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

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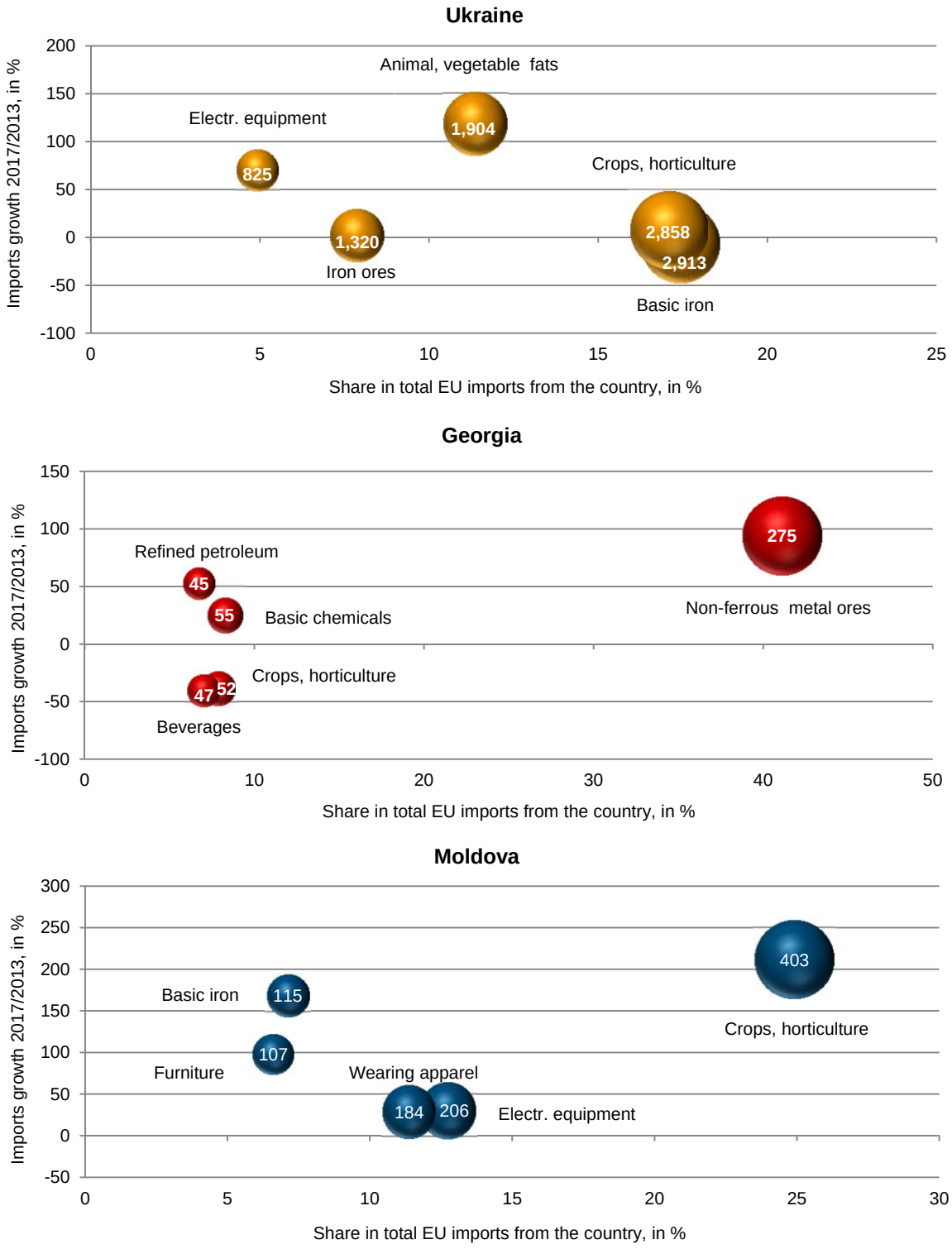
PHILIPP HEIMBERGER
LEON PODKAMINER
SÁNDOR RICHTER

CONTENTS

Top 5 imports into the EU from DCFTA countries*, 2017



*Countries which have signed DCFTA (Deep and Comprehensive Free Trade Agreements) with the EU.
Note: Bubble size corresponds to the absolute value of imports (in EUR million) according to the NACE1 3-digit classification.
Source: own calculations based on Eurostat Comext database.

Opinion Corner*: Permanent fiscal deficits are desirable for the high income countries

BY LEON PODKAMINER

BUDGET DEFICITS ARE A NATURAL CONSEQUENCE OF EXCESS PRIVATE SAVINGS

Despite the austerity efforts of fiscal authorities around the world, public financial balances almost always and everywhere end up in deficits. This is no accident: the fundamental macroeconomic identity states that the private sector's excess saving equals the net external lending plus the financial deficit of the public sector. Given the private sectors' preference for running positive excess savings (and the relative unimportance of external imbalances, at least in the longer run) the public sectors are likely to display fiscal deficits secularly.

The public financial deficit and private excess saving are two sides of the same coin. Abstracting from the external imbalances, the public sector financial deficit represents the net (i.e. not covered by taxes levied on the private sector) value of goods and services *acquired* by the public sector from the private sector. Thereby, the private sector earns additional *income* (equal to the net value of goods and services sold to the government). That additional private sector income is neither consumed nor invested. Thus, it constitutes the excess private saving.

The positive private excess saving emerges only because the private sector desires to hold such a debt (e.g. taking the form of stocks of government-issued fiat money). In a closed economy the *consolidated* net financial wealth of the private sector *must* consist, exclusively, of government debt. In such an economy, public debt *is* the financial wealth of the private sector, consolidated. The private sector would not supply the government with goods and services in exchange for the government debt (starting with the government-issued currency) should that debt be considered worthless.

The conventional wisdom underlying the fiscal policies in most high-income countries stresses the need to restrict public-sector financial deficits. This is particularly the case with the European Union. The EU Growth and Stability Pact 'lays down the obligation for Member States to adhere to the medium-term objective for their budgetary positions of close to balance or in surplus'.[1] The Fiscal Compact agreed upon by the majority of EU leaders is designed to strengthen 'fiscal discipline' across the Euro area (and beyond). It also imposes the obligation to reduce public sector debt/GDP ratios. Given the sluggish pace of nominal GDP growth, that requirement actually imposes the obligation to run budgetary *surpluses*. Thus the taxation of the private sector (net of transfers to the same) should be persistently higher than

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

1 See Council Regulation No. 1055/2005 amending the Growth and Stability Pact (EU 2005). The same requirement features in the more recent (2012) Fiscal Compact (Article 3, point 1(a)).

the income earned by the private sector on sales of goods and services to the public sector. The private sector would then have to 'bleed' for many years to come – for the sake of 'sound public finances'. (The 'sound public finances' are deemed however indispensable for the long-term dynamism of the private sector itself).

The active policy aiming at balanced public finances implies that the private sector's excess saving is not allowed to materialise (e.g. being 'pre-emptively' taxed away). But this outcome is hard to achieve: the private sector is unlikely to completely part with an excess of saving over investment. In rather extreme cases the excess savings would all assume the form of reserves of government-issued cash – thus remaining positive after all. Of course, it is rather unreasonable to expect that under a confiscatory fiscal policy seeking to wipe out the potential excess private saving, the private sector would be induced to increase its investment (or even consumption) spending. In effect, a fiscal policy seeking active consolidation of public finances is doomed to fail. The fiscal deficit will not be eliminated even if the economy is forced into stagnation (or recession).

Conversely, the public sector's financial consolidation can be achieved quite automatically and painlessly whenever the private sector is inclined to expand its investment and/or consumption (thus also reducing excess saving) – as was commonly observed throughout the high-income countries over a couple of years prior to 2000 and (to a lesser extent) prior to 2007.

Admittedly, the developments culminating in the years 2000 and 2007 were 'unsustainable'. Much of the private investment went into risky (or speculative) activities (e.g. residential construction) that failed to pay off, leaving large segments of the private sector deeply indebted to other private sector segments. Similarly, the expanding private consumption was disproportionately driven by debt owed to other parts of the private sector (rather than being backed by rising wages and other regular household incomes). The *internal* private-sector debt/credit excesses were followed by the painful private sector 'deleveraging' (or 'balance-sheet recessions') characterised by depressed private investment, increased private saving (depressed consumption out of the disposable income) and – consequently – increased excess saving of the private sector (the latter equal to the increased public sector financial deficits) reaching its (local) peaks in 2003 and 2010.

FISCAL SURPLUSES AND 'BEGGAR-THY-NEIGHBOUR' POLICIES

It is worth noticing the fact that some OECD countries (Germany in the first place) have for quite some time run fiscal surpluses, not deficits. However, the fiscal surpluses of those countries appear to have been smaller in absolute numbers (usually by far) than the fiscal deficits of others. Also, the fiscal-surplus countries tend to run external surpluses *larger* than their excess private savings. Their external surpluses – essentially equal to the external *deficits* of the partner countries – contribute to the fiscal deficits in the latter. Fiscal deficits disappearing in some (growing) countries do not vanish without trace. Private excess saving in such countries must all come from a rising surplus against foreign countries. They must be reflected (even if not one-for-one) in *higher* fiscal deficits of the foreign countries.

Even if it were in the best long-term interest of the population majorities in each and all of the high-income countries to avoid large and persistent external imbalances (and rely instead on large and persistent fiscal deficits), it is only realistic to expect that in some countries the authorities will choose to

behave opportunistically, resorting to beggar-thy-neighbour tactics. However, the reliance on external surpluses substituting domestic fiscal deficits cannot work globally (or for the developed countries collectively) or indefinitely. Sooner or later, growth led by high export surpluses must come to an end either on account of excessively high foreign debt accumulated by the net-importer countries and/or on account of the recurring protectionist sentiments in the net importing countries. US President Trump's ideas about international trade do not come from nowhere. In either case the policy of basing domestic growth on the beggar-thy-neighbour tactics must end at some point – at least for sufficiently large countries. This policy may work indefinitely for Luxembourg, but not for Germany.

It seems legitimate to assume that in the longer run the (larger) high-income countries individually (and thus also collectively) will not be in a position to 'export' their excess private savings in sufficient quantities. In the last instance, the excess private savings can only be absorbed by (and emerge with) properly accommodative and cooperative fiscal policies across a sufficiently large number of high-income countries.

For about 50 years the US public sector has had the privilege of being the principal 'absorber' of private excess savings globally. Of course, the *global* private excess saving could materialise because the US has been running external deficits – thus supplying the external surplus countries with additional incomes (in the form of additional dollar balances representing the US *public debt*). The fact that the US dollar has been *the* prime reserve currency certainly makes the sustained US external deficits fairly easy to 'finance'. Under more balanced international trade other high-income countries could be expected to share the responsibility for absorbing (and generating) private excess savings by running properly accommodative fiscal policies themselves.

PRIVATE EXCESS SAVINGS LIKELY TO GAIN MOMENTUM IN THE FUTURE

Whether or not there will be a genuine reason to run such accommodative fiscal policies in the future depends on the tendencies with respect to private saving and private investment. As already suggested there are pretty good grounds to expect a continuation of the past tendencies: a further fall in the investment shares concomitant with the saving propensity rising (or stagnating at best).

The deep ('systemic') tendencies underlying the behaviour of private sector saving and investment are likely to strengthen in the future. In the high-income countries, it is difficult to envision either a decisive rise in the wage share or a decline in income inequality. If anything, the combined effects of progressing globalisation (outsourcing production to low-wage and low-tax countries) and technological change (expansion of 'intelligent machines' which will reduce demand for human labour, including high-skill occupations) are likely to support falling investment shares and rising income inequality that increases saving rates. Excess private saving will then increase in tandem with increased income inequality.

Whether such private excess saving materialises will depend on the course taken by the fiscal policies in the high-income countries. With fiscal policies consistently hostile to deficit spending, the private sector would be unable to work out saving in excess of investment. In other words, the private sector's disposable income would not be allowed to rise. In effect, the falling (or stagnant) private saving would be driven to a level consistent with the falling (or stagnant) investment. Under such conditions the real output would remain stagnant, at best.

Alternatively, accommodative fiscal policies would support the private sectors excess savings via matching public financial deficits. The additional demand for private output (equal additional private sector income and equal private excess saving) would support real output growth. Growth driven by rising public debts might continue – as long as the private sectors remained desirous of newly issued public debts. Should, at some stage, the private sectors become 'satisfied' with the quantity of its financial wealth (in the form of public debts held) they might become unresponsive to the public demand for more privately-produced goods and services. At such a stage, deficit-spending fiscal policies would no longer be effective (and the fiscal balance would be automatically restored).

Should one be concerned with a prospect of the private sectors in the high-income countries being finally satiated with their financial wealth? That outcome is rather hard to imagine, and the empirical evidence (the experience of Japan) suggests there is still a long way to go.

In conclusion, should the past (and current) tendencies underlying private sectors' saving and investment continue, one must expect the emergence of large potential private excess saving across the high-income part of the global economy. If the fiscal policies attempt to prevent the materialisation of public sector deficits, real economic growth will likely come to a halt. In other words, continuing output growth of the high-income countries requires cooperative fiscal policies that support the private sectors with income injections financed by rising public debts.

This conclusion is a version of the 'classical' functional finance principle. However, in contrast to the latter, our conclusion is that public debt must grow more or less permanently – and not only in response to 'cyclical' growth slowdowns or occasional recessions. Additionally, whereas the functional finance principle applied in any single country is likely to be impractical (on account of the complications posed by external trade, capital movements and exchange rates), internationally cooperative and accommodative fiscal policies precluding major external imbalances are likely to fare better in practice. Clearly, even if run cooperatively, large functional finance deficits would not be free of potential problems (and thus managing to mitigate the scale of external imbalances). Consideration of those problems goes beyond the scope of this note. In any case, it is worth remembering that if large fiscal deficits become problematic (e.g. when either the private sectors no longer consider the public debt or currency worthy of accumulation or when the mistaken views on the dangers of growing public debt prevail), growth will likely come to a standstill.

Fiscal deficits serving as permanent substitutes for dwindling (for whatever reason) private investment and stagnant private consumption can support continuing overall growth. However, the nature of the economy will undergo gradual evolution. While production (and profits) would remain private, the public sector would become an increasingly important 'customer' of the private sector. The public sector would be commissioning from the latter growing supplies of goods and services (to be paid for with public debt). That offers an opportunity for meeting important social goals (e.g. with regard to environmental protection) which the private profit-oriented sector is not inclined to consider on its own.

The polarisation of production structures in the Euro area

BY PHILIPP HEIMBERGER

The Euro area's economic upswing over the course of the year 2018 has masked continued underlying polarisation of production capabilities between core and periphery countries. Ensuring long-term macroeconomic convergence and stability of the monetary union will require coordinated fiscal, wage and industrial policies.

INTRODUCTION: MACROECONOMIC DIVERGENCE IN THE EURO AREA

The upswing in large parts of the Euro area over the course of the year 2018 has masked continued underlying problems. As I will argue in this note, the most significant long-term risk of disintegration for the Euro area is the existing polarisation in the production structures of 'core' countries (such as Germany and Austria) and southern 'periphery' countries (Greece, Italy, Spain and Portugal). Persistent differences in industry structures and non-price competitiveness trigger macroeconomic divergence between the core and periphery groups.

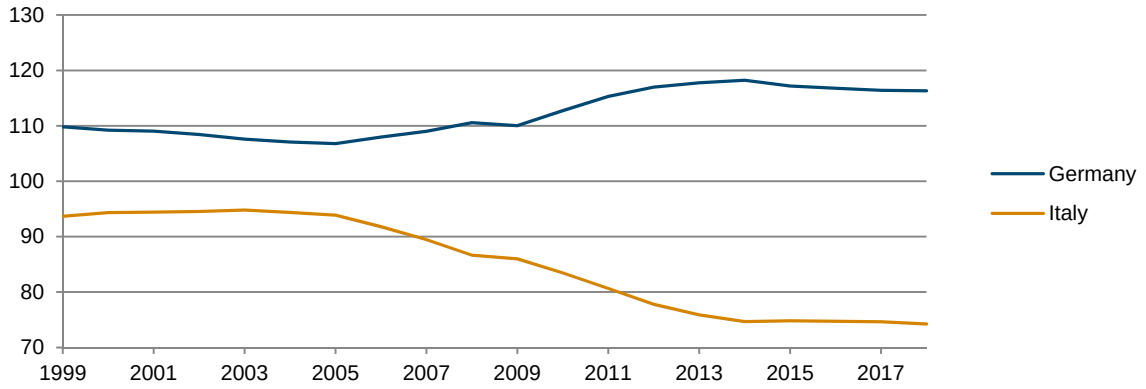
Since the start of the financial crisis in 2007/2008, it has become clear that the Euro's alleged role as a 'convergence machine' (e.g. Gill and Raiser, 2012) is contradicted by the reality of accelerated divergence (Gräbner et al. 2017; Gräbner et al. 2018). Real GDP in Germany increased by 27.4% between 1999 and 2017; while Austria, another 'core' country, saw a 32.8% rise in real output. But there is a stark contrast with the performance of struggling Southern periphery countries: real GDP in Italy, the third-largest economy in the Euro area, has increased by a meagre 6.3% since the introduction of the Euro; in Portugal, the increase was 11.6%; and after many years of severe crisis, the Greek economy basically stands at the same level of income as in 1999.[1] Although GDP per capita in the southern periphery of the Euro area was already much lower than in Germany and Austria when these countries joined the Euro, the periphery has lost further ground over the last 20 years. Figure 1 shows that while real GDP per capita in Italy decreased from 93.7% of the Euro area average in 1999 to 74.6% in 2017, Germany's real GDP per capita increased from 109.8% to 116.3% over the same period.

We can conclude that the political promise of convergence that was connected to the introduction of the Euro has not materialised. In stark contrast, macroeconomic developments have been characterised by increased divergence, which is also clearly visible in the labour markets: while unemployment in Germany currently stands at historically low levels, the official unemployment rate in most southern periphery countries is still markedly above pre-crisis levels, even if unemployment has fallen from its peak (see Figure 2).

[1] The data used for the cumulative GDP growth calculations in this paragraph were obtained from AMECO (May 2018 update).

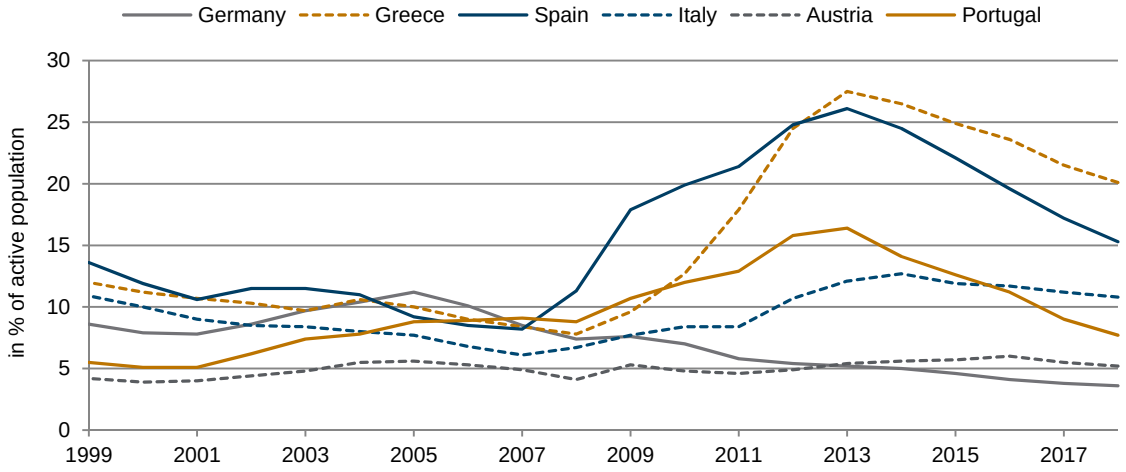
The delayed monetary policy response by the ECB after the financial crisis (e.g. Bibow 2015), the restrictive fiscal policy requirements under the EU's fiscal regulation framework (e.g. Heimberger and Kapeller 2017) and incomplete restructuring of the banking sector (e.g. ECB 2017) have been a consistent drag on the economy, fuelling inadequate aggregate demand, low productivity growth and continued labour market and debt problems in large parts of the Euro area, especially in the Southern periphery. The shortcomings of the Euro area's institutional architecture have complicated a proper crisis response (e.g. Lane 2012; Shambaugh 2012): while the European Central Bank conducts monetary policy for the whole Euro area, the existing institutions lack a common fiscal and political union – an institutional setting, which has triggered self-fulfilling crisis dynamics (De Grauwe and Ji 2013). Furthermore, restrictive fiscal rules and fiscal consolidation conditionality since the financial crisis have promoted pro-cyclical fiscal policies, which have had the most pronounced negative macroeconomic effects in the southern periphery (e.g. Heimberger 2017; Heimberger and Kapeller 2017).

Figure 1 / GDP per capita in % of Euro area average



Source: AMECO (May 3rd 2018 update); own calculations.

Figure 2 / Unemployment rates in the Euro area

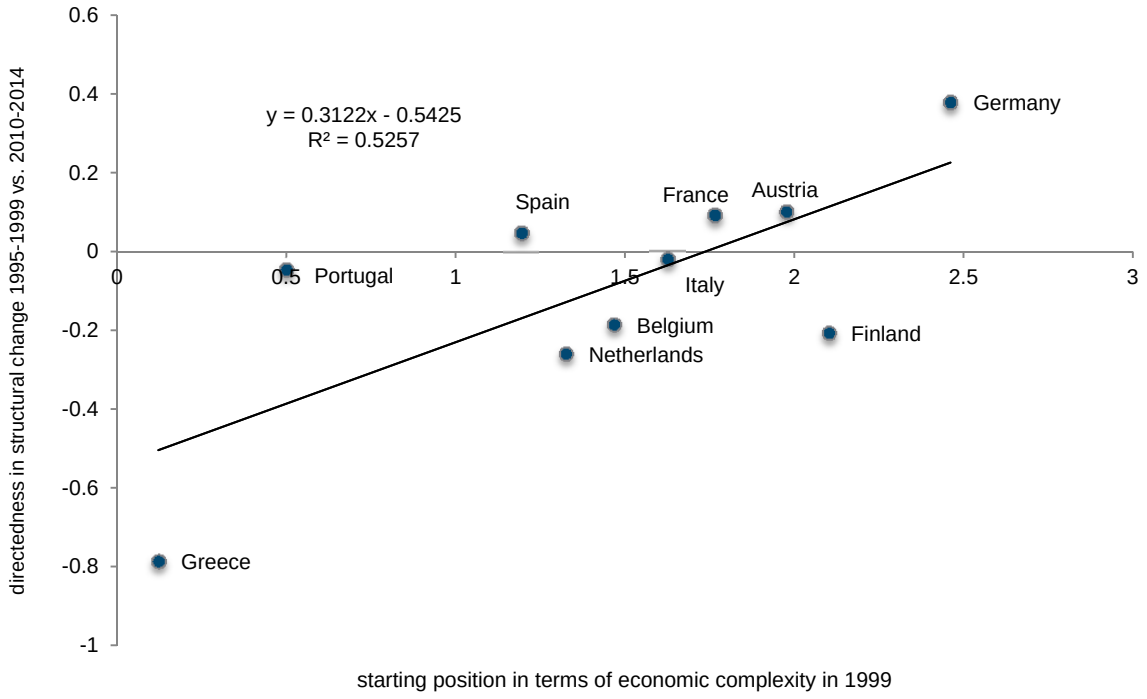


Source: AMECO (May 3rd 2018 update); own calculations.

TECHNOLOGICAL CAPABILITIES AND PRODUCTION STRUCTURES

The cyclical upswing in the Euro area over recent months (e.g. European Commission 2018) has obfuscated the underlying reality that self-reinforcing processes and centrifugal forces of disintegration, which can be traced back to differences in technological capabilities and industry structures among Euro area countries, characterise the economic regime in the Euro area. To illustrate this argument, I continue by analysing the evolution in industrial structures in Euro area countries, which will allow us to show that while technological capabilities were already distributed unequally before the start of the financial crisis, those countries with a better technological starting position in 1999 – with Germany leading the pack – have managed to further increase their structural advantage vis-à-vis lagging countries in the southern periphery.

Figure 3 / Structural polarisation in the Euro area



Notes: Technological capabilities and structural change in the Euro area. The calculation of the directedness of technological change variable on the y-axis is based on my own calculations of changes in average product complexity derived from changes in export-composition in the pre-crisis (1995-1999) vs. the post-crisis period (2010-2014). For details on the calculation method, see Gräbner et al. (2017). The Euro area country group was restricted to those 12 countries which joined the Euro area within the first two years. The x-axis values depict the average economic complexity (derived from trade data of the respective country; see Hidalgo and Hausmann 2009 for details), which can be used as a proxy for the starting level of technological capabilities in 1999. Data were unavailable for Luxembourg; and as a special statistical case of technological upgrading, Ireland was excluded from the sample (e.g. Regan and Brazys 2018).
Source: Eurostat; Simoes and Hidalgo (2011); own calculations.

To analyse the structural change of industrial sectors in the Euro area's economies since the introduction of the Euro, we use a measure for the directedness of structural change as proposed by Gräbner *et al.* (2018). They compare trade volumes of all European countries at a product level between the pre-Euro (1995-1999) and post-crisis (2010-2014) period with the goal of assessing changes in countries' export baskets. The directedness measure of structural change is based on calculating

positive and negative changes in the value of exports. It indicates whether export values improve more markedly for more complex products (in which case its value is positive) or for less complex products (in which case its value is negative) for a given Euro area country.

In Figure 3, this measure for sectoral changes in export composition is regressed on the average product complexity of a given country in 1999. The average economic complexity index of the products exported is used as a proxy for a country's non-price competitiveness, which can be traced back to structural characteristics in terms of technological capabilities (Hidalgo et al. 2007): the higher the average complexity of the goods exported by the respective country, the higher its technological capabilities (and vice versa; see Gräbner et al. 2017, 2018 for details).

By looking at Figure 3, one observes that within the Euro area more favourable starting positions in terms of overall complexity are, on average, associated with stronger increases of more complex products in a country's export basket over time. An OLS regression suggests that the starting position of Euro area countries in 1999 explains about 53% of the variation in sectoral export changes, indicating strong path dependence in terms of developmental trajectories in the Euro area.[2]

CONCLUSIONS

Given the central role of technological capabilities for the assessment of future economic developments (Hidalgo and Hausman 2009; Cristelli et al. 2015), the existing structural polarisation in the Euro area indicates that policymakers should not expect a convergence process to materialise naturally. The emergence of a structural competitive advantage in countries such as Germany rests on increasing returns to production. As a consequence, the current trajectories in the Euro area should be expected to bring about further divergence in the economic development between Euro area countries. The underlying problem of divergence cannot be solved without coordinated policy intervention.

A one-sided focus on 'structural reforms' and 'solid fiscal policies' is incompatible with a convergence process in the southern periphery, which would require targeted interventions in the context of fiscal, wage and industrial policy coordination at the European level (Gräbner et al 2018). The southern periphery urgently needs a demand-side expansion and improvements in industrial structures. In this article, I have argued that a change in policy course has to address the polarisation in industry structures as a priority, because centrifugal forces of long-term macroeconomic divergence will otherwise continue to promote the disintegration of the Euro area, as macroeconomic drift translates into toxic political conflicts. Importantly, counteracting the polarisation in production structures requires an active industrial policy (e.g. Landesmann and Stöllinger 2018; Cimoli and Dosi 2017) that aims at fostering a catching-up process in terms of innovative activities and technological capabilities for firms in the Southern European periphery. Implementing measures to fight inadequate aggregate demand and overcoming the divergence in structural development trajectories in Europe will eventually require fiscal scope for public investment to foster structural improvements and innovations (Mazzucato 2013). Policy-makers should rethink and reform the EU's fiscal framework accordingly. One possibility would be to introduce a golden rule which excludes expenditures for public investment that provide substantial future pay-offs from the relevant public deficit measures in the EU's fiscal regulation framework (Truger 2015).

[2] Note that we exclude Ireland as a special case of a highly financialised country that exhibits a special type of technological upgrading due to its developmental model (e.g. Regan and Brazys 2018).

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Economic disintegration of the European Union: not improbable

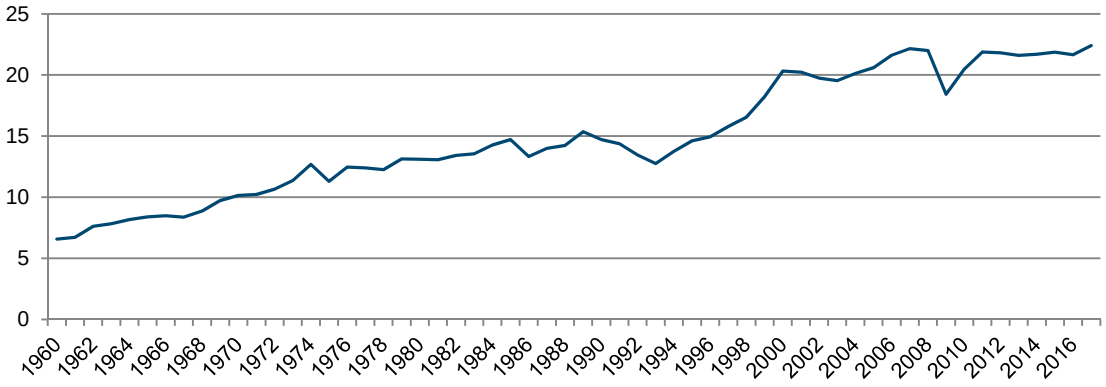
BY LEON PODKAMINER*

In this paper it is argued that European integration has not fulfilled its chief economic promises. Output growth has been increasingly weak and unstable. Productivity growth has been following a decreasing trend. This sorry state of affairs is likely to continue – and likely to precipitate further exits, or eventually, the dissolution of the Union. However, this outcome is not unavoidable. Moreover, the negative consequences implicit in the current architecture of the common currency could be neutralised. However, the basic paradigms of the economic policies to be followed in the EU would have to be radically changed. First, the unconditional fiscal consolidation provisions still in force would have to be repelled. Second, 'beggar-thy-neighbour' (or mercantilist) wage policies would have to be 'outlawed'.

ECONOMIC INTEGRATION HAS NOT FULFILLED ITS PROMISES

Under the provisions of the Maastricht Treaty, European economic integration has been further advanced. The introduction of the euro crowned the process of internal liberalisation of trade within the EU and facilitated the creation of an area of ever freer movements of capital, labour and services throughout the continent. There are many possible measures of advances in economic integration. Perhaps the most unproblematic of these measures is the share of mutual trade in the EU aggregate GDP. Figure 1 shows the mutual exports as a percentage of Euro-area (EA-12, the original 12 Euro area members) GDP since 1960.

Figure 1 / Intra EU exports as a percentage of EA-12 GDP, 1960-2017



Source: AMECO, own calculations.

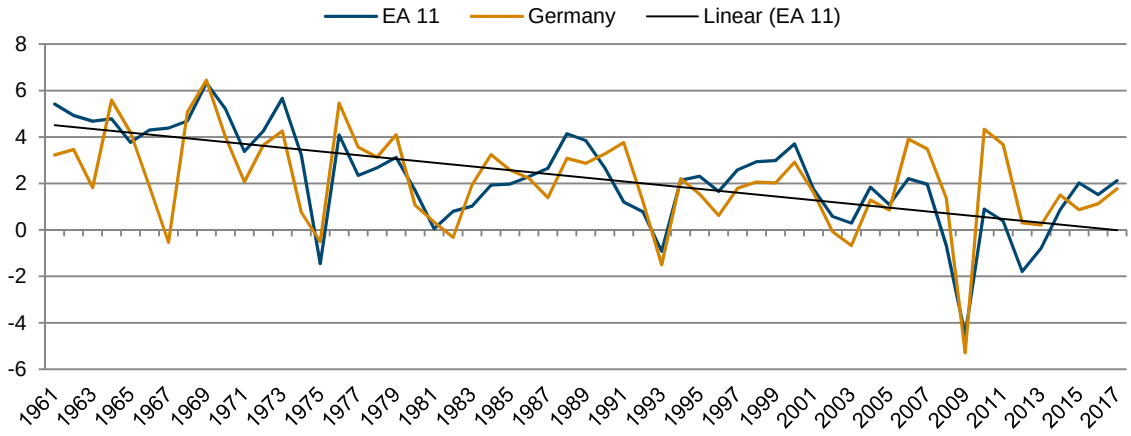
* This text is a follow-up version of Podkaminer (2016).

Economic integration (just as internal economic liberalisation or globalisation) is generally assumed to be conducive to economic growth (even if it is now often admitted that it may have unwelcome – but transient – distributional effects). Closer integration has been expected to promote faster overall productivity growth – for example through increased competition and more efficient utilisation of scarce resources.

European integration has failed to deliver on these promises. In actual fact economic growth in the integrating Europe has been slowing down secularly, since around the mid-1970s (see Figure 2). Growth rates follow a declining trend which – if continued – would push the EU-12 into permanent recession. In addition, growth has become increasingly volatile, with violent ups and downs, and recessions climaxing around 1993, 2003, 2009 and 2012. One may bear in mind that the short-lived recessions in 1975 and 1981 could have been the aftermaths of the oil embargoes (1974, 1979) and the associated shortages severely affecting the 'supply side'. Beyond such shortages materially affecting production, the oil shocks had negative consequences for inflation, income distribution and – especially – private investment[1].

The deep slumps in 1993 and 2009 cannot yet be viewed as 'exogenous shocks'. These slumps were 'endogenous'. They were the consequences of the economic 'architecture' consciously designed by the European economic elites. In 1993 the recession was the consequence of the crash of the Exchange Rate Mechanism; in 2009 it was the near-collapse of the EU's financial sector operating by the rules enacted by the EU policy-makers. It may be added that the second-dip recession of 2012 was provoked by the 'fiscal consolidation' hysteria gripping the Euro-area decision-makers. Finally, it is worth observing that the introduction of the Euro (since 1998) and the full internal trade liberalisation (Single European Market, since 1993) have done nothing to accelerate and smooth out GDP growth.

Figure 2 / Growth rates of real per capita GDP for Germany and the Euro area (EA) 11 (without Germany) in 1961-2017, in %



Source: AMECO, own calculations.

[1] Actions by the OPEC cartel produced fundamental *uncertainty*: would the energy prices/supplies be allowed to return to 'normal' levels, or would they rather stay at 'abnormal' levels more or less indefinitely? Under such uncertainty the best approach to taking (irreversible) investment decisions (involving technology choice: energy-saving, or traditional) could be of a *wait-and-see* sort.

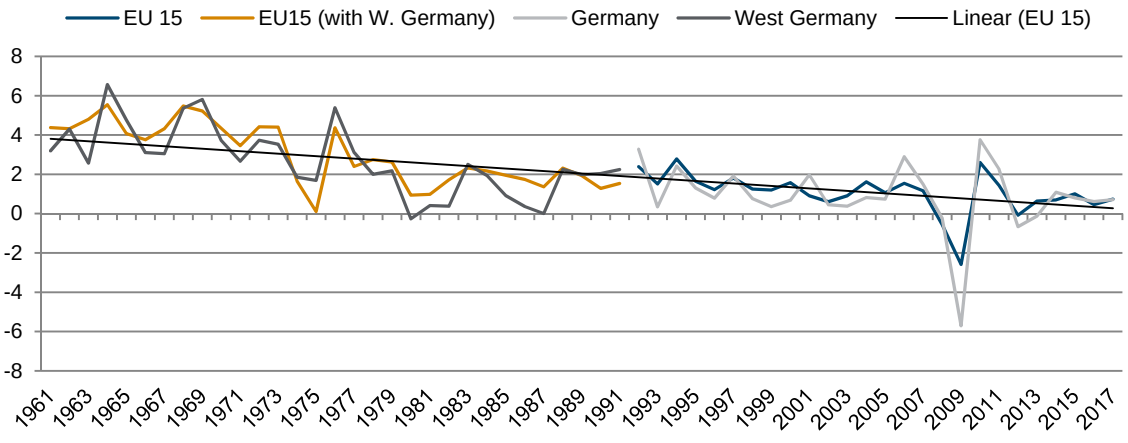
IS THE WEAKENING LABOUR PRODUCTIVITY GROWTH RESPONSIBLE FOR THE SLOWDOWN OF OUTPUT GROWTH?

Labour productivity growth has also followed a declining trend (see Figure 3). Given the rather undisputable acceleration of technological progress and the rather obvious advances in applied research and innovation activities, the labour productivity growth slowdown is considered a paradox. Some explanations of the paradox suggest that output (and productivity) have been systematically underestimated by the statistics (e.g. Mokyr, 2014, or Feldstein, 2015). Others tend to disagree with the mismeasurement thesis without yet offering a coherent explanation of the paradox (e.g. Byrne et al., 2016).

Robert Gordon (2015) is the most vocal representative of the 'supply-siders' who suggest that the technological progress has not prevented the weakening of labour productivity growth. He then goes as far as to blame the post-2008 stagnation itself on the slower growth (since 2004) in potential output '*emanating from the behaviour of productivity*'. The implication of this seems to be that the supply side needs further 'structural reforms', stronger deregulation, more labour market flexibility, etc. so as to strengthen productivity growth and thus contribute to faster growth of output.

However, the results of an econometric examination (Podkaminer, 2016) of the links between labour productivity and output growth for various groups of countries indicate that, generally, productivity does not 'cause' output. Much more often the causation seems to be running in the opposite direction: from output (or its growth rate) to productivity (or its growth rate). This finding, though inconsistent with the 'mainstream' ideas on the sources of long-term economic growth, is reminiscent of the classical Kaldor-Verdoorn Law (Kaldor, 1966). The progressing slowdown in output growth at the global level, initiated in the mid-1970s (amid the wholesale change of economic policy paradigms), may have been mirrored – and followed – by the progressive slowdown in productivity growth (and that despite the indisputable acceleration of technological progress). Thus, productivity growth slowdown cannot be the cause of the overall slowdown of output growth in the EU.

Figure 3 / Growth rate of real labour productivity (GDP per employed person) for EU-15 and Germany in 1961-2017, in %



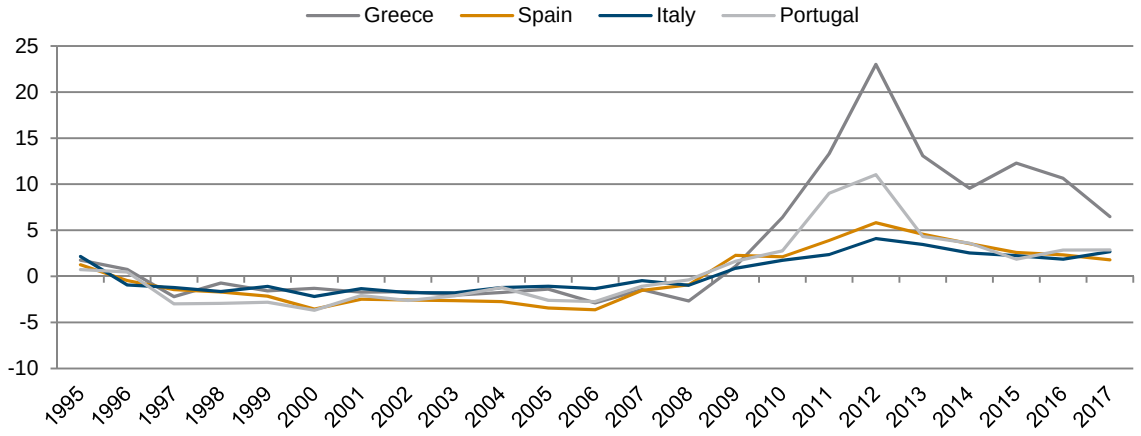
Source: AMECO, own calculations.

THE REASONS FOR THE FAILURE

For some authors the economic failure of the EU can be directly attributed to the principles first introduced in the Maastricht Treaty and later reiterated in a series of Fiscal Compacts or Pacts. Combined with the common currency (and the common monetary policy long embodying the tradition of German central banking), the Maastricht fiscal rules have eventually suppressed output growth, generated internal imbalances – and thus paved the ground for the internal economic disintegration of the Union (Laski and Podkaminer, 2012).

The vicious dynamics behind the developing economic drama can be concisely described as follows. First to come is the set of fiscal rules setting narrow limits for public sector deficits. The fiscal rules are to apply universally – without regard for national specificities. Thus a country (such as Germany) which is capable of producing output in excess of the needs of its private sector (be it private consumption or private investment) cannot rely on the public sector to absorb the excess private sector savings by means of deficit spending. It is thus left with no other easy option than to run trade surpluses. For such a country running trade surpluses becomes a way of supporting domestic growth (and of keeping its own unemployment in check). Of course, for a country to be capable of running trade surpluses there must be some countries capable of running trade deficits. It is understood that for countries running trade deficits this implies not only the accumulation of foreign debt – but also the suppression of domestic output growth and additional unemployment (to be associated with persistent fiscal deficits).

Figure 4 / Real long-term interest rates on government bonds for Greece, Spain, Italy and Portugal (differential over Germany) in 1995-2017, in percentage points



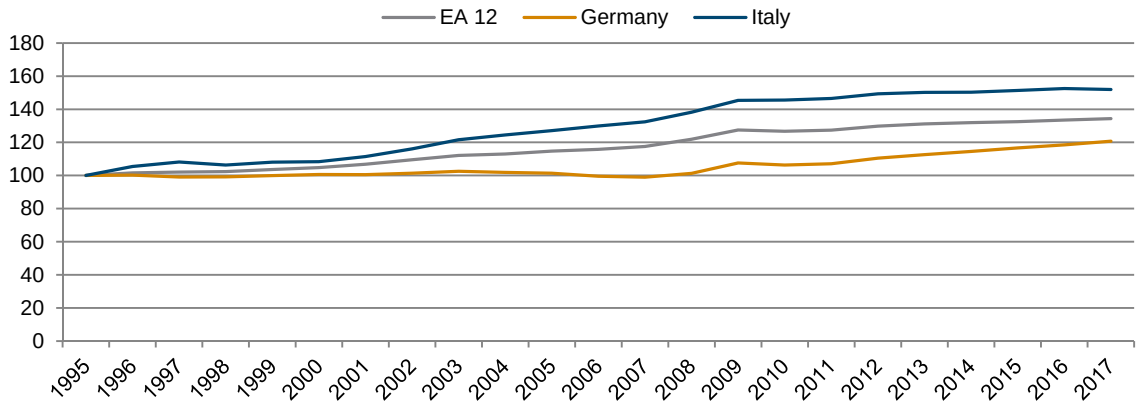
Source: AMECO, own calculations.

At this stage it is important to consider the way the common currency facilitates the rise of cross-country imbalances. One currency, one monetary policy and one policy interest rate have very different economic implications for various members of the same group. The policy interest rate has been tuned to the average inflation rate calculated for the whole area. That would be fine if inflation (and inflation histories) were similar across the whole area. However, in fact they have been very different. In consequence, for countries with inflation persistently higher than the average the real interest rates have tended to be low (or even negative) while – at the same time – the real interest rates may be prohibitively high in countries with much lower inflation. As Figure 4 shows, until 2008 the real interest

rates in Germany were consistently higher than in the Southern periphery countries. Of course such differential developments favouring Germany's partners could not persist indefinitely. As soon as the boom supported by low real interest rates collapsed (under the weight of accumulated domestic and foreign debts) the real interest rates in countries that had had higher inflation became high (in many cases excessively high). It is at this stage that the initial boom turned into recession.

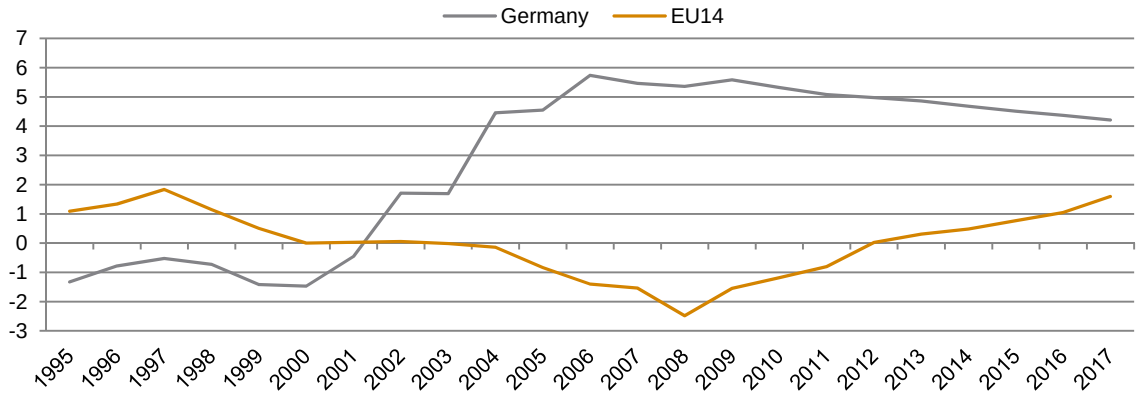
The moral to this story is that the principle 'one size fits all' does not work in practice. The common monetary policy has been destabilising growth and inflation: fuelling inflation (and growth) in countries experiencing a boom while suppressing inflation (and growth) in countries experiencing deflation and output slumps. Importantly, as the consequence of differential developments in real interest rates (and inflation), the countries with traditionally low inflation (and, consequently, weak growth in wages, such as Germany) have been gaining cost-competitiveness advantages vs. their higher-inflation partners (see Figure 5).

Figure 5 / Nominal unit labour costs, 1995-2017 (1995=100)



Source: AMECO, own calculations.

Figure 6 / Net external lending as a percentage of GDP: Germany and 14 West European EU countries, 1995-2017



Source: AMECO.

In this way the low-inflation (and weak-growth) countries have become reliant on ever rising trade surpluses –while the higher-inflation countries that had earlier priced themselves out of international competition have, since 2008, been forced to reduce their external deficits (see Figure 6) – as a rule hand in hand with persisting depression (or even recession).

THE PITFALL OF 'INTERNAL DEVALUATION'

Germany's formidable external competitiveness, represented by its gigantic and persistent trade and current account surpluses, is a widely acknowledged source of problems troubling some of Germany's trade partners – and many of the 'old' members of the European Union in particular. The problems are especially acute for the Southern flank of the Euro area where the unit labour costs have increased enormously relative to Germany's.

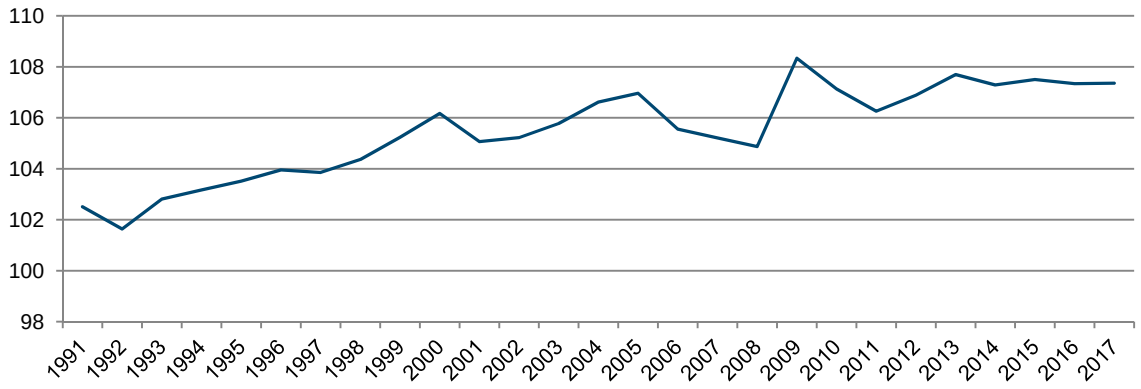
The coincidence of Germany's outstanding performance on both relative unit labour costs and external surpluses seems to have given rise to the idea that external surpluses can be a negatively-sloped function of unit labour cost indices. That idea underlies The Euro Plus Pact (European Council, 2011) which 'prioritises fostering competitiveness and convergence' across the Euro area in terms of real unit labour costs (see e.g. European Commission, 2015).

One specific policy option often propagated to strengthen Germany's Eurozone partners is 'internal devaluation'. The internal devaluation is a set of actions (including some labour market reforms) resulting in a sufficiently strong deflation in wages (and prices, in due course.) Of course, suppression of wages (and thus of domestic demand) is a bitter medicine if only because it is almost certain to provoke a recession of unforeseeable depth and length. In the first place it may help reduce the trade deficit (or even generate a trade surplus) by reducing demand for imports rather than promoting higher exports. A more attractive alternative is believed to involve the achievement of competitiveness gains through policies promoting much faster growth of labour productivity. Of course, achievement of fast growth of labour productivity (primarily implying a fast change in the structure of production and improved quality of exportable goods and services etc.) cannot be a bad idea though it is not quite clear how this could be effectively engineered. The failure of the Lisbon Agenda (and other such policy initiatives) promising a speedy structural change, quality improvements and thus advances in productivity is a case in point.

The major problem with the productivity alternative is that in actual fact the 'old' EU has on the whole performed much *better* than Germany in terms of labour productivity growth (see Figure 7) in the long run. On labour productivity Germany has been losing out to the rest of the 'old' EU secularly[2]. Germany's super-competitiveness cannot be squared with evidence on its relative productivity performance bur rather derives from its mercilessly restrictive wage (and fiscal) policies which suppress economic growth not only in Germany, but also in its partners which attempt to align themselves with the 'leader'.

[2] Actually on the labour productivity growth, Western Europe has outperformed Germany since 1960. The average yearly growth rate differential for the whole period (1960-2017) is 0.26 percentage points (with the median of 0.41 percentage points).

Figure 7 / Average labour productivity for 14 West European EU Member States (Germany = 100), 1991-2017



Source: AMECO, own calculations.

IS BETTER INTEGRATION IN THE EU POSSIBLE?

Better integration in the EU is possible, at least in theory. Moreover, the negative consequences implicit in the existence of the common currency could be neutralised. However, the basic paradigms of the economic policies to be followed in the EU would have to be radically changed (Laski and Podkaminer, 2012).

Two closely related aspects are of crucial importance: first, the rejection of the unconditional fiscal consolidation provisions still in force, and second, the prohibition of 'beggar-thy-neighbour' (or mercantilist) wage policies.

The latter issue is obviously important because unduly restrictive wage policies (as e.g. in Germany or Austria) which consequently lead to large trade surpluses suppress growth not only in countries which fail to follow suit (and thus run trade deficits and accumulate foreign debts) but also in countries implementing the internal 'wage moderation' strategy themselves. In practice, the 'beggar-thy-neighbour' policy is also a 'beggar-thyself' policy (Laski and Podkaminer, 2011).

Rejection of the unconditional fiscal consolidation provisions is equally important for countries (again, such as Germany) whose private sector tends, on a permanent basis, to save much in excess of its own investment. Without the ability to run trade surpluses (which never can be sustained indefinitely) such countries must either experience depression, or allow public sector deficits to absorb the excessive private savings (Laski and Podkaminer, 2013, Podkaminer 2019).

CONCLUDING REMARK

The existence of the European Union is of vital importance to the Europeans – and especially for the Central and East European nations. Without the EU these nations would once again find themselves alone and in a grey zone between their all too mighty neighbours.

But the EU cannot prosper within the confines of self-imposed limitations that have little economic justification, theoretical and practical. Unless the basic paradigms of economic policy for the EU are overhauled, the EU will remain a stagnant area convulsed by recurring economic (and then social and political) crises. Sooner or later these crises will give rise to further exits or could even precipitate the dissolution of the Union.

Whether the radical change happens before it is too late is of course highly uncertain. In any case it should be the duty of Central and East European politicians – and also economists – to voice their concerns over the overall orientation of the economic policies of the Union.

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Next EU budget and the financing of the Cohesion policy

BY SÁNDOR RICHTER

In the EU's next Multiannual Financial Framework the share of Cohesion policy funds will likely be smaller than in the current one, leading to serious conflicts between net contributor and net beneficiary member states. The solution to avoid these conflicts may be the integration of a market based support of investment following the pattern of the "Juncker Plan" into the future cohesion policy.

INTRODUCTION

Cohesion policy has been one of the main components of the expenditure side of the EU budget, with a share of roughly one-third of the total. Of all the major components of the EU budget this is where the allocation of resources to individual member states shows the largest differences whereby less developed member states or regions receive much less in transfers (relative to their GDP) than the more developed ones. This is the area where the most intense cross-member state redistribution via the EU budget takes place. That also explains why this section is the subject of the most vigorous debates during the negotiations on any seven year financial framework for the EU.

LESS AVAILABLE FUNDING FOR COHESION POLICY

In the forthcoming negotiation on the next 2021-2027 Multiannual Financial Framework (MFF), the debates will most probably become even more intense than they were in negotiations of earlier MFFs. Brexit removes one of the largest net contributor member states. That means that maintaining the current level of cross-member state redistribution would require deteriorating net financial position of other traditional contributor member states. The readiness for this seems to be missing on the side of many of them.

With high unemployment being one of the main eligibility criteria for Cohesion policy transfers, it is likely that the landscape of the net receiving member states will be rearranged. The EU-CEE group may fall victim to its spectacular success in combating unemployment in recent years. Meanwhile the southern EU periphery continues to suffer from that phenomenon, with a likely consequence of crowding out, to some extent, members of the EU-CEE group in terms of Cohesion transfers.

Apart from the tensions related to the Cohesion policy itself, there has been a remarkable shift of weights concerning other major constituents of the expenditure side. New priorities have been set. Compared to the current 2014-2020 MFF expenditures, much more will be spent in other areas including research, migration and borders, security and external actions, financed mainly (but not exclusively)

from other than Cohesion policy funds.[1] The cited document clearly shows how Cohesion policy's share in total expenditures of the EU has been declining. The trend began in the MFF 2007-2013, carried on in 2014-2020 and is planned to be continued in 2021-2027.

ARE THERE ANY LESSONS FROM THE JUNCKER PLAN (EFSI)?

The European Fund for Strategic Investments (EFSI) was established under the auspices of the European Investment Bank (EIB) with the aim of generating EUR 315 billion in additional investment in the EU-28 over the period 2015-2017. On establishing the EFSI, a guarantee of EUR 16 billion was appropriated under the EU budget and the EIB committed an additional EUR 5 billion. With this initial combined contribution of EUR 21 billion, the Commission hoped to generate EUR 315 billion in funding. First, the EUR 21 billion was supposed to mobilise EUR 60.8 billion additional financing by the EIB group, implying a multiplier of 3, and, second, that should enable the mobilisation of a total of EUR 315 billion in investment, implying a multiplier of 5.[2] This altogether represents a leverage of 1:15 – a ratio based on the historical experience of both the EU programmes and the EIB. The role of the EFSI is exactly this: mobilising additional private funding by attaining a multiplier effect of 1:15.

Of this sum, it was assumed that EUR 240 billion would be spent on large, long-term strategic investments and EUR 75 billion would be allocated to financing SME investments. Technically, the EFSI is an EU budget guarantee providing the EIB Group with a first loss protection. The EIB Group is thus able to provide financing to projects with higher-risk than they normally would. An independent Investment Committee applies strict criteria to decide whether a project is eligible for EFSI support. No quotas are applied either by sector or by country. Financing is purely demand-driven.[3]

Initial data from September 2018 suggest that the investment realised with the help of EFSI will amount to EUR 344 billion, i.e. more than the planned EUR 315 billion.[4] Given the success of the EFSI, its duration and capacity have been extended. The so-called "EFSI 2.0" extends the lifetime of the fund from mid-2018 to end-2020 and increases its investment target from EUR 315 billion to at least EUR 500 billion. The Commission increases the EU guarantee from EUR 16 billion to EUR 26 billion and the EIB increases its allocation from EUR 5 billion to EUR 7.5 billion. This leads to an increase of the EFSI from EUR 21 billion to EUR 33.5 billion.[5] In December 2017, the European Parliament and Member States agreed on the "EFSI 2.0" Regulation and it became law on 30 December 2017.[6]

The results of the EFSI implementation by Member States are displayed in Table 1. Data show that out of most of the countries among the first 10 countries ranked by relative significance of EFSI financed

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1 European Commission (2018) A Modern Budget for a Union that Protects, Empowers and Defends. The Multiannual Financial Framework for 2021-2027. COM (2018) 321 final. p.22.

2 European Commission (2016) European Structural and Investment FUNDS and European Fund for Strategic Investments and complementarities. Ensuring coordination, synergies and complementarity.

3 https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/european-fund-strategic-investments-efsi_en

4 Junker-Plan funktioniert. Euractiv 19.07.2018. https://www.euractiv.de/section/binnenmarkt-und-wettbewerb/news/juncker-plan-funktioniert/

5 http://europa.eu/rapid/press-release_MEMO-16-2983_en.htm

6 https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/european-fund-strategic-investments-efsi_en

projects there is only one, Finland, where Cohesion policy's role is modest. All other countries are among the significant beneficiaries of the EU's Cohesion policy. It must be added, however, that some other major recipients of Cohesion policy transfers are among the less prominent EFSI participants. The leverage (the proportion between EFSI financing and investment triggered) is quite different by Member States: it ranges from 2 in Cyprus to close to 11 in the case of Slovenia. The unweighted average is 4.6, which is only slightly below the expected multiplier of 5 reckoned with as the second leg of the 1:15 overall leverage.

Table 1 / Investments triggered by EFSI as of September 2018

EU Member State	(A) EFSI finance approved by EIB Group (EUR mn)	(B) Set to trigger investment of (EUR mn)	Ranking by size of EFSI triggered investment relative to GDP	(B)/(A): Investment triggered by one EUR EFSI financing
Greece	2,701	10,904	1	4.0
Estonia	120	873	2	7.3
Portugal	2,204	7,253	3	3.3
Bulgaria	438	1,881	4	4.3
Lithuania	434	1,497	5	3.4
Poland	3,523	15,145	6	4.3
Spain	7,606	38,764	7	5.1
Finland	1,963	7,237	8	3.7
Latvia	210	759	9	3.6
Italy	8,548	48,729	10	5.7
France	11,025	56,580	11	5.1
Croatia	224	1,070	12	4.8
Sweden	2,733	9,862	13	3.6
Czech Republic	677	3,735	14	5.5
Ireland	1,294	5,473	15	4.2
Belgium	1,903	8,310	16	4.4
Slovenia	66	722	17	10.9
Denmark	747	4,608	18	6.2
Hungary	367	1,870	19	5.1
Netherlands	2,671	10,330	20	3.9
Slovakia	497	1,073	21	2.2
Romania	452	1,994	22	4.4
Austria	1,368	4,135	23	3.0
Germany	7,234	32,379	24	4.5
United Kingdom	2,820	23,679	25	8.4
Luxembourg	104	416	26	4.0
Cyprus	55	109	27	2.0
Malta	11	34	28	3.1
Muli-country operations	5,126	44,955		8.8
EU Total	67,121	344,376		5.1

Source: https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/investment-plan-results_en

A RECOMMENDATION: EFSI AND COHESION POLICY COULD BE INTEGRATED

Now if we put together the two threads of information: (a) the danger of substantially diminished resources for Cohesion policy and (b) the successful implementation of EFSI; we must raise the question: why not redesign Cohesion policy to either integrate EFSI into it or refurbish it to rely on the EFSI model?

Currently the overwhelming majority of Cohesion policy financed programmes are principally, but not exclusively, based on grants supplemented with own contributions of the recipient countries. No doubt, a substantial part of the Cohesion policy expenditures finances projects where market based financing, like that in the EFSI model is not a feasible or wishful real option; e.g. in projects in the public and non-profit sectors. Nevertheless Cohesion policy expenditures financing projects implemented in the business sector could be fully re-designed along the logic of the EFSI model. Relying on the experiences in the EFSI financed projects, the expected 1:15 leverage would enable a much broader circle of potential recipients to be reached than currently can be, with much smaller initial funding. The EFSI-like financing would most probably improve the ‘ownership’ of the projects by the recipients involved. It might improve the efficiency of the Cohesion policy in terms of better overall growth performance of the recipient member states and regions. Last but not least, it would diminish the risk of EU support related corruption in the countries involved.

The EU budget is not a place famous for rapid changes or courageous reforms. Nevertheless the likely serious tensions over the negotiations about the 2021-2027 Cohesion policy may create a situation where such a re-design could help mitigate the conflicts.

Monthly and quarterly statistics for Central, East and Southeast Europe

The monthly and quarterly statistics cover **20 countries** of the CESEE region. The graphical form of presenting statistical data is intended to facilitate the **analysis of short-term macroeconomic developments**. The set of indicators captures trends in the real and monetary sectors of the economy, in the labour market, as well as in the financial and external sectors.

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

Conventional signs and abbreviations used

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

The following national currencies are used:

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

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

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

Online database access

wiiw Annual Database

wiiw Monthly Database

wiiw FDI Database

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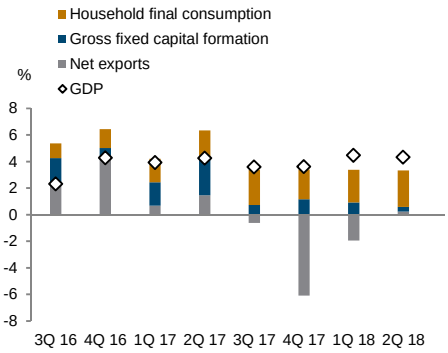
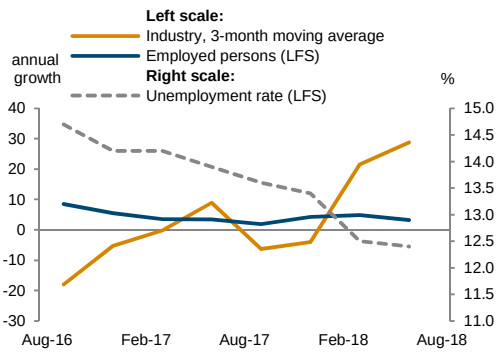
Albania

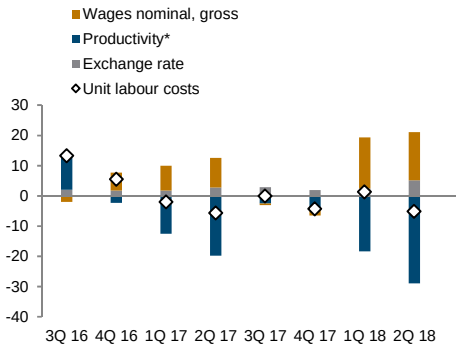
Real GDP growth and contributions
year-on-year



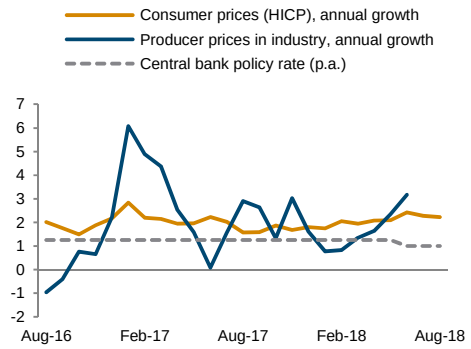
Real sector development
in %



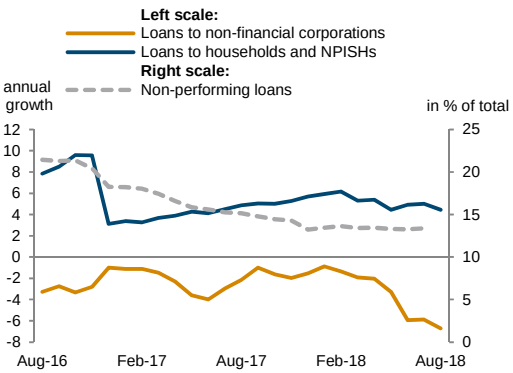
Unit labour costs in industry
annual growth rate in %



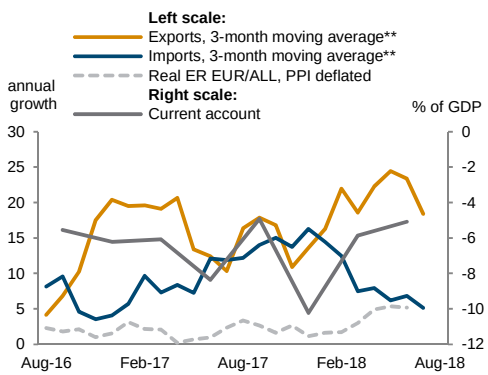
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %

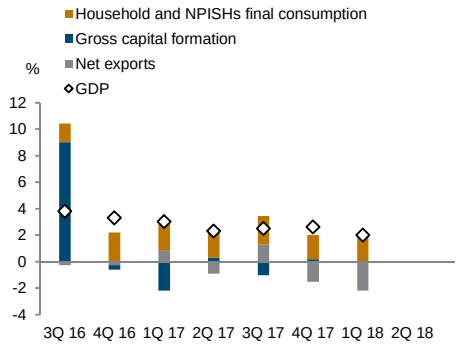


*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.
**EUR based.

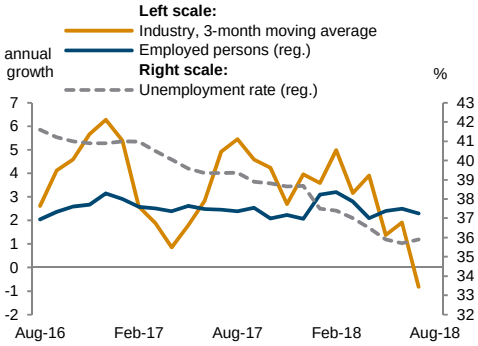
Source: wiiw Monthly Database incorporating Eurostat and national statistics.
Baseline data, country-specific definitions and methodological breaks in time series are available under:
https://data.wiiw.ac.at/monthly-database.html

Bosnia and Herzegovina

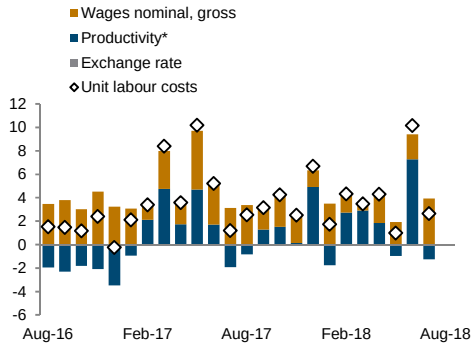
Real GDP growth and contributions
year-on-year



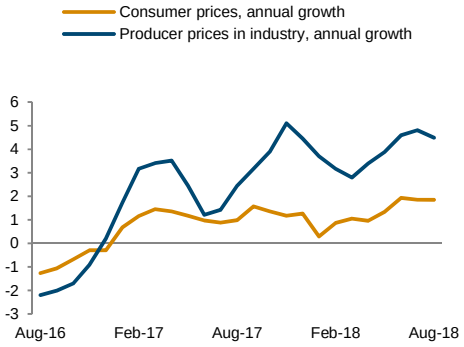
Real sector development
in %



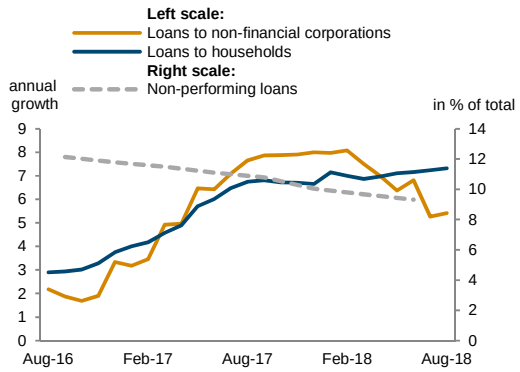
Unit labour costs in industry
annual growth rate in %



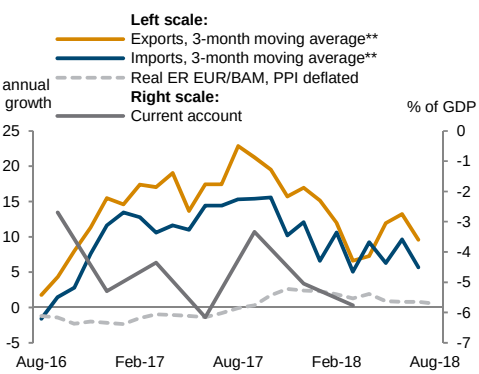
Inflation
in %



Financial indicators
in %



External sector development
in %



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**EUR based.

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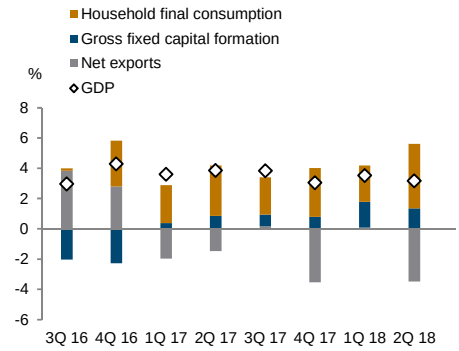
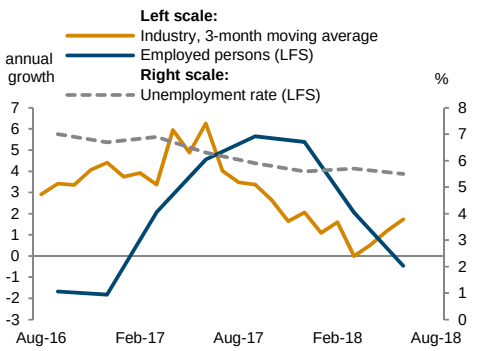
Bulgaria

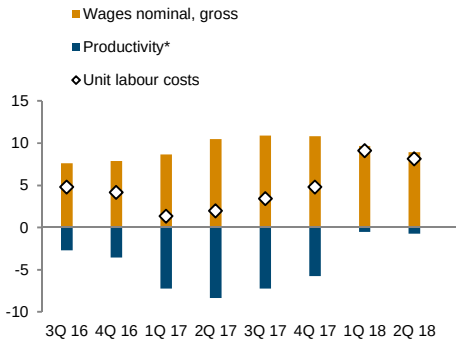
Real GDP growth and contributions
year-on-year



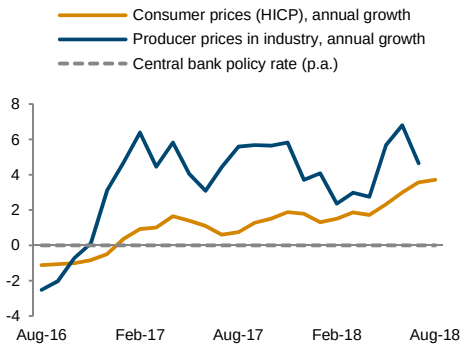
Real sector development
in %



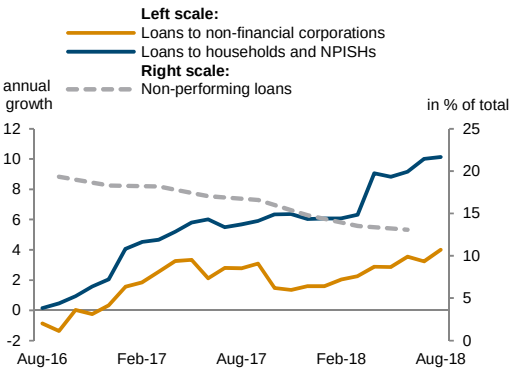
Unit labour costs in industry
annual growth rate in %



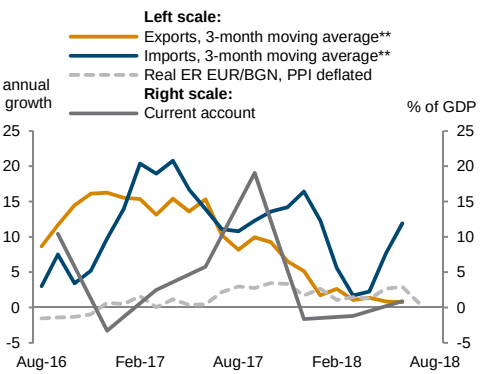
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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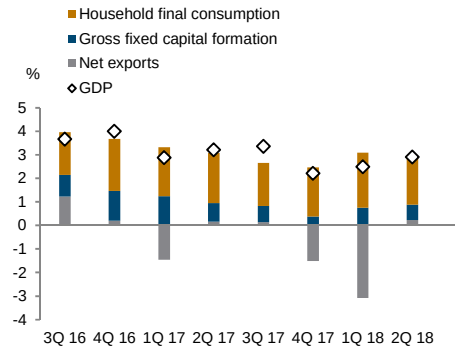
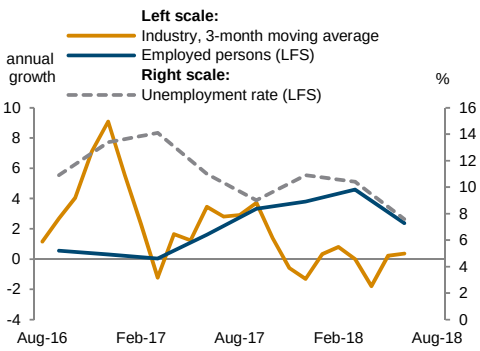
Croatia

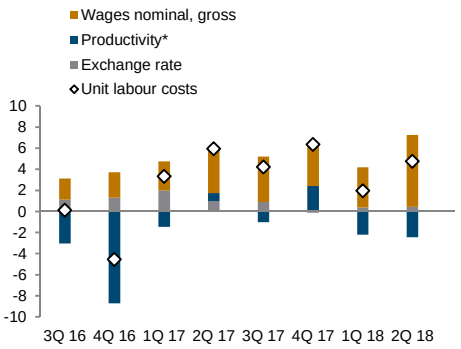
Real GDP growth and contributions
year-on-year



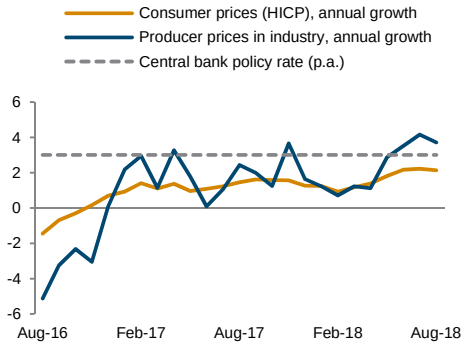
Real sector development
in %



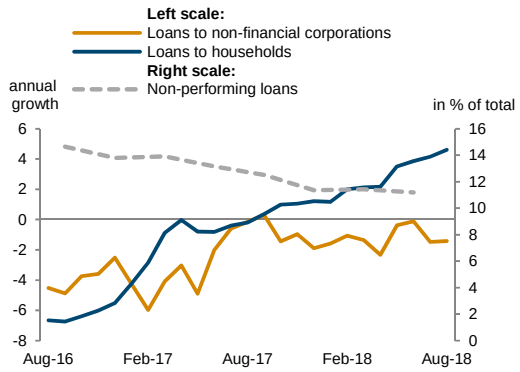
Unit labour costs in industry
annual growth rate in %



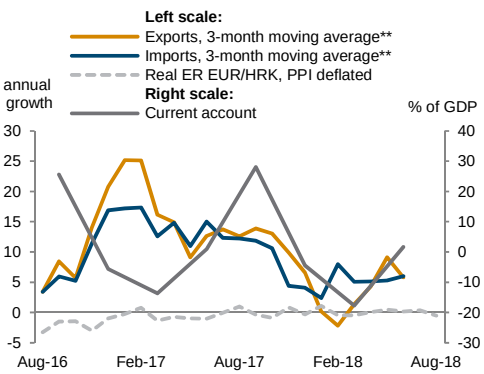
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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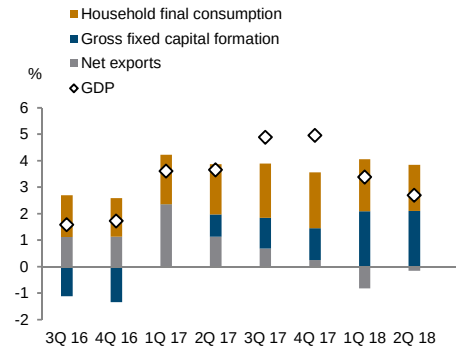
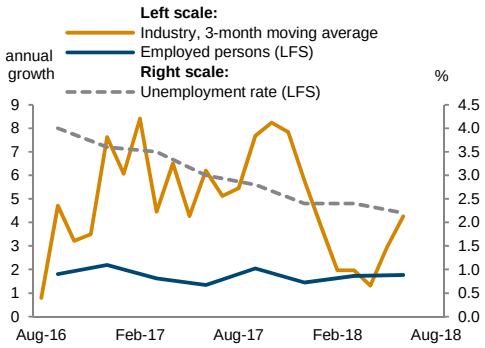
Czech Republic

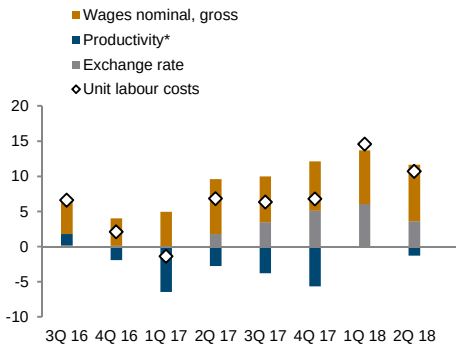
Real GDP growth and contributions
year-on-year



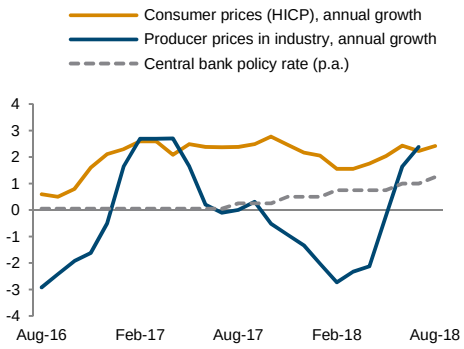
Real sector development
in %



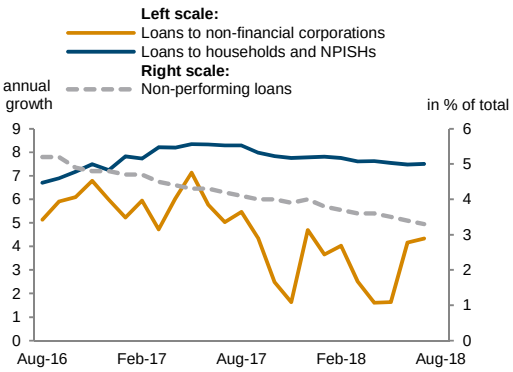
Unit labour costs in industry
annual growth rate in %



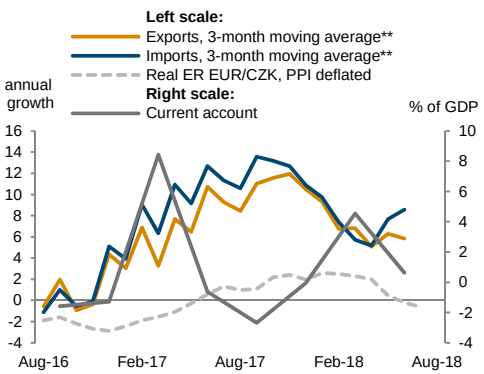
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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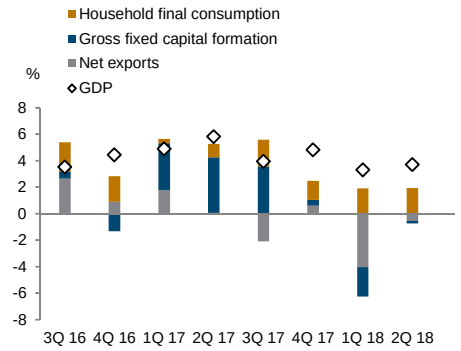
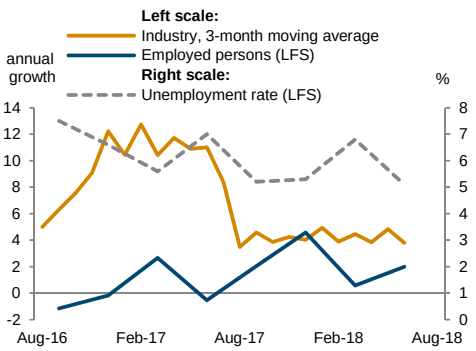
Estonia

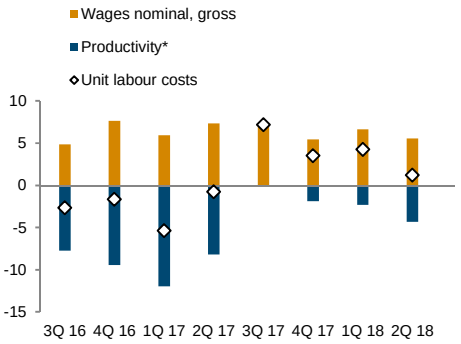
Real GDP growth and contributions
year-on-year



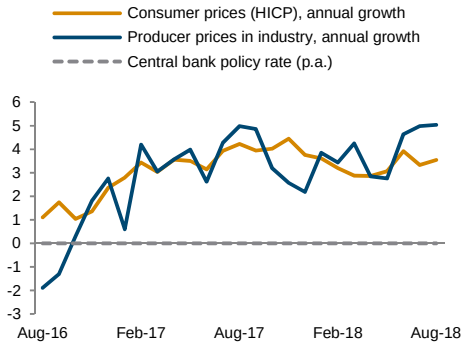
Real sector development
in %



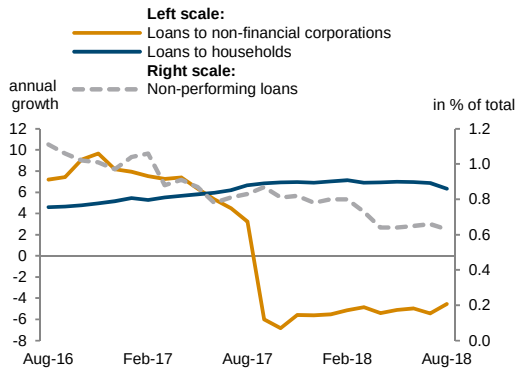
Unit labour costs in industry
annual growth rate in %



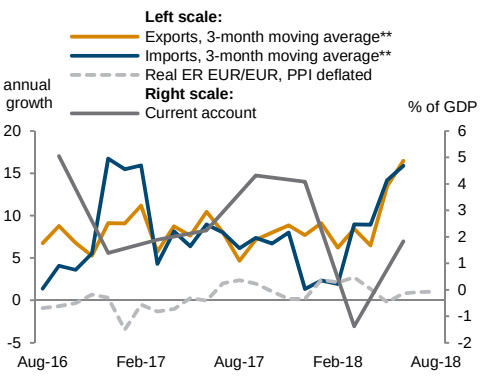
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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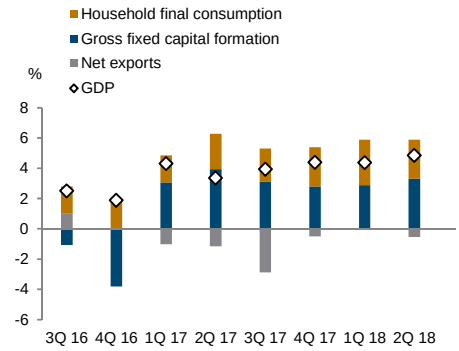
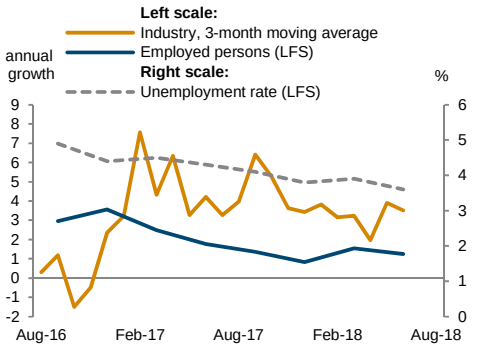
Hungary

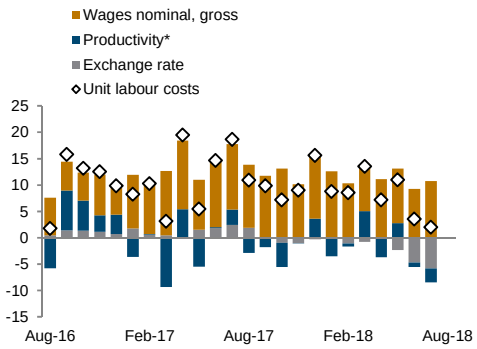
Real GDP growth and contributions
year-on-year



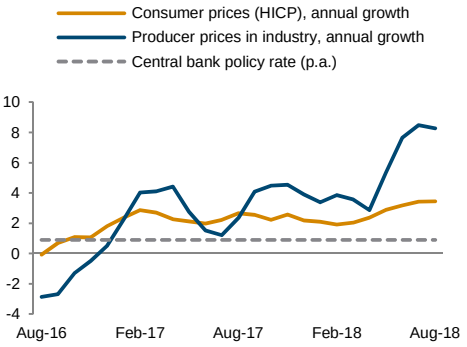
Real sector development
in %



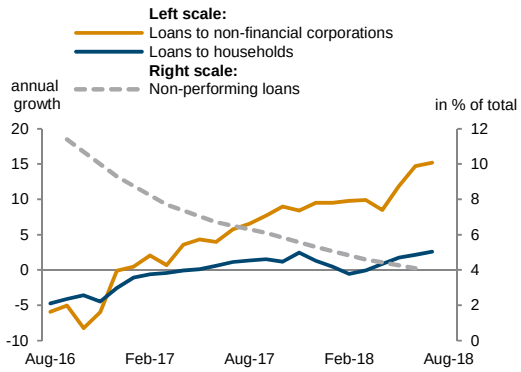
Unit labour costs in industry
annual growth rate in %



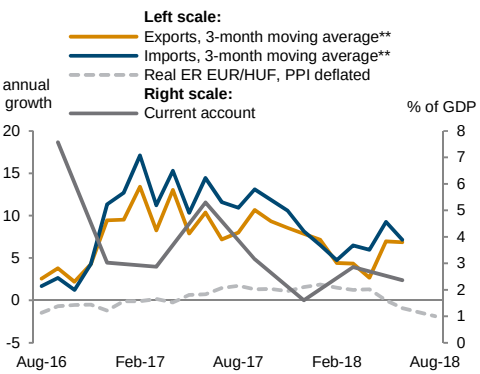
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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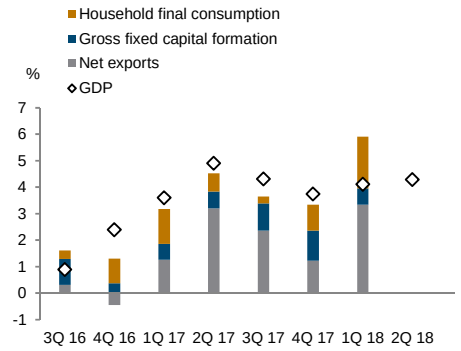
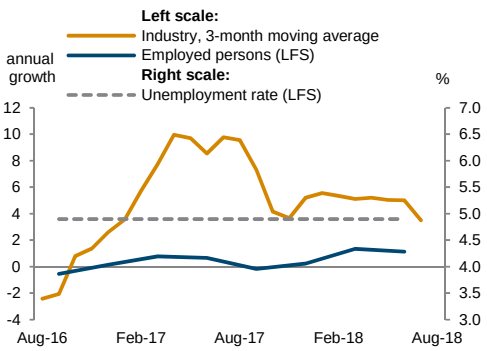
Kazakhstan

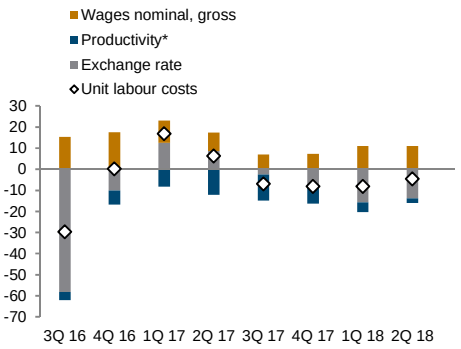
Real GDP growth and contributions
year-on-year



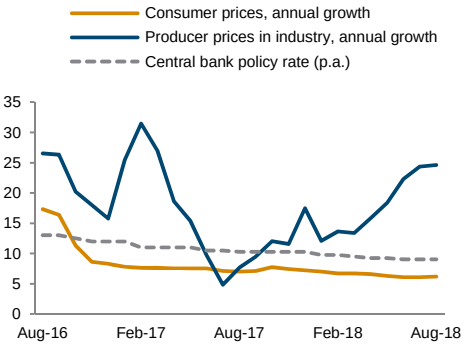
Real sector development
in %



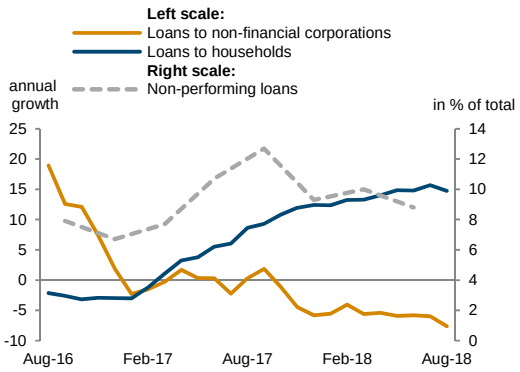
Unit labour costs in industry
annual growth rate in %



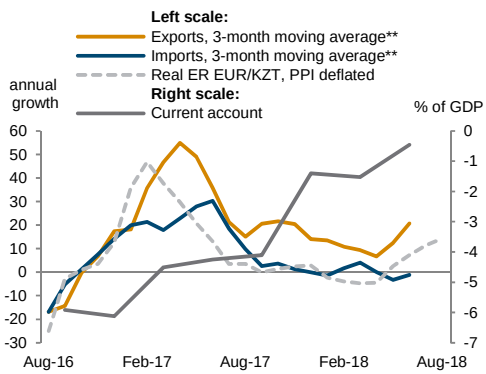
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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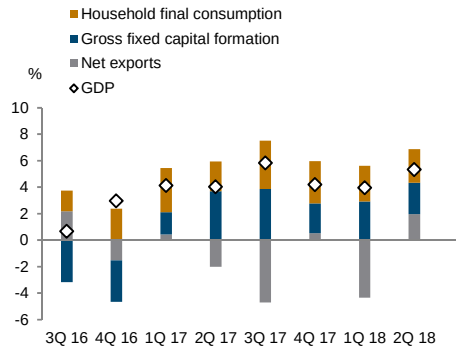
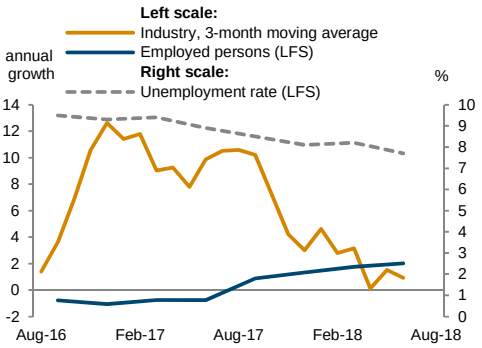
Latvia

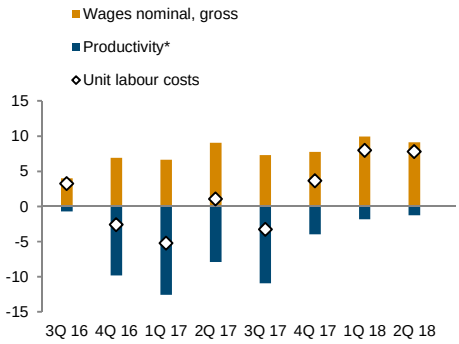
Real GDP growth and contributions
year-on-year



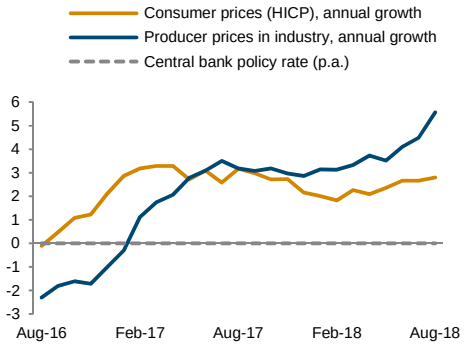
Real sector development
in %



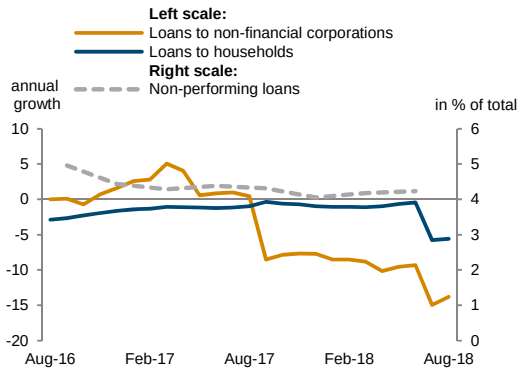
Unit labour costs in industry
annual growth rate in %



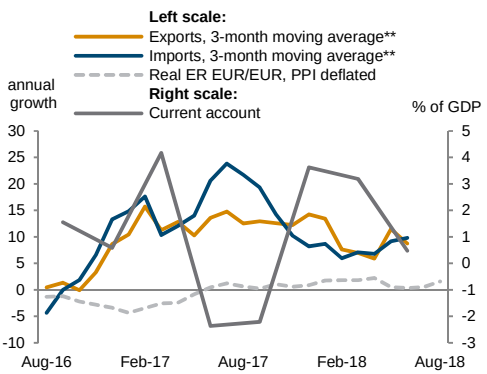
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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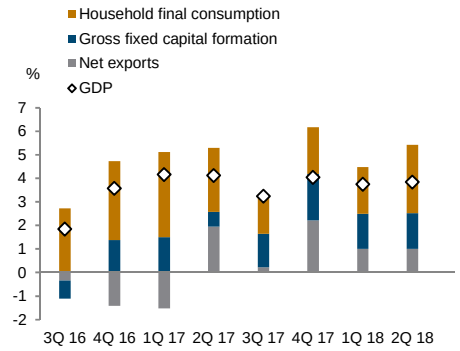
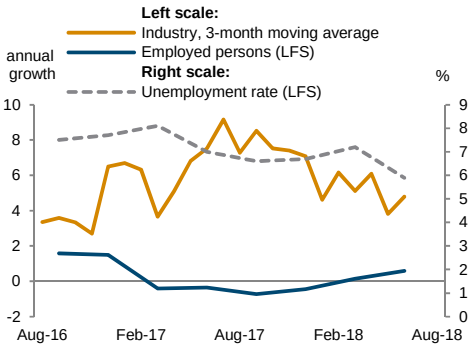
Lithuania

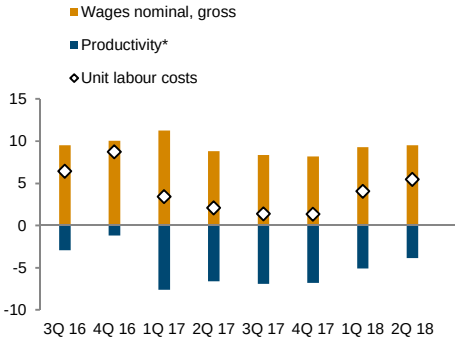
Real GDP growth and contributions
year-on-year



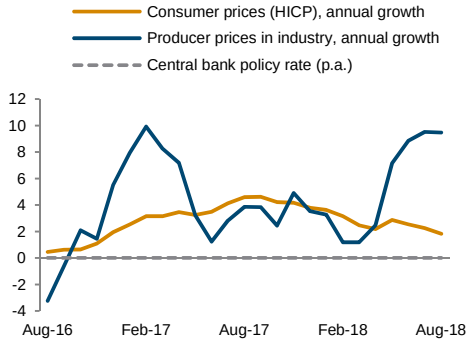
Real sector development
in %



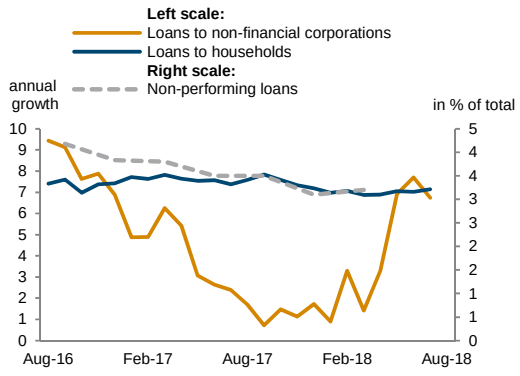
Unit labour costs in industry
annual growth rate in %



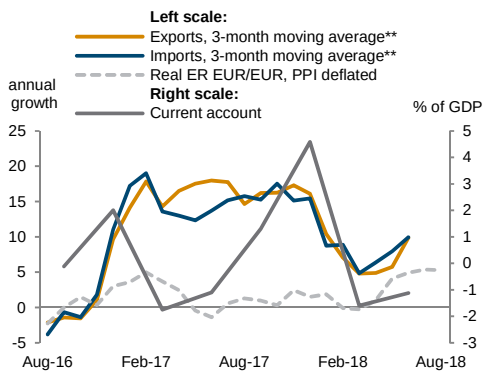
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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

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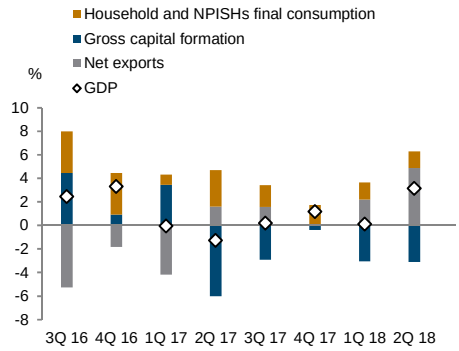
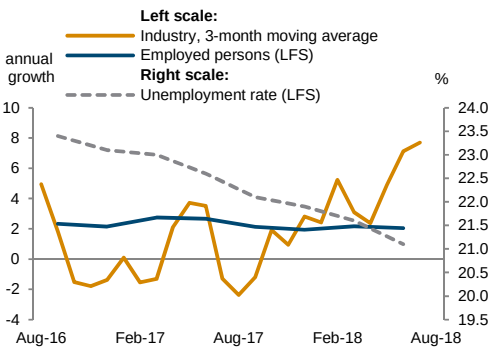
Macedonia

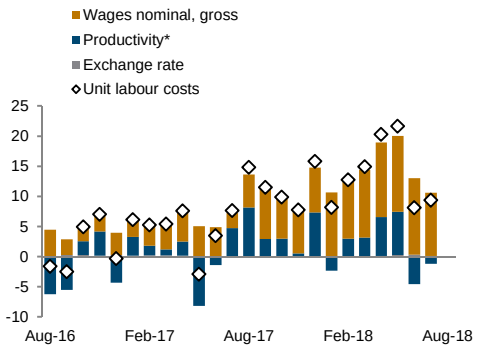
Real GDP growth and contributions
year-on-year



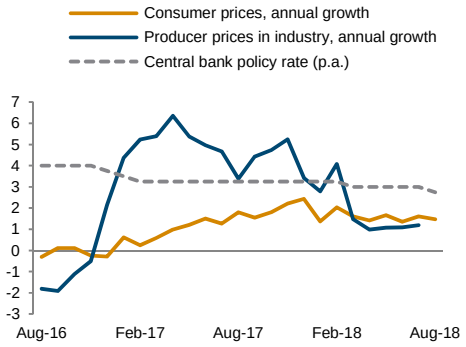
Real sector development
in %



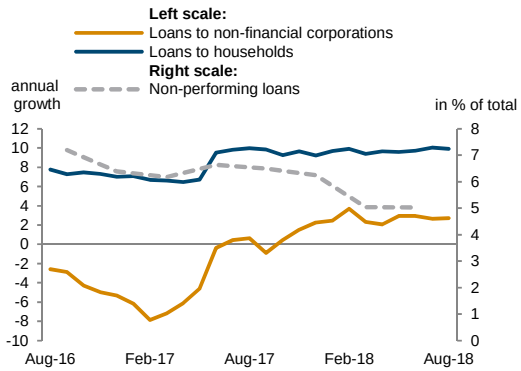
Unit labour costs in industry
annual growth rate in %



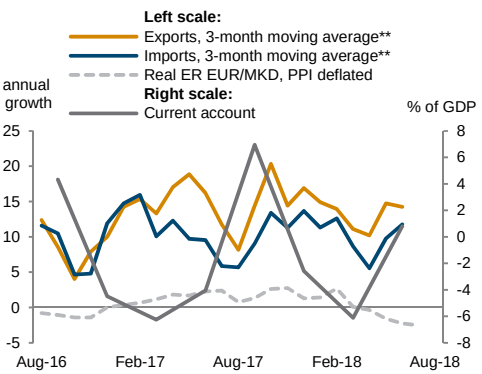
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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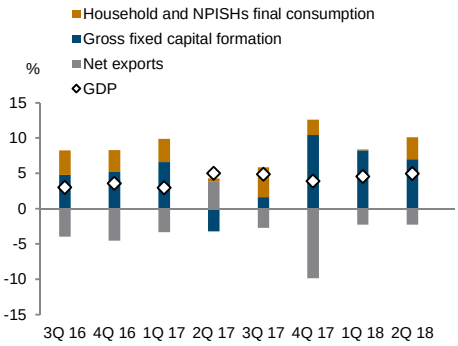
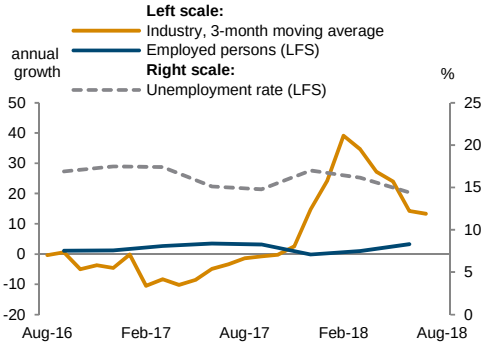
Montenegro

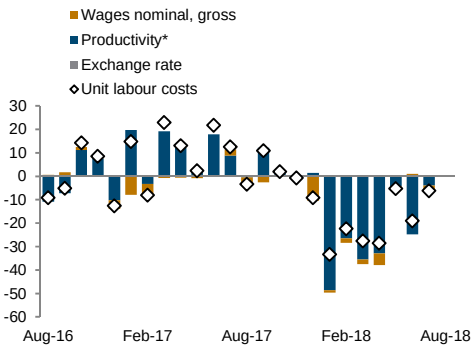
Real GDP growth and contributions
year-on-year



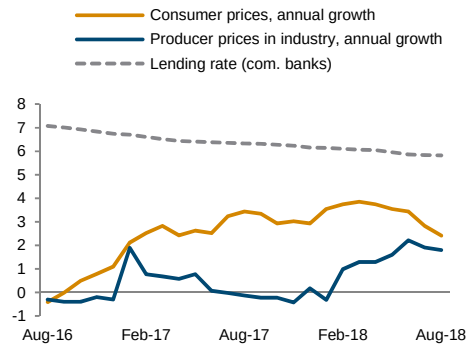
Real sector development
in %



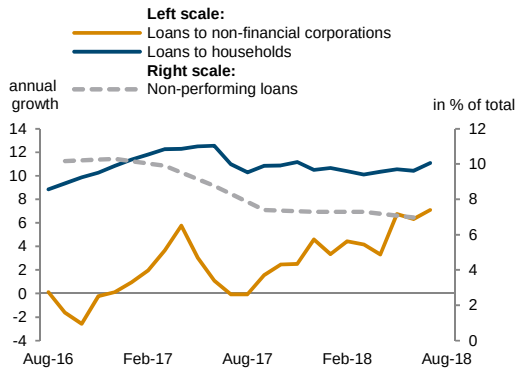
Unit labour costs in industry
annual growth rate in %



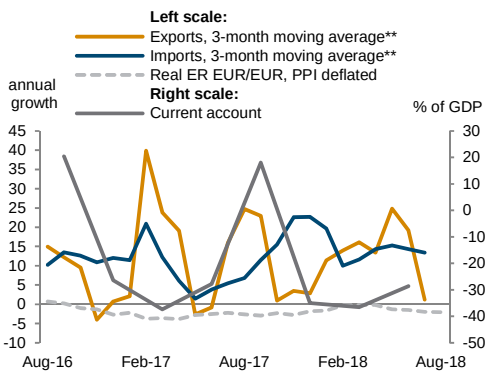
Inflation and lending rate
in %



Financial indicators
in %



External sector development
in %



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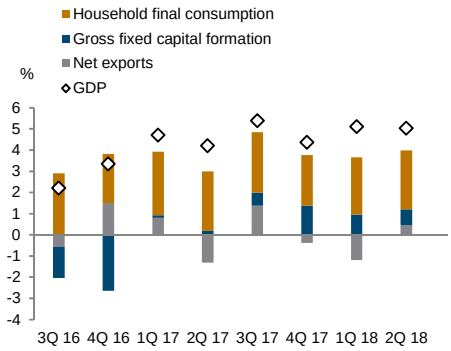
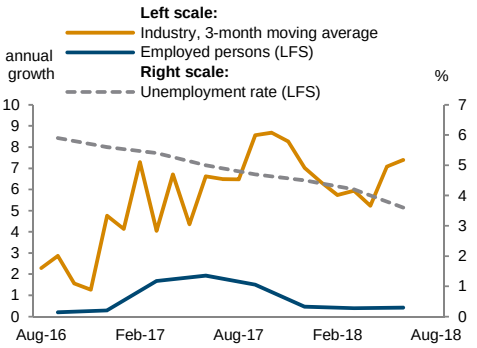
Poland

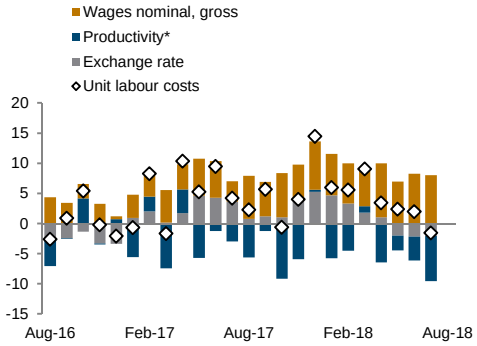
Real GDP growth and contributions
year-on-year



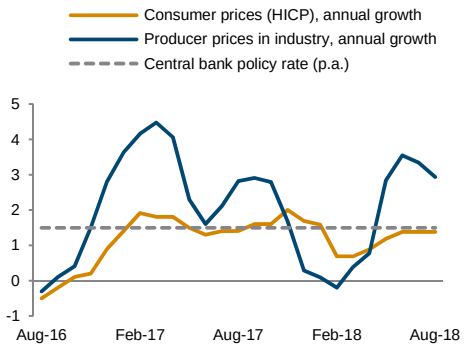
Real sector development
in %



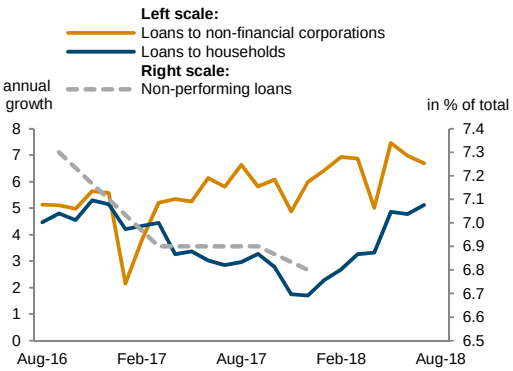
Unit labour costs in industry
annual growth rate in %



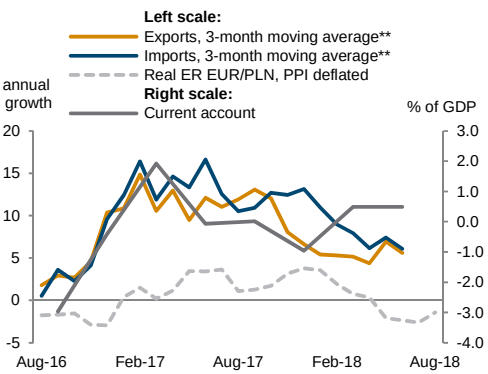
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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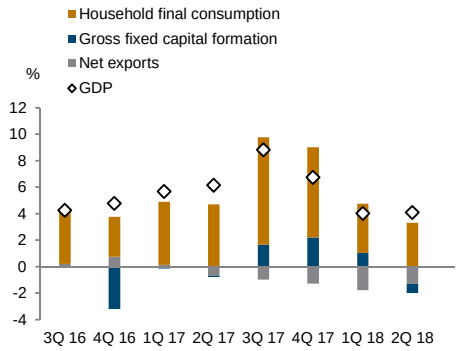
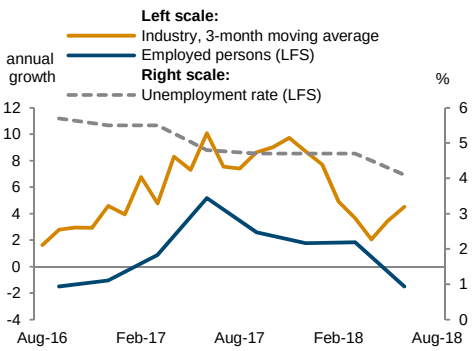
Romania

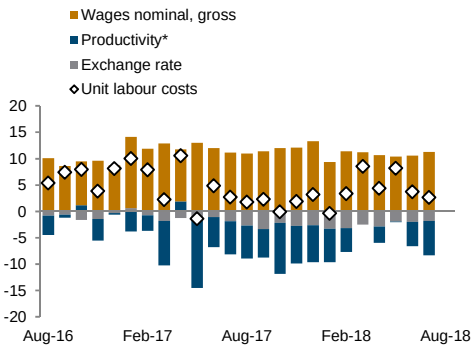
Real GDP growth and contributions
year-on-year



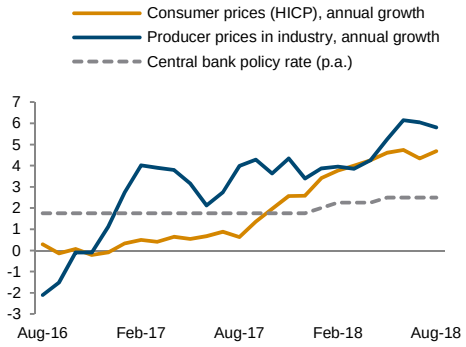
Real sector development
in %



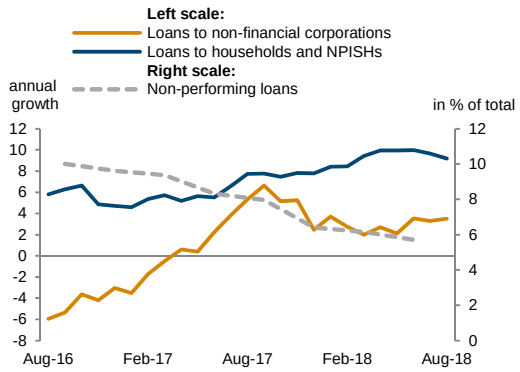
Unit labour costs in industry
annual growth rate in %



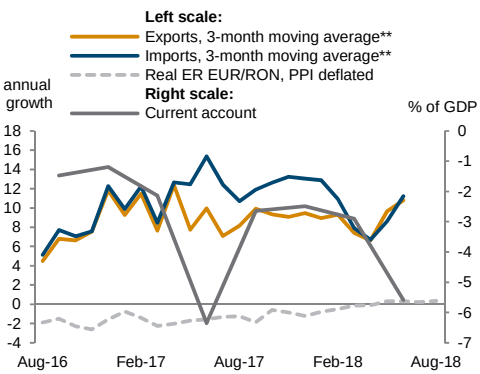
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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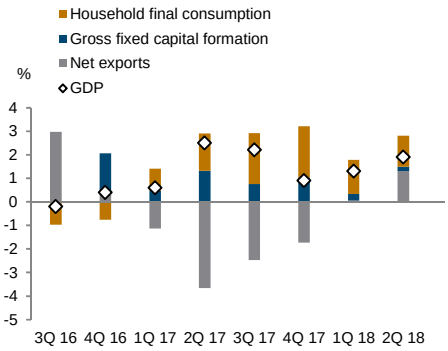
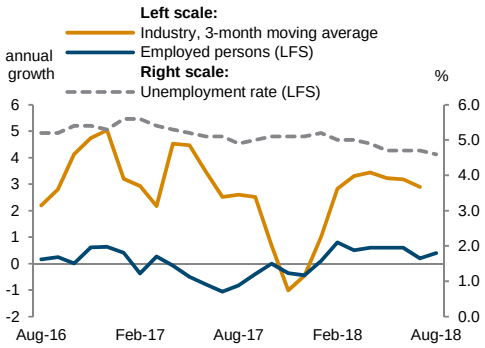
Russia

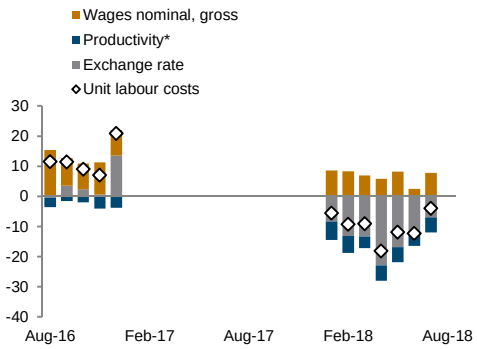
Real GDP growth and contributions
year-on-year



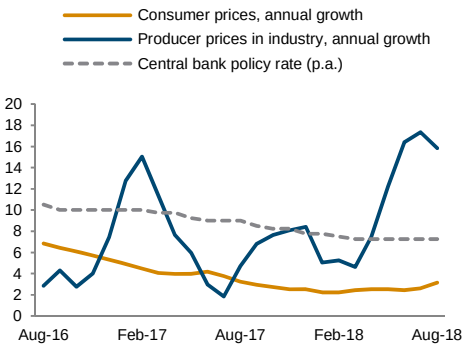
Real sector development
in %



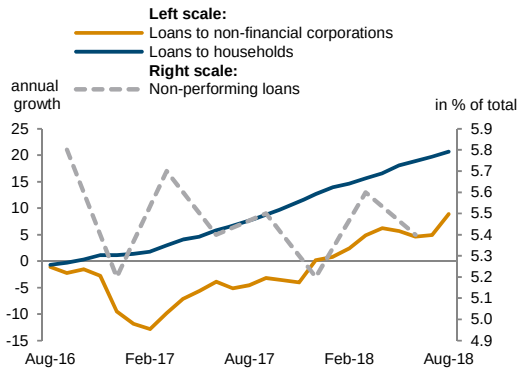
Unit labour costs in industry
annual growth rate in %



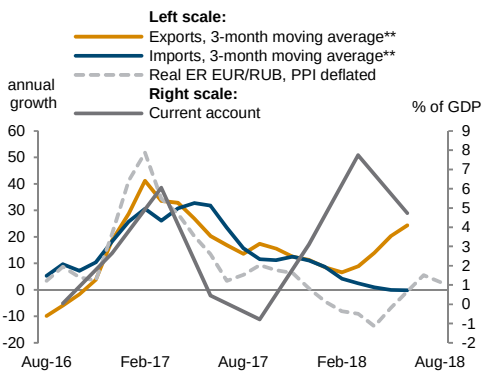
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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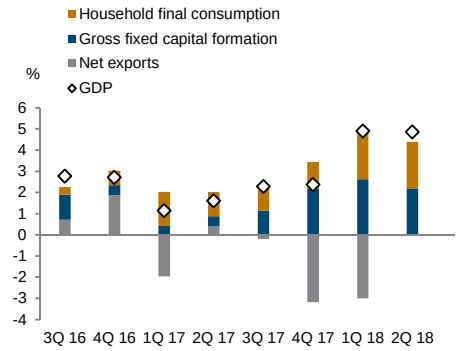
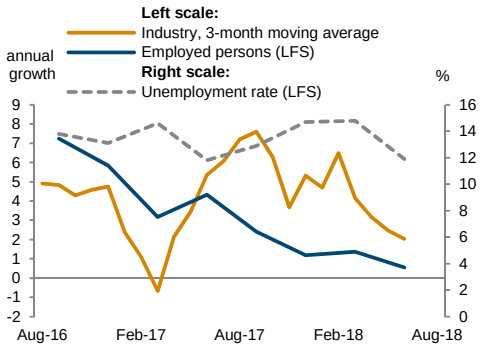
Serbia

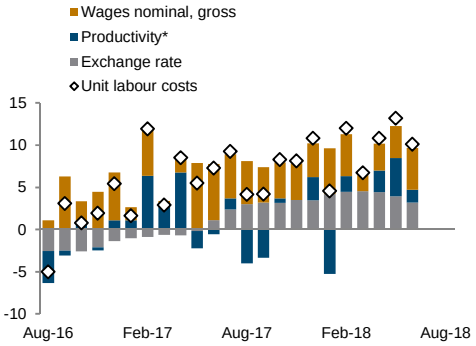
Real GDP growth and contributions
year-on-year



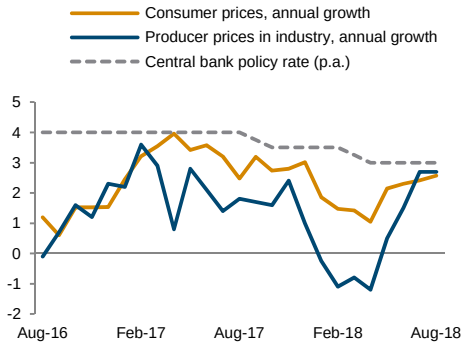
Real sector development
in %



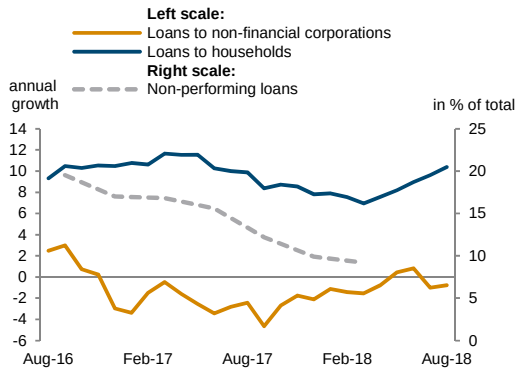
Unit labour costs in industry
annual growth rate in %



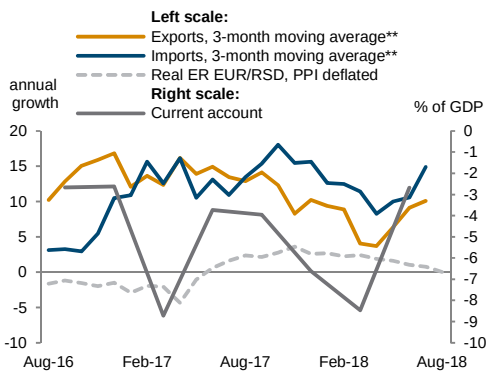
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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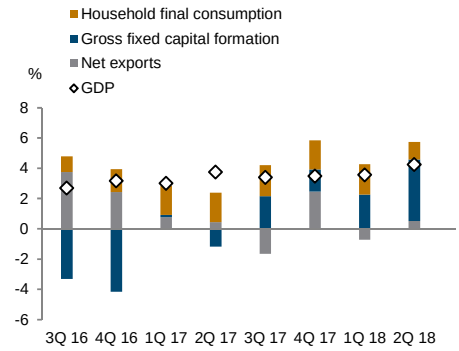
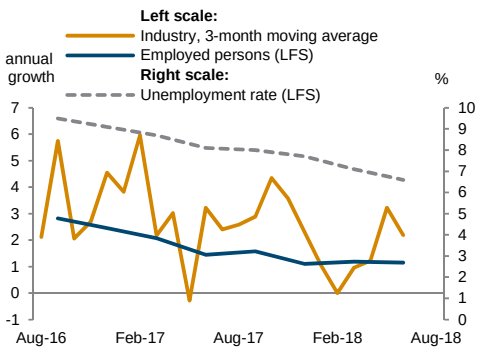
Slovakia

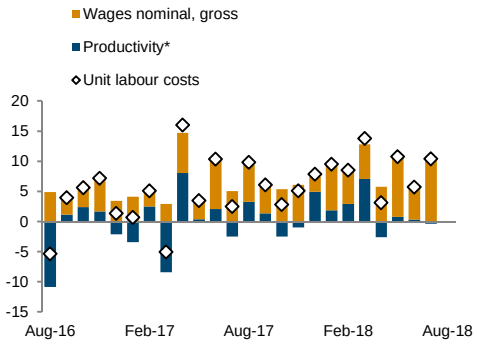
Real GDP growth and contributions
year-on-year



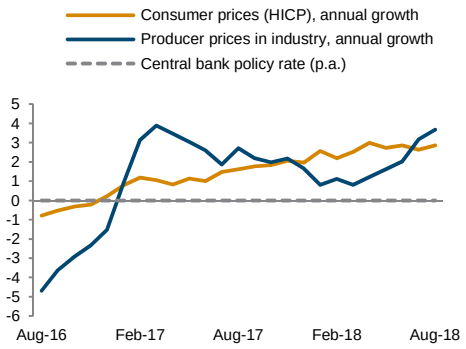
Real sector development
in %



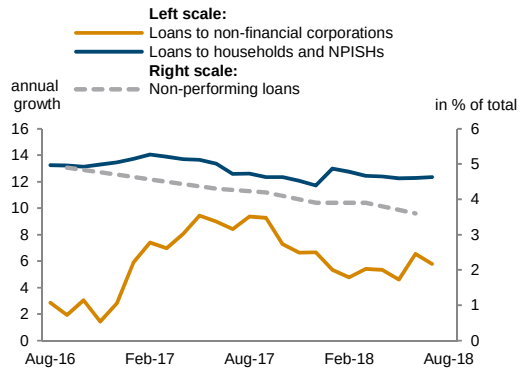
Unit labour costs in industry
annual growth rate in %



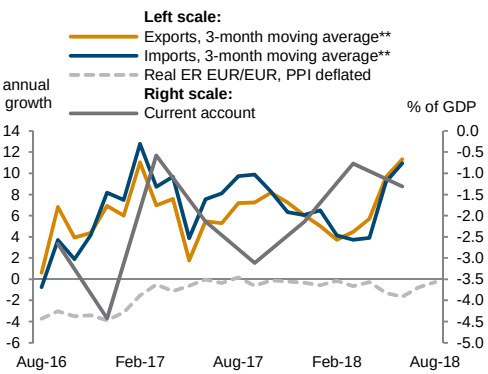
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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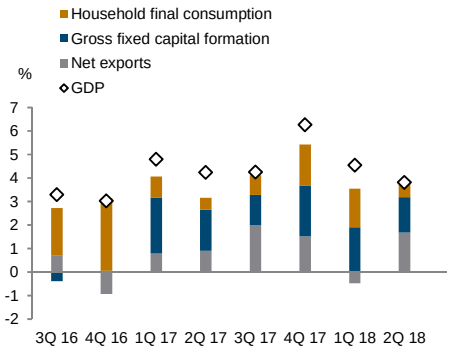
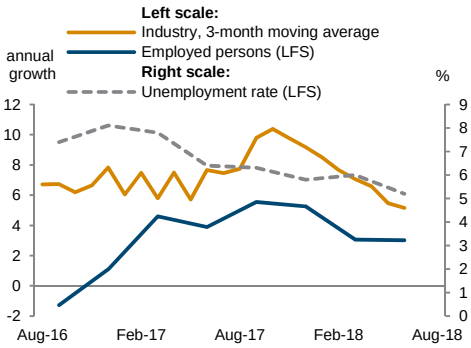
Slovenia

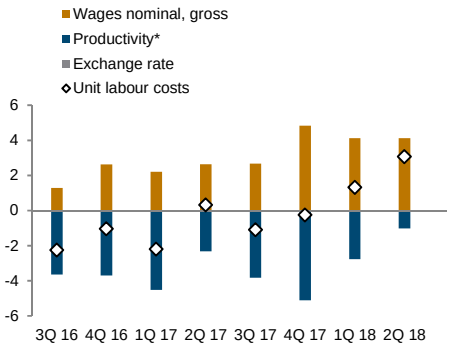
Real GDP growth and contributions
year-on-year



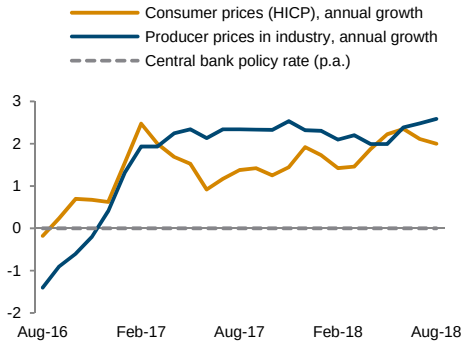
Real sector development
in %



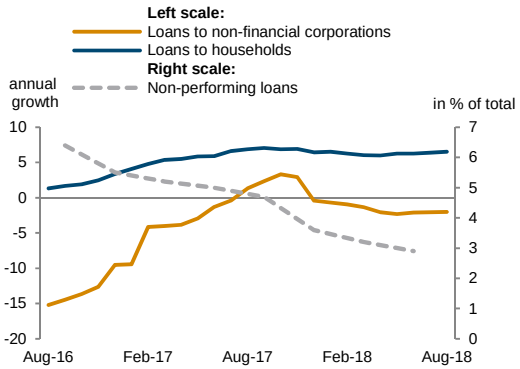
Unit labour costs in industry
annual growth rate in %



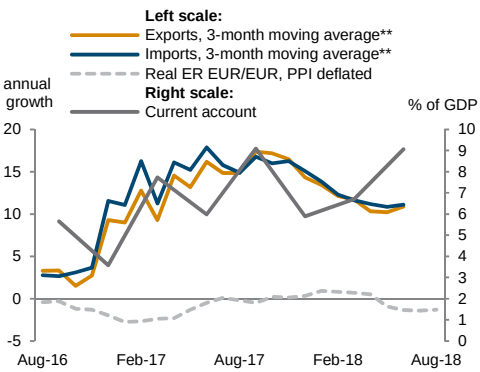
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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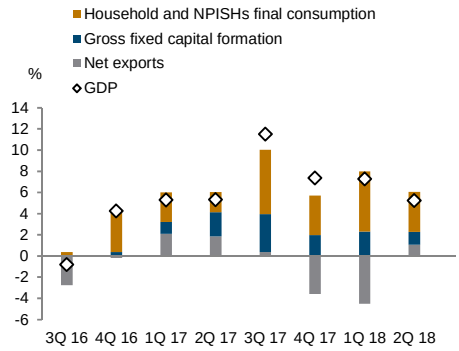
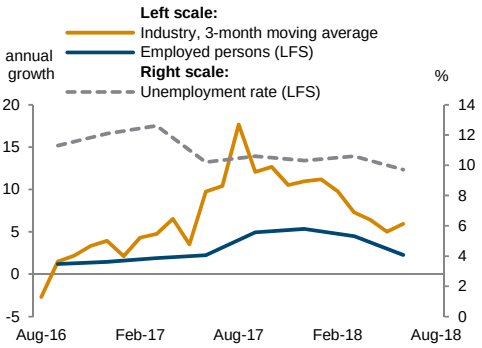
Turkey

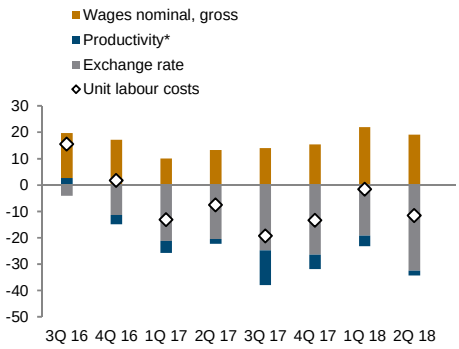
Real GDP growth and contributions
year-on-year



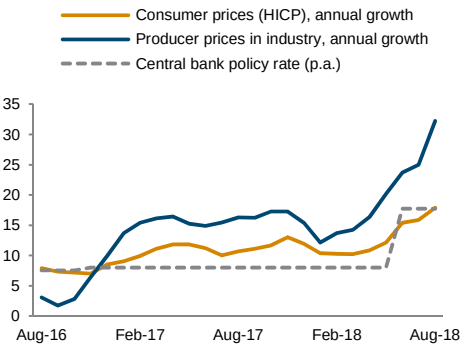
Real sector development
in %



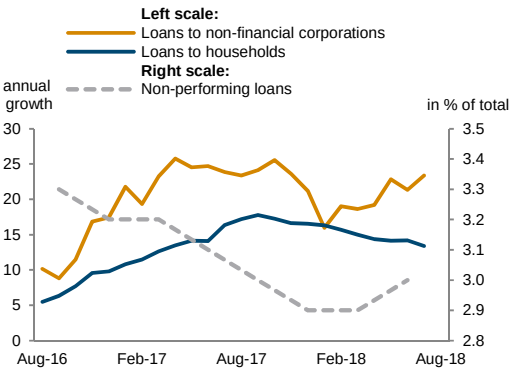
Unit labour costs in industry
annual growth rate in %



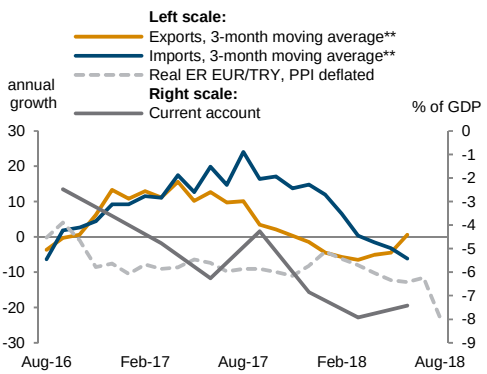
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %

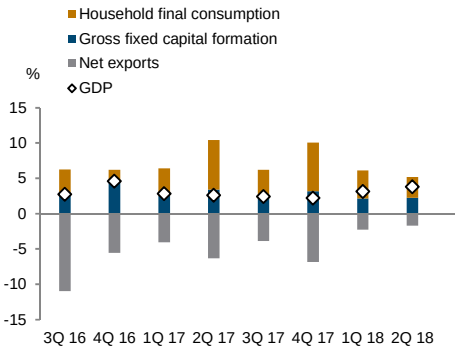


*Positive values of the productivity component on the graph reflect decline in productivity and vice versa.
**EUR based.

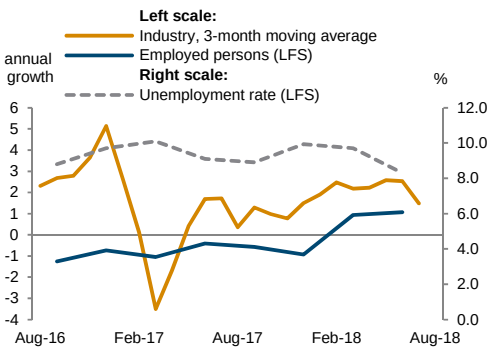
Source: wiiw Monthly Database incorporating Eurostat and national statistics.
Baseline data, country-specific definitions and methodological breaks in time series are available under:
https://data.wiiw.ac.at/monthly-database.html

Ukraine

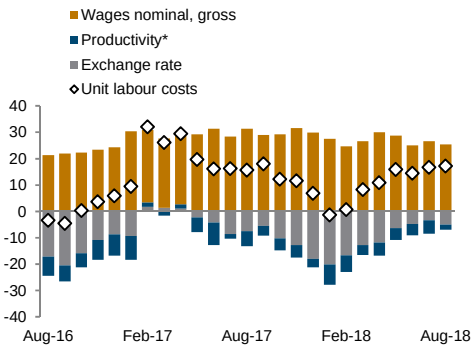
Real GDP growth and contributions
year-on-year



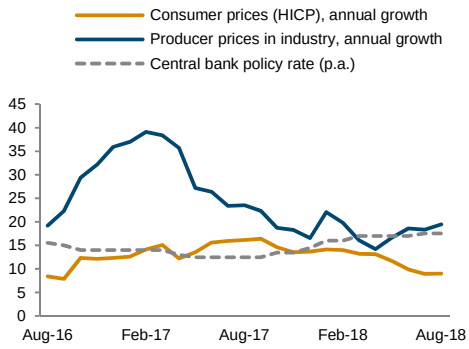
Real sector development
in %



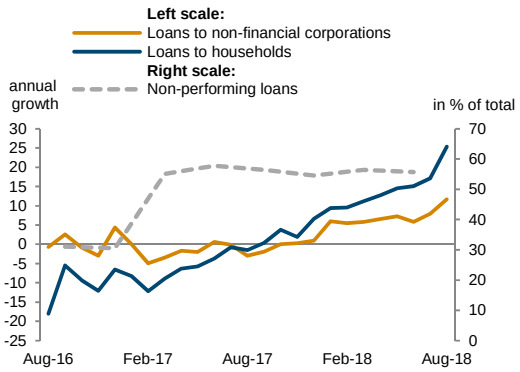
Unit labour costs in industry
annual growth rate in %



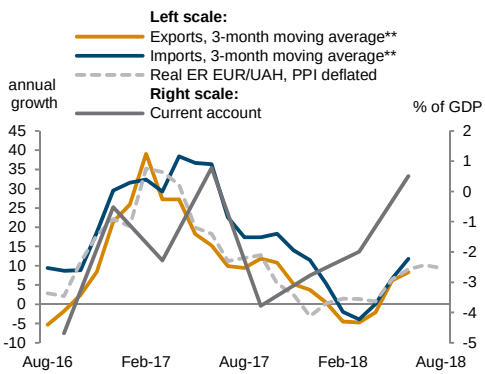
Inflation and policy rate
in %



Financial indicators
in %



External sector development
in %



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Index of subjects – October 2017 to October 2018

(continued on the next page)

multi-country articles and statistical overviews

Economics editors: Vasily Astrov, Sándor Richter

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