

PRESS RELEASE

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## **wiiw further cuts its forecast for economic growth in Eastern Europe to below 2009 level and sees weaker recovery**

*All 23 economies in the region will experience a deep recession this year, wiping out at least two years of GDP growth.*

The Vienna Institute for International Economic Studies (wiiw) has today published its new forecast report, which estimates that the economic downturn caused by the Coronavirus across 23 countries in Eastern Europe will be worse than 2009 in the aftermath of the global financial crisis. The region's weighted average real GDP is expected to decline by 6.1% in 2020, compared with 5.6% in 2009, making this the worst year for Eastern Europe since the early 1990s. The initial recovery of the region will then be much weaker: 2.8% in 2021, compared with 4.4% in 2010.

**In 2020, the GDP contractions are expected to vary significantly across the countries of the region:**

- The biggest real GDP contractions in 2020 are expected to be in Croatia (-11%), Slovenia (-9.5%), Slovakia (-9%) and Montenegro (-8%), reflecting these countries' particularly heavy reliance on external trade and/or tourism;
- The region's two biggest economies also face substantial recessions this year; wiiw forecasts that real GDP will drop by 6% in Turkey and 7% in Russia;
- The least severe contractions in 2020 will be in economies that are less reliant on external trade and tourism such as Kosovo (-4.4%) or Moldova (-3%), and/or are likely to use significant fiscal resources to counteract the downturn such as Poland (-4%), Kazakhstan (-3%) and Serbia (-4%).
- Countries that have been able to lift lockdowns more quickly, such as the Czech Republic (-4.8%), will also perform better than could otherwise have been expected.
- The downside risks to wiiw's projections are quite significant. In particular, the reliance of Ukraine, Moldova and many Western Balkan countries on large-scale capital inflows could cause substantial stresses in those countries. We expect remittances, foreign direct investment and portfolio inflows to contract sharply this year. The role of international institutions such as the IMF and the EBRD will be crucial in helping them to manage the downturn.

Some countries will be able to loosen fiscal policy considerably to mitigate the downturn, but most Eastern European economies have quite limited external financing options and so will be forced to rely on more scarce domestic resources. As fiscal deficits widen and nominal growth collapses, public debt/GDP ratios will rise sharply.

This is a crisis without precedent in the post-transition period, and the institute's forecasts are subject to an unusually high degree of uncertainty. A much more negative scenario than the currently projected is quite possible. This would include a mixture of further waves of the virus, a longer-than-expected wait

for the vaccine, and policy missteps in the big three pillars of the global economy: the US, China and the EU. Chances for a more favourable outcome, on the other hand, are quite slim, but cannot be ruled out completely.

**The severity and length of the downturn in Eastern Europe are of fundamental importance for the Austrian economy.**

- Austria is one of the biggest investors in almost every Eastern European economy, with interest spread across banking, retail, leisure and tourism, manufacturing and many other industries.
- Austria's biggest investments are in the four Visegrad countries and Romania. Although these countries will all experience deep downturns this year, most are fundamentally better positioned to handle the impact and recover more quickly. None are over-reliant on short-term capital flows, nor do they have levels of public debt that suggest imminent financing difficulties.
- Austria's near-neighbours in Eastern Europe, especially the Czech Republic and Slovenia, have much better-funded healthcare systems than the rest of the region. This should allow them to re-open their economies more quickly, which could have positive spill-over effects for Austria.
- As a small, open economy in the middle of Europe, Austria's recovery will rely heavily on the performance of its neighbours. With the downturn in Italy set to be particularly deep, a robust recovery in the Visegrad states and other parts of Eastern Europe would also provide a major boost to demand for Austrian exports.

**Over the medium term, the crisis will fundamentally change many aspects of the economies of Eastern Europe, but not all the impacts will be negative.** Some of them include:

- A different kind of consumer economy and a higher level of caution among consumers, even when economic conditions improve. Consumers are likely to be more careful and allocate a greater share of their income to saving than before. This will be exacerbated by lower levels of employment (at least initially), greater uncertainty about real income growth prospects, and possibly also higher household debt.
- The period of ultra-low global interest rates is expected to be longer than after the financial crisis in 2008. Now that a much greater range of financial assets has been included in central bank purchase programmes, the path back towards 'normal' rates will be even more fraught and prolonged (if it is ever attempted at all).
- Countries in Eastern Europe are likely to introduce higher (and possibly more progressive) taxes to offset the huge increase in public debt.
- The Western part of the region (including the Visegrád states and potentially Serbia and North Macedonia) is likely to benefit from 'near-shoring' of manufacturing by Western European firms in the coming years. Services outsourcing is also likely to increase, benefitting Eastern European countries.
- The Baltic states, the Czech Republic and Slovenia are best positioned to benefit from a boost to the digital economy as a result of the crisis.

**At the same time, some other aspects of the regional economy will remain largely unchanged:**

- China is likely to continue to play an important economic and political role in the non-EU countries of Eastern Europe. The EU will remain heavily focused on its internal challenges, and Russia does not have the fiscal resources to be a major economic player.
- Inflation and interest rates are likely to remain low, reflecting a combination of demographic decline, the ever-stronger competition from online retail, the deflationary impact of high debt, and persistently low oil prices.
- After a brief lull, labour shortages and automation will return as prominent themes in Eastern Europe. The temporary increase in unemployment will not be strong enough to offset population decline in the medium term, while the push towards automation will remain strong as firms will look for cost savings to offset crisis-related costs.

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## OVERVIEW 2018-2019 AND OUTLOOK 2020-2021

		GDP				Consumer prices				Unemployment (LFS)				Current account			
		real change in % against prev. year				average change in % against prev. year				rate in %, annual average				in % of GDP			
		2018	2019	Forecast		2018	2019	Forecast		2018	2019	Forecast		2018	2019	Forecast	
		2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
BG	Bulgaria	3.1	3.4	-6.3	1.7	2.6	2.5	1.5	2.0	5.2	4.2	10.0	9.0	1.4	4.0	1.9	1.7
CZ	Czech Republic	2.8	2.6	-4.8	2.5	2.0	2.6	3.3	2.0	2.2	2.0	3.5	4.0	0.4	-0.4	0.3	0.3
EE	Estonia	4.8	4.3	-7.0	4.0	3.4	2.3	1.0	1.5	5.4	4.4	8.0	7.0	2.0	2.2	3.0	2.0
HR	Croatia	2.7	2.9	-11.0	4.0	1.6	0.8	1.0	1.0	8.5	6.6	11.0	10.0	1.9	2.5	-5.0	-1.0
HU	Hungary	5.1	4.9	-5.5	2.0	2.9	3.4	4.0	3.0	3.7	3.4	10.0	7.0	0.0	-0.8	0.0	0.0
LT	Lithuania	3.6	3.9	-6.5	4.3	2.5	2.2	0.3	1.4	6.2	6.3	9.0	8.0	0.3	4.3	5.0	4.0
LV	Latvia	4.3	2.2	-8.0	4.5	2.6	2.7	0.5	1.5	7.4	6.3	8.0	8.5	-0.7	-0.5	4.0	2.0
PL	Poland	5.3	4.1	-4.0	3.0	1.2	2.1	3.8	2.0	3.9	3.3	7.0	7.0	-1.0	0.5	0.2	0.3
RO	Romania	4.4	4.1	-7.0	3.0	4.1	3.9	3.0	4.0	4.2	3.9	10.0	7.0	-4.4	-4.6	5.0	-4.5
SI	Slovenia	4.1	2.4	-9.5	4.0	1.9	1.7	0.5	1.0	5.1	4.5	9.0	8.0	6.1	6.6	2.0	3.0
SK	Slovakia	4.0	2.3	-9.0	4.6	2.5	2.8	2.0	1.8	6.5	5.8	8.2	8.7	-2.6	-2.9	-3.1	-1.8
	<i>EU-CEE11</i> <sup>1)2)</sup>	4.4	3.7	-5.7	3.0	2.2	2.6	3.0	2.3	4.3	3.8	9.6	8.7	-0.8	-0.2	0.9	-0.3
	<i>EA19</i> <sup>3)</sup>	1.9	1.2	-7.5	4.7	1.8	1.2	0.2	1.0	8.1	7.5	10.4	8.9	3.6	3.0	2.8	2.8
	<i>EU27</i> <sup>3)</sup>	2.1	1.5	-7.3	5.0	1.8	1.4	0.5	1.4	7.2	6.7	9.7	8.2	3.2	2.9	2.9	3.0
AL	Albania	4.1	2.2	-5.0	3.8	2.0	1.4	2.3	2.5	12.3	11.5	13.6	11.5	-6.8	-7.6	-9.5	-9.0
BA	Bosnia and Herzegovina	3.7	2.6	-5.0	3.0	1.4	0.6	-0.5	1.2	18.4	15.7	19.0	17.0	-3.7	-3.5	-8.0	-6.0
ME	Montenegro	5.1	3.6	-8.0	5.0	2.6	0.4	0.5	0.9	15.2	15.1	21.0	19.0	-17.0	-15.2	-20.0	-16.0
MK	North Macedonia	2.7	3.6	-5.0	4.0	1.5	0.8	-1.0	0.4	20.7	17.3	21.0	19.0	-0.1	-2.8	-2.5	-1.5
RS	Serbia	4.4	4.2	-4.0	4.0	2.0	1.7	1.1	1.6	12.7	10.4	13.4	12.7	-4.8	-6.9	-7.5	-7.0
XK	Kosovo	3.8	4.2	-4.4	4.0	1.1	2.7	1.5	1.7	29.6	25.7	27.0	26.0	-7.6	-5.8	-7.5	-6.0
	<i>WB6</i> <sup>1)2)</sup>	4.0	3.5	-4.7	3.8	1.8	1.4	0.7	1.5	15.7	13.4	16.4	15.0	-5.2	-6.3	-7.9	-6.8
TR	Turkey	2.8	0.9	-6.0	5.5	16.3	15.2	12.0	11.0	10.9	13.7	17.2	15.6	-3.4	0.5	0.4	-0.2
BY	Belarus	3.1	1.2	-5.3	-0.7	4.9	5.6	8.0	7.0	4.8	4.2	6.0	5.5	0.0	-1.8	-2.7	-3.5
KZ	Kazakhstan	4.1	4.5	-3.0	2.0	6.0	5.3	7.0	5.0	4.9	4.8	6.0	5.0	-0.1	-3.6	-6.0	-4.0
MD	Moldova	4.3	3.6	-3.0	3.0	2.9	4.8	4.5	5.0	3.0	5.1	9.0	6.0	-10.6	-9.7	-9.0	-9.0
RU	Russia	2.5	1.3	-7.0	1.5	2.9	4.5	4.1	3.6	4.8	4.6	7.0	6.5	6.8	3.8	0.0	1.0
UA	Ukraine	3.4	3.2	-6.0	2.5	10.9	7.9	4.5	6.0	8.8	8.2	12.0	10.0	-3.3	-0.9	-2.0	-3.5
	<i>CIS4+UA</i> <sup>1)2)</sup>	2.8	1.8	-6.4	1.6	3.9	4.9	4.6	4.0	5.4	5.2	7.7	6.9	5.3	2.6	-0.8	0.1
	<i>V4</i> <sup>1)2)</sup>	4.7	3.8	-4.8	2.9	1.7	2.4	3.6	2.1	3.8	3.3	6.9	6.6	-0.7	-0.2	-0.1	0.1
	<i>BALT3</i> <sup>1)2)</sup>	4.1	3.5	-7.0	4.3	2.7	2.4	0.5	1.5	6.4	5.9	8.5	7.9	0.4	2.4	4.2	2.9
	<i>SEE9</i> <sup>1)2)</sup>	4.0	3.7	-6.7	3.1	3.1	2.8	2.0	2.8	8.6	7.4	12.3	10.3	-3.0	-2.9	0.4	-3.8
	<i>CIS3+UA</i> <sup>1)2)</sup>	3.7	3.5	-4.4	1.8	7.4	6.2	6.3	5.7	6.9	6.6	7.7	6.9	-1.5	-2.5	-0.7	0.1
	<i>non-EU12</i> <sup>1)2)</sup>	2.8	1.6	-6.2	2.8	7.4	7.7	6.6	5.9	7.1	7.5	10.2	9.2	2.6	1.7	-0.8	-0.3
	<i>CESEE23</i> <sup>1)2)</sup>	3.3	2.2	-6.1	2.8	5.9	6.2	5.5	4.9	6.4	6.6	9.6	8.6	1.4	1.0	-0.2	-0.3

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

Source: wiw, Eurostat. Forecasts by wiw (May 2020).