

July 5th 2023

Summer Forecast for CESEE

Southeast Europe motors on while rest of region struggles

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Overview

1. Recent economic trends

- Economic growth
- Industrial production and exports
- Inflation and its drivers
- Monetary policy and credit dynamics

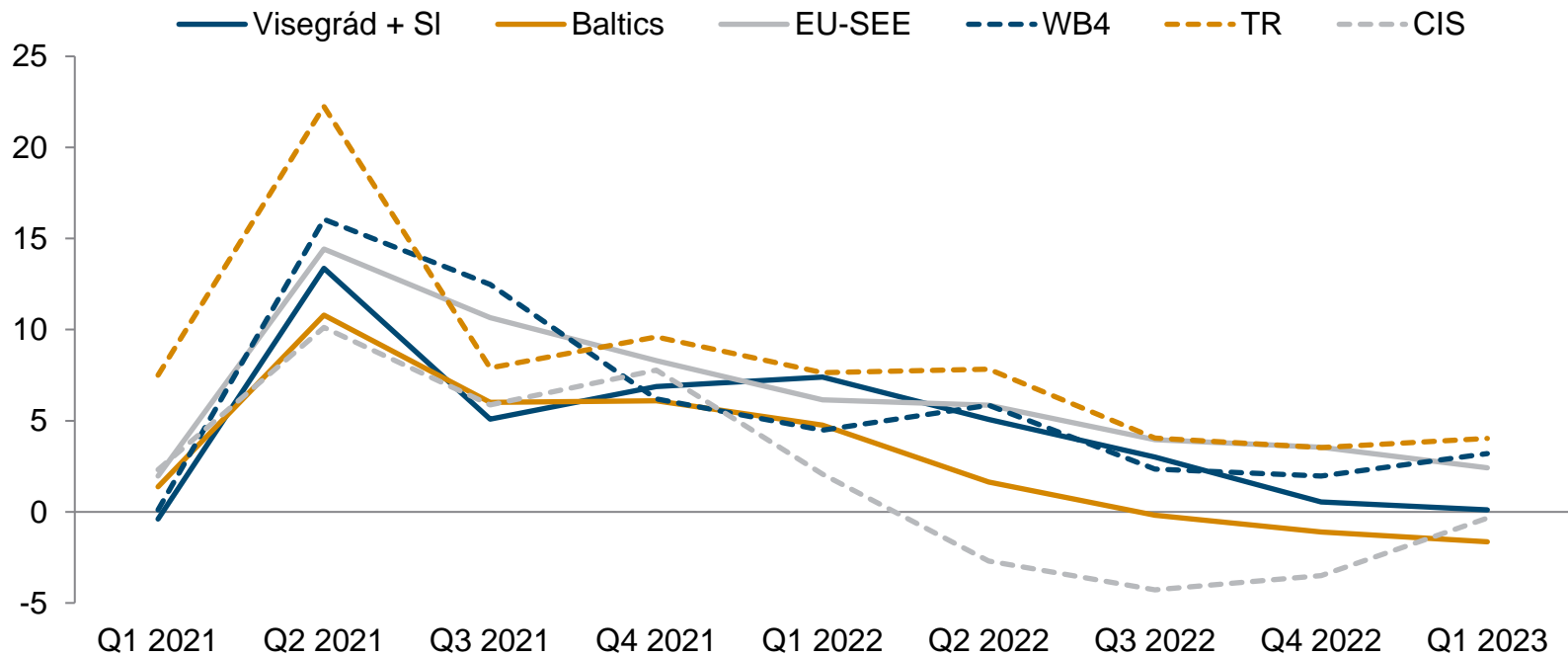
2. Outlook for 2023-2025

3. Conclusions

1. Recent economic trends

Further slowdown in EU-CEE, improvements elsewhere

Real GDP, % change year on year

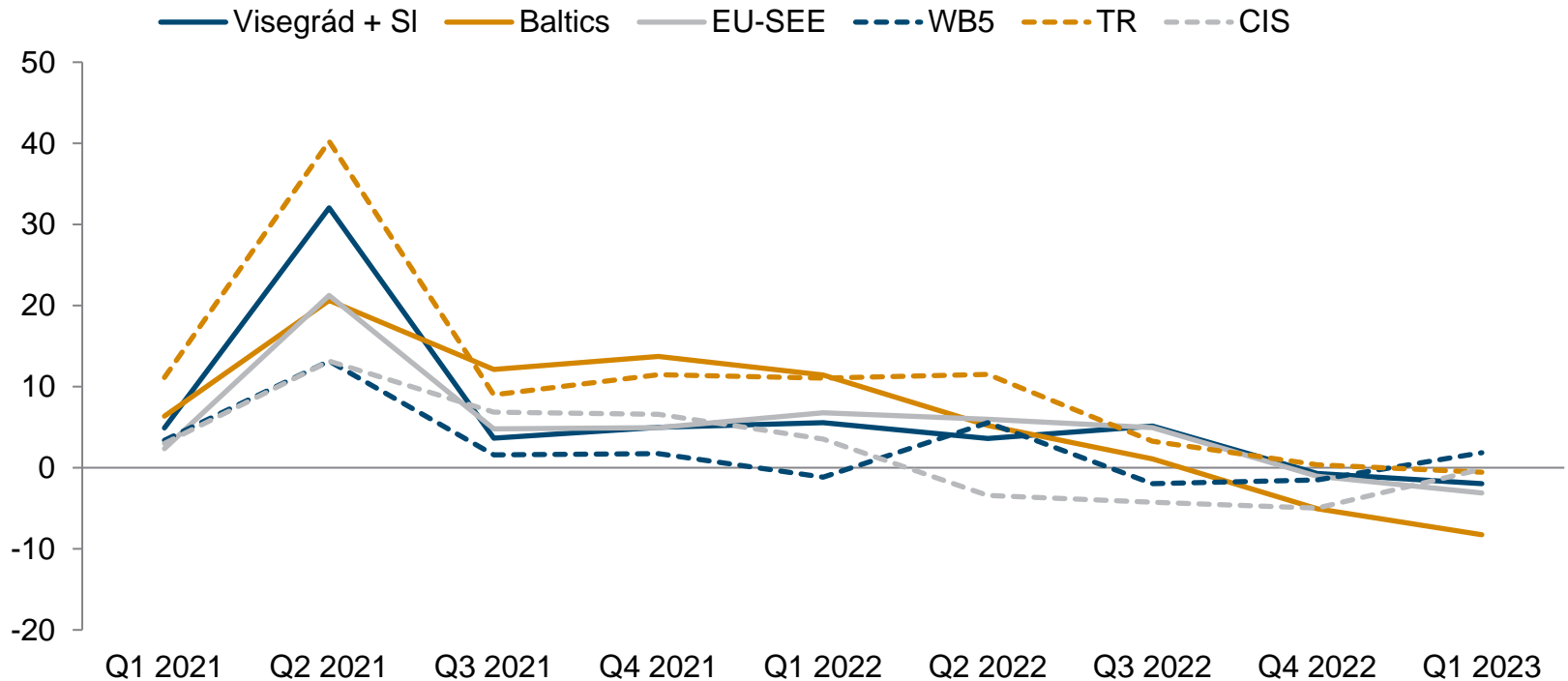


Note: Simple averages. WB4 includes Kosovo, Montenegro, North Macedonia and Serbia. EU-SEE includes Bulgaria, Croatia and Romania. Ukraine is not included.

Source: wiiw Monthly Database incorporating national and Eurostat statistics.

Industry largely in a downturn...

Gross industrial output, % change year on year

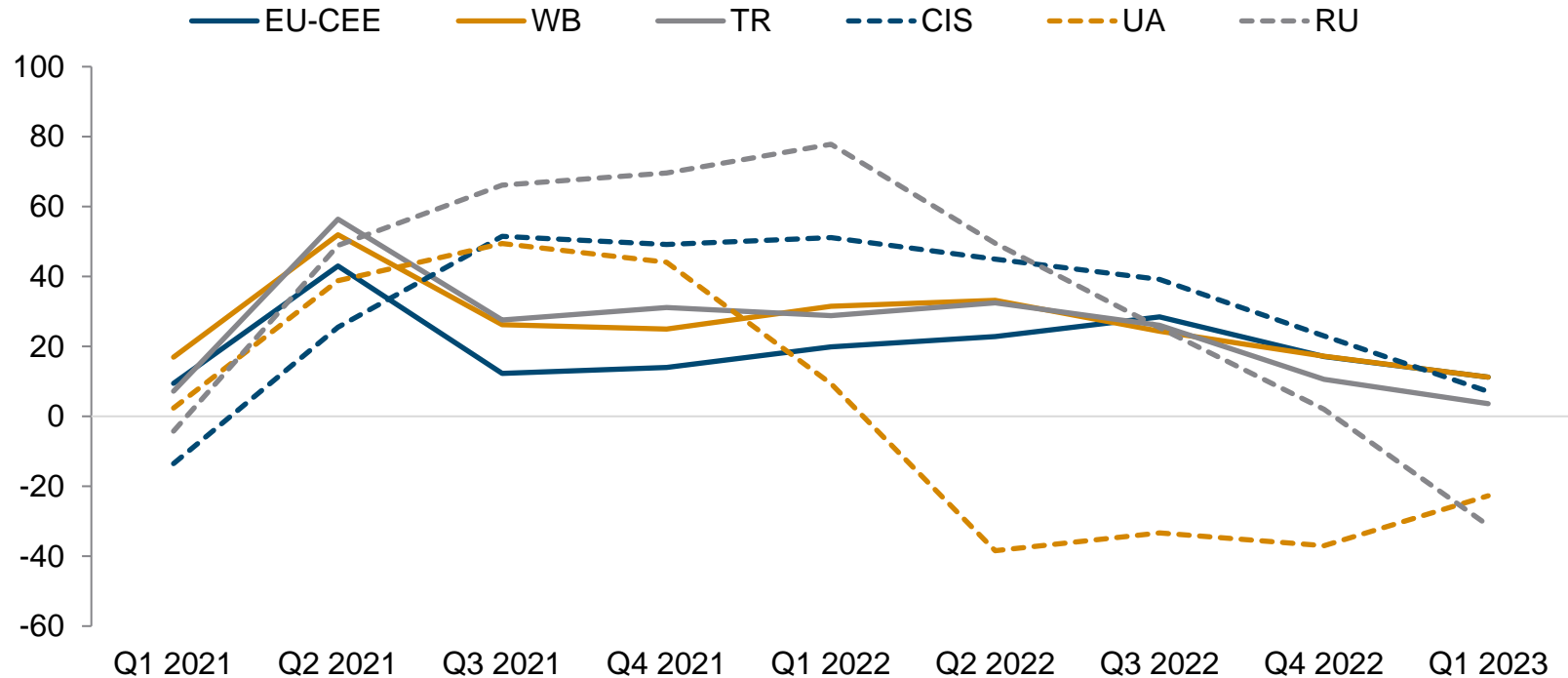


Note: Simple averages. WB5 includes Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. EU-SEE includes Bulgaria, Croatia and Romania. Ukraine is not included.

Source: wiiw Monthly Database incorporating national and Eurostat statistics.

... reflecting export weakness

Annual growth in merchandise exports (euro-based), %

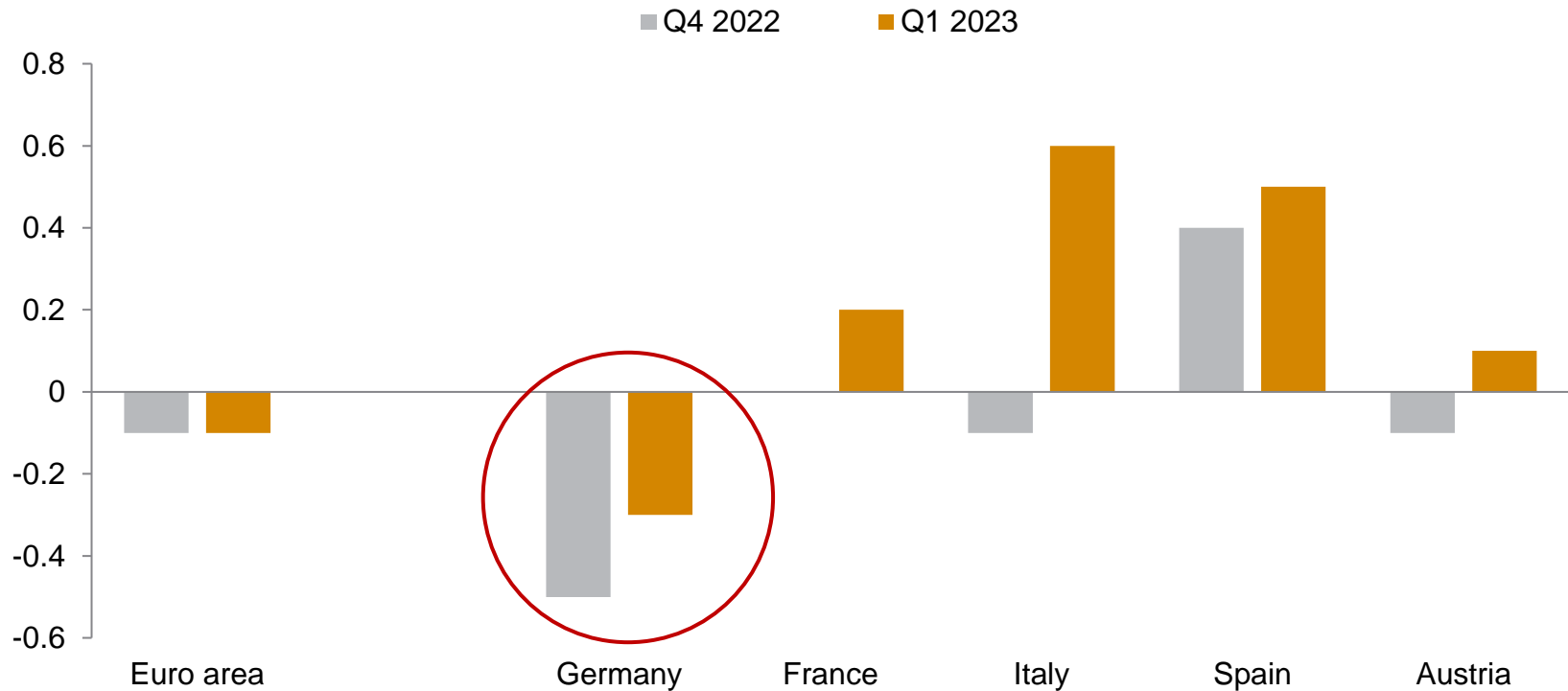


Note: CIS includes Belarus, Kazakhstan, and Moldova. Data for Russia according to BOP methodology.

Source: wiiw Monthly Database incorporating national statistics.

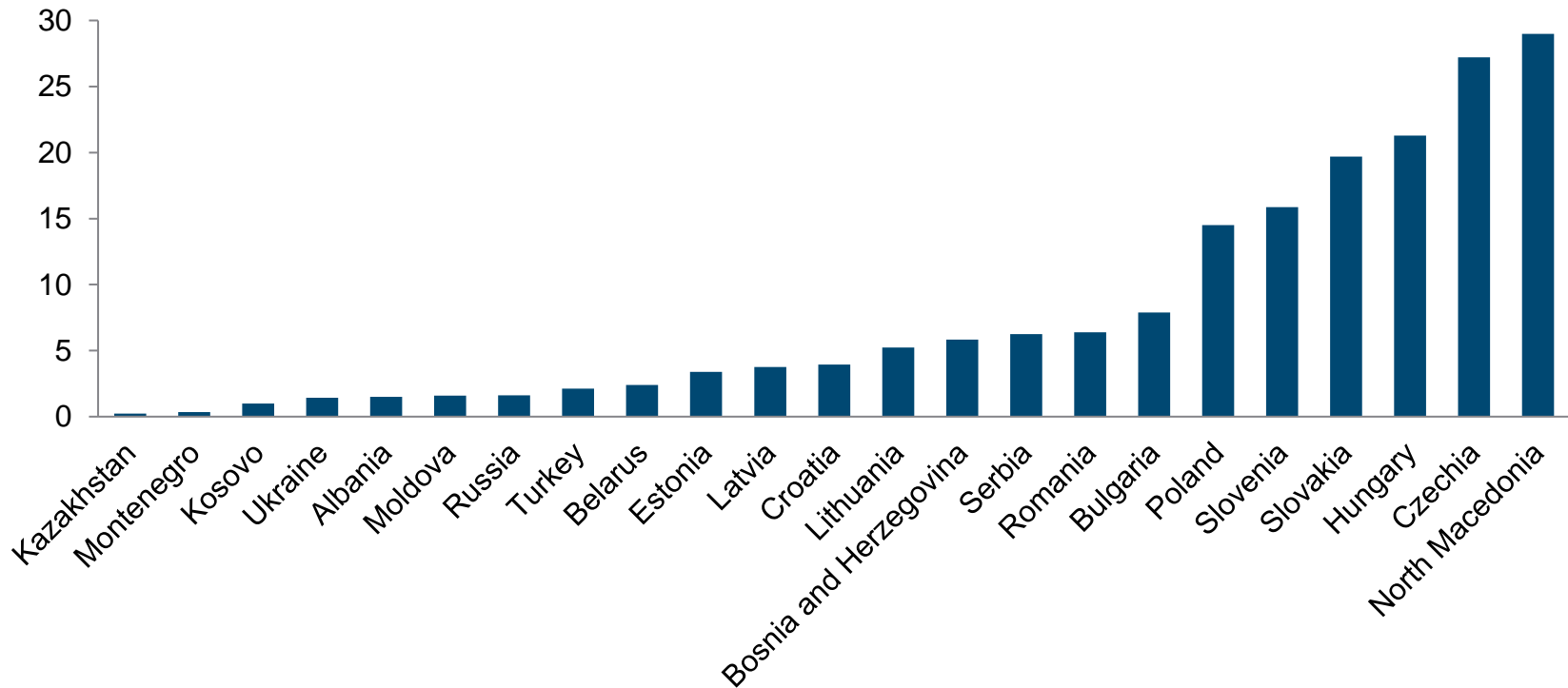
Main external market – Germany – has been in recession...

Real GDP, % change versus previous quarter



... while regional trade ties with Germany are very strong

Exports to Germany in 2022, % of GDP



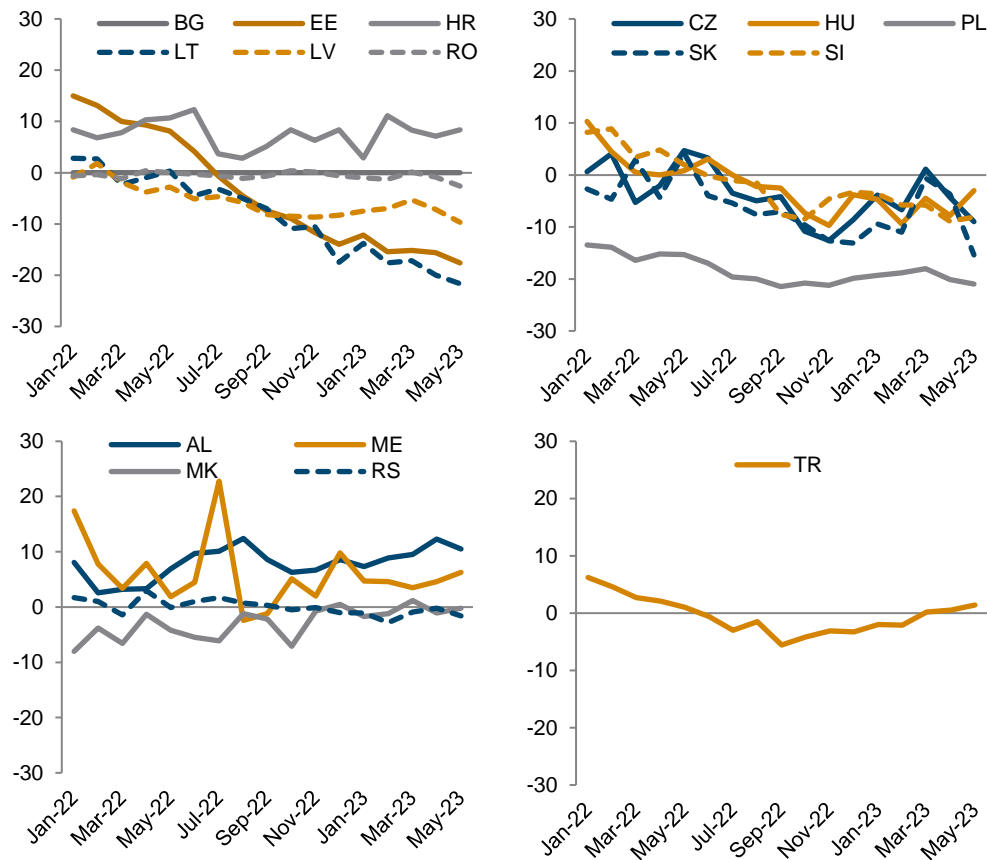
Note: Merchandise exports. Belarus, Russia and Ukraine data for 2021.

Sources: National sources, Eurostat.

Weak expectations in industry...

Industrial confidence indicator

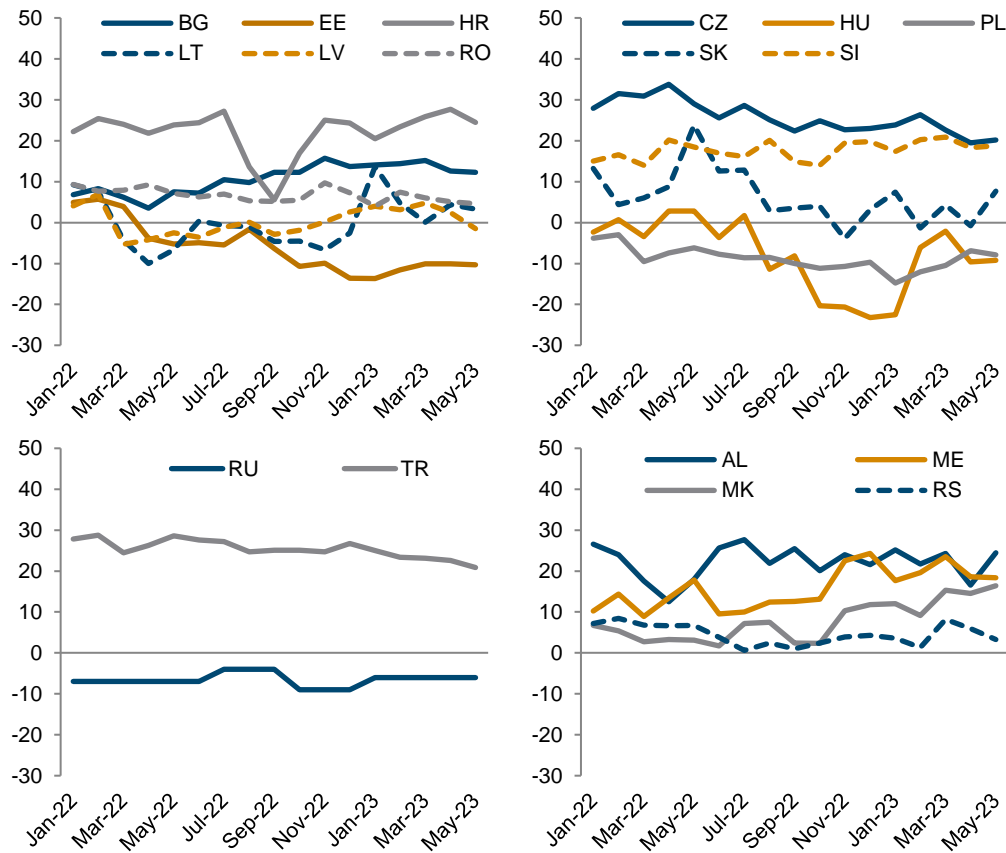
Balance of positive over negative survey results



... unlike in services

Services confidence indicator

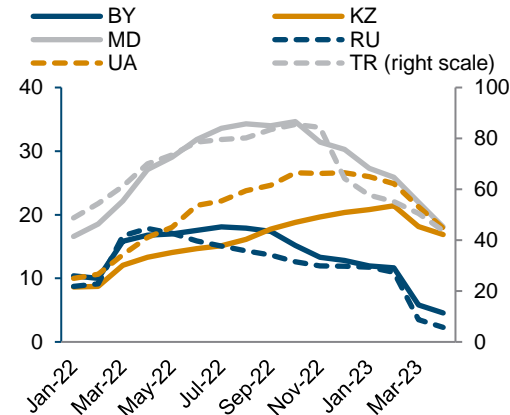
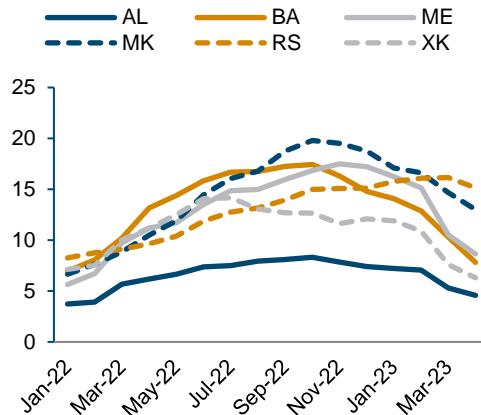
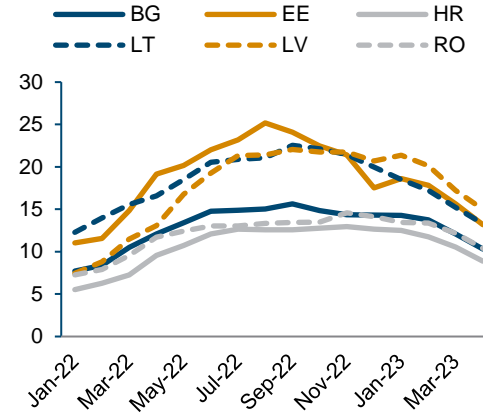
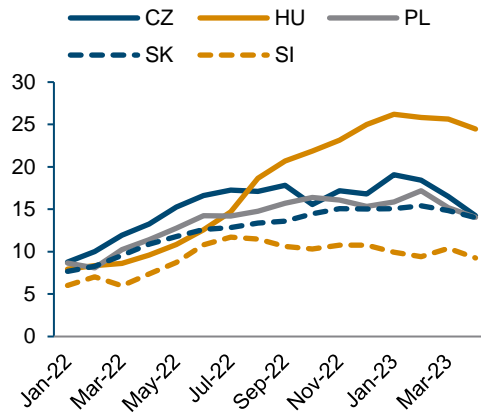
Balance of positive over negative survey results



Note: seasonally adjusted. Source: Eurostat and OECD statistics.

Peak of inflation has already passed

CPI, % change year on year

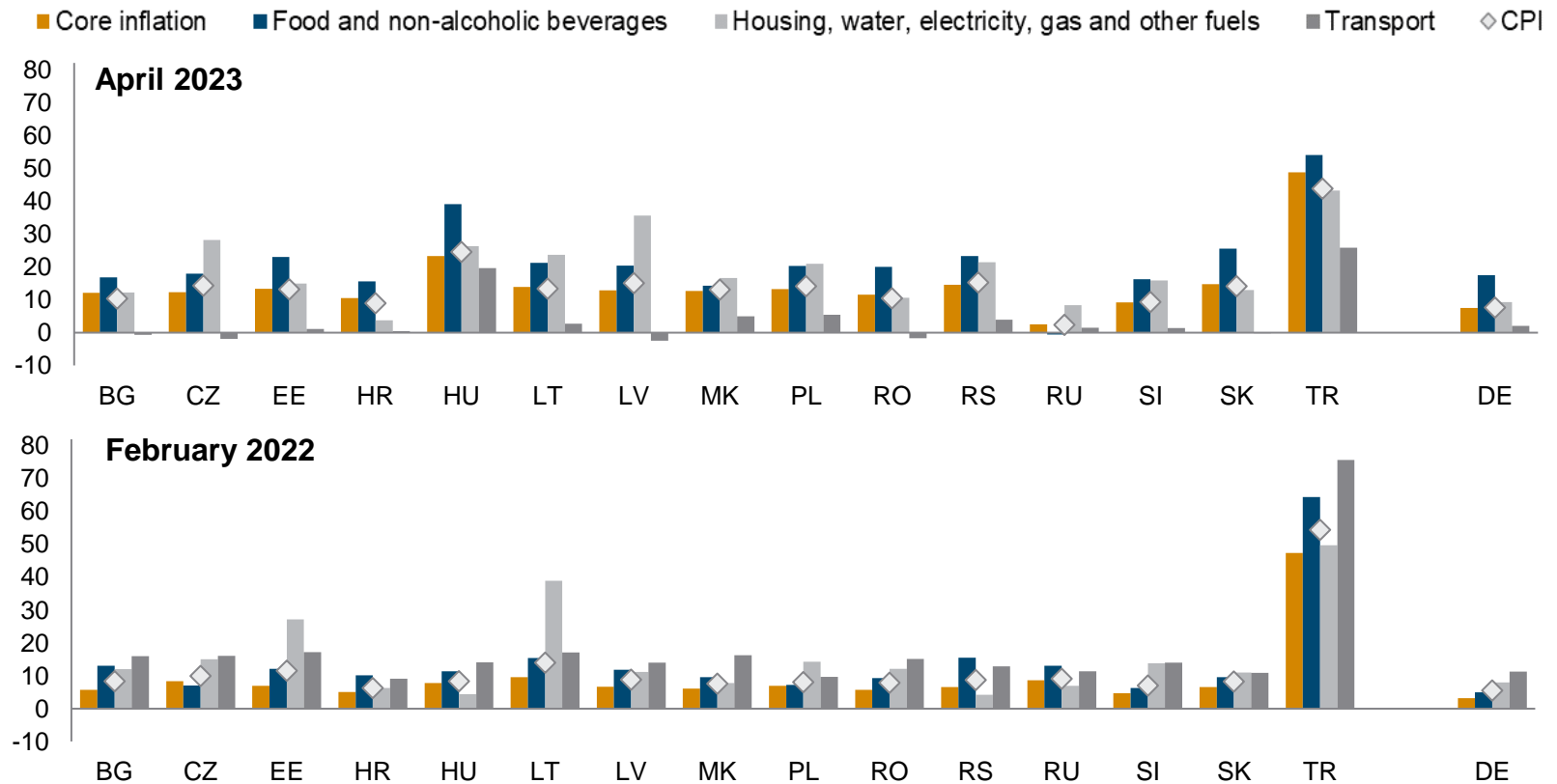


Note: Harmonised Index of Consumer Prices (HICP) for EU-CEE.

Source: wiiw Monthly Database, incorporating national and Eurostat statistics.

Food prices main driver, core inflation double-digit

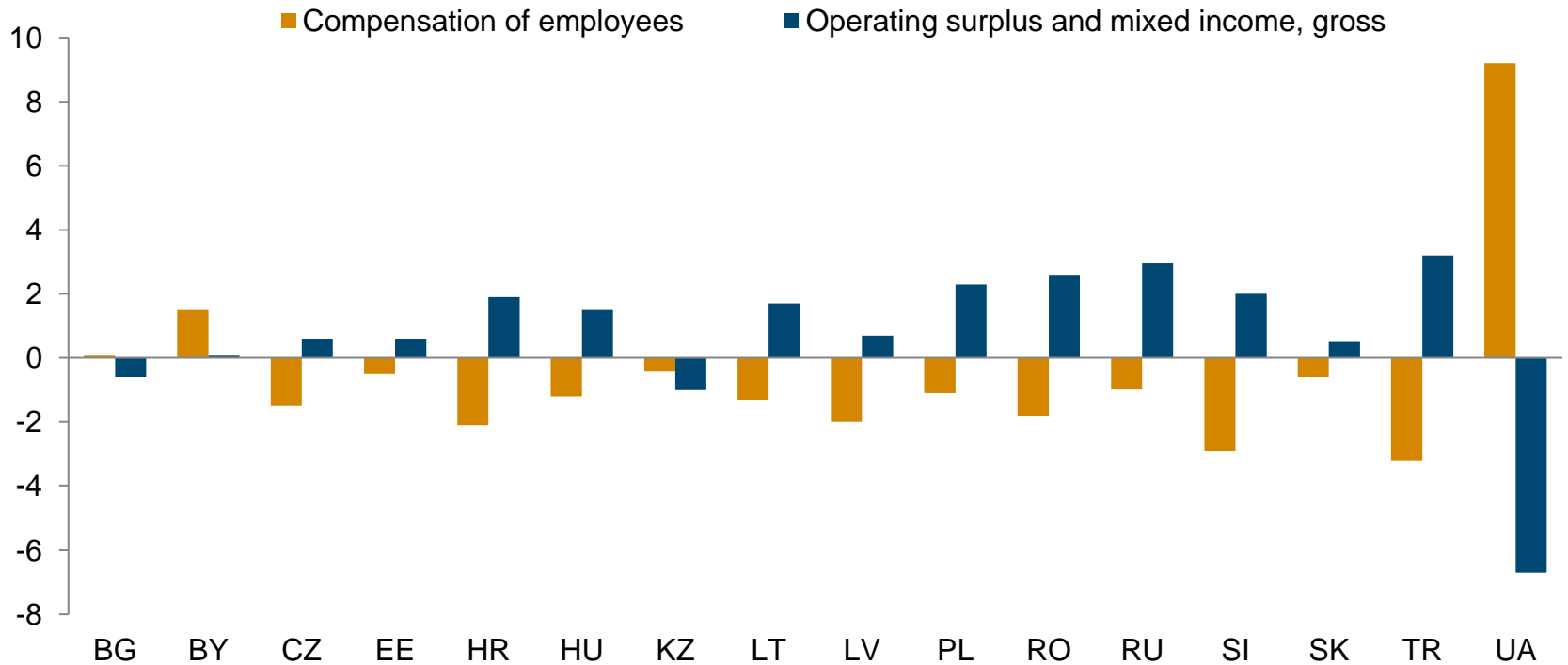
Sub-components of CPI, % change year on year



Source: National sources, Eurostat, wiiw.

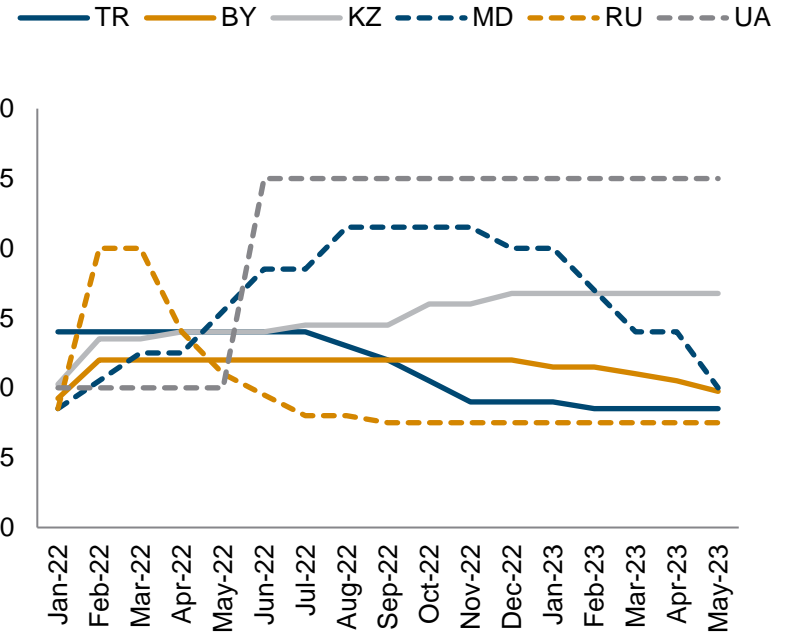
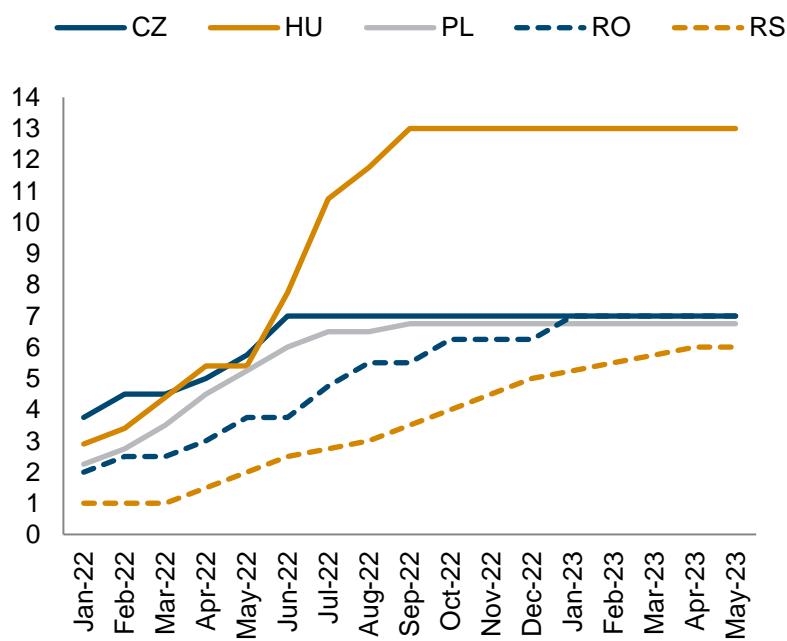
Inflation largely profit-led

Change in GDP shares of wages and profits from 2021 to 2022, pp



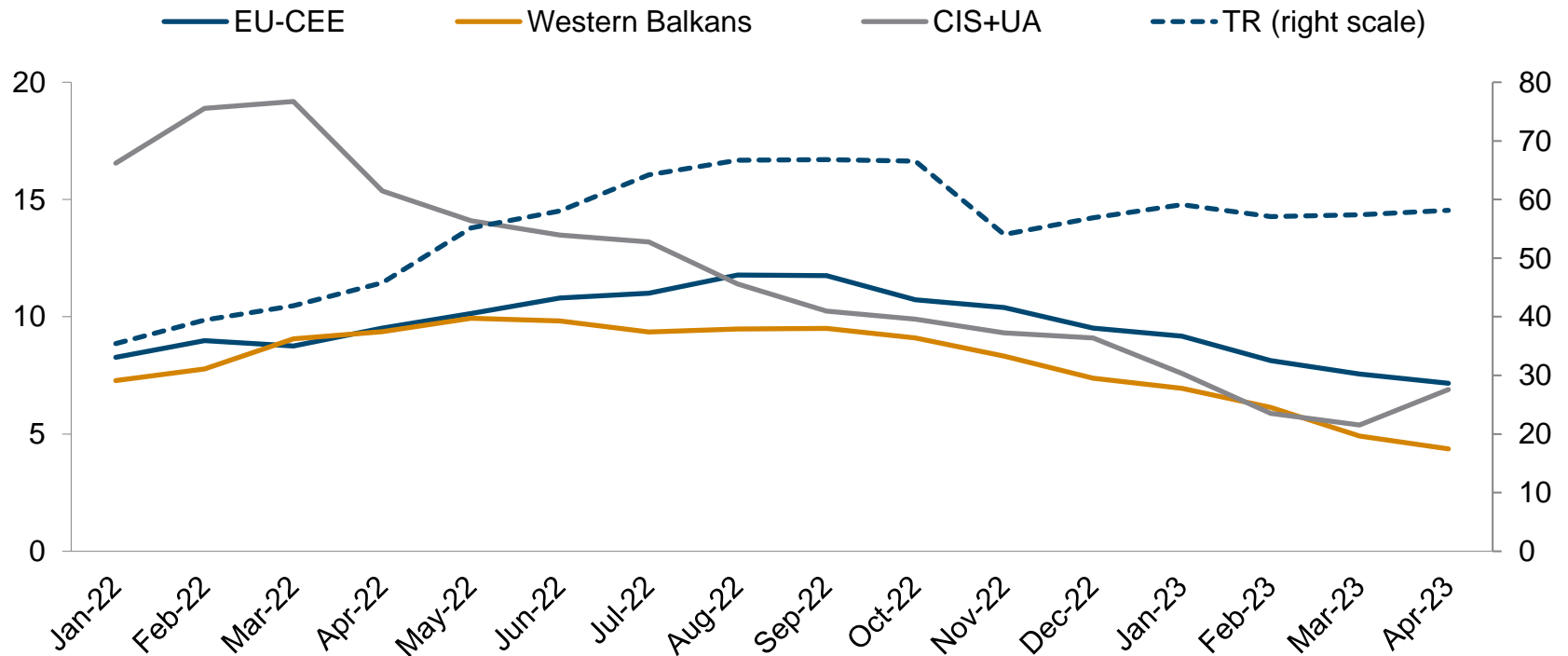
Monetary policy has been substantially tightened...

Central bank nominal policy rate, %



... which has curbed credit growth

Credit growth of non-financial private sector, % year on year

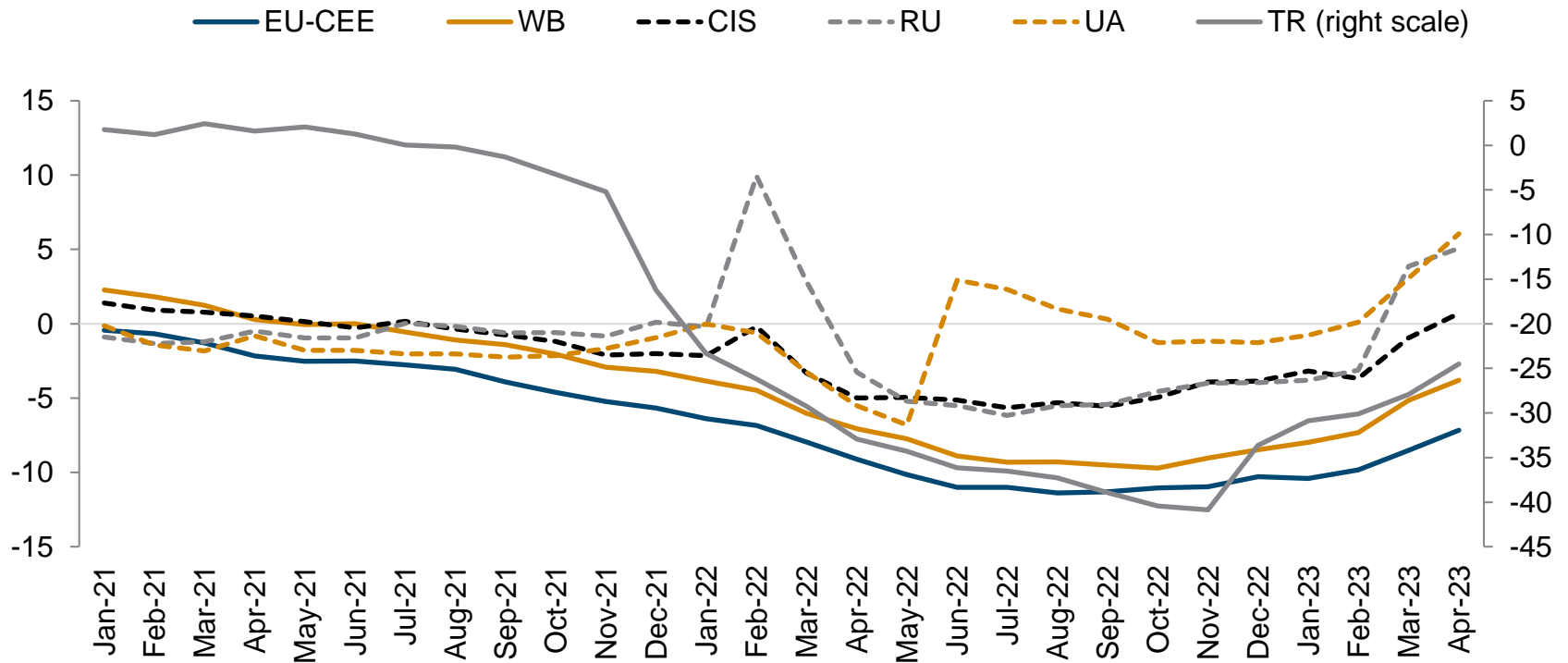


Note: Simple averages for country aggregates.

Source: wiiw Monthly Database, incorporating national statistics.

But real interest rates still mostly negative

Real policy rate, %



Note: Deflated with CPI. Simple averages for country aggregates. CIS includes Belarus, Kazakhstan, and Moldova.

Source: wiiw Monthly Database incorporating national statistics.

2. Outlook for 2023-2025

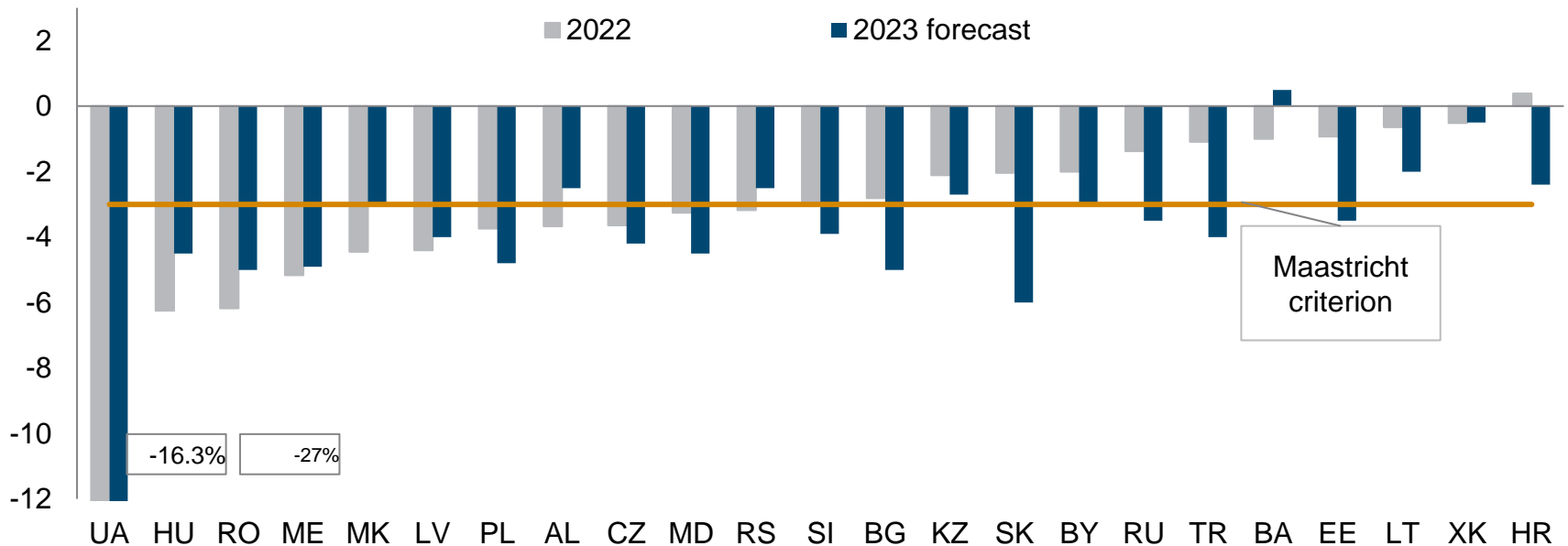
2023: Improved growth prospects in CESEE as a whole...

- ... but only thanks to Russia and Ukraine
 - Russia: adjustment to sanctions, booming military sector
 - Ukraine: economic stabilisation under war conditions
- Visegrád, Baltics, Turkey: marked growth slowdown
 - weak external environment
 - tight monetary policy
- Southeast Europe holds up well
 - large inflows of EU funds (RRF)
 - booming tourism, FDI and remittances
 - but: question marks over Kosovo and Serbia

2024-2025: gradual acceleration of growth

But: in EU-CEE fiscal consolidations likely ahead

Fiscal balance, as % of GDP



GDP growth forecasts and revisions since spring 2023

Region	2023	2024	2025
EU-CEE			
BG Bulgaria	1.3 ▼	2.0 ▼	2.5 ▼
CZ Czechia	0.2	2.4	2.7
EE Estonia	0.2 ▼	2.8 ▲	3.1
HR Croatia	2.5	2.9	3.1
HU Hungary	-0.5	2.0 ▲	2.5 ▲
LT Lithuania	0.3 ▼	2.7 ▲	3.0 ▲
LV Latvia	0.8 ▲	2.8 ▲	3.0 ▲
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	2.0 ▼	2.4 ▲
Western Balkans			
AL Albania	3.3	3.8	4.0
BA Bosnia and Herzegovina	1.5 ▼	2.3 ▲	2.5
ME Montenegro	3.5 ▲	2.9 ▼	3.0
MK North Macedonia	1.6	2.5	3.0
RS Serbia	1.3 ▼	2.5 ▼	3.0
XK Kosovo	3.4 ▼	3.9	4.1
TR Turkey	2.6	3.4	3.8
CIS+UA			
BY Belarus	1.9 ▲	2.2 ▲	2.5 ▲
KZ Kazakhstan	4.5 ▲	4.0	4.0
MD Moldova	2.5 ▼	4.0	4.0
RU Russia	1.0 ▲	1.5 ▲	1.5
UA Ukraine	2.0 ▲	4.0 ▲	6.0 ▲

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

Source: wiiw forecasts as of 15 June 2023.

CPI forecasts and revisions since spring 2023

Region		2023	2024	2025
EU-CEE				
BG	Bulgaria	10.0	7.0	5.0
CZ	Czechia	11.0 ▲	3.5 ▼	2.8 ▼
EE	Estonia	10.1 ▲	3.0 ▲	1.8
HR	Croatia	6.5	4.0	3.0
HU	Hungary	18.5	6.0 ▼	3.0 ▼
LT	Lithuania	10.0	2.8 ▼	2.0 ▼
LV	Latvia	11.0	2.7 ▼	2.6 ▼
PL	Poland	12.5	6.0	4.0
RO	Romania	9.0	6.0 ▲	4.0
SI	Slovenia	6.6 ▲	3.6 ▲	2.8 ▲
SK	Slovakia	10.2	5.0	3.0
Western Balkans				
AL	Albania	4.0	3.0	2.5
BA	Bosnia and Herzegovina	8.7 ▼	4.0	2.5
ME	Montenegro	9.7 ▼	4.0	2.8
MK	North Macedonia	9.0	4.0	3.0
RS	Serbia	12.0 ▲	5.0 ▲	3.0
XK	Kosovo	7.0	4.0	2.5
TR	Turkey	42.8 ▼	33.8 ▼	17.1 ▼
CIS+UA				
BY	Belarus	9.0 ▼	8.0 ▼	8.0 ▼
KZ	Kazakhstan	14.5 ▲	9.0	6.0
MD	Moldova	14.0	6.0	5.0
RU	Russia	5.1 ▼	4.6	3.4
UA	Ukraine	14.0 ▼	9.0	7.0

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

Source: wiiw forecasts as of 15 June 2023.

3. Conclusions

Conclusions

- Marked growth slowdown underway in most of CESEE
- But recovery in the CIS and Ukraine, after last year's crisis
- Recession in Germany weighs on growth, especially in EU-CEE
- Southeast Europe outperforms the rest
- Peak of inflation already passed, but inflation remains high...
- ... and largely profit-led, with little evidence of a wage-price spiral
- Tight monetary policy will likely stay at least until end-2023...
- ...which dampens credit dynamics and GDP growth

Thank you for your attention!

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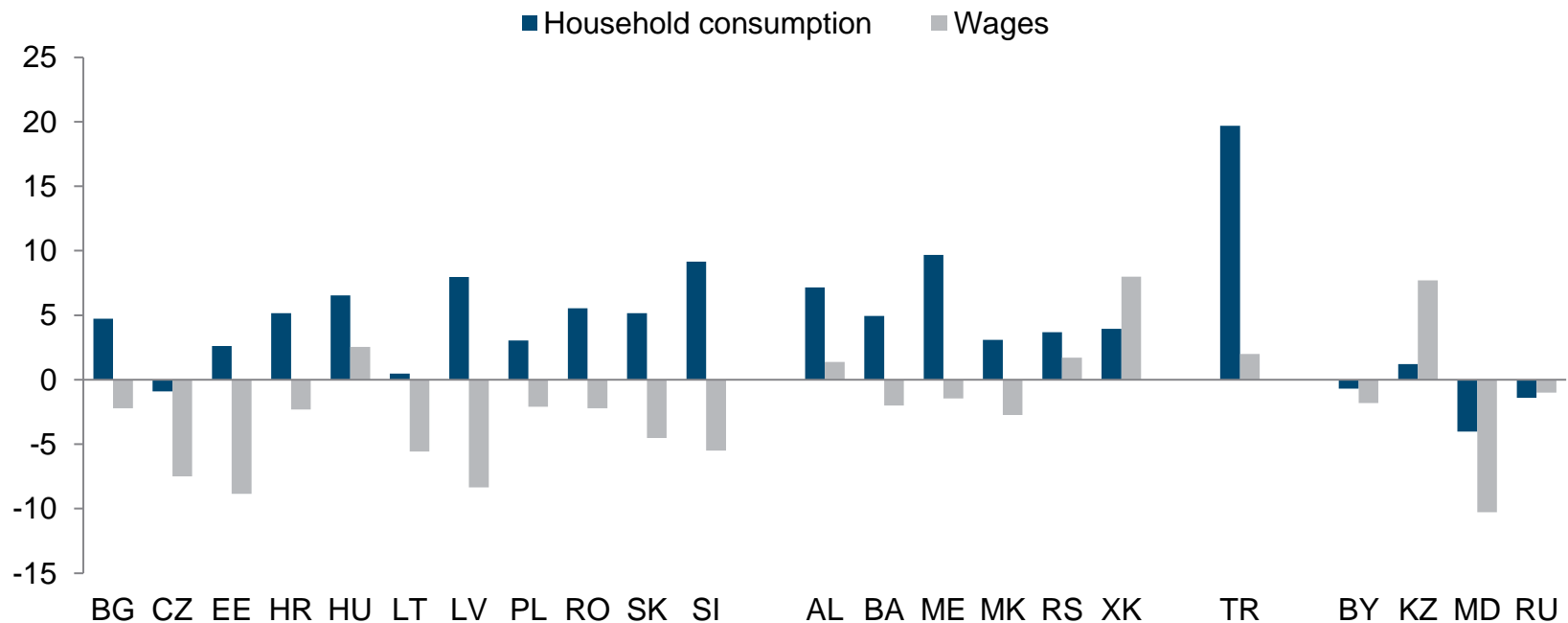
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Extra slides

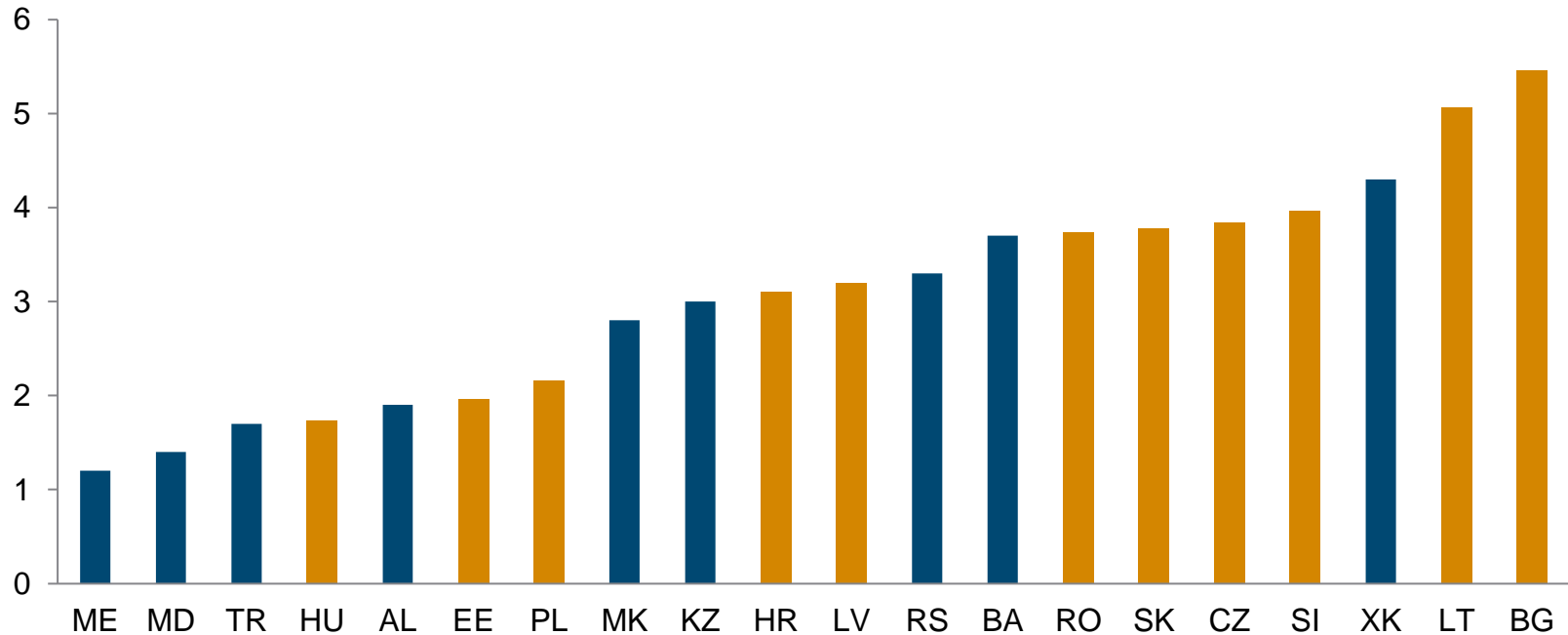
Households have to rely to non-wage sources of income to finance their consumption

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



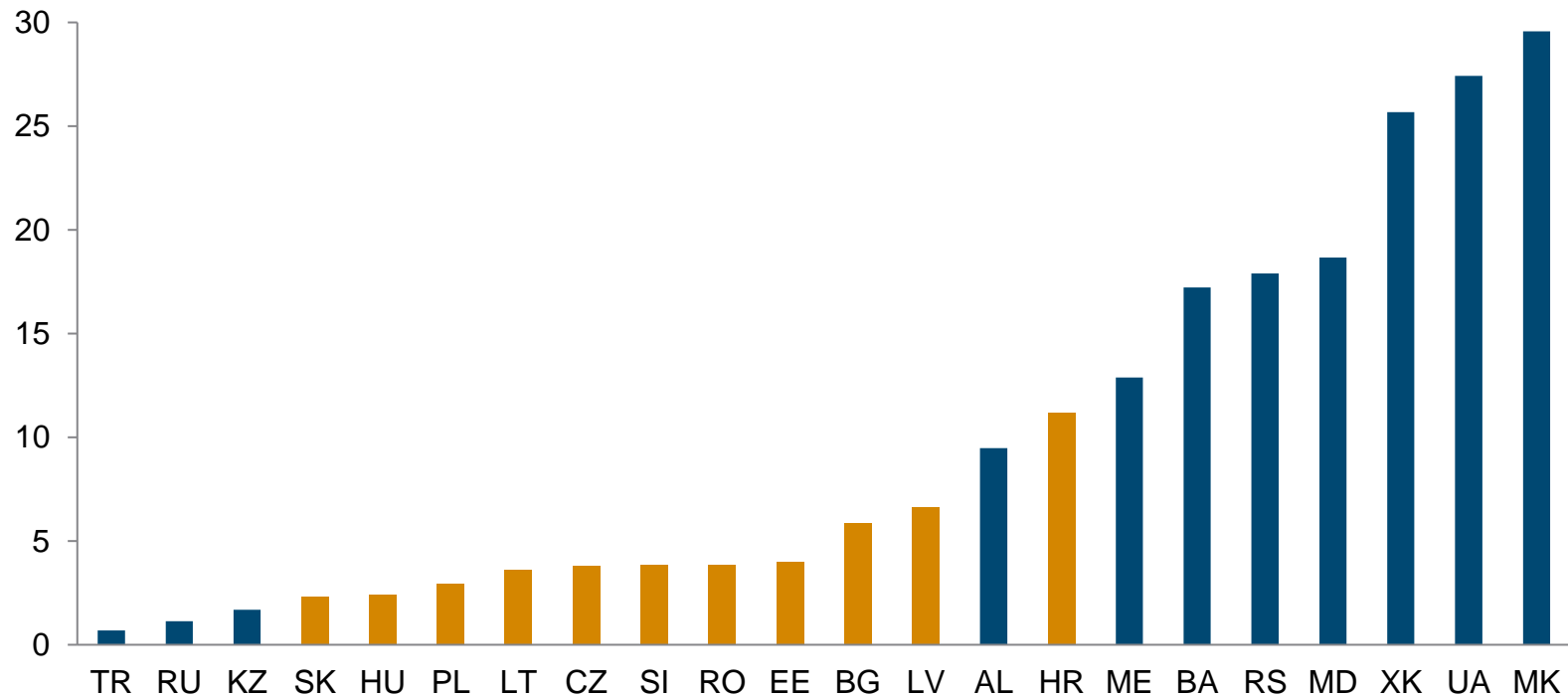
Fiscal support packages were widespread, but significantly varied in size

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



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

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

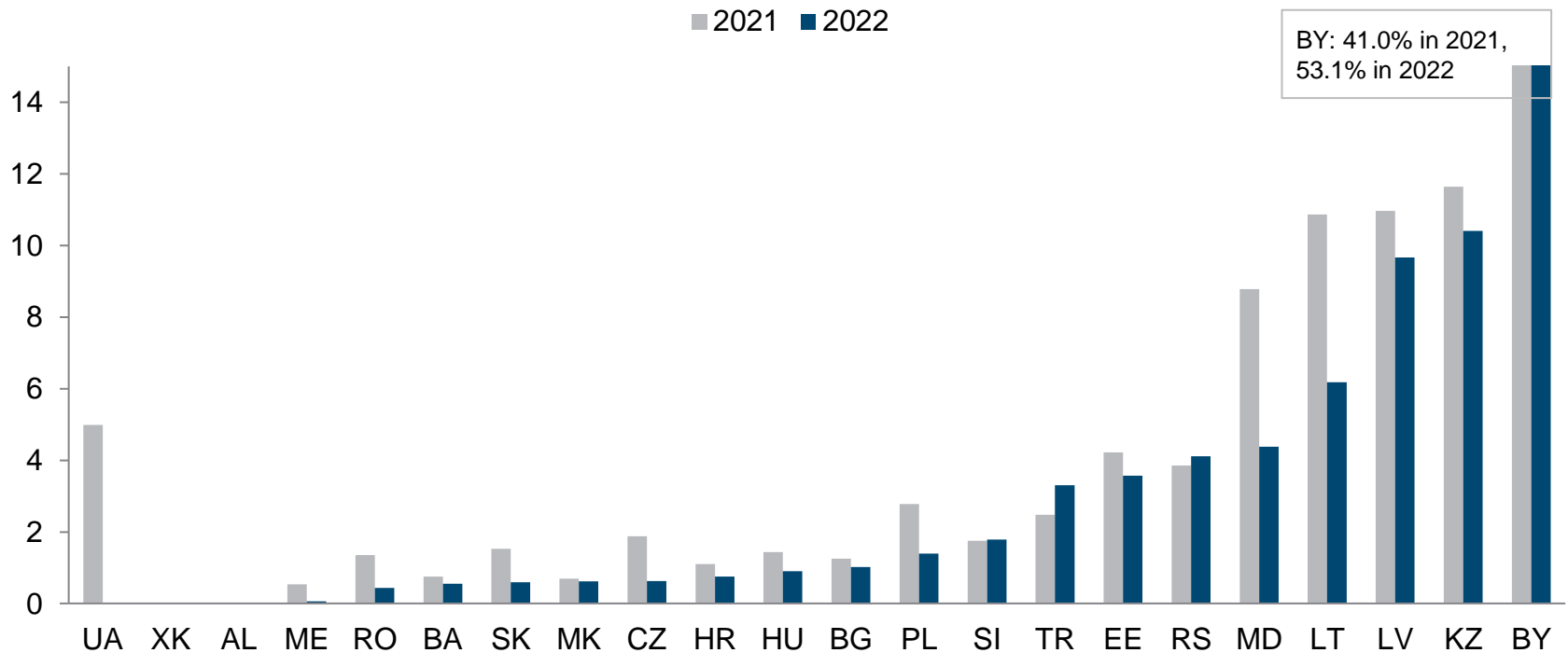


Note: Remittances account for the bulk of secondary income inflows in the region. In Ukraine in 2022 they accounted only for 51% of received secondary income, the rest was grants and humanitarian aid.

Source: wiiw Annual Database incorporating national and Eurostat statistics.

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.