

PRESS RELEASE

30 January 2022

Eastern European growth weaker, but resilient

- *Resilience and ability to adapt are largely preventing a downturn*
- *The war remains the most important factor of uncertainty*
- *Ukraine: Missile terror dampens hopes of recovery*
- *Russia: Oil sanctions are working*

Despite the war in Ukraine, the economies of the 23 countries of Central, Eastern and Southeastern Europe (CESEE) are demonstrating their resilience. Although economic activity has slowed significantly, most of them will continue to grow in 2023. This is the finding of the new Winter Forecast of the Vienna Institute for International Economic Studies (wiiw). *'While high inflation poses major problems for households and businesses, not for the first time we are seeing impressive resilience in the region,'* says Richard Grieveson, Deputy Director of wiiw and lead author of the Winter Forecast. *'Putin's strategy of using energy as a weapon has failed, not least because the Eastern Europeans have also been able to significantly reduce their gas consumption.'*

For 2023, wiiw forecasts growth averaging 1% for the EU member states of the region. This will be 0.8 percentage points above growth in the euro area (0.2%), which will practically stagnate. The Southeastern European EU members, in particular, are proving quite resilient, whereas in the Visegrád countries average growth will be only 0.6% – and the Hungarian economy is expected to shrink this year (-1%). The economies of the Western Balkans will also expand by only 1.8%, while Turkey's will grow rather more strongly (3%). Even though growth will thus be significantly lower than last year in the vast majority of cases, a full-year recession will be largely avoided, except in Hungary – and Russia, whose economy will continue to decline this year (-3%), following the 2.5% contraction in 2022.

Light at the end of the tunnel

Generally speaking, most countries of the region have probably already digested most of the economic shock caused by the Ukraine war – at least assuming that Russia does not escalate the conflict further. *'Provided that does not happen, growth in Eastern Europe should pick up again from the second half of the year,'* says Grieveson. *'But the biggest factor of uncertainty remains the war in Ukraine.'* Inflation in the region has largely passed its peak but will remain high. Central banks in the region could thus again loosen monetary somewhat, with positive effects for growth.

Ukraine: Missile terror dampens hopes of recovery

After a 30% slump in GDP last year, war-torn Ukraine should recover somewhat this year (3%). In view of the enormous destruction and the economic bloodletting, this would only be a small step forward. Moreover, this forecast includes great uncertainties and depends, above all, on the future course of the war. Russia's bombing campaign against the country has already destroyed large parts of the critical infrastructure and is continuing. The resulting power cuts are increasing the costs of production and had a massive impact on economic activity in the fourth quarter of 2022, owing to lost production. The

country's financing needs are expected to increase further. wiiw expects a budget deficit of 20% of GDP for this year, the financing of which will rely heavily on financial support from the West.

Russia: Oil sanctions are working

Although the economic slump in Russia was limited last year (-2.5%) – and was lower than the -3.5% forecast in the autumn – the downturn gained momentum in the fourth quarter of 2022. In 2023, GDP is expected to decline by 3%. Besides the partial mobilisation and the shortfalls in gas exports to Europe, the new oil sanctions imposed by the West are primarily responsible for this.

The EU oil embargo and the price cap on Russian oil have meant that Russia now has to sell its oil at a huge discount. In the first four weeks after the measures came into force, the price of Urals – Russia's most important crude oil grade – plummeted to USD 47 per barrel. Compared to North Sea Brent, this represented a discount of 43%. This significantly reduces tax revenues, 40% of which comes from the energy sector, where export duties on oil play a major role. *'The sanctions put in place on 5 December are the most effective imposed so far,'* says Vasily Astrov, Russia expert at wiiw.

Still, Astrov believes they will have little impact on Putin's ability to finance the war for now, as the gap will be financed through higher budget deficits. *'Deficits of 3% to 4% of GDP would still be bearable,'* he says. The higher defence spending is also limiting the recession. Indicators such as retail sales therefore appear more meaningful for the country's development than GDP figures, and these have fallen by 8-10% since the beginning of the war. In addition, the Western export ban on high technology is having an enormous impact on Russia's already weak growth prospects in the longer term.

Inflation has passed its peak

In 2022, most countries of the region recorded their highest inflation rates for 15 years – or in some cases since the 1990s. However, in the wake of falling energy prices and monetary tightening by central banks, inflation is likely to have peaked. In all 23 countries observed (with the exception of Hungary), it should decline again in 2023. However, there are upside risks, especially from stronger demand for commodities as the Chinese economy reopens.

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 Winter 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 ¹⁾	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022 ¹⁾	2023	2024	2025	2021	2022 ¹⁾	2023	2024	2025	2021	2022 ¹⁾	2023	2024	2025
BG	Bulgaria	7.6	3.0	1.5	2.5	3.0	2.8	13.0	10.0	7.0	5.0	5.3	4.7	4.6	4.5	4.5	-0.5	-1.2	-0.9	0.5	0.0	-3.9	-4.0	-5.0	-4.0	-3.0
CZ	Czechia	3.6	2.0	0.4	2.4	2.7	3.3	14.8	9.0	4.0	3.0	2.8	2.5	3.0	2.8	2.6	-0.9	-2.6	-3.8	-2.6	-0.9	-5.1	-4.7	-4.0	-2.5	-1.9
EE	Estonia	8.0	0.3	0.9	3.1	4.2	4.5	19.4	8.8	3.5	3.0	6.2	5.9	7.5	6.7	6.0	-1.8	-0.7	0.5	0.3	0.4	-2.4	-3.7	-4.2	-3.9	-3.1
HR	Croatia	13.1	5.8	2.5	2.8	2.5	2.7	10.7	6.0	3.0	2.0	7.6	6.7	6.5	6.3	6.1	3.1	-0.3	-0.5	0.5	0.7	-2.6	-1.9	-2.5	-2.0	-1.9
HU	Hungary	7.1	4.9	-1.0	1.7	2.5	5.2	15.3	16.0	10.0	6.0	4.1	3.6	4.5	4.0	3.5	-4.2	-7.0	-5.0	-4.6	-3.5	-7.1	-6.5	-4.7	-4.0	-3.5
LT	Lithuania	6.0	2.5	1.3	2.8	3.0	4.6	18.9	8.5	3.3	2.8	7.1	6.2	6.8	6.5	6.3	1.1	-6.2	-5.0	-4.0	-3.0	-1.0	-1.5	-4.5	-2.8	-2.2
LV	Latvia	4.1	2.2	0.0	3.3	2.8	3.2	17.2	10.0	4.5	3.3	7.6	7.0	7.4	7.2	6.8	-4.2	-5.6	-1.5	-2.0	-2.5	-7.0	-7.2	-5.0	-3.5	-2.5
PL	Poland	6.8	4.6	1.0	2.4	3.0	5.2	13.2	13.0	6.0	4.0	3.4	3.0	3.1	3.2	3.1	-1.4	-1.6	-1.0	0.0	0.5	-1.8	-4.0	-4.5	-3.0	-3.0
RO	Romania	5.8	4.7	2.4	4.0	4.0	4.1	12.0	11.0	6.0	4.0	5.6	5.3	5.5	5.4	5.3	-7.2	-9.8	-8.7	-7.5	-6.5	-7.1	-6.5	-5.0	-4.5	-4.0
SI	Slovenia	8.2	5.7	1.2	2.7	2.9	2.0	9.3	6.5	3.6	2.0	4.8	4.1	4.3	4.2	4.2	3.8	1.7	1.1	1.3	1.7	-4.7	-3.8	-3.7	-4.2	-3.0
SK	Slovakia	3.0	1.7	0.6	2.3	2.4	2.8	12.1	8.0	5.0	3.0	6.8	6.1	5.9	6.2	6.0	-2.5	-7.4	-6.4	-5.7	-5.2	-5.5	-5.1	-6.4	-4.4	-3.7
	<i>EU-CEE11¹⁾²⁾</i>	6.3	4.0	1.0	2.7	3.1	4.3	13.5	11.4	5.8	3.9	4.5	4.1	4.3	4.3	4.1	-2.2	-3.9	-3.4	-2.5	-1.7	-4.1	-4.7	-4.6	-3.4	-3.0
	<i>EA20³⁾</i>	5.3	3.1	0.2	1.9	1.8	2.6	8.5	6.0	3.4	2.3	7.7	6.8	6.9	6.8	6.6	3.7	0.5	-1.4	-1.0	-0.8	-5.1	-4.3	-3.7	-2.7	-2.6
	<i>EU27³⁾</i>	5.4	3.3	0.4	2.1	2.0	2.9	9.0	6.2	3.6	2.5	7.0	6.0	6.1	6.0	5.8	3.3	0.5	-1.4	-1.0	-0.8	-4.6	-3.9	-3.3	-2.3	-2.2
AL	Albania	8.5	3.4	3.0	3.6	3.8	2.0	6.7	4.0	3.0	2.8	11.5	11.1	10.5	10.0	9.5	-7.6	-7.6	-6.4	-6.0	-6.5	-4.5	-0.5	0.0	0.5	0.5
BA	Bosnia and Herzegovina	7.5	3.5	1.5	2.2	2.5	2.0	14.2	8.0	3.0	2.0	17.4	16.4	16.1	15.7	15.6	-2.4	-4.2	-4.4	-3.7	-4.0	-0.3	-1.0	-0.5	-0.2	0.7
ME	Montenegro	13.0	5.9	2.6	3.3	3.0	2.4	13.0	7.5	3.5	2.5	16.6	14.9	15.0	13.9	13.0	-9.2	-13.0	-12.0	-10.7	-9.5	-2.1	-8.5	-7.5	-7.5	-6.0
MK	North Macedonia	3.9	1.5	1.0	2.5	2.5	3.2	14.2	10.0	4.0	3.0	15.7	14.5	14.0	13.5	13.0	-3.1	-7.5	-4.5	-3.3	-3.0	-5.4	-3.0	-2.0	-2.0	-2.0
RS	Serbia	7.5	2.3	1.5	2.6	3.0	4.1	11.9	9.0	4.0	3.0	11.0	9.5	9.0	8.5	8.0	-4.3	-6.0	-5.0	-4.0	3.0	-4.1	-1.0	-3.0	-2.5	-2.0
XK	Kosovo	10.7	3.1	3.4	3.8	4.0	3.4	11.6	7.0	2.5	2.0	20.7	24.2	23.5	23.2	22.5	-8.7	-8.9	-8.2	-7.4	-7.0	-1.3	1.0	-1.0	0.5	0.5
	<i>WB6¹⁾²⁾</i>	7.7	2.8	1.8	2.8	3.0	3.2	11.9	8.0	3.6	2.7	13.6	12.7	12.3	11.8	11.3	-4.8	-6.6	-5.6	-4.7	-1.3	-3.4	-1.3	-2.1	-1.7	-1.2
TR	Turkey	11.4	5.1	3.0	3.2	4.0	19.6	72.3	37.0	19.0	11.0	12.0	11.5	10.5	9.5	9.0	-0.9	-6.3	-5.0	-3.5	-3.5	-2.3	-4.9	-3.0	-2.5	-2.0
BY	Belarus	2.4	-4.7	1.0	1.5	1.5	9.5	15.2	12.0	11.0	10.0	3.9	4.1	4.0	4.0	4.0	3.1	1.7	1.5	1.3	1.1	0.2	-4.0	-3.0	-2.0	-1.0
KZ	Kazakhstan	4.3	3.0	3.5	4.0	4.0	8.0	15.0	13.0	9.0	6.0	4.9	4.9	4.9	4.8	4.8	-4.0	3.5	0.5	-0.5	-1.0	-3.0	-2.0	-2.7	-2.6	-2.0
MD	Moldova	13.9	-5.0	1.0	4.0	6.0	5.1	28.7	14.0	6.0	6.0	3.2	2.7	4.0	3.5	3.0	-12.4	-15.0	-12.0	-10.0	-8.0	-1.9	-5.5	-5.0	-4.5	-4.0
RU	Russia	5.6	-2.5	-3.0	1.0	1.5	6.7	13.8	5.4	4.2	3.2	4.8	4.2	4.8	5.0	5.0	6.6	10.4	6.5	6.0	5.5	0.8	-2.0	-3.0	-2.0	-1.5
UA	Ukraine	3.4	-30.0	3.0	8.0	8.0	9.4	20.2	16.0	9.0	7.0	9.9	30.0	20.0	9.0	7.0	-1.9	6.0	4.0	3.0	3.0	-3.4	-19.0	-20.0	-12.0	-10.0
	<i>CIS4+UA¹⁾²⁾</i>	5.3	-4.7	-1.7	1.9	2.3	7.1	14.6	7.3	5.3	4.0	5.6	8.6	7.0	5.5	5.2	4.8	9.3	5.5	4.9	4.4	0.1	-3.4	-4.3	-2.8	-2.2
	<i>V4¹⁾²⁾</i>	6.0	3.9	0.6	2.3	2.8	4.6	13.7	12.3	6.1	4.0	3.7	3.3	3.6	3.5	3.3	-1.8	-3.1	-2.7	-1.7	-0.9	-3.7	-4.6	-4.6	-3.2	-2.9
	<i>BALT3¹⁾²⁾</i>	5.9	1.9	0.9	3.0	3.2	4.2	18.6	9.0	3.7	3.0	7.0	6.4	7.1	6.8	6.4	-1.1	-4.6	-2.6	-2.3	-2.0	-3.0	-3.7	-4.6	-3.3	-2.5
	<i>SEE9¹⁾²⁾</i>	7.3	4.1	2.1	3.4	3.5	3.6	12.0	9.6	5.3	3.6	8.7	8.0	7.9	7.7	7.4	-4.4	-6.7	-5.9	-4.8	-3.6	-5.2	-4.4	-4.0	-3.5	-3.0
	<i>CIS3+UA¹⁾²⁾</i>	3.9	-12.4	2.8	5.3	5.4	8.7	17.6	14.2	9.2	7.0	7.3	18.3	12.4	6.8	5.7	-2.3	3.3	1.2	0.5	0.3	-2.7	-8.8	-9.3	-6.1	-4.9
	<i>non-EU12¹⁾²⁾</i>	7.0	-1.7	-0.3	2.3	2.8	10.5	30.6	15.6	9.1	5.9	7.4	9.5	8.1	6.8	6.4	3.0	5.5	2.7	2.3	2.1	-0.7	-3.7	-3.9	-2.7	-2.1
	<i>CESEE23¹⁾²⁾</i>	6.8	0.0	0.1	2.4	2.9	8.7	25.6	14.4	8.1	5.3	6.7	8.1	7.1	6.1	5.8	1.1	2.3	0.4	0.4	0.6	-1.9	-4.1	-4.1	-3.0	-2.4

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: 19 January 2023.