

PRESS RELEASE

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Economic forecast for Eastern Europe: The worst is yet to come

- *Higher growth in 2022, but a major downturn next year*
- *Ukrainian economy in deep recession, but adjusting to war conditions*
- *Russia: milder-than-expected recession in 2022 (-3.5%), but slump will continue next year (-3%)*
- *Possible escalation of the energy crisis could further darken the outlook*

The Ukraine war has so far not had such an adverse impact on the economies of the 23 countries of Central, Eastern and Southeastern Europe (CESEE) as was initially assumed. However, this is set to change in the coming months. This is revealed by the new autumn forecast of the Vienna Institute for International Economic Studies (wiiw). Higher-than-expected growth in many countries of the region in the first half of the year, thanks to a post-pandemic recovery, has led to a significant upwards revision of the forecast for 2022: wiiw estimates full-year growth of 3.9% on average in the region's EU member states; 3.1% in the Western Balkans; and 5.1% in Turkey. In all cases, this is significantly slower than in 2021, but nevertheless attests to an impressive degree of resilience in the face of a severe external shock. By contrast, wiiw expects the Russian economy to have contracted by 3.5% by the end of this year. However, such a recession is much milder than was forecast in the summer (-7%).

A difficult winter and a poor outlook for 2023

The picture for the rest of 2022 and 2023, however, is quite different. The adverse economic shock of the war was already much more visible during the third quarter of this year. *'Runaway inflation is reducing real incomes and thus private consumption, which has been the most important pillar of growth up to now. Add to that the increasingly threatening energy crisis, a weakening German economy, big interest-rate hikes and too little fiscal support from governments. So the worst is yet to come for Eastern Europe,'* says Branimir Jovanović, economist at wiiw and lead author of the autumn forecast.

Ukrainian economy in deep recession, but growth is expected next year

The Ukrainian economy remains in a parlous position, due to the enormous damage and cost of the war. According to the Ukrainian Ministry of Economy, the GDP decline in August was an annualised 35%, following a fall of almost 40% in the second quarter. For the year as a whole, wiiw expects the country's GDP to slump by about a third (33%) compared to 2021 – an upwards revision of 5 percentage points compared to the summer. In 2023, Ukraine could already grow again by 5.5%. *'However, there are big downside risks to the forecast, primarily related to the duration and outcome of the war,'* explains Olga Pindyuk, economist and Ukraine expert at wiiw. Many companies are resuming their activities. The export of grain via the Black Sea ports has also developed positively after the long-

negotiated agreements with Russia. *'The increased inflow of foreign aid money, especially from the US, is also positive,'* says Pindyuk. *'Around 60% of the budget deficit is now financed with this.'* In 2023, Ukraine's budget deficit is expected to amount to around 20% of GDP.

Russia: Partial mobilisation set to exacerbate downturn in 2023

Russia's economy has so far proved more resilient than expected, if the increasingly sparse official statistics published are to be believed. Despite Western sanctions, GDP fell by only an estimated 1.5% in the first eight months, and inflation dropped to below 14%. The economy has partly adjusted to the new reality, thanks to the high energy prices, the rebalancing of trade towards Asia and increased military spending. *'However, the recently announced partial mobilisation is a game-changer and will massively exacerbate the crisis,'* believes Vasily Astrov, senior economist and Russia expert at wiiw. *'Hundreds of thousands of well-educated men will either be drafted or have already fled the country,'* goes on Astrov. *'For the economy, this is a bloodletting with serious long-term consequences.'* All in all, the Russian economy is expected to shrink by 3.5% in 2022, which is only half as much as the decline forecast in the summer (7%). However, it will continue to contract in 2023, by 3%. Next year, the consequences of the EU oil embargo, the shortfall in gas exports to Europe and the Western high-tech embargo will all have a greater impact. *'From an economic point of view, the sanctions are having an effect, albeit at a slower pace than many had expected,'* says Astrov.

Energy crisis darkens outlook

For 2022 as a whole, average inflation will be in double digits for most of the 23 countries monitored. This also applies to the 11 EU members of CESEE: for those countries, it will average around 13% for 2022, levelling off to around 8% in 2023. Apart from elevated food prices, the main reason for the high level of inflation is the cost of energy due to the ongoing energy crisis. *'If gas has to be rationed in winter in some places, individual countries could slip into recession,'* warns Branimir Jovanović. In the event of a harsh winter, many countries of the region will probably have serious problems covering their natural gas requirements with the volumes they have stored. And if – as seems inevitable at the moment – Germany slides into recession and large industrial plants grind to a halt because of energy shortages, then other countries – in particular Czechia, Hungary, Slovakia, Poland and some parts of the Western Balkans – will also suffer on account of their close economic ties with Germany.

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 Autumn Forecast 2022 is available upon 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, Eastern and Southeastern 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

	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				
	2020	2021	Forecast			2020	2021	Forecast			2020	2021	Forecast			2020	2021	Forecast			2020	2021	Forecast		
BG Bulgaria	-4.4	4.2	3.0	1.5	3.0	1.2	2.8	14.0	10.0	8.0	5.1	5.3	4.7	4.6	4.5	0.0	-0.5	-1.3	-1.0	-0.5	-4.0	-4.1	-6.0	-5.0	-4.0
CZ Czechia	-5.5	3.5	2.0	1.0	2.8	3.3	3.3	15.0	8.5	3.2	2.6	2.8	2.5	2.6	2.6	2.0	-0.9	-2.6	-4.0	-3.1	-5.8	-5.9	-4.7	-3.7	-1.9
EE Estonia	-0.6	8.0	1.0	1.4	3.1	-0.6	4.5	18.5	8.0	4.5	6.8	6.2	5.9	6.5	5.0	-1.0	-1.8	-0.7	0.1	0.3	-5.5	-2.3	-3.5	-4.2	-3.9
HR Croatia	-8.1	10.2	5.0	2.5	3.1	0.0	2.7	9.5	6.0	3.0	7.5	7.6	7.3	7.4	7.4	-0.5	3.2	-2.0	-2.4	-2.7	-7.3	-2.9	-3.0	-2.9	-2.5
HU Hungary	-4.5	7.1	4.2	-1.2	1.7	3.4	5.2	16.0	15.0	8.0	4.3	4.1	3.6	4.5	4.0	-1.1	-4.2	-6.3	-5.7	-4.6	-7.8	-6.8	-6.5	-4.5	-4.0
LT Lithuania	-0.1	5.0	2.1	0.9	2.6	1.1	4.6	19.5	8.0	4.0	8.5	7.1	6.2	7.0	6.5	7.3	1.1	-6.2	-6.0	-5.3	-7.3	-1.0	-3.0	-2.5	-2.0
LV Latvia	-3.8	4.5	2.8	0.6	2.3	0.1	3.2	17.0	9.0	3.5	8.1	7.6	7.0	7.2	6.6	2.7	-4.3	-5.6	-3.5	-3.3	-4.5	-7.3	-6.5	-4.0	-2.0
PL Poland	-2.2	5.9	4.6	1.7	2.4	3.7	5.2	11.5	6.5	3.5	3.2	3.4	3.0	3.1	3.2	2.9	-0.7	-1.6	-0.2	1.2	-6.9	-1.9	-4.0	-3.4	-3.0
RO Romania	-3.7	5.9	4.8	2.2	3.5	2.3	4.1	13.0	8.0	5.0	5.0	5.6	5.3	5.5	5.4	-5.0	-7.0	-9.2	-8.6	-7.7	-9.3	-7.1	-6.5	-6.0	-5.5
SI Slovenia	-4.3	8.2	5.7	1.9	2.7	-0.3	2.0	9.4	5.5	2.3	5.0	4.8	4.1	4.0	4.3	7.6	3.8	1.7	1.3	0.8	-7.8	-5.2	-3.8	-3.7	-1.8
SK Slovakia	-4.4	3.0	1.8	0.6	2.4	2.0	2.8	11.4	8.0	3.0	6.7	6.8	6.0	5.9	6.2	0.4	-2.0	-7.4	-8.4	-7.9	-5.5	-6.2	-5.1	-4.1	-3.5
<i>EU-CEE11</i> ¹⁾²⁾	-3.5	5.7	3.9	1.4	2.6	2.7	4.3	13.1	8.1	4.3	4.4	4.5	4.1	4.3	4.3	1.0	-1.8	-3.8	-3.4	-2.5	-6.9	-4.3	-4.8	-4.1	-3.3
<i>EA19</i> ³⁾	-6.1	5.2	3.1	0.2	1.9	0.3	2.6	8.5	6.0	2.3	7.9	7.7	6.8	7.1	6.6	2.8	3.7	0.5	1.0	1.5	-7.0	-5.1	-4.3	-3.1	-1.8
<i>EU27</i> ³⁾	-5.7	5.3	3.3	0.4	2.1	0.7	2.9	9.0	6.3	2.5	7.1	7.0	6.0	6.6	5.8	2.9	3.3	0.5	1.0	1.5	-6.7	-4.7	-3.9	-2.7	-1.4
AL Albania	-3.5	8.5	3.4	3.0	3.6	1.6	2.0	7.0	4.0	2.5	11.7	11.5	11.1	10.5	10.0	-8.7	-7.6	-7.6	-6.4	-6.0	-6.7	-4.5	-0.5	0.0	0.5
BA Bosnia and Herzegovina	-3.1	7.5	2.6	1.5	2.5	-1.1	2.0	13.0	7.0	2.0	15.9	17.4	16.4	16.1	15.7	-3.3	-2.4	-2.6	-2.0	-1.7	-5.3	-0.3	-1.0	0.5	1.0
ME Montenegro	-15.3	13.0	5.1	2.6	3.3	-0.3	2.4	12.5	6.0	2.0	17.9	16.6	15.2	14.9	13.9	-26.1	-9.2	-11.7	-12.0	-10.7	-11.1	-1.8	-8.1	-7.5	-7.1
MK North Macedonia	-6.1	4.0	1.0	0.6	2.0	1.2	3.2	14.0	9.0	4.0	16.4	15.7	14.5	14.3	14.0	-3.0	-3.1	-9.2	-8.5	-7.3	-8.3	-5.4	-3.0	-2.0	-1.5
RS Serbia	-0.9	7.4	3.6	1.9	2.7	1.6	4.1	11.0	8.0	4.0	9.0	11.0	9.5	9.0	8.5	-4.1	-4.3	-8.3	-8.0	-7.8	-8.0	-4.1	-1.0	-2.0	-2.0
XK Kosovo	-5.3	10.7	3.1	2.9	3.8	0.2	3.4	10.5	6.5	2.0	25.9	24.5	24.2	23.5	23.2	-7.0	-8.7	-8.9	-7.8	-7.1	-7.6	-1.3	1.0	0.5	0.3
<i>WB6</i> ¹⁾²⁾	-3.2	7.7	3.1	1.9	2.8	0.9	3.2	11.2	7.2	3.2	13.0	13.9	12.8	12.3	12.0	-5.6	-4.8	-7.5	-7.0	-6.5	-7.5	-3.3	-1.3	-1.4	-1.2
TR Turkey	1.9	11.4	5.1	2.5	3.2	12.3	19.6	70.7	26.7	19.5	13.2	12.0	11.5	10.5	9.5	-5.0	-1.7	-4.9	-4.6	-4.1	-2.9	-2.3	-3.2	-2.4	-2.0
BY Belarus	-0.7	2.3	-4.5	1.0	2.0	5.5	9.5	17.0	12.0	11.0	4.0	3.9	4.1	4.0	4.0	-0.3	3.2	2.2	1.8	1.4	-1.7	0.2	-4.0	-2.0	-1.0
KZ Kazakhstan	-2.5	4.3	2.8	3.6	4.1	6.8	8.0	14.0	10.0	7.0	4.9	4.9	4.9	4.8	4.8	-4.4	-4.0	3.0	-0.5	-1.5	-4.0	-3.0	-2.0	-2.7	-2.6
MD Moldova	-8.3	13.9	-2.0	0.0	2.0	3.8	5.1	30.0	15.0	8.0	3.8	3.2	2.7	3.5	4.0	-7.7	-12.4	-12.6	-14.2	-13.7	-5.3	-1.9	-5.0	-4.0	-3.0
RU Russia	-2.7	4.7	-3.5	-3.0	1.0	3.4	6.7	13.9	6.7	4.0	5.8	4.8	4.2	4.8	4.5	2.4	6.9	13.0	10.2	10.1	-4.0	0.8	-2.0	-3.0	-2.0
UA Ukraine	-3.8	3.4	-33.0	5.5	12.0	2.7	9.4	21.0	10.0	6.0	9.5	9.9	28.0	15.0	10.0	3.4	-1.6	5.5	5.0	-1.0	-5.3	-3.4	-25.0	-20.0	-8.0
<i>CIS4+UA</i> ¹⁾²⁾	-2.7	4.6	-5.8	-1.4	2.4	3.7	7.2	14.8	7.5	4.7	6.2	5.6	8.1	6.1	5.2	1.7	4.9	11.4	8.5	7.8	-4.0	0.1	-3.2	-3.8	-2.4
<i>V4</i> ¹⁾²⁾	-3.3	5.4	3.8	1.1	2.4	3.4	4.7	12.8	8.2	4.1	3.5	3.7	3.3	3.5	3.5	1.9	-1.4	-3.0	-2.6	-1.4	-6.6	-3.9	-4.6	-3.7	-2.9
<i>BALT3</i> ¹⁾²⁾	-1.2	5.6	2.0	0.9	2.6	0.4	4.2	18.6	8.3	4.0	8.0	7.0	6.4	6.9	6.2	3.9	-1.1	-4.6	-3.7	-3.3	-6.0	-3.1	-4.1	-3.4	-2.5
<i>SEE9</i> ¹⁾²⁾	-4.1	6.5	4.2	2.1	3.2	1.6	3.6	12.3	7.9	4.8	8.1	8.7	8.1	8.0	7.9	-3.9	-4.3	-6.8	-6.5	-5.8	-7.9	-5.3	-4.8	-4.5	-4.0
<i>CIS3+UA</i> ¹⁾²⁾	-2.9	3.9	-13.5	3.9	7.1	4.8	8.7	17.9	10.4	7.2	7.2	7.3	17.3	9.8	7.3	-0.8	-2.2	3.1	0.9	-1.3	-4.2	-2.7	-9.4	-7.4	-3.9
<i>non-EU12</i> ¹⁾²⁾	-1.4	6.6	-2.3	-0.2	2.6	6.0	10.6	30.6	13.0	8.9	8.0	7.4	9.1	7.4	6.6	-0.3	2.8	7.4	4.8	4.1	-3.9	-0.7	-3.1	-3.4	-2.2
<i>CESEE23</i> ¹⁾²⁾	-2.0	6.3	-0.5	0.3	2.6	5.0	8.7	25.5	11.6	7.6	7.1	6.7	7.9	6.7	6.0	0.2	1.1	3.6	1.7	1.5	-5.0	-2.0	-3.7	-3.6	-2.7

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 2022.