

PRESS RELEASE

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Cautious optimism as Eastern European economies adapt to COVID-19

- *wiiw raises its GDP forecast for 20 out of 23 countries of Central, Eastern and South-Eastern Europe.*
- *On average, the region is projected to grow by 4.2% in 2021.*
- *A new wave of COVID-19 and premature fiscal tightening are the major risks to recovery.*

The Vienna Institute for International Economic Studies (wiiw) expects the 23 economies of Central, Eastern and South-Eastern Europe (CESEE) to grow by 4.2% in 2021 – an upward revision of 0.4% compared to the April forecast. Strong growth in the U.S. (1.6%) and China (18.3%) in the first quarter as well as a sharply revised growth forecast for 2021 for the euro area (4.4%) and the EU (4.5%) are among the reasons.

Another reason is the improved resilience of CESEE economies. *‘Despite the depressing health situation, in the first quarter the region performed much better than previously expected, indicating that economies have adapted to the pandemic’*, says Branimir Jovanovic, wiiw economist and main author of the report.

Growth in CESEE will be driven primarily by private consumption, which could boom as the pandemic moderates. This will be fuelled by the accumulated savings from 2020 and supportive bank lending. Business investment should also contribute, with companies resuming projects they put on hold in 2020.

Strong FDI inflows (on average 6.5% of GDP in the first quarter) will further increase economic activity. So will recovering exports, driven by a favourable external environment and increased foreign demand.

Employment is expected to rise in the second half of the year, whereas unemployment should drop; the crucial factor is the fiscal support provided by national governments.

Inflation will be higher than previously expected, driven primarily by the global increase in energy and food prices. Average inflation in CESEE in May stood at 4.5% – higher than at any time since 2015. *‘However, we consider a rise in inflation by and large to be a temporary phenomenon’*, stresses Jovanovic.

Higher inflation will force central banks to raise their interest rates in 2021. Six central banks have already done so, while several more will likely follow suit. As the hikes have so far been mostly symbolic, they will not have any significant effects on economic or credit activity.

Tourism is set to improve over the course of 2021, with positive implications for certain countries such as Croatia and Albania. Still, pre-pandemic levels will not be seen this year, and what improvements there are will mainly be due to the low base in 2020.

A new COVID-19 outbreak and fiscal tightening could endanger the recovery

The primary risk to economic recovery in CESEE is a new wave of COVID-19. Herd immunity will not be reached in most CESEE countries, as the vaccination rates are inadequate. However, a new wave is unlikely to wreak the same economic damage as previous waves did. Societies and economies across the region have learned to cope with the pandemic. Thus, a new COVID-19 wave will lead only to a slowdown in growth, rather than to a recession.

The second risk is premature fiscal consolidation. Revived economic activity may impel some CESEE governments to consider consolidating their finances as early as 2021. This would certainly stall the recovery.

About the wiiw Forecast Report

The report analyses the economies of 23 countries in Central, Eastern and South-Eastern Europe (CESEE) and provides a detailed forecast for 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 Forecast Report is available upon 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		
BG Bulgaria	3.7	-4.2	3.0	3.5	3.8	2.5	1.2	2.5	2.5	2.0	4.2	5.1	5.0	4.5	4.5	1.8	-0.7	-1.2	-1.0	-0.8	2.1	-3.4	-3.5	-2.5	-2.0
CZ Czechia	2.3	-5.6	3.0	3.9	3.3	2.6	3.3	2.5	2.2	2.0	2.0	2.6	3.2	3.2	2.9	0.3	3.6	2.2	2.0	1.5	0.3	-6.2	-6.5	-4.5	-3.0
EE Estonia	5.0	-2.9	4.2	4.5	4.3	2.3	-0.6	2.3	2.7	2.2	4.4	6.8	6.5	5.5	4.7	2.0	-0.6	-0.3	0.1	0.4	0.1	-4.9	-6.0	-4.0	-2.5
HR Croatia	2.9	-8.0	5.1	5.3	4.0	0.8	0.0	1.6	1.5	1.5	6.6	7.5	7.0	6.8	6.8	2.7	-1.1	0.6	0.5	0.6	0.3	-7.4	-4.0	-3.0	-2.5
HU Hungary	4.6	-5.0	4.9	4.5	3.9	3.4	3.4	4.2	3.5	3.5	3.4	4.3	4.3	4.0	4.0	-0.5	-0.1	0.3	0.0	0.5	-2.1	-8.1	-6.5	-4.5	-3.5
LT Lithuania	4.3	-0.9	3.0	4.0	3.5	2.2	1.1	2.0	2.7	3.3	6.3	8.5	8.5	7.3	6.5	3.3	8.3	5.1	4.2	3.3	0.5	-7.4	-6.0	-3.0	-2.0
LV Latvia	2.0	-3.6	3.2	5.0	3.8	2.7	0.1	1.7	2.5	3.5	6.3	8.1	8.0	6.8	6.0	-0.6	3.0	1.6	0.4	0.1	-0.6	-4.5	-7.5	-3.0	-1.5
PL Poland	4.7	-2.7	4.0	4.5	4.4	2.1	3.7	3.5	3.0	2.5	3.3	3.2	4.0	4.0	3.8	0.5	3.5	2.5	1.7	1.5	-0.7	-7.0	-5.5	-4.0	-3.0
RO Romania	4.1	-3.9	5.2	4.5	4.5	3.9	2.3	3.5	3.3	3.0	3.9	5.0	4.8	4.5	4.0	-4.9	-5.2	-5.2	-4.6	-4.0	-4.4	-9.2	-7.5	-5.0	-4.0
SI Slovenia	3.2	-5.5	4.0	4.3	3.4	1.7	-0.3	1.7	1.7	1.6	4.5	5.0	5.2	4.5	4.3	5.6	7.1	6.3	5.9	5.6	0.4	-8.4	-5.2	-3.3	-0.8
SK Slovakia	2.5	-4.8	4.0	4.4	3.9	2.8	2.0	2.2	2.0	2.0	5.8	6.7	7.6	7.4	7.0	-2.7	-0.4	-0.1	-0.1	-0.2	-1.3	-6.1	-7.1	-5.1	-4.1
<i>EU-CEE11 ¹⁾²⁾</i>	4.0	-3.9	4.1	4.4	4.1	2.6	2.7	3.1	2.8	2.6	3.8	4.4	4.8	4.5	4.3	-0.2	1.5	0.8	0.5	0.5	-1.0	-7.1	-6.1	-4.2	-3.1
<i>EA19 ³⁾</i>	1.3	-6.5	4.4	4.2	2.1	1.2	0.3	1.9	1.5	1.4	7.6	7.9	8.2	7.9	7.4	3.2	3.0	2.5	2.5	2.5	-0.6	-7.2	-7.1	-3.4	-2.6
<i>EU27 ³⁾</i>	1.6	-6.1	4.5	4.2	2.5	1.4	0.7	2.1	1.7	1.6	6.7	7.1	7.4	7.1	6.6	3.1	3.0	2.5	2.5	2.5	-0.5	-6.9	-6.9	-3.2	-2.5
AL Albania	2.1	-3.8	5.0	4.4	4.2	1.4	1.6	2.1	2.4	2.6	11.5	11.7	11.4	11.2	11.0	-7.9	-8.8	-7.8	-7.2	-6.7	-1.9	-6.8	-4.5	-3.5	-2.0
BA Bosnia and Herzegovina	2.8	-4.3	2.9	3.3	3.3	0.6	-1.1	1.0	1.3	1.2	15.7	15.9	15.8	15.0	14.5	-3.1	-3.2	-3.6	-3.8	-4.1	1.9	-4.0	-2.0	-0.5	0.2
ME Montenegro	4.1	-15.2	6.5	6.0	4.0	0.4	-0.3	1.7	1.7	1.5	15.1	17.9	17.5	16.0	16.0	-14.3	-26.0	-23.5	-18.6	-16.1	-2.0	-10.0	-5.4	-4.0	-3.0
MK North Macedonia	3.2	-4.5	4.1	3.4	3.2	0.8	1.2	2.5	2.2	2.0	17.3	16.4	16.0	15.5	15.0	-3.3	-3.5	-3.3	-3.7	-3.7	-2.2	-8.2	-5.0	-3.5	-2.5
RS Serbia	4.2	-1.0	6.0	4.2	4.2	1.7	1.6	3.0	2.6	2.2	10.4	9.0	8.0	7.5	7.0	-6.9	-4.3	-5.0	-6.0	-6.6	-0.2	-8.1	-4.0	-3.0	-2.0
XK Kosovo	4.8	-3.0	5.3	4.7	4.4	2.7	0.2	1.5	1.7	2.0	25.7	26.5	26.0	25.0	24.5	-5.7	-7.0	-6.5	-6.2	-5.7	1.0	-1.8	-1.0	-0.5	1.0
<i>WB6 ¹⁾²⁾</i>	3.6	-3.1	5.1	4.1	3.9	1.4	0.9	2.3	2.2	2.0	13.4	13.1	12.2	11.7	11.0	-6.2	-5.7	-5.9	-6.1	-6.3	-0.3	-6.9	-3.7	-2.6	-1.5
TR Turkey	0.9	1.8	5.8	3.4	3.5	15.2	12.3	16.0	12.0	10.0	13.7	13.2	13.0	12.3	11.1	0.9	-5.2	-3.8	-3.6	-3.5	-3.2	-2.8	-3.5	-2.5	-2.5
BY Belarus	1.4	-0.9	2.5	1.6	2.1	5.6	5.5	8.0	7.0	7.0	4.2	4.0	4.1	4.2	4.3	-1.9	-0.4	0.8	0.4	0.0	2.4	-1.7	-2.0	-2.0	-1.0
KZ Kazakhstan	4.5	-2.6	3.5	4.1	4.4	5.3	6.7	7.2	6.2	5.8	4.8	4.9	4.9	4.8	4.8	-4.0	-3.7	-2.7	-1.8	-0.9	-1.8	-4.0	-3.5	-2.5	-2.0
MD Moldova	3.7	-7.0	7.0	4.5	4.0	4.8	3.8	3.6	4.2	4.5	5.1	3.8	4.0	3.5	3.0	-9.3	-6.7	-8.5	-8.4	-8.0	-1.4	-8.5	-5.0	-4.0	-3.0
RU Russia	2.0	-3.0	3.5	3.0	2.6	4.5	3.4	6.2	4.4	3.2	4.6	5.8	5.2	4.9	4.7	3.8	2.3	3.2	3.6	3.6	1.9	-4.0	-1.0	0.5	1.0
UA Ukraine	3.2	-4.0	4.3	3.5	3.5	7.9	2.7	8.3	6.0	5.5	8.2	9.5	9.0	8.0	8.0	-2.7	4.0	0.5	-1.0	-3.0	-2.2	-5.4	-5.0	-3.0	-2.5
<i>CIS4+UA ¹⁾²⁾</i>	2.4	-3.0	3.6	3.1	2.8	5.0	3.7	6.5	4.8	3.8	5.2	6.2	5.7	5.4	5.2	2.4	1.7	2.3	2.5	2.5	1.3	-4.1	-1.6	-0.2	0.4
<i>V4 ¹⁾²⁾</i>	4.1	-3.8	3.9	4.4	4.1	2.4	3.4	3.3	2.8	2.5	3.3	3.5	4.2	4.2	4.0	0.0	2.7	1.9	1.4	1.2	-0.7	-6.9	-6.0	-4.3	-3.2
<i>BALT3 ¹⁾²⁾</i>	3.9	-2.1	3.3	4.4	3.8	2.4	0.4	2.0	2.6	3.1	5.9	8.0	7.9	6.7	5.9	1.9	4.5	2.7	2.1	1.7	0.1	-5.9	-6.4	-3.3	-2.0
<i>SEE9 ¹⁾²⁾</i>	3.8	-4.1	4.9	4.4	4.2	2.8	1.6	2.9	2.7	2.5	7.4	8.1	7.5	7.1	6.6	-3.3	-4.2	-4.1	-3.9	-3.6	-1.9	-7.7	-5.7	-3.9	-3.0
<i>CIS3+UA ¹⁾²⁾</i>	3.5	-3.1	3.8	3.5	3.7	6.5	4.7	7.7	6.2	5.8	6.6	7.2	7.0	6.4	6.4	-3.3	-0.3	-1.2	-1.4	-1.8	-1.3	-4.3	-3.9	-2.7	-2.1
<i>non-EU12 ¹⁾²⁾</i>	2.0	-1.6	4.3	3.2	3.1	7.7	6.1	9.1	6.8	5.5	7.5	8.0	7.6	7.2	6.7	1.7	-0.4	0.3	0.5	0.5	0.1	-3.9	-2.2	-0.9	-0.5
<i>CESEE23 ¹⁾²⁾</i>	2.6	-2.3	4.2	3.6	3.4	6.2	5.1	7.3	5.6	4.6	6.6	7.1	6.9	6.5	6.0	1.0	0.3	0.5	0.5	0.5	-0.3	-5.1	-3.7	-2.1	-1.5

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: 29 June 2021.