

PRESS RELEASE

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Autumn Forecast: Eastern Europe to grow by 5.4% this year

- Growth forecast for 2021 raised by 1.2 percentage points
- 3.7% growth in 2022
- Spike in inflation a challenge for policy makers, but likely to be transitory
- Transfers from the EU reconstruction fund to be an important growth driver
- Positive outlook – but risks include COVID-19, hasty budget consolidation and forthcoming US monetary policy tapering

The Vienna Institute for International Economic Studies (wiiw) expects the economies of the [23 countries of Central, Eastern and Southeastern Europe](#) (CESEE) to grow by 5.4% this year. This is an upward revision of 1.2 percentage points, compared to the summer. The frontrunners are Turkey (9.1%), Montenegro (8.4%) and Moldova (8%), although the latter two are starting from a very low base. This means that in 2021, the CESEE region is likely to grow significantly faster than the euro area (4.8%). On average, the pre-crisis level of 2019 was already exceeded in the second quarter.

‘The strong performance of the Eastern European economies is mainly explained by the less strict COVID rules in many places, and by the fact that the service sector is much smaller than in Western Europe’, says Vasily Astrov, Senior Economist at wiiw and lead author of the Autumn Forecast.

The main driver of growth in CESEE is private consumption. With an average of 14.5%, it expanded massively in the second quarter. Investment also increased by almost 18%, on average, in this period. A good part of this, however, was accounted for by large-scale projects in Estonia, e.g. in the field of biotechnology and Covid-19 vaccine production.

Exports are also picking up markedly on the back of the global upswing and the recovery in tourism. However, industrial production in many countries of the region – as in Western Europe – is also suffering from material shortages (e.g. of semiconductors in the automotive industry).

Employment is again approaching pre-crisis levels in many countries. In Croatia, Latvia, Hungary, Poland and Slovenia, it has already been either reached or exceeded. However, the coronavirus crisis has left scars in the labour markets: underemployment is now higher than before the pandemic. Unemployment also remains a problem in many countries, especially in the Western Balkans. At the same time, there are labour shortages in those sectors that have expanded in the wake of the crisis. This is the case not only in the EU member states of the region, but also in Montenegro, Serbia and Russia.

Rising inflation is similarly making itself felt in CESEE. Currently, in most countries of the region, inflation rates are 3 to 4 percentage points higher than at the beginning of the year. However, high inflation should be a transitory phenomenon. Where the euro is used, inflationary pressure is generally lower. Faced with rising inflation, many central banks have already reacted by raising interest rates, and further interest rate steps are likely to follow.

'This should also cool the overheated and primarily credit-financed real-estate markets in many places, some of which are showing signs of bubble formation', says Astrov. However, the main driver of the property boom in the region has been the European Central Bank's monetary policy. 'For the time being, it will probably remain ultra-expansive', continues Astrov. In Czechia and Lithuania, property prices have risen by 16% and 15%, respectively, since the start of the pandemic, and still show an upward trend.

The economic outlook is positive across the board, even though the recovery in CESEE is expected to lose some momentum in 2022 (3.7%) and 2023 (3.5%). The current boom in Turkey should subside. The strongest growth next year will be in Croatia (5%) and Poland (4.9%), as well as in Montenegro and Kosovo (4.8%). After a 4% increase this year, Russia, the largest economy in the region, will also expand more slowly in 2022 (3%) and 2023 (2.8%).

Among the biggest risks to a sustainable economic recovery are a renewed flare-up of COVID-19 and hasty fiscal consolidation. Naturally, budget deficits throughout the region have ballooned during the crisis (to an average of 6.3% of GDP in 2020 and an estimated 4.5% this year). A premature reduction in government spending could jeopardise recovery in a number of countries, especially in the Western Balkans and the successor states of the Soviet Union. Also, tapering of monetary policy in the US could dampen the recovery, by making dollar financing more expensive.

The EU's COVID-19 reconstruction fund (the Recovery and Resilience Facility) will provide additional momentum in the eastern member states. In Romania, for example, transfers from the programme – worth a total of around EUR 29bn, could in theory generate additional yearly growth of up to 3.1 percentage points until 2026. In the much more developed Czechia, it could still add up to 0.7 percentage points a year to real GDP growth. *'In reality, however, the economic effect of the reconstruction fund will be significantly lower', predicts Astrov. 'On the one hand, because the economies of the region cannot fully absorb the money, and on the other, because the EU transfers will in part merely replace the funding of investment projects from national budgets.'*

About the wiiw Forecast Report Eastern Europe

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 new wiiw Autumn Forecast is available on request.

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OVERVIEW 2019-2020 AND OUTLOOK 2021-2023

		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				
		2019	2020	Forecast			2019	2020	Forecast			2019	2020	Forecast			2019	2020	Forecast			2019	2020	Forecast		
		2019	2020	2021	2022	2023	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
BG	Bulgaria	3.7	-4.2	3.5	3.3	3.2	2.5	1.2	3.0	2.5	2.0	4.2	5.1	5.5	5.0	5.0	1.9	-0.3	-1.2	-1.5	-1.3	2.1	-3.4	-3.0	-2.5	-2.0
CZ	Czechia	3.0	-5.8	3.4	3.7	3.6	2.6	3.3	3.2	2.8	2.2	2.0	2.6	3.3	3.2	2.9	0.3	3.6	2.5	2.4	2.5	0.3	-6.1	-6.5	-5.6	-4.5
EE	Estonia	4.1	-3.0	7.8	3.6	3.0	2.3	-0.6	3.6	3.5	2.4	4.4	6.8	6.5	5.8	4.9	2.5	-0.3	-3.7	-0.5	-0.2	0.1	-5.0	-4.0	-2.0	-1.0
HR	Croatia	2.9	-8.0	7.2	5.0	4.5	0.8	0.0	2.2	1.9	1.8	6.6	7.5	8.0	7.4	6.2	3.1	-0.1	0.6	0.4	-0.3	0.3	-7.4	-4.5	-3.0	-2.5
HU	Hungary	4.6	-5.0	6.2	4.5	4.0	3.4	3.4	4.8	4.2	3.7	3.4	4.3	4.2	3.9	3.8	-0.7	-1.6	0.6	0.7	0.9	-2.1	-8.1	-8.0	-5.5	-3.5
LT	Lithuania	4.3	-0.9	4.4	3.7	3.5	2.2	1.1	3.5	4.0	3.3	6.3	8.5	7.2	6.8	6.2	3.5	7.4	2.5	2.1	2.0	0.5	-7.4	-6.2	-4.0	-2.5
LV	Latvia	2.0	-3.6	4.5	4.3	3.4	2.7	0.1	2.7	3.7	3.2	6.3	8.1	7.6	6.8	6.5	-0.7	2.9	-3.2	-2.6	-2.1	-0.6	-4.5	-8.0	-4.0	-2.0
PL	Poland	4.7	-2.5	5.3	4.9	4.9	2.1	3.7	4.4	3.3	3.0	3.3	3.2	3.2	3.0	2.9	0.5	3.5	1.9	2.8	2.6	-0.7	-6.9	-5.5	-4.5	-3.0
RO	Romania	4.1	-3.9	6.8	4.3	4.2	3.9	2.3	4.2	4.0	3.5	3.9	5.0	5.4	4.8	4.5	-4.9	-5.0	-5.8	-4.6	-4.0	-4.4	-9.2	-7.0	-6.0	-5.0
SI	Slovenia	3.3	-4.2	5.2	4.1	3.3	1.7	-0.3	1.8	1.6	1.5	4.5	5.0	4.7	4.3	4.2	6.0	7.4	5.7	5.4	4.8	0.4	-8.3	-7.3	-3.3	-0.8
SK	Slovakia	2.5	-4.8	4.0	4.4	3.9	2.8	2.0	2.3	2.4	2.0	5.8	6.7	6.8	6.5	6.0	-3.4	0.1	-0.7	-0.6	-0.5	-1.3	-6.1	-7.1	-5.1	-4.1
	<i>EU-CEE11</i> ¹⁾²⁾	4.1	-3.8	5.3	4.4	4.2	2.6	2.7	3.9	3.3	2.9	3.8	4.4	4.6	4.2	4.0	-0.3	1.4	0.3	0.8	0.9	-1.0	-7.1	-6.2	-4.8	-3.4
	<i>EA19</i> ³⁾	1.5	-6.3	4.8	4.4	2.1	1.2	0.3	2.1	1.6	1.4	7.6	7.9	8.1	7.8	7.3	2.9	2.8	2.5	2.5	2.5	-0.6	-7.2	-7.1	-3.4	-2.6
	<i>EU27</i> ³⁾	1.8	-5.9	4.9	4.5	2.5	1.4	0.7	2.3	1.8	1.6	6.7	7.1	7.3	7.0	6.5	2.9	2.8	2.5	2.5	2.5	-0.5	-6.9	-6.9	-3.2	-2.5
AL	Albania	2.1	-4.0	6.4	4.5	4.2	1.4	1.6	2.1	2.5	2.8	11.5	11.7	11.4	11.2	11.0	-7.9	-8.8	-8.5	-7.7	-7.1	-1.9	-6.8	-3.0	-1.5	-1.0
BA	Bosnia and Herzegovina	2.8	-3.2	3.7	3.1	3.5	0.6	-1.1	1.3	1.0	1.2	15.7	15.9	16.9	16.5	15.9	-2.8	-3.8	-2.3	-2.8	-3.2	1.9	-5.3	-2.0	-0.5	0.2
ME	Montenegro	4.1	-15.3	8.4	4.8	2.4	0.4	-0.3	1.9	1.3	1.2	15.1	17.9	16.0	15.5	15.3	-14.3	-26.1	-18.3	-16.9	-17.3	-2.0	-11.1	-5.5	-4.0	-3.0
MK	North Macedonia	3.2	-4.5	3.5	3.4	3.2	0.8	1.2	3.0	2.5	2.0	17.3	16.4	16.0	15.5	15.0	-3.3	-3.4	-3.5	-4.0	-4.7	-2.2	-8.2	-3.0	-2.0	-1.0
RS	Serbia	4.2	-1.0	6.6	4.6	4.5	1.7	1.6	3.5	3.0	2.5	10.4	9.0	11.0	10.0	9.0	-6.9	-4.2	-2.9	-3.0	-3.0	-0.2	-8.1	-3.0	-2.5	-2.0
XK	Kosovo	4.8	-5.3	6.0	4.8	4.0	2.7	0.2	2.3	2.5	2.3	25.7	25.9	25.5	25.0	24.5	-5.7	-7.1	-8.4	-8.1	-7.2	-2.9	-7.6	-2.0	-2.0	-1.0
	<i>WB6</i> ¹⁾²⁾	3.6	-3.1	5.7	4.2	4.0	1.4	0.9	2.7	2.4	2.2	13.4	13.0	13.7	13.2	12.4	-6.2	-5.7	-4.7	-4.6	-4.7	-0.5	-7.5	-2.9	-2.0	-1.4
TR	Turkey	0.9	1.8	9.1	3.8	3.8	15.2	12.3	17.5	12.2	10.0	13.7	13.2	13.1	12.2	11.1	0.9	-5.2	-3.1	-2.9	-2.7	-3.2	-2.8	-3.5	-2.5	-1.5
BY	Belarus	1.4	-0.9	2.5	2.0	2.3	5.6	5.5	9.0	8.0	7.0	4.2	4.0	4.0	4.1	4.2	-1.9	-0.4	0.7	0.9	0.5	2.4	-1.7	-2.0	-2.0	-1.0
KZ	Kazakhstan	4.5	-2.5	3.9	4.2	4.4	5.3	6.8	7.9	6.7	5.9	4.8	4.9	4.9	4.8	4.8	-4.0	-3.8	-2.9	-2.0	-1.9	-1.8	-4.0	-3.5	-2.6	-2.0
MD	Moldova	3.7	-7.0	8.0	4.5	4.0	4.8	3.8	4.5	6.0	5.0	5.1	3.8	3.8	3.5	3.0	-9.3	-7.5	-9.6	-6.9	-5.6	-1.4	-8.5	-6.0	-6.0	-5.0
RU	Russia	2.0	-3.0	4.0	3.0	2.8	4.5	3.4	6.2	4.4	3.2	4.6	5.8	5.1	4.8	4.6	3.9	2.4	5.6	5.9	5.7	1.9	-4.0	1.0	1.5	1.5
UA	Ukraine	3.2	-4.0	3.8	3.6	3.5	7.9	2.7	9.3	6.0	5.5	8.2	9.5	9.0	8.0	8.0	-2.7	3.4	-0.9	-2.4	-3.0	-2.2	-5.4	-5.0	3.0	-2.0
	<i>CIS4+UA</i> ¹⁾²⁾	2.4	-3.0	3.9	3.1	3.0	5.0	3.7	6.7	4.9	3.8	5.2	6.2	5.5	5.1	5.0	2.5	1.8	4.0	4.2	4.1	1.3	-4.1	0.0	0.6	0.8
	<i>V4</i> ¹⁾²⁾	4.2	-3.7	5.0	4.6	4.4	2.4	3.4	4.1	3.3	2.9	3.3	3.5	3.7	3.5	3.4	-0.1	2.5	1.6	2.1	2.0	-0.7	-6.8	-6.2	-4.9	-3.5
	<i>BALT3</i> ¹⁾²⁾	3.6	-2.1	5.2	3.8	3.4	2.4	0.4	3.3	3.8	3.1	5.9	8.0	7.2	6.6	6.0	2.1	4.2	-0.7	0.1	0.3	0.1	-6.0	-6.1	-3.5	-2.0
	<i>SEE9</i> ¹⁾²⁾	3.8	-4.1	6.1	4.2	4.1	2.8	1.6	3.5	3.2	2.8	7.4	8.1	8.8	8.2	7.7	-3.3	-3.9	-4.2	-3.6	-3.4	-2.0	-7.8	-5.2	-4.2	-3.5
	<i>CIS3+UA</i> ¹⁾²⁾	3.5	-3.0	3.7	3.6	3.7	6.5	4.8	8.6	6.6	5.9	6.6	7.2	6.9	6.4	6.4	-3.3	-0.6	-1.8	-1.9	-2.1	-1.3	-4.3	-3.9	-2.8	-2.0
	<i>non-EU12</i> ¹⁾²⁾	2.0	-1.6	5.5	3.3	3.3	7.7	6.1	9.6	6.9	5.5	7.5	8.0	7.6	7.1	6.8	1.7	-0.4	1.7	1.9	1.9	0.1	-3.9	-1.1	-0.4	0.1
	<i>CESEE23</i> ¹⁾²⁾	2.6	-2.3	5.4	3.7	3.5	6.2	5.1	8.0	5.8	4.7	6.6	7.1	6.8	6.4	6.1	1.0	0.3	1.2	1.5	1.5	-0.3	-5.1	-3.0	-2.0	-1.2

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: 05 October 2021.