

## PRESS RELEASE

### **New wiiw economic forecast for Eastern Europe: No quick recovery in sight, coronavirus risks looming large**

*According to new projections released by the Vienna Institute for International Economic Studies (wiiw), the recovery of Eastern European economies will be sluggish and will depend on success in containing the pandemic without resort to lengthy lockdowns, as well as on the continuation of government support measures.*

wiiw has released its new economic projections for Central, East and Southeast Europe (CESEE) in 2020-2022. **The main conclusions are as follows:**

- › **Most of CESEE withstood the first wave of the pandemic better than Western Europe, but many economies in the region still suffered badly – especially those reliant on tourism (Croatia and Montenegro) and those with a high dependence on foreign trade (the smaller Visegrád countries and Slovenia).**
- › **Historically large policy interventions across the region have helped to partly offset the worst of the economic and social fallout from the pandemic.**
- › **The accelerating second wave of the pandemic has resulted in the reintroduction of strict lockdowns, and this could intensify in coming months, making a renewed downturn in economic activity almost certain.**
- › **The medium-term outlook is hugely uncertain. After an estimated contraction of 4.5% this year, the region should grow by 3.1% in 2021 and by 3.3% in 2022. The top performers in 2021 will be Croatia and Montenegro, while the recovery will be much more subdued in Bulgaria and Ukraine; Belarus will record another year of recession.**
- › **Even in this benign scenario, only Lithuania, Serbia and Turkey will regain their 2019 levels of economic activity before 2022.**
- › **The risks to the above forecasts are clearly on the downside, in both the short and the medium term. Aside from the potential for tighter lockdowns in the winter months, the pandemic will leave lasting legacies in the form of depressed demand for many services, such as aviation, hospitality and recreation.**
- › **Significant further government support is likely to be required across the region. This should be broadly manageable for EU-CEE, but could be more problematic in some Western Balkan countries, as well as Ukraine and Moldova, which have high public debt-to-GDP ratios and/or are heavily dependent on external assistance.**

**Most economies of CESEE withstood the first wave of the coronavirus pandemic better than Western Europe**, even if the lockdowns introduced there were generally as strict as – or even stricter than – those in Western Europe. This can partly be explained by the relatively small size of the service sector, which suffered the most from the pandemic. However, there were strong negative spill-overs from the effective closure of borders during the lockdowns and from the slump in the euro area. As a result, those CESEE economies that rely on tourism (Croatia and Montenegro) and foreign trade (the smaller Visegrád countries and Slovenia) were the worst affected during the first wave.

**As in Western Europe, CESEE governments have responded with a marked policy relaxation, taking advantage of the fiscal and monetary space available.** Policy rates have been cut sharply, contributing to currency depreciations (of more than 20% since the start of the year, in some cases) which mitigated the impact of the external demand shock. Besides, a wide range of government support measures has been adopted, including most notably subsidised short-time work schemes, which saved many jobs and have limited the rise in unemployment, at least so far.

**Partly due to the policy stimuli enacted (especially on the fiscal side), CESEE economies rebounded strongly in the third quarter.** Retail trade benefited from purchases delayed during the lockdown, and international production chains largely resumed their operation. However, the pre-crisis levels of economic activity have not been reached. Besides, the second wave of the pandemic, which started in many CESEE countries in September, has given rise to concerns over the ability of healthcare systems to cope with the soaring numbers of hospitalisations. This has already prompted a renewed full lockdown in the Czech Republic and partial lockdowns in Poland, Slovakia and Slovenia, while other countries may soon follow suit, making double-dip recessions (on a quarterly basis) almost unavoidable this year. The region as a whole will post a full-year contraction of 4.5% for 2020, with risks to this estimate now weighted quite heavily on the downside.

**The medium-term economic prospects for CESEE are surrounded by enormous uncertainty.** In our baseline scenario, which assumes that an effective vaccine/treatment for COVID-19 will contain the pandemic without the need for lengthy lockdowns, CESEE economies are projected to grow on average by 3.1% in 2021 and 3.3% in 2022. Across the CESEE countries, the economies of Croatia and Montenegro are expected to grow by 5% next year, as the tourism industry partly recovers the losses incurred this year. By contrast, in Russia and Kazakhstan, growth will barely exceed 2.5%, as the oil prices are unlikely to recover substantially from their current levels and oil production will still be constrained by the OPEC+ quotas. Even in this benign scenario, the 2019 levels of economic activity in CESEE countries will not be reached before 2022 (except in Lithuania, Serbia and Turkey), and Belarus will record another year of recession due to the fallout from the current political crisis.

**The risks to the above forecasts are clearly on the downside.** Any further spread of the virus would not only necessitate further lockdowns (in both CESEE and Western Europe), with direct contractionary effects for the economies of the countries involved, but would also affect the demand for durable consumer and investment goods, due to the high level of uncertainty. Besides, the pandemic – even if successfully contained – may leave a lasting legacy in the form of depressed demand for many services, such as aviation, hospitality and recreation, making businesses in those sectors dependent on continued government support. The need for such support will clearly increase in the event of renewed lockdowns.

**In EU-CEE countries, continued government support should be less of a problem:** they have generally enough fiscal space and will benefit from various EU transfers, including the Next Generation EU funds, which in some cases (such as Croatia and Bulgaria) will exceed 3% of GDP per year. However, such government support may be more problematic in some Western Balkan countries, as

well as Ukraine and Moldova, which have high public debt-to-GDP ratios and/or are highly dependent on external assistance. Similarly, the continuation of monetary stimulus in Turkey renders it vulnerable to any change in sentiment on international markets. Any premature withdrawal of government support will result in a fresh wave of bankruptcies, a rise in unemployment and further income losses. This would weigh heavily on the economic prospects of countries located on the southern and eastern periphery of the CESEE region.

## Publication

**The new wiiw Forecast Report ‘No Quick Recovery in Sight, with Coronavirus Risks Looming Large’**, by Vasily Astrov et al. is available to the participants of the wiiw webinar as well as upon request.

The report comprises **economic analyses and forecasts for 23 countries in Central, Eastern and South-Eastern Europe (CESEE)** continuously analysed by wiiw: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kazakhstan, Kosovo, Latvia, Lithuania, Moldova, Montenegro, Northern Macedonia, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey and Ukraine.

## Presentation

Webinar Thursday, 12 November 2020, 4:00 pm CET  
Registration <https://my.demio.com/ref/CDtI8FEYPIYyMQER>

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## OVERVIEW 2018-2019 AND OUTLOOK 2020-2022

		GDP					Consumer prices					Unemployment (LFS)					Current account				
		real change in % against prev. year					average change in % against prev. year					rate in %, annual average					in % of GDP				
		2018	2019	Forecast			2018	2019	Forecast			2018	2019	Forecast			2018	2019	Forecast		
		2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022		
BG	Bulgaria	3.1	3.7	-5.1	1.7	2.6	2.6	2.5	1.5	2.0	2.0	5.2	4.2	7.0	7.0	6.0	1.0	3.0	2.2	2.0	1.6
CZ	Czech Republic	3.2	2.3	-6.6	3.9	3.5	2.0	2.6	3.0	2.1	2.0	2.2	2.0	2.7	3.1	3.0	0.5	-0.3	0.5	0.0	0.2
EE	Estonia	4.4	5.0	-4.8	3.9	3.0	3.4	2.3	-0.2	1.5	2.3	5.4	4.4	8.0	7.5	7.0	0.9	2.0	3.1	1.7	0.7
HR	Croatia	2.7	2.9	-9.4	5.0	4.0	1.6	0.8	0.0	1.0	1.4	8.5	6.6	9.0	5.5	5.0	1.8	2.7	-3.9	-0.6	-1.2
HU	Hungary	5.4	4.6	-6.5	3.0	4.6	2.9	3.4	3.8	3.5	3.5	3.7	3.4	4.5	4.5	4.0	0.3	-0.2	-1.8	-1.4	-0.6
LT	Lithuania	3.9	4.3	-2.0	4.5	3.2	2.5	2.2	0.7	1.8	2.3	6.2	6.3	9.0	8.5	7.5	0.3	3.3	7.1	4.1	4.4
LV	Latvia	4.0	2.1	-4.6	4.4	2.8	2.6	2.7	0.5	1.8	2.5	7.4	6.3	8.3	7.5	6.8	-0.3	-0.6	2.2	1.5	1.4
PL	Poland	5.4	4.5	-4.4	3.5	3.4	1.2	2.1	3.2	2.0	2.0	3.9	3.3	3.6	4.0	3.8	-1.3	0.5	0.7	0.4	0.2
RO	Romania	4.5	4.2	-5.5	3.7	4.5	4.1	3.9	2.5	3.0	3.0	4.2	3.9	5.5	6.0	5.0	-4.4	-4.7	-4.7	-4.6	-4.7
SI	Slovenia	4.4	3.2	-6.7	4.5	3.0	1.9	1.7	0.3	1.3	1.7	5.1	4.5	5.8	5.4	4.6	5.8	5.6	5.8	6.0	6.4
SK	Slovakia	3.8	2.3	-7.3	4.1	3.9	2.5	2.8	1.9	1.8	2.0	6.5	5.8	7.0	8.2	7.4	-2.2	-2.7	-3.9	-2.9	-3.2
	<i>EU-CEE11<sup>1)2)</sup></i>	4.5	3.9	-5.4	3.6	3.7	2.2	2.6	2.6	2.3	2.3	4.3	3.8	4.9	5.1	4.6	-0.8	-0.2	-0.3	-0.4	-0.4
	<i>EA19<sup>3)</sup></i>	1.9	1.3	-8.5	5.8	2.5	1.8	1.2	0.3	1.0	1.3	8.1	7.5	9.0	9.4	8.9	3.6	3.0	2.5	2.5	2.3
	<i>EU27<sup>3)</sup></i>	2.1	1.5	-8.3	6.0	2.7	1.8	1.4	0.4	1.2	1.5	7.2	6.7	8.3	8.7	8.2	3.2	2.9	2.4	2.4	2.2
AL	Albania	4.1	2.2	-6.4	4.6	4.0	2.0	1.4	1.5	1.8	2.2	12.3	11.5	14.5	13.0	12.0	-6.8	-8.0	-9.6	-8.2	-7.5
BA	Bosnia and Herzegovina	3.7	2.7	-5.1	3.2	3.1	1.4	0.6	-0.4	1.4	1.6	18.4	15.7	18.0	16.0	16.0	-3.3	-3.1	-2.6	-3.9	-3.6
ME	Montenegro	5.1	4.1	-9.0	5.0	4.1	2.6	0.4	-0.1	1.1	1.5	15.2	15.1	19.0	17.5	16.0	-17.0	-15.0	-14.8	-13.0	-12.5
MK	North Macedonia	2.9	3.2	-6.0	4.5	4.0	1.5	0.8	1.2	1.5	1.8	20.7	17.3	17.0	16.5	16.0	-0.1	-3.3	-5.2	-4.5	-3.7
RS	Serbia	4.5	4.2	-2.0	4.5	4.1	2.0	1.7	1.7	2.2	2.2	12.7	10.4	8.0	7.5	7.0	-4.8	-6.9	-5.7	-5.5	-5.7
XK	Kosovo	3.8	4.9	-5.1	4.8	4.3	1.1	2.7	0.5	1.5	1.7	29.6	25.7	26.5	26.0	25.0	-7.6	-5.6	-6.0	-7.2	-8.3
	<i>WB6<sup>1)2)</sup></i>	4.1	3.6	-4.2	4.3	3.9	1.8	1.4	1.1	1.8	2.0	15.7	13.4	13.6	12.5	11.7	-5.1	-6.3	-6.0	-5.9	-5.9
TR	Turkey	3.0	0.9	-3.5	4.1	4.6	16.3	15.2	12.0	11.0	10.2	10.9	13.7	13.5	13.4	11.5	-2.5	1.2	-2.8	-3.3	-3.9
BY	Belarus	3.1	1.2	-2.5	-1.2	1.3	4.9	5.6	5.0	4.5	4.5	4.8	4.2	4.5	4.4	4.2	0.0	-2.0	-2.9	-3.4	-4.4
KZ	Kazakhstan	4.1	4.5	-3.0	2.5	4.0	6.0	5.3	7.0	5.5	5.0	4.9	4.8	5.2	5.0	4.8	-0.1	-4.0	-3.5	-3.3	-3.4
MD	Moldova	4.3	3.6	-7.0	4.0	4.0	2.9	4.8	4.3	4.5	5.0	3.0	5.1	5.5	6.5	6.0	-10.4	-9.3	-6.5	-6.8	-7.5
RU	Russia	2.5	1.3	-4.5	2.5	2.1	2.9	4.5	3.4	3.3	2.8	4.8	4.6	6.0	5.6	5.0	6.9	3.8	1.2	2.4	2.3
UA	Ukraine	3.4	3.2	-5.0	2.0	3.6	10.9	7.9	2.5	5.0	4.0	8.8	8.2	10.0	8.5	8.0	-4.9	-2.7	3.6	-0.6	-2.9
	<i>CIS4+UA<sup>1)2)</sup></i>	2.8	1.8	-4.4	2.4	2.4	4.0	5.0	3.7	3.7	3.2	5.4	5.2	6.6	6.0	5.4	5.3	2.4	0.8	1.5	1.2
	<i>V4<sup>1)2)</sup></i>	4.8	3.9	-5.4	3.6	3.6	1.7	2.4	3.1	2.2	2.2	3.8	3.3	3.8	4.3	4.0	-0.8	-0.1	-0.2	-0.3	-0.2
	<i>BALT3<sup>1)2)</sup></i>	4.1	3.9	-3.4	4.3	3.1	2.7	2.4	0.4	1.7	2.4	6.4	5.9	8.5	8.0	7.2	0.3	1.9	4.7	2.7	2.6
	<i>SEE9<sup>1)2)</sup></i>	4.0	3.8	-5.5	3.7	4.0	3.1	2.8	1.8	2.4	2.4	8.6	7.4	8.8	8.4	7.5	-3.0	-3.1	-4.0	-3.5	-3.7
	<i>CIS3+UA<sup>1)2)</sup></i>	3.7	3.4	-3.9	1.8	3.4	7.9	6.5	4.7	5.1	4.5	6.9	6.6	7.7	6.8	6.5	-2.0	-3.3	-0.8	-2.4	-3.5
	<i>non-EU12<sup>1)2)</sup></i>	2.9	1.6	-4.1	2.9	3.1	7.5	7.7	6.0	5.7	5.1	7.1	7.5	8.4	7.9	7.1	2.8	1.8	-0.4	0.0	-0.4
	<i>CESEE23<sup>1)2)</sup></i>	3.4	2.3	-4.5	3.1	3.3	6.0	6.2	5.0	4.7	4.3	6.4	6.6	7.5	7.2	6.5	1.5	1.1	-0.4	-0.2	-0.4

1) wiw estimates. - 2) Current account data include transactions within the region (sum over individual countries). - 3) Forecasts estimated by wiw.

Source: wiw, Eurostat. Forecasts by wiw (November 2020).