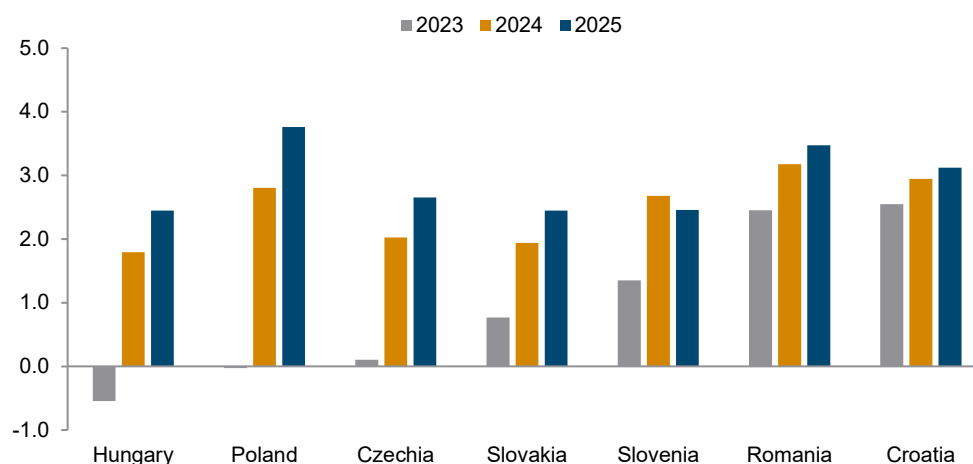


4. Austria and CESEE: Trade affected by a two-speed EU-CEE

BY DORIS HANZL-WEISS

- › The outlook for many of Austria's key trading partners in CESEE has deteriorated since our last forecast.
- › However, despite downward revisions in our forecasts, several of Austria's main trading partners in the group of Central and East European EU members (EU-CEE) – in particular, Slovenia, Croatia and Romania – continue to perform relatively well, and thus still offer some growth impetus for Austria this year.
- › The region will recover in the next two years, but by less than expected. Next year, the countries of Southeast Europe will again be the top performers; but in 2025 Poland will be the star.
- › It was trade with the Western Balkans that grew most strongly in H1 2023; however, Austrian exports to Turkey recorded the biggest absolute increase in euro terms.

Figure 4.1 / Real GDP growth forecasts, percentage change compared to the previous year, ranked by 2023 growth



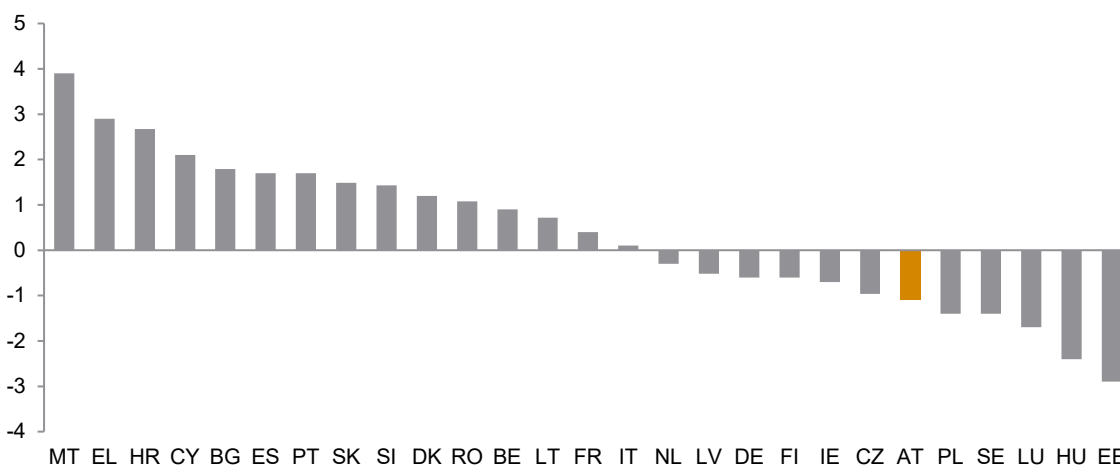
Source: wiiw calculations.

The downward revisions in the GDP forecasts for EU-CEE region will weaken the growth impetus for Austria, given its strong ties with the region. However, the relative resilience of Southeast Europe – a key sub-region for Austria – continues, with Slovenia, Croatia and Romania still doing better than the rest. The weak global external environment, the ongoing Russian war in Ukraine and persistent high inflation all weigh heavily on growth in Europe, and our wiiw forecasts for this year have been revised downwards for several EU-CEE economies, including some of Austria's main trading partners. While its trade and investment ties with Germany predominate, Austria has extended its trading and investment links with the Visegrád countries, Romania, Slovenia and Croatia. Although our forecasts for

Romania and Slovenia have been revised downwards, those countries – along with Croatia – are projected to have the highest growth rates in EU-CEE this year, and thus still offer growth impetus for the Austrian economy.

Austria will see little benefit from its close integration with the Visegrád countries in 2023; it is only in 2025 that Poland will become a beacon of light in the region. Growth expectations for the Visegrád countries are very low for this year, and Hungary is actually in recession. The forecast for Poland has been revised sharply downward and its economy is expected to stagnate in 2023. Overall, the Visegrád countries are suffering on account of their interlinkages with Germany in the so-called German-CEE manufacturing core. The growth rates in Q2 illustrate this divided picture of the region (see Figure 4.2): the Visegrád countries experienced negative year-on-year growth; at -2.4%, the fall was most pronounced in Hungary. Slovakia was unique among the Visegrád countries in having a positive figure. On the other hand, the greatest year-on-year change in EU-CEE was achieved in Croatia, at 2.7%. For 2024 and 2025, wiiw expects a general recovery – although for those years, too, several of its growth forecasts have been revised downwards. Again, Romania and Croatia will perform most strongly. In 2025 Poland will offer the greatest impetus in the region: it is the only country to see an upward revision to its forecast for that year.

Figure 4.2 / Real GDP growth Q2 2023, percentage change against the previous year

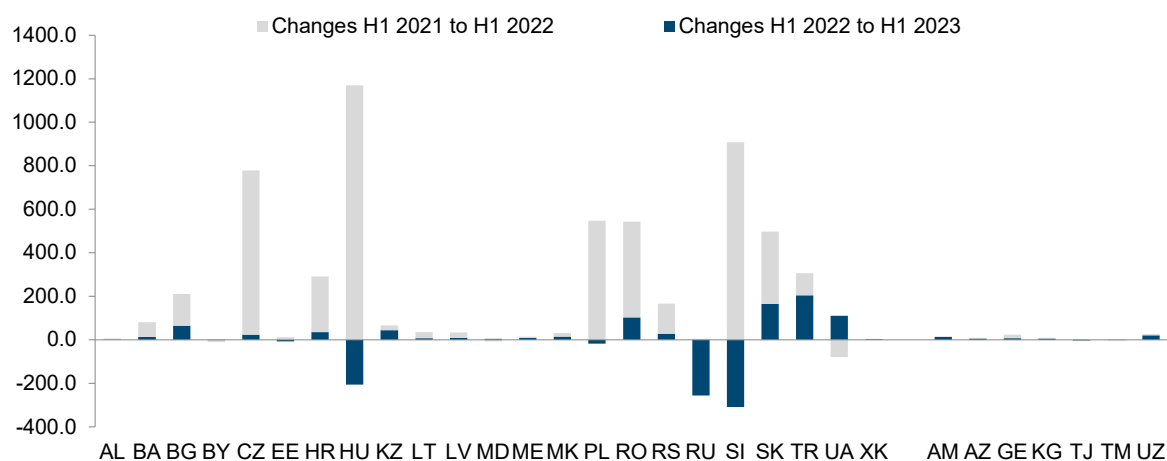


Source: Eurostat.

The growth in exports to CESEE in H1 2023 was disappointing: only to the Western Balkans was there a marked increase. A third of Austria's exports go to Germany, but after that the Visegrád countries are Austria's next-biggest trading partner, accounting in 2022 for 13.3% of its exports. However, as indicated by the GDP trends above, exports to the Visegrád countries fell by 2.2% in H1 2023, compared to the same period of 2022. This decline was less pronounced when we look at the EU-CEE countries as a whole (-0.7%). Otherwise for the CESEE region as a whole, exports grew by 0.2%. Export growth to the Western Balkans was most dynamic, at 7% – even higher than total Austrian export growth (5.7%).

Trade has changed since the Russian invasion of Ukraine on 24 February 2022 and the sanctions on Russia – both directly and indirectly (e.g. apparent trade diversions via other countries, such as Turkey). In order to illustrate Austrian export patterns in more detail, Figure 4.3 shows the changes between H1 2021 and H1 2022, and also between H1 2022 and H1 2023 in millions of euros (including the CIS countries). Austrian exports to Russia fell by EUR 250m (25.8%) between 2021 and 2023: the export of machines dropped significantly, and the main export products are now medical and pharmaceutical products (which are generally unaffected by sanctions). Exports to Ukraine initially fell, but bounced back up again in the second period under consideration; here, too, medical and pharmaceutical products are the main export goods. Overall trade patterns in EUR show large export increases to the Visegrád countries during the first period. During the second, the changes were comparatively small, and the greatest expansion was in exports to Turkey and Slovakia. The increase in exports to the CIS countries and Kazakhstan was small in EUR terms.

Figure 4.3 / Changes to Austrian exports, in EUR million



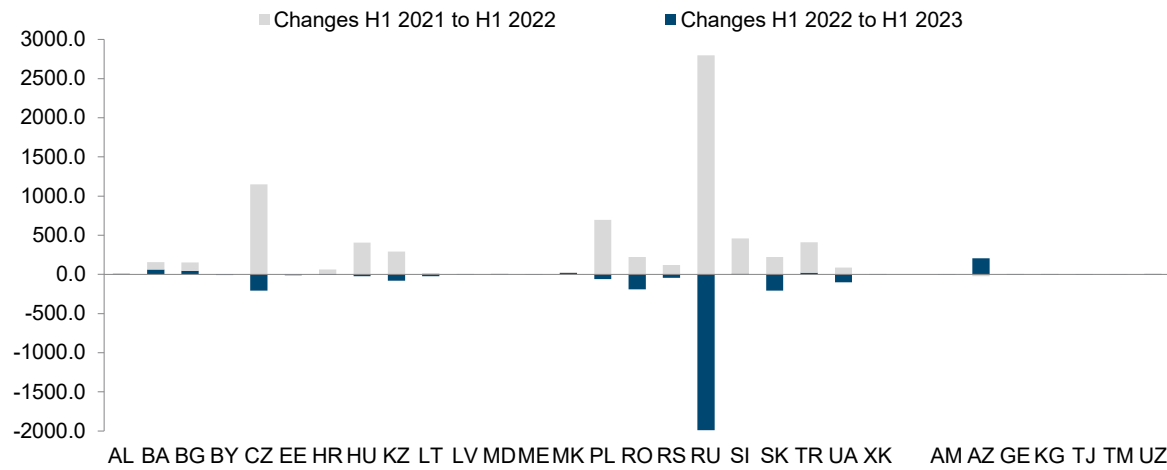
Note: Armenia (AM), Azerbaijan (AZ), Georgia (GE), Kyrgyzstan (KG), Tajikistan (TJ), Turkmenistan (TM), Uzbekistan (UZ).
Source: Statistics Austria.

Imports from the region fell in H1 2023. In terms of imports, Germany is again Austria's main trading partner (similarly accounting for a third of Austrian imports); 12% of Austrian imports came from the Visegrád countries in 2022. In H1 2023, imports from the Visegrád countries declined by 3.4% compared to H1 2022, and from the CESEE region as a whole they fell by 11%. Only imports from the Western Balkans increased – by almost 5%. Overall, total Austrian imports declined by 0.2%.

Russia generally plays a greater role for Austria on the import side than on the export side, on account of Austrian gas imports: whereas Russia was the country's sixth-largest import partner in 2022, in terms of exports it ranked nineteenth. However, recent gas price fluctuations have had a marked influence on import values in EUR and on the changes from year to year: while imports from Russia increased by almost EUR 3bn between H1 2021 and H1 2022, they fell by EUR 2bn between H1 2022 and H1 2023. Although the volume of gas arriving from Russia has been reduced, nevertheless

Austria's dependence on it remains quite high. The proportion of gas imported from Russia fluctuates from month to month: in July 2023 it stood at about 66% (compared to 79% in February 2022).¹⁷

Figure 4.4 / Change in Austrian imports, in EUR million



Note: Armenia (AM), Azerbaijan (AZ), Georgia (GE), Kyrgyzstan (KG), Tajikistan (TJ), Turkmenistan (TM), Uzbekistan (UZ).
Source: Statistics Austria.

¹⁷ <https://energie.gv.at/> based on data from ENTSO-G and E-Control.