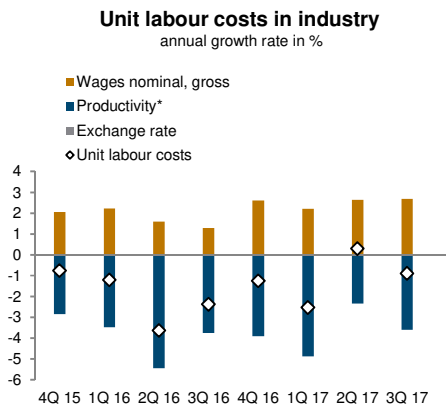
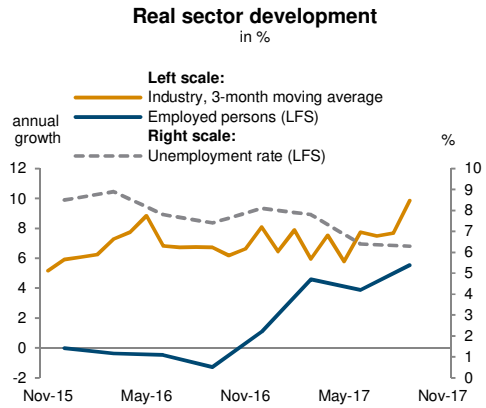
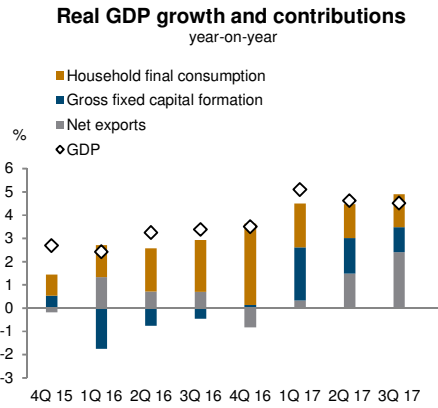
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Slovenia



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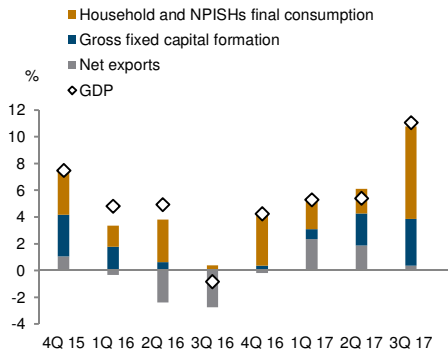
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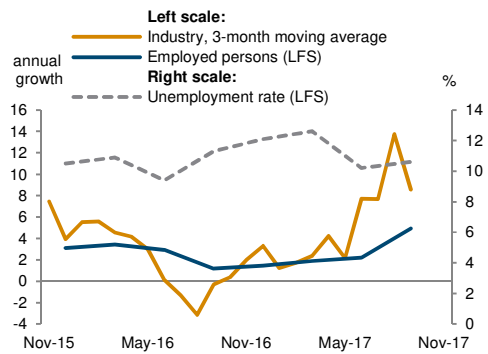
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Turkey

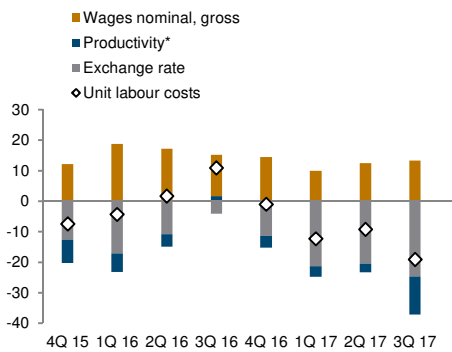
Real GDP growth and contributions
year-on-year



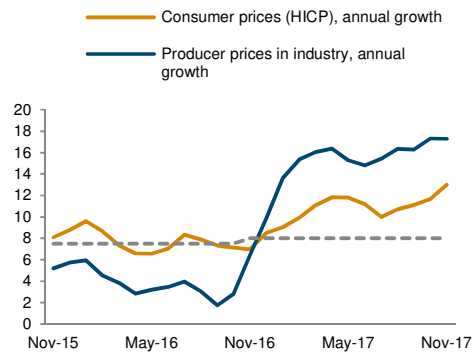
Real sector development
in %



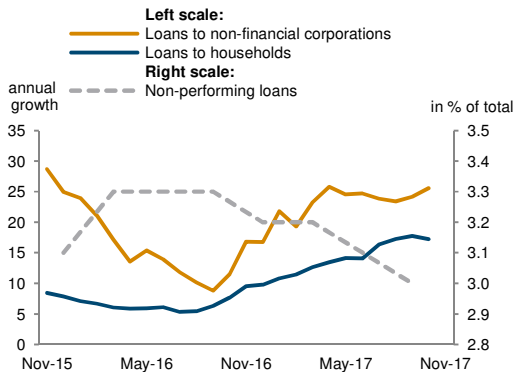
Unit labour costs in industry
annual growth rate in %



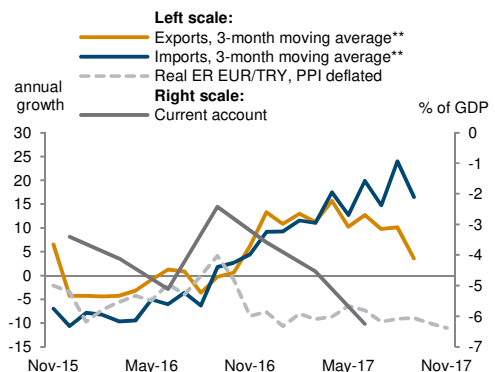
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %

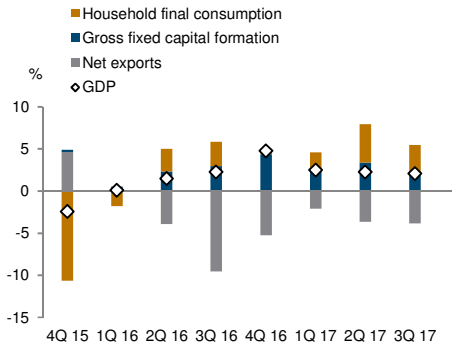


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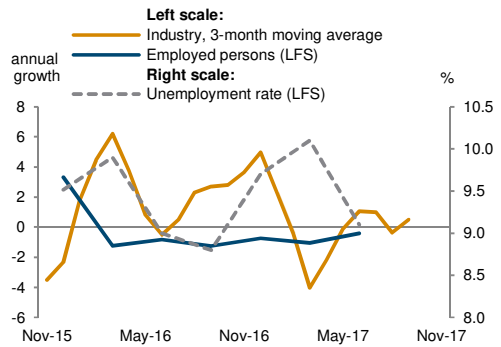
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Ukraine

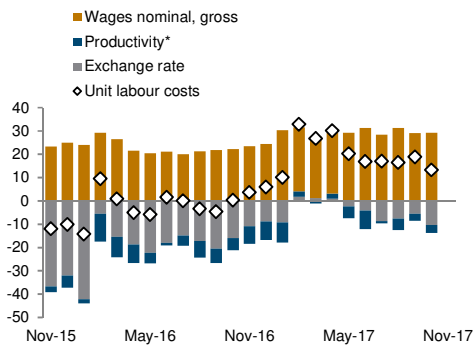
Real GDP growth and contributions
year-on-year



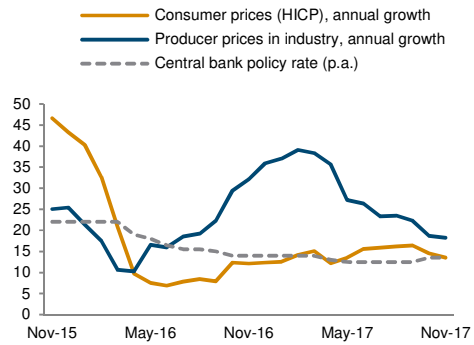
Real sector development
in %



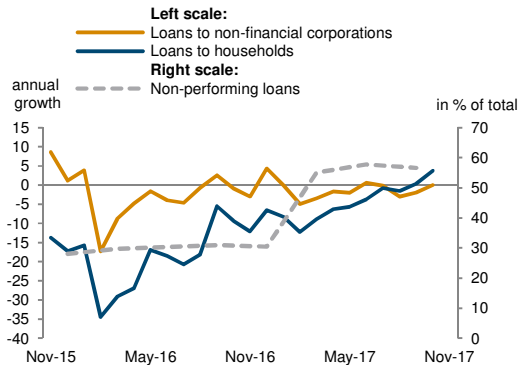
Unit labour costs in industry
annual growth rate in %



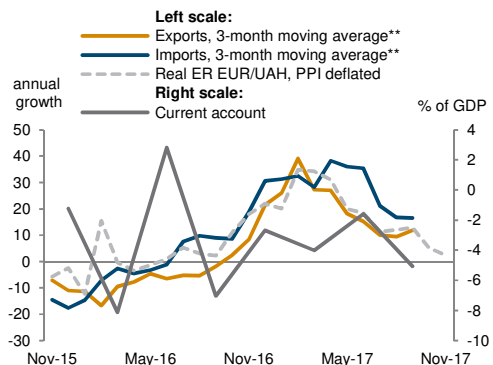
Inflation and policy rate
in %



Financial indicators
in %



External sector development
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