

October 11th 2023

Webinar

Autumn Forecasts for CESEE: Beneath the Veneer of Calm

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Overview

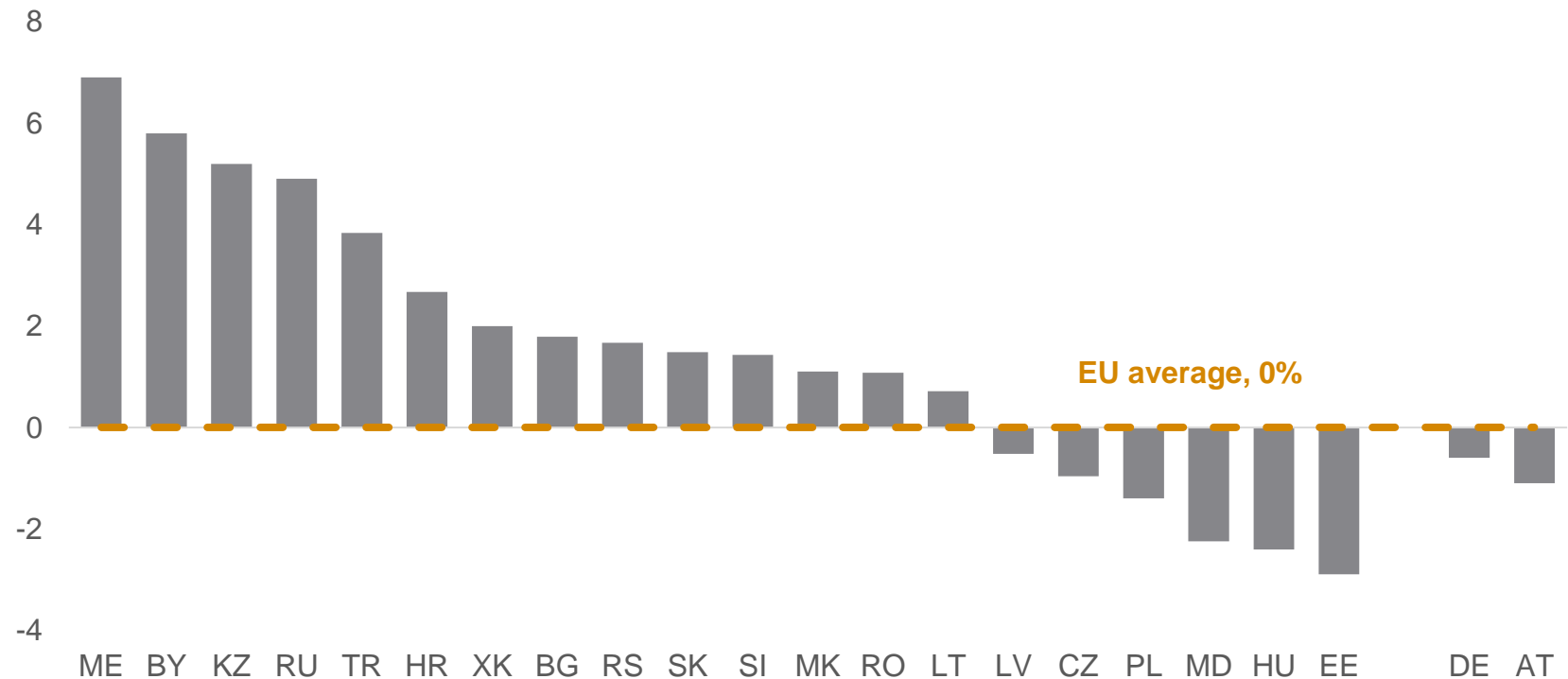
1. Growth in Q2: Solid overall, but with many question marks
2. Inflation: Still high, causing social unease
3. Monetary-fiscal mix: Not that supportive
4. Energy situation: Better than last year, but still some risks
5. Outlook for 2023-2025: Low growth, high inflation

1. Growth in Q2:

Solid overall, but with many question marks

Economic growth in CESEE in Q2 notably resilient, outperforming the EU

Real GDP growth in CESEE in Q2 2023, %, year on year

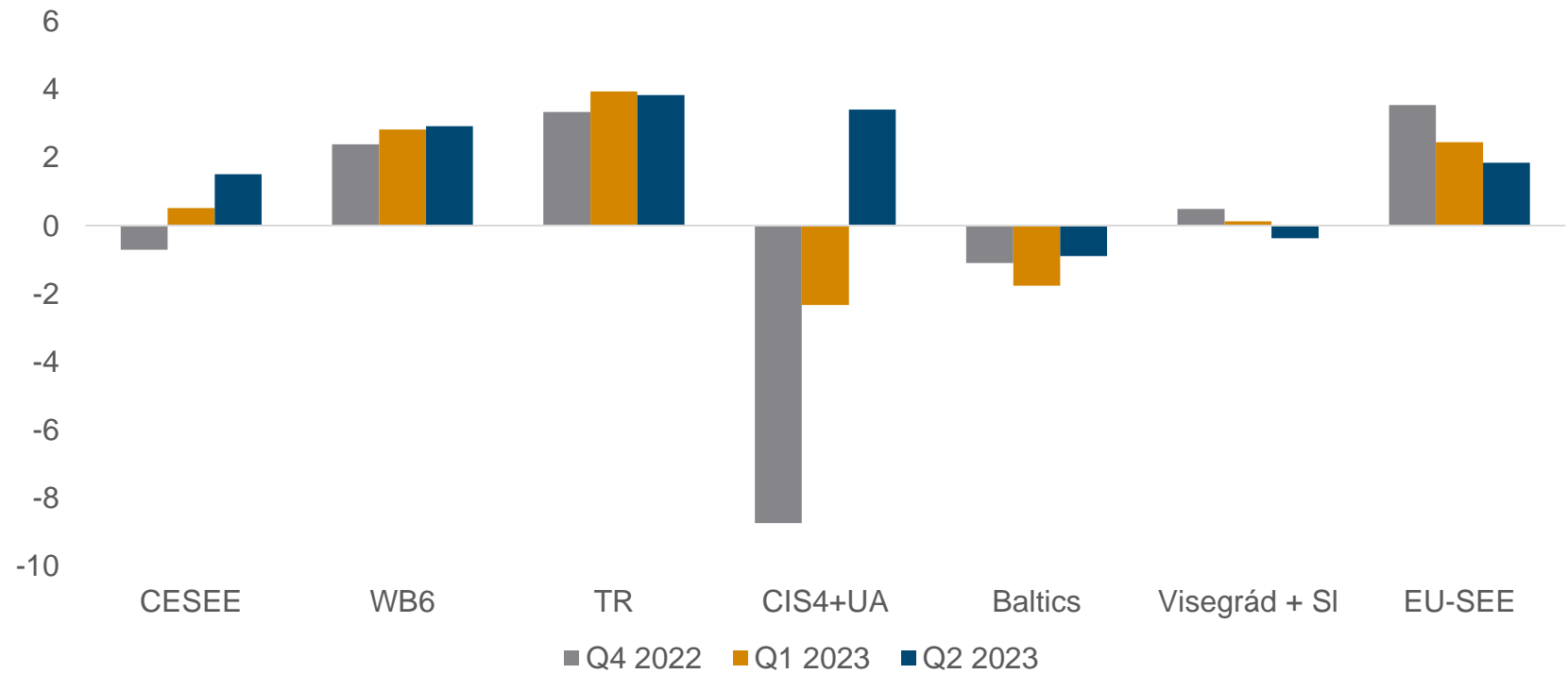


Note: Countries which have not published data on Q2 not shown.

Source: Eurostat and wiiw Monthly Database.

Growth in Q2 better than in the previous two quarters, but with significant variation across the countries

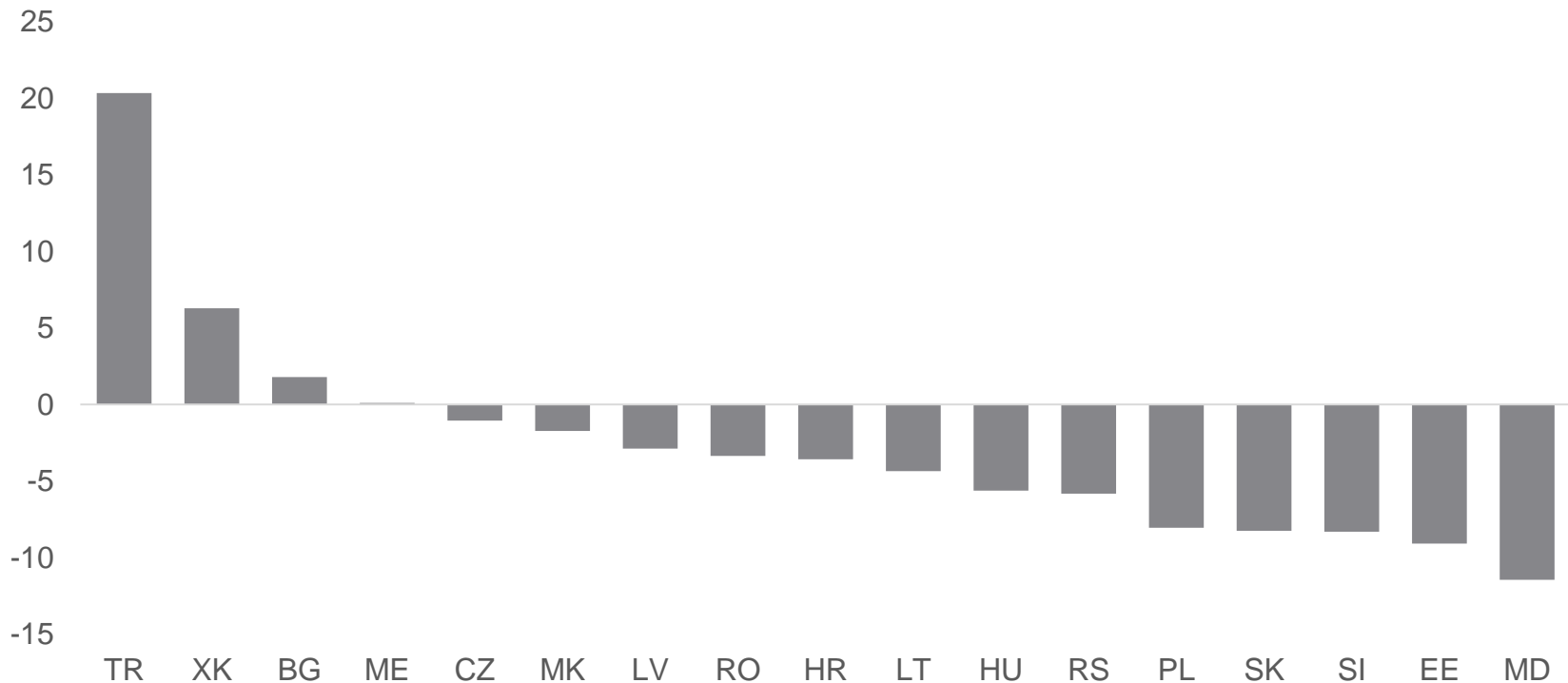
Real GDP growth in the last three quarters, by sub-region of CESEE, %, y-o-y



Note: Simple averages. No data for Albania, Bosnia and Herzegovina or Ukraine.
Source: Eurostat and wiiw Monthly Database.

The main driver of growth was, perhaps somewhat surprisingly, the decline in imports, due to energy stockpiling from the previous year

Real growth in imports of goods and services in CESEE in Q2 2023, %, y-o-y

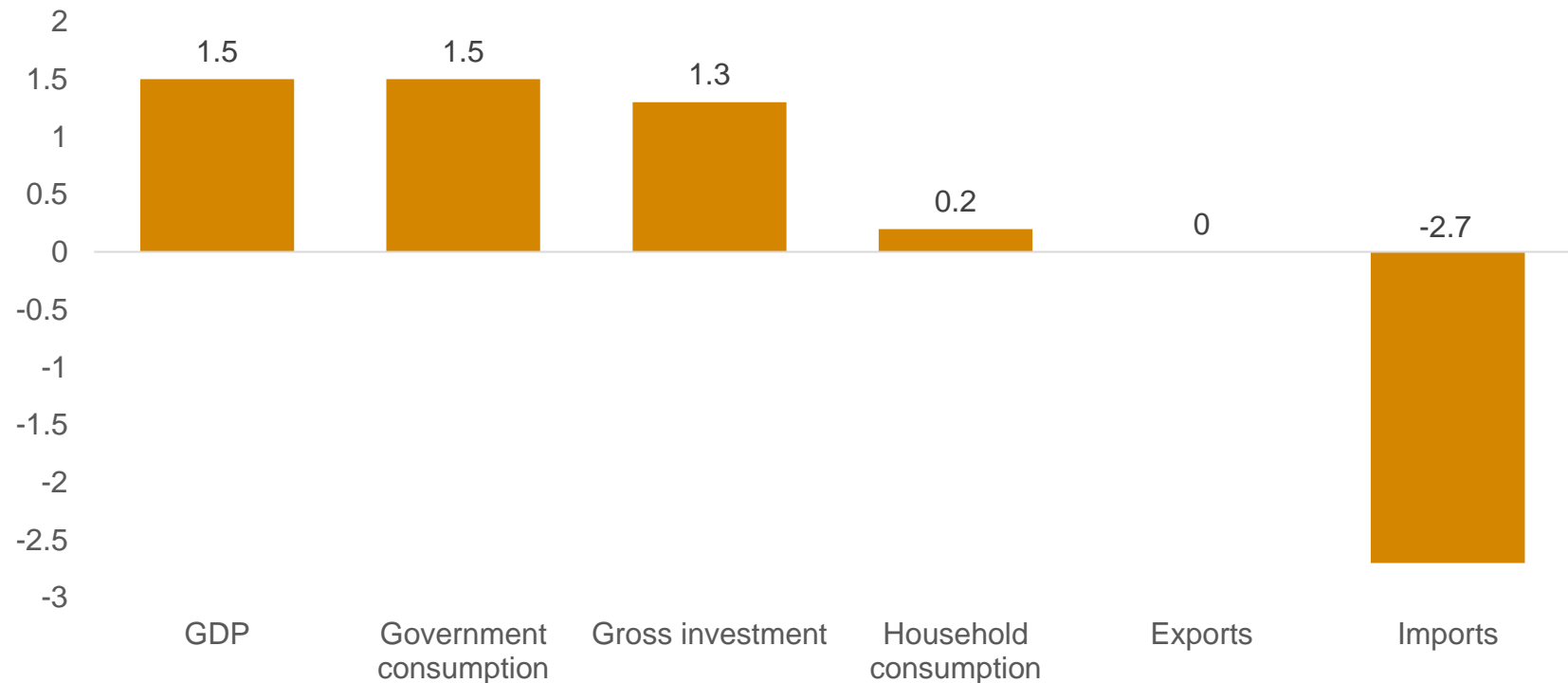


Note: Countries which have not published data on Q2 not shown.

Source: Eurostat and wiiw Monthly Database.

Household consumption and exports weak, government consumption and investment decent

Real growth of the different GDP components in Q2 2023, %, year on year
(simple averages for whole CESEE)

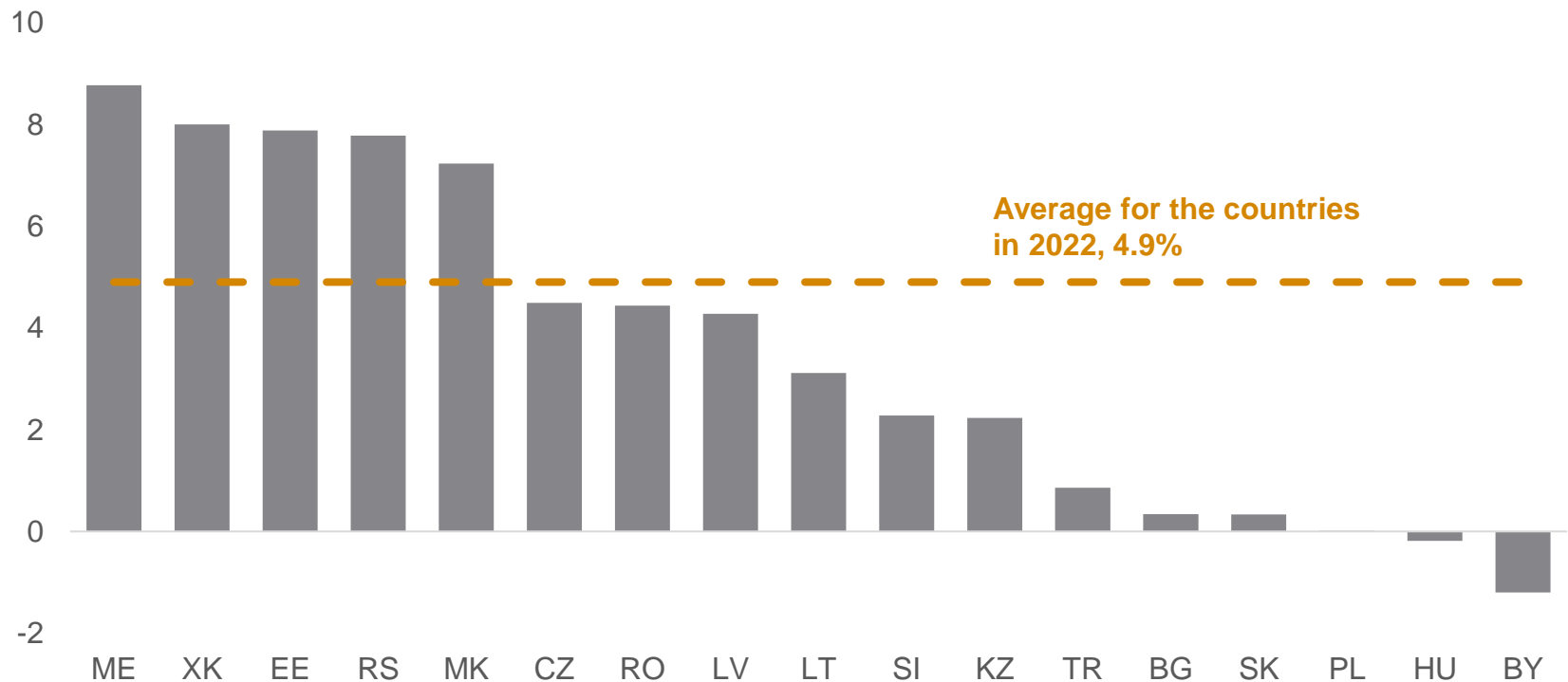


Note: No data on Albania, Bosnia and Herzegovina, Belarus, Kazakhstan, Russia or Ukraine.

Source: Eurostat and wiiw Monthly Database.

FDI inflows remained relatively robust, although noticeably lower than in 2022

FDI inflows into CESEE countries in Q2 2023, % of GDP



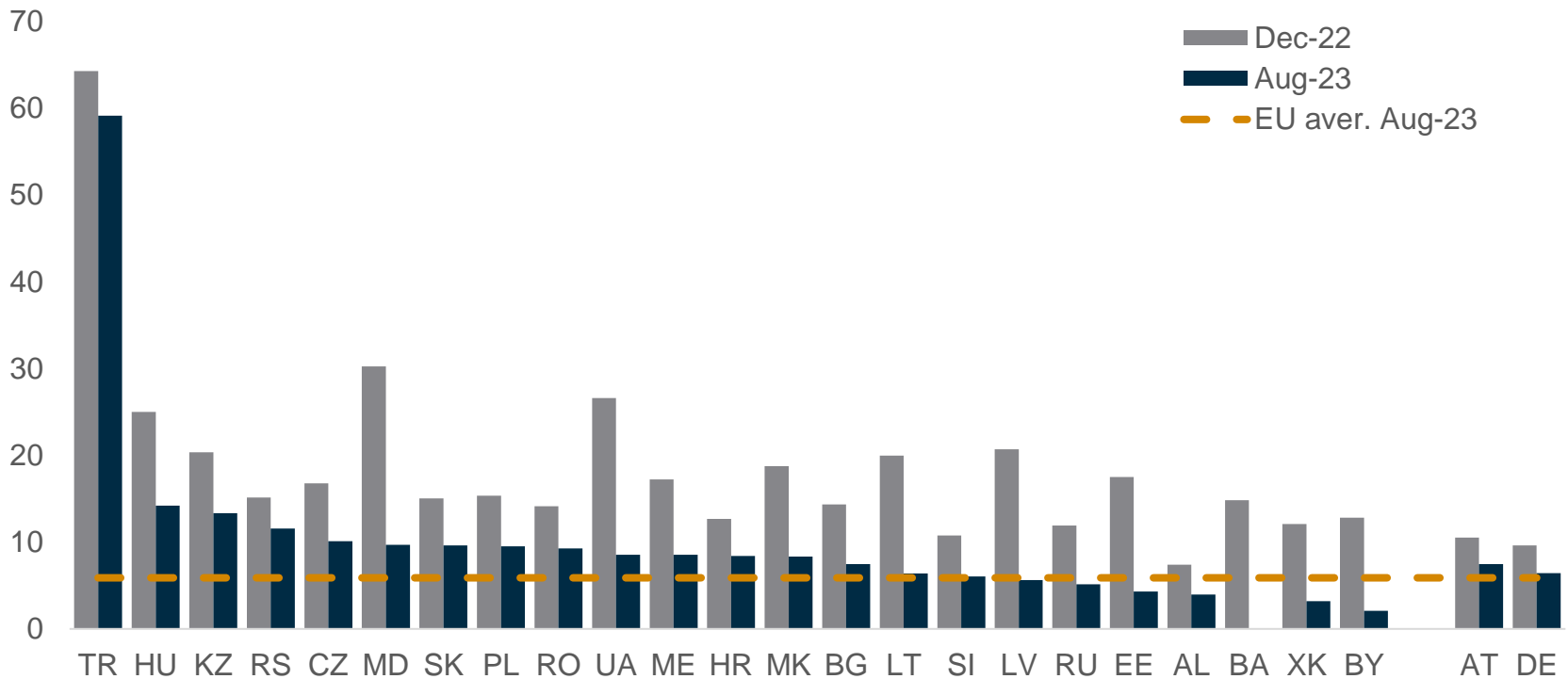
Note: The data refer to FDI inflows (liabilities) from Balance of Payments statistics. Countries which have not published data on Q2 not shown. Source: Central banks, wiiw calculations.

2. Inflation:

Still High, Causing Social Unease

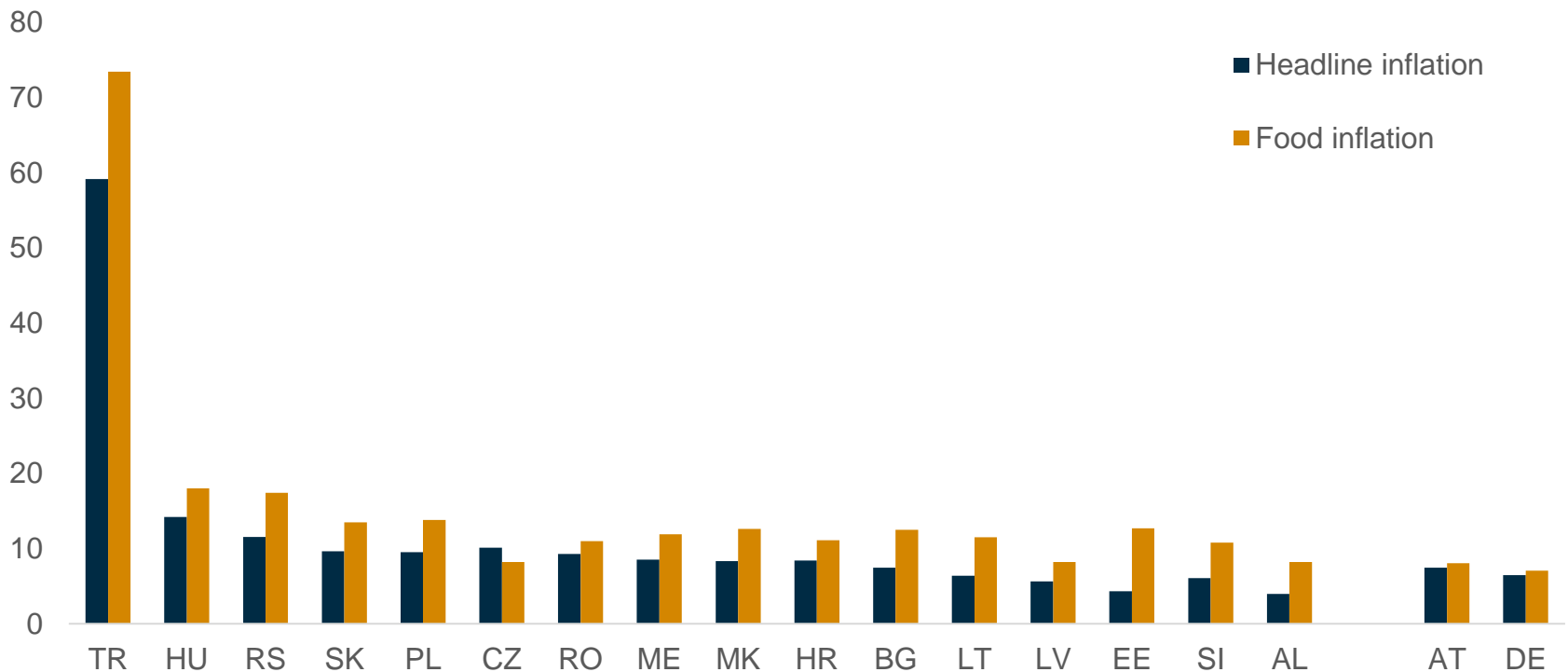
Inflation is moderating everywhere – but only slowly, and remains very high

Headline inflation in CESEE in December 2022 and August 2023, %, y-o-y



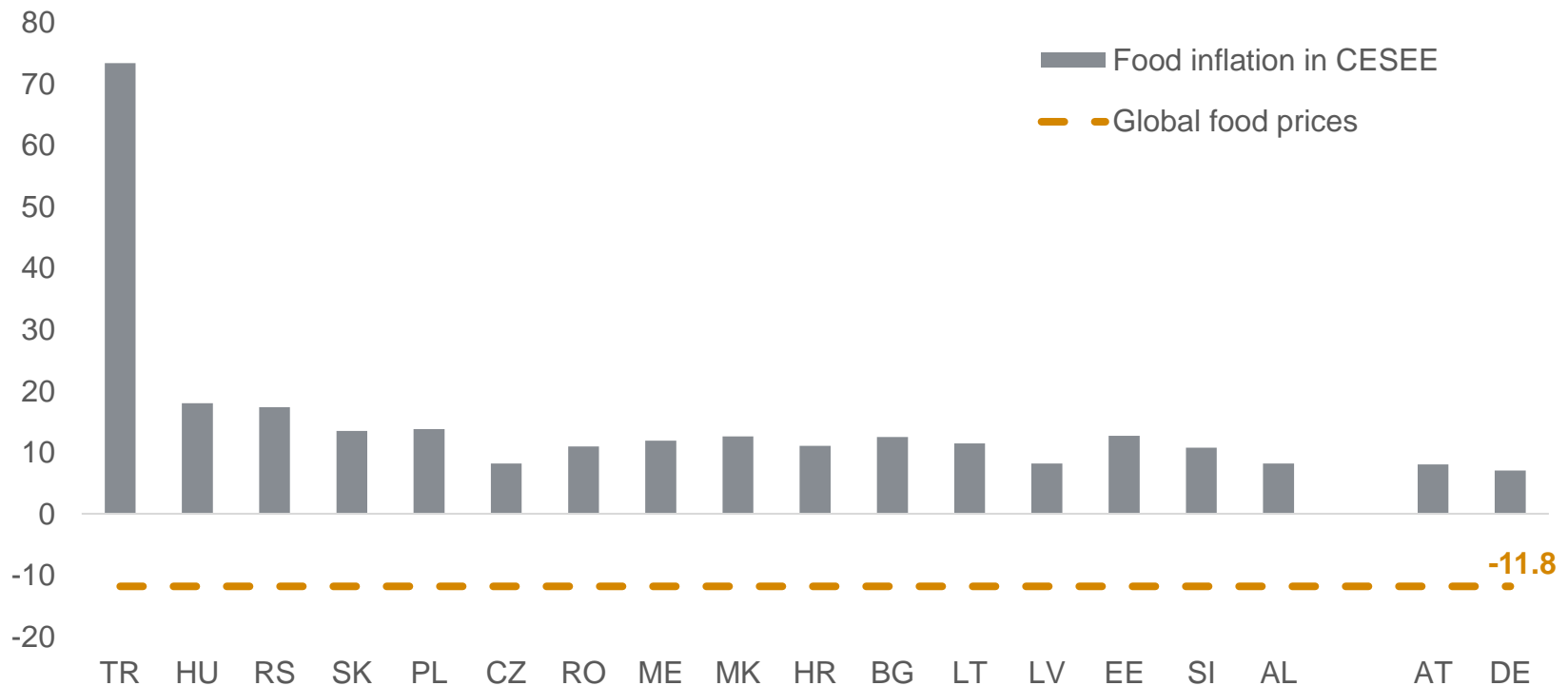
Food prices stand out as the main component that has been driving inflation in recent months

Headline and food inflation in CESEE in August 2023, %, year on year



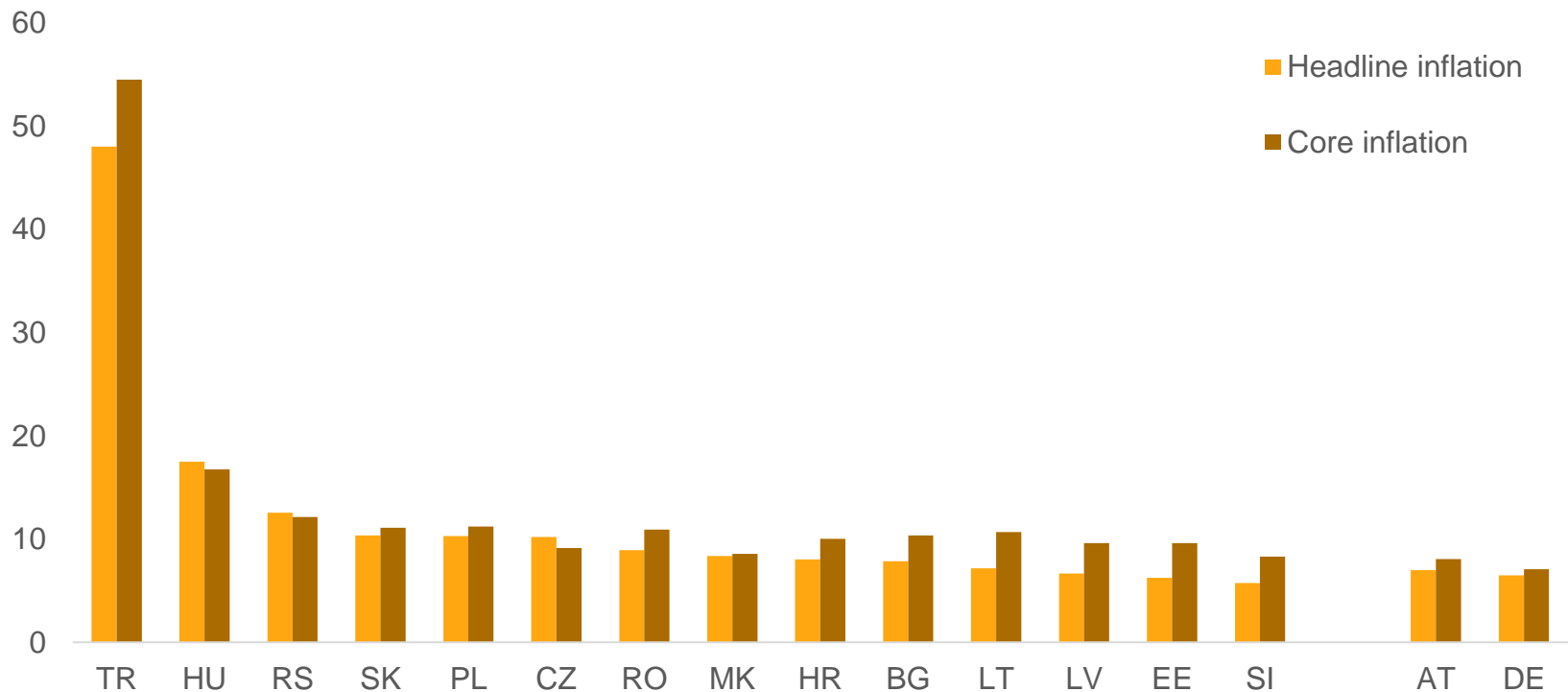
Food inflation in CESEE mainly driven by domestic factors, such as higher profits of food businesses, as global food prices have continued to decline

Food inflation in CESEE and global food prices in August 2023, %, y-o-y



Core inflation has exceeded headline inflation almost everywhere, making price increases more difficult to tame

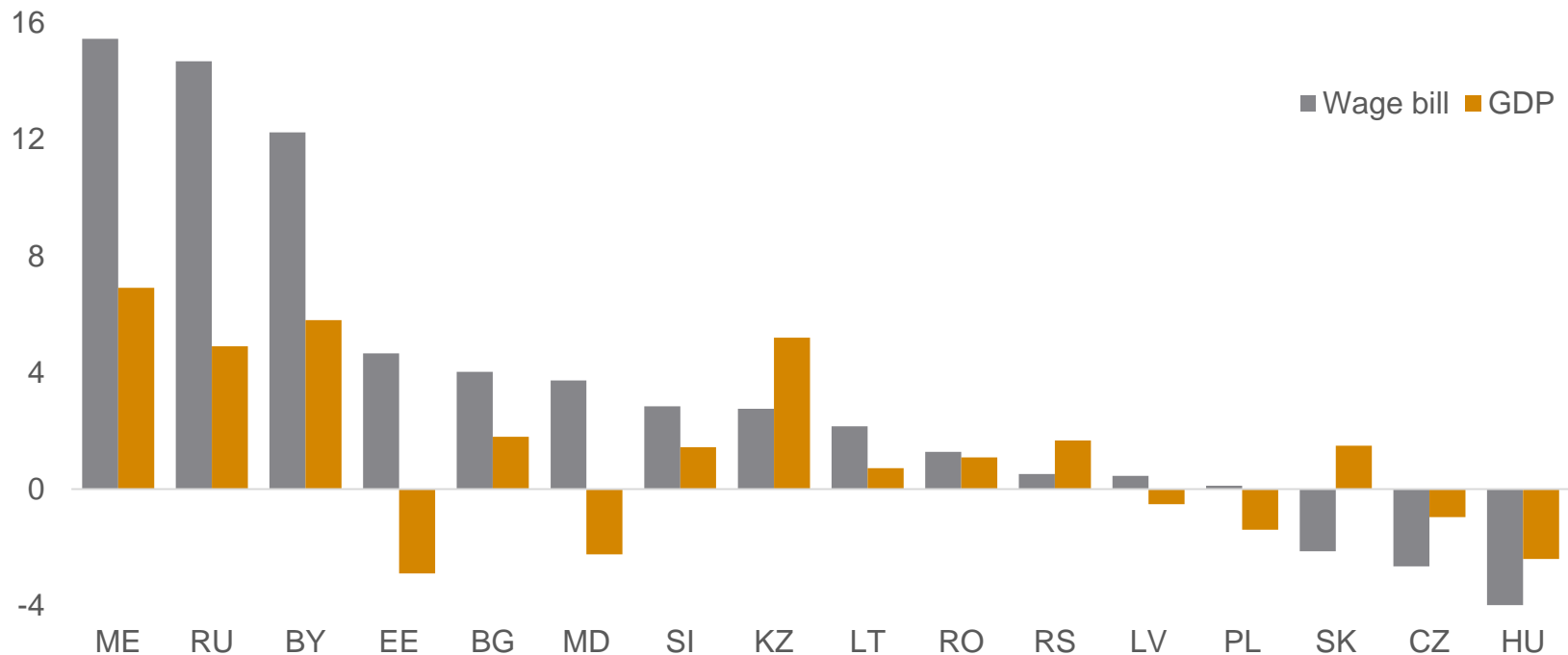
Headline and core inflation in CESEE in August 2023, %, year on year



Source: wiiw calculations, using data from Eurostat and wiiw Monthly Database. Some CESEE countries are omitted, due to unavailability of data on inflation by sub-component in the Eurostat database.

Wage growth outpaces GDP growth, which might lead to a fresh bout in inflation, if businesses raise prices

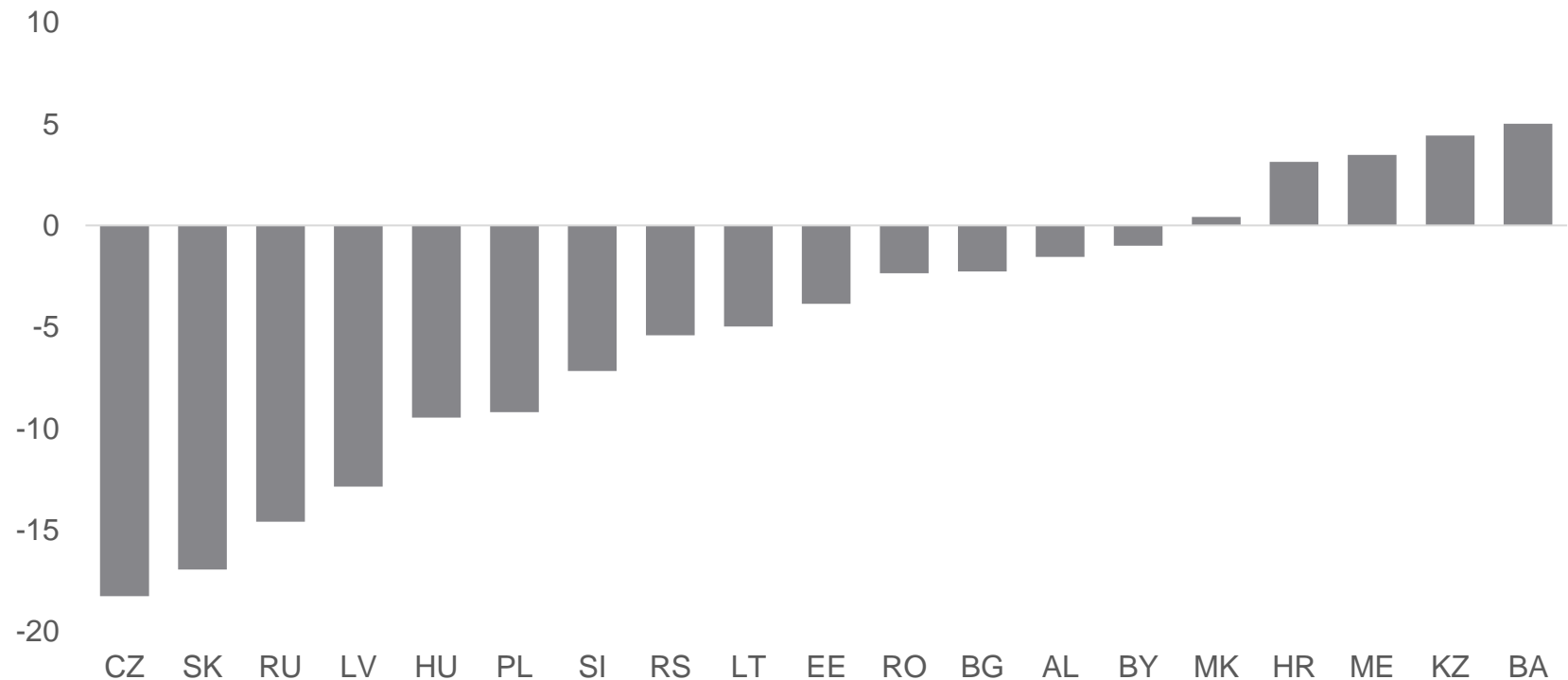
Real growth in the wage bill and real growth in GDP in CESEE in Q2 2023, %, year on year



Note: The growth in the wage bill is calculated as combined growth in real wages and the number of employed persons. For countries that have had methodological changes or new censuses, the data used here have been adjusted to take account of these changes. Source: wiiw calculations, using data from Eurostat and wiiw Monthly Database.

Still, most of the CESEE region had seen a persistent decline in real wages over the previous year and a half

Real gross wages in CESEE in Q2 2023, compared to Q4 2021, % change

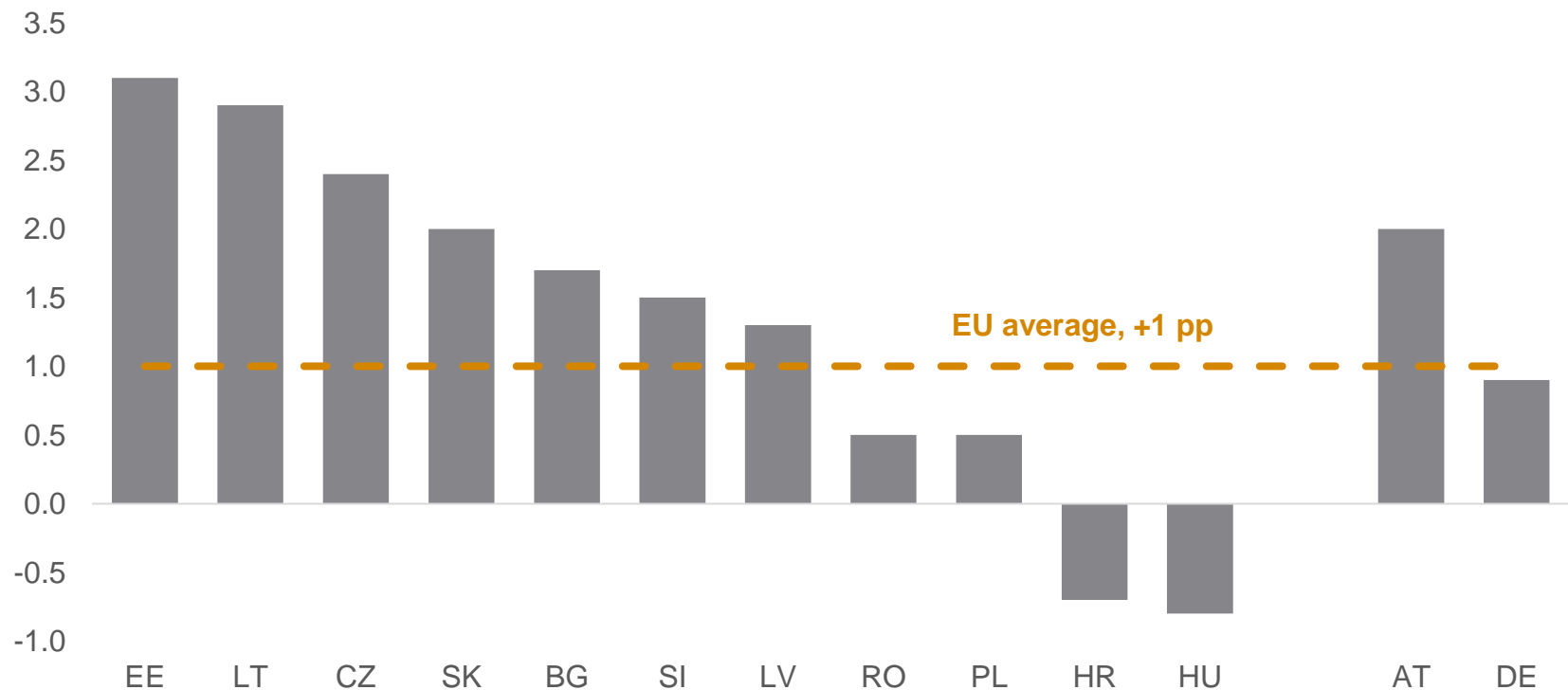


Note: For Czechia, Slovakia, Lithuania and Albania, the latest data point is Q1 of 2023, not Q2.

Source: wiiw Monthly Database.

Inflation's social consequences already felt - more people can't afford the meal they want

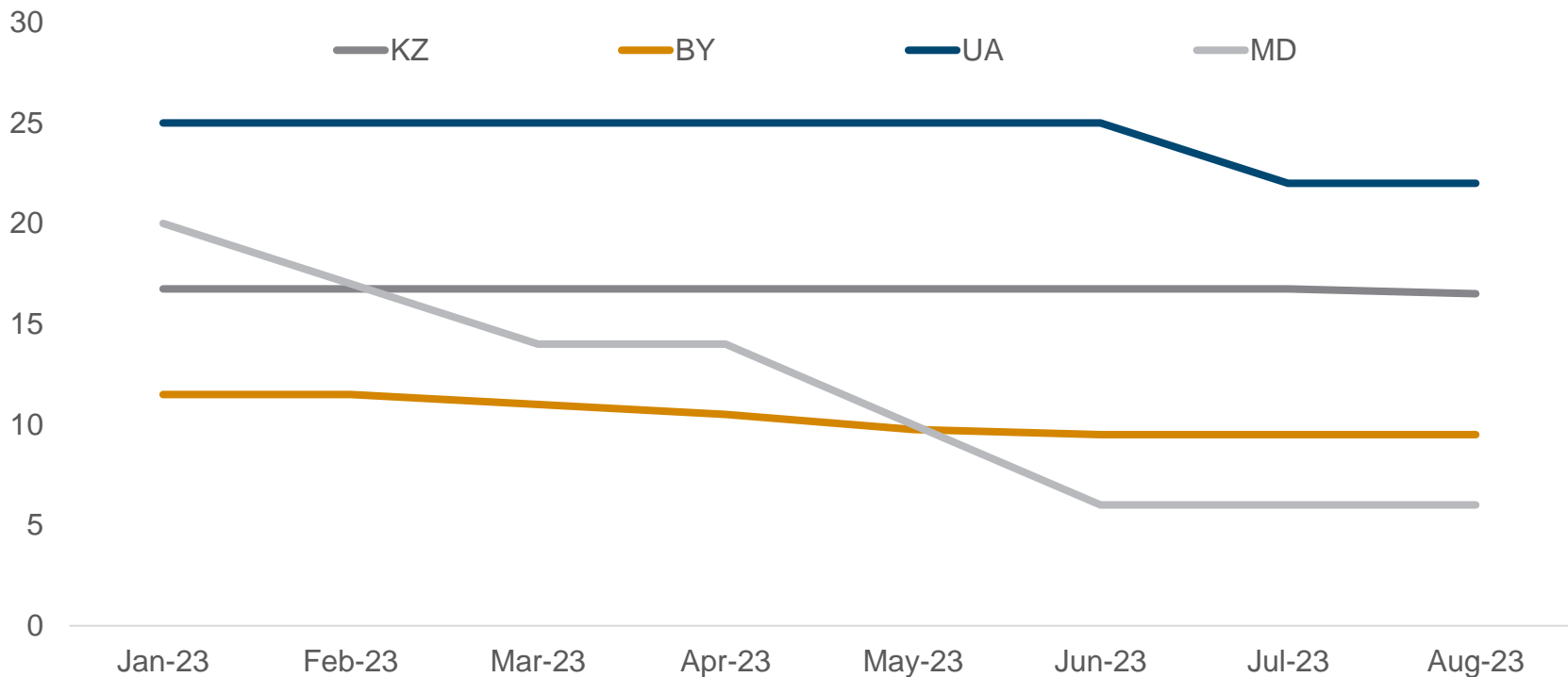
Change in the share of people who cannot afford a meal with meat, chicken, fish (or vegetarian equivalent) every other day in 2022, pp, year on year



3. Monetary-fiscal mix: Not that supportive

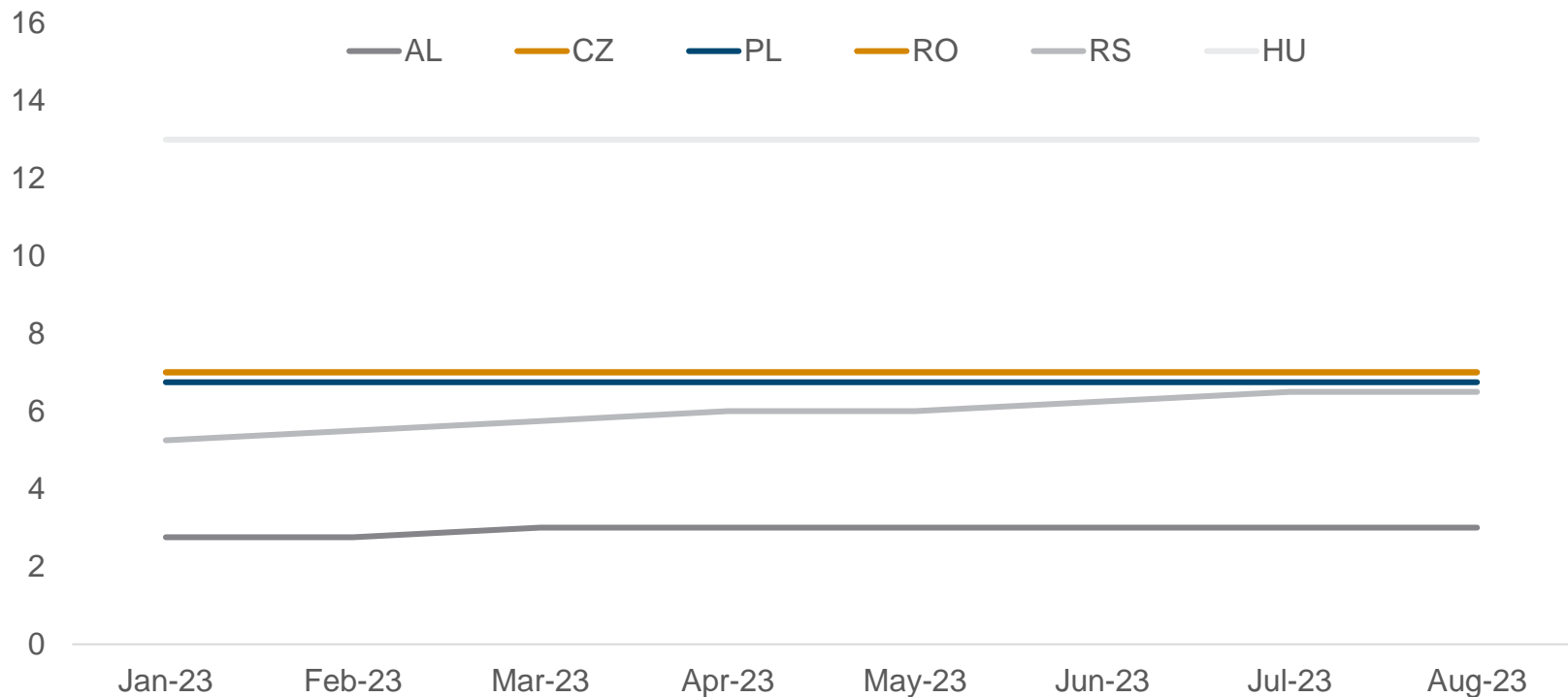
Monetary policy in the region has remained restrictive, but some central banks have started cutting rates

Central bank policy rate in some CESEE countries in 2023, end of period, %



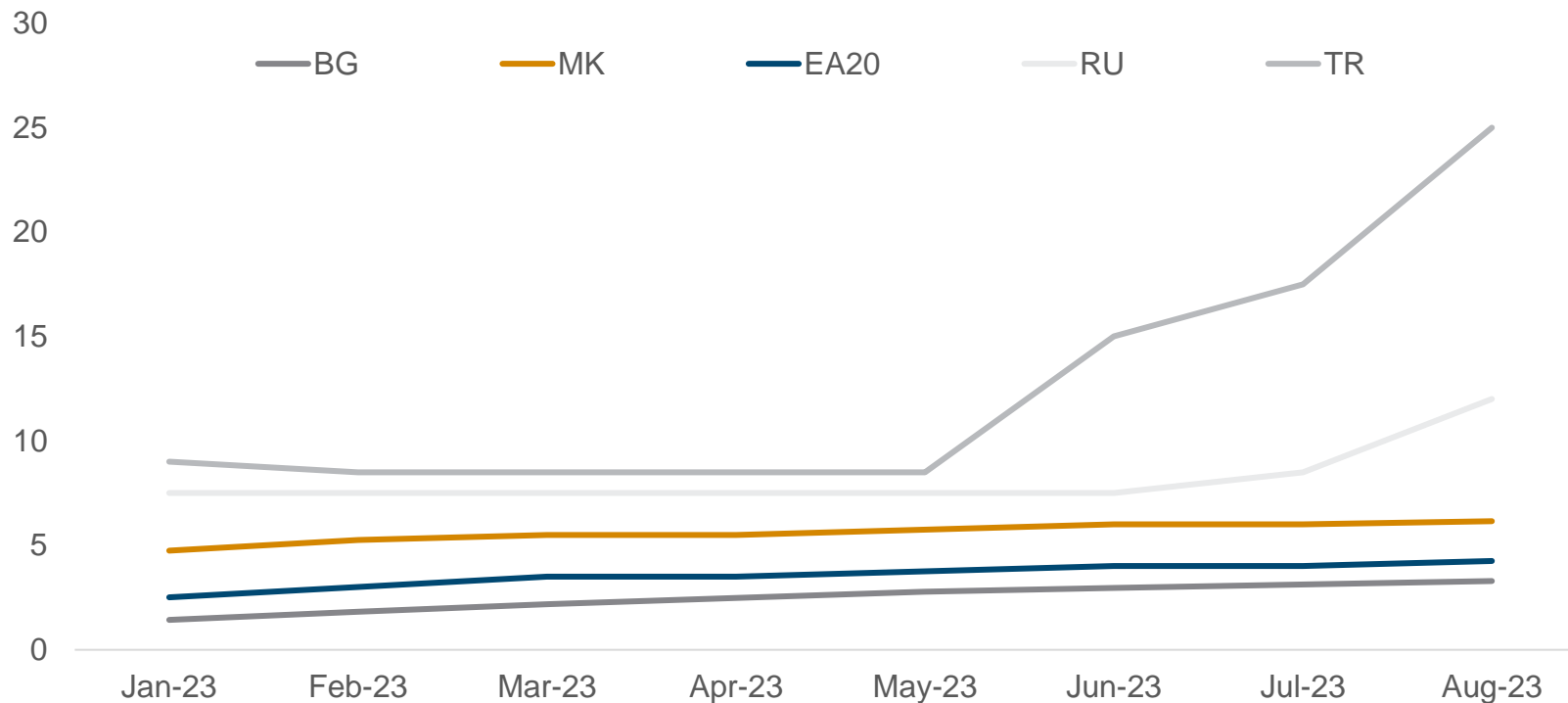
Several more have stopped raising rates, and might start easing soon

Central bank policy rate in some CESEE countries in 2023, end of period, %



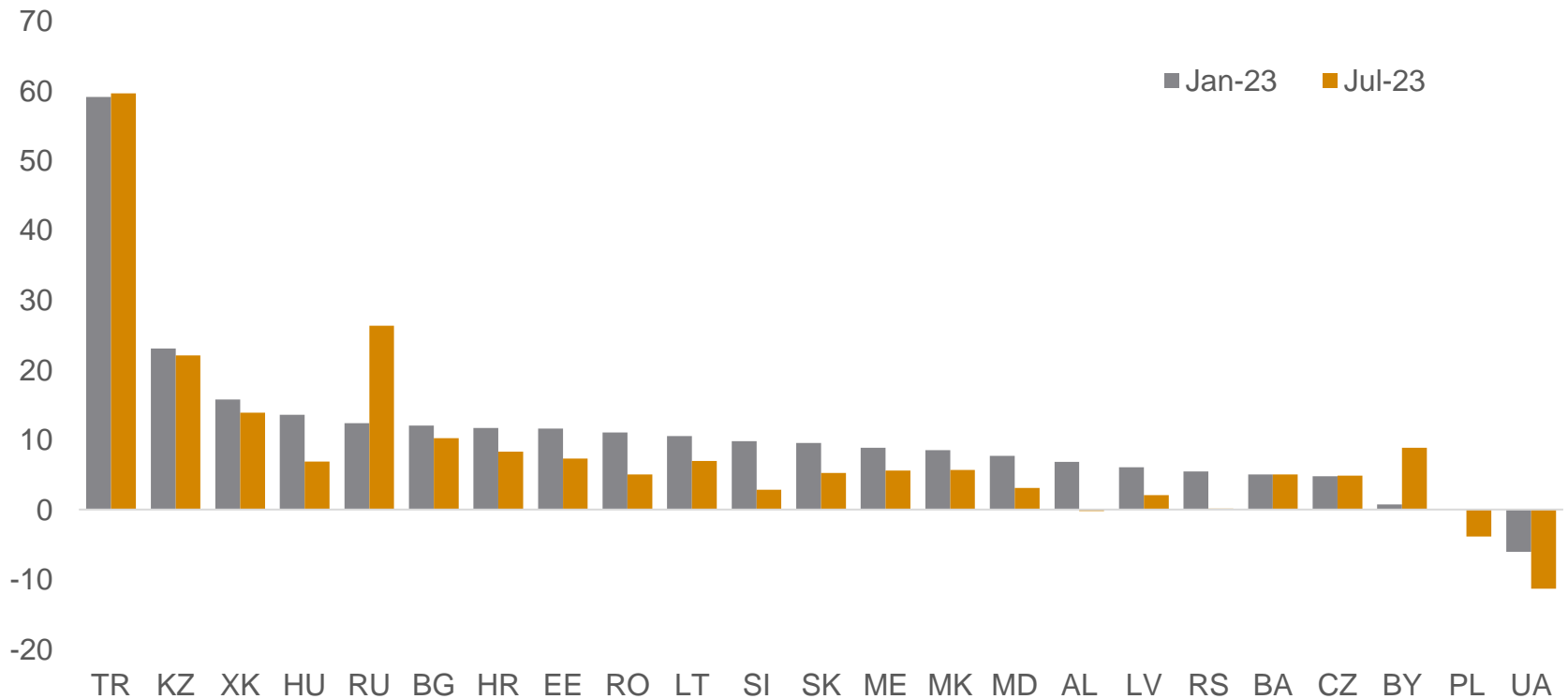
But some central banks are yet to end the hiking cycle

Central bank policy rate in some CESEE countries in 2023, end of period, %



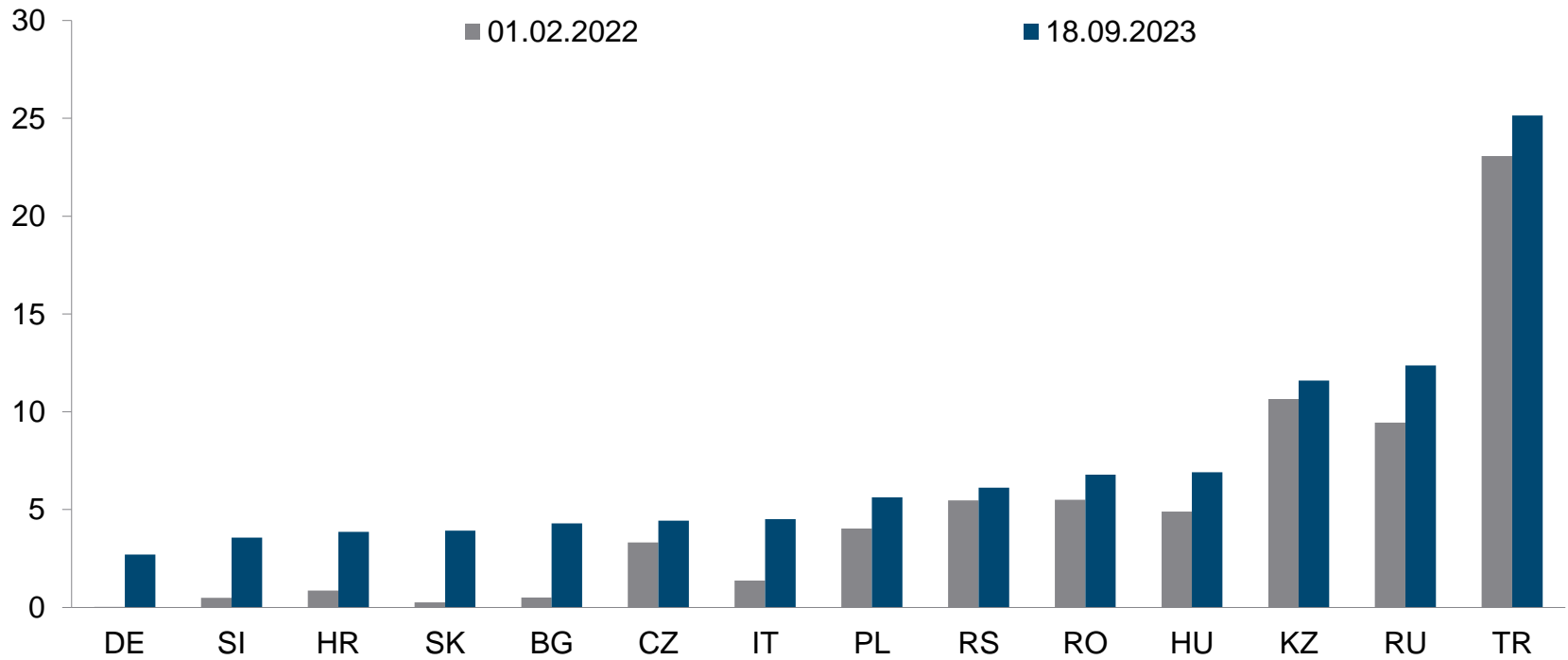
The tight monetary conditions continue to slow credit activity

Nominal growth in loans to non-financial private sector in January and July 2023, %, year on year



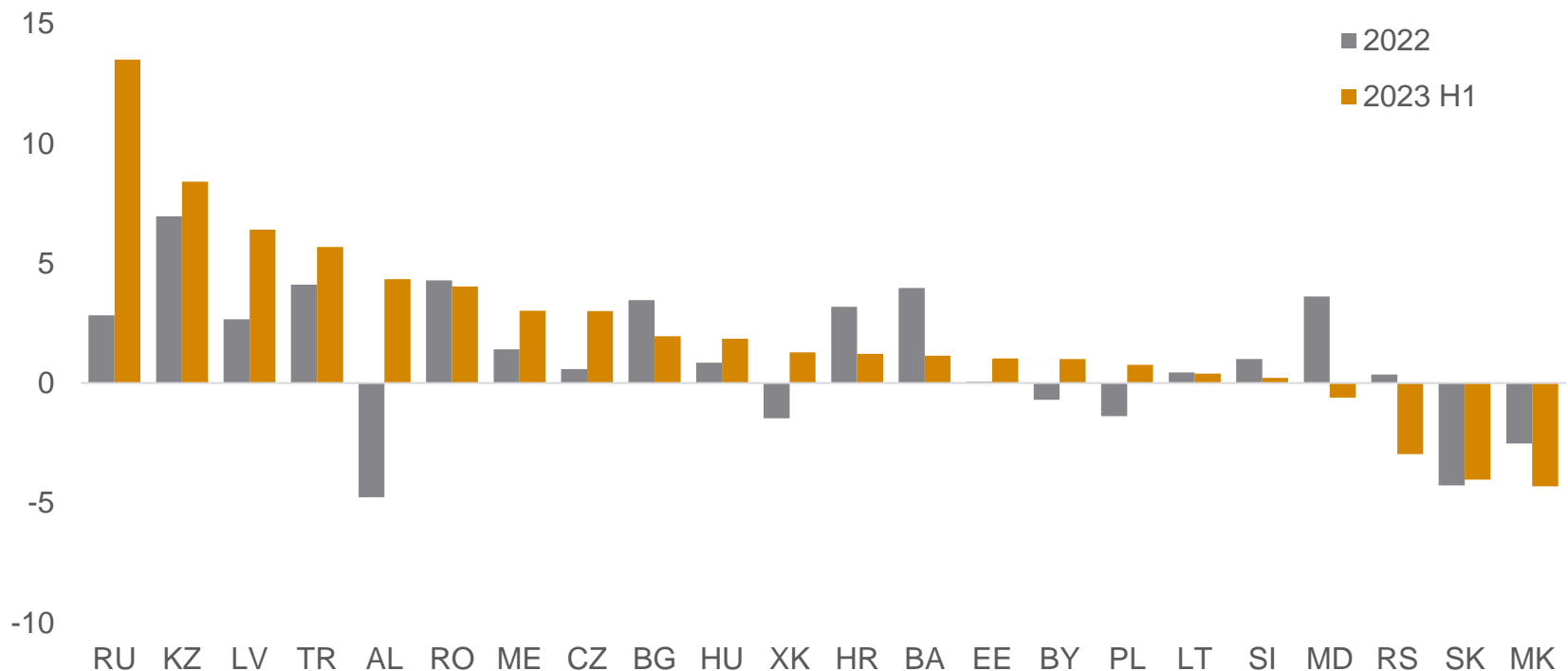
And to raise borrowing costs for governments

10-year government bond yields in February 2022 and September 2023, %



Despite that, fiscal policy remained moderately supportive in H1 2023

Real growth in government consumption in CESEE in 2022 and H1 2023, %, year on year



Note: Ukraine omitted due to data unavailability. For Albania, Belarus, Bosnia and Herzegovina, Kazakhstan and Russia, the 2023 data refer only to Q1. Source: wiiw Monthly Database.

The EU member states are benefitting from NextGenerationEU funds, though not all of them

Disbursements made under the Recovery and Resilience Facility to EU member states from CESEE by mid-September 2023

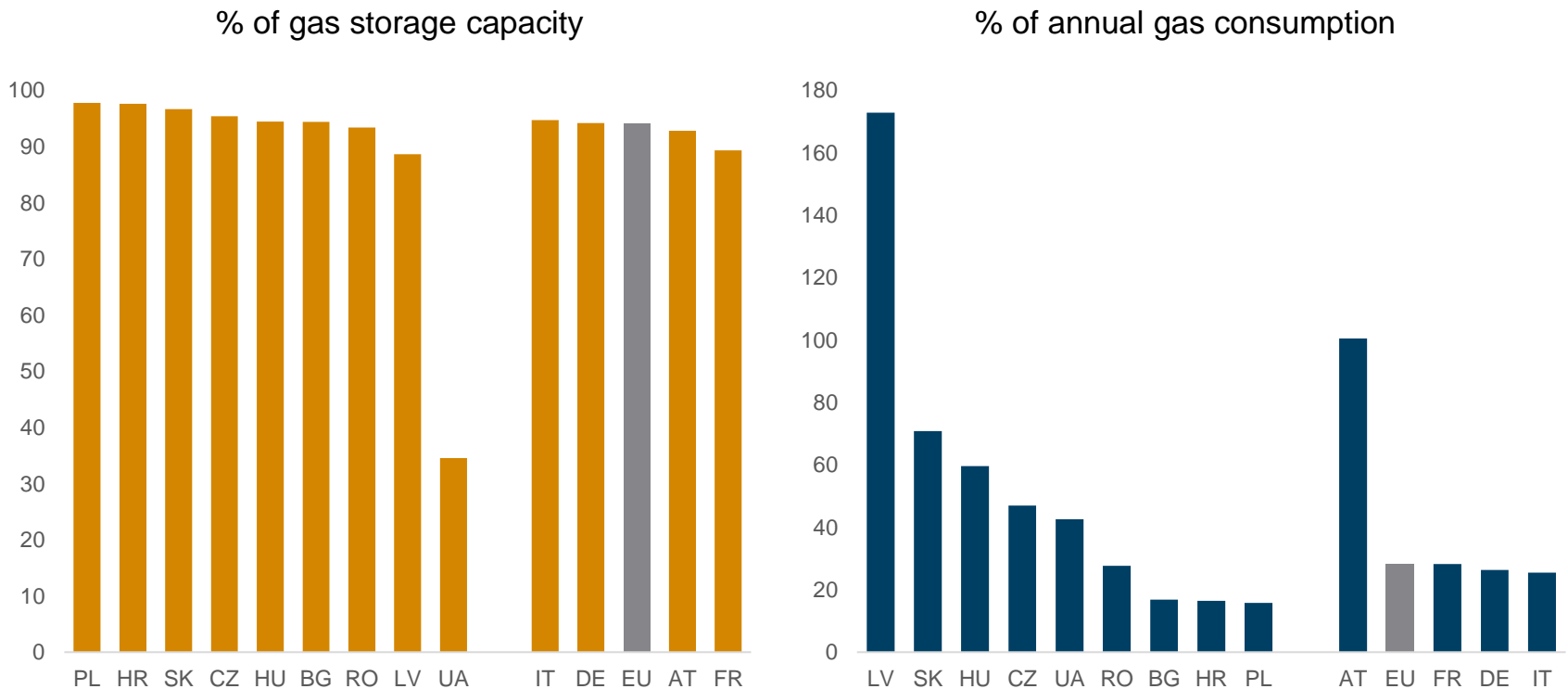
Country	Amount, EUR m	Share in 2021 GDP, %
Romania	6,355.6	2.63
Croatia	2,218.4	3.81
Slovakia	1,930.2	1.92
Czechia	1,842.8	0.77
Bulgaria	1,368.9	1.90
Lithuania	831.5	1.48
Latvia	438.4	1.30
Slovenia	280.6	0.54
Estonia	126.0	0.40
Hungary	n/a	n/a
Poland	n/a	n/a

4. Energy situation:

Better than last year, but still some risks

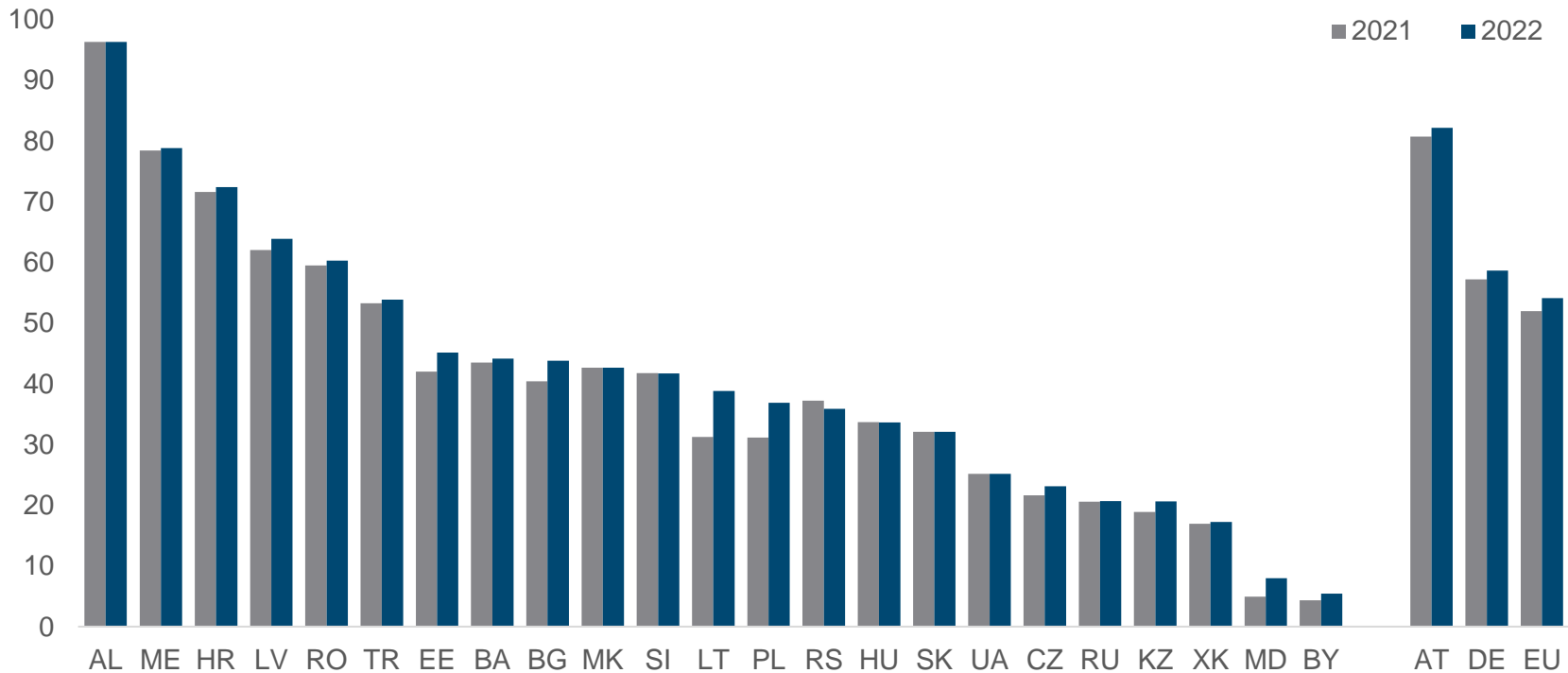
Gas storage facilities almost completely full already, though stored gas sufficient only for a short period

Gas stored in storage facilities in CESEE and EU in mid-September 2023, %



Still, very limited investment in renewable energy sources

Renewable energy share of electricity capacity in 2021 and 2022, %



5. Outlook for 2023-2025:
Low growth, high inflation

Forecast assumptions

- The war in Ukraine is likely going to last for much or all of our forecast period
- The outlook for Germany and the euro area has deteriorated, and next year's recovery will be weaker than we had previously expected
- China struggling, while the US remains impressively resilient
- Inflation has peaked in the euro area and will trend downward, but will still not come back to 2% soon
- The ECB has finished its tightening cycle and will start to cut next year

GDP revisions for this year are mixed

Real GDP growth forecasts and revisions over previous forecast, October 2023

Region	2023	2024	2025
EU-CEE			
BG Bulgaria	1.0 ▼	1.5 ▼	2.5
CZ Czechia	0.1 ▼	2.0 ▼	2.7
EE Estonia	-1.3 ▼	1.7 ▼	3.0 ▼
HR Croatia	2.5	2.9	3.1
HU Hungary	-0.5 ▼	1.8 ▼	2.4 ▼
LT Lithuania	-0.1 ▼	1.7 ▼	2.4 ▼
LV Latvia	0.3 ▼	1.8 ▼	2.3 ▼
PL Poland	0.0 ▼	2.8 ▲	3.8 ▲
RO Romania	2.5 ▼	3.2 ▼	3.5 ▼
SI Slovenia	1.3 ▼	2.7 ▲	2.5 ▼
SK Slovakia	0.8 ▲	1.9 ▼	2.4
Western Balkans			
AL Albania	3.5 ▲	3.6 ▼	3.7 ▼
BA Bosnia and Herzegovina	1.7 ▲	1.9 ▼	2.1 ▼
ME Montenegro	4.5 ▲	2.9	3.0
MK North Macedonia	1.6	2.0 ▼	2.5 ▼
RS Serbia	1.5 ▲	2.0 ▼	2.5 ▼
XK Kosovo	3.2 ▼	3.3 ▼	3.7 ▼
TR Turkey	3.2 ▲	2.7 ▼	3.6 ▼
CIS+UA			
BY Belarus	3.0 ▲	2.2	2.5
KZ Kazakhstan	4.7 ▲	4.0	4.2 ▲
MD Moldova	0.0 ▼	3.5 ▼	3.5 ▼
RU Russia	2.3 ▲	1.9 ▲	1.7 ▲
UA Ukraine	3.6 ▲	4.2 ▲	5.3 ▼

- EU-CEE - most of the revisions on the downside, due to the German recession and weak economic activity in the EU
- Western Balkans + Turkey - most of the revisions on the upside, thanks to robust tourism, FDI and remittances
- CIS + Ukraine, most of the revisions on the upside, thanks to stronger growth from the H1, increased military production, reorientation of Russia towards CIS markets, and the resilience of the Ukrainian economy

Note: Colour scale variation from the minimum (dark grey) to the maximum (dark orange).

Source: wiiw.

For 2024 and 2025, growth revisions are on the downside

Real GDP growth forecasts and revisions over previous forecast, October 2023

Region	2023	2024	2025
EU-CEE			
BG Bulgaria	1.0 ▼	1.5 ▼	2.5
CZ Czechia	0.1 ▼	2.0 ▼	2.7
EE Estonia	-1.3 ▼	1.7 ▼	3.0 ▼
HR Croatia	2.5	2.9	3.1
HU Hungary	-0.5 ▼	1.8 ▼	2.4 ▼
LT Lithuania	-0.1 ▼	1.7 ▼	2.4 ▼
LV Latvia	0.3 ▼	1.8 ▼	2.3 ▼
PL Poland	0.0 ▼	2.8 ▲	3.8 ▲
RO Romania	2.5 ▼	3.2 ▼	3.5 ▼
SI Slovenia	1.3 ▼	2.7 ▲	2.5 ▼
SK Slovakia	0.8 ▲	1.9 ▼	2.4
Western Balkans			
AL Albania	3.5 ▲	3.6 ▼	3.7 ▼
BA Bosnia and Herzegovina	1.7 ▲	1.9 ▼	2.1 ▼
ME Montenegro	4.5 ▲	2.9	3.0
MK North Macedonia	1.6	2.0 ▼	2.5 ▼
RS Serbia	1.5 ▲	2.0 ▼	2.5 ▼
XK Kosovo	3.2 ▼	3.3 ▼	3.7 ▼
TR Turkey	3.2 ▲	2.7 ▼	3.6 ▼
CIS+UA			
BY Belarus	3.0 ▲	2.2	2.5
KZ Kazakhstan	4.7 ▲	4.0	4.2 ▲
MD Moldova	0.0 ▼	3.5 ▼	3.5 ▼
RU Russia	2.3 ▲	1.9 ▲	1.7 ▲
UA Ukraine	3.6 ▲	4.2 ▲	5.3 ▼

- Global slowdown,
- Worsening outlook for the EU economy,
- More persistent inflation,
- Tighter monetary conditions
- Less-supportive fiscal policy in coming years

Note: Colour scale variation from the minimum (dark grey) to the maximum (dark orange).

Source: wiiw.

The inflation forecasts revisions for 2023 are also mixed

Inflation forecasts and revisions over previous forecast, October 2023

Region	2023	2024	2025
EU-CEE			
BG Bulgaria	9.0 ▼	7.0	5.0
CZ Czechia	11.0	4.0 ▲	2.8
EE Estonia	9.5 ▼	3.4 ▲	2.5 ▲
HR Croatia	7.5 ▲	4.0	3.0
HU Hungary	17.5 ▼	6.0	4.0 ▲
LT Lithuania	8.0 ▼	2.8	2.0
LV Latvia	9.5 ▼	3.0 ▲	3.2 ▲
PL Poland	11.5 ▼	5.2 ▼	3.6 ▼
RO Romania	10.5 ▲	7.5 ▲	5.0 ▲
SI Slovenia	7.2 ▲	3.6	2.4 ▼
SK Slovakia	11.0 ▲	5.0	3.0
Western Balkans			
AL Albania	4.6 ▲	3.0	2.5
BA Bosnia and Herzegovina	7.5 ▼	3.0 ▼	2.5
ME Montenegro	9.1 ▼	5.0 ▲	2.8
MK North Macedonia	10.0 ▲	5.0 ▲	3.0
RS Serbia	12.5 ▲	5.5 ▲	3.5 ▲
XK Kosovo	5.5 ▼	4.0	2.5
TR Turkey	54.9 ▲	54.0 ▲	35.0 ▲
CIS+UA			
BY Belarus	9.0	8.0	8.0
KZ Kazakhstan	14.5	9.0	6.0
MD Moldova	14.0	6.0	5.0
RU Russia	5.6 ▲	4.9 ▲	3.4
UA Ukraine	14.0	8.0 ▼	6.0 ▼

- In EU-CEE, most of the forecasts have been revised downwards, as inflation seems to be receding faster than expected
- In the Western Balkans + Turkey, most of the revisions are upwards, as inflation there seems to be far more persistent
- In the CIS + Ukraine, most of the new forecasts are the same as the old ones

Note: Colour scale variation from the maximum (dark grey) to the minimum (dark orange).

Source: wiiw.

Inflation forecasts for 2024 and 2025 slightly higher than before

Inflation forecasts and revisions over previous forecast, October 2023

Region	2023	2024	2025
EU-CEE			
BG Bulgaria	9.0 ▼	7.0	5.0
CZ Czechia	11.0	4.0 ▲	2.8
EE Estonia	9.5 ▼	3.4 ▲	2.5 ▲
HR Croatia	7.5 ▲	4.0	3.0
HU Hungary	17.5 ▼	6.0	4.0 ▲
LT Lithuania	8.0 ▼	2.8	2.0
LV Latvia	9.5 ▼	3.0 ▲	3.2 ▲
PL Poland	11.5 ▼	5.2 ▼	3.6 ▼
RO Romania	10.5 ▲	7.5 ▲	5.0 ▲
SI Slovenia	7.2 ▲	3.6	2.4 ▼
SK Slovakia	11.0 ▲	5.0	3.0
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XK Kosovo	5.5 ▼	4.0	2.5
TR Turkey	54.9 ▲	54.0 ▲	35.0 ▲
CIS+UA			
BY Belarus	9.0	8.0	8.0
KZ Kazakhstan	14.5	9.0	6.0
MD Moldova	14.0	6.0	5.0
RU Russia	5.6 ▲	4.9 ▲	3.4
UA Ukraine	14.0	8.0 ▼	6.0 ▼

- Price pressures more persistent and broad based
- Not just higher global energy prices
- Higher company profits
- Higher prices in other sectors
- Higher wages, in some cases

Note: Colour scale variation from the maximum (dark grey) to the minimum (dark orange).

Source: wiiw.

Conclusions

- Growth in CESEE in Q2 was solid overall, but with big differences across countries
- Growth driven primarily by declining imports
- Inflation is moderating, but remains high and its drivers have become much more complex
- Its adverse social effects are already visible
- The hiking cycle is coming to an end
- Fiscal policy has been mildly supportive so far, but this will fade away
- New equilibrium of lower growth and higher inflation in 2024 and 2025

Thank you for your attention!

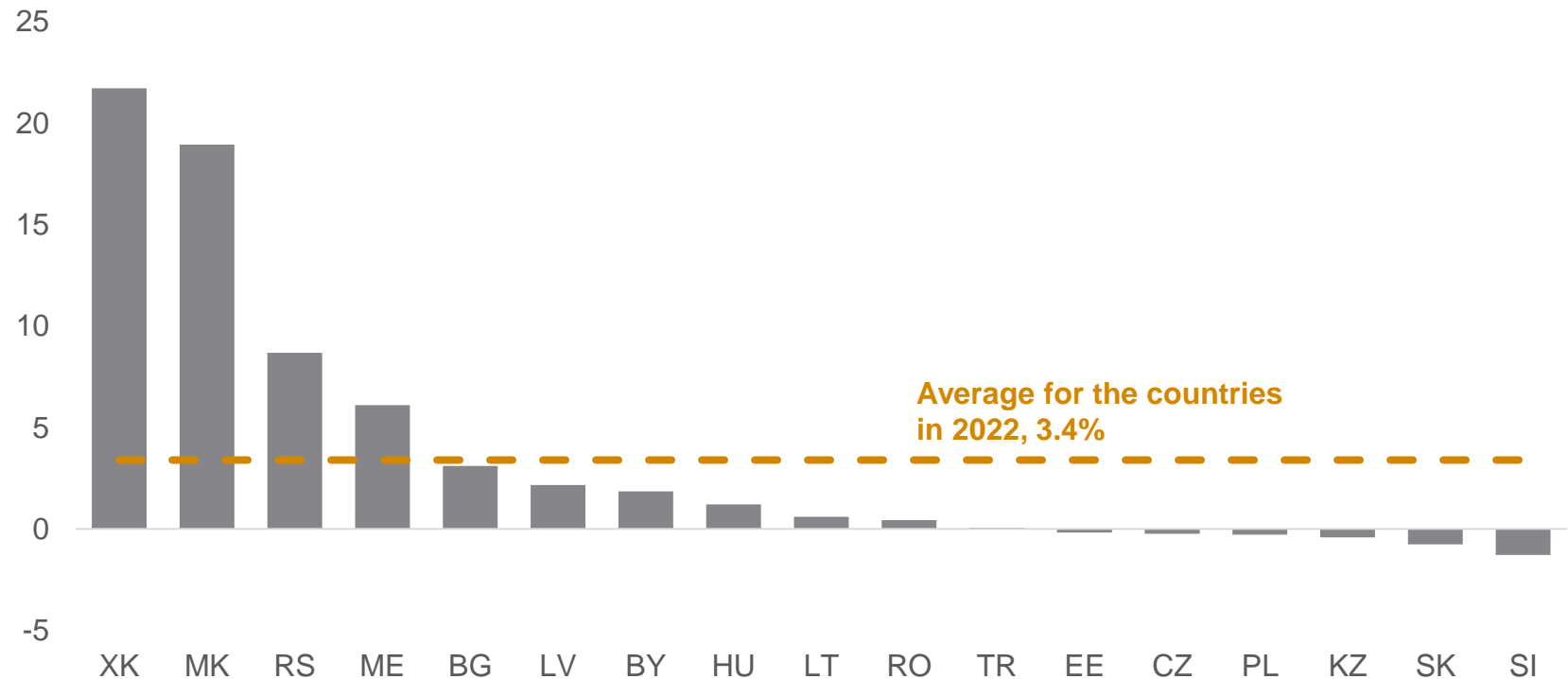
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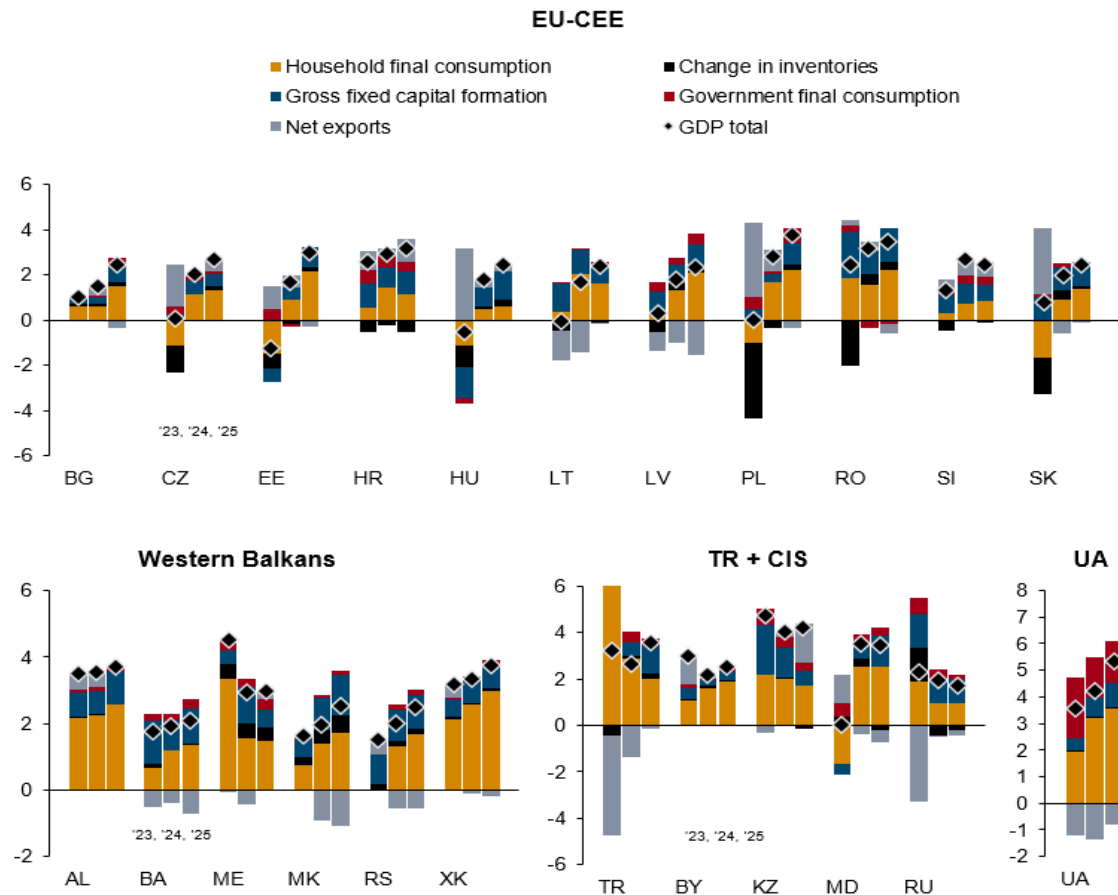


Remittances remained strong, particularly in countries with significant diasporas

Secondary income inflows into CESEE countries in Q2 2023, % of GDP



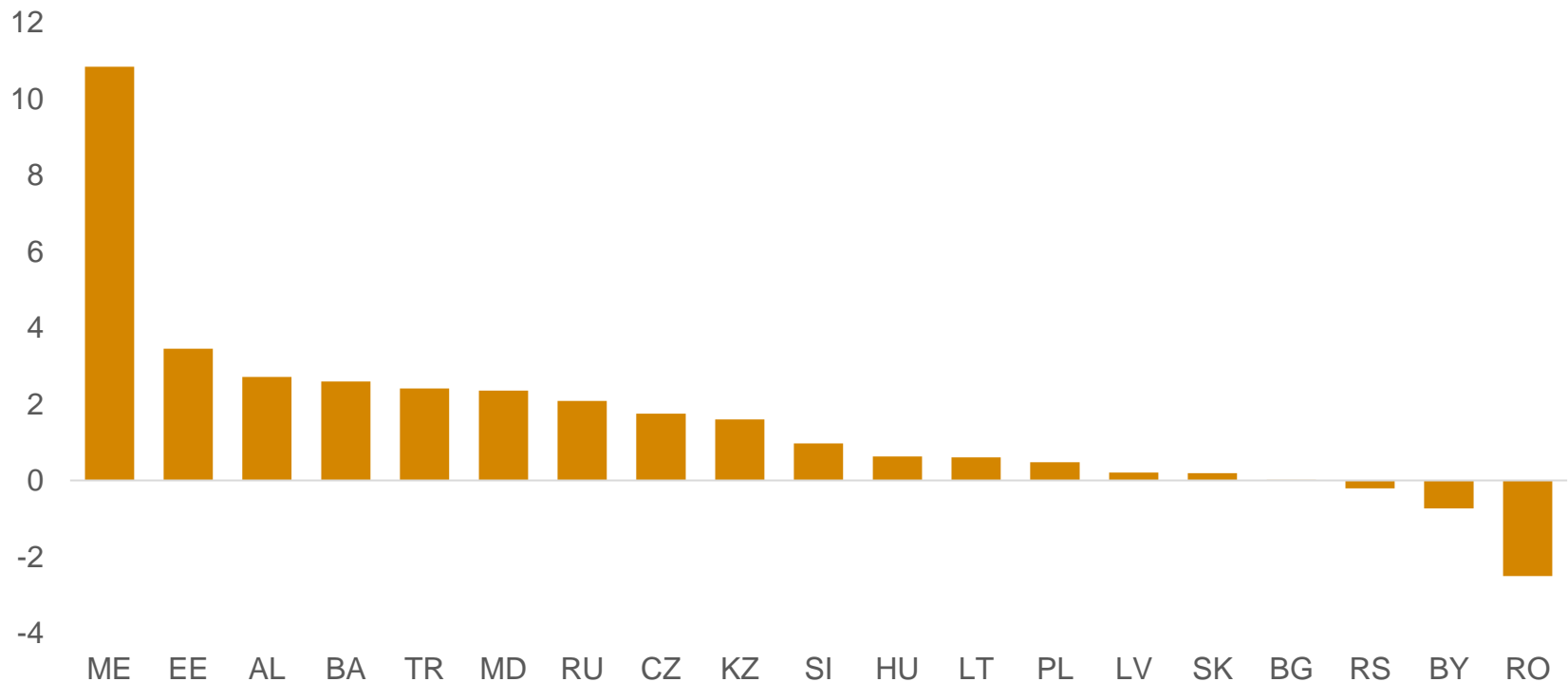
GDP growth forecast for 2023-2025, and contribution of individual demand components in percentage points



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculations.
Forecasts by wiiw.

On the flip side, employment remains remarkably stable, and there are no visible signs of crisis-induced job losses

Change in the number of employed persons in Q2 2023, %, year on year



Note: For countries that have had methodological changes or new censuses, the data shown here have been adjusted to take account of these changes. Some countries omitted, due to a lack of data, or methodological breaks. Source: wiiw Monthly Database.

Change in the share of people at risk of poverty or social exclusion in 2022 with respect to 2021, pp, year on year

