

PRESS RELEASE

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New forecast: Lower growth in Eastern Europe, Ukraine and Russia in deep recession

- *Ukraine's GDP will collapse by 38-45% in 2022*
- *Russia's economy will shrink by 9-15%, with up to 28% inflation*
- *EU members in Eastern Europe will see 3% growth this year – a downward revision*
- *Double-digit inflation will follow in the event of an energy embargo against Russia*

The war in Ukraine is affecting the economies of the 23 countries of Central, Eastern and Southeastern Europe (CESEE) to varying degrees. In its new Spring Forecast, the Vienna Institute for International Economic Studies (wiiw) assumes a baseline scenario. However, if there is an escalation of the war and if the EU imposes an oil and gas embargo on Russia, a mild recession is likely in East-Central Europe.

Broadly speaking, there are two main clusters of countries. For the 11 EU members of the region, the situation is not too bad, relatively speaking: their economies will grow by an average of 3% this year in the baseline scenario; however, in the adverse scenario they would stagnate (0.1%). The economies of Ukraine and Russia, on the other hand, will both suffer badly this year in both scenarios (Ukraine: -38% to -45% of GDP; Russia: -9% to -15% of GDP). That will also drag down the CIS region. Turkey, the second-largest economy in the region, will grow by 2.7% in the baseline scenario, but would shrink by 2.5% in the adverse scenario.

Ukraine badly hit

Ukraine will lose between a third and a half of its economic output in 2022. In those areas where there is no fighting, however, the economy has so far proved surprisingly resilient. The budget deficit is likely to rise to 25% of GDP, and will only be covered with Western financial aid. The war-affected regions, where the economy has ground to a halt, have in recent years accounted for 53% of GDP, 43% of industrial production and 34% of agricultural production, and the Black Sea ports have handled 50% of exports. The outlook for the country is bleak and depends on the future course of the war. *'Even with a ceasefire and a political solution, a strong recovery is unlikely to get under way until 2024, since private investors will probably be slow to return to the country,'* says Vasily Astrov, Senior Economist at wiiw and lead author of the Spring Forecast.

Severe recession in Russia

Russia is also facing an economic slump of at least 9% this year (base scenario) on account of Western sanctions, and at least 20% inflation. However, an oil and gas embargo by the EU could result in Russian GDP shrinking by up to 15% and inflation rising to 28% (adverse scenario). This would reduce household income (and with it private consumption) even further and would exacerbate the economic crisis. *'Already we see that there are supply-chain problems in many sectors because of the sanctions. That, together with the withdrawal of many Western companies, for example in the car industry, is hammering industrial production,'* says Astrov. Production levels in the automotive industry have so far plummeted by 50%, compared to last year. Some 600 Western firms have announced that they are pulling out of Russia. *'But even if the EU were to impose an energy embargo, the financing of the war would probably only be jeopardised in the medium term: however hard it might hit the economy, the Russian government has the reserves and the fiscal leeway,'* believes Astrov.

Limited impact on East-Central Europe

The direct impact of the war on most other countries in the CESEE region will remain manageable in 2022, according to the baseline scenario. The losses from trade with Ukraine and Russia (excluding any energy embargo) are likely to amount to around 0.5% of GDP for most countries, with the exception of Belarus. In terms of specific industries, it is mainly the automotive sector – so important to many of the EU member states of the region in particular – that will be directly affected, as Ukraine is an important supplier of, for example, cable looms.

Millions of Ukrainian refugees are arriving in various countries of the region (e.g. Poland) and are being housed and well looked after there. The resulting costs – possibly running to EUR 40bn – are being partly covered by special EU funds. Although most are women and children, next year the refugees could alleviate existing labour shortages in East-Central Europe.

Double-digit inflation in the event of an energy embargo

The biggest way in which the war in Ukraine is hitting the CESEE region is through sharply rising energy and food prices. This squeezes real household income and thus reduces private consumption. Many governments have therefore felt compelled to counter inflation using price controls, tax breaks or other temporary measures. *'If there is an energy embargo against Russia, the inflation rate will be in double digits in almost all countries of Central, Eastern and Southeastern Europe,'* says Astrov. And in Turkey, inflation will be around 55% – even in the baseline scenario.

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 Spring Forecast 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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Indicators 2020-2021 and Outlook 2022-2024 - Baseline Scenario

		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		
		2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
BG	Bulgaria	-4.4	4.2	2.0	3.7	3.5	1.2	2.8	14.0	8.0	5.0	5.1	5.3	5.0	4.5	4.0	-0.1	-0.4	-1.5	-1.4	-0.7	-4.0	-3.0	-5.0	-4.0	-3.0
CZ	Czechia	-5.8	3.3	2.6	3.5	4.2	3.3	3.3	8.7	3.8	2.3	2.6	2.8	2.5	2.5	2.2	2.0	-0.9	-2.2	-1.2	0.0	-5.6	-6.8	-5.0	-2.7	-0.5
EE	Estonia	-3.0	8.3	1.8	3.4	3.1	-0.6	4.5	11.0	3.5	2.8	6.8	6.2	8.0	6.0	5.2	-0.3	-1.1	-0.8	-0.5	-0.3	-5.6	-4.0	-3.0	-2.1	-1.2
HR	Croatia	-8.1	10.4	3.5	4.0	3.1	0.0	2.7	6.5	2.9	2.3	7.5	7.7	7.1	6.4	6.5	-0.1	3.2	1.1	1.8	1.5	-7.4	-3.8	-3.5	-2.7	-2.5
HU	Hungary	-4.7	7.1	2.5	3.9	4.5	3.4	5.2	9.0	5.0	3.5	4.3	4.1	3.9	3.8	3.5	-1.1	-3.1	-2.9	-1.6	-0.1	-8.0	-7.5	-5.5	-3.5	-3.0
LT	Lithuania	-0.1	5.0	1.7	2.8	2.6	1.1	5.5	12.0	6.5	4.0	8.5	7.1	6.8	7.0	6.0	7.3	1.4	0.8	0.4	0.5	-7.2	-2.6	-4.0	-3.0	-2.0
LV	Latvia	-3.8	4.7	1.4	2.2	2.3	0.1	3.2	10.0	6.5	3.5	8.1	7.6	7.5	5.8	6.0	2.9	-2.9	-3.8	-1.9	-2.0	-4.5	-7.3	-5.5	-3.5	-2.0
PL	Poland	-2.5	5.7	4.0	3.5	3.6	3.7	5.2	10.0	6.5	3.5	3.2	3.4	3.0	3.1	3.2	2.9	-0.6	-0.8	-0.5	-0.4	-7.1	-5.5	-5.0	-4.0	-3.0
RO	Romania	-3.7	5.9	2.0	3.5	4.5	2.3	4.1	9.0	5.0	3.0	5.0	5.6	5.6	5.3	5.0	-5.0	-7.0	-7.0	-6.2	-5.9	-9.3	-7.0	-7.0	-5.0	-4.0
SI	Slovenia	-4.2	8.1	4.1	3.3	2.8	-0.3	2.0	4.8	1.7	1.4	5.0	4.8	4.5	4.3	4.1	7.4	3.3	1.4	0.3	0.0	-7.7	-5.2	-3.6	-0.4	-0.2
SK	Slovakia	-4.4	3.0	2.4	3.1	3.0	2.0	2.8	8.0	4.5	2.0	6.7	6.8	6.5	5.9	5.7	0.4	-2.0	-3.9	-3.7	-3.3	-5.5	-7.1	-5.1	-4.1	-3.5
	<i>EU-CEE11^{1/2)}</i>	-3.7	5.6	3.0	3.5	3.8	2.7	4.3	9.5	5.4	3.2	4.4	4.5	4.3	4.1	3.9	1.1	-1.6	-2.2	-1.7	-1.2	-7.0	-5.9	-5.2	-3.7	-2.6
	<i>EA19³⁾</i>	-6.4	5.3	2.5	2.7	2.1	0.3	2.6	6.0	3.0	2.0	7.9	7.7	7.3	6.9	6.6	2.8	2.0	1.5	1.5	1.5	-7.2	-5.9	-4.0	-2.8	-1.8
	<i>EU27³⁾</i>	-5.9	5.3	2.7	2.9	2.3	0.7	2.9	6.2	3.2	2.2	7.1	6.9	6.5	6.1	5.8	2.8	2.0	1.5	1.5	1.5	-6.9	-5.5	-3.6	-2.4	-1.4
AL	Albania	-3.5	8.5	3.5	3.7	3.9	1.6	2.0	6.0	3.4	2.5	11.7	11.5	11.2	11.0	10.6	-8.7	-7.7	-8.1	-7.3	-6.7	-6.7	-4.5	-4.6	-3.0	-2.0
BA	Bosnia and Herzegovina	-3.1	7.1	1.8	2.3	2.3	-1.1	2.0	8.0	4.0	3.0	15.9	17.4	16.8	16.3	15.7	-3.8	-2.1	-3.7	-3.9	-4.1	-5.3	3.5	0.0	0.5	1.0
ME	Montenegro	-15.3	12.4	3.5	3.7	3.3	-0.3	2.4	6.4	3.0	2.0	17.9	16.6	15.3	14.8	14.0	-26.1	-9.2	-12.5	-12.8	-12.3	-11.1	-1.8	-6.0	-4.5	-4.0
MK	North Macedonia	-6.1	4.0	2.5	2.7	2.7	1.2	3.2	8.0	5.0	4.0	16.4	15.7	15.2	14.8	14.5	-3.4	-3.5	-6.8	-6.7	-6.8	-8.3	-5.4	-4.0	-3.0	-2.0
RS	Serbia	-0.9	7.4	3.6	3.4	3.4	1.6	4.1	10.0	6.0	4.0	9.0	11.0	10.5	10.0	9.5	-4.1	-4.4	-6.5	-6.8	-7.2	-8.0	-4.1	-3.5	-3.0	-2.5
XK	Kosovo	-5.3	10.5	3.3	3.7	3.9	0.2	3.4	7.0	4.0	2.0	25.9	24.5	24.3	23.8	23.5	-7.0	-8.8	-9.9	-9.8	-9.4	-7.6	-1.3	-2.0	-2.0	-0.5
	<i>WB6^{1/2)}</i>	-3.2	7.6	3.1	3.2	3.3	0.9	3.2	8.5	4.9	3.4	13.0	13.9	13.4	13.0	12.6	-5.7	-4.9	-6.8	-6.9	-7.0	-7.5	-2.7	-3.1	-2.4	-1.7
TR	Turkey	1.8	11.0	2.7	2.8	3.2	12.3	19.6	55.0	20.0	10.0	13.2	12.0	11.5	10.5	9.5	-5.0	-1.8	-6.3	-5.8	-5.5	-2.9	-3.5	-3.2	-2.4	-2.0
BY	Belarus	-0.7	2.3	-3.5	1.6	2.0	5.5	9.5	15.0	12.0	11.0	4.0	3.9	4.1	4.0	4.0	-0.4	2.7	1.3	1.3	0.8	-1.7	-2.0	-4.0	-2.0	-1.0
KZ	Kazakhstan	-2.5	4.0	1.5	3.2	4.0	6.8	8.0	11.0	8.0	6.0	4.9	4.9	5.0	4.8	4.8	-3.8	-3.0	-0.3	-1.0	-1.2	-4.0	-3.1	-3.5	-2.5	-2.0
MD	Moldova	-7.4	13.9	-3.0	3.0	4.0	3.8	5.1	20.0	10.0	4.0	3.8	3.2	3.5	3.3	3.2	-7.7	-11.6	-12.8	-11.6	-10.9	-5.3	-1.9	-5.0	-3.0	-2.0
RU	Russia	-2.7	4.7	-9.0	-1.5	1.0	3.4	6.7	20.0	14.0	4.0	5.8	4.8	7.5	7.0	6.5	2.4	6.9	10.8	7.5	7.0	-4.0	0.8	-3.0	0.0	1.0
UA	Ukraine	-3.8	3.4	-38.0	5.0	13.0	2.7	9.4	15.0	10.0	6.0	9.5	9.9	25.0	15.0	10.0	3.4	-1.3	1.4	1.4	0.2	-5.3	-3.4	-25.0	-15.0	-8.0
	<i>CIS4+UA^{1/2)}</i>	-2.7	4.5	-10.6	-0.3	2.4	3.7	7.1	18.6	13.0	4.6	6.2	5.6	9.5	7.5	6.5	1.8	5.1	8.7	5.9	5.3	-4.0	0.0	-4.5	-1.3	-0.1
	<i>V4^{1/2)}</i>	-3.6	5.3	3.4	3.5	3.8	3.4	4.7	9.5	5.6	3.2	3.5	3.7	3.4	3.4	3.3	1.9	-1.2	-1.7	-1.1	-0.5	-6.8	-6.2	-5.1	-3.6	-2.5
	<i>BALT3^{1/2)}</i>	-1.8	5.7	1.6	2.8	2.6	0.4	4.7	11.2	5.8	3.6	8.0	7.0	7.3	6.4	5.8	4.2	-0.4	-0.9	-0.4	-0.4	-6.0	-4.1	-4.2	-2.9	-1.8
	<i>SEE9^{1/2)}</i>	-4.1	6.5	2.4	3.5	3.9	1.6	3.6	9.3	5.2	3.3	8.1	8.7	8.5	8.2	7.8	-3.9	-4.3	-5.2	-4.7	-4.5	-7.9	-5.1	-5.4	-4.0	-3.1
	<i>CIS3+UA^{1/2)}</i>	-2.9	3.8	-16.3	3.7	7.6	4.8	8.8	13.6	9.5	6.7	7.2	7.3	15.5	9.9	7.3	-0.6	-1.7	0.0	-0.3	-0.8	-4.2	-3.1	-10.7	-6.6	-3.9
	<i>non-EU12^{1/2)}</i>	-1.4	6.5	-6.2	0.7	2.7	6.1	10.7	28.9	14.8	6.1	8.0	7.4	10.2	8.5	7.5	-0.3	2.9	4.5	2.4	1.9	-3.9	-1.0	-4.1	-1.6	-0.7
	<i>CESEE23^{1/2)}</i>	-2.1	6.3	-3.6	1.5	3.0	5.1	8.8	23.4	12.1	5.3	7.1	6.7	8.8	7.4	6.6	0.2	1.2	1.7	0.7	0.5	-5.1	-2.8	-4.6	-2.5	-1.5

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: 7 April 2022.

Indicators 2020-2021 and Outlook 2022-2024 - Negative Scenario

		GDP					Consumer prices				
		real change in % against prev. year					average change in % against prev. year				
		2020	2021	Forecast			2020	2021	Forecast		
				2022	2023	2024			2022	2023	2024
BG	Bulgaria	-4.4	4.2	0.0	2.0	2.5	1.2	2.8	18.0	10.0	6.0
CZ	Czechia	-5.8	3.3	-1.4	1.5	3.5	3.3	3.3	12.0	6.5	3.2
EE	Estonia	-3.0	8.3	-0.4	2.0	3.4	-0.6	4.5	15.0	6.5	4.0
HR	Croatia	-8.1	10.4	1.0	2.5	3.0	0.0	2.7	10.0	6.0	5.0
HU	Hungary	-4.7	7.1	-3.0	0.5	2.5	3.4	5.2	16.0	8.0	5.0
LT	Lithuania	-0.1	5.0	0.3	1.4	1.8	1.1	5.5	14.0	7.0	4.0
LV	Latvia	-3.8	4.7	0.5	1.5	1.7	0.1	3.2	12.0	7.5	4.0
PL	Poland	-2.5	5.7	2.0	2.5	2.5	3.7	5.2	12.0	7.0	5.0
RO	Romania	-3.7	5.9	-1.0	3.0	4.0	2.3	4.1	12.0	7.0	4.0
SI	Slovenia	-4.2	8.1	1.8	2.7	3.1	-0.3	2.0	10.5	6.5	3.7
SK	Slovakia	-4.4	3.0	-2.5	1.0	2.5	2.0	2.8	10.0	7.5	3.0
	<i>EA19¹⁾</i>	<i>-6.4</i>	<i>5.3</i>	<i>-0.9</i>	<i>1.8</i>	<i>1.4</i>	<i>0.3</i>	<i>2.6</i>	<i>9.5</i>	<i>4.0</i>	<i>2.7</i>
AL	Albania	-3.5	8.5	2.0	2.2	2.6	1.6	2.0	9.6	5.0	3.6
BA	Bosnia and Herzegovina	-3.1	7.1	-1.3	1.1	1.8	-1.1	2.0	11.0	6.0	4.0
ME	Montenegro	-15.3	12.4	1.8	2.2	2.8	-0.3	2.4	11.3	6.0	3.2
MK	North Macedonia	-6.1	4.0	-0.5	1.5	2.0	1.2	3.2	13.0	9.0	5.0
RS	Serbia	-0.9	7.4	0.0	2.0	2.5	1.6	4.1	14.0	10.0	6.0
XK	Kosovo	-5.3	10.5	1.9	2.4	2.7	0.2	3.4	10.7	5.5	3.2
TR	Turkey	1.8	11.0	-2.5	1.5	3.5	12.3	19.6	67.0	26.0	15.0
BY	Belarus	-0.7	2.3	-6.0	0.0	1.5	5.5	9.5	20.0	15.0	12.0
KZ	Kazakhstan	-2.5	4.0	-1.0	2.7	4.0	6.8	8.0	14.0	10.0	7.0
MD	Moldova	-7.4	13.9	-5.0	3.0	4.0	3.8	5.1	23.0	12.0	6.0
RU	Russia	-2.7	4.7	-15.0	0.0	1.5	3.4	6.7	28.0	19.0	4.0
UA	Ukraine	-3.8	3.4	-45.0	4.0	12.0	2.7	9.4	25.0	15.0	7.0

1) wiiw estimates.

Source: wiiw, Eurostat. Forecasts by wiiw. Cut-off date for historical data: 7 April 2022, for forecasts: 20 April 2022.