

April 24<sup>th</sup> 2024

Webinar

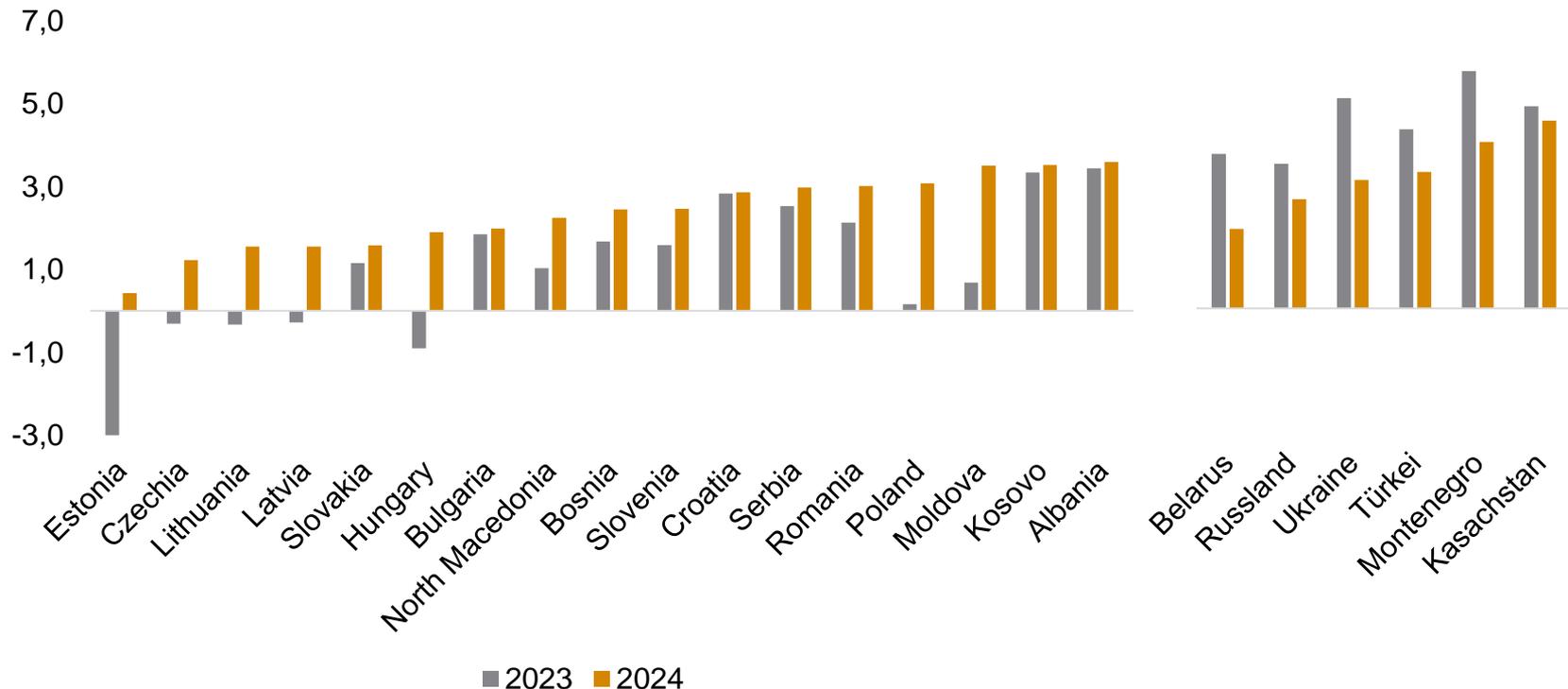
# **Spring Forecasts for CESEE: The crisis is over, but its scarring effects hinder recovery**

Richard Grieveson, Deputy Director

Zuzana Zavaruská, Economist

# Main message: for most CESEE countries, 2024 will be better than 2023

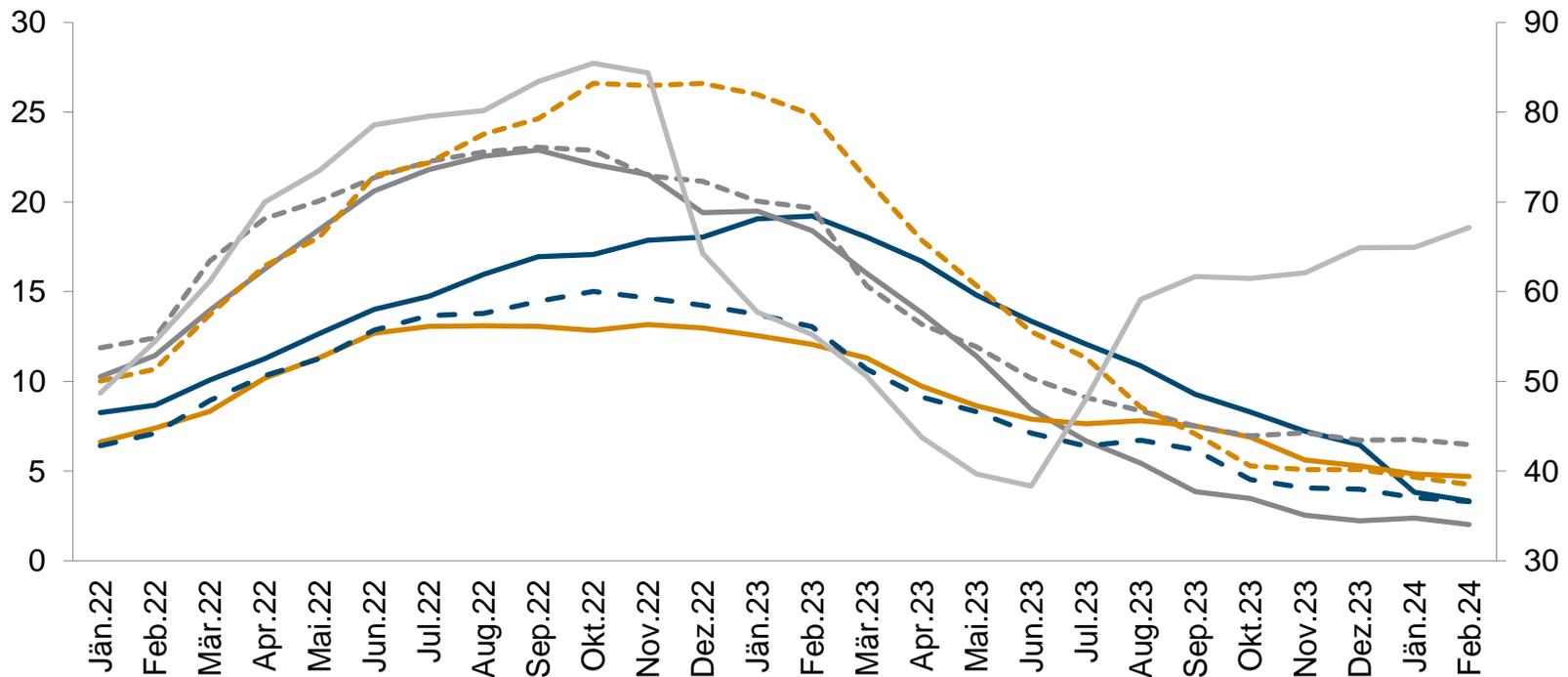
Real GDP growth, % per year



# Inflation slowed down dramatically on the back of falling food and energy prices

Consumer price index, % change year on year, monthly

— Visegrád — Baltic countries — EU-SEE — WB6 - - - CIS - - - UA — TR (right scale)

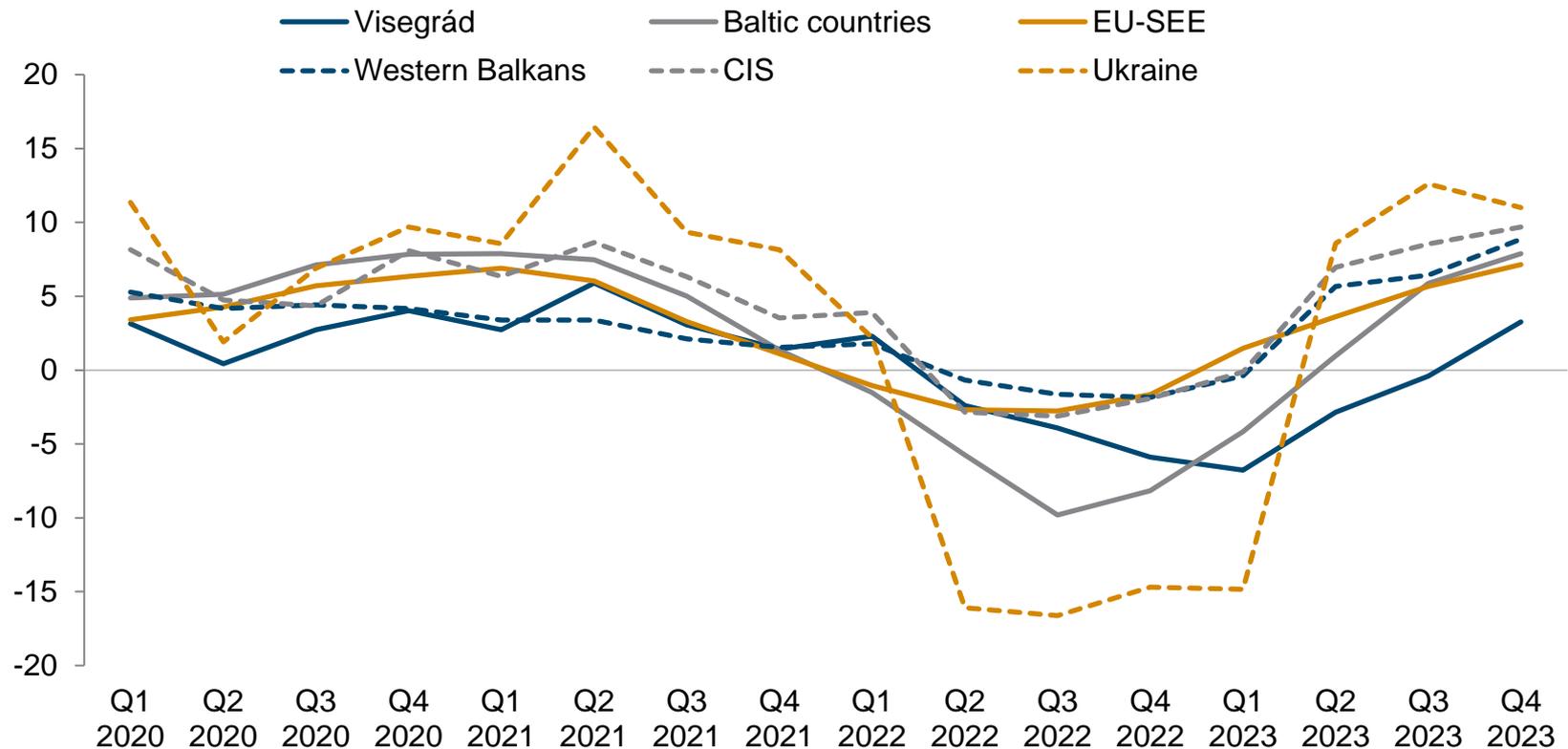


Note: Simple average. Harmonised index of consumer prices (HICP) for EU-CEE.

Source: wiiw Monthly Database incorporating national and Eurostat statistics.

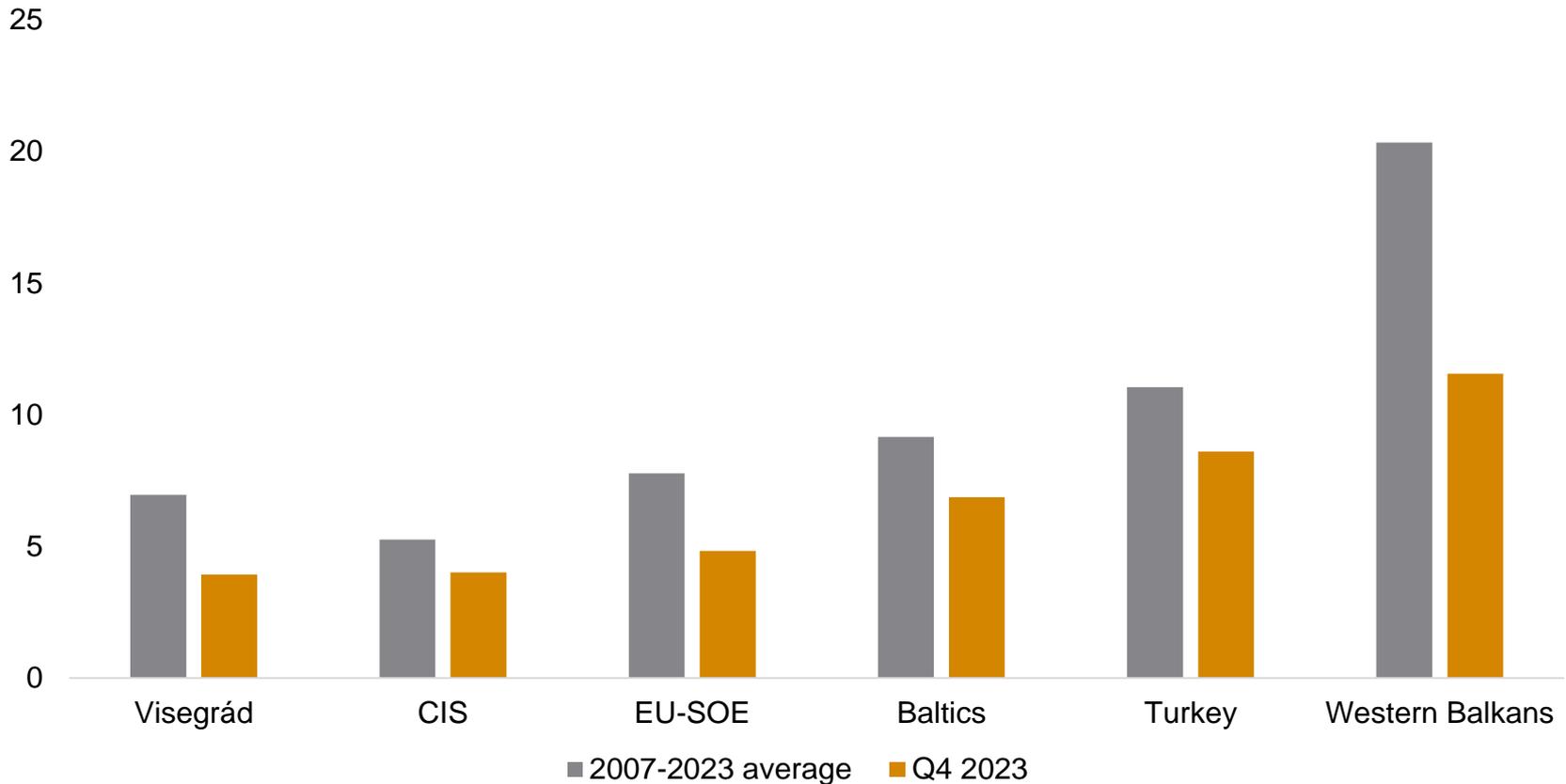
...and allowed for rapid real wages growth, which is giving boost to private consumption

Real gross wages in 2020-2023, quarterly, % change year on year



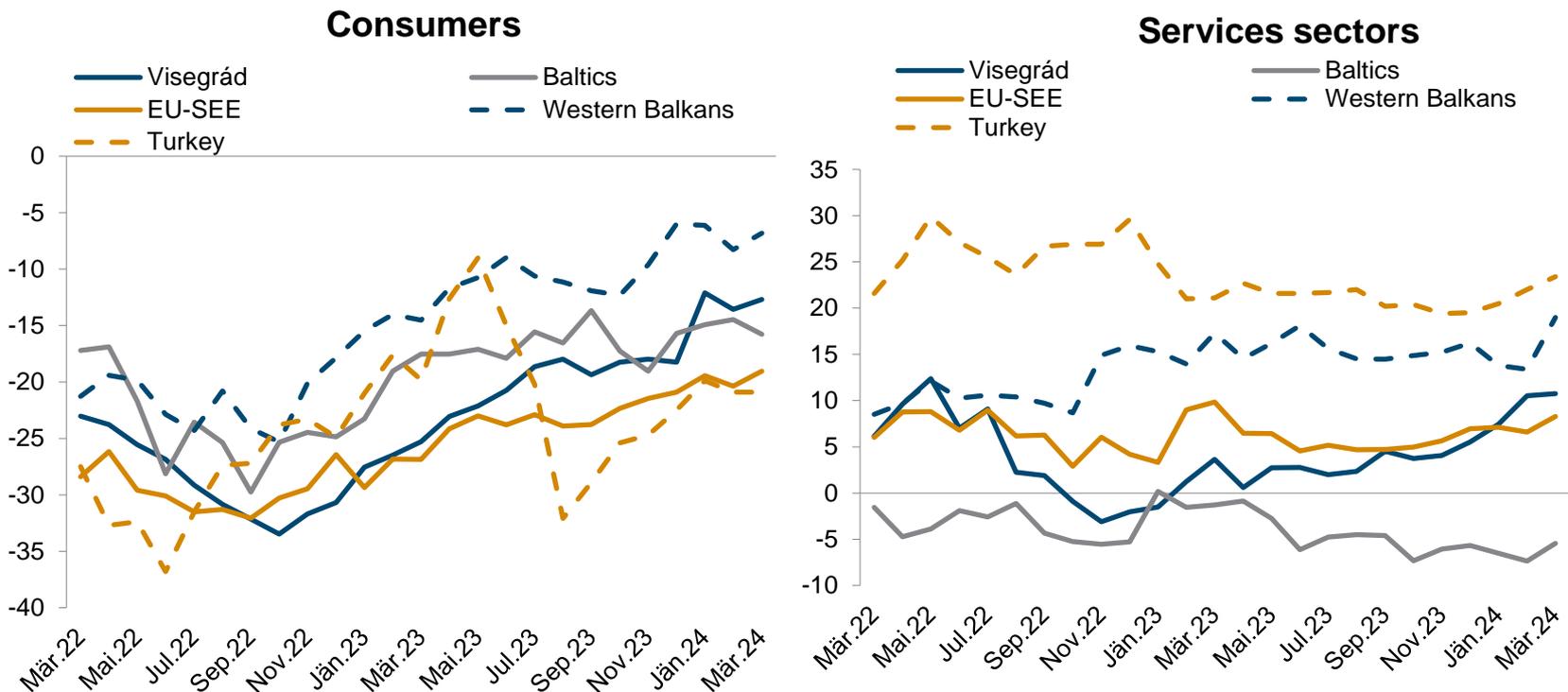
# Tight labour markets are also driving wage growth

Unemployment rate, %, LFS



# Sentiment improving among consumers and services sectors on the back of rapidly falling inflation and wages growth

European Commission economic sentiment indicator, seasonally adjusted

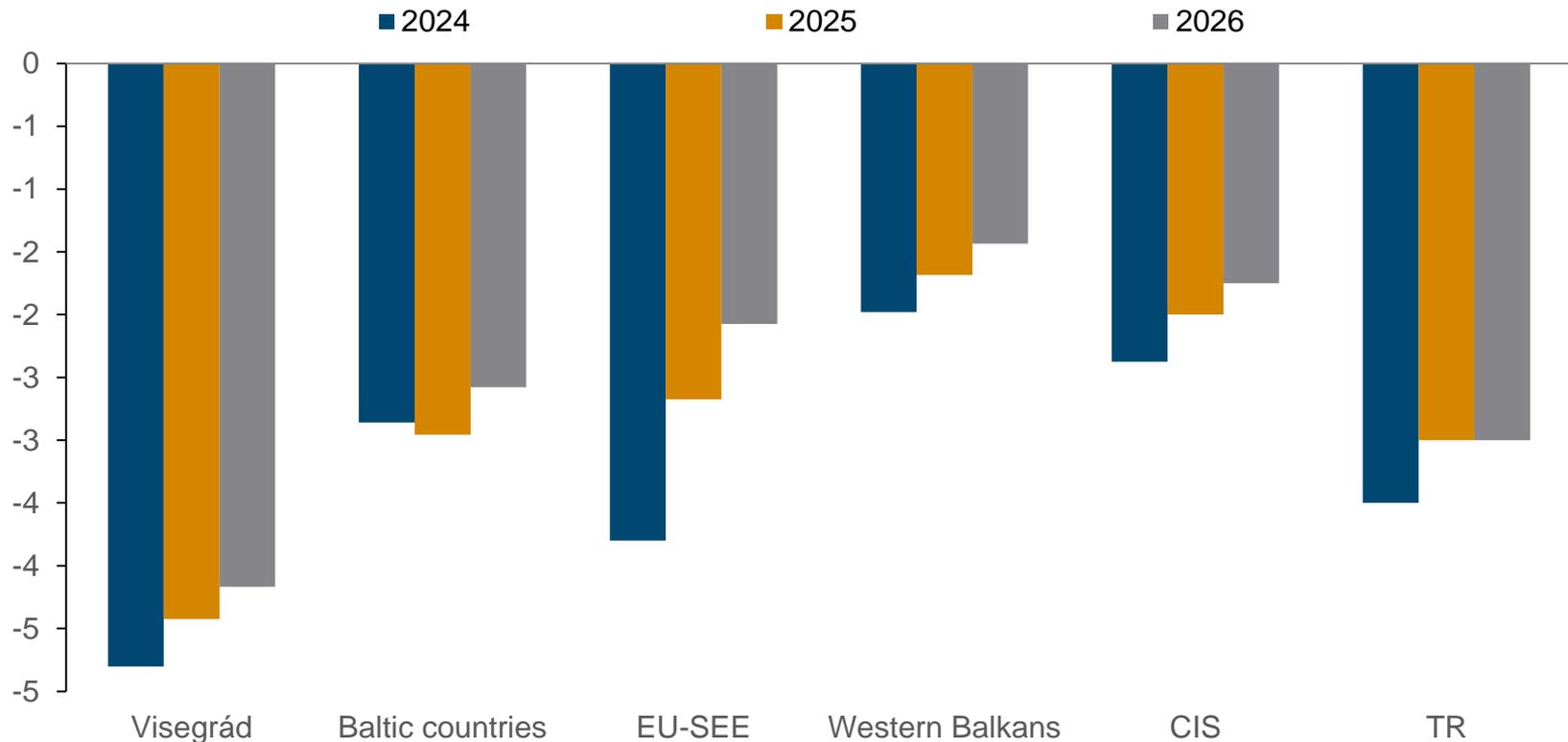


Note: Balance of positive over negative survey result. Simple average of each country group.

Source: Eurostat and national statistics, own calculation.

# Slow pace of fiscal consolidation is also supportive of growth

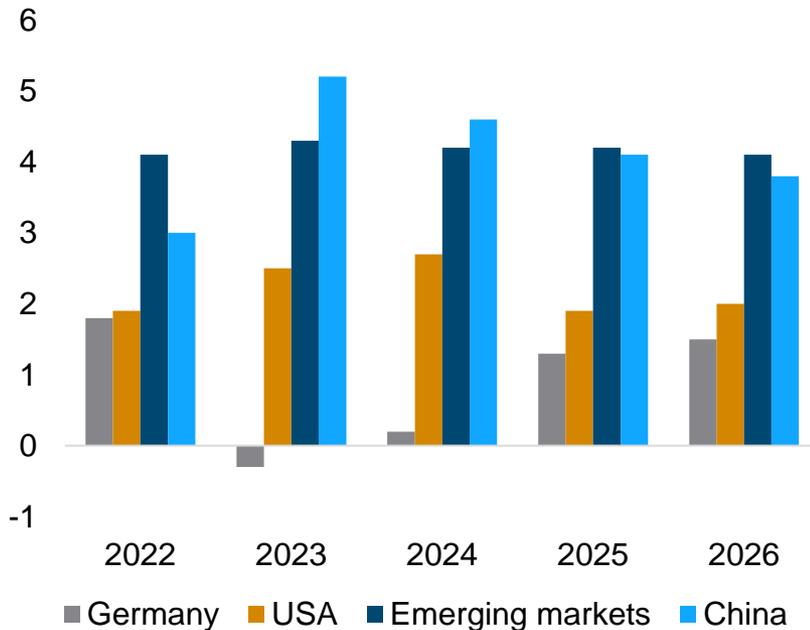
Fiscal balance in % of GDP



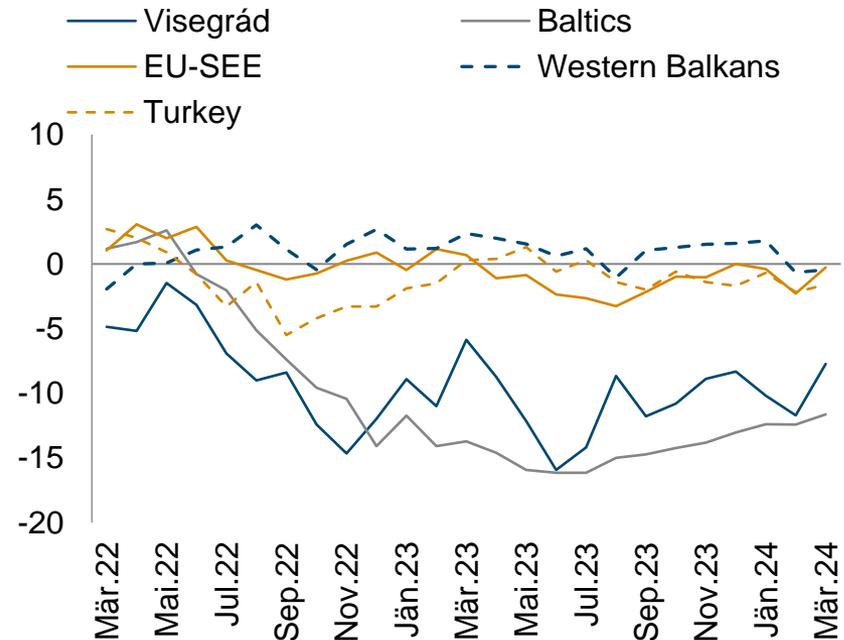
# Why is the recovery not stronger?

## Partly because we are waiting for the German recovery

IMF forecasts for real GDP growth, % per year, April 2024

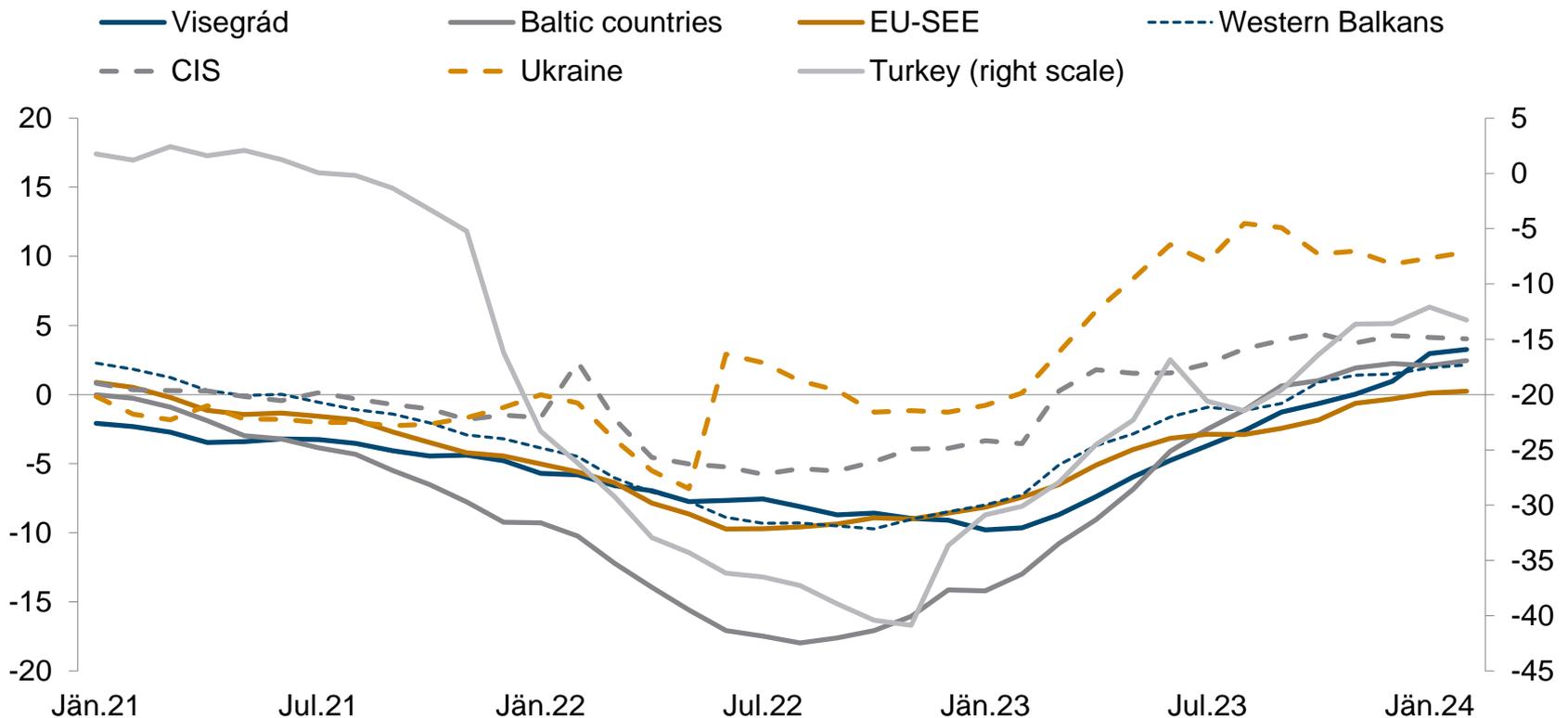


European Commission economic sentiment indicator for industry, seasonally adjusted



# Real interest rates have moved to positive territory thanks to a strong decline in inflation

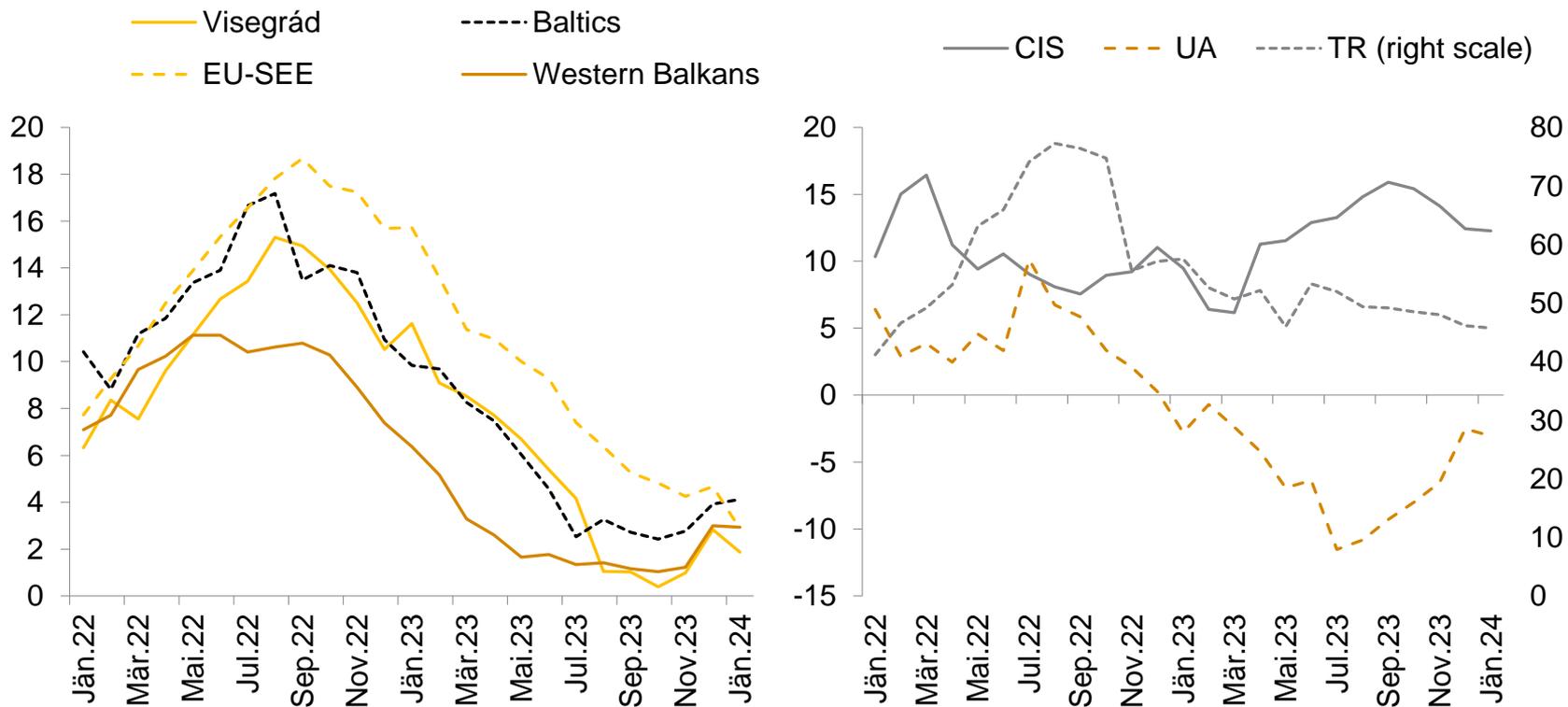
Central bank policy rate, CPI deflated, percent



Source: wiiw Monthly Database incorporating national and Eurostat statistics and Eurostat, Bank for International Settlements.

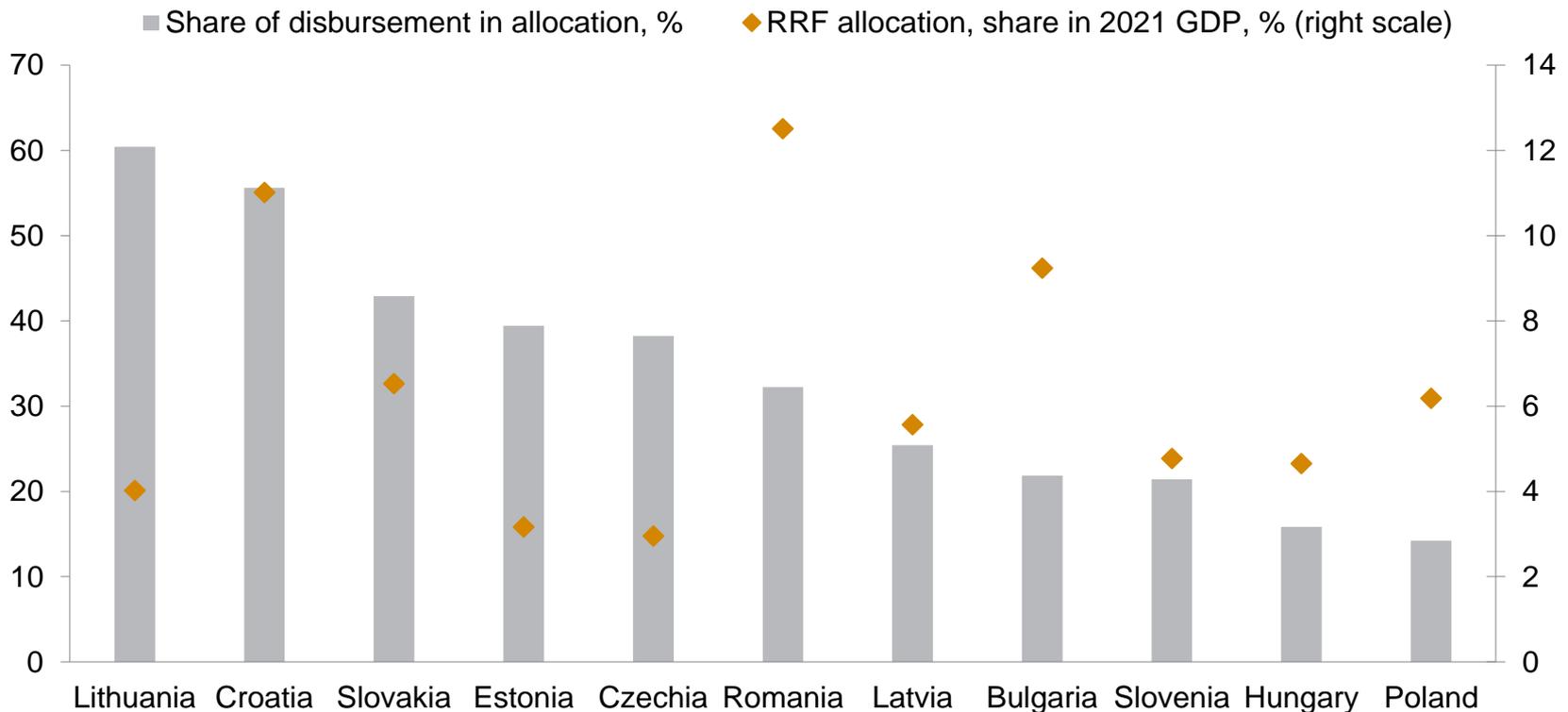
# Tighter financing conditions starting to put brakes on the recovery

Stock of loans to non-financial corporations, change year on year, percent



## EU-CEE members have the advantage of access to RRF funds, but drawdown has been slow

### RRF funds allocation and disbursement in 2021-2023



# GDP forecasts are mostly revised upwards

GDP growth forecasts and direction of revisions since wiiw winter forecast 2024

Region		2024		2025		2026	
<b>EU-CEE</b>							
BG	Bulgaria	2.0	▲	2.5		3.0	
CZ	Czechia	1.2	▼	2.5	▼	2.7	
EE	Estonia	0.4	▲	3.0	▲	3.6	▲
HR	Croatia	2.9	▲	2.7		3.0	
HU	Hungary	1.9	▼	2.4	▼	2.9	▼
LT	Lithuania	1.5		2.2	▲	2.6	▲
LV	Latvia	1.6		2.5	▲	2.7	
PL	Poland	3.1	▲	3.4	▼	3.3	▲
RO	Romania	3.0		3.3	▼	3.8	▲
SI	Slovenia	2.5	▼	2.6	▲	2.6	▼
SK	Slovakia	1.6		2.2		2.6	
<b>Western Balkans</b>							
AL	Albania	3.6		3.7		3.4	
BA	Bosnia and Herzegovina	2.5	▲	2.9	▲	3.4	▲
ME	Montenegro	4.2	▲	3.7	▲	3.5	▲
MK	North Macedonia	2.2		2.6		3.0	
RS	Serbia	3.0	▲	3.3	▲	3.5	▲
XK	Kosovo	3.5		3.7		3.6	
TR	Turkey	3.4	▲	4.0	▲	4.5	▲
<b>CIS+UA</b>							
BY	Belarus	2.0		2.3	▼	2.5	▼
KZ	Kazakhstan	4.7	▲	4.9	▲	4.9	▲
MD	Moldova	3.5	▼	3.5	▲	4.0	▲
RU	Russia	2.8	▲	2.5	▲	2.3	▲
UA	Ukraine	3.2		4.2	▲	4.6	▼

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

Source: wiiw.

# We expect inflation to fall faster than in the winter forecast

## CPI growth forecasts and direction of revisions since wiiw winter forecast 2024

Region		2024		2025		2026	
<b>EU-CEE</b>							
BG	Bulgaria	4.0	▲	3.0	▼	3.0	▼
CZ	Czechia	2.0	▼	2.2		2.2	▲
EE	Estonia	3.5		2.8	▲	2.4	▲
HR	Croatia	3.5	▼	2.9	▼	2.5	▲
HU	Hungary	5.2	▼	4.0		3.5	
LT	Lithuania	1.5	▼	2.3		2.5	
LV	Latvia	1.4	▼	2.2	▼	2.7	▲
PL	Poland	4.5	▼	3.5	▼	2.8	▲
RO	Romania	5.8	▼	4.0		3.5	
SI	Slovenia	3.3	▼	2.4	▼	2.2	▼
SK	Slovakia	2.2	▼	3.4	▼	3.4	▲
<b>Western Balkans</b>							
AL	Albania	3.0		2.5		2.4	
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MK	North Macedonia	3.5		3.0		2.5	
RS	Serbia	4.5		3.5		2.8	
XK	Kosovo	3.5	▼	2.5		2.2	▼
TR	Turkey	59.0	▲	31.0		26.0	▼
<b>CIS+UA</b>							
BY	Belarus	8.0		7.0	▼	6.0	▼
KZ	Kazakhstan	8.5	▼	6.5	▼	6.0	
MD	Moldova	5.0	▼	5.0		4.0	
RU	Russia	7.2	▲	4.5	▲	3.7	▲
UA	Ukraine	8.0		6.0	▼	6.0	▲

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

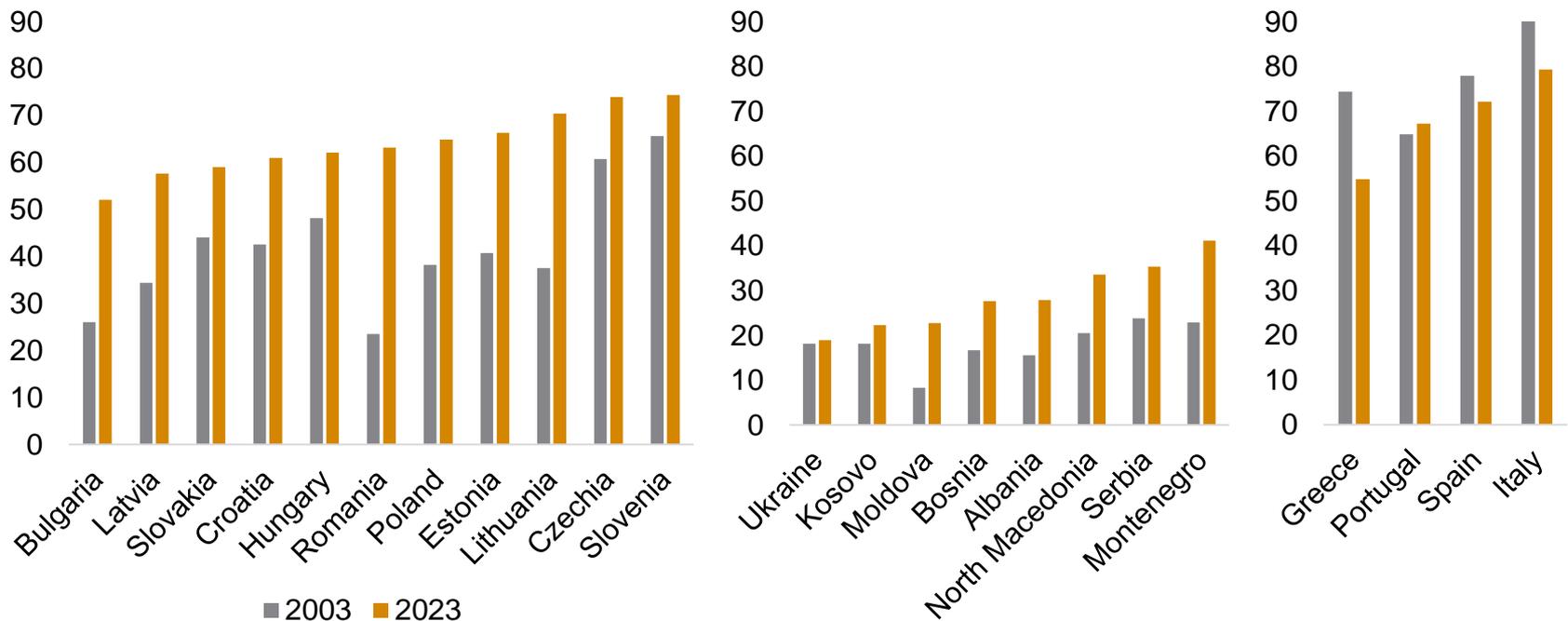
Source: wiiw.

## Risks to the outlook: Primarily to the downside

- Possible deterioration in the security situation
  - Donald Trump's (re)election as president in 2024 and the EU's inability to expand its defence sector and provide greater military and financial support to Ukraine could lead to Ukraine losing the war
- Risk of rising energy prices, increased shipping costs and greater supply-chain disruption due to the tensions in the Middle East
- A delayed German (and Austrian) recovery could have significant repercussions for the region, especially for the Visegrád countries
- Harder lending conditions could cause painful structural adjustments in the economy

## 20 years after the 2004 enlargement, the economic convergence of EU-CEE is largely positive

GDP per capita at PPP, Austria = 100



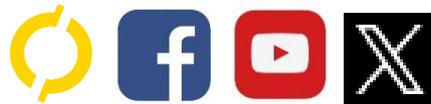
## Conclusions

- Economic growth will accelerate in 2024 in most of the countries, on the back of slower inflation and a recovery in real wages.
- Private consumption will be the main growth driver on the back of growing wages and falling inflation.
- Investment growth will be constrained by higher funding costs, and exports growth will be constrained by slow external demand recovery.
- In 2025-2026, GDP growth will become more uniform across sub-regions – at about 3%
  - moderation of the growth in wages and a tightening of fiscal policy will prevent more dynamic economic performance.
- Economic convergence will resume, but at a relatively low speed.
- Strong risks to the downside prevail.

# Thank you for your attention!

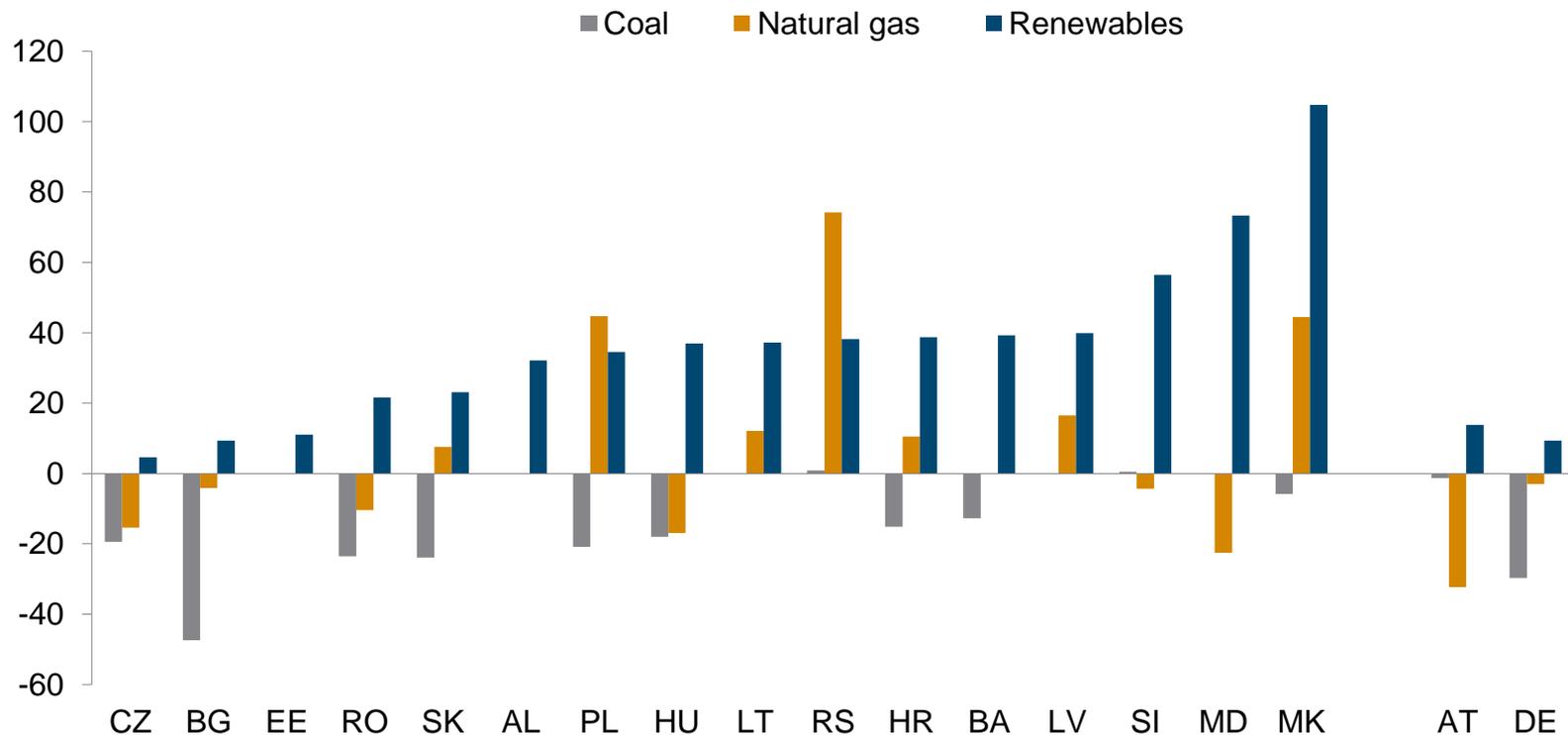
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# Use of renewables in electricity generation increased, with mostly Southeast Europe leading the way

Net electricity generation by type of fuel in 2023, percent change year over year

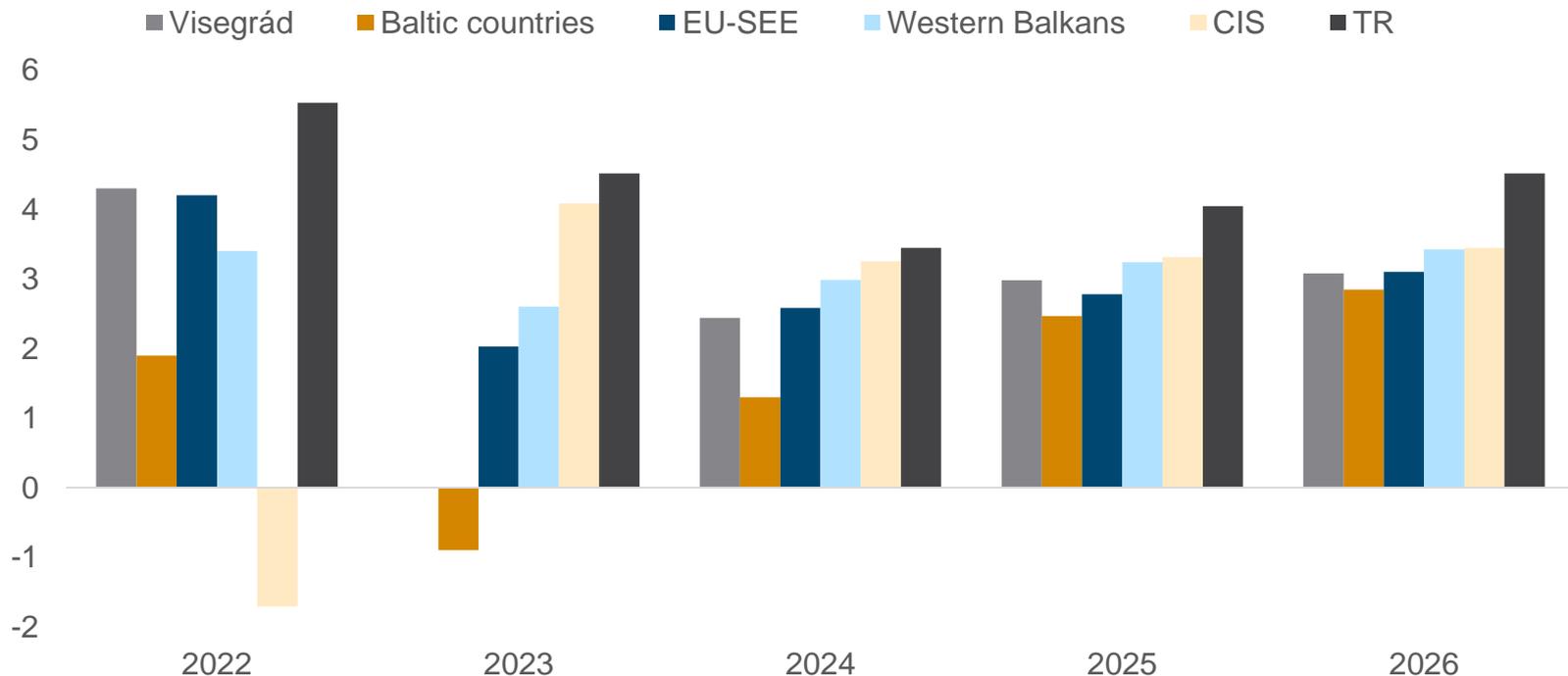


Note: Renewables consist of solar, wind, hydropower and geothermal energy.

Source: Eurostat, own calculations.

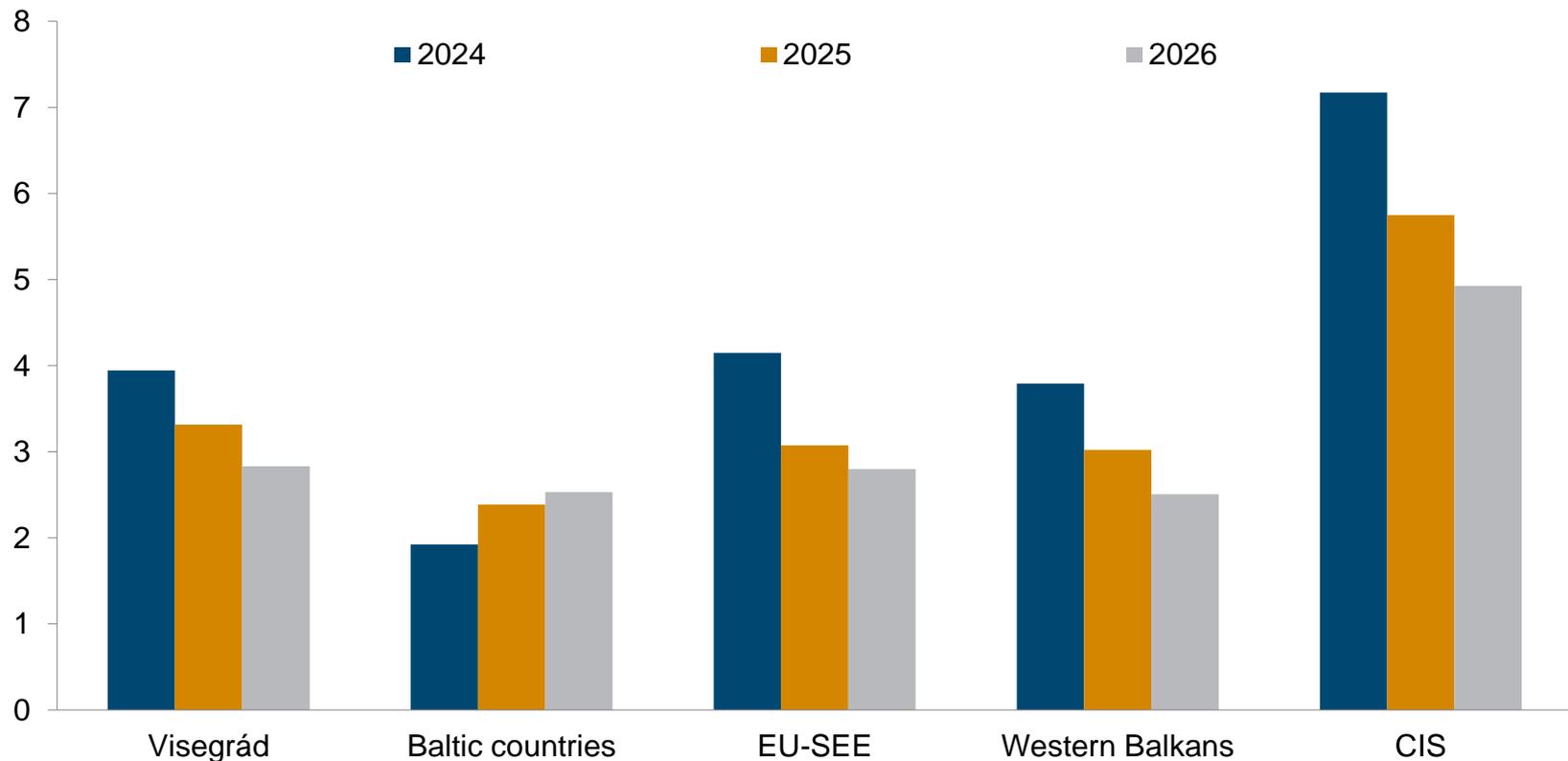
EU members' economies recover, but growth in CESEE region overall will be unimpressive and convergence with eurozone will slow down

Real GDP, annual change, percent



Inflation further subsides mainly due to supply factors and supports private consumption, main growth driver

CPI forecast for 2024-2026, average annual change, percent

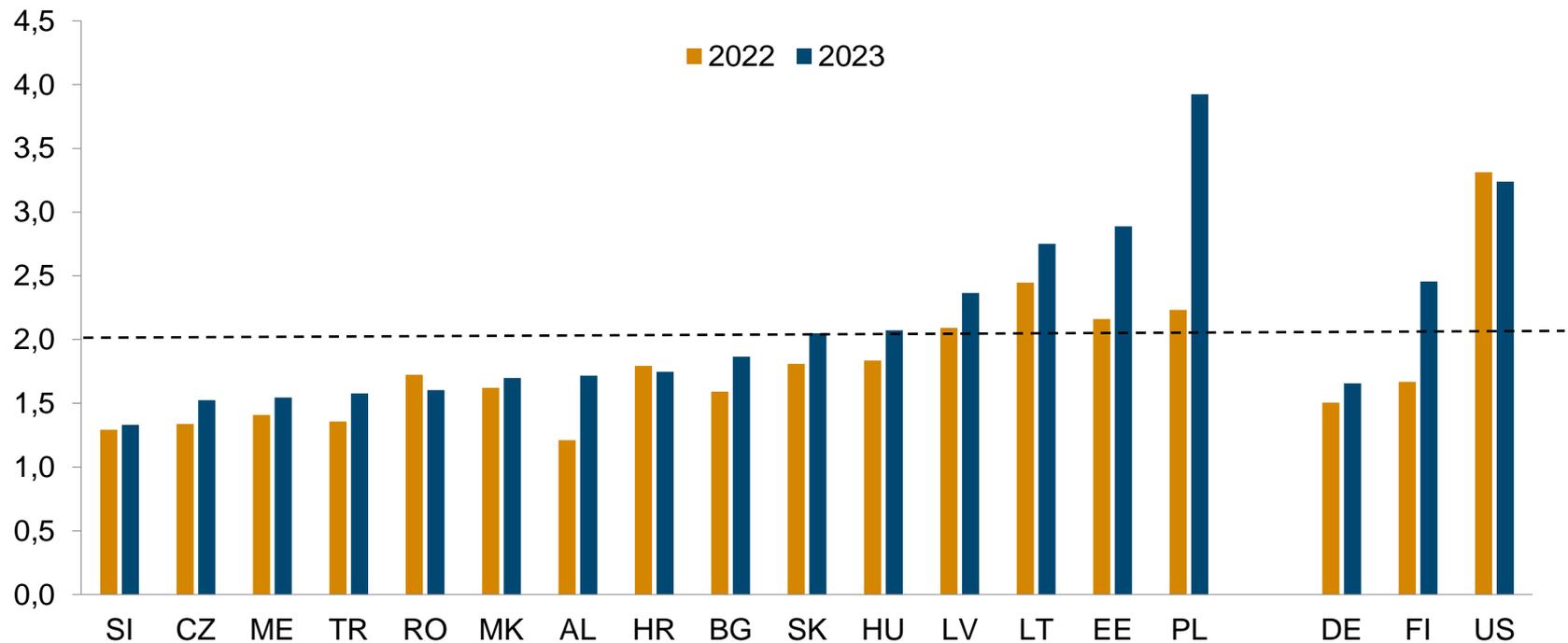


## Global economy recovering, but key CESEE exports markets still in bad shape

- Global economy has been strengthening and growth is becoming more balanced
- The euro area economy also gradually recovering, but the recovery is two-speed
  - Germany, a key export market for CESEE, is expected to barely avoid recession this year
  - Manufacturing remains weak, held back by higher energy costs and weaker demand in China
- A strong dollar is a net negative, leading to increased imported inflation and slower monetary loosening

# Need to prioritise defence spending and narrowing fiscal space will hinder investment in other areas over the coming years

## Defence expenditures as a share of GDP



Note: 2023 values are estimates.

Source: NATO.