

PRESS RELEASE

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Summer Forecast: Growth in Eastern Europe weakens

- *Recession in Germany, inflation and higher interest rates weighing on the region's economies*
- *Ukraine: Fragile recovery in sight*
- *Russia: Armament boom ends recession*
- *Inflation in many countries in double digits – in contrast to the euro area*

Despite the impressive resilience demonstrated in the face of the economic consequences of the Ukraine war, the fragile growth in many economies of Central, Eastern and Southeastern Europe (CESEE) is coming under pressure. The still high inflation, the tightening of monetary policy and a weak international environment are all weighing heavily on the region's economies. This is revealed in the new Summer Forecast of the Vienna Institute for International Economic Studies (wiiw) for 23 countries of the region. After an already lacklustre display in Q4 2022, growth in many countries came to a standstill in Q1 of the current year – and even slipped into negative territory in Poland, Czechia and Hungary. *'Apart from falling real incomes, this is mainly due to the recession in Germany and high energy prices. German industry, in particular, is suffering, which is dragging down the Visegrád countries, which are closely bound up with it,'* explains Vasily Astrov, Senior Economist at wiiw and lead author of the Summer Forecast.

For 2023, wiiw forecasts a slowdown in growth to an average of 1.2% for the EU members in the region – though that means they should still grow more than twice as fast as the euro area (0.5%). Especially the Southeastern European EU members of Romania (3.0%) and Croatia (2.5%) will have comparatively strong growth, while the Visegrád countries are set to expand only slightly, at an average of 0.6%. The economies of the Western Balkans will grow at an average of 1.9%, while Turkey will see somewhat stronger growth of 2.6%. Even though most countries of the region – with the exception of Hungary (-0.5%) – should thus avoid a full-year recession, they will suffer a growth slump in 2023 compared to the previous year.

The opposite is true for those countries of the region that have been most affected by the war in Ukraine. Russia, despite suffering from sanctions and a sharp drop in energy revenues, is expected to grow by 1.0% again this year, thanks to a booming defence industry. After the devastating slump of 2022 (-29.1%), Ukraine could recover slightly this year, with growth of 2.0%. Belarus (1.9%) and Moldova (2.5%) are also expected to expand again this year, following a deep recession last year.

'Compared to the spring, the downside risks to our forecast have increased,' says Astrov. *'In addition to a possible military escalation of the Ukraine war at any time, the recession in Germany and further interest rate hikes by the European Central Bank are weighing on the outlook. The competitiveness of German industry is suffering enormously from energy costs that are much higher than in the US. This is, of course, poison for the economies of Central Eastern Europe.'*

Ukraine: Fragile recovery in sight

After the dramatic GDP slump of almost a third (-29.1%) last year, Ukraine should be able to recover slightly this year, with growth of 2.0%. This forecast is based on the assumption that the war will not escalate any further. The energy bottlenecks caused by the Russian bombings have largely been resolved; business sentiment is moderately positive; and inflation is declining. The unemployment and poverty rates are nevertheless both above 20%. As Olga Pindyuk, Ukraine country expert at wiiw, explains, *'The International Monetary Fund recently confirmed that Ukraine meets all the necessary conditions. So there is a green light for the disbursement of the next loan tranche of USD 900 million. Probably even more important is the positive signal it gives to foreign investors.'* Given the country's enormous financial needs, Western support remains vital.

Russia: Armament boom ends recession

Despite Western sanctions, Russia's economy is expected to grow by 1.0% this year. *'The main reasons for this are the booming defence industry and the recovery in private consumption due to rising real wages,'* argues Vasily Astrov, who is also the country expert for Russia at wiiw. Private consumer spending has already returned to the level of 2021. According to official Russian statistics, military spending has increased enormously. This is driving industrial production, in particular. Inflation, on the other hand, is falling sharply (forecast for 2023: 5.1%), although the current weakness of the rouble could set it off again.

'In addition to sanctions – especially in energy and high-tech – the desperate shortage of skilled workers owing to emigration and military mobilisation is also limiting the growth prospects of the country,' says Astrov. Russia has been hit hard by the massive drop in revenues from the energy business: from January to May, budget revenues from the sale of oil and gas fell by half, while the country's spending rose by 27%. *'For a while, Russia will be able to live with the resulting budget deficit. However, given the cost of war, the question is for how long,'* ponders Astrov.

Inflation in double digits in many countries – in contrast to the euro area

Inflation has passed its peak in all the countries observed. Nevertheless, it is likely to remain high for some time to come. On average, it will be around 16% in the region in 2023, almost three times as high as in the euro area (5.7%). The main drivers of inflation in Central, Eastern and Southeastern Europe are high food prices and rising corporate profits. *'So there is no sign of a classic wage-price spiral, which is why central banks will have difficulty in getting inflation under control via interest rate hikes,'* explains Vasily Astrov.

About the wiiw Forecast Report for CESEE

The report analyses the economies of 23 countries in Central, Eastern and Southeastern Europe (CESEE) and provides a detailed forecast of the macroeconomic indicators of the following countries: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czechia, Estonia, Hungary, Kazakhstan, Kosovo, Latvia, Lithuania, Moldova, Montenegro, Northern Macedonia, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey and Ukraine.

The Summer Forecast 2023 is available upon request.

About the Vienna Institute for International Economic Studies (wiiw)

For 50 years, wiiw has been an economic think tank that produces economic analyses and forecasts for currently 23 countries in Central, Eastern and South-Eastern Europe. In addition, wiiw conducts research in the areas of macroeconomics, trade, competitiveness, investment, the European integration process, regional development, labour markets, migration and income distribution.

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OVERVIEW 2021-2022 AND OUTLOOK 2023-2025

		GDP					Consumer prices					Unemployment (LFS)					Current account					Fiscal balance				
		real change in % against prev. year					average change in % against prev. year					rate in %, annual average					in % of GDP					in % of GDP				
		2021	2022	Forecast			2021	2022	Forecast			2021	2022	Forecast			2021	2022	Forecast			2021	2022	Forecast		
		2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025				
BG	Bulgaria	7.6	3.4	1.3	2.0	2.5	2.8	13.0	10.0	7.0	5.0	5.3	4.3	4.3	4.2	4.2	-1.9	-0.7	-0.5	-0.3	0.3	-3.9	-2.8	-5.0	-4.0	-3.0
CZ	Czechia	3.6	2.5	0.2	2.4	2.7	3.3	14.8	11.0	3.5	2.8	2.8	2.2	2.7	2.6	2.6	-2.8	-6.1	-2.8	-1.7	-0.5	-5.1	-3.6	-4.2	-2.3	-1.5
EE	Estonia	8.0	-1.3	0.2	2.8	3.1	4.5	19.4	10.1	3.0	1.8	6.2	5.6	6.7	6.2	5.6	-1.8	-2.2	0.5	1.7	1.3	-2.4	-0.9	-3.5	-3.2	-2.9
HR	Croatia	13.1	6.2	2.5	2.9	3.1	2.7	10.7	6.5	4.0	3.0	7.6	7.0	6.8	6.7	6.6	1.8	-1.6	-1.0	-0.4	0.2	-2.5	0.4	-2.4	-2.0	-1.8
HU	Hungary	7.2	4.6	-0.5	2.0	2.5	5.2	15.3	18.5	6.0	3.0	4.1	3.6	4.5	4.0	3.6	-4.1	-8.1	-4.0	-2.8	-2.0	-7.1	-6.2	-4.5	-4.0	-3.3
LT	Lithuania	6.0	1.9	0.3	2.7	3.0	4.6	18.9	10.0	2.8	2.0	7.1	6.0	7.2	6.7	6.3	1.1	-5.1	-2.5	-2.0	-1.8	-1.2	-0.6	-2.0	-2.0	-1.5
LV	Latvia	4.3	2.8	0.8	2.8	3.0	3.2	17.2	11.0	2.7	2.6	7.6	6.9	6.9	6.5	6.0	-4.2	-6.4	-3.0	-2.0	-1.6	-7.1	-4.4	-4.0	-2.7	-2.0
PL	Poland	6.9	5.1	1.0	2.4	3.2	5.2	13.2	12.5	6.0	4.0	3.4	2.9	3.4	3.8	4.0	-1.4	-3.0	-0.3	0.4	1.0	-1.8	-3.7	-4.8	-4.0	-3.5
RO	Romania	5.8	4.7	3.0	4.0	4.3	4.1	12.0	9.0	6.0	4.0	5.6	5.6	5.5	5.4	5.2	-7.2	-9.3	-7.0	-6.0	-5.0	-7.1	-6.2	-5.0	-4.5	-4.0
SI	Slovenia	8.2	5.4	1.4	2.5	2.7	2.0	9.3	6.6	3.6	2.8	4.8	4.0	3.9	3.9	3.9	3.8	-0.4	0.8	1.1	1.4	-4.6	-3.0	-3.9	-2.6	-2.2
SK	Slovakia	4.9	1.7	0.6	2.0	2.4	2.8	12.1	10.2	5.0	3.0	6.8	6.1	6.3	6.2	6.0	-2.5	-8.2	-5.0	-3.1	-2.6	-5.4	-2.0	-6.0	-4.4	-4.5
	<i>EU-CEE11 ¹⁾²⁾</i>	6.5	4.2	1.2	2.7	3.2	4.3	13.5	11.5	5.4	3.6	4.5	4.0	4.4	4.4	4.4	-2.5	-5.1	-2.4	-1.6	-0.8	-4.1	-3.9	-4.5	-3.6	-3.1
	<i>EA20 ³⁾</i>	5.3	3.5	0.5	1.8	1.7	2.6	8.5	5.7	3.0	2.3	7.7	6.8	6.6	6.6	6.6	3.8	0.8	1.0	1.5	2.5	-5.3	-3.6	-3.7	-2.7	-2.6
	<i>EU27 ³⁾</i>	5.4	3.5	0.7	2.0	1.9	2.9	9.0	5.9	3.2	2.5	7.1	6.2	6.6	6.6	6.6	3.4	0.6	1.0	1.5	2.5	-4.8	-3.4	-3.3	-2.3	-2.2
AL	Albania	8.9	4.8	3.3	3.8	4.0	2.0	6.7	4.0	3.0	2.5	11.5	10.9	10.0	9.7	9.5	-7.7	-6.0	-5.9	-5.8	-5.8	-4.6	-3.7	-2.5	-2.5	-2.5
BA	Bosnia and Herzegovina	7.4	3.9	1.5	2.3	2.5	2.0	14.0	8.7	4.0	2.5	17.4	15.4	15.0	14.7	14.4	-2.4	-4.5	-4.0	-4.1	-4.3	-0.3	-1.0	0.5	1.0	1.0
ME	Montenegro	13.0	6.1	3.5	2.9	3.0	2.4	13.0	9.7	4.0	2.8	16.6	14.7	13.8	13.1	12.0	-9.2	-13.2	-11.9	-10.9	-10.4	-1.9	-5.2	-4.9	-4.8	-4.5
MK	North Macedonia	3.9	2.1	1.6	2.5	3.0	3.2	14.2	9.0	4.0	3.0	15.7	14.4	13.0	12.5	12.0	-3.1	-6.0	-4.0	-3.5	-3.5	-5.4	-4.5	-3.0	-2.5	-2.5
RS	Serbia	7.5	2.3	1.3	2.5	3.0	4.1	11.9	12.0	5.0	3.0	11.0	9.4	9.0	8.5	8.0	-4.2	-6.9	-5.5	-4.5	-4.0	-4.1	-3.2	-2.5	-2.0	-1.5
XK	Kosovo	10.7	3.5	3.4	3.9	4.1	3.4	11.6	7.0	4.0	2.5	20.7	18.0	17.0	16.5	16.0	-8.7	-10.5	-9.7	-9.4	-9.3	-1.3	-0.5	-0.5	-1.0	-1.0
	<i>WB6 ¹⁾²⁾</i>	7.8	3.2	1.9	2.8	3.1	3.2	11.9	9.5	4.3	2.8	13.6	12.1	11.4	10.9	10.5	-4.8	-6.8	-5.7	-5.2	-4.9	-3.4	-2.9	-2.0	-1.7	-1.4
TR	Turkey	11.4	5.6	2.6	3.4	3.8	19.6	72.3	42.8	33.8	17.1	12.0	10.5	10.0	9.5	9.0	-0.9	-5.3	-4.0	-3.0	-2.5	-2.4	-1.1	-4.0	-3.0	-3.0
BY	Belarus	2.4	-4.7	1.9	2.2	2.5	9.5	15.2	9.0	8.0	8.0	3.9	3.6	3.5	3.5	3.5	3.1	3.7	1.5	1.3	1.0	0.2	-2.0	-3.0	-2.0	-1.0
KZ	Kazakhstan	4.3	3.3	4.5	4.0	4.0	8.0	15.0	14.5	9.0	6.0	4.9	4.9	4.8	4.8	4.8	-1.3	3.8	-2.0	-2.0	-2.4	-3.0	-2.1	-2.7	-2.5	-2.0
MD	Moldova	13.9	-5.9	2.5	4.0	4.0	5.1	28.7	14.0	6.0	5.0	3.2	3.1	3.5	3.2	3.0	-12.4	-15.8	-14.5	-12.5	-11.0	-1.9	-3.3	-4.5	-3.5	-3.0
RU	Russia	5.6	-2.1	1.0	1.5	1.5	6.7	13.8	5.1	4.6	3.4	4.8	3.9	3.5	3.5	3.5	6.7	10.4	4.3	3.4	2.7	0.8	-1.4	-3.5	-3.0	-2.5
UA	Ukraine	3.4	-29.1	2.0	4.0	6.0	9.4	20.2	14.0	9.0	7.0	9.9	25.0	23.0	15.0	10.0	-1.9	5.0	2.0	-2.0	-4.6	-3.4	-16.3	-27.0	-15.0	-10.0
	<i>CIS4+UA ¹⁾²⁾</i>	5.3	-3.7	1.4	2.0	2.1	7.1	14.5	6.8	5.5	4.1	5.6	7.4	6.7	5.4	4.6	5.0	9.2	3.4	2.4	1.5	0.1	-2.3	-4.5	-3.6	-3.1
	<i>V4 ¹⁾²⁾</i>	6.2	4.3	0.6	2.3	2.9	4.6	13.7	12.9	5.5	3.6	3.7	3.2	3.7	3.8	3.9	-2.2	-4.9	-1.8	-0.8	0.0	-3.7	-3.9	-4.7	-3.7	-3.1
	<i>BALT3 ¹⁾²⁾</i>	6.0	1.4	0.4	2.8	3.0	4.2	18.5	10.3	2.8	2.1	7.0	6.1	7.0	6.5	6.1	-1.1	-4.7	-1.9	-1.1	-1.0	-3.1	-1.7	-2.9	-2.5	-2.0
	<i>SEE9 ¹⁾²⁾</i>	7.3	4.3	2.5	3.3	3.6	3.6	12.0	9.0	5.6	3.8	8.7	7.9	7.6	7.3	7.1	-4.8	-6.5	-5.0	-4.3	-3.6	-5.2	-4.1	-4.0	-3.5	-3.0
	<i>CIS3+UA ¹⁾²⁾</i>	3.9	-10.2	3.1	3.7	4.5	8.7	17.4	13.4	8.8	6.7	7.3	15.3	14.1	9.8	7.2	-1.2	3.6	-0.5	-1.8	-2.9	-2.7	-7.0	-11.0	-6.7	-4.6
	<i>non-EU12 ¹⁾²⁾</i>	7.0	-0.7	1.8	2.4	2.7	10.5	31.5	17.6	13.8	7.9	7.4	8.4	7.7	6.6	6.0	3.1	5.1	1.1	0.3	-0.2	-0.7	-2.1	-4.5	-3.4	-2.9
	<i>CESEE23 ¹⁾²⁾</i>	6.9	0.8	1.6	2.5	2.8	8.7	25.9	15.7	11.2	6.5	6.7	7.3	6.9	6.1	5.5	1.1	1.6	-0.2	-0.4	-0.4	-2.0	-2.7	-4.5	-3.5	-3.0

1) wiiw estimates. - 2) Current account data include transactions within the region (sum over individual countries). - 3) Forecasts estimated by wiiw.

Source: wiiw, Eurostat. Forecasts by wiiw. Cut-off date for historical data and forecasts: 15 June 2023.