

April 25<sup>th</sup> 2023

Experts' Breakfast

# Spring Forecasts for CESEE: Sailing through rough waters

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## Overview

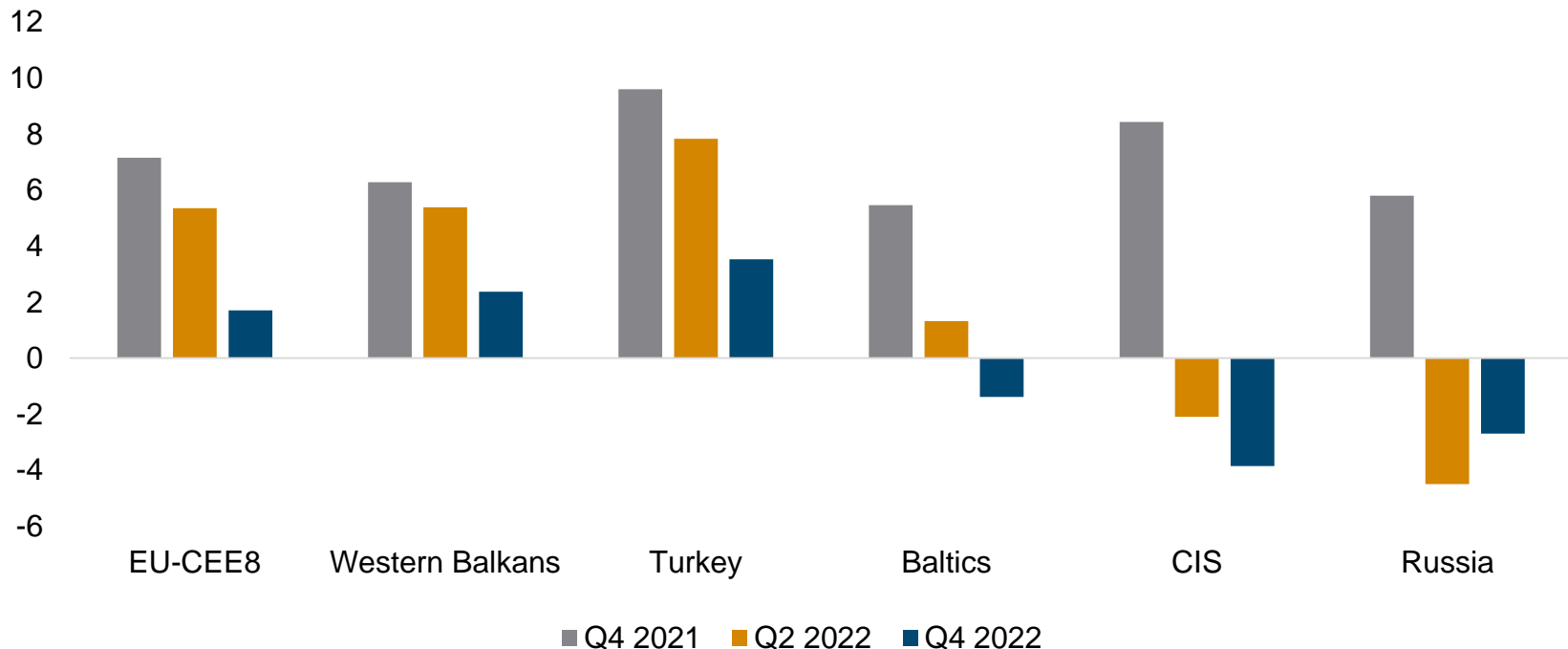
1. Review of the latest data:
  - Weak performance, but confidence improving
  - Inflation persists but household spending held up well in 2022
  - Decoupling from Russia continued for most
2. Outlook for 2023-2025: Gradual recovery
3. Risks to the outlook: Strong and to the downside

## 1. Review of the latest data:

Weak performance, but confidence improving

# Economic growth weakened in 2022 as soaring inflation weighed on real incomes and depressed confidence

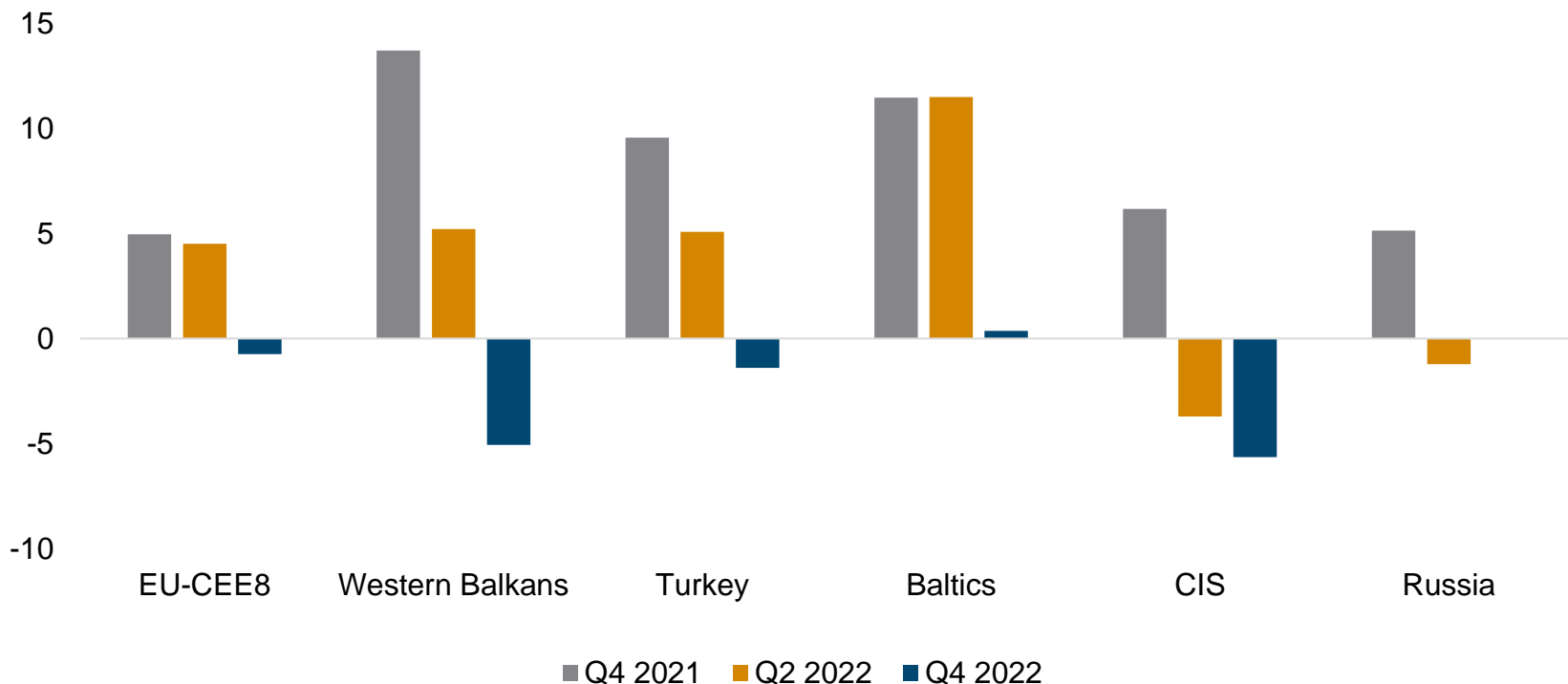
Quarterly real GDP growth  
real change against preceding year in %



Note: Simple average, EU-CEE8 includes CEE members of the EU without the Baltic countries.  
Source: wiiw Monthly Database incorporating national and Eurostat statistics.

## Industry performed even worse than headline GDP due to rising input prices

Quarterly industrial output, real change against preceding year in %

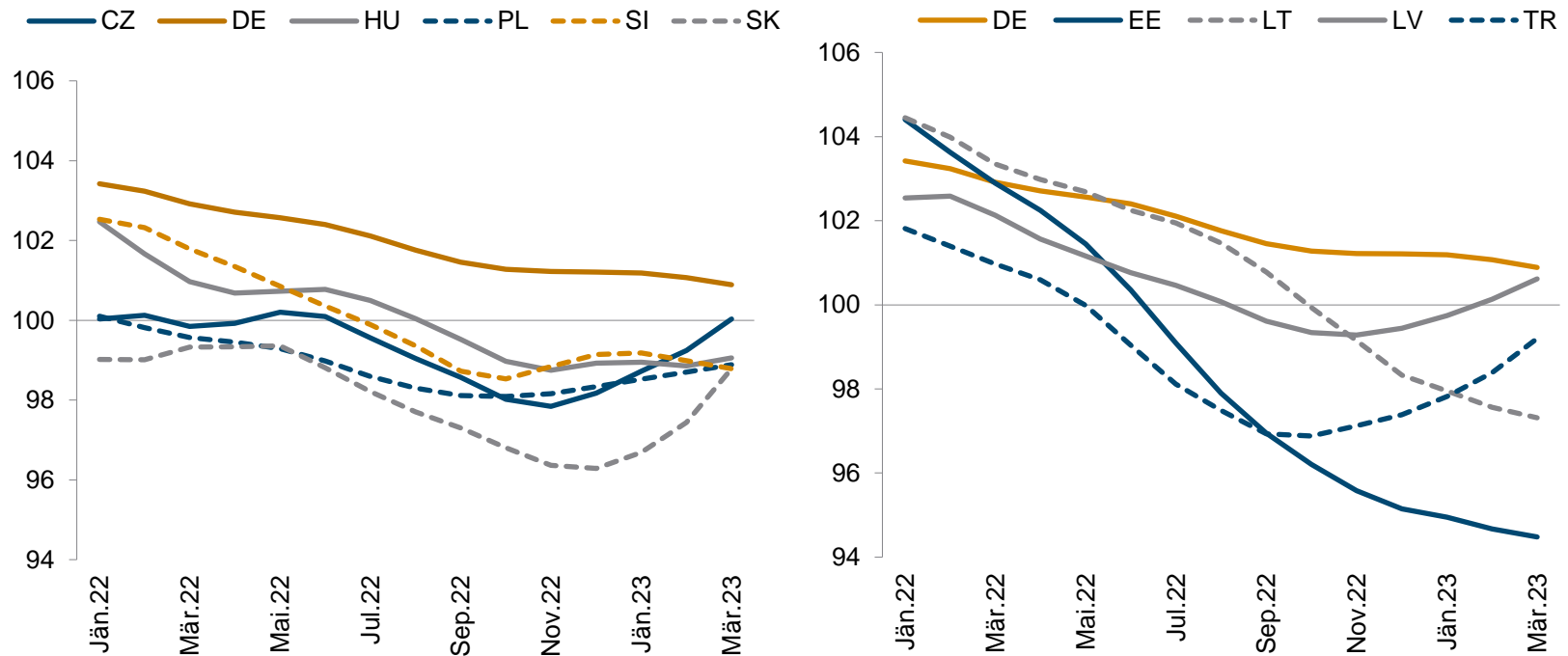


Note: EU-CEE8 includes CEE members of the EU without the Baltic countries.

Source: wiiw Monthly Database incorporating national and Eurostat statistics.

But end-2022 seems to have been the bottom – business confidence starting to improve in 2023

### Business confidence index

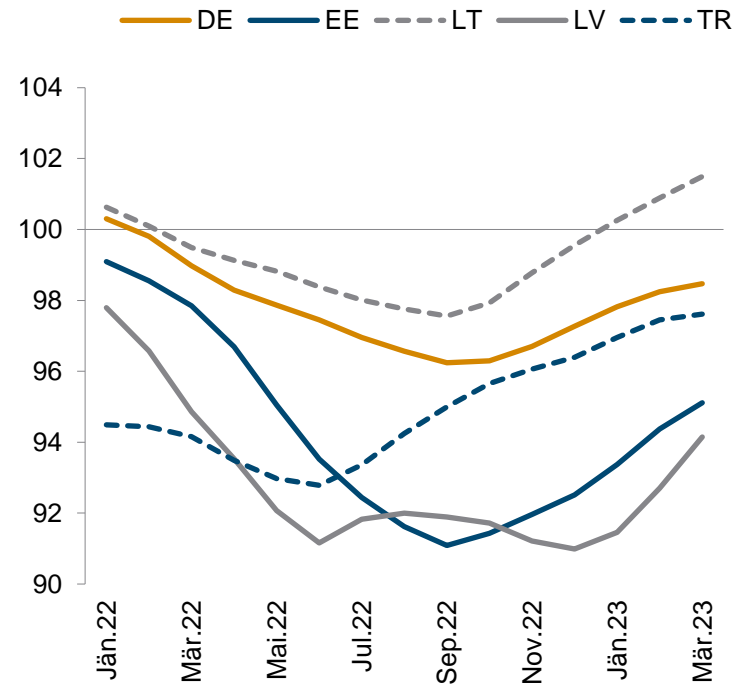
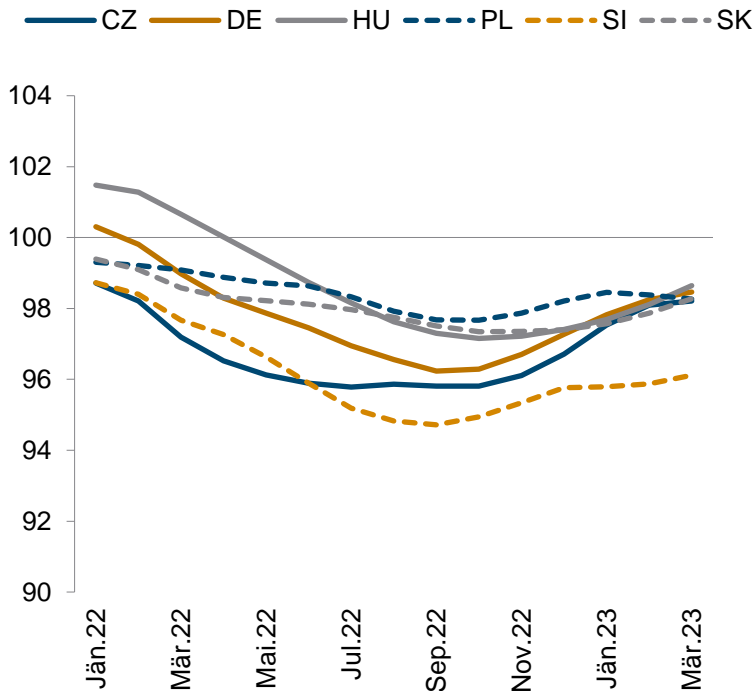


Note: Numbers above 100 suggest optimism about future business performance.

Source: OECD.

# Consumers becoming less pessimistic, hoping the worst of the crisis is now behind them

## Consumer confidence index



Note: Numbers above 100 suggest optimism about future economic performance.

Source: OECD.

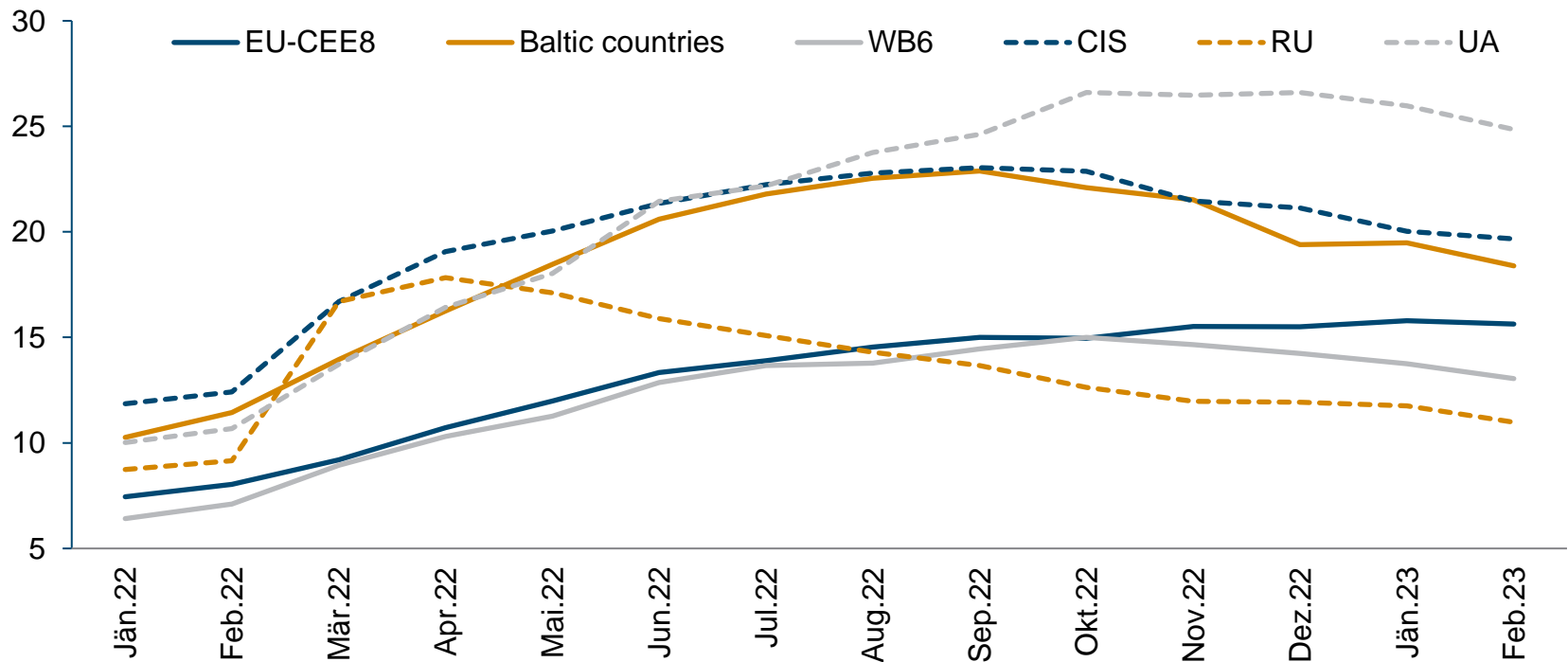
## 1. Review of the latest data:

Inflation persists, but household spending held up well in  
2022



# Inflation slowed down as global energy prices have fallen, but remains uncomfortably high

Consumer price index, % change year on year, monthly

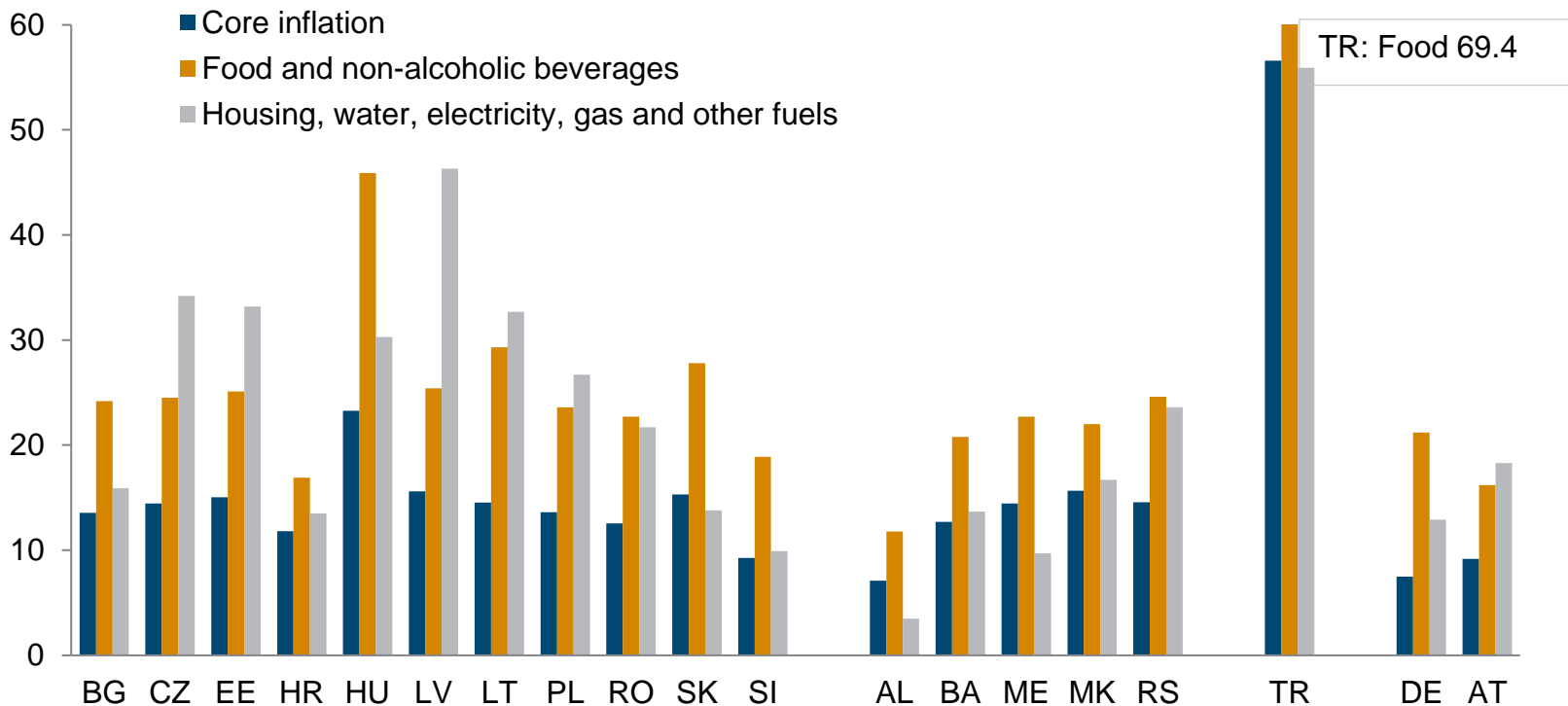


Note: EU-CEE8 includes CEE members of the EU without the Baltic countries.

Source: wiiw Monthly Database incorporating national and Eurostat statistics.

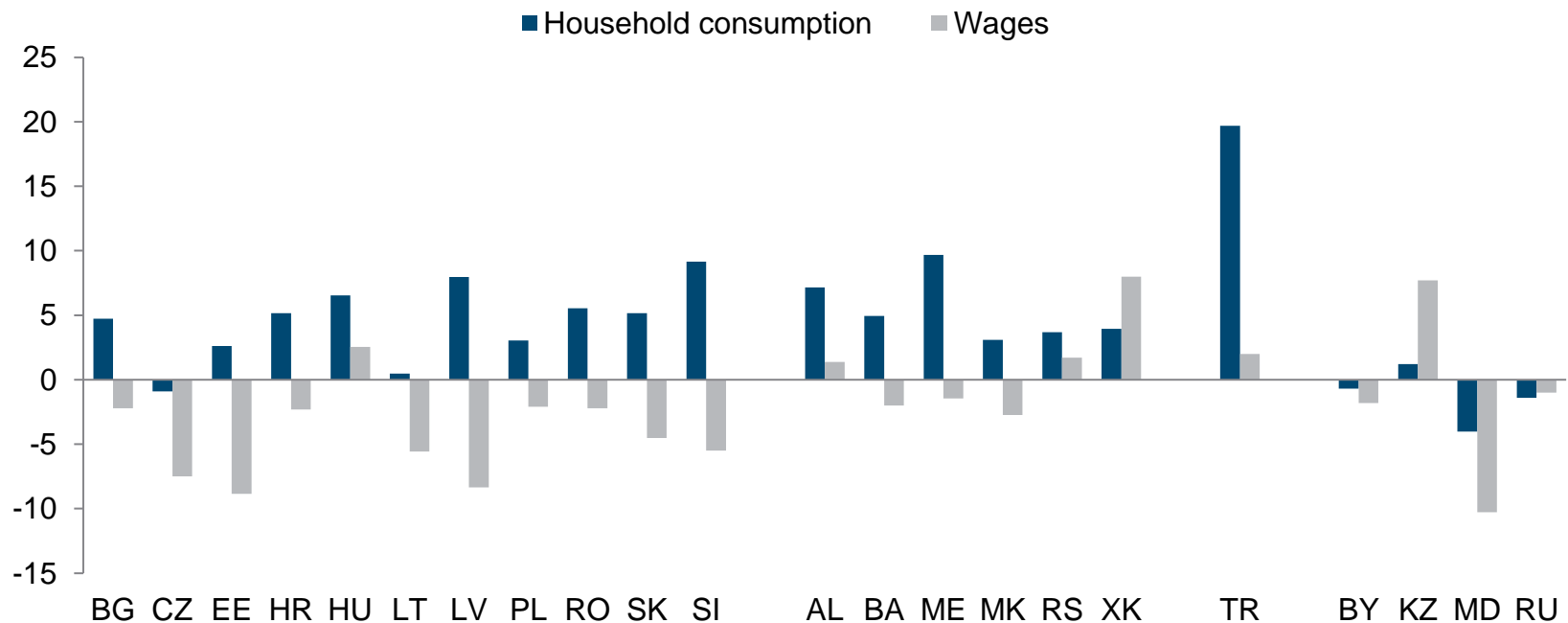
# Food and housing prices are driving inflation

Consumer price inflation sub-components in February 2023, percentage change year on year



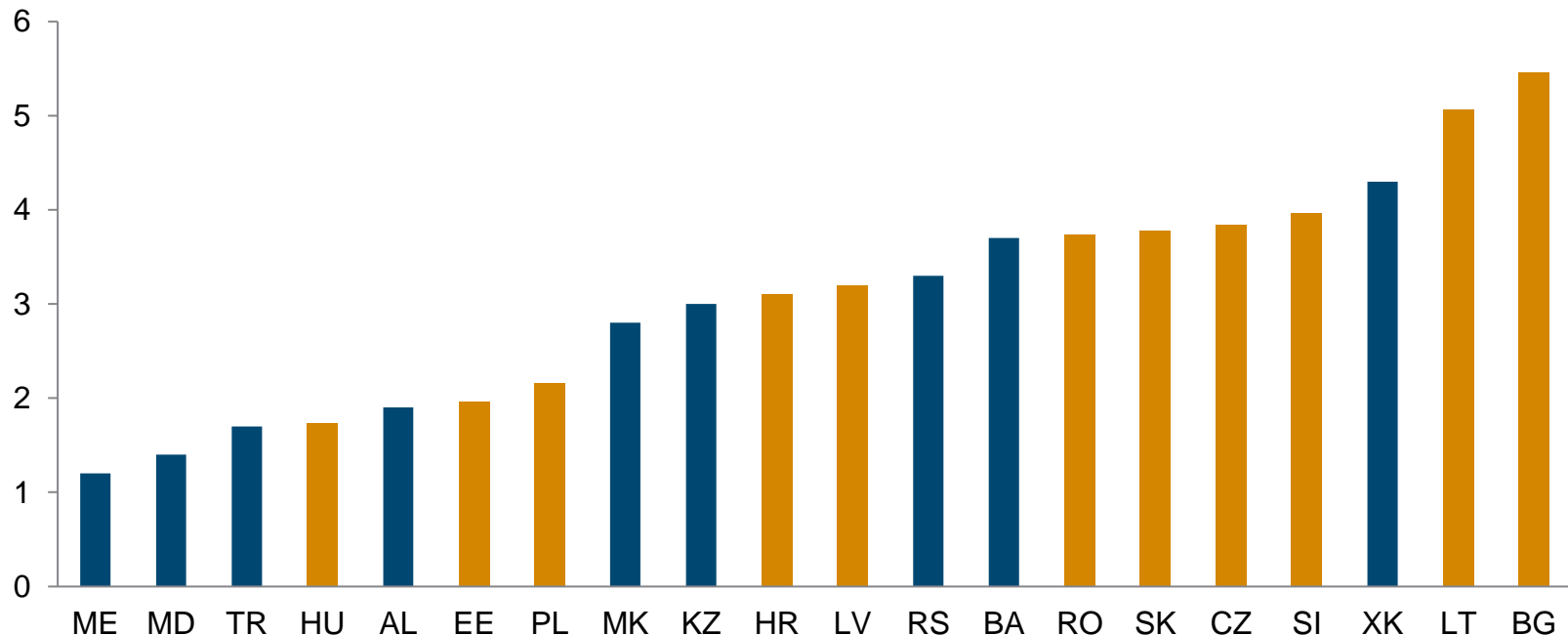
# Households have to rely to non-wage sources of income to finance their consumption

Household consumption and gross monthly wages in 2022, real, % change year on year



## Fiscal support packages were widespread, but significantly varied in size

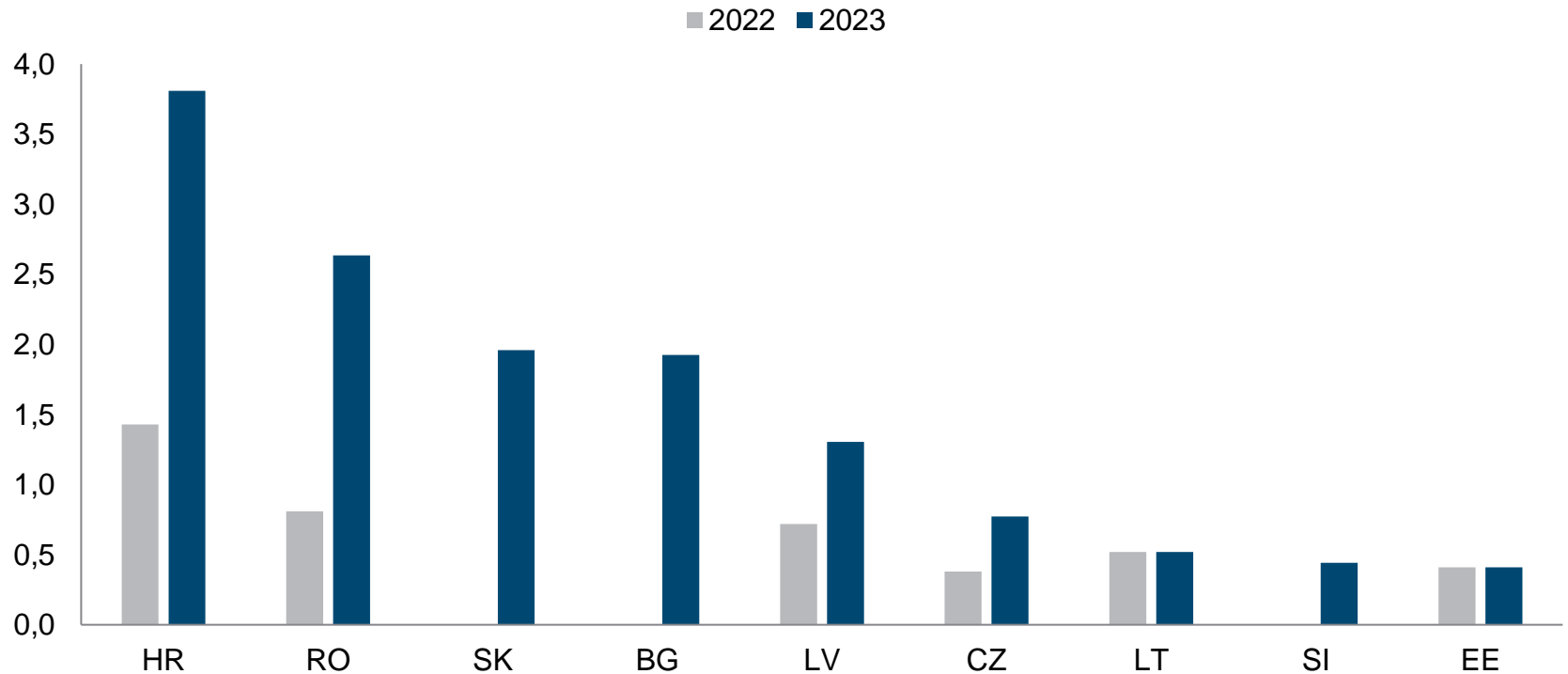
Fiscal packages implemented in 2022 in response to the cost-of-living crisis, % GDP



Source: WB (2023), Sgaravatti, G., S. Tagliapietra, C. Trasi and G. Zachmann (2021) 'National policies to shield consumers from rising energy prices', Bruegel Datasets, available at <https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices>, wiiw Annual Database incorporating national and Eurostat statistics  
own calculations

## EU-CEE members had an advantage of access to RRF funds, but drawdown varied widely across the region

Disbursements made under RRF by mid-June 2022 and by end-March 2023, % GDP

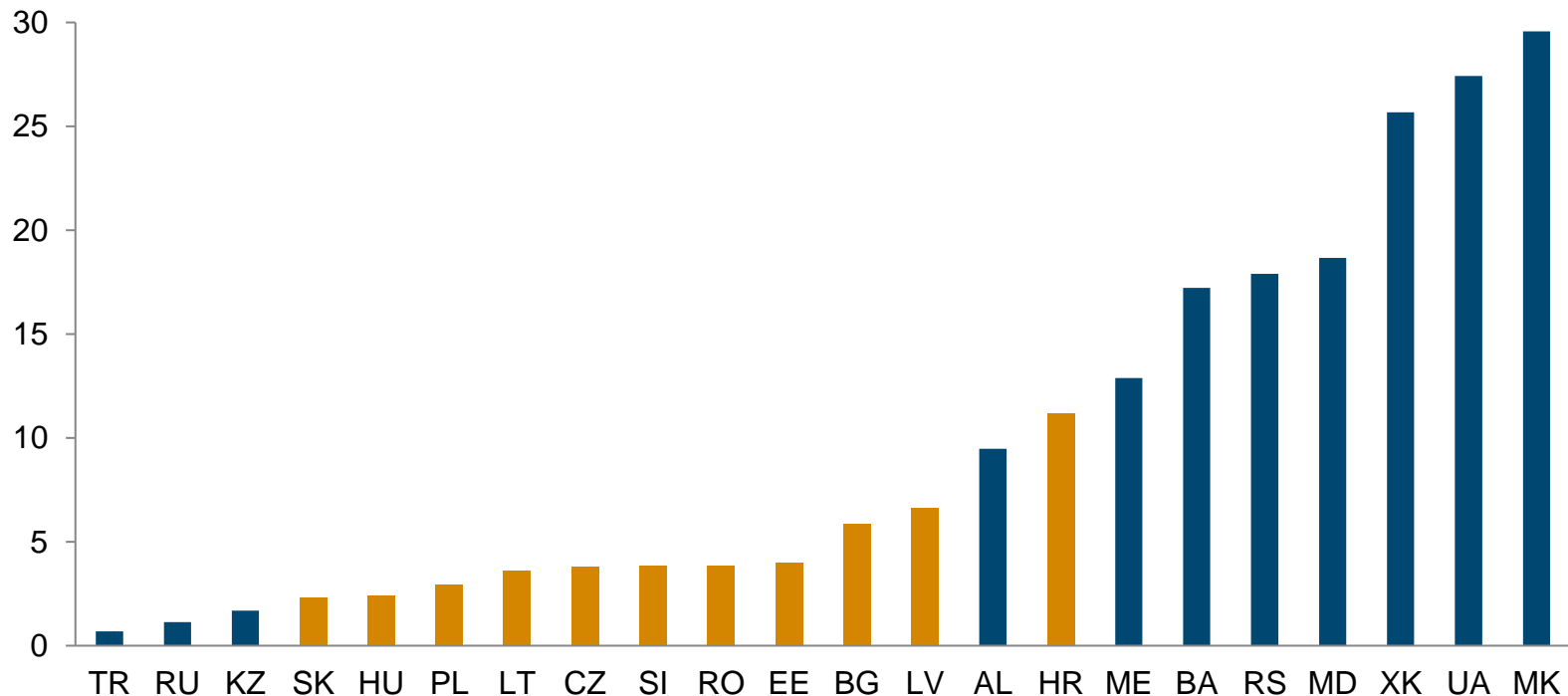


Note: Hungary and Poland are not included because they haven't drawn down any funds yet

Source: European Commission

## Households in Western Balkans and CIS had to rely more on remittances

Share of secondary income inflows in household consumption in 2022, %

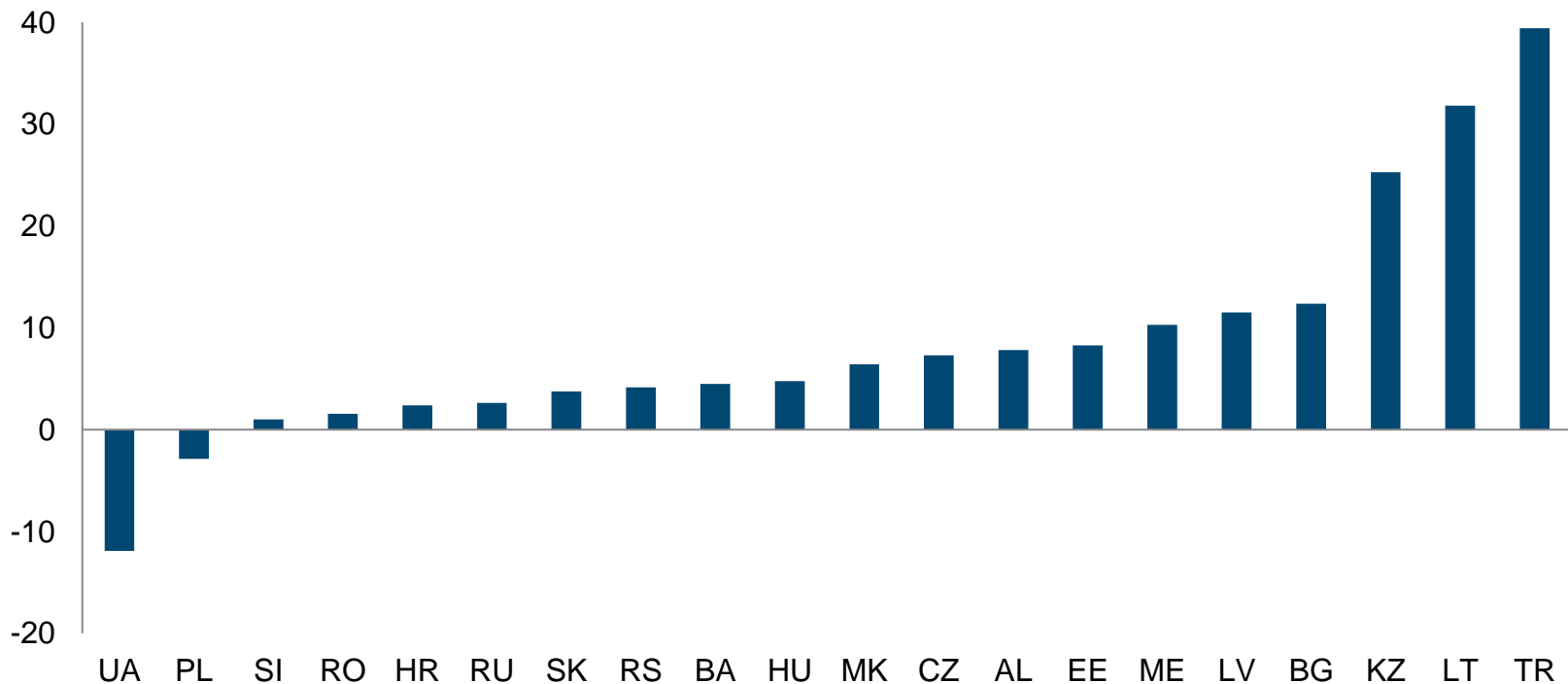


Note: Remittances account for the bulk of secondary income inflows in the region. In Ukraine in 2022 they accounted only for 51% of received secondary income, the rest was grants and humanitarian aid.

Source: wiiw Annual Database incorporating national and Eurostat statistics.

## Consumer lending continued to expand quite fast in 2022; this is unlikely to be repeated in 2023

Change in stock of consumer loans in 2022, year over year, %



Note: In Hungary loans are defined as loans to households excluding overdraft and housing; in Russia - loans to households excluding housing.

Source: National statistical offices, own calculations.

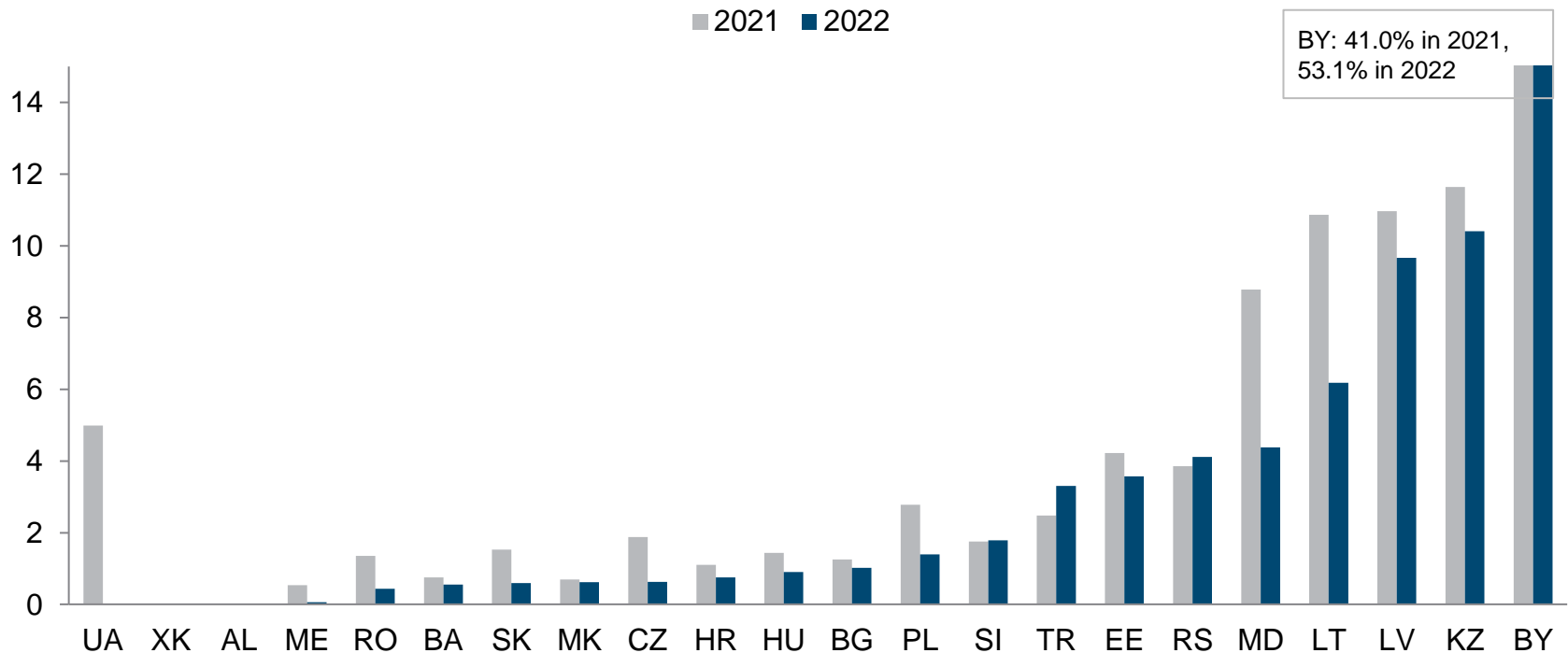
## 1. Review of the latest data:

Decoupling from Russia continued for most



## CESEE countries mostly continued their decoupling from Russia in 2022...

Share of exports to Russia in total exports, in %

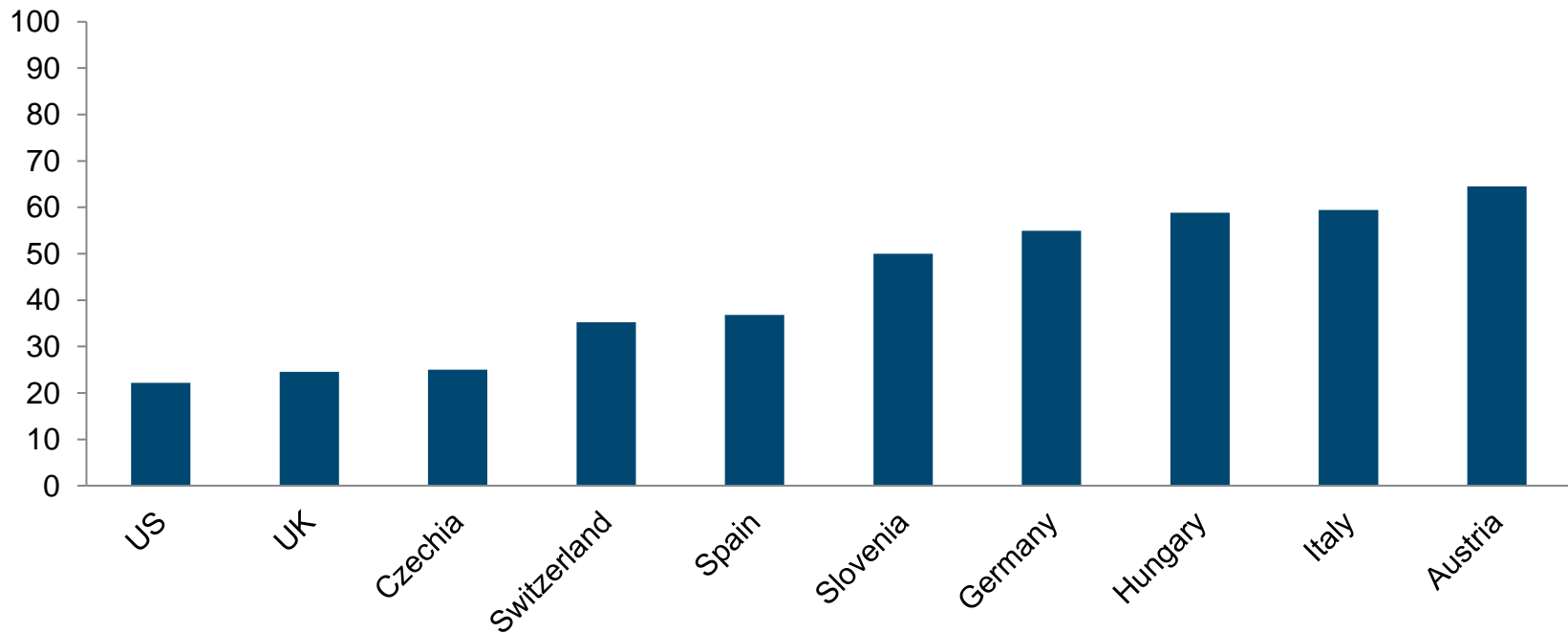


Note: 2022 data for Belarus are for January-June.

Source: National statistical offices, wiiw Annual Database, wiiw calculations.

...though the speed of exiting Russia by companies varied greatly

Share of foreign firms that continue business as usual since the invasion, % of total by country



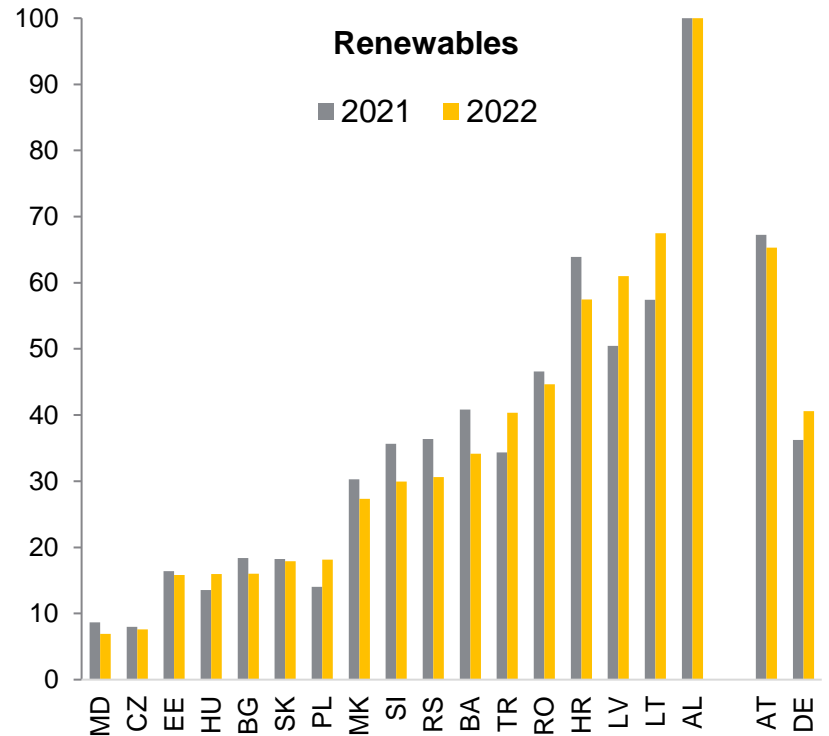
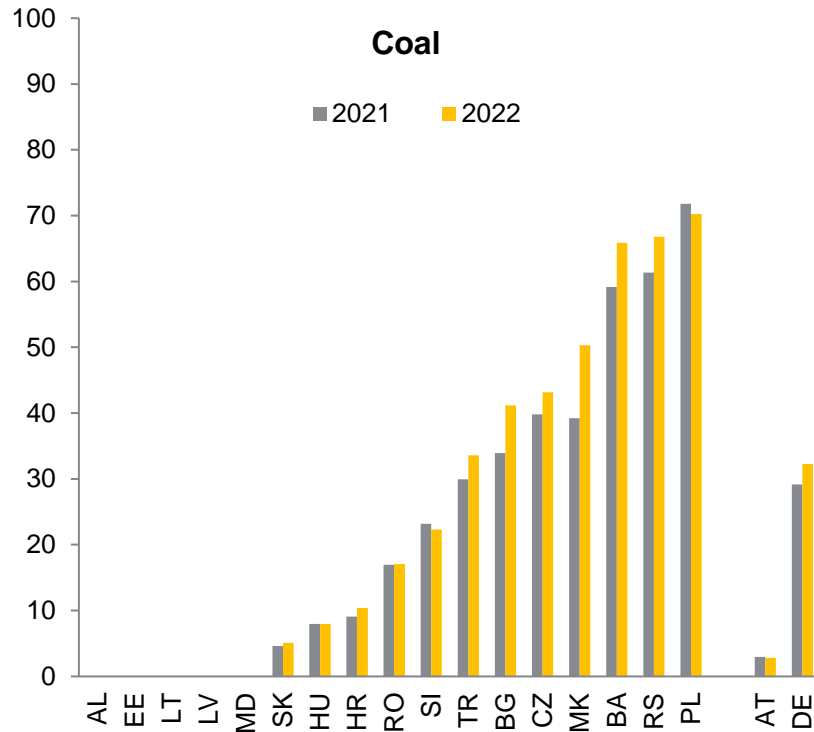
All countries managed to reduce gas consumption to wean themselves off their dependency on Russian fossil fuels

Observed inland consumption of natural gas in 2022,  
percent change year over year



## But the share of renewable energy in electricity generation mostly decreased across the region

Shares of coal and renewable energy in net electricity generation %



Note: Renewables consist of solar, wind, hydropower and geothermal energy.

Source: Eurostat, own calculations..

## 2. Outlook for 2023-25: Gradual recovery

## Forecast assumptions

- No quick end to the war in Ukraine but not major escalation (e.g. use of tactical nuclear weapons)
- Major central banks close to the end of tightening cycle
- Euro area inflation has peaked and economy will recover gradually
- US economy to continue resilience, much stronger Chinese growth this year

# Inflation will take longer than expected to slow

CPI growth forecasts and direction of revisions since wiiw winter forecast 2023

Region	2023	2024	2025
<b>EU-CEE</b>			
BG Bulgaria	10.0	7.0	5.0
CZ Czechia	10.4 ▲	4.0	3.0
EE Estonia	9.5 ▲	2.5 ▼	1.8 ▼
HR Croatia	6.5 ▲	4.0 ▲	3.0 ▲
HU Hungary	18.5 ▲	8.0 ▼	5.0 ▼
LT Lithuania	10.0 ▲	4.0 ▲	2.8
LV Latvia	11.0 ▲	4.0 ▼	3.2 ▼
PL Poland	12.5 ▼	6.0	4.0
RO Romania	9.0 ▼	5.0 ▼	4.0
SI Slovenia	6.4 ▼	3.2 ▼	2.4 ▲
SK Slovakia	10.2 ▲	5.0	3.0
<b>Western Balkans</b>			
AL Albania	4.0	3.0	2.5 ▼
BA Bosnia and Herzegovina	9.0 ▲	4.0 ▲	2.5 ▲
ME Montenegro	10.0 ▲	4.0 ▲	2.8 ▲
MK North Macedonia	9.0 ▼	4.0	3.0
RS Serbia	10.0 ▲	4.0	3.0
XK Kosovo	7.0	4.0 ▲	2.5 ▲
TR Turkey	47.7 ▲	38.2 ▲	30.0 ▲
<b>CIS+UA</b>			
BY Belarus	12.0	11.0	10.0
KZ Kazakhstan	14.0 ▲	9.0	6.0
MD Moldova	14.0	6.0	5.0 ▼
RU Russia	5.4	4.6 ▲	3.4 ▲
UA Ukraine	17.0 ▲	9.0	7.0

Note: Colour scale variation from the minimum (dark grey) to the maximum (dark orange).

Source: wiiw.

## But CESEE will avoid recession this year and growth will accelerate in 2024-2025

GDP growth forecasts and direction of revisions since wiiw winter forecast 2023

Region	2023	2024	2025
<b>EU-CEE</b>			
BG Bulgaria	1.7 ▲	2.2 ▼	2.7 ▼
CZ Czechia	0.2 ▼	2.4	2.7
EE Estonia	0.4 ▼	2.6 ▼	3.1 ▼
HR Croatia	2.5	2.9 ▲	3.1 ▲
HU Hungary	-0.5 ▲	1.5 ▼	1.7 ▼
LT Lithuania	0.9 ▼	2.6 ▼	2.5 ▼
LV Latvia	0.3 ▲	2.5 ▼	2.3 ▼
PL Poland	1.0	2.4	3.2 ▲
RO Romania	3.0 ▲	4.0	4.3 ▲
SI Slovenia	1.4 ▲	2.5 ▼	2.7 ▼
SK Slovakia	0.6	2.5 ▲	2.2 ▼
<b>Western Balkans</b>			
AL Albania	3.3 ▲	3.8 ▲	4.0 ▲
BA Bosnia and Herzegovina	1.7 ▲	1.9 ▼	2.5
ME Montenegro	2.9 ▲	3.2 ▼	3.0
MK North Macedonia	1.6 ▲	2.5	3.0 ▲
RS Serbia	1.5	2.6	3.0
XK Kosovo	3.6 ▲	3.9 ▲	4.1 ▲
TR Turkey	2.6 ▼	3.4 ▲	3.8 ▼
<b>CIS+UA</b>			
BY Belarus	1.3 ▲	1.6 ▲	2.0 ▲
KZ Kazakhstan	3.5	4.0	4.0
MD Moldova	3.0 ▲	4.0	4.0 ▼
RU Russia	0.0 ▲	1.0	1.5
UA Ukraine	1.6 ▼	3.4 ▼	5.0 ▼

Note: Colour scale variation from the minimum (dark grey) to the maximum (dark orange).

Source: wiiw.



### 3. Risks to the outlook: Strong and to the downside

## Risks to the outlook: Primarily to the downside

- Monetary tightening:
  - Drag on economic growth (delayed impact)
  - Could expose further risks in the financial sector
- Intensification of the war in Ukraine:
  - Potential use of tactical nuclear weapons
- Republican victory in the US 2024 presidential election:
  - Doubts over US commitment to the region could have big confidence impact

## Conclusions

- Growth has bottomed out, inflation has peaked
- Real GDP growth will accelerate in 2024-25
- Most of the relative success stories are in Southeast Europe
- Russia: Resilience but major sectoral differentiation
- Ukraine: Huge shock, impressive adaptability, long road ahead
- Risks to the downside

**Thank you for your attention!**

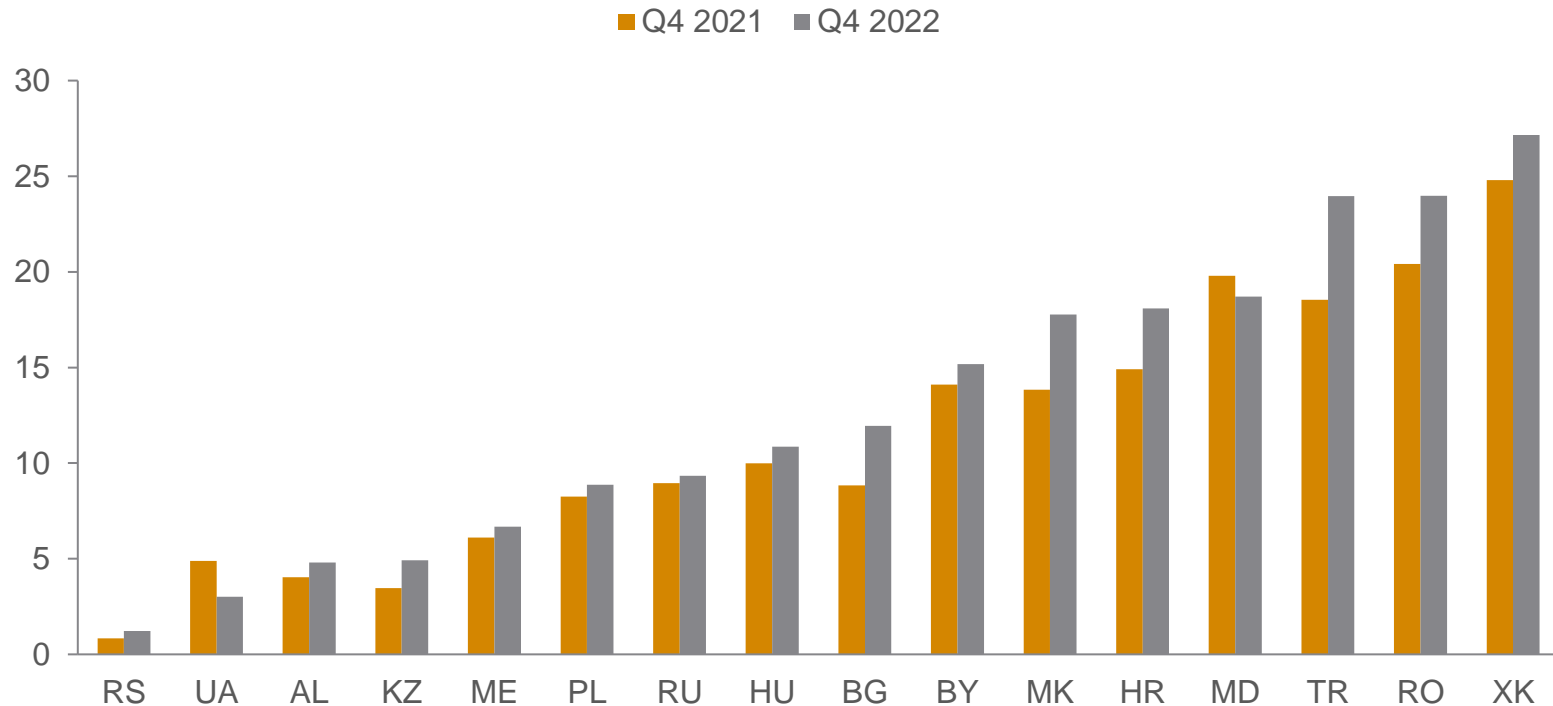
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## A sharp tightening of financial conditions poses a risk for highly indebted countries

Gross external debt, short-term, nominal, % of GDP



## Access of banks to funding has worsened with decreasing cross-border lending

Cross-border consolidated bank claims on guarantor basis in nominal USD terms in Q3 2022, change year over year, %

