

PRESS RELEASE

2 July 2024

Summer Forecast: Growth in Eastern Europe gains momentum

- *Sharp rise in real wages and private consumption as the main drivers of growth*
- *Ukrainian economy suffering from power cuts*
- *Russia to grow by 3.2% in 2024*
- *Threatened US sanctions against third countries to take effect*

Although the international environment continues to be a mixed bag, the economies of most Central, Eastern and Southeastern European countries are likely to gain momentum in 2024. In particular the EU members of the region are proving robust in the face of the ongoing economic slump in Germany. Although major risks remain, the situation is brightening overall. This is shown by the new Summer Forecast by the Vienna Institute for International Economic Studies (wiiw) for 23 countries of the region. *'The main driver of growth is the sharp rise in real wages, which is stimulating private consumption, even if a not inconsiderable proportion of the additional disposable income is being saved,'* says Vasily Astrov, Economist at wiiw and lead author of the Summer Forecast.

However, for the EU members of the region the situation is quite different in the industrial sector, which is still in recession, mainly due to the deep crisis in German industry. The Visegrád states, in particular, are closely intertwined with it. *'This limits the growth prospects of all those countries that are part of the industrial cluster around Germany,'* explains Astrov.

For 2024, wiiw forecasts average growth of 2.6% for the EU members of the region, increasing to 3% in 2025. That means that this year they are likely to significantly outperform the euro area, which will almost stagnate (0.6%); and next year will grow almost twice as fast as the euro area (1.6%).

Slovenia and the Visegrád states of Poland, Czechia, Slovakia and Hungary will expand by an average of 2.6% this year and will increase their growth to 3.1% in 2025. Poland is the frontrunner in terms of growth among the Eastern EU members, both this year (3.3%) and next (3.6%). The Southeastern European EU members Romania (3.0%) and Croatia (3.0%) will also see strong growth in 2024. The economy there will be supported not least by inflows of funds from the NextGenerationEU coronavirus recovery fund and, in the case of Croatia, by flourishing tourism. The six economies of the Western Balkans will expand on average by 3.2% this year, while Turkey will grow by 3.4%.

The recovery in war-torn Ukraine is likely to weaken this year, with growth of 2.7%. This is a downward revision of 0.5 percentage points compared to the Spring Forecast. The destruction of Ukraine's energy infrastructure by Russian air strikes will weigh heavily on the economy this year and next. By contrast, there is an upward revision of 0.4 percentage points for the aggressor, Russia. Thus that country, which is increasingly geared towards a war economy, is likely to grow at a similar rate this year (3.2%) as in 2023 (3.6%).

Geopolitical risks remain significant

Geopolitical issues pose the greatest risks to the forecast. *'A Donald Trump victory in the US presidential election in November could intensify the trade war between the US and China, and possibly also start one with the EU. This would hit the small, open economies of Central Eastern Europe particularly hard. In addition, investor confidence in the region could also erode if Trump were to question the US security guarantee for Europe,'* points out Astrov. *'The prospect of a French government led by Marine Le Pen's far-right Rassemblement National after the parliamentary elections is, of course, also worrying.'*

Ukraine: economy is suffering from destruction of the energy supply

That concern is particularly relevant for Ukraine, since a new government in Paris led by the right-wing populists could – at the very least – make it extremely difficult for the country to receive the Western support it so urgently needs. In view of Ukraine's projected budget deficit of 18% of GDP this year (most of which will have to be covered by foreign financial aid), such a scenario would be highly problematic. The economic outlook for Ukraine has anyway become clouded: although according to official estimates the country's economy expanded by a solid 4.5% in the first quarter – mainly thanks to the reopened export route across the Black Sea – the systematic destruction of its energy supply by Russian missiles is now leading to regular nationwide power cuts. wiiw has therefore reduced its growth forecast for 2024 by 0.5 percentage points, to 2.7%. *'Half of Ukraine's energy infrastructure has already been destroyed in Russian missile attacks, and the destruction is continuing. Without electricity, however, the Ukrainian economy will struggle to recover. This makes adequate supplies of Western air defence missiles all the more important,'* insists Olga Pindyuk, Ukraine expert at wiiw.

Russia's war economy at its peak, US sanctions threat against third countries to take effect

Russia's economy is booming, but is increasingly operating at the limits of its capacity. Compared to the Spring Forecast, wiiw has raised its economic forecast for 2024 by 0.4 percentage points, to 3.2%. Growth is therefore likely to be almost as high as last year (3.6%). However, an acute labour shortage and high interest rates will limit it to around 2.5% in the coming years. The enormous government spending on the war – around a third of the federal budget or 6% of GDP – is fuelling the economy and also benefiting many other sectors. The severe shortage of labour – a consequence of the deployment of hundreds of thousands of men to the front and emigration – is driving up wages and private consumption. The construction industry has benefited massively from the expansion of the military, transport and logistics infrastructure towards Asia.

In addition, very high wages for front-line soldiers and compensation for war invalids and surviving dependants of the fallen are pumping additional money into the economy. *'This is leading to a redistribution from the top to the bottom, which unfortunately also fosters sympathy for the war among the population,'* says Vasily Astrov, who is also wiiw's Russia expert.

However, the prospect of US sanctions against banks in third countries – such as China, Turkey and the United Arab Emirates, which have so far helped Russia to circumvent Western sanctions – is having an increasing effect. For example, Russian imports of goods from China

fell substantially in March and April of this year. *'The slump was particularly dramatic for dual-use goods, i.e. products that can be used for both civilian and military purposes, such as microchips,'* says Astrov. He goes on: *'Ultimately, ways will be found to circumvent these sanctions, but they will make it more expensive and difficult for Russia to procure such important high-tech components from the West.'*

About the wiiw Forecast Report for Central, Eastern and Southeastern Europe

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 full Summer Forecast 2024 is available upon request.

About the Vienna Institute for International Economic Studies (wiiw)

The Vienna Institute for International Economic Studies (wiiw) is an economic think tank that has been producing economic analyses and forecasts on currently 23 countries in Central, Eastern and Southeastern Europe for over 50 years. In addition, wiiw conducts research in the areas of European integration, macroeconomics, international economics, industrial studies, labour markets and regional development. www.wiiw.ac.at

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OVERVIEW 2022-2023 AND OUTLOOK 2024-2026

		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				
		Forecast					Forecast					Forecast					Forecast					Forecast				
		2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
BG	Bulgaria	3.9	1.8	2.0	2.5	3.0	13.0	8.6	4.0	3.0	3.0	4.3	4.3	4.2	4.1	4.0	-1.4	-0.3	-1.2	-1.5	-1.8	-2.9	-1.9	-4.0	-3.0	-3.0
CZ	Czechia	2.4	-0.3	1.2	2.5	2.7	14.8	12.0	2.4	2.2	2.2	2.2	2.6	3.0	2.6	2.6	-4.9	0.4	0.4	0.8	1.4	-3.2	-3.7	-2.5	-2.0	-1.5
EE	Estonia	-0.5	-3.0	0.2	3.2	3.6	19.4	9.1	3.2	2.8	2.1	5.6	6.4	7.3	6.6	6.1	-3.2	-2.1	-2.0	-2.2	-1.9	-1.0	-3.4	-3.4	-4.5	-3.6
HR	Croatia	7.0	3.1	3.0	2.9	3.0	10.7	8.4	3.7	2.9	2.5	7.0	6.1	6.1	6.0	6.0	-2.8	1.1	0.2	1.0	1.3	0.1	-0.7	-2.0	-1.4	-1.2
HU	Hungary	4.6	-0.9	2.0	2.5	2.9	15.3	17.0	4.5	3.8	3.5	3.6	4.1	4.4	4.0	3.7	-8.4	0.2	0.2	0.3	0.4	-6.2	-6.7	-5.5	-4.0	-3.5
LT	Lithuania	2.4	-0.3	1.7	2.2	2.6	18.9	8.7	1.5	2.3	2.5	6.0	6.9	7.2	6.7	6.4	-5.5	1.9	2.2	2.8	2.5	-0.6	-0.8	-2.5	-2.5	-2.3
LV	Latvia	3.0	-0.3	1.6	2.5	2.7	17.2	9.1	1.4	2.2	2.7	6.9	6.5	7.0	6.7	6.4	-4.8	-4.0	-3.1	-4.6	-5.7	-4.6	-2.2	-2.8	-2.3	-2.0
PL	Poland	5.6	0.2	3.3	3.6	3.3	13.2	10.9	4.5	3.5	2.8	2.9	2.8	2.8	3.0	3.0	-2.4	1.6	1.0	-0.3	0.0	-3.4	-5.1	-5.9	-5.4	-5.3
RO	Romania	4.1	2.1	3.0	3.1	3.6	12.0	9.7	5.6	4.0	3.5	5.6	5.6	5.5	5.4	5.2	-9.2	-7.0	-6.8	-6.0	-6.0	-6.3	-6.6	-6.8	-4.8	-3.8
SI	Slovenia	2.5	1.6	2.4	2.5	2.6	9.3	7.2	2.8	2.3	2.2	4.0	3.7	3.6	3.6	3.5	-1.0	4.5	3.0	2.4	2.5	-3.0	-2.5	-3.1	-2.3	-0.6
SK	Slovakia	1.9	1.6	2.0	2.2	2.6	12.1	11.0	2.8	3.4	3.4	6.1	5.8	5.8	5.6	5.4	-7.3	-1.6	-1.3	-0.9	-1.0	-1.7	-4.9	-6.0	-5.0	-4.0
<i>EU-CEE11¹⁽²⁾</i>		4.3	0.6	2.6	3.0	3.1	13.5	10.9	4.1	3.3	2.9	4.0	4.1	4.1	4.1	4.0	-4.8	-0.4	-0.7	-1.0	-0.8	-3.7	-4.6	-5.0	-4.2	-3.7
AL	Albania	4.9	3.4	3.6	3.7	3.8	6.6	5.3	3.0	2.5	2.4	10.9	10.7	10.4	10.2	10.0	-5.9	-0.9	-1.4	-1.3	-1.4	-3.7	-1.3	-1.5	-1.5	-2.0
BA	Bosnia and Herzegovina	4.2	1.7	2.5	2.9	3.4	14.0	6.1	2.4	2.2	2.0	15.4	13.2	12.9	12.7	12.4	-4.3	-2.8	-3.6	-3.4	-3.2	-0.4	1.0	-0.5	-0.7	-1.0
ME	Montenegro	6.4	6.0	4.2	3.7	3.5	11.9	8.7	4.5	3.0	2.5	14.7	13.1	11.0	10.0	9.0	-12.9	-11.4	-10.7	-10.6	-10.4	-4.2	0.6	-4.0	-4.0	-4.0
MK	North Macedonia	2.2	1.0	2.0	2.5	2.8	14.0	9.0	3.5	3.0	2.5	14.4	13.1	12.5	11.8	11.0	-6.1	0.7	-0.8	-1.9	-2.4	-4.4	-4.9	-4.0	-3.0	-2.5
RS	Serbia	2.5	2.5	3.5	3.6	3.7	11.7	12.1	4.5	3.5	2.8	9.4	9.5	9.0	8.5	8.0	-6.9	-2.6	-2.7	-2.9	-2.9	-3.2	-2.2	-2.0	-1.5	-1.0
XK	Kosovo	4.3	3.3	3.6	3.8	3.9	11.6	4.9	2.9	2.3	2.2	12.5	12.4	12.3	12.0	11.5	-10.3	-7.6	-8.6	-8.7	-8.5	-0.5	-0.3	-1.0	-1.0	-1.5
<i>WB6¹⁽²⁾</i>		3.4	2.6	3.2	3.4	3.6	11.7	9.0	3.7	3.0	2.5	11.7	11.1	10.6	10.2	9.8	-6.7	-2.8	-3.2	-3.4	-3.4	-2.7	-1.5	-1.9	-1.6	-1.5
MD	Moldova	-4.6	0.7	3.0	3.5	4.0	28.7	13.4	4.0	5.0	5.0	3.1	4.6	4.3	4.0	3.5	-17.1	-11.9	-9.7	-8.9	-8.1	-3.2	-5.2	-4.8	-3.8	-3.5
UA	Ukraine	-28.8	5.3	2.7	4.0	4.5	20.2	12.9	6.5	7.5	6.0	25.0	20.0	15.0	10.0	9.0	4.9	-5.2	-8.0	-10.0	-10.0	-16.1	-20.3	-18.0	-15.0	-12.0
<i>New EU accession 2¹⁽²⁾</i>		-26.8	4.9	2.7	4.0	4.5	20.9	12.9	6.3	7.3	5.9	23.9	19.2	14.4	9.7	8.7	3.1	-5.7	-8.2	-9.9	-9.8	-15.1	-19.0	-16.8	-14.0	-11.3
TR	Turkey	5.5	4.5	3.4	4.0	4.5	72.3	54.0	59.0	31.0	26.0	10.5	9.4	10.0	10.5	10.0	-5.4	-4.1	-3.1	-2.7	-2.3	-1.1	-5.2	-4.0	-3.0	-3.0
BY	Belarus	-4.7	3.9	3.5	2.3	2.5	15.2	5.1	8.0	7.0	6.0	3.6	3.5	3.4	3.3	3.3	3.5	-1.4	-2.0	-1.3	-0.9	-1.5	-1.0	-1.5	-1.0	-1.0
KZ	Kazakhstan	3.2	5.1	4.2	4.9	4.9	15.0	14.7	8.3	6.0	5.8	4.9	4.7	4.7	4.6	4.5	3.1	-3.3	-2.0	-1.5	-0.5	-2.1	-2.3	-2.3	-2.0	-2.0
RU	Russia	-1.2	3.6	3.2	2.5	2.5	13.8	5.9	7.2	4.6	3.7	3.9	3.2	2.7	2.5	2.4	10.5	2.5	3.8	3.3	3.0	-1.4	-2.3	-1.2	-1.5	-1.0
<i>CIS3¹⁽²⁾</i>		-0.9	3.8	3.3	2.7	2.7	13.9	6.8	7.3	4.8	4.0	4.0	3.3	2.9	2.8	2.7	9.6	1.7	2.9	2.5	2.4	-1.4	-2.2	-1.3	-1.5	-1.1
<i>V4+SI¹⁽²⁾</i>		4.5	0.1	2.6	3.1	3.1	13.6	11.8	3.9	3.3	2.8	3.2	3.3	3.4	3.3	3.3	-4.1	1.0	0.7	0.1	0.4	-3.6	-4.9	-5.1	-4.4	-4.0
<i>BALT3¹⁽²⁾</i>		1.9	-0.9	1.3	2.5	2.9	18.6	8.9	1.9	2.4	2.5	6.1	6.6	7.2	6.7	6.3	-4.7	-0.7	-0.3	-0.5	-0.8	-1.8	-1.8	-2.8	-3.0	-2.6
<i>EU-SEE3¹⁽²⁾</i>		4.5	2.2	2.8	3.0	3.4	12.0	9.3	5.0	3.7	3.3	5.5	5.4	5.3	5.2	5.0	-6.6	-4.5	-4.7	-4.1	-4.1	-4.6	-4.8	-5.5	-3.9	-3.3
<i>EU accession 8¹⁽²⁾</i>		-14.2	4.0	2.9	3.7	4.1	17.0	11.3	5.2	5.5	4.5	20.3	16.8	13.3	9.8	9.0	-1.2	-4.4	-5.9	-6.9	-6.9	-9.7	-11.2	-10.0	-8.3	-6.8
<i>non-EU12¹⁽²⁾</i>		-0.1	4.0	3.3	3.2	3.4	32.3	21.8	23.2	13.0	10.9	8.3	7.0	6.3	5.8	5.5	5.1	-0.5	0.2	-0.1	-0.1	-2.0	-3.9	-3.0	-2.7	-2.3
<i>CESEE23¹⁽²⁾</i>		1.3	3.0	3.1	3.2	3.3	26.6	18.5	17.4	10.1	8.5	7.3	6.3	5.8	5.4	5.1	1.8	-0.5	-0.1	-0.4	-0.4	-2.6	-4.2	-3.8	-3.2	-2.8
<i>EA20³⁾</i>		3.4	0.5	0.6	1.6	1.6	8.4	5.4	2.5	2.2	2.0	6.8	6.6	6.7	6.6	6.6	1.3	2.9	2.5	2.5	2.5	-3.7	-3.6	-2.6	-2.6	-2.5
<i>EU27³⁾</i>		3.4	0.5	0.8	1.8	1.8	9.2	6.4	2.7	2.4	2.2	6.2	6.1	5.9	5.8	5.8	1.2	2.9	2.5	2.5	2.5	-3.4	-3.5	-2.2	-2.2	-2.1

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 June 2024.