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Autumn Forecast: Eastern Europe defies the downward drag from Germany

- *Private consumption remains buoyant, but export-oriented industry is in recession*
- *Near-shoring has so far only been observed in the Western Balkans and Hungary*
- *The Ukrainian economy is scarred by the war*
- *Russia's war economy is expected to grow by almost 4% in 2024, even if threatened US secondary sanctions take effect*

Despite the uncertain international environment, the economies of most countries in Central, East and Southeast Europe are showing robust growth. However, some of those countries with strong ties to German industry – such as Czechia, Slovakia and Hungary, as well as Romania – are badly feeling the pinch of the recession in Germany. Nevertheless, their economies are likely to pick up again next year. This is the finding of the new Autumn Forecast by the Vienna Institute for International Economic Studies (wiiw), which covers 23 countries of the region. *'The main driver of growth in the EU member states of Central and Eastern Europe has been and remains private consumption, due to sharply rising real wages; meanwhile, industry is in recession,'* explains Richard Grieveson, Deputy Director of wiiw and lead author of the Autumn Forecast.

'We are therefore seeing a two-pronged development. The crisis in Germany is weighing like a millstone on many economies in the region, limiting their growth prospects,' continues Grieveson. This is also reflected in the declining production of the automotive industry, which accounts for around a third of Slovakia's economic output and approximately 15% of GDP in Czechia, Slovenia and Hungary. However, there is an in-built delay before this slump in production is felt, so that further difficulties are to be expected.

Overall, wiiw is forecasting average growth in 2024 of 2.2% for the region's EU member states, a downward revision of 0.4 percentage points on the Summer Forecast, with growth expected to pick up to 2.9% in 2025. Even so, both this year and next the EU member states of Central and Eastern Europe are still set to significantly outperform the euro area (which will see growth of 0.6% in 2024 and 1.4% in 2025) and thus continue the economic catch-up process.

The Visegrád states – Poland, Czechia, Slovakia and Hungary – and Slovenia are projected to expand by an average of 2.3% in 2024, with growth increasing to 3.1% in 2025. Both this year and next, Poland will lead the Eastern EU member states in terms of growth (2024: 3.1%; 2025: 3.7%). In Southeast Europe, Romania's previously flourishing economy is slowing, with growth expected to be 2% this year (2025: 2.5%); meanwhile, Croatia is likely to see relatively strong growth both this year (3.3%) and next (3.0%). The six countries of the Western Balkans are forecast to grow by an average of 3.4% in both 2024 and 2025, while Turkey's GDP is projected to increase by 3.4% in 2024 and 4.0% in 2025.

Ukraine, which has been severely impacted by the war, is expected to grow by 2.7% in 2024 and 3.3% in 2025 – although much will, of course, depend on future developments on the battlefield. As for Russia, its forecast for 2024 has been revised upwards by 0.6 percentage points since the summer, to 3.8%. This indicates that the economy, now very much on a war footing, is likely to expand more strongly this year than in 2023 (3.6%). However, it is expected that growth will then slow to 2.5% next year.

An Iran-Israel war and Donald Trump as major risks

The biggest risks to the forecast are geopolitical in nature. *'If there were to be a direct war between Israel and Iran, it would have a catastrophic impact on the global economy, and therefore on the region,'* says Richard Grieveson. *'Oil prices would likely skyrocket, and global trade, along with many supply chains, could also suffer massively.'* Another risk is the possible return of Donald Trump to the US presidency. This eventuality carries with it numerous uncertainties: if Trump is elected and follows through on his pledges, the US could intensify its trade war with China and possibly initiate one against the EU. *'Higher tariffs would, of course, be damaging to the heavily export-oriented industries of both Western and Eastern Europe. Business investment could also be adversely affected,'* adds Grieveson.

Near-shoring so far only in the Western Balkans and Hungary

In this context, wiiw has analysed the recently much-discussed topic of near-shoring. However, the relocation or establishment of production facilities or activities close to the EU core countries in order to minimise the risks can only be empirically proven in the Western Balkans and Hungary. *'Apart from Hungary, near-shoring has so far mainly taken place in Bosnia and Herzegovina, Kosovo and North Macedonia. There are also a few examples in Albania and Serbia. Elsewhere, the omnipresent labour shortage is probably also standing in its way,'* says Branimir Jovanović, Economist at wiiw and co-author of the Autumn Forecast.

Ukrainian economy scarred by war

Ukraine could also become a worthwhile destination for near-shoring, once the war is over. Until then, however, it will remain scarred by the Russian war of aggression. The systematic destruction of its energy infrastructure and its falling agricultural exports following this summer's drought are weighing heavily on Ukraine's economy. In addition, there is a growing shortage of skilled labour, due to the mobilisation of additional troops. Despite all this, wiiw is forecasting growth of 2.7% for 2024 and 3.3% next year – a downward revision of 0.7 percentage points for 2025. *'This winter, Ukraine could lack around a third of the electricity it needs. This is not only a humanitarian problem, but it also has a huge impact on the economy,'* says Olga Pindyuk, Ukraine expert at wiiw.

The budgetary situation is also extremely tense, in view of the enormous expenditure on the war. The budget deficit will reach USD 35bn (or around 16% of GDP) in 2025. Of this, USD 15bn is still largely uncovered. Despite a successful restructuring of foreign debt in August, the country is likely to have to spend around 6% of GDP annually on servicing its debt in the coming years. *'If preliminary commitments from foreign donors are not honoured, or if Western arms deliveries are delayed, the budget gap could quickly become even larger,'* comments Pindyuk.

Russia with its biggest growth since the Ukraine invasion

Driven by the stimulus of heavy government spending on the war, however, parts of the Russian economy are still booming. Compared to the summer, wiiw has upgraded its economic forecast for 2024 by a further 0.6 percentage points, to 3.8%. However, it expects growth to slow to 2.5% in 2025. In particular, the central bank's full monetary policy taper (current key interest rate: 19%) will cool the economy next year.

Despite heavy military and defence spending, which is likely to level off at around 6% of economic output in the coming years, the budget deficit will remain within reasonable limits. It is expected to amount to 1.5% of GDP in 2024 and then to fall to 1% in 2025. *'Putin will therefore have enough funds at his disposal for the foreseeable future to continue financing the war against Ukraine,'* says Vasily Astrov, Russia expert at wiiw. *'He will also benefit from the fact that, from 2025, government revenue will be less dependent on energy exports, which are susceptible to sanctions. This change will be due, among other things, to an increase in income and corporate taxes.'*

However, the sanctions threatened by the US against banks in third countries (such as China, Turkey and the United Arab Emirates) that have so far helped Russia circumvent the sanctions are having a noticeable impact. Russian goods imports fell by around 8% in the first eight months of the current year. *'This is due primarily to the fact that these banks are increasingly delaying or refusing to process payments for imports. While Russia is working on such alternatives as establishing Russian bank subsidiaries in China, it is also partially dependent on barter transactions,'* concludes Astrov.

About the wiiw Forecast Report for Central, Eastern and Southeastern 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 full Autumn Forecast 2024 is available upon request.

About the Vienna Institute for International Economic Studies (wiiw)

The Vienna Institute for International Economic Studies (wiiw) is an economic think tank that has been producing economic analyses and forecasts on currently 23 countries in Central, Eastern and Southeastern Europe for over 50 years. In addition, wiiw conducts research in the areas of European integration, macroeconomics, international economics, industrial studies, labour markets and regional development. www.wiiw.ac.at

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OVERVIEW 2022-2023 AND OUTLOOK 2024-2026

		GDP real change in % against prev. year					Consumer prices average change in % against prev. year					Unemployment (LFS) rate in %, annual average					Current account in % of GDP					Fiscal balance in % of GDP				
				Forecast					Forecast					Forecast					Forecast					Forecast		
		2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
BG	Bulgaria	3.9	1.8	2.2	2.4	2.8	13.0	8.6	2.0	3.0	3.5	4.3	4.3	4.5	4.3	4.2	-1.4	-0.3	-0.8	-0.8	-0.6	-2.9	-1.9	-3.0	-3.0	-3.0
CZ	Czechia	2.8	-0.1	1.0	2.5	2.7	14.8	12.0	2.4	2.2	2.2	2.2	2.6	2.8	2.6	2.6	-4.7	0.4	0.6	0.9	1.4	-3.1	-3.5	-2.5	-2.0	-2.2
EE	Estonia	0.1	-3.0	0.2	2.6	3.0	19.4	9.1	3.4	2.8	2.1	5.6	6.4	7.5	7.2	6.8	-3.2	-1.3	-1.9	-1.8	-1.8	-1.0	-3.5	-3.2	-4.3	-3.4
HR	Croatia	7.0	3.1	3.3	3.0	3.0	10.7	8.4	3.6	2.9	2.5	6.8	6.1	5.7	5.6	5.6	-3.4	0.4	0.0	0.8	1.1	0.1	-0.7	-2.3	-1.2	-1.2
HU	Hungary	4.3	-0.9	1.2	2.2	3.1	15.3	17.0	3.9	3.9	3.5	3.6	4.1	4.5	4.2	4.0	-8.5	0.7	2.1	2.3	2.5	-6.2	-6.7	-5.0	-4.0	-3.5
LT	Lithuania	2.5	0.3	2.1	2.5	2.8	18.9	8.7	0.9	2.0	2.5	6.0	6.9	7.6	7.0	6.5	-6.1	1.1	3.0	2.8	2.3	-0.6	-0.8	-2.0	-2.5	-2.3
LV	Latvia	1.8	1.7	0.8	2.1	2.4	17.2	9.1	0.7	2.0	2.5	6.9	6.5	7.0	6.8	6.5	-5.5	-3.9	-3.3	-3.6	-3.2	-4.9	-2.3	-2.8	-2.9	-2.5
PL	Poland	5.6	0.2	3.1	3.7	3.3	13.2	10.9	3.8	5.2	2.8	2.9	2.8	3.0	3.1	3.3	-2.4	1.6	0.4	-0.7	-0.5	-3.4	-5.1	-5.9	-5.7	-5.3
RO	Romania	4.1	2.1	2.0	2.5	3.0	12.0	9.7	5.8	4.5	3.5	5.6	5.6	5.3	5.2	5.2	-9.2	-7.0	-7.5	-6.8	-6.5	-6.3	-6.6	-7.5	-6.0	-5.0
SI	Slovenia	2.7	2.1	1.7	2.2	2.5	9.3	7.2	2.5	2.3	2.2	4.0	3.7	3.7	3.6	3.6	-1.0	4.4	2.7	2.6	2.4	-3.0	-2.4	-2.4	-2.0	-1.2
SK	Slovakia	1.9	1.6	2.0	2.2	2.6	12.1	11.0	2.9	5.1	3.4	6.1	5.8	5.4	5.2	5.2	-7.3	-1.6	-1.4	-1.1	-1.0	-1.7	-4.9	-6.0	-5.0	-4.0
	EU-CEE11 1)2)	*4.3*	*0.7*	*2.2*	*2.9*	*3.0*	*13.5*	*10.9*	*3.7*	*4.1*	*2.9*	*4.0*	*4.1*	*4.2*	*4.1*	*4.1*	*-4.8*	*-0.4*	*-0.8*	*-1.0*	*-0.8*	*-3.7*	*-4.6*	*-5.0*	*-4.5*	*-4.1*
AL	Albania	4.8	3.9	4.0	3.8	3.9	6.6	5.3	2.7	2.5	2.4	10.9	10.7	10.4	10.0	9.7	-5.9	-1.2	-2.9	-3.1	-2.5	-3.6	-1.3	-1.5	-1.5	-1.0
BA	Bosnia and Herzegovina	4.2	2.1	2.6	2.9	3.1	14.0	6.1	2.0	1.9	1.8	15.4	13.2	13.3	13.0	12.8	-4.4	-2.3	-3.3	-3.1	-3.0	-0.4	-1.2	-0.5	-0.7	-1.0
ME	Montenegro	6.4	6.3	3.5	3.7	3.5	11.9	8.7	4.8	3.0	2.5	14.7	13.1	11.7	11.0	10.0	-12.9	-11.4	-13.1	-12.2	-11.9	-4.2	0.6	-3.0	-3.0	-3.0
MK	North Macedonia	2.2	1.0	1.8	2.3	2.6	14.0	9.0	3.5	3.0	2.5	14.4	13.1	12.5	12.0	12.0	-6.1	0.4	-1.2	-1.9	-2.2	-4.4	-4.6	-4.5	-3.5	-3.0
RS	Serbia	2.6	3.8	3.8	3.7	3.7	11.7	12.1	4.5	3.5	2.8	9.5	9.4	8.8	8.4	8.0	-6.6	-2.4	-3.2	-3.5	-4.0	-3.0	-2.1	-1.0	-1.0	-1.0
XK	Kosovo	4.3	4.1	4.1	3.8	3.9	11.6	4.9	2.2	2.1	2.0	12.5	10.9	10.8	10.7	10.6	-10.3	-7.5	-7.8	-7.8	-7.6	-0.5	-0.3	-0.5	0.0	0.5
	WB6 1)2)	*3.5*	*3.4*	*3.4*	*3.4*	*3.5*	*11.7*	*9.1*	*3.6*	*2.9*	*2.5*	*11.8*	*11.0*	*10.6*	*10.2*	*9.9*	*-6.6*	*-2.7*	*-3.7*	*-3.9*	*-4.0*	*-2.7*	*-1.8*	*-1.4*	*-1.3*	*-1.2*
MD	Moldova	-4.6	0.7	2.0	3.3	3.7	28.7	13.4	4.5	5.0	5.0	3.1	4.6	4.0	3.8	3.5	-17.1	-11.4	-12.8	-12.0	-10.9	-3.2	-5.2	-5.0	-4.0	-4.0
UA	Ukraine	-28.8	5.3	2.7	3.3	4.7	20.2	12.9	6.0	7.5	6.5	25.0	20.0	14.0	10.0	9.0	4.9	-5.4	-10.6	-9.2	-8.2	-16.1	-20.4	-19.0	-16.0	-10.0
	New EU accession 2 1)2)	*-27.2*	*5.0*	*2.7*	*3.3*	*4.6*	*20.8*	*12.9*	*5.9*	*7.3*	*6.4*	*23.9*	*19.2*	*13.5*	*9.6*	*8.7*	*3.1*	*-5.9*	*-10.8*	*-9.5*	*-8.4*	*-15.1*	*-19.1*	*-17.7*	*-14.9*	*-9.4*
TR	Turkey	5.5	5.1	3.4	4.0	4.5	72.3	54.0	59.0	31.0	26.0	10.5	9.4	9.5	9.6	9.0	-5.0	-4.1	-1.8	-2.4	-3.4	-1.1	-5.2	-5.0	-4.0	-3.5
BY	Belarus	-4.7	3.9	4.0	2.2	1.3	15.2	5.1	6.4	8.0	6.0	3.6	3.5	3.0	3.0	3.1	3.6	-1.5	-1.0	-1.6	-1.7	-1.5	1.2	0.3	-0.3	-0.5
KZ	Kazakhstan	3.2	5.1	4.0	4.7	4.5	15.0	14.7	8.8	6.5	6.0	4.9	4.7	4.7	4.6	4.5	2.9	-3.4	-1.5	-1.0	-1.0	-2.1	-2.3	-2.3	-2.0	-2.0
RU	Russia	-1.2	3.6	3.8	2.5	2.2	13.8	5.9	8.1	5.5	4.0	3.9	3.2	2.6	2.5	2.4	10.5	2.5	3.4	3.5	3.4	-1.4	-2.3	-1.5	-1.0	-0.8
	CIS3 1)2)	*-0.9*	*3.8*	*3.8*	*2.7*	*2.4*	*13.9*	*6.8*	*8.1*	*5.7*	*4.3*	*4.0*	*3.3*	*2.7*	*2.7*	*2.6*	*9.6*	*1.7*	*2.7*	*2.8*	*2.7*	*-1.4*	*-2.2*	*-1.4*	*-1.0*	*-0.9*
	V4+SI 1)2)	*4.5*	*0.1*	*2.3*	*3.1*	*3.1*	*13.6*	*11.8*	*3.4*	*4.3*	*2.8*	*3.2*	*3.3*	*3.4*	*3.4*	*3.4*	*-4.1*	*1.0*	*0.6*	*0.1*	*0.3*	*-3.5*	*-4.8*	*-5.0*	*-4.5*	*-4.2*
	BALT3 1)2)	*1.8*	*-0.1*	*1.3*	*2.4*	*2.7*	*18.6*	*8.9*	*1.4*	*2.2*	*2.4*	*6.1*	*6.6*	*7.4*	*7.0*	*6.6*	*-5.2*	*-0.8*	*0.2*	*0.0*	*-0.2*	*-1.8*	*-1.8*	*-2.5*	*-3.1*	*-2.6*
	EU-SEE3 1)2)	*4.5*	*2.2*	*2.2*	*2.6*	*3.0*	*12.0*	*9.3*	*4.8*	*4.0*	*3.4*	*5.4*	*5.4*	*5.2*	*5.0*	*5.0*	*-6.8*	*-4.6*	*-5.1*	*-4.5*	*-4.3*	*-4.6*	*-4.8*	*-5.9*	*-4.7*	*-4.1*
	EU accession 8 1)2)	*-15.3*	*4.4*	*2.9*	*3.3*	*4.2*	*17.3*	*11.5*	*5.0*	*5.6*	*4.9*	*20.4*	*16.8*	*12.6*	*9.8*	*9.1*	*-1.2*	*-4.4*	*-7.4*	*-6.8*	*-6.3*	*-9.6*	*-11.2*	*-9.9*	*-8.3*	*-5.4*
	non-EU12 1)2)	*-0.3*	*4.2*	*3.6*	*3.2*	*3.2*	*31.1*	*21.7*	*23.4*	*13.4*	*11.0*	*8.3*	*7.0*	*6.0*	*5.5*	*5.2*	*5.2*	*-0.6*	*0.4*	*0.3*	*-0.2*	*-2.0*	*-3.9*	*-3.3*	*-2.7*	*-2.2*
	CESEE23 1)2)	*1.0*	*3.3*	*3.2*	*3.1*	*3.2*	*26.1*	*18.6*	*17.9*	*10.8*	*8.7*	*7.3*	*6.3*	*5.5*	*5.2*	*4.9*	*1.8*	*-0.5*	*0.0*	*-0.2*	*-0.4*	*-2.6*	*-4.2*	*-4.0*	*-3.3*	*-2.9*
	EA20 3)	*3.3*	*0.4*	*0.6*	*1.4*	*1.6*	*8.4*	*5.4*	*2.5*	*2.2*	*2.0*	*6.8*	*6.6*	*6.7*	*6.6*	*6.6*	*1.3*	*2.9*	*2.5*	*2.5*	*2.5*	*-3.6*	*-3.6*	*-2.6*	*-2.6*	*-2.5*
	EU27 3)	*3.3*	*0.4*	*0.8*	*1.6*	*1.8*	*9.2*	*6.4*	*2.7*	*2.4*	*2.2*	*6.2*	*6.1*	*5.9*	*5.8*	*5.8*	*1.2*	*2.9*	*2.5*	*2.5*	*2.5*	*-3.3*	*-3.5*	*-2.2*	*-2.2*	*-2.1*

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: 3 October 2024.