

PRESS RELEASE

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Spring Forecast: Eastern Europe growing more strongly than the euro area

- *Fragile recovery on the horizon; downside risks remain*
- *Ukraine: More resilient than expected*
- *Russia: Sanctions are working, albeit slowly*
- *Inflation remains stubbornly high*

Most of the economies of the 23 countries of Central, Eastern and Southeastern Europe (CESEE) seem to have largely digested the economic shock caused by the Ukraine war. Although economic activity has weakened considerably compared to last year – which was marked not least by catch-up effects following the coronavirus pandemic – almost all of them will continue to grow in 2023, despite the war. This is the finding of the new Spring Forecast of the Vienna Institute for International Economic Studies (wiiw). *‘The worst fears have thus not materialised. Despite stubbornly high inflation, which is of course weighing on households and businesses, the mood in the region is slowly brightening,’* says Olga Pindyuk, Economist at wiiw and lead author of the Spring Forecast. *‘This also has to do with the fact that all the indicators now point to a slow recovery in the euro area and its most important economy, Germany,’* goes on Pindyuk.

For 2023, wiiw forecasts average growth of 1.2% for the EU member states in the region. They are thus likely to grow at more than double the pace of the euro area (0.5%). The EU members of Southeastern Europe, in particular, are showing comparatively strong growth, whereas in the Visegrád countries average growth will only be 0.6%, and Hungary’s economy is expected to shrink slightly this year (by 0.5%). The economies of the Western Balkans will grow by an average of 2%, and Turkey by a somewhat stronger 2.6%. Even though growth will thus be much lower than last year in the vast majority of cases, a full-year recession will be largely avoided – apart from in Hungary. Russia has also stabilised macroeconomically, following last year’s GDP decline of 2.1%. However, this year’s forecast of stagnation (0.0%) is subject to major uncertainty. Ukraine’s economy could recover somewhat this year to see growth of 1.6%, following its devastating slump of 2022 (-29.1%), although here also there are significant risks to the projection.

Even though the economic situation is starting to look up for CESEE as a whole, major downside risks remain. *‘First, the drastic tightening of monetary policy could lead to a harder landing. Second, there is still the possibility of a military escalation of the Ukraine war, for example through the use of tactical nuclear weapons,’* says Pindyuk. In addition, next year’s US presidential elections could result in an administration in Washington that is less supportive of Ukraine – and that would also damage confidence in the region.

Ukraine: More resilient than expected

At -29.1%, Ukraine’s 2022 GDP slump was less severe than initially feared. *‘Without Russia’s systematic bombardment of the energy infrastructure, which cost between 1.9% and 3.6% in economic output in*

2022, the decline would have been somewhat smaller,' says Olga Pindyuk, who is also Ukraine country expert at wiiw.

Given the enormous destruction and the fact that 15% of the population has fled the country, the relative resilience of the Ukrainian economy is impressive. For 2023, wiiw expects fragile growth of 1.6% – though that will depend on the future course of the war. A more positive business climate, better energy supply – since April, Ukraine has again been exporting electricity – the grain deal and international financial aid are all reasons for optimism. The budget deficit of 27% of GDP forecast for this year will continue to be financed largely by massive Western support.

Russia: Sanctions are working, albeit slowly

After a sharp drop in GDP in Q2 2022, Russia's economy stabilised. Ultimately, this led to a fall in GDP of 2.1% last year. For 2023, wiiw now forecasts stagnation (0.0%). Although import-dependent sectors such as the automotive industry (2002: -45%) and retail trade (2022: -12.7%) have suffered hugely from the sanctions, the defence industry and certain areas of import substitution are flourishing. The pharmaceutical industry, for example, expanded by 26.5% in 2022, and the production of electric motors, generators and transformers was up 7.9%. These data come from official Russian sources and should be interpreted with caution.

'The booming war industry, the adjustment to the sanctions and the reorientation of trade towards Asia will probably prevent a contraction this year,' says Vasily Astrov, Russia country expert at wiiw. 'But that does not change the fact that the sanctions-related losses from the energy business are costing the Kremlin dear. It is no coincidence that President Putin has now publicly admitted that the sanctions are hurting, and the population has to prepare for more difficult times,' emphasises Astrov.

In Q1 2023, key budget revenues from oil and gas sales fell by 45%, while expenditure rose by 34%. *'However, the resulting budget deficit should be bearable this year,'* says Astrov. In the longer term, Russia will have to cope above all with the lack of high technology from the West – such as computer chips – since China cannot supply these either.

Inflation remains stubbornly high

Although the high inflation in the region is now declining again in the wake of falling energy prices, it is proving more stubborn than expected. It is not only food prices that are continuing to grow at double-digit rates: with few exceptions, core inflation (excluding energy and food) also remains in double figures. Compared to its Winter Forecast, wiiw has therefore again revised upwards its forecast for inflation for most of the countries observed. On average, the figure will be around 17% in the region in 2023, compared to 5.7% in the euro area. In Central Eastern Europe, Hungary is likely to suffer from particularly high inflation (18.5%) this year.

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 Spring Forecast 2023 is available upon request.

About the Vienna Institute for International Economic Studies (wiiw)

For 50 years, wiiw has been an economic think tank that produces economic analyses and forecasts for currently 23 countries in Central, Eastern and South-Eastern Europe. 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 2021-2022 AND OUTLOOK 2023-2025

		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									
		2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
BG	Bulgaria	7.6	3.4	1.7	2.2	2.7	2.8	13.0	10.0	7.0	5.0	5.3	4.3	4.3	4.2	4.2	-1.9	-0.7	-0.5	-0.3	0.3	-3.9	-5.0	-5.0	-4.0	-3.0
CZ	Czechia	3.6	2.5	0.2	2.4	2.7	3.3	14.8	10.4	4.0	3.0	2.8	2.3	2.7	2.6	2.6	-2.8	-6.1	-2.8	-1.7	-0.5	-5.1	-3.9	-4.2	-2.5	-1.9
EE	Estonia	8.0	-1.3	0.4	2.6	3.1	4.5	19.4	9.5	2.5	1.8	6.2	5.6	7.0	6.2	5.6	-1.8	-2.2	0.7	1.8	1.4	-2.4	-2.0	-4.0	-3.3	-3.0
HR	Croatia	13.1	6.3	2.5	2.9	3.1	2.7	10.7	6.5	4.0	3.0	7.6	7.0	6.8	6.7	6.6	3.1	-3.3	-2.6	-2.1	-0.6	-2.6	-1.9	-2.4	-2.0	-1.8
HU	Hungary	7.2	4.6	-0.5	1.5	1.7	5.2	15.3	18.5	8.0	5.0	4.1	3.6	4.5	4.0	3.6	-4.1	-8.1	-4.0	-2.8	-2.0	-7.1	-6.1	-4.5	-4.0	-3.3
LT	Lithuania	6.0	1.9	0.9	2.6	2.5	4.6	18.9	10.0	4.0	2.8	7.1	6.0	6.8	6.5	6.0	1.1	-5.1	-4.9	-4.8	-4.7	-1.0	-2.0	-5.0	-3.0	-2.0
LV	Latvia	4.1	2.0	0.3	2.5	2.3	3.2	17.2	11.0	4.0	3.2	7.6	6.8	7.2	6.8	6.6	-4.2	-6.4	-4.1	-2.6	-1.6	-7.0	-4.8	-4.5	-3.0	-2.0
PL	Poland	6.8	4.9	1.0	2.4	3.2	5.2	13.2	12.5	6.0	4.0	3.4	2.9	3.4	3.6	3.8	-1.4	-3.0	-0.3	0.4	1.0	-1.8	-3.5	-4.8	-4.0	-3.5
RO	Romania	5.8	4.8	3.0	4.0	4.3	4.1	12.0	9.0	5.0	4.0	5.6	5.6	5.8	5.4	5.2	-7.2	-9.3	-7.0	-5.9	-4.9	-7.1	-6.0	-5.3	-4.5	-4.0
SI	Slovenia	8.2	5.4	1.4	2.5	2.7	2.0	9.3	6.4	3.2	2.4	4.8	4.0	4.0	3.9	3.9	3.8	-0.4	0.8	0.8	0.7	-4.7	-3.8	-4.2	-2.6	-2.2
SK	Slovakia	3.0	1.7	0.6	2.5	2.2	2.8	12.1	10.2	5.0	3.0	6.8	6.1	6.3	6.2	6.0	-2.5	-8.3	-5.0	-3.1	-2.6	-5.5	-3.5	-6.0	-4.4	-4.5
	<i>EU-CEE11</i> ¹⁾²⁾	6.3	4.1	1.2	2.6	3.1	4.3	13.5	11.4	5.5	3.8	4.5	4.0	4.4	4.4	4.3	-2.5	-5.2	-2.6	-1.7	-1.0	-4.1	-4.2	-4.7	-3.7	-3.2
	<i>EA20</i> ³⁾	5.4	3.5	0.5	1.8	1.7	2.6	8.5	5.7	3.0	2.3	7.7	6.8	6.6	6.6	6.6	3.8	0.5	1.0	1.5	2.5	-5.1	-4.3	-3.7	-2.7	-2.6
	<i>EU27</i> ³⁾	5.4	3.5	0.7	2.0	1.9	2.9	9.0	5.9	3.2	2.5	7.0	6.0	5.8	5.8	5.8	3.4	0.5	1.0	1.5	2.5	-4.6	-3.9	-3.3	-2.3	-2.2
AL	Albania	8.9	4.8	3.3	3.8	4.0	2.0	6.7	4.0	3.0	2.5	11.5	10.9	10.5	10.0	9.5	-7.7	-6.0	-5.9	-5.8	-5.8	-4.6	-3.7	-2.5	-2.5	-2.5
BA	Bosnia and Herzegovina	7.4	3.9	1.7	1.9	2.5	2.0	14.0	9.0	4.0	2.5	17.4	15.4	15.0	14.7	14.4	-2.4	-4.5	-4.0	-4.1	-4.3	-0.3	-1.0	0.5	1.0	1.0
ME	Montenegro	13.0	6.1	2.9	3.2	3.0	2.4	13.0	10.0	4.0	2.8	16.6	14.7	13.8	13.1	12.0	-9.2	-13.3	-11.7	-10.7	-10.0	-1.9	-5.2	-5.0	-4.8	-4.6
MK	North Macedonia	3.9	2.1	1.6	2.5	3.0	3.2	14.2	9.0	4.0	3.0	15.7	14.4	14.0	13.0	12.0	-3.1	-6.0	-4.5	-4.5	-4.4	-5.4	-4.5	-3.0	-2.5	-2.5
RS	Serbia	7.5	2.3	1.5	2.6	3.0	4.1	11.9	10.0	4.0	3.0	11.0	9.4	9.0	8.5	8.0	-4.2	-6.9	-5.8	-4.9	-4.2	-4.1	-3.1	-2.5	-2.0	-1.5
XK	Kosovo	10.7	3.5	3.6	3.9	4.1	3.4	11.6	7.0	4.0	2.5	20.7	18.0	17.0	16.5	16.0	-8.7	-10.5	-9.7	-9.4	-9.3	-1.3	-0.5	-0.5	-1.0	-1.0
	<i>WB6</i> ¹⁾²⁾	7.8	3.2	2.0	2.8	3.1	3.2	11.9	8.7	3.9	2.8	13.6	12.1	11.6	11.1	10.5	-4.8	-6.8	-5.9	-5.4	-5.1	-3.4	-2.9	-2.0	-1.7	-1.4
TR	Turkey	11.4	5.6	2.6	3.4	3.8	19.6	72.3	47.7	38.2	30.0	12.0	10.5	10.0	9.5	9.0	-0.9	-5.3	-4.0	-3.0	-2.5	-2.4	-2.5	-4.0	-3.0	-3.0
BY	Belarus	2.4	-4.7	1.3	1.6	2.0	9.5	15.2	12.0	11.0	10.0	3.9	3.6	3.8	4.0	4.0	3.1	3.7	1.5	1.2	1.0	0.2	-2.0	-3.0	-2.0	-1.0
KZ	Kazakhstan	4.3	3.2	3.5	4.0	4.0	8.0	15.0	14.0	9.0	6.0	4.9	4.9	4.8	4.8	4.8	-1.3	3.9	-0.5	-1.0	-1.5	-3.0	-2.1	-2.7	-2.5	-2.0
MD	Moldova	13.9	-5.9	3.0	4.0	4.0	5.1	28.7	14.0	6.0	5.0	3.2	3.1	3.5	3.2	3.0	-12.4	-15.8	-14.4	-12.2	-11.3	-1.9	-3.3	-4.0	-3.0	-1.0
RU	Russia	5.6	-2.1	0.0	1.0	1.5	6.7	13.8	5.4	4.6	3.4	4.8	3.9	4.0	4.0	3.8	6.7	10.4	4.3	3.4	2.7	0.8	-1.4	-4.0	-3.5	-3.0
UA	Ukraine	3.4	-29.1	1.6	3.4	5.0	9.4	20.2	17.0	9.0	7.0	9.9	25.0	20.0	15.0	10.0	-1.9	5.0	3.1	-1.4	-4.6	-3.4	-16.3	-27.0	-15.0	-10.0
	<i>CIS4+UA</i> ¹⁾²⁾	5.3	-3.7	0.5	1.5	2.0	7.1	14.5	7.3	5.6	4.1	5.6	7.4	6.5	5.7	4.7	5.0	9.2	3.6	2.5	1.6	0.1	-2.4	-5.2	-4.1	-3.3
	<i>V4</i> ¹⁾²⁾	6.0	4.1	0.6	2.3	2.8	4.6	13.7	12.8	5.8	3.9	3.7	3.2	3.7	3.7	3.8	-2.2	-4.9	-1.8	-0.8	0.0	-3.7	-4.0	-4.7	-3.7	-3.2
	<i>BALT3</i> ¹⁾²⁾	5.9	1.2	0.6	2.6	2.6	4.2	18.5	10.2	3.7	2.7	7.0	6.1	7.0	6.5	6.1	-1.1	-4.7	-3.3	-2.5	-2.3	-3.0	-2.8	-4.6	-3.1	-2.2
	<i>SEE9</i> ¹⁾²⁾	7.3	4.4	2.5	3.3	3.7	3.6	12.0	8.8	4.9	3.8	8.7	7.9	7.7	7.4	7.1	-4.6	-6.7	-5.3	-4.5	-3.7	-5.2	-4.6	-4.2	-3.5	-3.0
	<i>CIS3+UA</i> ¹⁾²⁾	3.9	-10.2	2.4	3.4	4.1	8.7	17.4	14.8	9.2	7.0	7.3	15.3	12.6	9.9	7.3	-1.2	3.6	0.5	-1.1	-2.5	-2.7	-7.0	-11.0	-6.7	-4.5
	<i>non-EU12</i> ¹⁾²⁾	7.0	-0.7	1.2	2.1	2.6	10.5	31.5	19.3	15.2	11.8	7.4	8.4	7.6	6.8	6.1	3.1	5.1	1.2	0.4	-0.1	-0.7	-2.4	-4.8	-3.7	-3.1
	<i>CESEE23</i> ¹⁾²⁾	6.8	0.8	1.2	2.3	2.7	8.7	25.9	16.9	12.2	9.3	6.7	7.3	6.8	6.2	5.6	1.1	1.6	-0.1	-0.3	-0.4	-2.0	-3.0	-4.8	-3.7	-3.1

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: 13 April 2023.