

**A Fourth Wave of COVID-19 Taking a Grip**

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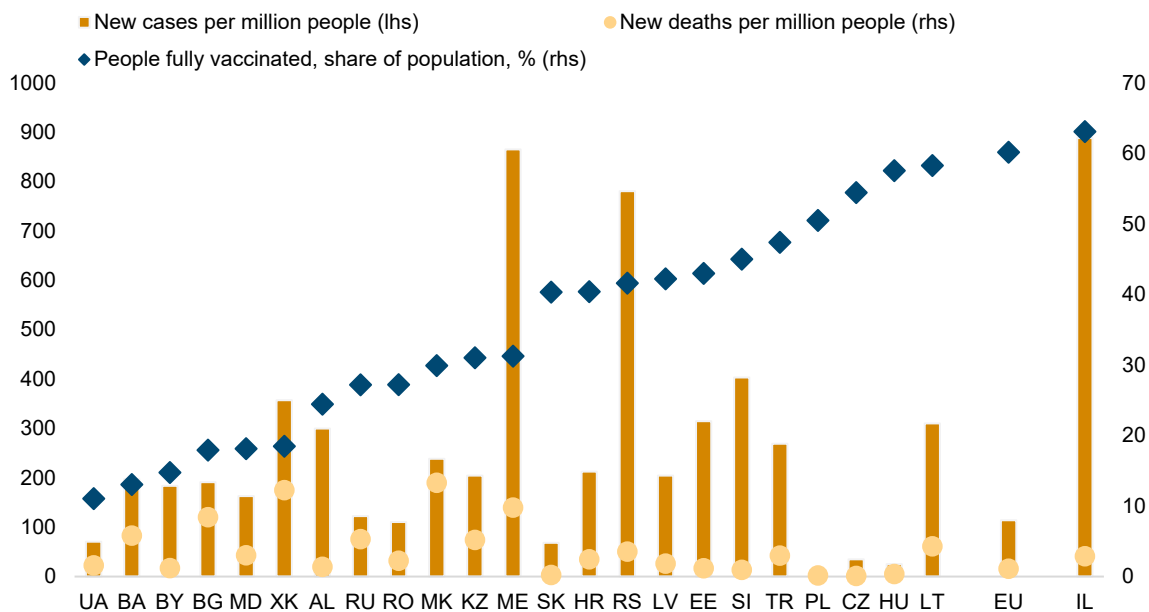
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# Chart of the month: A fourth wave of COVID-19 taking a grip

BY OLGA PINDYUK

## Daily new confirmed COVID-19 cases, deaths and vaccinations, as of 12 September 2021



Note: New confirmed cases and deaths are averages over the seven days preceding 12 September 2021.

IL stands for Israel.

Source: <https://ourworldindata.org/>

With the reopening of schools after the summer holidays, the number of COVID-19 cases has started to rise significantly around the globe. A more contagious Delta variant has become dominant in Europe<sup>1</sup> and in many other countries, and is considered to be a feature of the new pandemic wave. This version of the virus significantly increases the risk of hospitalisation among those who are unvaccinated. Most of the coronavirus vaccines administered in the CESEE region – Pfizer/BioNTech, Moderna, Johnson & Johnson, AstraZeneca and Sputnik V – appear to be effective against the Delta variant<sup>2</sup> (although their effectiveness does wane over time<sup>3</sup>, which may necessitate booster jabs even among the fully vaccinated). However, regardless of the abundant evidence of the safety and effectiveness of the COVID-19 vaccines, inoculation campaigns in most countries have struggled to raise the take-up rates to the level of herd immunity, due to vaccine scepticism<sup>4</sup>, fuelled by widespread misinformation.

<sup>1</sup> <https://www.ecdc.europa.eu/en/news-events/sars-cov-2-delta-variant-now-dominant-european-region>

<sup>2</sup> <https://www.regenstrief.org/article/covid-vaccines-effective-against-delta-variant/>

<https://www.science.org/news/2021/08/russia-s-sputnik-v-protects-against-severe-covid-19-delta-variant-study-shows>

<sup>3</sup> <https://www.ft.com/content/8d42600f-7da3-452a-a7ab-22735c6f73c7>

<sup>4</sup> <https://www.ft.com/content/9be0faed-35a3-4ed3-8600-95c69c66b276>

The data provided by the COVID-19 vaccine tracker allow us to draw some interesting cross-country comparisons, in terms of the rise in new cases (orange columns, left axis), the death toll (yellow circles, right axis) and the current vaccination rate (dark blue diamonds, right axis). The chart compares CESEE economies with the EU and Israel (used as a benchmark for successful inoculation).

The first observation to be made is that the vaccination rates in all the countries of the CESEE region are below the average level for the EU. As of 12 September, only Lithuania, Hungary, Czechia and Poland had managed to inoculate more than 50% of their populations. Ukraine and CIS, as well as the Western Balkans, have performed much worse in terms of the vaccination roll-out, with Ukraine in particular having inoculated only 11% of the population.

Secondly (and probably related to the first observation), in the CESEE region it is the Western Balkans that have been most affected by the fourth wave of the pandemic. Among those CESEE countries with the highest numbers of new COVID-19 cases are Montenegro, Serbia, Kosovo and Albania (although Slovenia and Estonia have also recorded high numbers of new infections).

Thirdly, the rise in new COVID-19 cases in Israel – which had one of the most successful vaccination campaigns in the world back in spring 2021 – lends support to the theories about the waning protection of vaccines. At the same time, the death rate from COVID-19 in Israel is below that in many of the CESEE countries that have fewer new cases than Israel, which points to the effectiveness of the vaccines in protecting against severe illness.

Finally, it is possible that new coronavirus cases in many CESEE countries are being under-reported, as current tracking of the COVID-19 pandemic, which requires a costly testing infrastructure, appears to be inadequate. The count of new cases seems to be strongly correlated with the prevalence of coronavirus testing: whereas in Israel, on average about 1.6% of people are tested daily, in Ukraine, Bosnia and Herzegovina and Romania the figures are 0.04%, 0.08% and 0.08%, respectively. In the CESEE region, it is Latvia, Lithuania and North Macedonia that are carrying out the most tests relative to population size: 0.6%, 0.5% and 0.4%, respectively. In practically all CESEE countries, the number of tests carried out was several times greater during the third wave of the pandemic, at the beginning of 2021.



## Opinion Corner\* : Ostracism is a painful side effect of the Western sanctions on Belarus

BY RUMEN DOBRINSKY

*Following the forced landing of a Ryanair flight in May 2021, Western states imposed harsh economic sanctions on Belarus. For the first time, these included sanctions that targeted specific Belarusian industries and businesses, while Belarus's access to international financial markets was further restricted. The sanctions also hurt ordinary Belarusians, due to the restrictions imposed on air traffic. These measures can be expected to trigger Belarus's further orientation towards Russia.*

Starting in summer 2020, a series of deplorable actions by the autocratic Belarusian President Alexander Lukashenko stunned the international community. The brutal suppression of the protests that followed the 2020 presidential elections, which were widely believed to have been fraudulent, led to widespread international condemnation and resulted in the de facto isolation of Belarus from the international financial markets. The wave of indignation had yet to subside when the Belarusian authorities forced the landing of a Ryanair flight in transit through Belarusian airspace in May 2021 and arrested a prominent opposition activist.

This unprecedented act, which compromised the security of international air traffic, provoked a strong response from the Western world, in the form of harsh economic sanctions. In June, the European Council introduced a new set of economic sanctions, including a ban on the supply to Belarus of specialised technological equipment and dual-use goods and technologies for military use, as well as restrictions on the export of Belarusian petroleum products, potassium chloride (potash), tobacco and tobacco-related products. On the financial side, Belarus's access to EU capital markets was further restricted, while the European Investment Bank undertook to stop funding projects in the country's public sector. Belarusian planes were banned from EU air space, while EU air carriers were advised to give Belarus a wide berth.

This was followed by a coordinated move by the US and the UK, announced in August. The US sanctions targeted 17 Belarusian companies in various sectors, including security, energy and transportation, as well as companies producing potash and cigarettes. The sanctioned companies were labelled the 'wallets' of the regime by the Treasury Department. The sanctions also included 27 individuals believed to have been involved in either the suppression of the 2020 protests or the Ryanair plane incident. The UK's sectoral sanctions were similar, and the list of targeted individuals was even more extensive. In addition, the UK came on board with the EU in restricting Belarusian sovereign debt. Furthermore, several other Western countries joined in some of these sanctions.

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

## SANCTIONS COULD COST BELARUS UP TO 10% OF GDP...

Belarus was already subject to Western sanctions; but what makes these latest rounds different is that they include sanctions that target specific economic sectors and industries. In terms of their effect on the Belarusian economy, it is the sectoral sanctions imposed by the EU and the UK that are expected to have the strongest impact, as they envisage a ban (or restrictions) on the export of important Belarusian trade items, such as potash and petroleum products. According to estimates by Belarusian economists, these sanctions could have an effect on total Belarusian exports of between 10% and 13.5%.<sup>1</sup> The potential cumulative macroeconomic losses from the sanctions – provided they are effectively enforced – could be between 6% and 10% of GDP over two years.

Regarding the financial sanctions, Belarus was already de facto cut off from the international financial markets in the wake of the repressive measures following the 2020 presidential elections. The EU and UK sanctions merely formalised this situation, officially banning Belarus and Belarusian state-owned banks from borrowing on the European financial markets. The US financial sanctions have certain specific features of their own, and the new US president's executive order is broader than similar sanctions imposed by the US in the past. In effect, these measures bar all dollar-denominated transactions by the Belarusian companies sanctioned. In addition, they leave open the possibility of the US imposing sanctions even on third parties doing business with those Belarusian companies sanctioned. It is these secondary effects that may have a broader – indirect, but more profound – negative impact on the Belarusian economy. Thus, Russian commercial banks will likely be reluctant to extend credit to Belarussian state-owned banks and sanctioned firms, for fear that they may find themselves under US sanctions.

## ...BUT THEIR IMPACT SO FAR IS BARELY DISCERNIBLE

As yet, hard evidence on the economic effect of the new sanctions is scarce, and basically there is only patchy anecdotal evidence. The tobacco industry has already reported some problems with inputs; and the petrochemical industry has been reporting reduced oil deliveries from Russia, which could partly be associated with the sanctions. As regards exports, the EU sanctions were not introduced with immediate effect, but stipulated instead that existing contracts could be honoured. Also, the supply to the EU of some important Belarusian export items (including some petrochemicals, potash and other industrial goods) was not completely banned. In summary, at the time of writing, the Belarusian data do not indicate a significant drop in exports to the EU; it remains to be seen what the full economic impact will be over time.

Similarly, the financial sanctions so far have not had a perceptible macroeconomic effect. Anecdotal evidence suggests that some foreign banks have announced a termination of their Belarusian dealings. Also, certain Belarusian banks have reported problems in processing credit card transactions. Again, it is still too early to assess the extent to which the new Western punitive measures will affect the Belarusian economy.

But the sanctions have also hurt ordinary Belarusians going about their daily lives. Belarusians used to be keen travellers abroad, and the current restrictions on air traffic (which come on top of the COVID-

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<sup>1</sup> BEROC Economic Research and Outreach Center, Economic Outlook – Second Quarter 2021.

related travel restrictions) is a bitter blow to those who were used to spending their vacations in European tourist destinations and resorts. Also, some Belarusians have already experienced inconvenience due to the problems with credit card payments. Thus, while the sanctions were not meant to hit ordinary citizens, they have in fact had negative implications.

One of the most damaging side effects of several rounds of Western sanctions against Belarus has been the country's tarnished image on the international scene. Both the economic sanctions and the damage to Belarus's international reputation are having an adverse effect on the lives of ordinary people. The persistently negative coverage of the Belarusian reality by the international media, the intensifying economic blockade by the West and the sanctions-related restrictions that affect daily life are leading to a perception among Belarusian people that they are being ostracised merely for being citizens of a pariah state.

On the other hand, one should not forget that the sanctions and the resultant ostracism only refer to one part of the world: the West. Importantly, Russia has so far remained a staunch ally and economic partner of Belarus, as well as its main supplier of foreign finance. Similarly, China, Kazakhstan, Turkey and other important trading partners have shown no signs that the Western sanctions will affect their economic relations with Belarus.

In addition, one should note that some of the sectoral sanctions have not been implemented immediately: the 'grace period' they contain has had the effect of mitigating the shock. One can expect that in time, Belarus will be able to successfully divert some of the affected export flows to other markets, including China. Another plausible scenario that would serve to dampen the adverse impact is that at least some of the sanctioned products could be exported to Russia, for further re-export to Western Europe.

## **FURTHER ORIENTATION TOWARDS RUSSIA**

So far President Lukashenko has remained defiant in the face of Western sanctions, and Belarus has responded by introducing counter-sanctions against the EU, compiling a list of people barred from entering the country. Belarus has also announced that it will discontinue its participation in the EU's Eastern Partnership programme and will set in motion the procedure to revoke its agreement with the EU on the readmission to the country of its citizens residing illegally in the EU. In the meantime, Belarus has de facto opened its border to Middle Eastern migrants who wish to cross to the adjoining EU states of Lithuania and Poland, thus creating hosting problems for the latter.

So long as Mr Lukashenko remains in power, relations with the West are likely to deteriorate. Consequently, one can expect Belarus to turn increasingly to the East – and above all, Russia. As it has become progressively isolated from the West, the Belarusian leadership has been seeking to secure greater economic support from Russia, with a view to compensating for (or minimising) the negative economic implications of the sanctions. How far this economic and political rapprochement will go remains an open question.

# Searching for a new growth model in the Visegrád countries

BY LEON PODKAMINER

*Although the Visegrád countries have done fairly well in recent decades, their current growth model is reaching its limits. A reliance on foreign direct investment-led export growth, especially based largely on cheap labour, does not seem likely to deliver an acceptable amount of convergence in coming years. This is even less likely under the currently restrictive fiscal framework, the recent (temporary) relaxation notwithstanding. A real breakthrough may require a radical overhaul of the basic economic paradigms at the EU level.*

## INTRODUCTION

There are many tendencies capable of affecting the performance of the four Visegrád countries (Poland, Czechia, Hungary and Slovakia) – and of other Central and East European EU member states (EU-CEE). One such is technological change (which also comprises automation, digitalisation and the increased application of robots and artificial intelligence methods). Another is demographic change, involving population aging and a gradual reduction in the labour supply. Both demographic change and technological change provoke economic and social responses – and they are themselves affected by the fundamental socioeconomic features of the societies' economic structures and modes of operation. The two-way interactions between trends (often seen as purely exogenous) and a country's growth model and socioeconomic performance can even be discerned in the ongoing climate change.

Analysis of the impacts on the Visegrád Group's growth model of the various largely exogenous trends mentioned above requires, above all, a clear understanding of what constitutes that growth model. Essentially, the model tends to be labelled 'integrative', although 'neoliberal' has also been applied to it. This means basically two things: economic openness and balanced budgets. Technological, demographic and other exogenous trends have certainly been affecting the performance of the Visegrád economies within that model. For example, the ongoing improvements in transportation and communication technologies are conducive to increased trade between member states – which also facilitates, for example, more intensive international trade and production outsourcing. But the fact that the model's inherent features are important determinants of actual performance must not be overlooked. Moreover, the model has been changing of its own accord. The evolution of this growth model constitutes the proper megatrend within which the Visegrád economies have been functioning.

## PRIOR TO 2008: GUIDED BY THE NEOLIBERAL MODEL

The collapse of the 'command system' in the late 1980s and early 1990s, and the ensuing 'shock therapies' inspired and supervised by the international financial institutions, brought about massive falls in output, employment and living standards. The sudden exposure of domestic producers to market conditions (and external competition) left them with no time to adjust. In effect, it resulted in the destruction of much of the existing physical and human capital. It took several years of transitional recession for output growth to return to the region – and longer for the wounds inflicted to heal, particularly in terms of the social costs.

From the very beginning of the transition period, the emerging economic model by and large followed the 'ten commandments' of the Washington Consensus. As such, it embodied the then-prevailing neoliberal axioms regarding the indispensable nature of radical deregulation, privatisation and external opening-up, as well as of a 'sound' fiscal policy. TINA – 'There Is No Alternative' – was the battle cry of the day.<sup>1</sup> There were certainly alternatives, but any suggestions that there were lessons to be learned from social-democratic experiences (e.g. the 'Swedish Model' or Austria's 'Social Partnership') were ignored. Similarly, the phenomenal economic advance of the once backward East Asian countries did not inspire the thinking of the founders of the emerging democracies. Nor were the lessons from the 'golden years' of managed and cooperative, liberal (but not neoliberal) capitalism in Western Europe (1950-1973) considered.

From around 1995 through 2007-2008, the Visegrád countries fared quite well in terms of GDP growth (although some of them did suffer relatively brief setbacks even before the global recession hit in 2009). In 1995, the region's per capita GDP ranged from 33% of the German level (in Poland) to 58% (in Czechia); by 2009, the levels were 51% and 74%, respectively. The initially rapid growth was not too difficult to achieve, since it started from output levels that had been severely depressed during the transitional recessions. Also, the fact that the 'old' EU (including Germany) performed quite poorly in the years 2001-2005 contributed to the narrowing of the income gaps between the Visegrád countries and the 'West'.

The underlying neoliberal mode of operation was not seriously questioned, even if it did raise income inequality and poverty levels. In recognition of their achievements (which also included legal and institutional convergence with 'Western' standards), in 2004 all Visegrád countries were admitted to the EU. In due course, Slovakia passed the tests required (the Maastricht Criteria) for admission to the euro area, while the core Visegrád countries (Czechia, Hungary, Poland) still preferred to retain their national currencies. It must be stressed that EU accession did not change the overall economic (and thus also social) orientation of policy making in the region. The principles that constitute the EU (such as the 'four freedoms' or the Maastricht fiscal rules) do not differ substantially from the clauses of the Washington Consensus. Thus, the Visegrád Group's growth model remained neoliberal in practice, if not necessarily in rhetoric.

The neoliberal growth model temporarily lost some of its gloss in the aftermath of the global economic and financial crisis, which exacted a heavy toll in 2008-2009 (and later on). But even before 2008, cracks could have been discerned in the model. These included massive population decline across much of the region, still-high unemployment in some places, persistent trade deficits, and over-specialisation in the automotive sector.

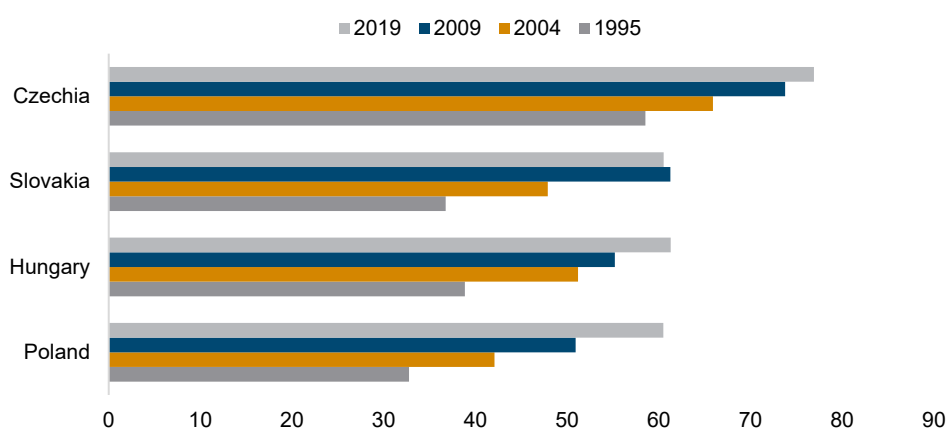
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<sup>1</sup> See e.g. Havlik (1991).

## THE POST-2008 ADAPTATIONS: THE GROWTH MODEL UNDER STRESS

The deep recessions that visited the global (and European) economy in 2008-2009 shattered the neoliberal consensus that had reigned supreme – in economic theory and practice – since the late 1980s. However, the crisis did not fundamentally change the basic convictions about the inherited growth model – either in the ‘old’ EU or among the Visegrád countries. External openness has remained the primary article of the neoliberal faith, followed by a belief in the need to keep fiscal accounts balanced and, if possible, ‘lean’. Nonetheless, under the post-crisis conditions, the mode of operation has been changing, while the pace of both economic growth and income convergence has slowed (Figure 1). An illustration of this is the fact that by 2019 Czech per capita GDP had reached only 76% of the German level (from 72% in 2008).<sup>2</sup>

**Figure 1 / Per capita GDP (at PPS) as a percentage of the German level**



Source: AMECO.

The fact that poorer countries can advance faster than more affluent ones is not unexpected. Indeed, it is consistent with the (unconditional) beta-convergence thesis of neoclassical growth theory.<sup>3</sup> This theory predicts that, as the less affluent countries grow, their further advancement normally slows progressively. Calculations consistent with the neoclassical growth theory (also conducted at wiiw),<sup>4</sup> based on data for the Visegrád countries' performance since 1995, show that it would take well over 25 years (until at least 2045) to halve the income gap between their inhabitants and the average EU citizen. Clearly, this conclusion is anything but encouraging, and creates a rather urgent need to think about new growth strategies for the region.

<sup>2</sup> The Visegrád countries have advanced much more than the southern flank of the EU (Italy, Spain, Portugal and Greece). But the catch-up with these ‘declining’ economies does not provide a satisfactory yardstick for judging the performance of the Visegrád countries. In this case the shrinking income gap is due to the misfortune of others, rather than to their own efforts. Germany, though growing at a relatively slow pace, is a better ‘reference point’ for assessing the degree of success. Besides, Germany is the natural ‘centre of gravity’ for the Visegrád countries – economically, historically and culturally.

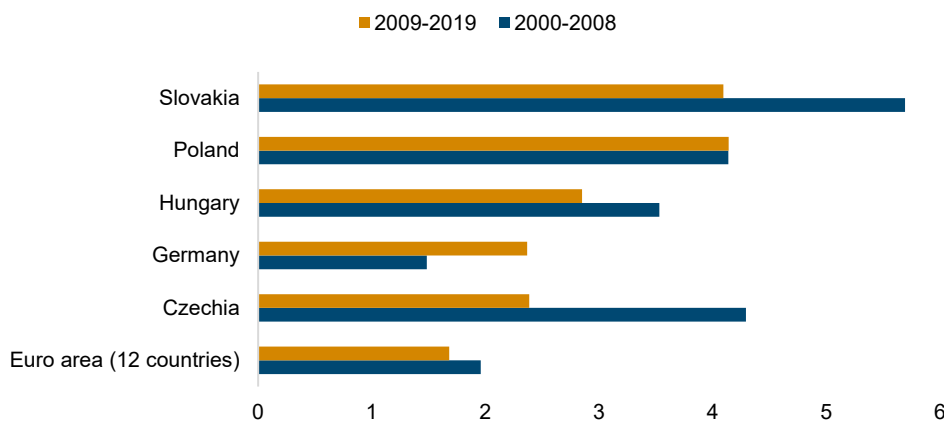
<sup>3</sup> See e.g. Barro and Sala-i-Martin (1992).

<sup>4</sup> See Podkaminer (2017).

## CHALLENGE 1: EXCESSIVE RELIANCE ON FOREIGN TRADE

Since the 2008 global financial crisis, developed industrial countries have entered ‘secular stagnation’, which also seems to apply to the Visegrád countries. Figure 2 shows that growth slowed significantly in all of them.

**Figure 2 / Average growth rate of GDP per capita, in %**



Source: AMECO.

Secular stagnation is characterised by very low inflation, combined with very weak (or stagnant) growth in aggregate consumption (both private and public) and aggregate investment. With stagnant growth of domestic demand, foreign trade emerges as the decisive factor behind domestic growth and employment. Countries that are capable of creating growing trade surpluses fare better than those that are not. Moreover, as the trade surpluses of some countries mean trade deficits for their partners, the surplus-related GDP gains of the former mean deficit-related GDP losses for the latter.

Good performance in foreign trade is thus essential to maintain growth. Also, it is of paramount importance to countries that are compelled to service foreign debts that were accumulated earlier. Securing external competitiveness is a key requirement. But given the continuing allegiance to the principle of free international trade (which is the case with respect to internal trade within the EU), the easiest form of securing competitive advantage is through the suppression of labour costs – and of wage rates, in particular. (In the pre-euro era of national flexible exchange rates, the easiest way of securing competitive advantages involved manipulated devaluations, such as was successfully practised in Italy, for example, from 1973 through 1988.)

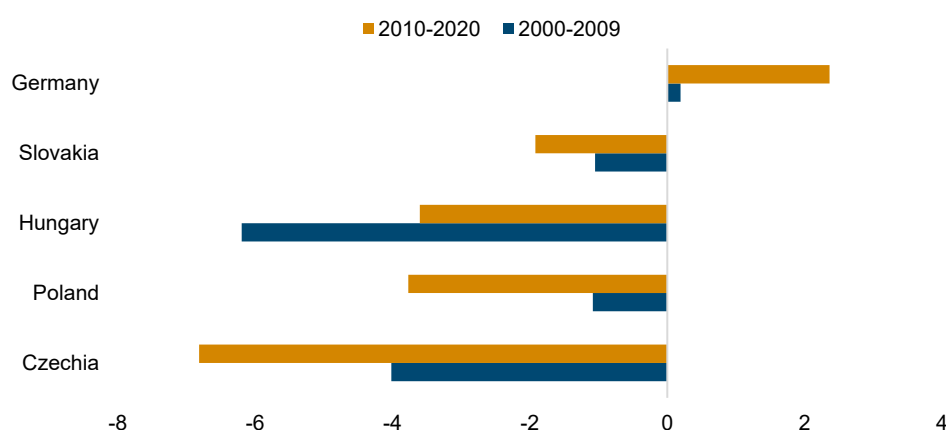
The huge foreign direct investment (FDI), motivated by low labour costs and taxes (as well as proximity to the West), that was flowing into the Visegrád countries even prior to 2008-2009 has proved capable of producing finished and intermediate goods that serve the international markets (as well as the domestic markets of the FDI's home countries). Thanks largely to the foreign trade activities of the FDI firms, the Visegrád countries, which ran trade deficits prior to 2008, have since tended to build up growing trade surpluses. These surpluses serve to cover the FDI's profits. At the same time, the surpluses have been supporting GDP growth and keeping unemployment in check.

This all suggests that the Visegrád countries would be unwise to fundamentally alter the FDI-driven export model in the context of the global economy. However, the model is not without its disadvantages, and standing still is not an option. The first problem is that the FDI profits may – and often do – leak out abroad, instead of being productively spent domestically. With freedom of capital movement, there is no restraint on what happens to the FDI profits. This tendency is illustrated in Figure 3, which shows averaged shares of net primary income from the rest of the world as a percentage of GDP. In contrast to Germany, which earns on this income, all Visegrád countries systematically surrender part of their GDP to external parties (and that despite large incomes being remitted by their nationals working abroad). Czechia is an extreme example, with nearly 7% of its GDP flowing out of the country in the form of foreigners' incomes.

The second problem is that the Visegrád countries' wage rates must stay 'attractive' enough (i.e. sufficiently low) to keep the FDI activities from migrating to places that offer even lower wages, such as Turkey or Southeast Asia (and more 'friendly' tax regimes). Eventually, trade competition turns into wage competition – 'the race to the bottom'.

The excessive dependence on foreign trade, foreign markets and foreign capital limits output growth in the Visegrád countries (as it does elsewhere). Final goods and services that are tradable internationally typically account for only 20-30% of GDP and total employment. However, the suppression of wages in the sector that is directly exposed to foreign competition implies the suppression of wages in the remaining sectors, too.<sup>5</sup> This keeps overall domestic purchasing power subdued and limits domestic demand, also for non-tradable goods and services. This constrains overall GDP growth and employment. The 'tail' (the foreign trade sector) is wagging the 'dog' (the whole national economy).

**Figure 3 / Net primary income from the rest of the world as a percentage of GDP, period average**



Source: AMECO.

<sup>5</sup> For more on this, see e.g. Laski and Podkaminer (2011).



## CHALLENGE 2: FISCAL CONSTRAINTS

The second paradigm underlying the neoliberal growth model concerns the alleged necessity for ‘sound’ fiscal policies. In practice, fiscal discipline is often impossible to maintain – e.g. during deep recessions, financial crises or negative exogenous shocks, such as the current COVID-19 pandemic. However, leaving aside exceptional circumstances, the Visegrád countries are expected to systematically reduce, or even eliminate, fiscal deficits and to control the level of public debt relative to GDP. Moreover, even in critical situations, the deficit spending tends to be inadequate to keep domestic demand afloat. In Slovakia, which is a member of the euro area, the maintenance of fiscal discipline is ultimately policed by the European Central Bank (ECB), which has the power to deny access to fresh cash to countries guilty of blatant breach of the fiscal rules. Countries ruled by ‘rebellious’ parties and that retain their national currency (such as Poland) may pursue a relatively relaxed fiscal policy for extended periods of time, also under normal conditions. But even then, the aversion to fiscal deficits and rising public debt will finally prevail.

As long as fiscal deficits are suppressed, the growth in public consumption, public investment and social transfers must also remain repressed. Therefore, the restricted fiscal deficits are part of the overall secular stagnation setting under the neoliberal growth model. Faster economic growth on the part of the Visegrád countries would require more expansionary fiscal policies and toleration of higher fiscal deficits. However, it must be noted that the paradigm change must first take place at the EU level, among its ruling elites. Without a lasting change in thinking on these issues – in Germany in particular<sup>6</sup> – the hands of policy makers in the Visegrád countries will necessarily be at least partly tied. At present, there are no clear signs that these elites do see any need for radical reform of the neoliberal model. In the current COVID-19 crisis, governments (and the European Commission and ECB) have been forced to give up their usual reservations about fiscal deficits and ‘cheap money’. This is commendable. However, it is far from certain that the old axioms will not gain the upper hand again once the pandemic is over. One may fear a return of the policy of fiscal restraint.<sup>7</sup>

## CONCLUDING REMARKS: FEW GROUNDS FOR HIGH EXPECTATIONS

This article started out with the contention that although the Visegrád countries (as indeed much of EU-CEE as a whole) have done fairly well in recent decades, the current growth model is reaching its limits. A reliance on FDI-led export growth, especially based largely on cheap labour, does not seem likely to deliver an acceptable amount of convergence in coming years. This is even less likely under the currently restrictive fiscal framework, despite the recent (temporary) relaxation. Certainly, under the economic rules currently in force internationally (and in the EU) these countries will continue to grow, albeit at an unimpressive pace. The generous transfers from Brussels, such as those within the framework of the Next Generation EU recovery facility and the next EU multiannual financial framework for 2021-2027, will go some way to alleviating the frustration of remaining behind the pack of high-income EU members. But, as

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<sup>6</sup> German internal policy stipulates fiscal restraint (the country has a tendency to run fiscal surpluses) and wage restraint (wages generally trail behind labour productivity). Consequently, Germany earns huge trade and current account surpluses, which tend to play havoc with the economies of Germany’s economic partners. So long as this policy model prevails in Germany, others in the EU must adjust accordingly – suppressing public spending and wages, and thus overall growth (see e.g. Podkaminer, 2015).

<sup>7</sup> After some hesitation, most EU countries and the ECB gave up their restrictive policies as the global financial crisis erupted in 2008. But the change was half-hearted. Soon after the crisis seemed to be over, the ‘sound’ fiscal policies returned – provoking a second recession in 2011-2012.

the experience of the eastern Länder of Germany demonstrates, transfers alone – no matter how substantial – are not guaranteed to produce rapid and sustainable growth.

A real breakthrough in the economic prospects of the Visegrád countries may require a radical overhaul of the basic economic paradigms at the EU level. This remains a task for the remote future.

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# The Georgian economy caught between Russia and the EU

BY VASILY ASTROV

*The Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU has so far brought Georgia few economic benefits. There has been little trade reorientation, and sizeable inflows of foreign trade investment into the productive sector have failed to materialise. Given that membership of NATO and the EU is unrealistic for Georgia in the foreseeable future, a conceivable alternative could be a neutral political status. That could allow Georgia to benefit from increased trade links with Russia, without sacrificing its ostensibly pro-European economic policy course.*

## LOW COMPETITIVENESS, DESPITE BUSINESS-FRIENDLY ENVIRONMENT

Populated by 3.7m people, Georgia is a small, open economy with a GDP of USD 15.9bn (as of 2020). In recent decades, the country's economic policy has been guided largely by liberalisation and integration into the world economy. It became a member of the World Trade Organization (WTO) back in 2000, and its trade regime is, by all accounts, very liberal. At just 2%, the applied simple average most-favoured nation (MFN) import tariff is very low in international comparison, there are no export subsidies and no contingency plans with respect to trade policy instruments; also export restrictions are minimal.<sup>1</sup> On top of that, Georgia has free trade regimes with all its main trading partners: the EU, the European Free Trade Association (EFTA) countries, Turkey, China and Russia.<sup>2</sup>

In other economic policy areas, too, Georgia has placed emphasis on deregulation and liberalisation, especially under President Mikheil Saakashvili (2004-2013). For a number of years now, it has scored very highly on the Ease of Doing Business index of the World Bank: overall it is currently placed seventh in the world (positioned between the US and the UK), while in the sub-category 'starting a business' it is second in the world (behind New Zealand).<sup>3</sup> This assessment is confirmed by some other international rankings. For instance, Georgia ranks as the eighteenth Best European Country for Business (positioned between Spain and Portugal), according to the European Chamber.<sup>4</sup> However, the high scores that Georgia regularly receives for the quality of its economic policies are not necessarily reflected in its development level. According to World Bank data, last year its GDP per capita (in PPP) stood at USD 14,863 – only half that of Russia (USD 28,213) and Turkey (USD 28,120), although somewhat above Ukraine's (USD 13,057).<sup>5</sup>

<sup>1</sup> Akhvlediani, T. and P. Havlik (2019), Georgia's economic performance: Bright spots and remaining challenges, wiiw Policy Note and Report No. 29, April.

<sup>2</sup> Although Georgia formally left the CIS after the Russia-Georgia war in 2008, it maintained bilateral free trade agreements with eight CIS countries, including Russia.

<sup>3</sup> <https://www.doingbusiness.org/en/rankings>

<sup>4</sup> <https://eucham.eu/best-european-countries-for-business-2020/>

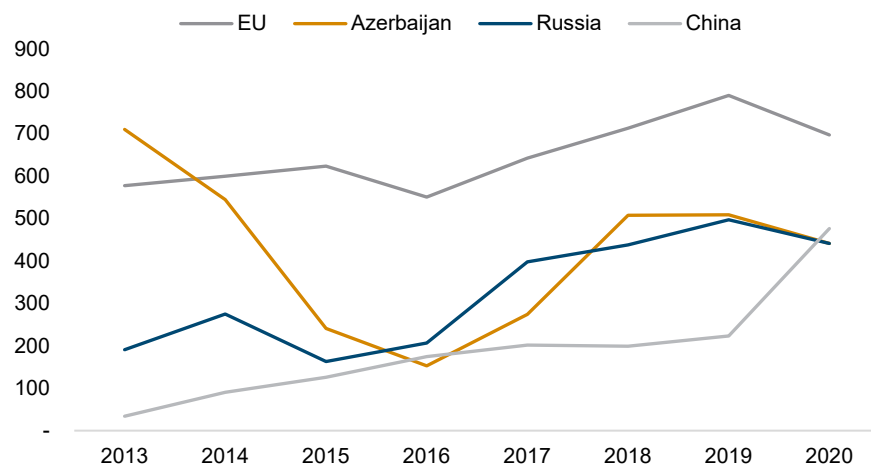
<sup>5</sup> <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?locations=GE>

The problem is that while Georgia may pursue very liberal economic policies, it generally lacks internationally competitive products with sufficiently high value-added. It has strong competitive positions in a narrow range of items (notably metals and some agricultural and food products), but none of these are characterised by high value-added. Beverages, ores, iron and steel combined account for nearly half of Georgian goods exports, with another 12% represented by motor vehicles.<sup>6</sup> Another indication of Georgia's poor export competitiveness is its high trade deficit in goods: last year it reached 19.8% of GDP (according to balance-of-payments statistics of the national bank),<sup>7</sup> with more than half offset by current transfers, mostly private remittances from abroad. An estimated 1.4m Georgians have left the country since 2002, many to work in Russia, Turkey and Southern EU member states.<sup>8</sup>

## LITTLE TRADE REORIENTATION TOWARDS THE EU

The Deep and Comprehensive Free Trade Agreement (DCFTA) between Georgia and the EU, which is part of a broader association agreement,<sup>9</sup> was aimed at boosting the competitiveness of the Georgian economy by attracting Western investment. The idea behind it was, ideally, to replicate the earlier success of the EU-CEE countries, many of which, by entering integration arrangements with Western Europe, managed to attract substantial inflows of foreign direct investment (FDI) and set up internationally competitive export capacities that could benefit from duty-free access to EU markets.

**Figure 1 / Georgia's merchandise exports, by country/region, in USD million**



Source: Georgian Statistical Office.

In the case of Georgia, the DCFTA with the EU was signed in 2013 and came into force on 1 July 2016. Apart from the lifting of trade barriers (with some exceptions), the DCFTA envisaged a progressive alignment of Georgia's legislation with EU standards across a broad range of areas, such as customs procedures, rules of origin, technical regulations on industrial products, sanitary and phytosanitary

<sup>6</sup> Based on the balance-of-payments data for the first seven months of 2021.

<sup>7</sup> There is, however, a big discrepancy between different sources of trade data. According to the customs statistics provided by the statistical office, the trade deficit last year reached some 30% of GDP.

<sup>8</sup> Akhvlediani and Havlik (2019).

<sup>9</sup> [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02014A0830\(02\)-20180601](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02014A0830(02)-20180601)

norms for agricultural products, competition policy, public procurement, intellectual property rights, etc. – albeit without the possibility of EU membership. Besides, access for some Georgian products to the EU is subject to quantitative restrictions.

Looking at trade developments over time, it would appear that the economic benefits of the DCFTA between Georgia and the EU have been limited at best.

- › **Georgia's goods exports to the EU have expanded less than to Russia and China.** Although they have increased by 21% since 2013 – somewhat more than total exports (+15%) – this figure pales in comparison to exports to Russia and China. Exports to Russia more than doubled over the same period, thanks largely to the pragmatic approach of the 'Georgian Dream' government, which aimed at improving economic relations with Russia, despite profound differences over the break-away republics of Abkhazia and South Ossetia. As for China, Georgia's exports to that country have soared by 14 times since 2013, albeit largely on account of a sharp upsurge last year (Figure 1).
- › **The share of the EU as Georgia's trading partner is modest by regional standards.** In the first seven months of 2021, the EU accounted for only 15.9% of Georgia's exports of goods. This is almost on a par with China (16.3%) – which has now become the biggest export destination for Georgian products – and is only slightly higher than Russia (14.2%). The role of the EU as an export destination for Georgia is much smaller than is the case in, for instance, Ukraine (where 37.8% of exports went to the EU last year) or Moldova (two thirds of exports). With a 24% share of Georgia's imports, the EU's role is somewhat greater on the import side, though this is still relatively low by regional comparison. Georgia's main single-country import partner is Turkey, which accounts for 17.6% of total imports of goods, followed by Russia (10.5%).

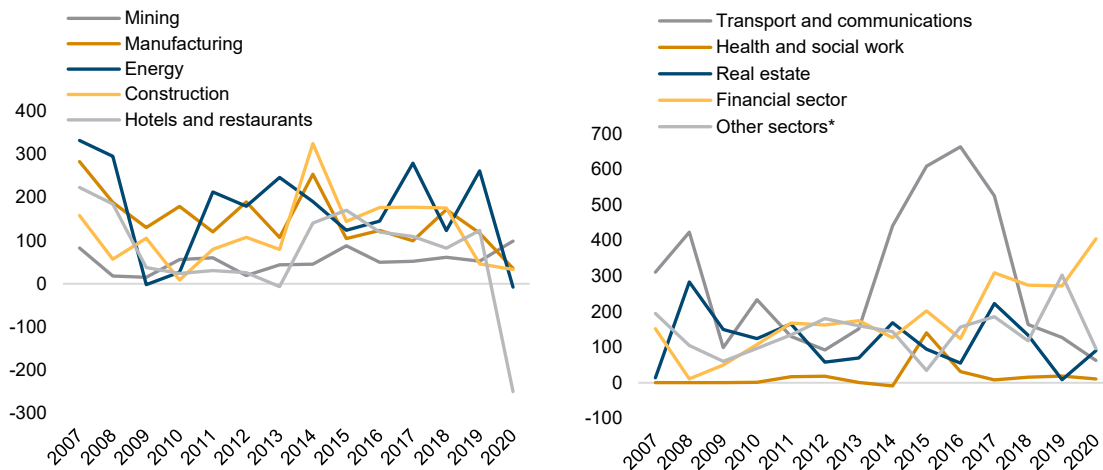
The relatively modest success of the Georgia-EU DCFTA in terms of trade reorientation may be partly explained by the fact that it has improved the access of Georgian products to EU markets only marginally. Around two thirds of them had qualified for low or zero EU import tariffs even before the DCFTA was signed, under the EU Generalised System of Preferences+ (GSP+) programme.

## PRODUCTIVE FOREIGN INVESTMENT LARGELY MISSING

However, probably a more important reason for the modest figures is that the DCFTA has failed to boost private sector FDI in Georgian manufacturing. As a result, its export capacities have remained generally weak and the trade deficit accordingly high. Although FDI inflows into Georgia did pick up after the DCFTA with the EU was signed (to USD 1.6-2bn per year between 2014 and 2017), this was primarily on account of the transportation sector (Figure 2), representing big infrastructure projects financed either by the EU or by China, within the framework of its Belt and Road Initiative (for instance, the construction of Anaklia deep sea port). Although these projects may arguably have been indirectly related to the DCFTA and were undoubtedly important for Georgia, they were not private sector investments in productive assets – which is what the DCFTA was supposed to trigger. Once some of these big infrastructure projects were completed towards the end of 2017, FDI inflows into Georgia started declining again, to around USD 1.3bn per year in 2018-2019, with the financial sector featuring

increasingly prominently.<sup>10</sup> For comparison, up until 2013 (when the DCFTA was signed) the sectoral structure of FDI was somewhat more diversified, with manufacturing, energy, construction, real estate and the financial sector all being important targets.

**Figure 2 / FDI inflows into Georgia, by main economic sector, in USD million**



\* Trade, education, and other community, social and personal service activities.

Source: Georgian Statistical Office.

In a regional comparison, Georgia scores relatively well in terms of accumulated FDI stock: at over USD 18.4bn (as of mid-2021), it corresponds to 116% of GDP, which makes the country one of the frontrunners in the entire CESEE region. However, the high FDI-to-GDP ratio is partly due to the relatively low level of Georgia's GDP. In terms of FDI stock per capita (some USD 5,000), which is arguably a more adequate indicator of investment penetration, Georgia lags somewhat. Besides, as mentioned above, the bulk of FDI is concentrated in the non-tradable sectors of the economy, such as construction, energy, real estate and the financial sector. Such investments do little to help strengthen the industrial sector or sectors where Georgia has a clear comparative advantage, thanks to its natural endowments: agriculture and tourism. The biggest FDI investor in Georgia is Azerbaijan, accounting for 21.5% of the overall FDI stock, followed by the UK, the Netherlands and Cyprus. There is little doubt that a large chunk of investments coming from the latter three (largely 'offshore') countries represents a round-tripping of (especially Russian) capital.

The modest success of DCFTAs in attracting FDI is not confined to Georgia, as a similar story can be observed in Ukraine. That said, Moldova has been more successful: private foreign investments there have picked up recently, mostly representing the outsourcing of automotive components production from neighbouring Romania. It can be argued that the main problem with the limited success of DCFTAs in attracting foreign investment is that they do not offer any prospects for EU membership. In the EU-CEE countries, such prospects proved crucial in providing incentives for domestic elites to implement institutional reforms and fight corruption – moves that have helped improve the investment climate strongly enough to attract foreign investment. By contrast, in DCFTA countries, such reforms have been half-hearted at best. Probably the most tangible result of the DCFTA – certainly the most cherished by

<sup>10</sup> In 2020, FDI inflows into Georgia – as into most emerging markets – fell sharply, largely on account of the disinvestment from hotels and restaurants in the wake of the COVID-19 pandemic.

the Georgian population – has been visa liberalisation. Since March 2017, Georgian citizens have no longer needed a visa to enter the Schengen countries of the EU for a period of up to 90 days.

## NEUTRAL POLITICAL STATUS: A 'SECOND-BEST' ECONOMIC OPTION

Georgia does have official aspirations to join both NATO and the EU. In economic terms, this would arguably have represented the 'first-best' option, as it would have provided a badly needed reform anchor and could have helped solve the above-mentioned structural economic problems. However, accession to NATO – let alone the EU – remains a very distant prospect for Georgia. Apart from the reluctance of some European NATO members (notably France and Germany) to further antagonise Russia by offering Georgia NATO membership, a formal obstacle is the existence of two unresolved conflicts on Georgian territory: with Abkhazia and South Ossetia. And there is little chance of resolution any time soon. EU accession is even more problematic, given Georgia's geographical remoteness and low development level. Probably the most important obstacle is the small appetite among existing EU members for further rounds of EU enlargement. This is exemplified by the very sluggish progress in the accession of the Western Balkan countries, which are much more obvious candidates for EU membership than Georgia.

A conceivable alternative for Georgia to NATO (and EU) membership would be a neutral political status. What would be the implications of this for the Georgian economy? The answer to that question essentially requires an assessment of the economic benefits of closer economic links with Russia. Russia is already Georgia's second most important trading partner, and its role may rise further in years to come. History plays a role, too: for instance, Georgian wine enjoys a good reputation in Russia (and other CIS countries), but less so in other markets. However, it is probably tourism that would benefit most from increased ties with Russia. In 2019, Russians made up the biggest group of foreign tourists in Georgia, accounting for 20% of the total (although their share has dropped markedly in the wake of the pandemic). Geographical and cultural proximity, a low language barrier and affordability combine to make Georgia a potentially more attractive destination for Russian tourists in the future, especially as living standards in Russia gradually improve over time.

On the downside for Georgia, Russia is unlikely to become an important source of productive FDI and of the numerous benefits that often come with it (such as the transfer of advanced technologies and know-how, better governance and access to new markets). Russia itself is in need of new investments and technologies to modernise its economy and diversify it away from its excessive reliance on the energy sector. However, increased trade with Russia in goods and services alone is likely to bring the Georgian economy substantial benefits, and thus result in a 'second-best' economic outcome.

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

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

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	Harmonised 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
y-o-y	year on year

The following national currencies are used:

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

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

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



**Online database access****wiiw Annual Database****wiiw Monthly Database****wiiw FDI Database**

The wiiw databases are accessible via a simple web interface, with only one password needed to access all databases (and all wiiw publications).

You may access the databases here: <https://data.wiiw.ac.at>.

If you have not yet registered, you can do so here: <https://wiiw.ac.at/register.html>.

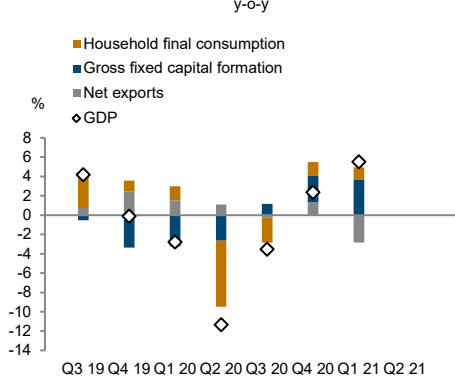
**Service package available**

We also offer a service package that allows you to access all databases – a wiiw Membership, at a price of € 2,300. Your usual package will, of course, remain available as well.

For more information on database access for Members and on Membership conditions, please contact Ms. Barbara Pill ([pill@wiiw.ac.at](mailto:pill@wiiw.ac.at)), phone: (+43-1) 533 66 10.

# Albania

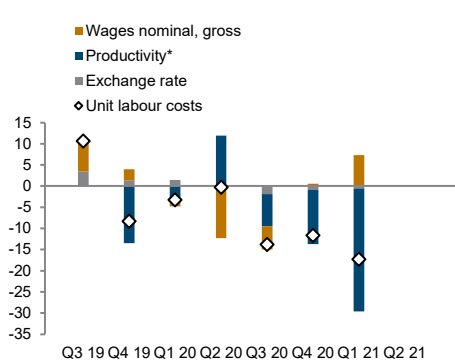
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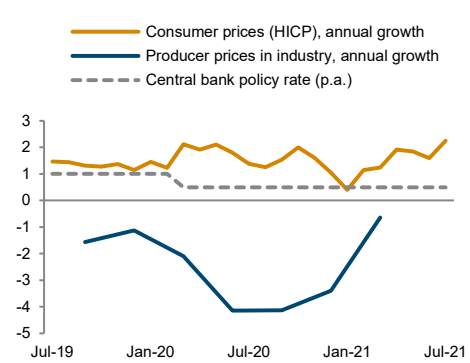
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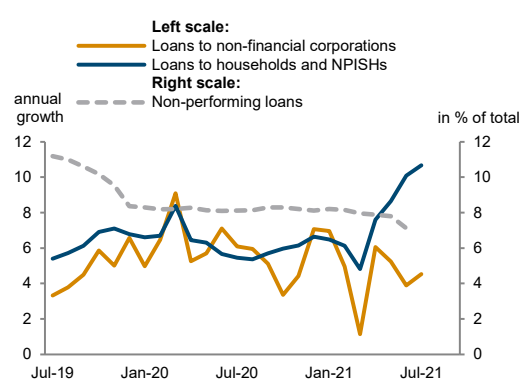
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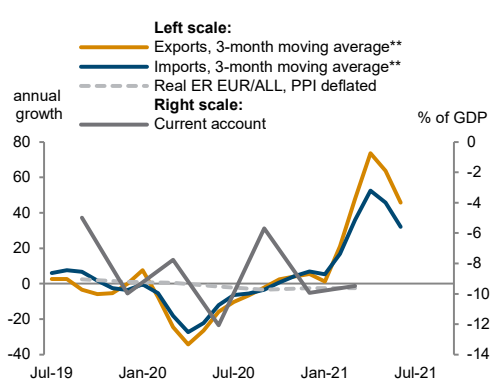
**Inflation and policy rate**



**Financial indicators**



**External sector development**

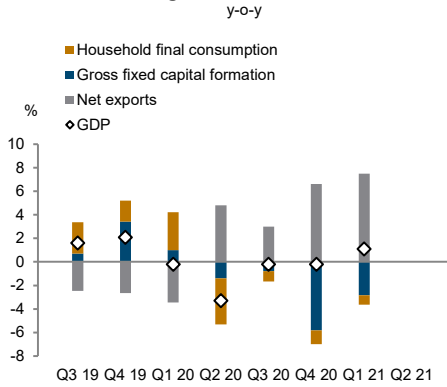


\*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.  
 \*\*EUR based.

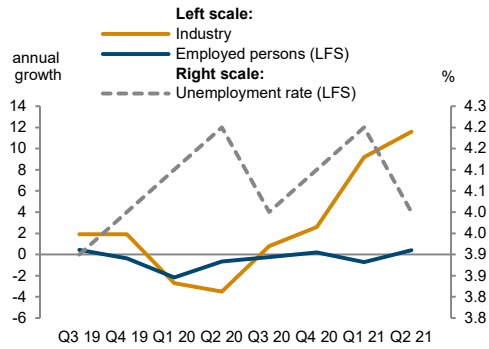
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# Belarus

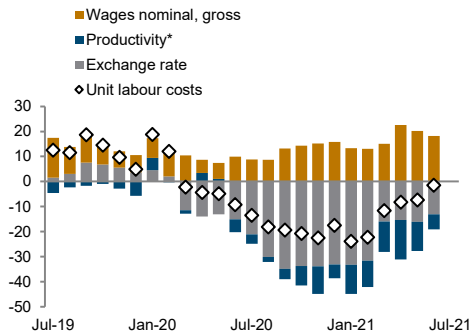
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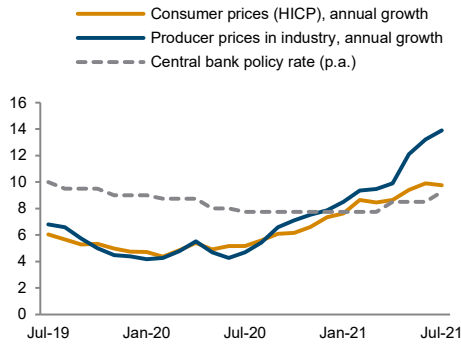
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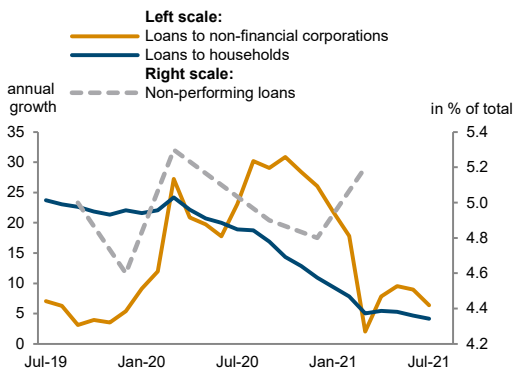
**Unit labour costs in industry**



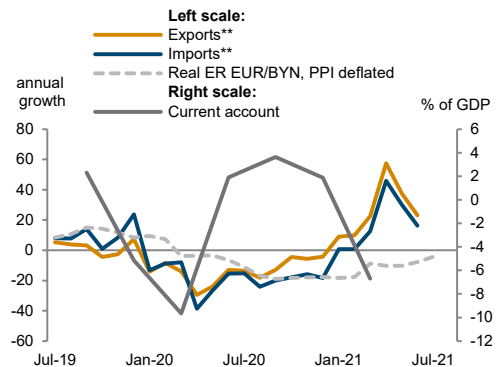
**Inflation and policy rate**



**Financial indicators**



**External sector development**



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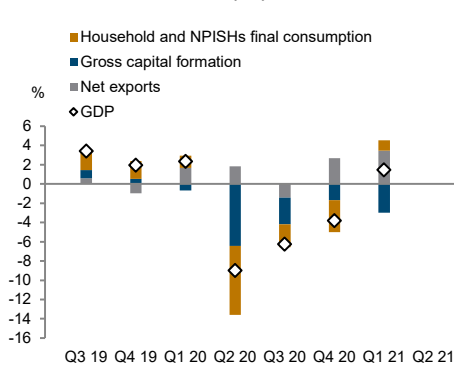
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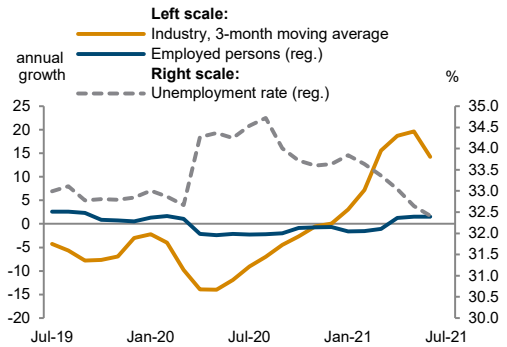
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# Bosnia and Herzegovina

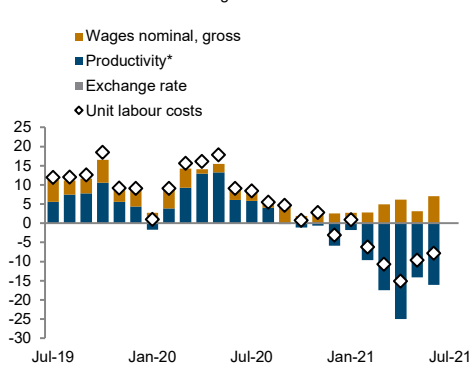
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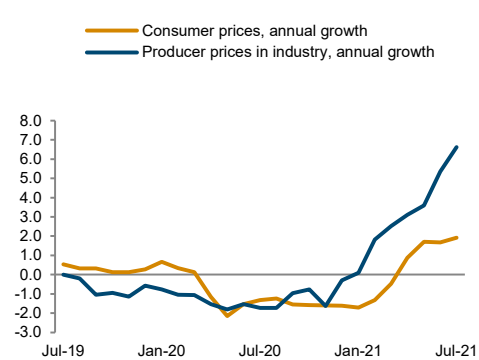
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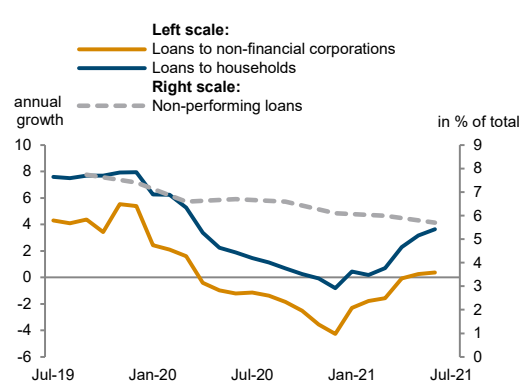
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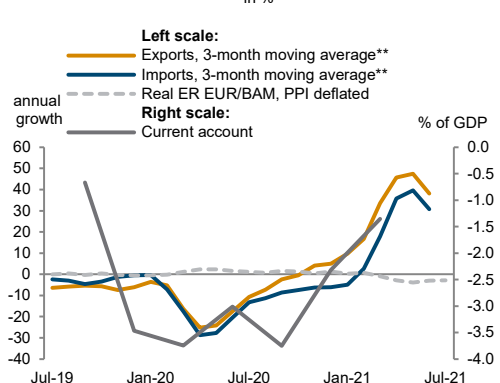
### Inflation



### Financial indicators



### External sector development



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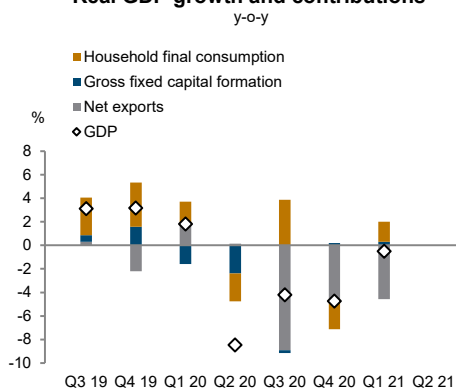
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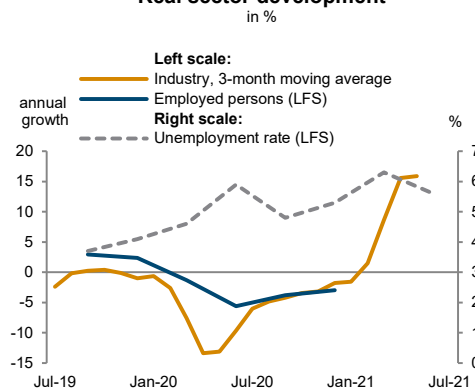
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# Bulgaria

**Real GDP growth and contributions**



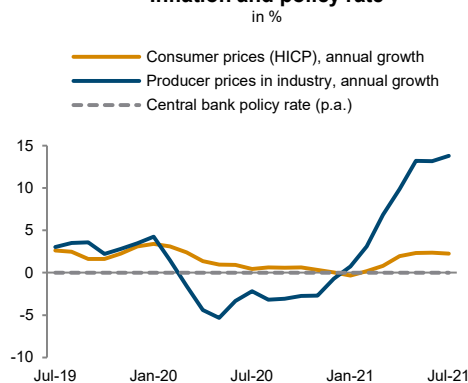
**Real sector development**



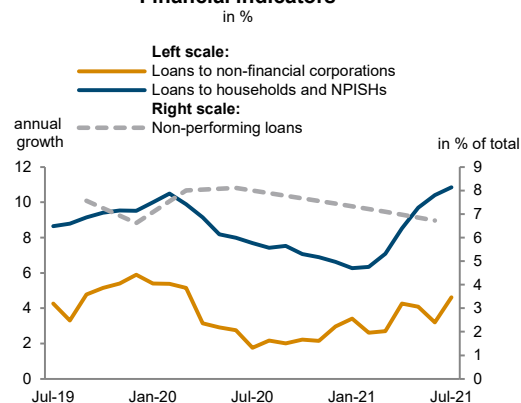
**Unit labour costs in industry**



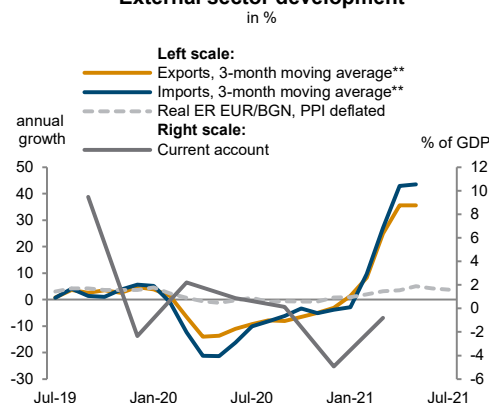
**Inflation and policy rate**



**Financial indicators**



**External sector development**



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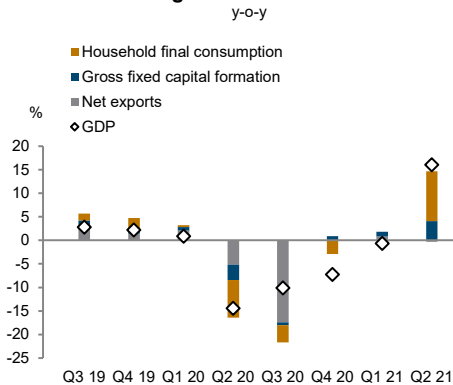
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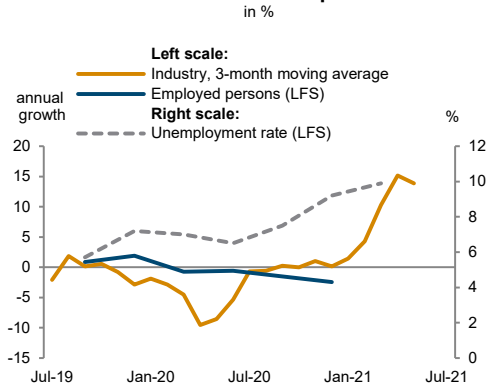
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# Croatia

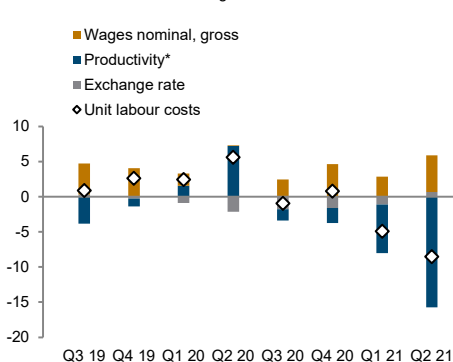
## Real GDP growth and contributions



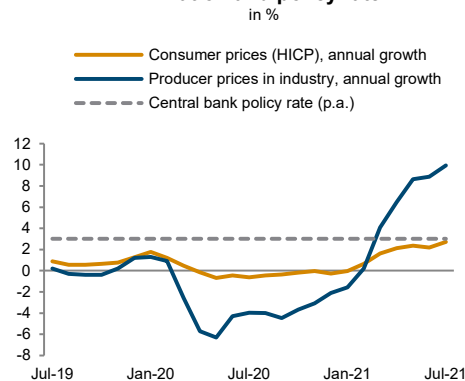
## Real sector development



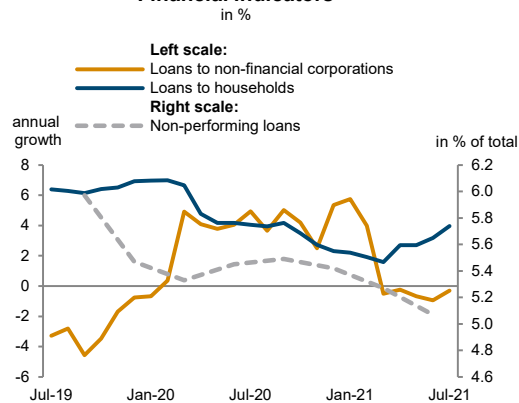
## Unit labour costs in industry



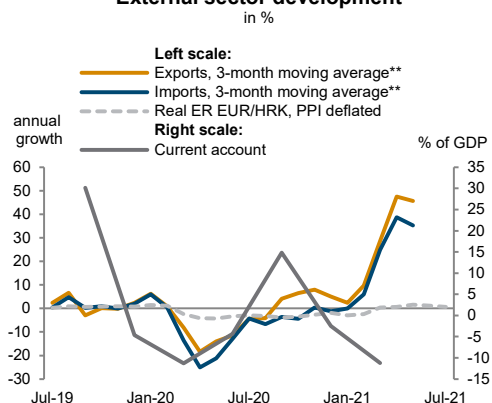
## Inflation and policy rate



## Financial indicators



## External sector development



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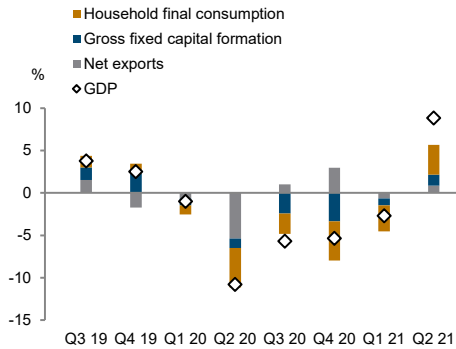
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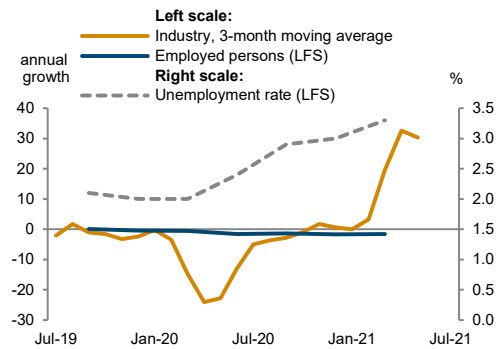
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# Czechia

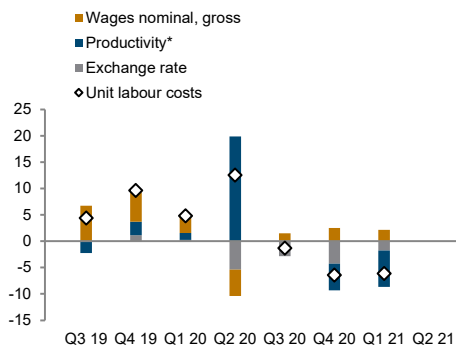
**Real GDP growth and contributions**  
y-o-y



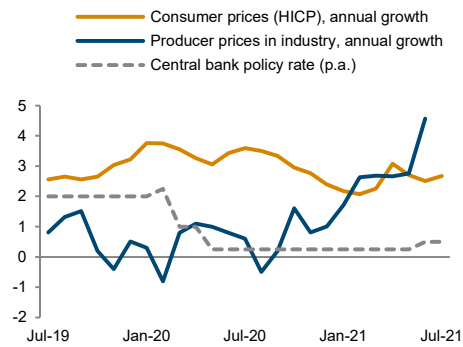
**Real sector development**  
in %



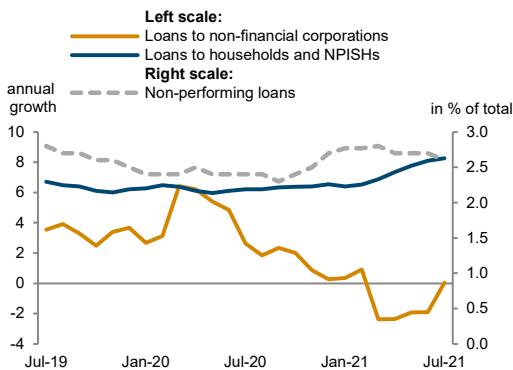
**Unit labour costs in industry**  
annual growth rate in %



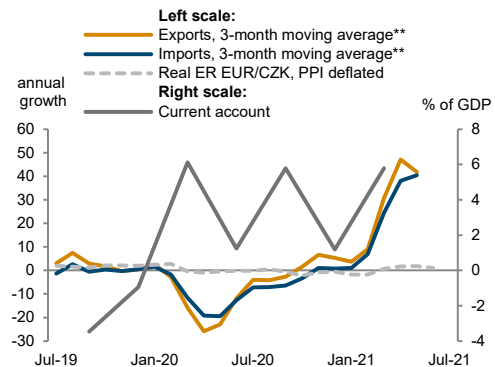
**Inflation and policy rate**  
in %



**Financial indicators**  
in %



**External sector development**  
in %



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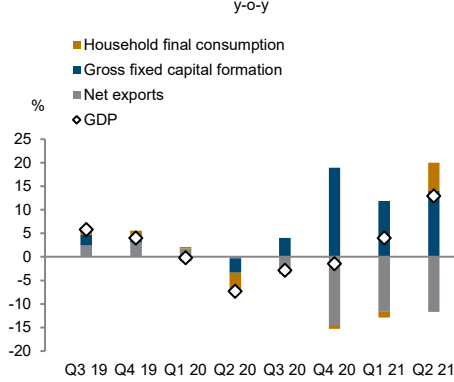
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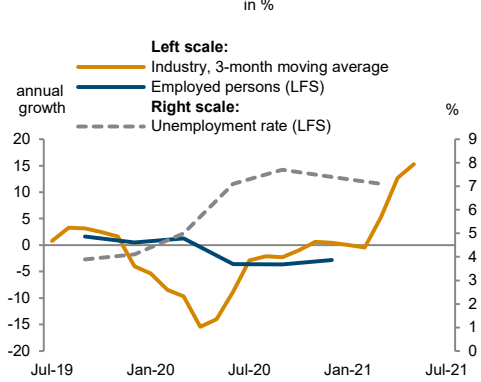
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## Estonia

### Real GDP growth and contributions



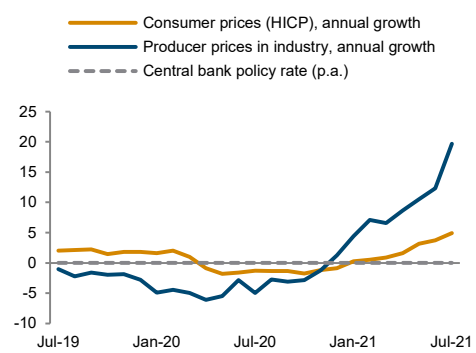
### Real sector development



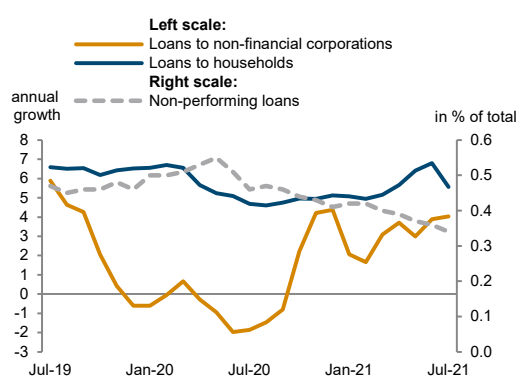
### Unit labour costs in industry



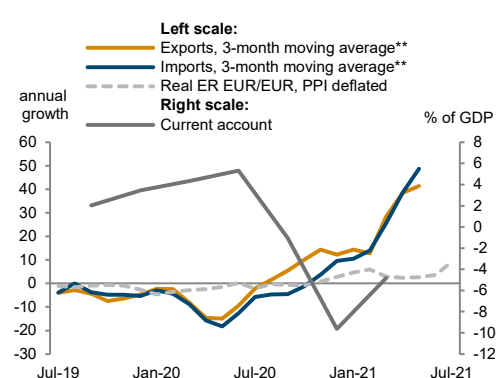
### Inflation and policy rate



### Financial indicators



### External sector development



\*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.

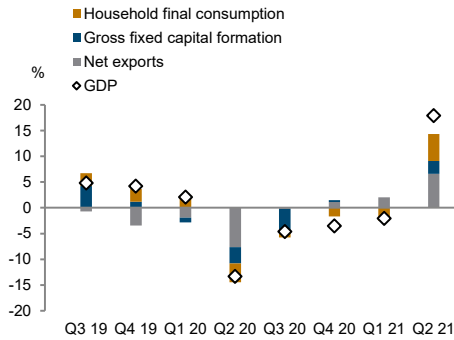
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

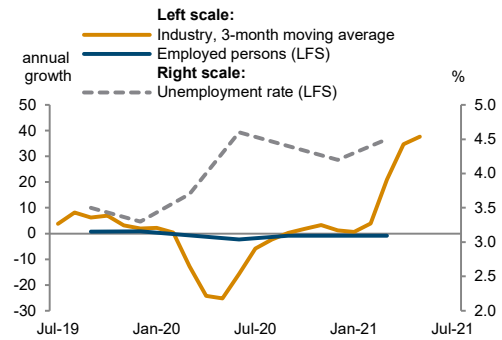


# Hungary

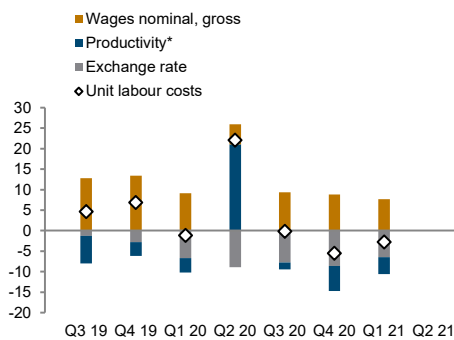
**Real GDP growth and contributions**  
y-o-y



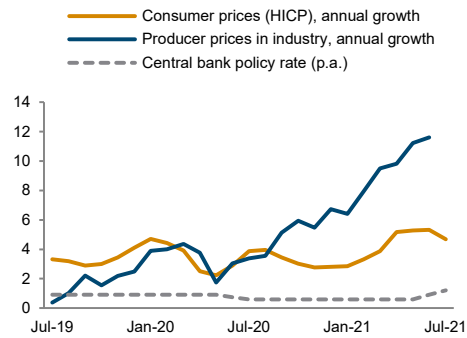
**Real sector development**  
in %



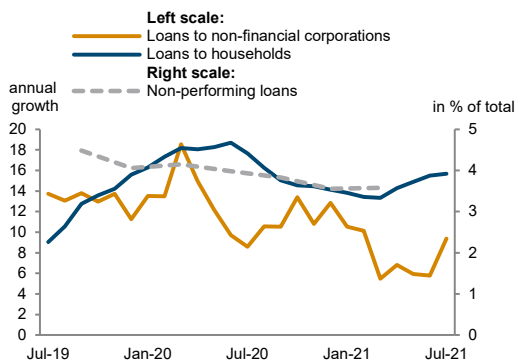
**Unit labour costs in industry**  
annual growth rate in %



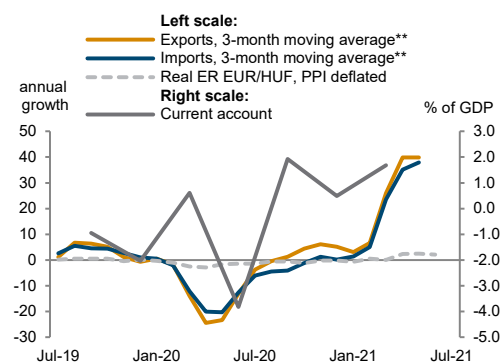
**Inflation and policy rate**  
in %



**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.

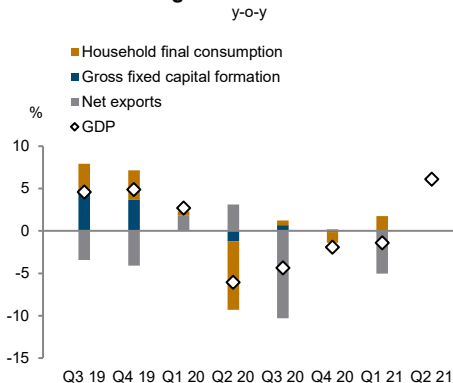
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

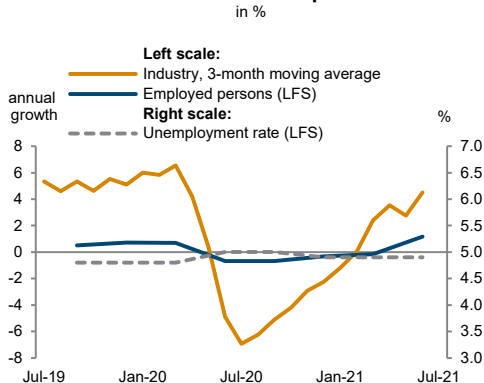
<https://data.wiiw.ac.at/monthly-database.html>

# Kazakhstan

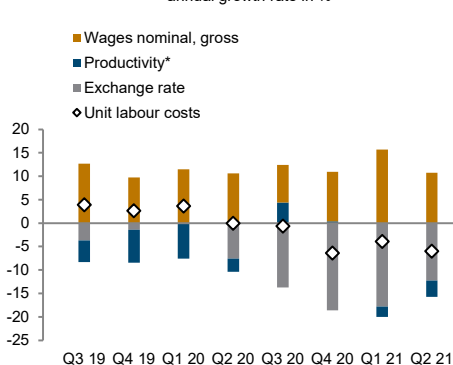
**Real GDP growth and contributions**



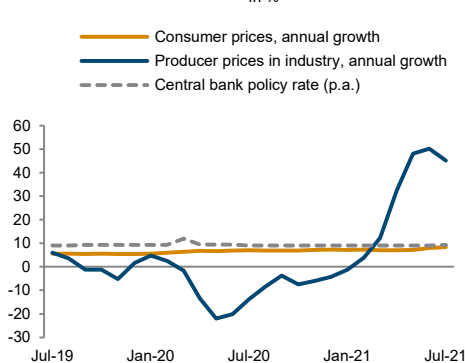
**Real sector development**



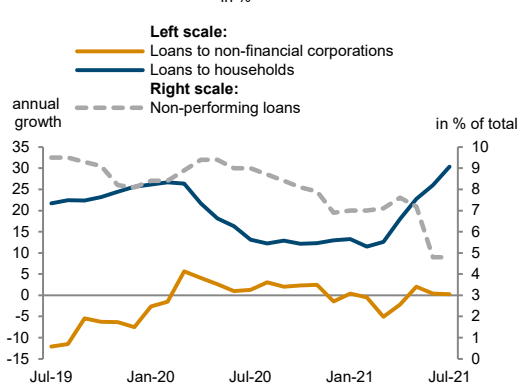
**Unit labour costs in industry**



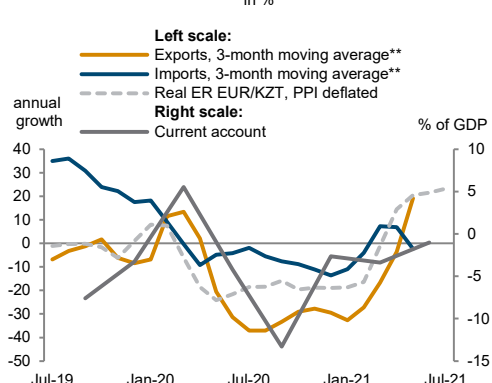
**Inflation and policy rate**



**Financial indicators**



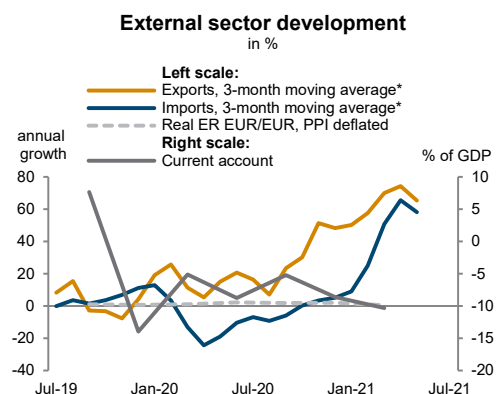
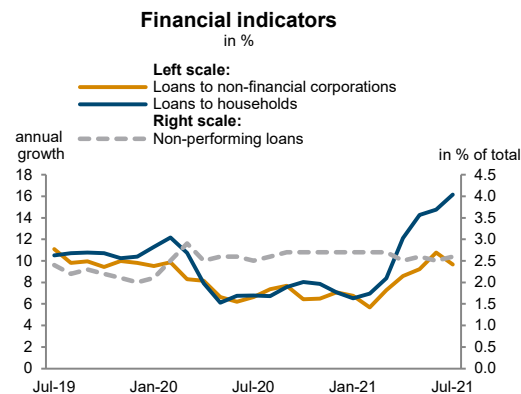
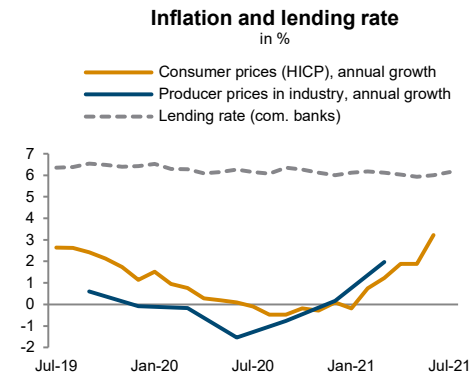
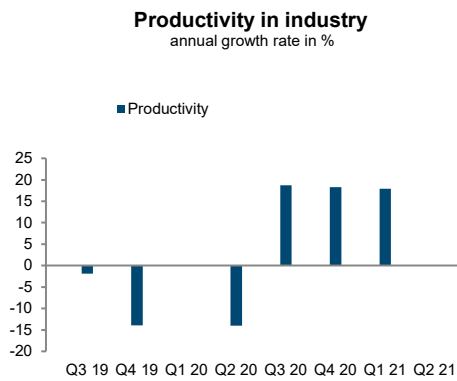
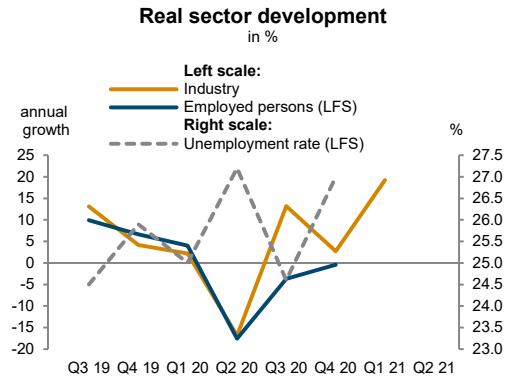
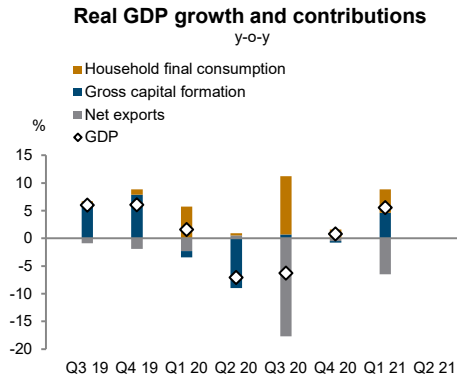
**External sector development**



\*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>

# Kosovo



\*EUR based.

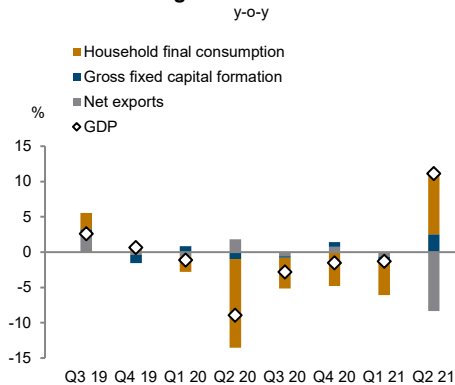
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

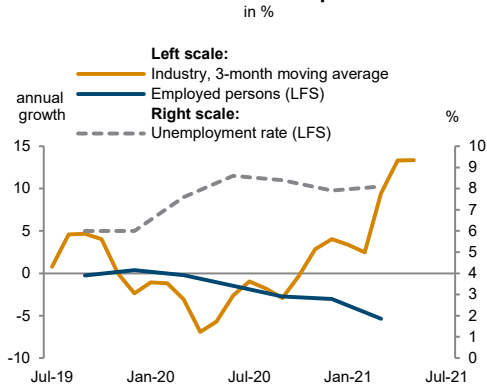
<https://data.wiiw.ac.at/monthly-database.html>

# Latvia

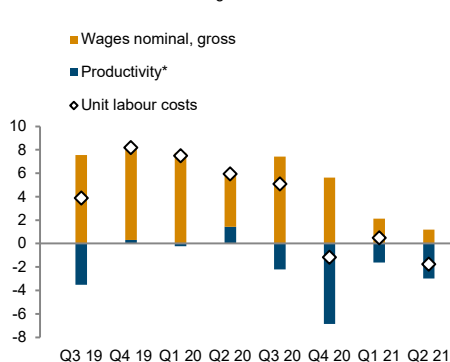
## Real GDP growth and contributions



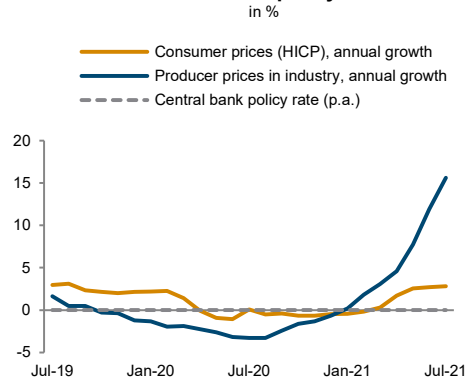
## Real sector development



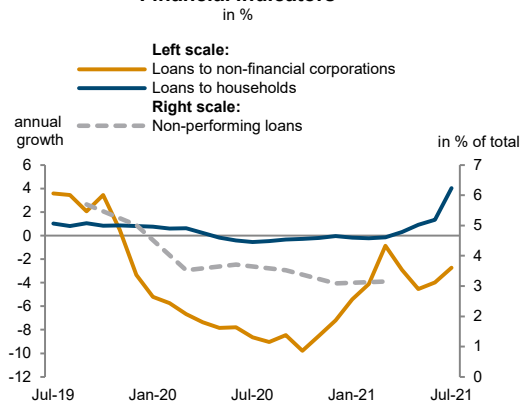
## Unit labour costs in industry



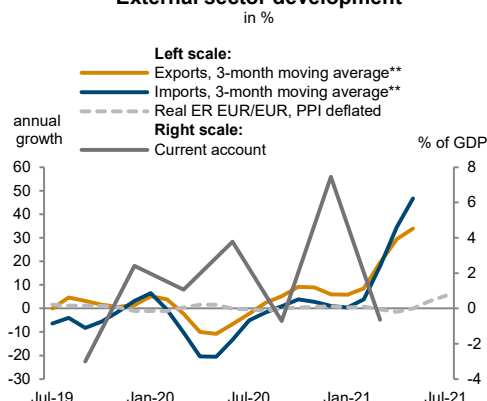
## Inflation and policy rate



## Financial indicators



## External sector development



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

\*\*EUR based.

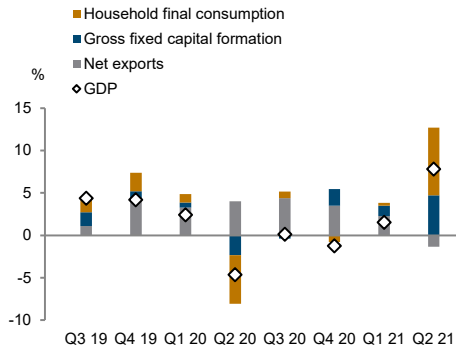
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

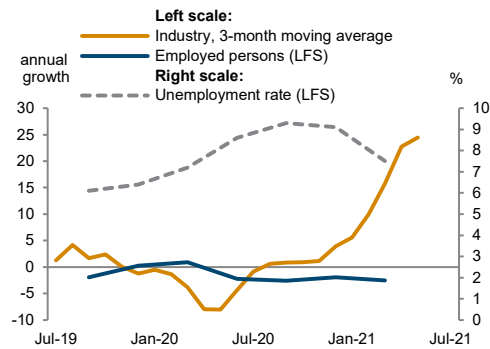
<https://data.wiiw.ac.at/monthly-database.html>

# Lithuania

**Real GDP growth and contributions**  
y-o-y



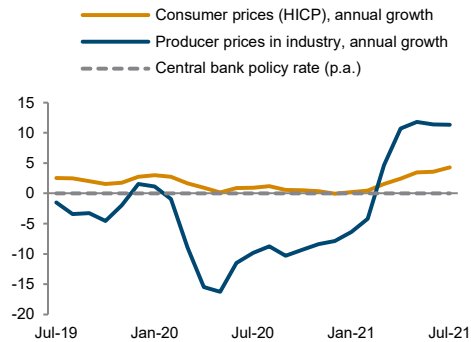
**Real sector development**  
in %



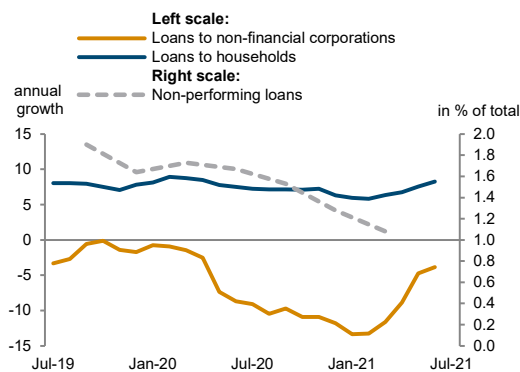
**Unit labour costs in industry**  
annual growth rate in %



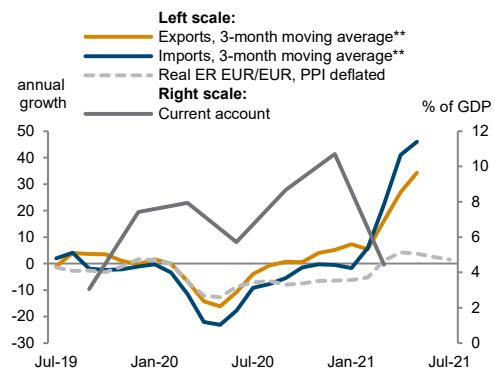
**Inflation and policy rate**  
in %



**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.

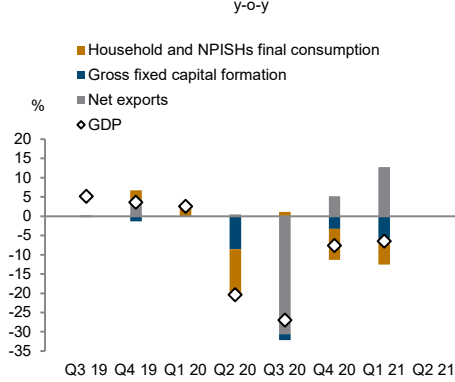
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

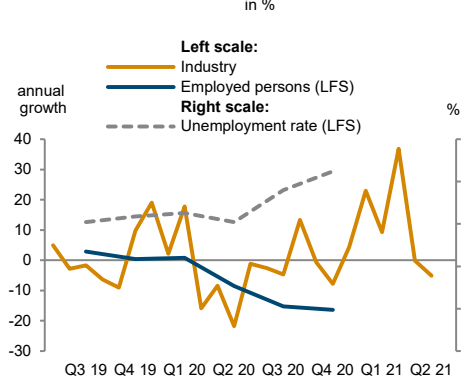
<https://data.wiiw.ac.at/monthly-database.html>

# Montenegro

### Real GDP growth and contributions



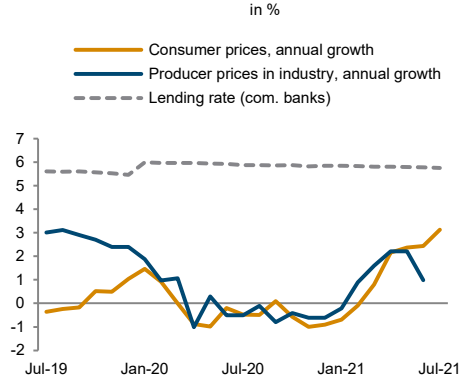
### Real sector development



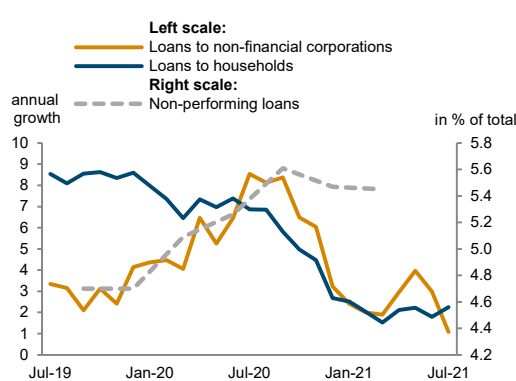
### Unit labour costs in industry



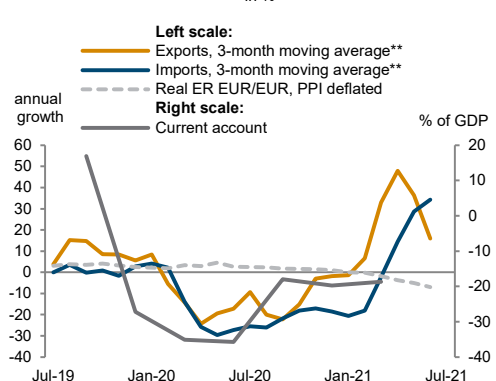
### Inflation and lending rate



### Financial indicators



### External sector development



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

\*\*EUR based.

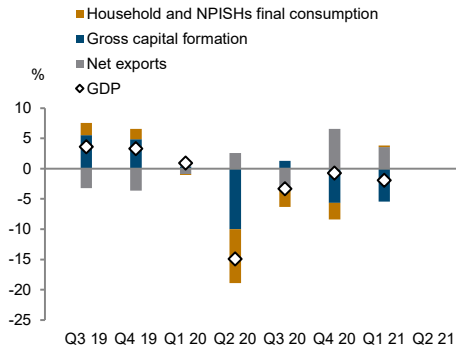
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

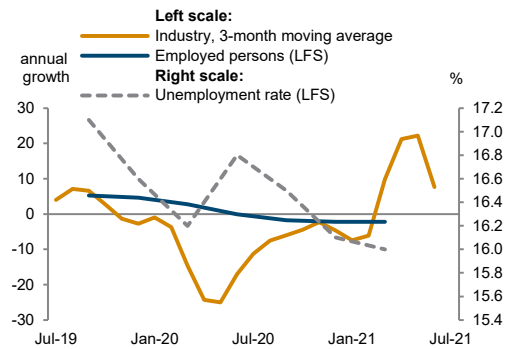
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# North Macedonia

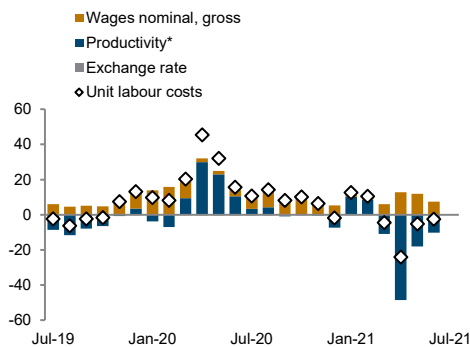
**Real GDP growth and contributions**  
y-o-y



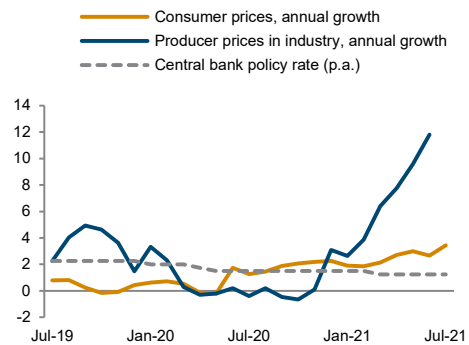
**Real sector development**  
in %



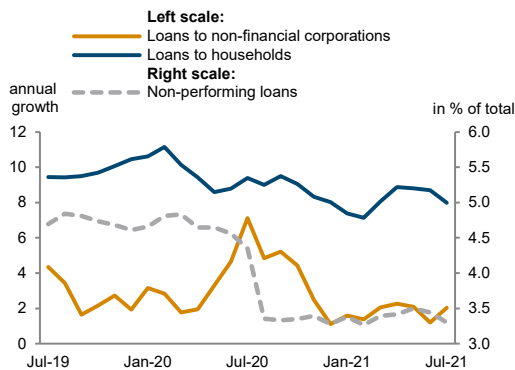
**Unit labour costs in industry**  
annual growth rate in %



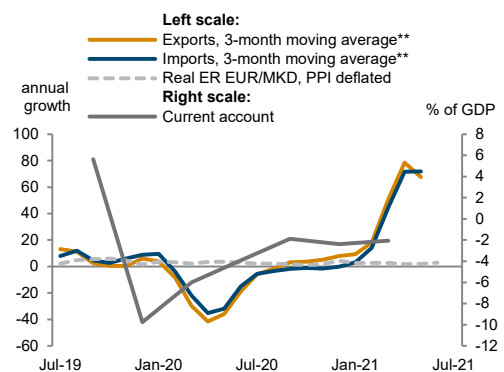
**Inflation and policy rate**  
in %



**Financial indicators**  
in %



**External sector development**  
in %



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

\*\*EUR based.

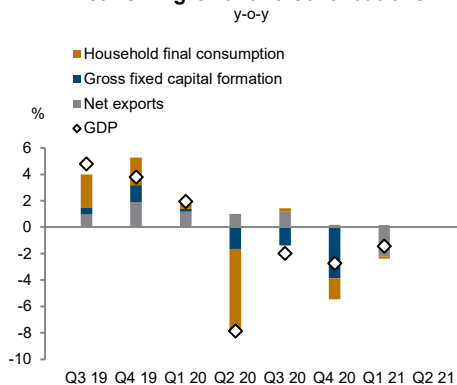
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

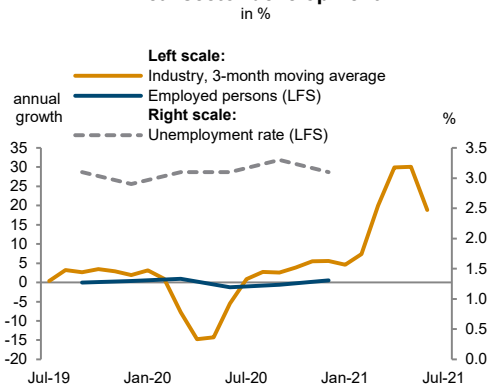
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# Poland

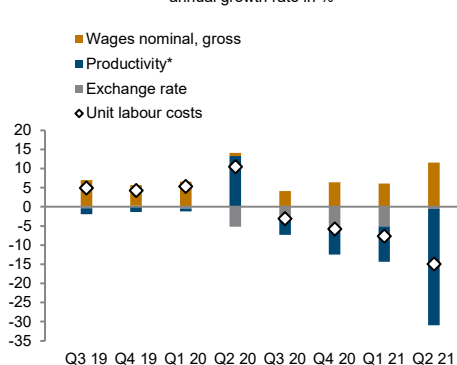
## Real GDP growth and contributions



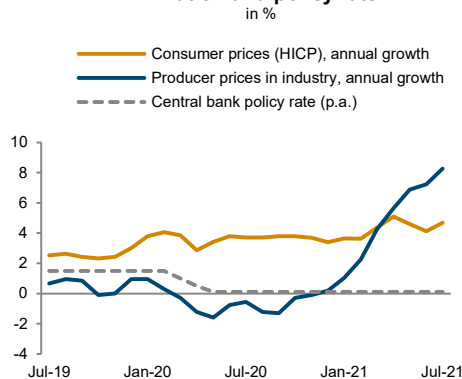
## Real sector development



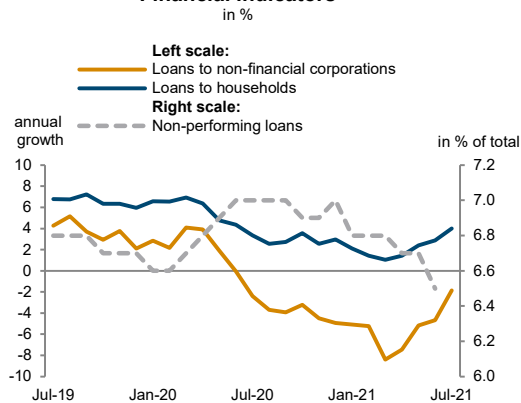
## Unit labour costs in industry



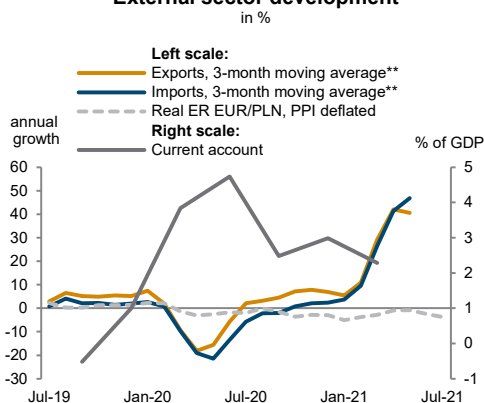
## Inflation and policy rate



## Financial indicators



## External sector development



\*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.

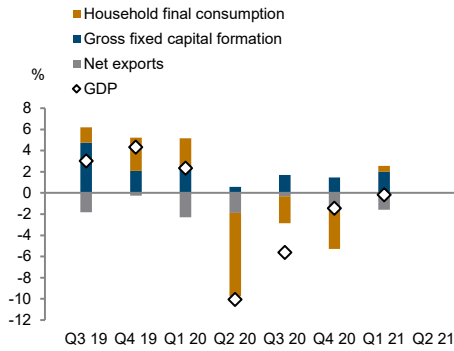
Baseline data, country-specific definitions and methodological breaks in time series are available under:

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

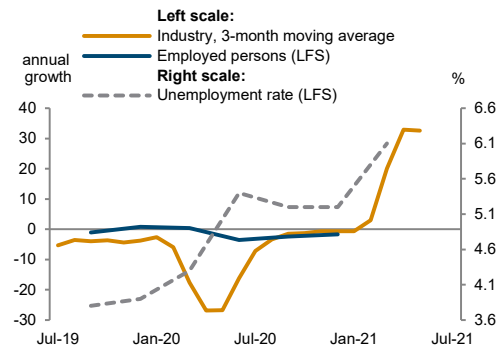


# Romania

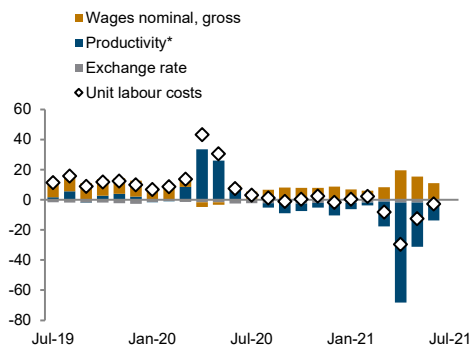
**Real GDP growth and contributions**  
y-o-y



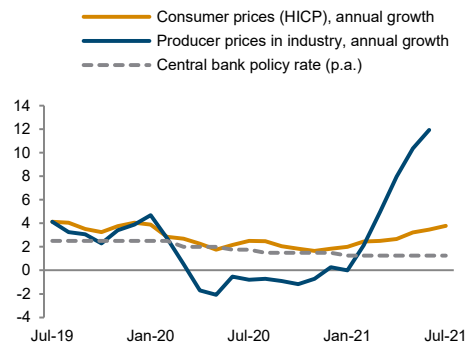
**Real sector development**  
in %



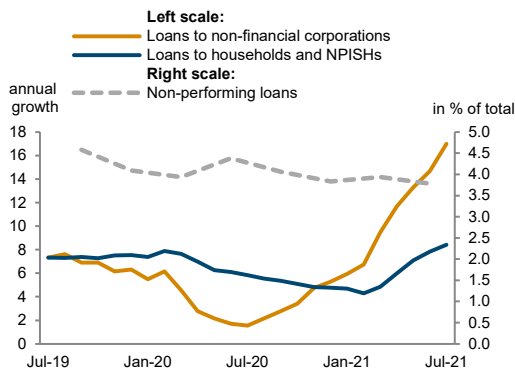
**Unit labour costs in industry**  
annual growth rate in %



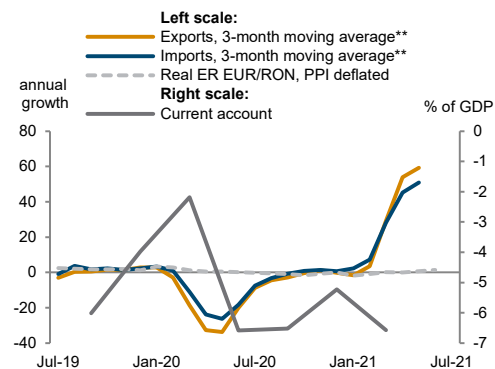
**Inflation and policy rate**  
in %



**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.

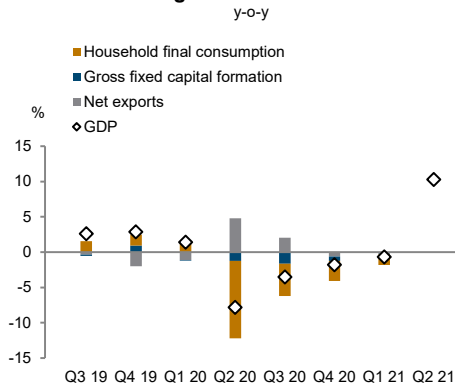
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

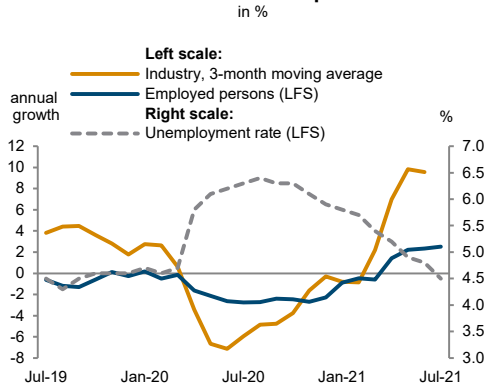
<https://data.wiiw.ac.at/monthly-database.html>

# Russia

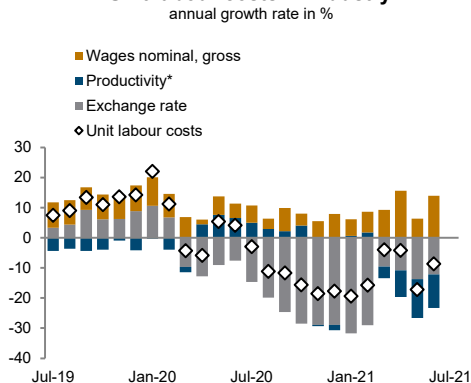
## Real GDP growth and contributions



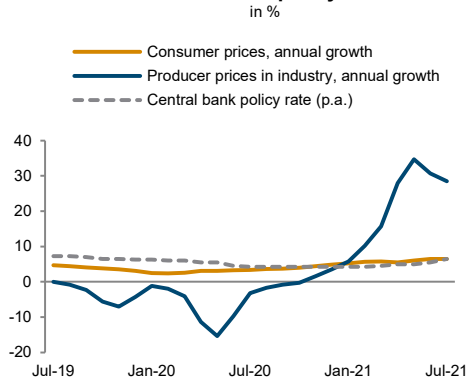
## Real sector development



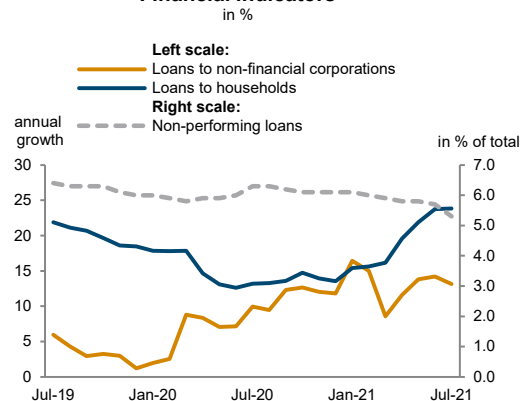
## Unit labour costs in industry



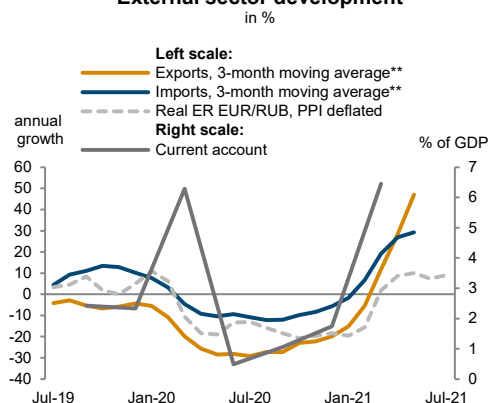
## Inflation and policy rate



## Financial indicators



## External sector development



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

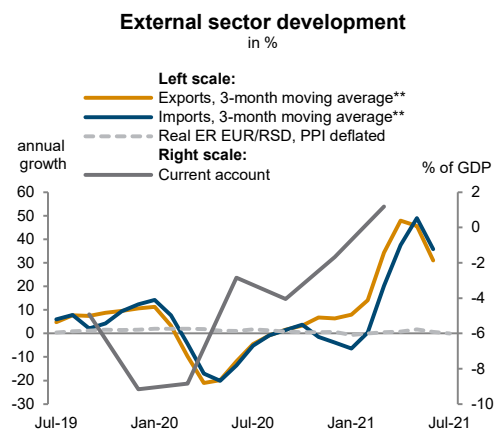
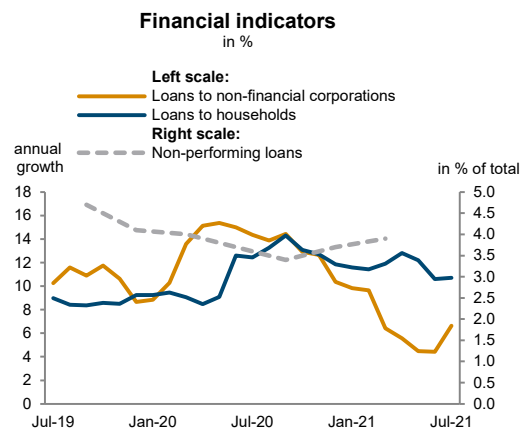
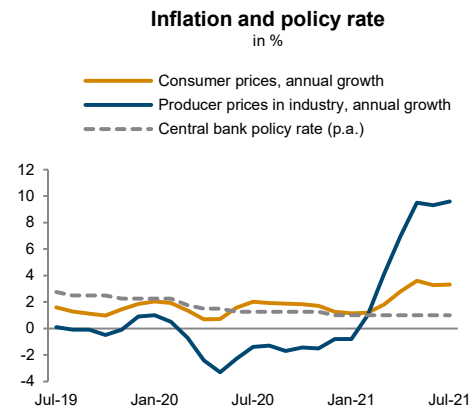
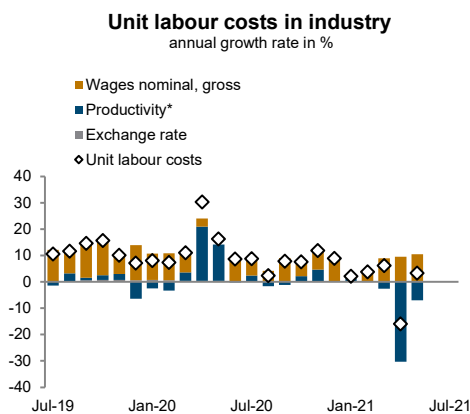
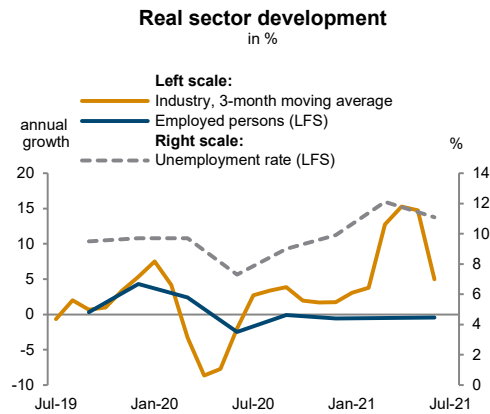
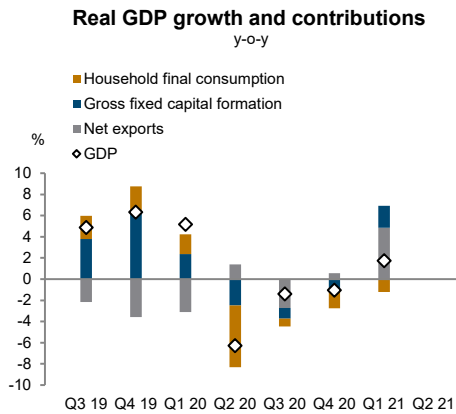
\*\*EUR based.

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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# Serbia



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

\*\*EUR based.

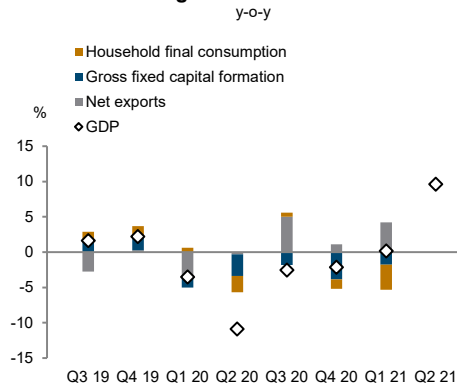
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

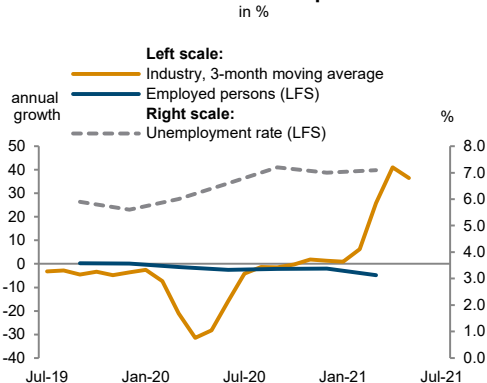
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# Slovakia

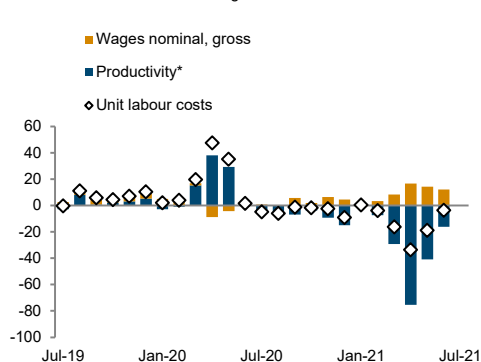
## Real GDP growth and contributions



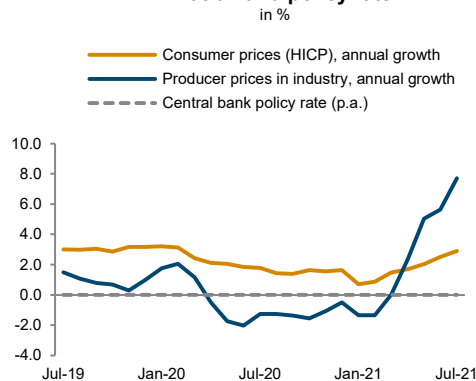
## Real sector development



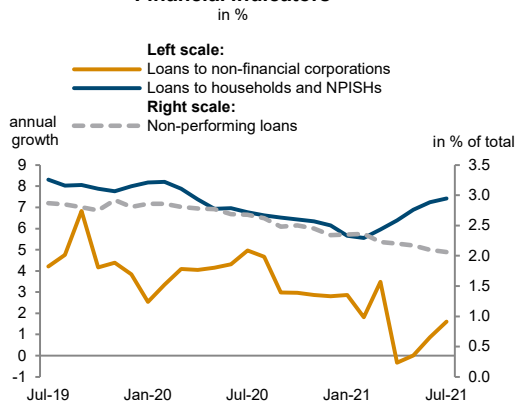
## Unit labour costs in industry



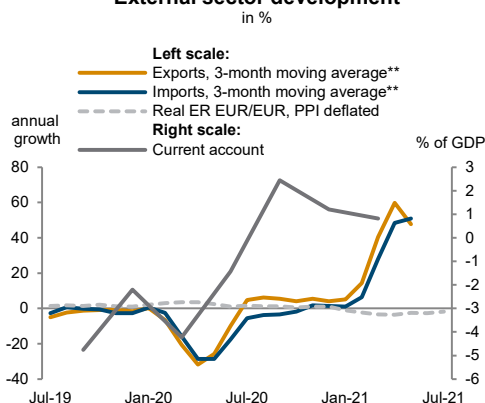
## Inflation and policy rate



## Financial indicators



## External sector development



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

\*\*EUR based.

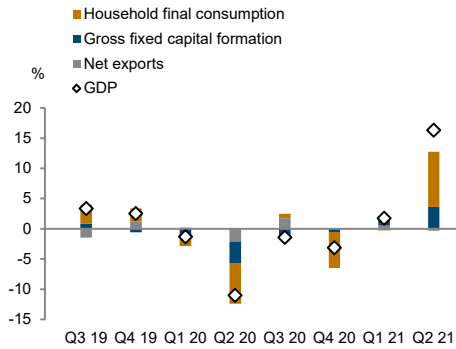
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

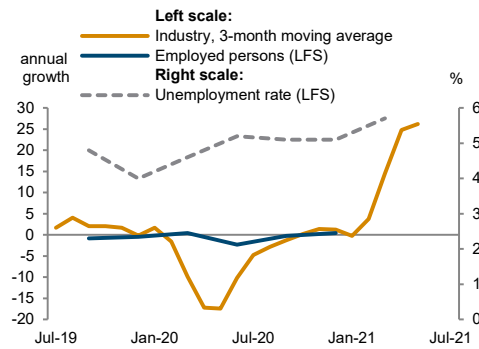
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# Slovenia

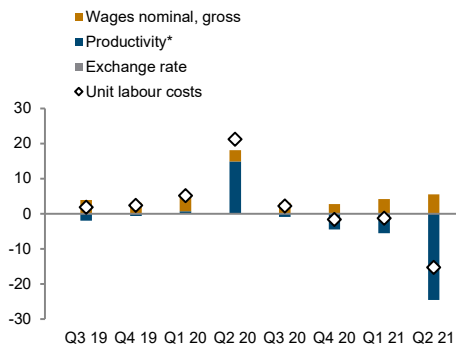
**Real GDP growth and contributions**  
y-o-y



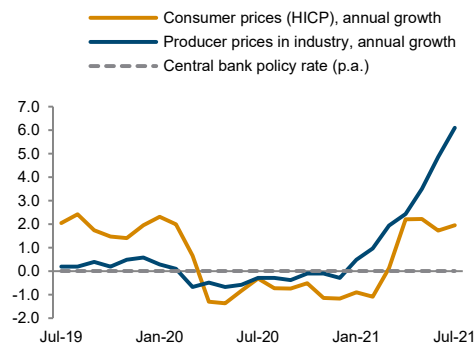
**Real sector development**  
in %



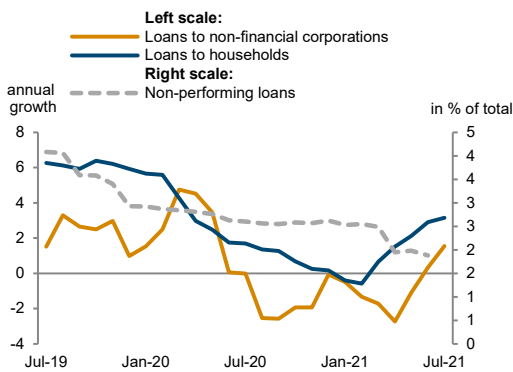
**Unit labour costs in industry**  
annual growth rate in %



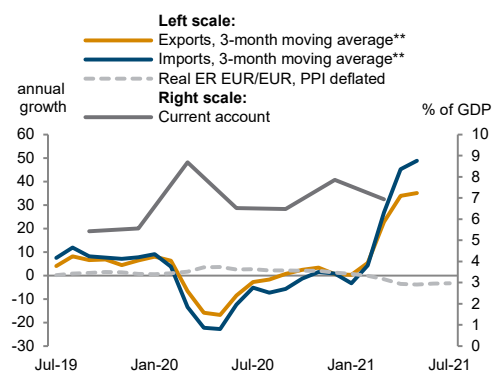
**Inflation and policy rate**  
in %



**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.

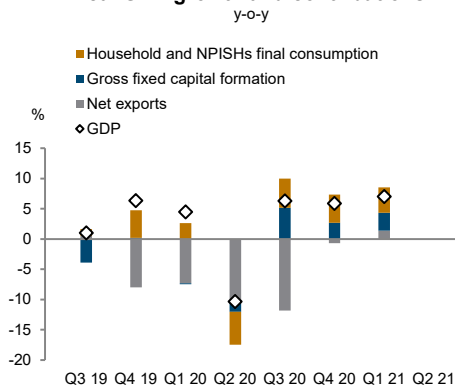
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

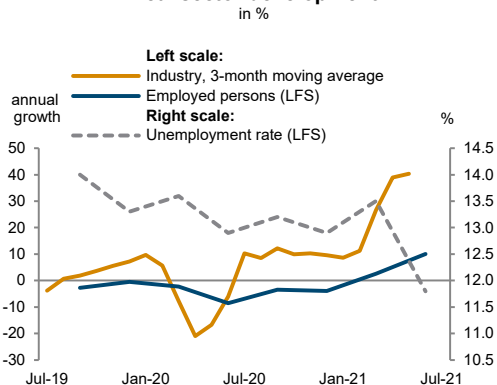
<https://data.wiiw.ac.at/monthly-database.html>

# Turkey

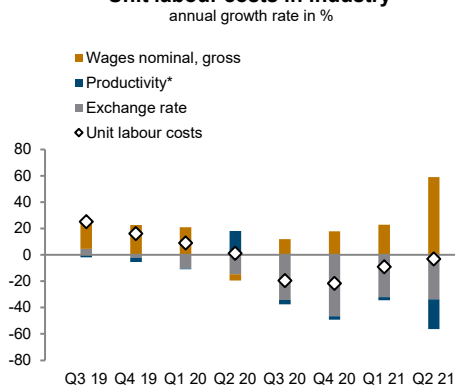
## Real GDP growth and contributions



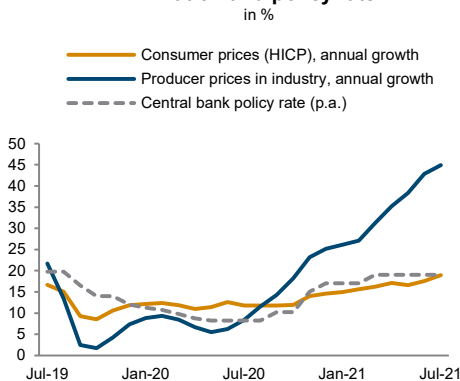
## Real sector development



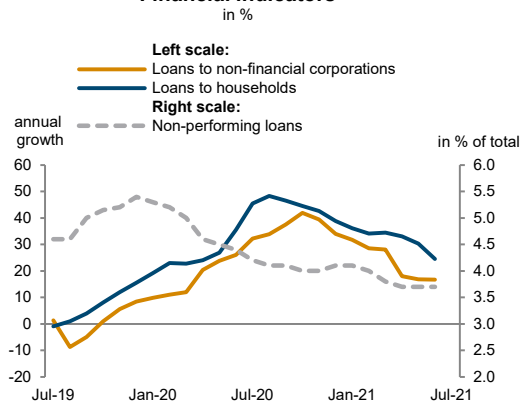
## Unit labour costs in industry



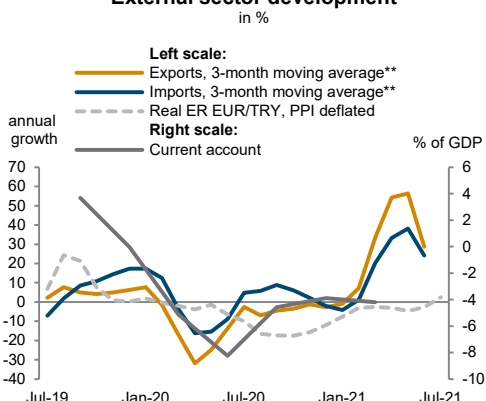
## Inflation and policy rate



## Financial indicators



## External sector development



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

\*\*EUR based.

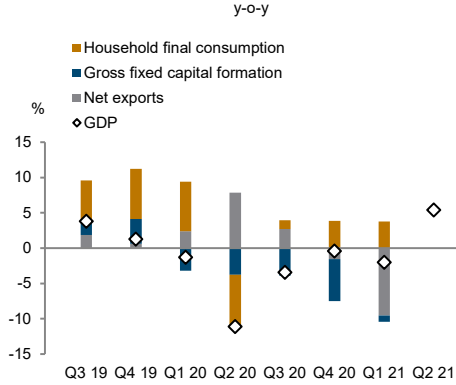
Source: wiiw Monthly Database incorporating Eurostat and national statistics.

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

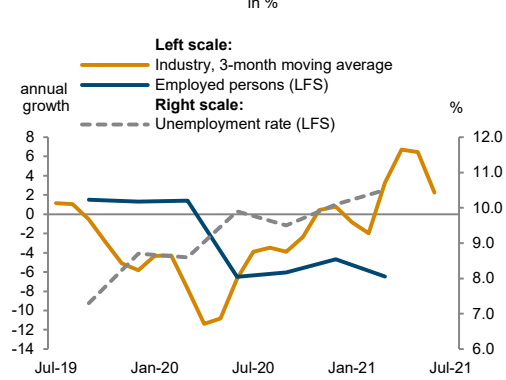
<https://data.wiiw.ac.at/monthly-database.html>

# Ukraine

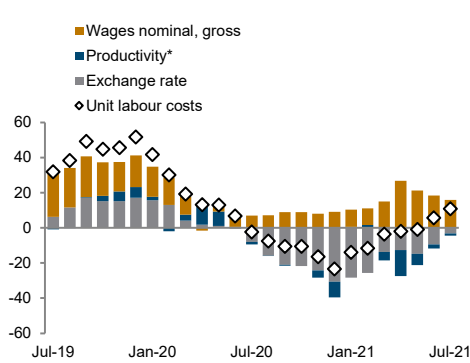
**Real GDP growth and contributions**



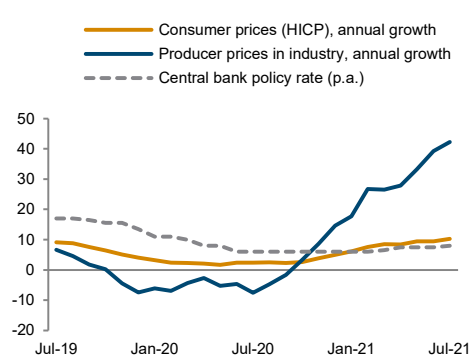
**Real sector development**



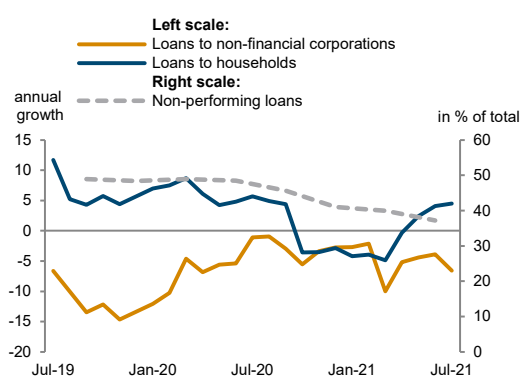
**Unit labour costs in industry**



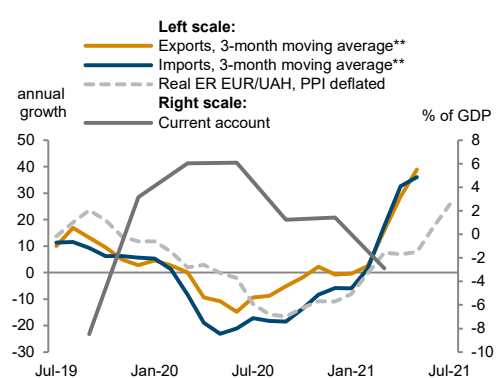
**Inflation and policy rate**



**Financial indicators**



**External sector development**



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