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# Economic trends in EU candidates and Russia

## Geopolitical shifts in the Western Balkans: Where is FDI coming from?

Compiled by Tamás Ginter and Antje Hildebrandt[1]

The role of foreign direct investment (FDI) in the Western Balkan (WB) economies[2] has been growing steadily since the 1990s, generally supporting their transition to market economies and contributing significantly to the region's economic convergence. Furthermore, the growing magnitude of FDI has allowed for a substantial reduction of poverty rates (Topalli et al., 2021) and stimulated domestic investments (Sucubasi et al., 2021). While having recently shown an ability to attract foreign direct investments well above other emerging European economies in relation to their respective economic size (Jovanović, 2023), most WB economies are still lagging behind in terms of inward FDI stock per capita compared to several CESEE EU member states.

According to the classic framework of Dunning and Lundan (2008), there are four motives for investing capital abroad: Investors may seek markets (by entering the local markets where FDI is flowing), efficiency (enhancing competitiveness via lower labor costs), natural resources (e.g. raw materials) or assets (e.g. high-skilled labor). In the Western Balkans, the former two (i.e. market-seeking and efficiency-seeking) have been investors' main motives. FDI primarily flowed to larger WB countries (Serbia, in particular) and the services sector. Sources of FDI have also been determined by geographic, cultural and linguistic proximity. For example, there is a large share of Italian FDI stock in Albania and Russian FDI stock in Montenegro (Jirasavetakul and Rahman, 2018).

However, the geopolitical fragmentation of the late 2010s and the early 2020s has somewhat restrained FDI flows (Abeliansky, Belabed and Mayrhuber, 2024). On a global scale, FDI is in decline, and the remaining flows take place between geopolitically aligned countries. This causes vulnerabilities for emerging market economies reliant on FDI stemming from geopolitically diverse sources (IMF, 2023). Nevertheless, there are signs showing that WB economies can profit from the restructuring of the global economy. Jovanović et al. (2024) recently suggested that Bosnia and Herzegovina, Kosovo and North Macedonia are experiencing certain nearshoring tendencies.

The Western Balkans' geographic, economic, and institutional characteristics place the region in a peculiar position, well reflected in the structure of the respective sources of FDI. The Balkan peninsula has long been considered a geopolitical chessboard: While there is a bilateral commitment for integrating the WB economies into the European economy via EU membership that is being supported, to varying extent, by the people in these countries (International Republican Institute, 2024), all major global and regional powers are present in the region – showing different levels of embeddedness, interests and preferences. Major Western powers (i.e. the European Union and the United States) are very present, the EU having always been the number one investor in all WB economies (Jaćimović et al., 2023). But also Russia and Türkiye have fostered historical, cultural as well as economic ties with the WB nations, also manifested in

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[2] *Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. The designation "Kosovo" is used without prejudice to positions on status and in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.*

Moscow's and Ankara's investments directed toward the region (Hake and Radzyner, 2019). Over the course of the past decade, further non-Western sources of FDI have come into play, namely, China (most notably investing in infrastructure projects related to the Belt and Road Initiative) and the Gulf States (Đurašković, Konatar and Radović, 2021). This has resulted in a diversification of the sources of FDI flowing to the WB economies on the one hand, and, on the other hand, in a reshuffling of the geopolitical landscape of the region.

In the following, we thus analyze the relevance of FDI in the WB economies between 2010 and 2023, with a particular focus on the (country-level) sources of investments and shifts therein. This contribution is structured as follows. In section 1, we discuss the overall magnitude of FDI in the entire WB region (including major sources of investment and country-level characteristics of industry structure) over the period 2010–2023. Then, in section 2, we provide specific profiles for each WB economy in focus. Section 3 presents trends of intra-WB regional integration with regards to FDI; section 4 concludes.

## 1 The structure of FDI in the Western Balkan economies

### The size of FDI stocks in the Western Balkan economies

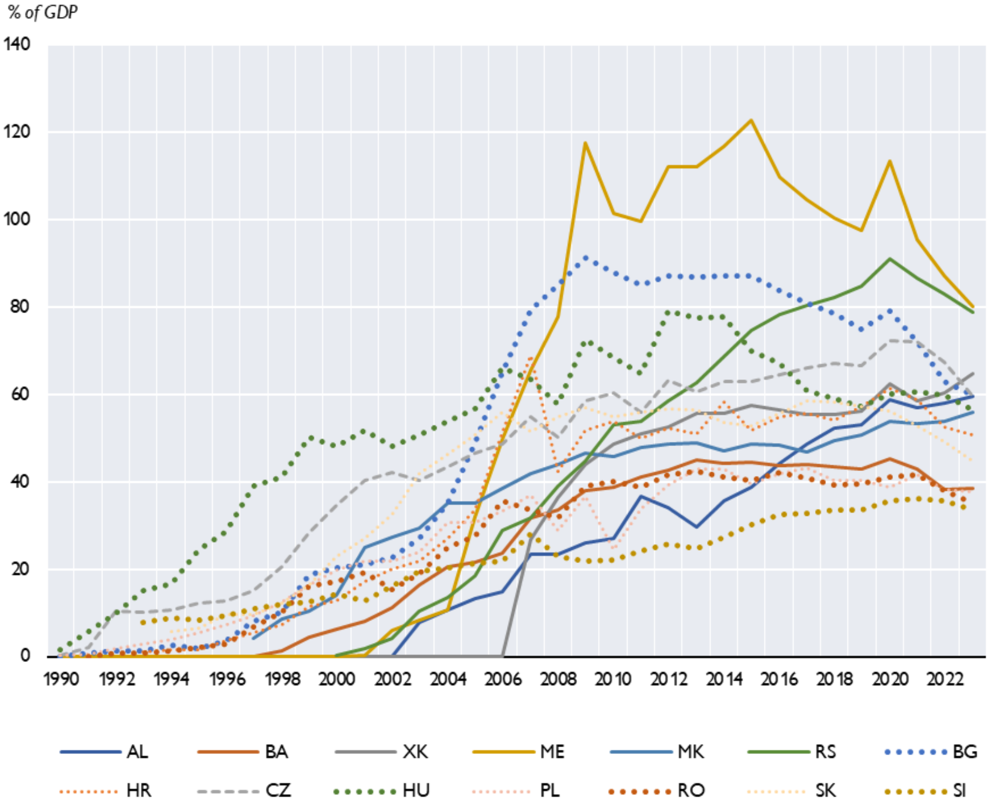
The magnitude of FDI stocks in the WB economies has grown steadily over the past 15 years, ranging between 38.6% (Bosnia and Herzegovina) and 80.2% (Montenegro) of GDP in 2023 (2022)[3]. The proportion of FDI stock relative to GDP has shown steady growth since 2007 (with the great financial crisis resulting in certain setbacks in North Macedonia and especially Montenegro). However, the polycrisis of the early 2020s (i.e. the consequences of the COVID-19 pandemic and Russia's war of aggression in Ukraine) resulted in stagnation (Albania, Kosovo, North Macedonia) or setbacks (Bosnia and Herzegovina, Montenegro, Serbia) in FDI stock as a share of GDP.

There are certain differences among the WB economies regarding the magnitude of the role of FDI in the respective economies. In terms of the proportion of inward FDI stock to GDP, Montenegro has been the most popular investment destination, with the ratio exceeding 100% between 2009 and 2018, and in 2020 (chart 1). Due to the setbacks in FDI inflows directed to Montenegro in the 2020s, the 2023 level of the Montenegrin FDI-to-GDP ratio has been approaching that of Serbia (around 80% each). The least popular destination for FDI inflows was Albania between 2007 and 2015, and then, from 2016 on, Bosnia and Herzegovina.

[3] *Depending on data availability.*

Chart 1

**Inward FDI stock in the Western Balkan and CESEE EU member states**

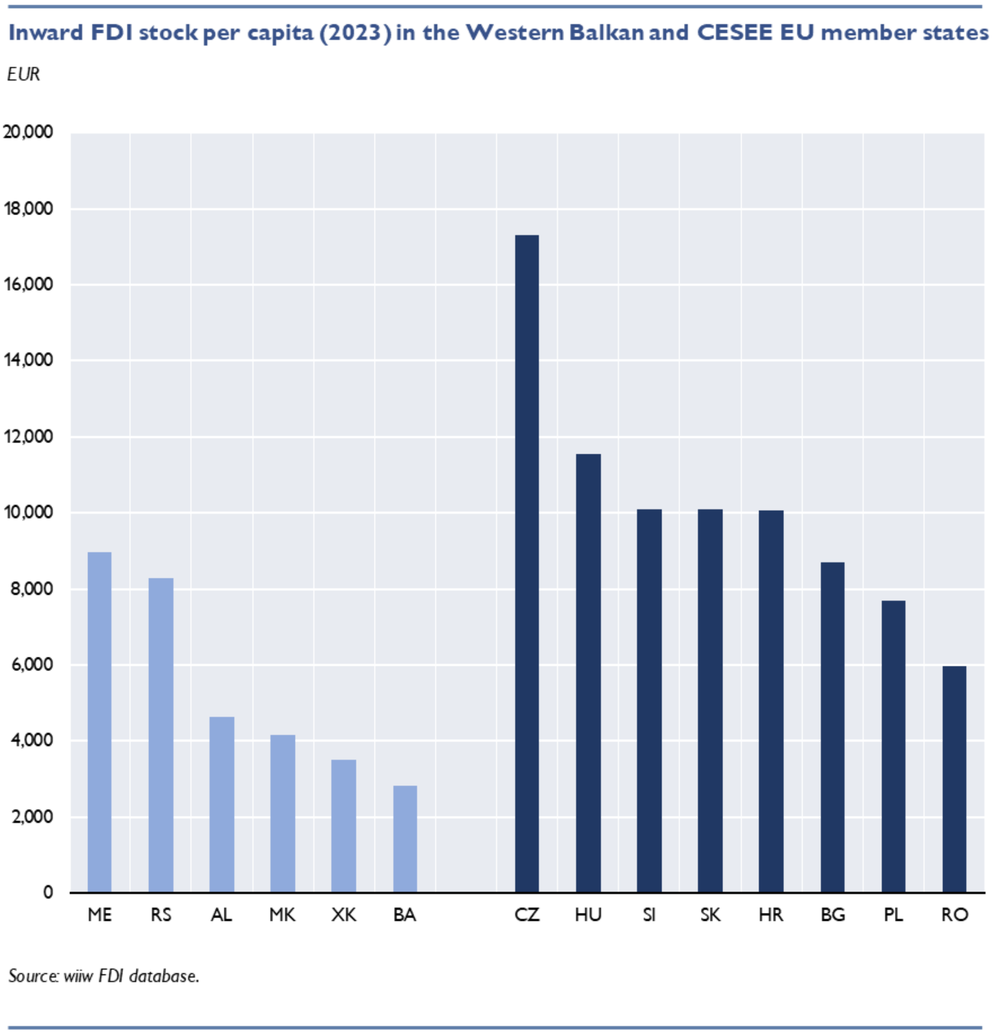



*Source: wiiw FDI database.*

The FDI stock-to-GDP ratio of the two top performers (Montenegro and Serbia) exceeds that of the CESEE EU member states[4] by far. Albania, Kosovo and North Macedonia have reached levels comparable to those of most CESEE EU countries while Bosnia and Herzegovina is lagging behind. However, when considering FDI stock per capita, the top performers of the WB (Montenegro and Serbia) show levels similar to the lowest-performing CESEE EU member states (Bulgaria, Poland and Romania). The remaining four WB economies (i.e. Albania, Bosnia and Herzegovina, Kosovo and North Macedonia) have a significantly lower FDI stock-per-capita ratio than any other EU member state in the region (chart 2). Overall, the comparatively high share of FDI to GDP and the low FDI stock per capita highlight the catching-up potential of the WB economies both in terms of GDP and FDI.

[4] *The Baltic countries are not included.*

Chart 2




## Industry structure of FDI

The individual WB economies show differences when it comes to FDI preferences by industry and the complexity of the respective industry structures.[5] FDI stock in Kosovo shows the least diversified picture: In 2023, more than half of available FDI stock was recorded in the real estate sector. This is a dramatic increase: In 2015, the real estate sector accounted for only a quarter of FDI stock in Kosovo. Financial and insurance activities are the second-largest component of FDI stock accounting for 13% of total FDI, the share being relatively stable over time.

Bosnia and Herzegovina and North Macedonia show more diversified and similar industry structures in their FDI stock; moreover, these industry structures are relatively constant over time. In both countries, manufacturing is the dominant sector (35% of FDI stock in North Macedonia and 29.5% in Bosnia and Herzegovina in 2022). Financial and insurance activities rank second, accounting for approximately a fifth of total FDI stock in both countries; wholesale and retail trade ranks third (14.3% of total FDI stock in Bosnia and Herzegovina, and 12.6% in North Macedonia).

The industry structure of FDI stock in Albania differs from the aforementioned countries and shows certain changes over the past decade. The energy sector (electricity, gas, steam, and air

[5] *Data on FDI by industry are available for Albania, Bosnia and Herzegovina, Kosovo and North Macedonia.*

conditioning supply) accounted for a quarter of total FDI stock in 2023; this share has doubled since 2015. Mining and quarrying accounted for 16.4% of FDI stock in the country (versus 12.7% in 2015). Financial and insurance (11.8%), as well as real estate activities (11.7%) also recorded notable shares in 2023, with the latter having grown enormously, by 8.7 percentage points since 2015. The share of the information and communication sector shrunk from a remarkable 24.4% in 2015 to 10.3% in 2023.

### Major sources of FDI inflows in the WB economies

The European Union has been the major foreign investor in the Western Balkans in the past 15 years (see also Jaćimović et al., 2023), even accounting for more than three-quarters of total FDI stock in certain cases. The EU's share in total inward FDI stock is, however, following a downward path over time – starting in 2010 at a share ranging between 55.4% (in Montenegro) to 78.7% (in North Macedonia). In 2022 it accounted for between 38.5% (in Montenegro) and 65.0% (in North Macedonia). The decline was the steepest in Montenegro, while Kosovo is the only WB economy where the share of FDI stock originating in the EU grew over time (30.8% in 2012 vs. 40.1% in 2023). Despite these general downward trends, the EU is still by far the number one investor in the Western Balkans, accounting for more than half of total FDI inward stock in four out of six WB economies.

In contrast, FDI originating in the United States is much less common in the WB economies. The share of US FDI in total FDI stock typically ranges between 0.5% and 2.5% in the Western Balkans, lacking any major upward and downward trends. The only notable exception is Kosovo, where the share of US relative to total FDI stock has shown a strong increase over time (from 2.7% in 2015 to 7.3% in 2023).

The presence of Russian FDI strongly varies across the region. Relative to its total FDI stock, Montenegro is the main recipient of Russian FDI (with the share in its total FDI stock ranging between 10.7% and 14.0% throughout the time period examined); this share has grown steadily from 2017 on. However, this is not the result of nominal Russian FDI stock growing, but rather reflects the shrinking magnitude and, in some cases, withdrawal of EU FDI. Russian investments used to reach 9.2% of total FDI stock in 2010 in Bosnia and Herzegovina, with this share gradually shrinking to 2.3% in 2022; the decline was faster from 2015 on. On the other hand, in Serbia, the presence of Russian FDI has grown over time (from 3.7% in 2010 to 5.6% in 2023). However, Russian FDI always accounted for less than 1% of total FDI in North Macedonia and has been negligible in Albania and Kosovo. Thus, Russian FDI is primarily directed to those WB countries that share cultural (linguistic or religious) ties with Russia.

Chinese FDI, on the other hand, is a relatively new phenomenon to the economies of the Western Balkans. Until 2013, China's presence was negligible in the region, which, however changed with the launch of the Belt and Road Initiative[6] in the same year (see also Barisitz, 2020, and Barisitz, 2024). A fast upswing in Chinese FDI was seen until the late 2010s in Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia. While the former three countries saw stagnating Chinese FDI inflows in the 2020s, the proportion of Chinese FDI (to total FDI) has skyrocketed in Serbia ever since, reaching a record high of 11.3% in 2023. For Albania and Kosovo, however, Chinese investments have remained negligible, similarly to Russian FDI flows. On the other hand,

*[6] The Belt and Road Initiative (BRI) is a Chinese proposal for enhancing international trade and as such includes a number of infrastructure projects (see also World Bank, 2018).*

investments from Türkiye account for a larger part of current FDI stock in these countries (7.7% in Albania and 8.0% in Kosovo) and, similarly, in North Macedonia (7.7%).

## 2 Country profiles

### Albania

In Albania, EU investors are by far the largest owner of FDI stock (dominated by Italy, the Netherlands and Austria). However, the EU's share in total stocks is in moderate decline over time. The Swiss share in the country's FDI stock is also remarkably high (exceeding 15.7% in 2023) in a regional comparison; notable growth was registered throughout the late 2010s and early 2020s. Apart from the EU, however, global geopolitical players are almost absent in Albania: The Chinese and Russian FDI share is negligible, US investments account for around 2%. Instead, the major non-Western investor in Albania has been Türkiye, with a relatively constant share from 2010 on, reaching 7.7% in 2023.

### Bosnia and Herzegovina

Similarly, in Bosnia and Herzegovina the EU has remained the major investor, accounting for 59.4% of total FDI stock in 2022. Contrary to other WB economies, Bosnia and Herzegovina has not recorded a permanent downward trend in the EU's share of FDI stock. Rather, the EU's FDI share has been moving together with conjunctural trends (upward swing in the second half of the 2010s, shrinking afterward). Austria, Croatia and Slovenia are the main EU holders of FDI stock, well reflecting geographic and cultural proximity in investment trends. Furthermore, despite their share diminishing over time, intra-WB investments are of particular relevance in Bosnia and Herzegovina (14.3% by 2022), highly dominated by Serbia. Russia's share showed significant decline over the past decade (9.2% in 2010 vs. 3.9% in 2022); the FDI share of the US and China is negligible in the country. On the other hand, the Gulf States (Saudi Arabia, the UAE and Kuwait) have shown growing interest in the region and reached a share of 6.6% of FDI stock in 2022.

### Kosovo

Though the EU is also the main investor in Kosovo, its position there is the least dominant among all WB economies (40.1% in 2023). The EU's share is growing nevertheless, which is also atypical for the region; major EU investors include Germany and Austria. The Swiss share in total FDI stock in Kosovo is remarkably high and growing at a fast pace (reaching 16.2% in 2023), reflecting the size of the diaspora in Switzerland. Türkiye is the major non-Western investor in the economy; however, the Turkish share of FDI stock in Kosovo has declined over the past seven years. While Chinese and Russian presence in Kosovo is negligible, the United States shows particular interest in investing in Kosovo (with a steadily growing FDI share that reached 7.3% in 2023). Intra-WB investments also play a significant and growing role (7.2% of total FDI stock), vastly dominated by Albanian FDI, reflecting the cultural ties between the two economies.

### Montenegro

In Montenegro, the share of FDI stock attributable to EU investors has declined remarkably, by a third over the past ten years (59.3% in 2013 vs. 38.5% in 2022). Dominant EU investors are

Hungary, Italy and Austria, reflecting the role of geographic proximity in foreign direct investments. Russia holds a remarkably high share (14.0% in 2022) of Montenegrin FDI stock, with the ratio moderately growing over the late 2010s. Intra-WB FDI stock (dominated by Serbian investments) also plays a significant and growing role in Montenegro (11.1% in 2022). While the US, China and Türkiye hold a minor share of FDI stock in the country, the shares of Azerbaijan, Switzerland and the UAE each showed significant growth over the past decade and exceeded 5% in 2022.

**North Macedonia**

Out of all WB economies, North Macedonia shows the highest share of FDI stock attributable to EU investors, although this share has declined by a quarter over the past decade (65% in 2022). The most notable EU investors are Austria, Greece and Germany. UK investments showed remarkable growth in the mid-2010s, making the UK the major non-EU investor in North Macedonia (3.1% in 2010 vs. 9.0% in 2022). Turkish investments have also grown over the past decade, reaching 7.6% in 2022. The influence of other major geopolitical actors (US, China and Russia) is small in North Macedonia; the share of intra-WB FDI is moderate.

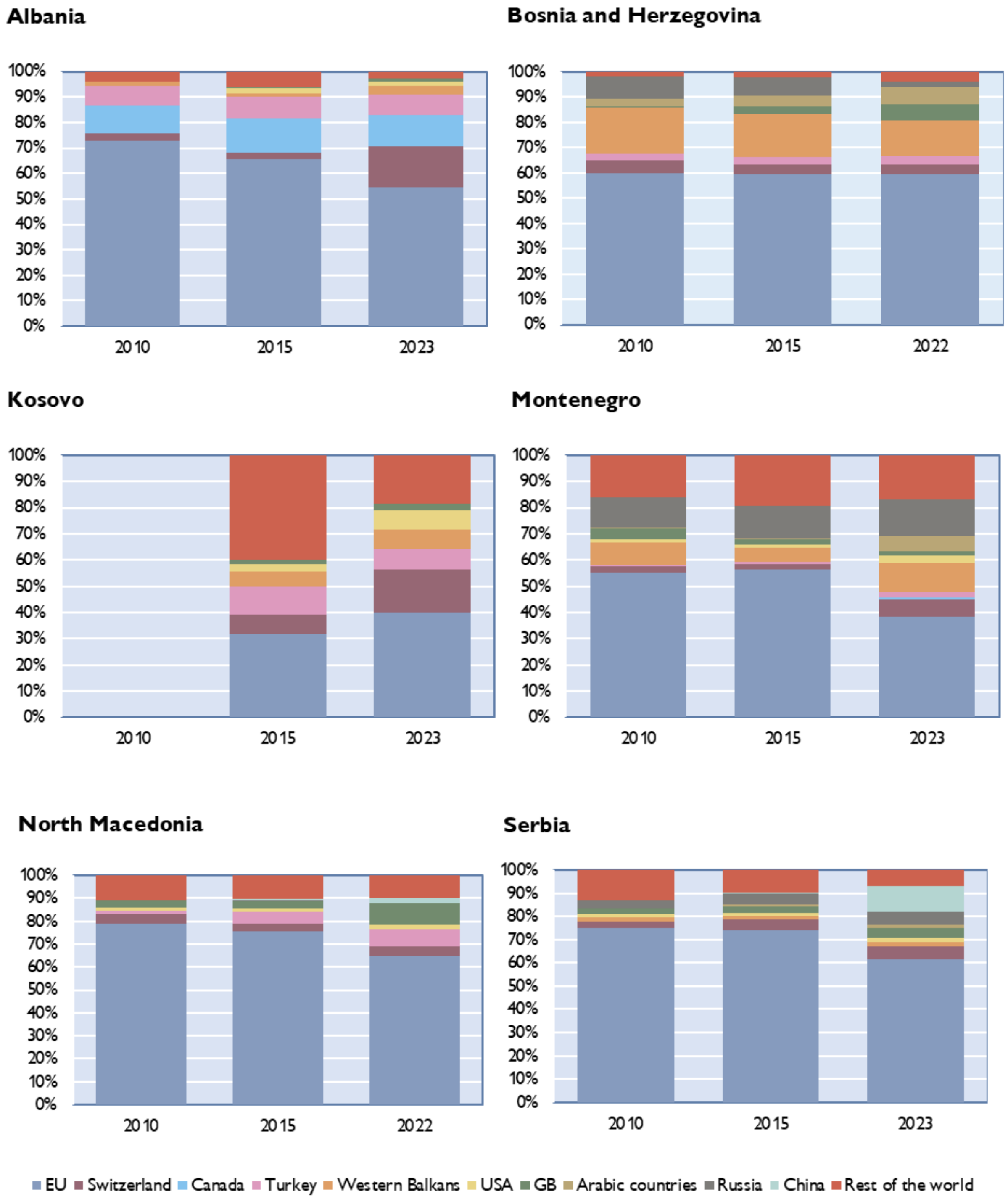
**Serbia**

Similarly, the EU's share in FDI in Serbia has diminished over the past decade (74.8% in 2010 vs. 61.5% in 2023). Nevertheless, the EU remains the by far dominant holder of FDI stock in the country. Major EU investors include the Netherlands, Austria and Germany. Also, Chinese investments have skyrocketed in the past decade from practically zero to 11.3% in 2023; the rising share of Chinese FDI is linked with the launch of the Belt and Road Initiative, consisting of international infrastructure projects (see also Barisitz, 2024). Russian investments showed moderate growth in the past decade (3.7% in 2010 vs. 5.6% of all FDI stock in 2023), similar trends are visible in the case of Swiss investments. The shares of other players (including the US, the remaining WB economies and Türkiye) are moderate.

Chart 3

**Inward FDI stock by country of origin**

*% of total FDI stock*




*Source: wiiw FDI database.*

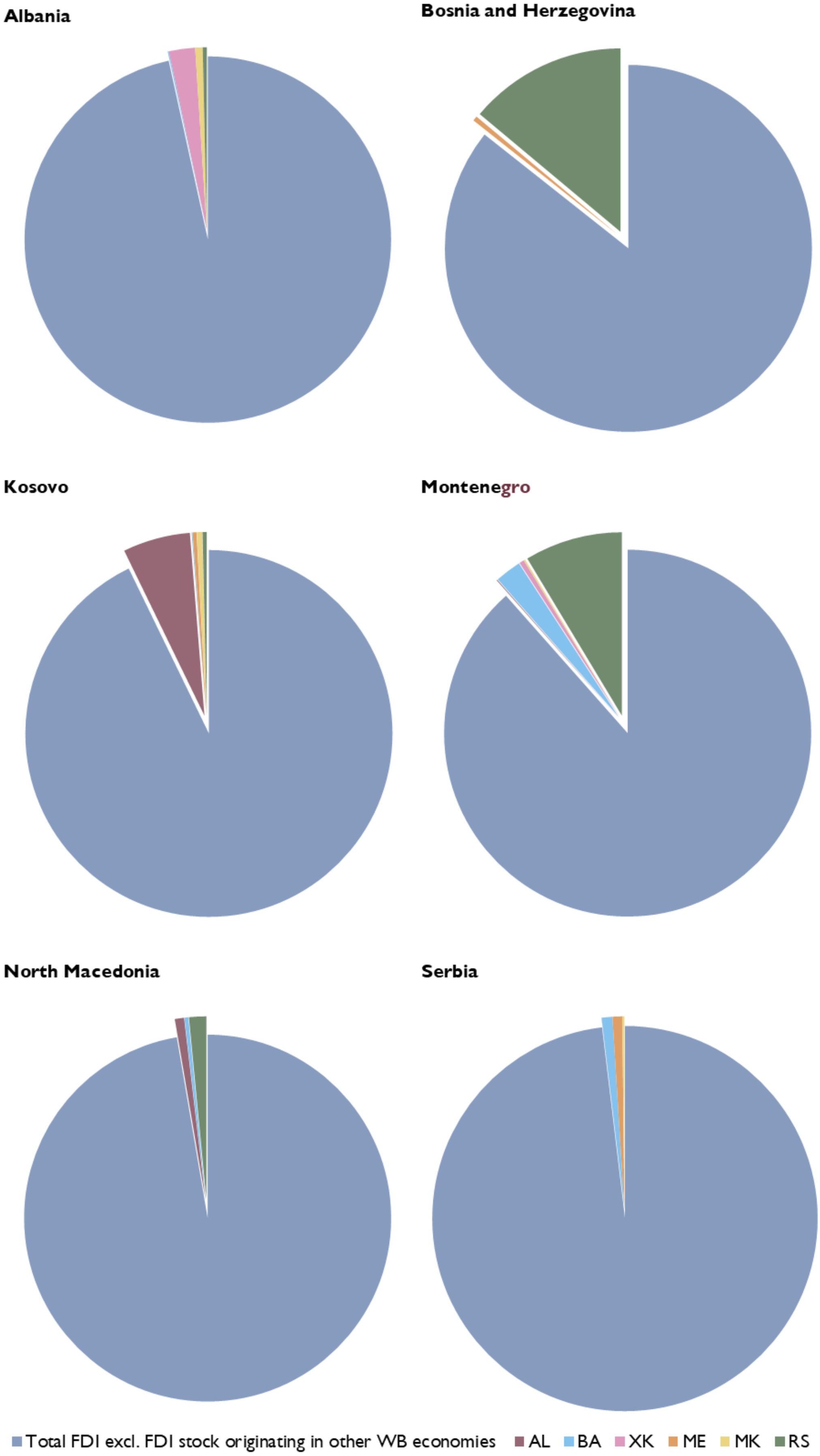
## 3 Signs of regional integration

Beside the shift in external partners' investments, FDI flows between the six economies of the Western Balkans have also shown certain changes in the past 15 years. Overall, there are clear signs of regional integration.

Chart 4

**Inward FDI stock originating from other WB economies**

*% of total inward FDI stock, 2023 or latest available year*




*Source: wiiw FDI database.*

Three of the WB economies (Albania, Kosovo, and, to the greatest extent, Montenegro) have registered a growing share of FDI from the remaining five economies of the region. On the other hand, in the cases of Serbia and North Macedonia, intra-WB shares of FDI stock have remained low (1.4% to 2.0% and 2.7% to 3.8%, respectively) throughout the past 15 years. A notable outlier is Bosnia and Herzegovina. The country has received an unusually high degree of intra-WB FDI with a peak of 21.3% in 2007; nevertheless, this proportion has been in decline ever since (reaching an all-time low by 2019 and stagnating in the 2020s). The sources of intra-WB investments reflect cultural and historical ties and geopolitical interests within the region. Serbia is particularly active in investing in Bosnia and Herzegovina as well as in Montenegro, while Albania primarily invests in Kosovo.

## 4 Concluding remarks

The role of FDI has steadily grown in the WB economies over the past decade. However, on a per capita basis, the Western Balkans are still lagging behind the CESEE EU members. Across the WB economies, there is remarkable heterogeneity both in terms of the magnitude of FDI stocks and the composition of investors. In parallel with global geopolitical shifts of the 2010s and the 2020s, the sources of FDI have also become diversified for the Western Balkans; the most notable actors that have appeared are: China and, to a lesser extent, the Gulf States. This growing influence of non-Western actors has come at the cost of the EU whose position has weakened somewhat. The United States has not expanded its activities in the region. Furthermore, intra-WB investments have also grown over the past decade, showing signs of regional integration. This diversification in FDI sources, however, only reflects a shift in proportions rather than a complete reshuffling: The European Union has remained by far the number one investor in the Western Balkans. Our findings align with the supposition (Jirasavetakul and Rahman, 2018) that geographic and cultural factors do play a significant role in foreign investors' preferences: Investments by European partners, Russia, Türkiye and the Gulf States as well as intraregional FDI flows are organized in line with geographic and cultural proximity. It is safe to say that changes have indeed appeared in the source structure of foreign direct investments in the Western Balkans over the past decades. However, historic, cultural and geopolitical factors continue to play a decisive role, with the latter gaining more importance recently.

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## Economic trends in Georgia, Moldova, Türkiye, Ukraine and Russia

Compiled by Antje Hildebrandt[7]

### 1 Georgia: economy booms amid geopolitical uncertainty

The Georgian economy remains resilient despite significant geopolitical unpredictability. Inflation remains below target, with potential inflationary pressures under close monitoring.

Significant credit growth has led to strong growth in real activity, exceeding expectations. The National Bank of Georgia (NBG) has revised its real GDP growth forecast for 2024 upward to 8.5%. Consumption is the primary driver of this accelerated growth, while investment and net exports contribute moderately.

In Q3, strong external demand led exports to grow by 17.5% year on year in real terms. Notably, the re-export of motor cars recovered and sales of ferroalloys and precious metals increased. So far in 2024, the share of trading partners in the CIS region in total exports was 69.4%, while the EU's share was 8.2%. Revenues from international travel supported a slight improvement of the current account deficit. Real imports declined by 3.3% year on year. However, with likely increases in imports due to higher economic activity, the deficit for 2024 is projected to range between 4.5% and 5% of GDP, down from 5.6% in 2023.

The gradual recovery of the labor market continues, as the unemployment rate hit a long-time low of 13.7% in Q2 2024. In the same quarter, labor productivity grew by 7.5% year on year. Nominal wage growth continued to decelerate at a moderate pace, reaching 11.1% year on year in Q2. As a result, unit labor cost growth declined significantly to 3.4% year on year, down from nearly 12% in the previous quarter. Consequently, wage-driven inflationary pressures have eased.

The current level of economic activity growth brings possible inflationary pressures, which is coupled with heightened geopolitical uncertainty. However, in Q3, consumer prices increased by 1.1% year on year, remaining significantly below the 3% target. The normalization of supply-side factors, structural changes of the economy and the monetary policy response contributed to this trend. Inflation is expected to remain at a low level in the short term, before returning to 2.9% in 2025. The NBG pursues a gradual normalization of the policy rate toward its neutral rate of 7%, following a period of steadily maintaining the rate at currently 8%. This strategy has been adopted to alleviate potentially growing inflationary pressures.

The banking sector continues to be well capitalized, as the tier 1 capital ratio increased to 21.2% in Q2, up from 19.7% at end-2023. Loan dollarization continues to pose a challenge for the NBG. In Q2 2024, loan dollarization fell to 44.3%, a slight decrease from 44.6% in Q2 2023.

Parliamentary elections took place on October 26, 2024, after the EU candidate process came to a de-facto halt following the approval of the controversial "foreign agent" law in the summer. The incumbent party, Georgian Dream, remained in power. The EU's ambassador to Georgia stated after the election that the accession process would remain on hold if the country continued to drift away from European values.

[7] *Compiled by Antje Hildebrandt with input from Stephan Barisitz, Melanie Koch, Mathias Lahnsteiner, Nico Petz and Thomas Reininger. Cutoff date for data: October 31, 2024, except for Türkiye: November 15, 2024.*

## Table 1: Main economic indicators: Georgia

### Main economic indicators: Georgia

| | 2021 | 2022 | 2023 | Q3 23 | Q4 23 | Q1 24 | Q2 24 |
|---|---|---|---|---|---|---|---|
| | *Year-on-year change of the period total in %* | | | | | | |
| GDP at constant prices | 10.6 | 11.0 | 7.5 | 7.0 | 6.9 | 8.4 | 9.6 |
| Private consumption | 12.3 | -2.8 | 3.2 | 1.3 | 10.2 | 18.4 | 25.7 |
| Public consumption | 7.1 | -0.8 | 6.1 | 9.7 | 14.9 | 21.1 | 16.4 |
| Gross fixed capital formation | -4.8 | 9.9 | 25.0 | 66.7 | 23.9 | 10.0 | 12.1 |
| Exports of goods and services | 23.5 | 37.4 | 8.2 | -2.0 | -5.7 | -3.4 | 2.6 |
| Imports of goods and services | 8.8 | 16.9 | 8.6 | 6.9 | 0.1 | 1.8 | 15.2 |
| | *Contribution to GDP growth in percentage points* | | | | | | |
| Domestic demand | 7.1 | 4.2 | 8.2 | 11.8 | 9.8 | 10.9 | 17.1 |
| Net exports of goods and services | 3.6 | 5.7 | -1.0 | -5.1 | -2.9 | -3.1 | -7.5 |
| Exports of goods and services | 8.5 | 15.1 | 4.1 | -1.1 | -2.8 | -1.9 | 1.3 |
| Imports of goods and services | -5.0 | -9.4 | -5.1 | -4.0 | -0.1 | -1.2 | -8.9 |
| | *Year-on-year change of the period average in %* | | | | | | |
| Unit labor costs in the whole economy (nominal, per person) | .. | .. | .. | .. | .. | .. | .. |
| Unit labor costs in industry (nominal, per person) | .. | .. | .. | .. | .. | .. | .. |
| Labor productivity in industry (real, per person) | .. | .. | .. | .. | .. | .. | .. |
| Average gross earnings in industry (nominal, per person) | .. | .. | .. | .. | .. | .. | .. |
| Producer price index (PPI) in industry | 16.7 | 11.4 | -2.9 | -3.1 | -0.7 | 1.8 | 7.3 |
| Consumer price index (here: CPI) | 9.6 | 11.9 | 2.5 | 0.6 | 0.4 | 0.3 | 1.9 |
| EUR per 1 GEL, + = GEL appreciation | -6.8 | 23.9 | 8.4 | 14.6 | -0.4 | -3.9 | -2.5 |
| | *Period average levels* | | | | | | |
| Unemployment rate (ILO definition, %, 15–64 years) | 20.6 | 17.3 | 16.4 | 15.6 | 15.3 | 14.0 | 13.7 |
| Employment rate (%, 15–64 years) | 40.4 | 43.0 | 44.5 | 45.3 | 46.0 | 47.3 | 47.0 |
| Key interest rate per annum (%) | 9.3 | 10.9 | 10.5 | 10.3 | 9.9 | 9.0 | 8.1 |
| GEL per 1 EUR | 3.8 | 3.1 | 2.8 | 2.8 | 2.9 | 2.9 | 2.9 |
| | *Nominal year-on-year change in period-end stock in %* | | | | | | |
| Claims on the domestic nonbank private sector[1] | 13.0 | 3.5 | 16.0 | 12.1 | 16.0 | 18.5 | 20.7 |
| of which: | | | | | | | |
| claims on households | 14.9 | 10.0 | 15.0 | 12.6 | 15.0 | 16.1 | 17.3 |
| claims on nonbank corporations | 11.0 | -3.5 | 17.2 | 11.5 | 17.2 | 21.6 | 24.9 |
| | | | | | | | |
| Share of foreign currency loans in total loans to the nonbank private sector | 50.8 | 45.1 | 44.3 | 44.3 | 44.3 | 43.9 | 44.3 |
| Return on assets (banking sector) | 3.5 | 3.1 | 3.5 | 3.6 | 3.5 | 3.5 | 3.5 |
| Tier 1 capital ratio (banking sector) | 15.6 | 17.1 | 19.7 | 19.9 | 19.7 | 19.1 | 21.2 |
| NPL ratio (banking sector) | 1.9 | 1.5 | 1.5 | 1.6 | 1.5 | 1.6 | 1.6 |
| | *% of GDP* | | | | | | |
| General government balance | -5.9 | -2.2 | -1.9 | | | | |
| Primary balance | .. | .. | .. | | | | |
| Gross public debt | 49.1 | 39.2 | 39.2 | | | | |
| | *% of GDP* | | | | | | |
| Debt of nonfinancial corporations (nonconsolidated) | .. | .. | .. | | | | |
| Debt of households and NPISHs[2] (nonconsolidated) | .. | .. | .. | | | | |
| | *% of GDP (based on EUR), period total* | | | | | | |
| Goods balance | -20.6 | -21.5 | -19.8 | -19.4 | -19.5 | -21.4 | -22.0 |
| Services balance | 3.9 | 11.5 | 11.2 | 15.0 | 8.1 | 10.1 | 11.8 |
| Primary income | -6.4 | -7.4 | -6.6 | -5.9 | -5.9 | -5.5 | -7.1 |
| Secondary income | 12.5 | 12.9 | 10.8 | 11.1 | 10.6 | 12.3 | 10.1 |
| Current account balance | -10.5 | -4.5 | -4.3 | 0.9 | -6.7 | -4.5 | -7.2 |
| Capital account balance | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 |
| Foreign direct investment (net)[3] | -5.1 | -7.4 | -4.2 | -2.7 | -1.8 | -0.9 | -5.9 |
| | *% of GDP (rolling four-quarter GDP, based on EUR), end of period* | | | | | | |
| Gross external debt | 125.0 | 99.2 | 77.7 | 79.9 | 77.7 | 78.4 | 77.5 |
| Gross official reserves (excluding gold) | 24.1 | 20.3 | 15.9 | 17.8 | 15.9 | 14.2 | 12.8 |
| | *Months of imports of goods and services* | | | | | | |
| Gross official reserves (excluding gold) | 4.8 | 3.7 | 3.3 | 3.5 | 3.3 | 3.0 | 2.7 |

*Source: Bloomberg, national statistical offices, national central banks, OeNB.*

[1] *Foreign currency component at constant exchange rates.*

[2] *Nonprofit institutions serving households.*

[3] *+ = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).*
*- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).*

## 2 Moldova: economic and political uncertainty prevail

With an average of 2.2%, GDP in the Republic of Moldova[8] grew slower than expected and less than before the pandemic in the first two quarters of 2024. As the government aims to consolidate fiscal deficits, public spending remained low. In contrast, investment and especially private consumption have recovered more in H1 2024 and contributed positively to GDP growth.

Agricultural production increased by more than 5% in H1 2024 year on year and also industrial production mildly increased. However, in summer, both were lower than a year ago. While imports grew in H1 2024, exports did not. Still, trade with the EU further intensified, with exports to the EU increasing in comparison to H1 2023. The negative current account balance might turn out to be larger in 2024 compared to 2023. FDI inflows were so far lower in 2024 than in the two previous years, which were partly characterized by one-off investments.

Inflation stayed within its target band around 5% in the last five months and the CPI was at 5.2% in September 2024. The policy rate of 3.6% remained unchanged from May 2024. In spring, the high reserve requirements were reduced too, currently being 29% for the leu and 39% for foreign currencies. The share of foreign currency (FX) loans is decreasing again after an upswing in 2022 in reaction to Russia's invasion of Ukraine. FX interventions were limited in the current year and the leu is slightly appreciating vis-à-vis the US dollar but depreciating against the euro.

Given lower inflation, real wage growth was strong in the last 12 months. Employment rates are on an upward trajectory while unemployment rates remained rather stable at 4% in Q2 2024. Still, the working age population is again projected to have declined this year and more than every fourth young person was neither in employment nor in education in the second quarter of 2024. In population polls, people regularly cite unemployment as one of the most important problems in the country. In contrast, overall business confidence improved over the course of the year.

The government continued to support vulnerable households, including the increasing number of refugees from Ukraine, but the fiscal capacity is small, aggravated e.g. by lower than expected collection of taxes in the first half of the year. Economic development of the country relies heavily on external financial support. In October, the European Commission (EC) proposed the largest EU support package for Moldova so far, amounting to almost 11% of last year's GDP. The so-called Growth Plan is supposed to strengthen convergence, facilitate access to the EU single market and incorporate financial assistance through a Reform and Growth Facility.

Banking capitalization and profitability remained robust. Within the more favorable interest rate environment, loan growth improved from 2023 onward. At the same time, NPLs are on a steady decline, probably also thanks to borrower-based measures adopted in 2022. To strengthen financial inclusion, the Moldovan central bank launched a new instant payment system this year.

In a tight race, pro-European president Maia Sandu was re-elected in early November. The attached national referendum to constitutionalize the seeking of EU membership has won only by a whisker. Maintaining political, economic and institutional convergence toward the EU will be a key challenge for the near future amid a polarized society and pro-Russian forces gaining influence.

[8] *Data are taken from public and official data sources, excluding data from unrecognized Transnistria and regions controlled by Transnistria.*

## Table 2: Main economic indicators: Moldova

### Main economic indicators: Moldova

| | 2021 | 2022 | 2023 | Q3 23 | Q4 23 | Q1 24 | Q2 24 |
|---|---|---|---|---|---|---|---|
| | *Year-on-year change of the period total in %* | | | | | | |
| GDP at constant prices | 13.9 | -4.6 | 0.7 | 3.3 | -0.2 | 1.9 | 2.4 |
| Private consumption | 17.1 | -5.3 | 0.0 | 1.3 | 2.2 | 1.2 | 3.3 |
| Public consumption | 3.0 | 10.7 | -3.3 | -2.1 | -8.2 | -7.0 | -0.9 |
| Gross fixed capital formation | 1.9 | -10.5 | -1.3 | -1.1 | 4.0 | 4.8 | 6.9 |
| Exports of goods and services | 17.5 | 29.7 | 5.1 | 6.1 | 11.9 | 1.0 | -3.4 |
| Imports of goods and services | 21.2 | 18.2 | -5.1 | -9.8 | -3.1 | -4.1 | 7.8 |
| | *Contribution to GDP growth in percentage points* | | | | | | |
| Domestic demand | 19.9 | -3.2 | -5.1 | -6.2 | -7.0 | -1.3 | 8.8 |
| Net exports of goods and services | -6.0 | -1.4 | 5.8 | 8.9 | 6.9 | 3.1 | -5.8 |
| Exports of goods and services | 4.9 | 9.1 | 2.1 | 2.2 | 4.7 | 0.4 | -1.3 |
| Imports of goods and services | -10.9 | -10.5 | 3.6 | 6.7 | 2.2 | 2.7 | -4.6 |
| | *Year-on-year change of the period average in %* | | | | | | |
| Unit labor costs in the whole economy (nominal, per person) | .. | .. | .. | .. | .. | .. | .. |
| Unit labor costs in industry (nominal, per person) | -2.3 | 20.0 | 17.2 | 11.4 | 12.3 | 12.0 | 15.1 |
| Labor productivity in industry (real, per person) | 11.0 | -3.6 | -0.6 | 2.3 | 4.2 | 4.8 | 0.6 |
| Average gross earnings in industry (nominal, per person) | 8.7 | 15.8 | 16.2 | 14.0 | 17.0 | 17.4 | 15.8 |
| Producer price index (PPI) in industry | 8.4 | 26.4 | 13.0 | 10.0 | 2.9 | -2.5 | -1.8 |
| Consumer price index (here: CPI) | 5.1 | 28.7 | 13.4 | 9.7 | 5.3 | 4.3 | 3.5 |
| EUR per 1 MDL, + = MDL appreciation | -5.6 | 5.1 | 1.3 | 2.8 | -0.1 | 2.2 | 4.6 |
| | *Period average levels* | | | | | | |
| Unemployment rate (ILO definition, %, 15–64 years) | 3.3 | 3.2 | 4.7 | 4.3 | 5.0 | 4.6 | 4.0 |
| Employment rate (%, 15–64 years) | 47.5 | 48.4 | 51.8 | 53.0 | 51.0 | 52.3 | 52.9 |
| Key interest rate per annum (%) | 3.7 | 16.6 | 10.1 | 6.0 | 5.3 | 4.4 | 3.7 |
| MDL per 1 EUR | 20.9 | 19.9 | 19.6 | 19.5 | 19.4 | 19.3 | 19.2 |
| | *Nominal year-on-year change in period-end stock in %* | | | | | | |
| Claims on the domestic nonbank private sector[1] | 21.0 | 8.8 | 2.9 | 3.4 | 2.9 | 5.6 | 10.8 |
| of which: | | | | | | | |
| claims on households | 39.2 | 4.4 | 8.1 | 2.8 | 8.1 | 13.2 | 18.1 |
| claims on nonbank corporations | 10.9 | 12.0 | -0.4 | 3.8 | -0.4 | 0.7 | 6.0 |
| Share of foreign currency loans in total loans to the nonbank private sector | 31.0 | 35.2 | 29.9 | 31.7 | 29.9 | 28.2 | 26.6 |
| Return on assets (banking sector) | 2.1 | 3.0 | 2.9 | 3.2 | 2.9 | 2.1 | 2.2 |
| Tier 1 capital ratio (banking sector) | 25.2 | 28.5 | 29.2 | 30.1 | 29.2 | 27.5 | 28.1 |
| NPL ratio (banking sector) | 6.1 | 6.4 | 5.6 | 6.7 | 5.6 | 5.5 | 4.8 |
| | *% of GDP* | | | | | | |
| General government balance | -1.9 | -3.2 | -5.2 | | | | |
| Primary balance | .. | .. | .. | | | | |
| Gross public debt | 32.6 | 35.0 | 35.3 | | | | |
| | *% of GDP* | | | | | | |
| Debt of nonfinancial corporations (nonconsolidated) | .. | .. | .. | | | | |
| Debt of households and NPISHs[2] (nonconsolidated) | .. | .. | .. | | | | |
| | *% of GDP (based on EUR), period total* | | | | | | |
| Goods balance | -30.7 | -36.1 | -29.6 | -28.7 | -27.9 | -28.9 | -32.8 |
| Services balance | 3.5 | 6.3 | 5.4 | 4.0 | 5.3 | 5.5 | 5.9 |
| Primary income | 2.0 | 0.4 | 1.3 | 1.0 | 0.8 | 2.1 | 0.8 |
| Secondary income | 12.9 | 12.2 | 11.0 | 11.5 | 10.5 | 9.6 | 9.4 |
| Current account balance | -12.4 | -17.2 | -11.9 | -12.3 | -11.3 | -11.7 | -16.7 |
| Capital account balance | -0.4 | 0.1 | 0.5 | 0.6 | 0.4 | 0.0 | 0.0 |
| Foreign direct investment (net)[3] | -2.7 | -3.7 | -2.5 | -2.3 | -2.5 | -0.9 | -1.7 |
| | *% of GDP (rolling four-quarter GDP, based on EUR), end of period* | | | | | | |
| Gross external debt | 66.7 | 65.1 | 59.9 | 60.8 | 59.9 | 59.6 | 57.5 |
| Gross official reserves (excluding gold) | 29.8 | 30.4 | 32.3 | 31.0 | 32.3 | 32.2 | 31.2 |
| | *Months of imports of goods and services* | | | | | | |
| Gross official reserves (excluding gold) | 6.2 | 5.1 | 6.5 | 5.7 | 6.5 | 6.7 | 6.5 |

*Source: Bloomberg, national statistical offices, national central banks, wiiw, OeNB.*

[1] *Foreign currency component at constant exchange rates.*

[2] *Nonprofit institutions serving households.*

[3] *+ = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).*
*- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).*

## 3 Türkiye: more restrictive monetary policy helps lower inflation and external deficit

Annual GDP growth decelerated from 4.6% in Q4 2023 to 2.5% in Q2 2024. Private consumption growth fell from 10% to 1.6%, continuing its deceleration from more than 20% in 2022. Public consumption growth was volatile, with strongly positive figures ahead of municipal elections in March 2024. Gross fixed capital formation weakened while real export performance remained weak, both items showing a contraction by 4% quarter on quarter in Q2. In line with weaker domestic demand growth, real import growth declined and became negative in the first half of 2024, so that the contribution of net exports turned positive. A substantial part of the import contraction resulted from the strong decline of nonmonetary gold imports. In Q2, more than three years of sizable negative growth contributions by inventory change came to an end.

The current account balance showed a deficit of 2.8% of GDP in H1 2024, 4.3 percentage points lower than a year earlier, reflecting the improvement in the goods and services balance. Almost half of this improvement resulted from the decline in net imports of nonmonetary gold to about 1% of GDP, supported by higher key interest rates. Net FDI inflows remained low at only 0.3% of GDP, while net portfolio investment inflows became substantially more important for financing the deficit than net other investment inflows. Official FX reserves stood at 2.4 import months in mid-2024, moderately higher than a year earlier. However, the central bank's off-balance net short position due within one year substantially declined to about one-third of official FX reserves. The remaining net short position stems primarily from FX swaps with foreign central banks.

Both year-on-year HICP headline and core inflation declined from almost 70% in February to slightly above 50% in August 2024. Services inflation remained about 25 percentage points above average inflation. The lira's year-on-year depreciation against the euro stood at about 20% in August 2024, a rate substantially below the rate of inflation. This implies appreciation in real terms that supported disinflation. The Turkish central bank (TCMB) had induced real appreciation through a series of key rate hikes since mid-2023 and holding the key rate constant at 50% since March 2024, which was above the annualized month-on-month inflation in July and August. It also had taken further tightening steps.

From end-2023 to mid-2024, banks substantially reduced their large on-balance negative net FX positions, mainly by increasing FX loans to the nonfinancial corporations (NFC) sector and thus were in less need to enter swaps with the central bank. Now, the NFC sector runs a larger direct FX risk than before, as it has an even larger on-balance negative overall net FX position, with about half due to net domestic FX liabilities. The deterioration of the overall position resulted mainly from the strong decline of the on-balance positive *short-term* net FX position.

The EC staff forecast of November expects improved revenue collection and declining earthquake-related expenditure; the general government fiscal deficit is seen to decline from 4.8% of GDP in 2023 to 4.5% in 2024, instead of rising to the government's initial target of 6.4%. The budget deficit is expected at still large 3.6% of GDP in 2025, due to continued, albeit declining, earthquake recovery efforts. However, despite elevated deficits, the general government debt-to-GDP ratio is forecast to further decline from 29.5% at end-2023 to about 28% at both end-2024 and end-2025, thanks to inflated nominal GDP growth and real appreciation of the lira.

## Table 3: Main economic indicators: Türkiye

### Main economic indicators: Türkiye

| | 2021 | 2022 | 2023 | Q3 23 | Q4 23 | Q1 24 | Q2 24 |
|---|---|---|---|---|---|---|---|
| | *Year-on-year change of the period total in %* | | | | | | |
| GDP at constant prices | 11.4 | 5.5 | 5.1 | 6.5 | 4.6 | 5.3 | 2.5 |
| Private consumption | 15.4 | 18.9 | 13.6 | 12.3 | 10.1 | 6.8 | 1.6 |
| Public consumption | 3.0 | 4.2 | 2.4 | 3.4 | -0.2 | 5.4 | 0.7 |
| Gross fixed capital formation | 7.2 | 1.3 | 8.4 | 14.2 | 9.1 | 9.3 | 0.5 |
| Exports of goods and services | 25.1 | 9.9 | -2.8 | 1.0 | 0.1 | 4.3 | 0.0 |
| Imports of goods and services | 1.7 | 8.6 | 11.8 | 14.5 | 2.8 | -3.0 | -5.7 |
| | *Contribution to GDP growth in percentage points* | | | | | | |
| Domestic demand | 11.5 | 12.5 | 11.8 | 12.1 | 9.5 | 8.1 | 1.4 |
| Net exports of goods and services | 5.3 | 0.6 | -3.5 | -3.0 | -0.7 | 1.7 | 1.4 |
| Exports of goods and services | 5.7 | 2.5 | -0.7 | 0.3 | 0.0 | 1.0 | 0.0 |
| Imports of goods and services | -0.4 | -1.9 | -2.7 | -3.2 | -0.7 | 0.7 | 1.4 |
| | *Year-on-year change of the period average in %* | | | | | | |
| Unit labor costs in the whole economy (nominal, per person) | .. | .. | .. | .. | .. | .. | .. |
| Unit wage costs in manufacturing (nominal, per hour) | 19.0 | 76.7 | 103.6 | 97.9 | 102.7 | 106.1 | 121.5 |
| Labor productivity in manufacturing (real, per hour) | -0.3 | -1.7 | 1.8 | 2.7 | 3.5 | 6.5 | 0.0 |
| Gross wages in manufacturing (nominal, per hour) | 19.0 | 74.1 | 107.4 | 103.2 | 109.8 | 119.4 | 121.4 |
| Producer price index (PPI) in industry | 43.9 | 128.5 | 49.9 | 47.1 | 42.0 | 47.7 | 54.4 |
| Consumer price index (here: HICP) | 19.6 | 72.3 | 54.0 | 56.4 | 62.8 | 66.9 | 72.3 |
| EUR per 1 TRY, + = TRY appreciation | -23.4 | -39.6 | -32.4 | -38.1 | -38.0 | -39.7 | -34.2 |
| | *Period average levels* | | | | | | |
| Unemployment rate (ILO definition, %, 15−64 years) | 12.2 | 10.7 | 9.6 | 9.5 | 8.8 | 9.4 | 8.5 |
| Employment rate (%, 15−64 years) | 50.3 | 52.8 | 53.8 | 54.5 | 54.4 | 54.3 | 55.3 |
| Key interest rate per annum (%) | 17.8 | 12.9 | 18.5 | 20.4 | 35.8 | 44.7 | 50.0 |
| TRY per 1 EUR | 10.5 | 17.4 | 25.8 | 29.2 | 30.7 | 33.6 | 34.9 |
| | *Nominal year-on-year change in period-end stock in %* | | | | | | |
| Loans to the domestic nonbank private sector[1] | 11.2 | 37.5 | 33.1 | 37.1 | 33.1 | 29.2 | 28.8 |
| of which: | | | | | | | |
| loans to households | 20.4 | 55.4 | 76.6 | 84.0 | 76.6 | 65.1 | 48.9 |
| loans to nonbank corporations | 10.3 | 36.6 | 26.8 | 31.0 | 26.8 | 23.7 | 26.5 |
| | | | | | | | |
| Share of foreign currency loans in total loans to the nonbank private sector | 38.1 | 27.7 | 27.9 | 27.5 | 27.9 | 29.2 | 31.5 |
| Return on assets (banking sector) | 1.3 | 3.8 | 3.3 | 3.3 | 3.3 | 2.5 | 2.2 |
| Tier 1 capital ratio (banking sector) | 13.2 | 15.3 | 15.0 | 14.3 | 15.0 | 13.0 | 13.0 |
| NPL ratio (banking sector) | 3.4 | 2.2 | 1.7 | 1.6 | 1.7 | 1.6 | 1.6 |
| | *% of GDP* | | | | | | |
| General government balance | -1.1 | -2.1 | -5.2 | | | | |
| Primary balance | 2.1 | 2.6 | -0.9 | | | | |
| Gross public debt | 40.4 | 30.8 | 29.5 | | | | |
| | *% of GDP* | | | | | | |
| Debt of nonfinancial corporations (nonconsolidated) | 51.4 | 48.3 | 37.9 | | | | |
| Debt of households and NPISHs[2] (nonconsolidated) | 10.0 | 9.5 | 8.6 | | | | |
| | *% of GDP (based on EUR), period total* | | | | | | |
| Goods balance | -3.6 | -10.0 | -7.9 | -7.5 | -4.7 | -5.0 | -5.3 |
| Services balance | 3.9 | 5.6 | 4.7 | 7.0 | 4.0 | 2.9 | 4.9 |
| Primary income | -1.3 | -1.0 | -1.0 | -0.9 | -0.9 | -1.2 | -1.3 |
| Secondary income | 0.1 | 0.0 | 0.1 | 0.1 | 0.0 | -0.1 | 0.1 |
| Current account balance | -0.9 | -5.4 | -4.1 | -1.4 | -1.6 | -3.4 | -1.6 |
| Capital account balance | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreign direct investment (net)[3] | -0.8 | -1.0 | -0.4 | -0.1 | -0.7 | -0.1 | -0.6 |
| | *% of GDP (rolling four-quarter GDP, based on EUR), end of period* | | | | | | |
| Gross external debt | 49.9 | 44.2 | 39.1 | 40.2 | 39.1 | 38.8 | 38.9 |
| Gross official reserves (excluding gold) | 9.3 | 9.1 | 8.2 | 7.8 | 8.2 | 6.1 | 7.3 |
| | *Months of imports of goods and services* | | | | | | |
| Gross official reserves (excluding gold) | 3.2 | 2.6 | 2.8 | 2.5 | 2.8 | 2.2 | 2.8 |

*Source: Bloomberg, European Commission, Eurostat, national statistical offices, national central banks, wiiw, OeNB.*

[1] *Foreign currency component at constant exchange rates.*

[2] *Nonprofit institutions serving households.*

[3] *+ = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).*
*- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).*

## 4 Ukraine: very difficult winter ahead, but external funding prospects are looking good

Ukraine's economy continued to recover in the first half of 2024. However, year-on-year growth slowed down markedly to 3.7% in the second quarter from 6.5% in the first quarter, as Russia's massive missile strikes on power facilities resulted in electricity shortages. The situation in the energy sector started to stabilize in August, but the International Energy Agency (IEA) warned that a considerable electricity supply deficit could emerge during the upcoming winter period. Moreover, labor shortages due to mobilization and migration have continued to intensify and energy shortages might entail a renewed pickup of emigration. Economic activity was supported by the stable operation of the Black Sea corridor, but Russian missile attacks on cargo ships in Odessa in early October showed that its functioning is under threat.

The deficit in the goods and services balance decreased somewhat but continued to be enormous (about 18% of GDP in the first half of 2024). Nominal exports grew despite a decline in global prices for Ukraine's main export goods. Nominal imports remained broadly unchanged, reflecting higher imports of goods (electricity and energy equipment among others) but lower imports of services related to fewer cash withdrawals of migrants abroad. A smaller amount of foreign grants and less income generated by border, seasonal and other short-term work abroad led to declines in the income balance surplus. In sum, the current account deficit rose to about 11% of GDP in the first half of 2024. Ukraine's official FX reserves (including gold) benefited from mostly loan-based international financial support. They peaked at USD 43.8 billion in March 2024 and came down to the still comfortable level of USD 38.9 billion in September 2024 (covering about 5 months of imports). To balance the FX market, the National Bank of Ukraine (NBU) sold about USD 2.6 billion (in net terms) on average per month so far this year.

Inflation dropped to 3.2% year on year in spring before rising to 8.6% in September, compared to an inflation target of 5%. Inflation was driven by a hike in electricity tariffs, a weaker harvest than in the previous year, rising labor costs and the hryvnia depreciation, among others. After a series of interest rate cuts, the NBU has left its key policy rate unchanged at 13% since June 2024.

In summer, Ukraine agreed, with private investors, on the restructuring terms for sovereign Eurobonds and a sovereign-guaranteed Eurobond with a total volume of USD 20.4 billion (about 14% of total public debt). The deal was in line with IMF guidelines. Ukraine's strong program performance enabled the successful conclusion of the fifth review under the IMF's External Fund Facility, so that a tranche amounting to USD 1.1 billion could be disbursed in October.

War-related pressures on public finances triggered additional revenue needs. Parliament approved a bill that includes raising the military tax rate from 1.5% to 5% of income and sets the tax rate on bank profits at 50% for 2024. The IMF projects a deficit of about 19% of GDP for this and next year. External funding will continuously finance a large part of the deficit. In addition to financing secured earlier (including from the EU Ukraine facility), the recently elaborated G7 "Extraordinary Revenue Acceleration Loans for Ukraine" mechanism is supposed to play a key role. Important progress has been made to set up this mechanism, which envisages the provision of USD 50 billion. The servicing and repayment of these funds is to be covered by the proceeds from immobilized Russian sovereign assets.

## Table 4: Main economic indicators: Ukraine

### Main economic indicators: Ukraine

| | 2021 | 2022 | 2023 | Q3 23 | Q4 23 | Q1 24 | Q2 24 |
|---|---|---|---|---|---|---|---|
| *Year-on-year change of the period total in %* | | | | | | | |
| GDP at constant prices | 3.4 | -28.8 | 5.3 | 9.6 | 4.7 | 6.5 | 3.7 |
| Private consumption | 6.7 | -27.5 | 6.1 | 11.9 | 9.8 | .. | .. |
| Public consumption | 0.8 | 31.4 | 9.0 | 17.0 | 4.0 | .. | .. |
| Gross fixed capital formation | 9.3 | -33.9 | 52.9 | 58.9 | 19.5 | .. | .. |
| Exports of goods and services | -8.6 | -42.0 | -5.4 | -9.9 | -6.0 | .. | .. |
| Imports of goods and services | 14.2 | -17.4 | 8.5 | 3.6 | -6.2 | .. | .. |
| *Contribution to GDP growth in percentage points* | | | | | | | |
| Domestic demand | 12.5 | -19.0 | 11.6 | 14.6 | 3.0 | .. | .. |
| Net exports of goods and services | -9.1 | -9.8 | -6.3 | -5.0 | 1.8 | .. | .. |
| Exports of goods and services | -3.3 | -17.1 | -1.9 | -3.3 | -1.8 | .. | .. |
| Imports of goods and services | -5.7 | 7.3 | -4.4 | -1.7 | 3.6 | .. | .. |
| *Year-on-year change of the period average in %* | | | | | | | |
| Unit labor costs in the whole economy (nominal, per person) | .. | .. | .. | .. | .. | .. | .. |
| Unit labor costs in industry (nominal, per person) | 12.5 | .. | .. | .. | .. | .. | .. |
| Labor productivity in industry (real, per person) | 3.7 | .. | .. | .. | .. | .. | .. |
| Average gross earnings in industry (nominal, per person) | 16.8 | 1.7 | 21.3 | 25.6 | 25.7 | 23.3 | 26.0 |
| Producer price index (PPI) in industry | 40.4 | 48.0 | 24.5 | 23.8 | 19.5 | 5.9 | 15.5 |
| Consumer price index (here: CPI) | 9.4 | 20.2 | 12.8 | 9.0 | 5.1 | 4.0 | 3.8 |
| EUR per 1 UAH, + = UAH appreciation | -4.7 | -4.9 | -14.1 | -11.9 | -5.3 | -5.4 | -7.2 |
| *Period average levels* | | | | | | | |
| Unemployment rate (ILO definition, %, 15–64 years) | 10.3 | .. | .. | .. | .. | .. | .. |
| Employment rate (%, 15–64 years) | 65.3 | .. | .. | .. | .. | .. | .. |
| Key interest rate per annum (%) | 7.5 | 18.6 | 22.4 | 22.5 | 17.0 | 14.9 | 13.7 |
| UAH per 1 EUR | 32.3 | 34.0 | 39.6 | 39.8 | 39.3 | 41.5 | 42.9 |
| *Nominal year-on-year change in period-end stock in %* | | | | | | | |
| Loans to the domestic nonbank private sector[1] | 10.9 | -10.6 | -1.4 | -8.7 | -1.4 | 3.0 | 8.9 |
| of which: | | | | | | | |
| loans to households | 24.1 | -15.3 | 6.7 | -5.7 | 6.7 | 15.3 | 20.7 |
| loans to nonbank corporations | 7.1 | -9.1 | -3.8 | -9.6 | -3.8 | -0.6 | 5.3 |
| | | | | | | | |
| Share of foreign currency loans in total loans to the nonbank private sector | 28.6 | 27.0 | 25.8 | 25.5 | 25.8 | 24.9 | 24.1 |
| Return on assets (banking sector) | 4.1 | 1.0 | 3.2 | 5.9 | 3.2 | 5.4 | 5.2 |
| Tier 1 capital ratio (banking sector) | 12.0 | 13.1 | 12.2 | 14.8 | 12.2 | 12.0 | 11.6 |
| NPL ratio (banking sector) | 30.0 | 38.1 | 37.4 | 37.9 | 37.4 | 36.1 | 34.6 |
| *% of GDP* | | | | | | | |
| General government balance | -3.4 | -16.1 | -20.4 | | | | |
| Primary balance | .. | .. | .. | | | | |
| Gross public debt | 49.0 | 77.8 | 84.4 | | | | |
| *% of GDP* | | | | | | | |
| Debt of nonfinancial corporations (nonconsolidated) | .. | .. | .. | | | | |
| Debt of households and NPISHs[2] (nonconsolidated) | .. | .. | .. | | | | |
| *% of GDP (based on EUR), period total* | | | | | | | |
| Goods balance | -3.3 | -9.3 | -16.3 | -18.0 | -15.8 | -13.4 | -16.8 |
| Services balance | 2.0 | -7.0 | -4.9 | -3.7 | -3.0 | -2.9 | -3.3 |
| Primary income | -2.9 | 5.3 | 2.8 | 1.7 | 3.0 | 0.0 | 0.7 |
| Secondary income | 2.3 | 16.0 | 13.0 | 11.2 | 9.3 | 8.2 | 5.2 |
| Current account balance | -2.0 | 5.0 | -5.4 | -8.8 | -6.5 | -8.1 | -14.2 |
| Capital account balance | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 |
| Foreign direct investment (net)[3] | -3.7 | -0.2 | -2.5 | -3.4 | -0.7 | -4.6 | -2.6 |
| *% of GDP (rolling four-quarter GDP, based on EUR), end of period* | | | | | | | |
| Gross external debt | 67.2 | 80.3 | 88.4 | 88.7 | 88.4 | 91.7 | 91.6 |
| Gross official reserves (excluding gold) | 15.2 | 16.5 | 21.2 | 22.4 | 21.2 | 22.9 | 19.5 |
| *Months of imports of goods and services* | | | | | | | |
| Gross official reserves (excluding gold) | 4.4 | 3.8 | 5.1 | 5.1 | 5.1 | 5.8 | 4.9 |

*Source: Bloomberg, national statistical offices, national central banks, wiiw, OeNB.*

[1] *Foreign currency component at constant exchange rates.*

[2] *Nonprofit institutions serving households.*

[3] *+ = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).*
*- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).*

## 5 Russia: war-induced growth boom may have peaked due to impact of overheating, sanctions and tighter monetary stance

Russia's GDP expansion accelerated from 3.6% in 2023 to 4.6% in the first half of 2024 and came to 4.4% in the period from January to August 2024 (year on year). This gain in momentum stems from strongly recovering consumer spending, rising budgetary outlays and growing capital expenditure, which pushed the economy's growth above its potential. Net exports also seem to have rebounded. Production-wise, manufacturing led the way.

Notwithstanding the robust growth of capital formation, available capacities remain strained. The labor market has become extremely tight, the economy is clearly overheated, and the impact of tighter monetary policy in response to swelling inflation appears to be starting to kick in. These factors are combining to slow down growth. Quarterly GDP growth has recently eased; moreover household consumption growth has weakened in July and August 2024 (year on year). Sizable new production capacities stemming from the recent spike in fixed investment are only expected to become operational in 2025.

The unemployment rate (ILO definition) declined to 2.4% in August 2024 (yet another post-Soviet record low). Real wages reached record levels, which was one of the driving forces behind the upswing of private consumption. Soaring wages, swelling consumer demand, the expansionary fiscal stance and stubbornly high inflation expectations pushed CPI inflation further up from 7.4% in December 2023 to 9.1% in August 2024, before it eased to 8.6% in September (year on year). The brisk price rises prompted the Bank of Russia (CBR) to hike its key interest rate (the one-week auction repo rate) by two percentage points to 18% in late July and by one more percentage point to 19% in mid-September 2024. CBR Governor Nabiullina maintains the goal of bringing inflation back to a range of 4% to 4.5% in 2025 and to its target of 4.0% in 2026.

As Russia's economic expansion has been robust so far and as the average Urals oil price remained above USD 70 per barrel throughout the summer of 2024, strongly expanding oil as well as non-oil revenues made it possible to easily cover most of the federal budget's spending increase of 13% in real terms in the period from January to July 2024 (year on year), yielding a deficit of about 1.5% of (pro-rata) GDP. The largest portion of the modest shortfall was financed on the domestic debt market. After shrinking in 2022 and 2023, the National Wealth Fund remained relatively stable so far this year; as of end-August, its total assets came to USD 133 billion (6.3% of GDP).

Dynamic lending has been one of the factors supporting Russia's economy. Yet the sharp key rate adjustments in the second half of 2023 and in the summer of 2024 are starting to exert a cooling effect on credit activity. Given the relative stabilization of the banking sector, regulatory forbearance is being phased out. Russia's current account surplus grew to USD 40.5 billion in the first eight months of 2024, as against USD 29.0 billion in the corresponding period of the previous year. This result was largely due to a contraction of imports by about 10% (in the face of brisk economic growth), triggered by stepped-up Western trade and financial sanctions among other factors. Russia's gross international reserves (of which about USD 300 billion had been frozen by Western jurisdictions in February 2022) grew by USD 23 billion in the course of 2024 to reach a total of USD 622 billion in mid-October 2024.

## Table 5: Main economic indicators: Russia

### Main economic indicators: Russia

| | 2021 | 2022 | 2023 | Q3 23 | Q4 23 | Q1 24 | Q2 24 |
|---|---|---|---|---|---|---|---|
| | *Year-on-year change of the period total in %* | | | | | | |
| GDP at constant prices | 5.9 | -1.2 | 3.6 | 5.7 | 4.9 | 5.4 | 4.1 |
| Private consumption | 9.9 | -1.1 | 6.5 | 9.6 | 7.2 | 6.6 | 6.1 |
| Public consumption | 2.9 | 3.0 | 7.0 | 7.1 | 5.9 | -0.3 | -0.2 |
| Gross fixed capital formation | 9.3 | 6.7 | 8.8 | 7.7 | 8.1 | 12.9 | 7.2 |
| Exports of goods and services | 3.2 | .. | .. | .. | .. | .. | .. |
| Imports of goods and services | 19.1 | .. | .. | .. | .. | .. | .. |
| | *Contribution to GDP growth in percentage points* | | | | | | |
| Domestic demand | 8.3 | 0.3 | 8.2 | 7.6 | 9.8 | 5.5 | 4.1 |
| Net exports of goods and services | -2.5 | .. | .. | -1.9 | -4.9 | -0.1 | 0.0 |
| Exports of goods and services | 1.0 | .. | .. | .. | .. | .. | .. |
| Imports of goods and services | -3.5 | .. | .. | .. | .. | .. | .. |
| | *Year-on-year change of the period average in %* | | | | | | |
| Unit labor costs in the whole economy (nominal, per person) | .. | .. | .. | .. | .. | .. | .. |
| Unit labor costs in industry (nominal, per person) | 3.3 | 15.0 | 13.6 | 11.5 | 15.5 | 19.4 | 16.0 |
| Labor productivity in industry (real, per person) | 7.2 | 0.0 | 2.4 | 4.3 | 2.5 | 3.0 | 1.9 |
| Average gross earnings in industry (nominal, per person) | 10.9 | 15.2 | 16.3 | 16.3 | 18.4 | 23.2 | 18.2 |
| Producer price index (PPI) in industry | 24.6 | 12.8 | 4.7 | 10.2 | 20.8 | 18.5 | 15.5 |
| Consumer price index (here: CPI) | 6.7 | 13.7 | 5.9 | 5.1 | 7.2 | 7.6 | 8.2 |
| EUR per 1 RUB, + = RUB appreciation | -5.3 | 18.1 | -20.1 | -40.9 | -35.3 | -20.4 | -9.2 |
| | *Period average levels* | | | | | | |
| Unemployment rate (ILO definition, %, 15–64 years) | 4.8 | 4.0 | 3.2 | 3.0 | 2.9 | 2.8 | 2.5 |
| Employment rate (%, 15–64 years) | 64.6 | .. | .. | .. | .. | .. | .. |
| Key interest rate per annum (%) | 5.8 | 10.7 | 9.9 | 10.3 | 14.5 | 16.0 | 16.0 |
| RUB per 1 EUR | 87.2 | 73.9 | 92.5 | 102.6 | 99.9 | 98.8 | 97.7 |
| | *Nominal year-on-year change in period-end stock in %* | | | | | | |
| Loans to the domestic nonbank private sector[1] | 15.3 | 14.0 | 21.8 | 21.3 | 21.8 | 21.7 | 23.0 |
| of which: | | | | | | | |
| loans to households | 22.1 | 9.4 | 23.0 | 22.2 | 23.0 | 23.0 | 23.3 |
| loans to nonbank corporations | 12.2 | 16.4 | 21.2 | 20.8 | 21.2 | 21.1 | 22.9 |
| | | | | | | | |
| Share of foreign currency loans in total loans to the nonbank private sector | 10.8 | 7.5 | 8.4 | 8.6 | 8.4 | 8.9 | 8.1 |
| Return on assets (banking sector) | 1.8 | 0.1 | 2.1 | 2.2 | 2.1 | 1.8 | 1.6 |
| Tier 1 capital ratio (banking sector) | 9.6 | 10.4 | 9.6 | 9.6 | 9.6 | 10.3 | 10.0 |
| NPL ratio (banking sector) | 15.1 | 15.3 | 12.8 | 13.6 | 12.8 | 12.9 | 12.1 |
| | *% of GDP* | | | | | | |
| General government balance | 0.8 | -1.4 | -2.3 | | | | |
| Primary balance | .. | .. | .. | | | | |
| Gross public debt | 15.4 | 14.7 | 14.9 | | | | |
| | *% of GDP* | | | | | | |
| Debt of nonfinancial corporations (nonconsolidated) | .. | .. | .. | | | | |
| Debt of households and NPISHs[2] (nonconsolidated) | .. | .. | .. | | | | |
| | *% of GDP (based on EUR), period total* | | | | | | |
| Goods balance | 10.5 | 13.7 | 6.0 | 7.0 | 5.7 | 7.3 | 7.0 |
| Services balance | -1.1 | -1.0 | -1.8 | -2.2 | -1.5 | -1.5 | -1.8 |
| Primary income | -2.3 | -2.1 | -1.3 | -1.2 | -1.4 | -0.5 | -1.6 |
| Secondary income | -0.3 | -0.4 | -0.5 | -0.4 | -0.8 | -0.2 | -0.2 |
| Current account balance | 6.8 | 10.2 | 2.5 | 3.2 | 2.1 | 5.1 | 3.4 |
| Capital account balance | 0.0 | -0.2 | -0.1 | 0.0 | -0.2 | 0.0 | 0.0 |
| Foreign direct investment (net)[3] | 1.4 | 1.2 | 1.0 | 0.8 | 0.8 | 1.1 | 0.2 |
| | *% of GDP (rolling four-quarter GDP, based on EUR), end of period* | | | | | | |
| Gross external debt | 27.7 | 16.5 | 15.4 | 15.1 | 15.4 | 15.1 | 15.0 |
| Gross official reserves (excluding gold) | 28.1 | 19.1 | 21.5 | 20.1 | 21.5 | 21.4 | 21.0 |
| | *Months of imports of goods and services* | | | | | | |
| Gross official reserves (excluding gold) | 16.5 | 15.2 | 13.7 | 13.4 | 13.7 | 13.8 | 14.0 |

*Source: Bloomberg, national statistical offices, national central banks, wiiw, OeNB.*

[1] *Foreign currency component at constant exchange rates.*

[2] *Nonprofit institutions serving households.*

[3] *+ = net accumulation of assets larger than net accumulation of liabilities (net outflow of capital).*
*- = net accumulation of assets smaller than net accumulation of liabilities (net inflow of capital).*

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