

## PRESS RELEASE

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### Winter Forecast: Eastern Europe still growing by 3.2% in 2022

- *Growth in 2022 will be 2.5 percentage points down on 2021 (forecasted at 5.7%)*
- *The slowdown is due to the weakness of Russia and Turkey, the withdrawal of pandemic aid, base effects*
- *Downside risks include inflation, conflict with Russia, the COVID-19 pandemic*
- *The Russian economy is prepared for fresh sanctions*
- *Austria will benefit from further recovery, but its main concern is Russia*

The Vienna Institute for International Economic Studies (wiiw) expects growth in 2022 of 3.2% for the 23 countries of Central, Eastern and Southeastern Europe (CESEE). Compared to last year's figure of 5.7%, that is a marked slowdown of 2.5 percentage points. The main reason is the poorer growth prospects facing Russia (2%) and Turkey (3.5%), the two largest economies of the region.

The Visegrád countries of Poland, Czechia, Slovakia and Hungary should continue to grow strongly, at an average of 4.6% in 2022 and 4.4% in 2023. The economic impact of the pandemic should remain manageable, even though the number of COVID-19 infections in many Eastern European countries remains alarming. Low vaccination rates and a relatively elderly population pose a risk to economic recovery, despite the Omicron variant proving milder.

*'In the case of Russia, the new economic sanctions by the EU and the US, which are to be expected in the event of armed conflict in Ukraine, cloud the outlook,'* says Richard Grieveson, Deputy Director of wiiw and lead author of the winter forecast, *'as do Russia's long-standing structural weaknesses.'* In the case of Turkey, the economic boom of previous years collapsed along with its currency. Soaring inflation will limit that country's growth prospects.

Compared to last autumn, wiiw has revised its forecast for the CESEE region only slightly for both 2022 and 2023. For 2022, we now view the growth prospects of Bulgaria (3.8%), Czechia (4.0%), Serbia (4.9%) and North Macedonia (3.5%) in a somewhat more positive light. Meanwhile, Russia (2.0%), Belarus (1.0%), Bosnia and Herzegovina (2.5%) and Slovakia (3.9%) have experienced a downward revision.

#### Russia is partially cushioned against new economic sanctions

In Russia, growth is likely to come to a virtual standstill in 2023, with an expected growth rate of just 1.5%. The consequences of a possible conflict over Ukraine are already factored into this forecast, but not those of a major invasion. *'In our forecast, we assume an escalation of tension between Russia and the West, with the imposition of further mutual economic sanctions,'* says Grieveson. *'These will affect both sides, but should not bring the overall economic recovery in Eastern Europe to a standstill.'*

Ever since 2014, Russia has taken steps to partially immunise its economy against fresh sanctions, and it should be able to cope with most of them. *'The scope for forcing Russia to change its behaviour over Ukraine using economic sanctions is limited,'* points out Grieveson. Conservative monetary and fiscal policies have enabled it to build up substantial foreign exchange reserves, totalling USD 630 bn. Gross foreign exchange reserves, including gold, accounted for about 40% of Russia's GDP in November 2021. External debt is low, and there has also been a reduction in exposure to the US dollar in government bonds.

### **Inflation is the main risk**

A showdown with Russia could hit the EU harder, says Grieveson. *'If an armed conflict does occur, the already high prices of natural gas and oil will skyrocket and further boost inflation.'*

High inflation is the biggest risk to economic recovery in the CESEE region – ranking ahead of both the conflict with Russia and the COVID-19 pandemic. While inflation in Western Europe is higher than it has been for many years, this is not the case in much of CESEE. Nevertheless, inflation is also becoming entrenched in Eastern Europe, where spending on energy and food accounts for a much higher share of total spending than it does in Western Europe. As a consequence, the governments of Hungary, Serbia and North Macedonia have already introduced price controls on food, not least for reasons of domestic political stability. Meanwhile, Poland and Romania are discussing a similar move.

After 8.7% inflation last year, we expect a weighted average of 10.3% in CESEE this year – and in Turkey as much as 26.2%. However, the inflation rate in the Visegrád countries of Poland, Czechia, Slovakia and Hungary should average 5.2%. Inflation will remain high for at least several more months. The most important question is whether it will lead to a sustained increase in wages. *'If it does, we are in for a protracted period of inflation that will be significantly higher than most states in Eastern Europe have experienced since 2008,'* says Grieveson.

The most likely scenario, however, is that price increases will level off by the middle of the year. On the one hand, this is because the worst distortions on the supply side – the problems with international supply chains – should have eased by then; and on the other hand, the high energy prices are also unlikely to persist. However, these forecasts are subject to an unusually high degree of uncertainty.

### **Austria is set to profit, though its main concern is Russia**

As one of the largest investors in many countries of the region, Austria is benefiting from the continued recovery in CESEE. Between January and October 2021, its exports to the eastern EU member states rose by 18.3% and to the countries of the Western Balkans by 17.2%; meanwhile, they expanded by 'only' 15% to the countries of the euro area. However, Austria exported 5.5% less to the countries of the Commonwealth of Independent States (CIS) in the same period. This mainly reflects weak demand from Russia, where Austria's imports shrank by 9.1% from January to October 2021.

In the event of a new round of economic sanctions between Russia and the EU, Austrian exports to Russia are likely to decline further. Austria is the eleventh-largest foreign investor in Russia. Austrian companies would therefore also suffer from any fresh sanctions. Austria's dependence on Russia for its supplies of energy – especially natural gas – manifested itself in 2021 in a trade deficit of EUR 1.8 bn for the first 10 months. Disruptions to the supply or massive hikes in the price of natural gas could hit the domestic economy in the event of a crisis.

**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 new wiiw Winter Forecast is available on request.

**About the Vienna Institute for International Economic Studies (wiiw)**

wiiw is an economic think tank that has been producing economic analyses and forecasts for currently 23 countries in Central, East and South-East Europe for almost 50 years. 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 2020-2021 AND OUTLOOK 2022-2024

	<b>GDP</b>		<b>Consumer prices</b>					<b>Unemployment (LFS)</b>					<b>Current account</b>					<b>Fiscal balance</b>							
	real change in % against prev. year		average change in % against prev. year					rate in %, annual average					in % of GDP					in % of GDP							
	2020	2021 <sup>1)</sup>	Forecast			2020	2021	Forecast			2020	2021 <sup>1)</sup>	Forecast			2020	2021 <sup>1)</sup>	Forecast			2020	2021 <sup>1)</sup>	Forecast		
BG Bulgaria	-4.4	3.5	3.8	3.5	3.5	1.2	2.8	6.0	3.5	2.5	5.1	5.0	4.5	4.0	4.0	-0.3	-1.1	-0.6	-0.3	0.0	-4.0	-4.0	-3.0	-2.5	-2.0
CZ Czechia	-5.8	2.8	4.0	3.6	3.6	3.3	3.3	5.3	2.5	2.2	2.6	2.9	2.5	2.5	2.5	3.6	0.4	1.0	0.8	0.7	-5.6	-6.9	-5.0	-4.0	-3.2
EE Estonia	-3.0	7.8	3.5	4.0	3.3	-0.6	4.5	5.5	2.8	2.2	6.8	6.5	5.8	4.9	4.7	-0.3	-3.7	-0.5	-0.2	0.3	-5.6	-4.0	-2.0	-1.5	-0.8
HR Croatia	-8.1	8.7	4.7	4.1	3.3	0.0	2.7	3.0	2.0	1.9	7.5	8.0	7.0	6.7	6.6	-0.1	0.6	0.5	0.4	0.6	-7.4	-4.5	-2.9	-2.5	-2.5
HU Hungary	-4.7	6.3	4.5	4.0	3.7	3.4	5.2	5.0	3.7	3.2	4.3	4.2	3.9	3.8	3.7	-1.6	-1.5	-1.0	-0.8	-0.4	-8.0	-7.8	-5.5	-3.7	-3.0
LT Lithuania	-0.1	5.0	3.7	3.3	2.9	1.1	4.6	4.4	2.8	2.0	8.5	7.2	6.8	6.2	6.0	7.3	2.8	1.7	1.5	1.2	-7.2	-6.2	-4.0	-2.5	-1.9
LV Latvia	-3.6	4.5	4.3	3.6	3.0	0.1	3.2	5.2	3.1	2.5	8.1	7.6	6.9	6.5	6.2	2.9	-2.7	-1.9	-1.8	-1.5	-4.5	-8.0	-4.8	-2.3	-1.7
PL Poland	-2.5	5.3	4.9	4.9	4.3	3.7	5.2	5.3	3.6	3.0	3.2	3.2	3.0	2.9	2.9	2.9	1.0	1.5	1.3	1.3	-7.1	-5.5	-4.5	-3.6	-3.0
RO Romania	-3.7	6.6	4.3	4.5	4.8	2.3	4.1	5.5	3.0	3.5	5.0	4.8	4.5	4.0	3.5	-5.0	-7.0	-6.5	-5.5	-4.8	-9.3	-7.0	-6.0	-4.5	-3.0
SI Slovenia	-4.2	6.6	4.1	3.3	3.0	-0.3	2.0	3.2	1.5	1.5	5.0	4.3	4.0	3.9	3.6	7.4	5.2	4.6	4.7	5.0	-7.7	-6.7	-2.4	-2.5	-2.1
SK Slovakia	-4.4	3.0	3.9	3.7	3.3	2.0	2.8	4.5	2.5	2.0	6.7	6.9	6.5	5.9	5.7	0.1	-2.1	-2.4	-2.4	-1.9	-5.5	-7.1	-5.1	-4.1	-3.0
EU-CEE11 <sup>1/2)</sup>	-3.7	5.3	4.4	4.3	4.0	2.7	4.3	5.1	3.1	2.8	4.4	4.3	4.0	3.8	3.6	1.2	-0.8	-0.4	-0.3	-0.1	-7.0	-6.2	-4.7	-3.6	-2.8
EA19 <sup>3)</sup>	-6.4	5.1	4.2	2.9	1.8	0.3	2.6	3.2	1.8	1.7	7.9	7.7	7.3	6.9	6.6	2.8	2.0	1.8	1.9	2.1	-7.2	-5.9	-3.2	-2.1	-1.8
EU27 <sup>3)</sup>	-5.9	5.3	4.4	3.1	2.0	0.7	2.9	3.4	2.0	1.9	7.1	6.9	6.5	6.1	5.8	2.8	2.0	1.8	1.9	2.1	-6.9	-5.5	-2.8	-1.7	-1.4
AL Albania	-4.0	8.2	4.2	4.0	3.8	1.6	2.0	2.9	2.8	2.8	11.7	11.3	11.1	10.8	10.5	-8.8	-7.7	-7.1	-6.9	-6.7	-6.8	-5.0	-3.5	-2.5	-2.0
BA Bosnia and Herzegovina	-3.2	4.8	2.5	2.8	2.6	-1.1	1.9	2.6	2.2	1.8	15.9	16.9	16.5	15.9	15.5	-3.8	-2.5	-2.9	-3.0	-3.3	-5.3	-2.2	-0.8	-0.5	0.5
ME Montenegro	-15.3	11.4	4.5	3.0	2.7	-0.3	2.4	3.6	1.1	2.0	17.9	16.9	16.3	15.2	14.0	-26.1	-13.5	-14.9	-13.0	-12.0	-11.1	-3.4	-6.3	-5.0	-4.0
MK North Macedonia	-6.1	4.0	3.5	3.2	3.0	1.2	3.2	3.5	2.5	2.0	16.4	15.7	15.2	14.8	14.5	-3.4	-2.0	-3.0	-3.5	-3.5	-8.3	-4.3	-3.5	-2.5	-2.0
RS Serbia	-0.9	7.5	4.9	4.5	4.0	1.6	4.1	4.5	2.5	2.0	9.0	10.0	9.0	8.5	8.0	-4.1	-3.0	-3.5	-3.8	-4.0	-8.0	-3.0	-2.5	-2.0	-2.0
XK Kosovo	-5.3	8.8	4.3	4.0	4.0	0.2	3.4	3.2	2.5	2.5	25.9	25.4	25.0	24.5	24.0	-7.0	-7.5	-7.0	-6.8	-6.8	-7.6	0.2	-1.5	-1.5	-1.0
WB6 <sup>1/2)</sup>	-3.3	7.0	4.2	3.9	3.5	0.9	3.2	3.7	2.4	2.1	13.0	13.4	12.7	12.0	11.6	-5.7	-4.2	-4.6	-4.6	-4.7	-7.5	-3.1	-2.6	-2.0	-1.6
TR Turkey	1.8	9.5	3.5	3.5	4.0	12.3	19.6	26.2	16.0	12.0	13.2	13.1	12.5	12.0	11.0	-5.0	-2.3	-2.0	-2.0	-3.5	-2.8	-2.8	-3.0	-2.5	-2.5
BY Belarus	-0.7	2.3	1.0	2.0	2.0	5.5	9.5	10.0	9.0	8.0	4.0	4.0	3.9	3.8	3.8	-0.4	1.6	0.6	0.4	0.0	-1.7	-2.0	-2.0	-1.0	-1.0
KZ Kazakhstan	-2.5	3.9	4.2	4.4	4.1	6.8	8.0	6.9	6.0	5.5	4.9	4.9	4.8	4.8	4.8	-3.8	-3.2	-2.5	-2.0	-2.5	-4.0	-3.3	-3.2	-2.6	-2.5
MD Moldova	-7.4	7.8	4.0	4.5	4.5	3.8	5.1	9.0	4.0	4.0	3.8	3.8	3.5	3.0	3.0	-7.5	-9.5	-7.5	-7.0	-6.0	-8.5	-6.0	-7.0	-5.0	-5.0
RU Russia	-2.7	4.5	2.0	1.5	1.5	3.4	6.7	7.1	4.4	3.9	5.8	5.0	4.7	4.5	4.5	2.4	7.3	6.5	5.0	5.0	-4.0	1.0	0.8	0.5	0.5
UA Ukraine	-3.8	3.1	3.5	3.5	4.0	2.7	9.4	6.0	5.0	4.5	9.5	9.0	8.0	8.0	7.0	3.4	-0.9	-2.0	-2.5	-3.0	-5.3	-3.0	-2.5	-2.0	-2.0
CIS4+UA <sup>1/2)</sup>	-2.7	4.2	2.3	2.0	2.0	3.7	7.2	7.1	4.8	4.3	6.2	5.6	5.2	5.0	4.9	1.8	5.4	4.7	3.5	3.5	-4.1	0.1	0.0	-0.1	-0.1
V4 <sup>1/2)</sup>	-3.6	4.8	4.6	4.4	4.0	3.4	4.6	5.2	3.3	2.8	3.5	3.6	3.4	3.2	3.2	2.2	0.2	0.7	0.5	0.6	-6.8	-6.3	-4.8	-3.8	-3.0
BALT3 <sup>1/2)</sup>	-1.7	5.5	3.8	3.5	3.0	0.4	4.2	4.9	2.9	2.2	8.0	7.2	6.6	6.0	5.8	4.2	-0.4	0.1	0.1	0.2	-6.0	-6.1	-3.7	-2.2	-1.6
SEE9 <sup>1/2)</sup>	-4.2	6.4	4.2	4.2	4.2	1.6	3.6	4.9	2.8	2.9	8.1	8.1	7.8	7.1	6.6	-3.9	-4.6	-4.4	-3.9	-3.5	-7.9	-5.4	-4.4	-3.4	-2.5
CIS3+UA <sup>1/2)</sup>	-2.9	3.4	3.4	3.7	3.7	4.8	8.8	7.0	6.0	5.4	7.2	6.9	6.4	6.3	5.8	-0.6	-1.8	-2.0	-2.0	-2.4	-4.3	-3.1	-2.9	-2.2	-2.2
non-EU12 <sup>1/2)</sup>	-1.4	5.9	2.7	2.5	2.7	6.1	10.6	12.5	7.9	6.4	8.0	7.6	7.2	6.9	6.5	-0.3	2.9	2.5	1.7	1.2	-3.9	-0.8	-0.9	-0.8	-0.8
CESEE23 <sup>1/2)</sup>	-2.1	5.7	3.2	3.0	3.1	5.1	8.7	10.3	6.5	5.3	7.1	6.8	6.4	6.0	5.7	0.3	1.5	1.4	0.9	0.7	-5.1	-2.8	-2.3	-1.9	-1.6

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: 19 January 2022.