

PRESS RELEASE

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New wiiw forecasts for Eastern Europe: surging infections delay economic recovery

Many countries have sacrificed public health for economic growth in recent months. However, the worsening COVID-19 situation has forced them to renew economically damaging lockdowns. On average, wiiw projects growth of 3.8% for Eastern Europe in 2021.

The Vienna Institute for International Economic Studies (wiiw) today published its new Forecast Report. *“It shows that although Central, East and Southeast Europe (CESEE) weathered the pandemic relatively well in 2020, a sharp increase in infections over the winter will delay the recovery in 2021. The CESEE countries’ outperformance of Western Europe is therefore unlikely to be repeated this year”,* says Richard Grieveson, wiiw’s deputy director and co-author of the report.

In the 23 countries of CESEE, average weighted real GDP fell by 2.3% in 2020, only around a third of the euro area’s decline over the same period. This year, wiiw projects growth of 3.8% for the CESEE region, similar to that predicted for the single currency area.

In 2021, real GDP growth will vary considerably across the region:

- **The strongest growth will generally be seen in Southeast Europe**, including Montenegro (6.5%), Turkey (5.8%), Serbia (5%), Kosovo (4.8%), Croatia (4.5%) and Albania (4.5%). These are countries that either used fiscal or monetary policy very successfully to mitigate the downturn (Turkey and Serbia) or else suffered especially badly last year, so that they will benefit from favourable base effects in 2021 (such as Croatia and Montenegro).
- **wiiw expects the weakest 2021 real GDP growth to be in** Estonia (1.2%), Belarus (1.5%), Lithuania (2.1%), Bosnia and Herzegovina (2.5%), Bulgaria (2.5%) and Latvia (2.8%). This will be a result of either high base effects and renewed lockdowns (the Baltic states) or limited policy space (Belarus and Bosnia and Herzegovina).
- Compared to autumn 2020, wiiw has revised its forecasts downwards for most EU-CEE countries and parts of the Western Balkans, largely due to the rapid spread of new mutations of COVID-19 and the consequent need to reimpose economically damaging lockdowns.
- **wiiw’s forecasts are being undertaken at a time of almost unprecedented economic uncertainty**, reflecting the current high level of infections across most of Europe and the so far disappointing vaccination campaign across most of the continent.

“The downside risks to our projections are significant if vaccination rates do not increase enough to get ahead of the COVID-19 mutations, which would mean an extension of lockdowns and more lost months for the region’s economies”, says Grieveson.

Vaccination rates are key to economic recovery

An improvement in vaccination rates and better weather should see the pandemic abate by late spring, paving the way for economic activity to pick up by the middle of the year. Growth will be driven by a combination of goods and services exports, as the global economy recovers; the drawing-down of savings; better domestic sentiment, as the vaccination rates increase; and fiscal and monetary support.

Over the next three years, wiiw expects all CESEE economies to recover economically, but with major differences in pace. While Serbia and Turkey will power ahead, countries such as Czechia, Croatia, Bosnia and Herzegovina and Moldova will not regain their pre-pandemic GDP levels until 2022 – and Montenegro not until 2023.

Progress with vaccination also differs substantially: Serbia and parts of EU-CEE are proceeding relatively well with inoculations, but – based on current rates – Ukraine, Moldova and parts of the Western Balkans will take years to vaccinate their populations. “International solidarity on vaccines is going to be crucial to help the poorer parts of CESEE to exit this crisis, but unfortunately we don’t see much of that at the moment”, stresses Grieveson.

Lessons learned from the financial crisis are helping the region cope with the coronavirus

- **CESEE’s aggregate 2.3% real GDP contraction in 2020 was substantially lower than in 2009**, following the global financial crisis (-5.6%). However, both EU-CEE and the Western Balkans suffered deeper GDP declines last year than in 2009. By contrast, the recession in the CIS and Ukraine last year was far less severe than in 2009.
- **CESEE countries have been able to use fiscal policy to greater effect in this crisis than was the case in 2009.** As well as learning the lessons of a decade ago, this is also thanks to a decline in interest rates, which has made public borrowing cheaper. Central banks have also played an important role in mitigating the fallout this time: via interest rate cuts in Turkey, Ukraine and the CIS, and via quantitative easing across CESEE.
- **Labour market indicators also suggest a less severe crisis this time.** However, it is likely that the official data mask a more negative underlying reality. Those in receipt of government support will rarely have been getting their normal salary, and those in the grey economy will certainly have been badly affected. Cross-border seasonal workers from countries such as Ukraine have also been hit by the crisis. And in many countries, the burden seems to have fallen disproportionately on older workers.

The new wiiw Forecast Report “*Darkest before the dawn? Economic Analysis and Outlook for Central, East and Southeast Europe*”, by Richard Grieveson et al. is available to the participants of the wiiw webinar as well as upon request.

The report comprises **economic analyses and forecasts for 23 countries in Central, Eastern and South-Eastern Europe (CESEE)**, continuously updated by wiiw: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Kazakhstan, Kosovo, Latvia, Lithuania, Moldova, Montenegro, Northern Macedonia, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey and Ukraine.

Online presentation

Date: Thursday, 15 April 2021, 4:00 CET

Registration: <https://my.demio.com/ref/lwKovJnhZxz7Wklj>

Event: <https://wiiw.ac.at/webinar-eastern-europe-is-the-worst-still-to-come-e-513.html>

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OVERVIEW 2019-2020 AND OUTLOOK 2021-2023

		GDP					Consumer prices					Unemployment (LFS)					Current account				
		real change in % against prev. year					average change in % against prev. year					rate in %, annual average					in % of GDP				
		2019	2020	Forecast			2019	2020	Forecast			2019	2020	Forecast			2019	2020	Forecast		
		2019	2020	2021	2022	2023	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
BG	Bulgaria	3.7	-4.2	2.5	3.1	3.4	2.5	1.2	1.5	1.5	2.0	4.2	5.2	5.0	4.5	4.5	3.0	0.1	0.5	0.5	0.1
CZ	Czechia	2.3	-5.6	2.9	3.2	3.9	2.6	3.3	2.1	2.0	2.0	2.0	2.6	3.1	3.2	2.9	-0.3	3.2	2.2	2.8	2.4
EE	Estonia	5.0	-2.9	1.2	3.8	4.3	2.3	-0.6	1.3	1.7	2.0	4.4	6.8	7.5	7.0	6.5	2.0	-0.9	-1.0	0.2	1.2
HR	Croatia	2.9	-8.4	4.5	4.6	3.7	0.8	0.0	1.0	1.4	1.5	6.6	7.5	7.0	7.0	7.0	2.7	-4.1	0.2	1.0	1.5
HU	Hungary	4.6	-5.0	3.9	4.5	4.0	3.4	3.4	3.9	3.5	3.5	3.4	4.3	4.2	4.3	4.3	-0.5	0.1	0.0	0.0	0.1
LT	Lithuania	4.3	-0.8	2.1	3.8	3.5	2.2	1.1	1.8	2.7	3.3	6.3	8.5	8.0	7.0	6.5	3.3	8.0	5.1	4.4	4.0
LV	Latvia	2.0	-3.6	2.8	4.2	3.8	2.7	0.1	1.2	2.5	3.5	6.3	8.1	8.0	6.8	6.5	-0.6	3.0	1.6	0.3	-1.2
PL	Poland	4.5	-2.7	3.4	3.6	4.4	2.1	3.7	3.0	2.5	2.5	3.3	3.6	4.0	4.0	3.8	0.5	3.5	2.5	1.7	2.0
RO	Romania	4.1	-3.9	3.8	4.5	4.0	3.9	2.3	3.2	3.5	3.5	3.9	5.5	5.5	4.5	4.0	-4.7	-5.0	-5.0	-4.6	-3.9
SI	Slovenia	3.2	-5.5	3.6	4.0	3.3	1.7	-0.3	1.3	1.7	1.6	4.5	5.1	5.5	4.6	4.3	5.6	7.3	6.2	5.8	5.4
SK	Slovakia	2.3	-5.2	3.6	4.4	3.5	2.8	2.0	1.4	2.0	2.0	5.8	6.7	8.2	7.6	7.0	-2.7	-0.3	-0.2	-0.1	-0.5
	<i>EU-CEE11</i> ¹⁾²⁾	3.9	-3.9	3.4	3.9	4.0	2.6	2.7	2.6	2.6	2.6	3.8	4.5	4.9	4.6	4.3	-0.2	1.4	0.9	0.7	0.8
	<i>EA19</i> ³⁾	1.3	-6.6	3.8	3.7	2.0	1.2	0.3	1.1	1.2	1.4	7.6	8.0	8.9	8.4	8.1	3.0	3.0	3.0	3.0	3.0
	<i>EU27</i> ³⁾	1.6	-6.2	4.2	4.1	2.4	1.4	0.7	1.3	1.4	1.6	6.7	7.3	8.2	7.7	7.4	2.9	2.9	2.9	2.9	2.9
AL	Albania	2.2	-5.0	4.5	4.4	3.8	1.4	1.6	2.1	2.4	2.6	11.5	11.7	11.4	11.2	11.0	-8.0	-8.9	-8.5	-7.2	-6.9
BA	Bosnia and Herzegovina	2.8	-5.0	2.5	2.9	3.3	0.6	-1.1	0.6	0.8	1.0	15.7	18.0	17.6	16.1	15.3	-3.1	-3.3	-4.5	-4.6	-4.6
ME	Montenegro	4.1	-15.2	6.5	5.0	3.7	0.4	-0.3	0.9	1.5	1.5	15.1	17.0	17.0	16.0	16.0	-15.0	-26.0	-20.9	-18.5	-16.1
MK	North Macedonia	3.2	-4.5	4.1	3.4	3.2	0.8	1.2	1.5	1.8	2.0	17.3	16.4	16.0	15.5	15.0	-3.3	-3.5	-3.3	-3.7	-3.7
RS	Serbia	4.2	-1.0	5.0	4.4	4.2	1.7	1.6	2.0	2.4	2.2	10.4	9.0	8.0	7.5	7.0	-6.9	-4.3	-5.6	-6.5	-7.3
XK	Kosovo	4.9	-5.0	4.8	4.6	3.9	2.7	0.2	1.5	1.7	2.0	25.7	26.5	26.0	25.0	24.5	-5.6	-6.3	-6.9	-6.9	-5.7
	<i>WB6</i> ¹⁾²⁾	3.6	-3.5	4.4	4.0	3.8	1.4	0.9	1.6	2.0	2.0	13.4	13.2	12.4	11.8	11.2	-6.3	-5.7	-6.3	-6.5	-6.7
TR	Turkey	0.9	1.8	5.8	3.4	3.5	15.2	12.3	16.0	12.0	10.0	13.7	13.2	13.4	12.5	11.1	0.9	-5.1	-3.8	-3.6	-3.5
BY	Belarus	1.4	-0.9	1.5	1.9	2.2	5.6	5.5	6.5	6.0	6.0	4.2	4.0	4.1	4.2	4.3	-1.9	-0.4	-0.4	-0.9	-1.1
KZ	Kazakhstan	4.5	-2.6	3.2	4.1	4.4	5.3	6.7	6.3	5.9	5.5	4.8	4.9	4.9	4.8	4.8	-4.0	-3.5	-3.1	-1.9	-0.9
MD	Moldova	3.6	-7.0	4.0	4.5	3.5	4.8	3.8	4.0	4.5	5.0	5.1	3.8	5.0	4.0	3.0	-9.3	-7.1	-9.0	-8.4	-7.0
RU	Russia	2.0	-3.1	3.2	2.7	2.3	4.5	3.4	5.0	3.5	3.2	4.6	5.8	5.5	5.2	5.0	3.8	2.2	3.2	3.6	3.6
UA	Ukraine	3.2	-4.0	3.5	3.2	3.0	7.9	2.7	7.0	6.0	5.0	8.2	9.5	9.0	8.0	8.0	-2.7	4.1	2.0	0.6	-0.2
	<i>CIS4+UA</i> ¹⁾²⁾	2.4	-3.1	3.2	2.8	2.6	5.0	3.7	5.4	4.1	3.7	5.2	6.2	5.9	5.6	5.4	2.4	1.7	2.3	2.6	2.7
	<i>V4</i> ¹⁾²⁾	3.9	-3.8	3.4	3.7	4.2	2.4	3.4	2.8	2.5	2.5	3.3	3.8	4.2	4.2	4.0	-0.1	2.6	1.8	1.6	1.6
	<i>BALT3</i> ¹⁾²⁾	3.9	-2.1	2.1	3.9	3.8	2.4	0.4	1.5	2.4	3.1	5.9	8.0	7.9	6.9	6.5	1.9	4.3	2.6	2.2	1.8
	<i>SEE9</i> ¹⁾²⁾	3.8	-4.3	3.9	4.2	3.8	2.8	1.6	2.4	2.6	2.7	7.4	8.0	7.9	7.2	6.8	-3.1	-4.3	-3.9	-3.7	-3.4
	<i>CIS3+UA</i> ¹⁾²⁾	3.5	-3.1	3.1	3.4	3.5	6.5	4.7	6.6	5.9	5.3	6.6	7.2	7.0	6.4	6.4	-3.3	-0.1	-0.9	-1.0	-0.9
	<i>non-EU12</i> ¹⁾²⁾	2.0	-1.7	4.0	3.0	2.9	7.8	6.2	8.4	6.3	5.5	7.5	8.0	7.9	7.4	7.0	1.7	-0.4	0.3	0.5	0.6
	<i>CESEE23</i> ¹⁾²⁾	2.6	-2.3	3.8	3.3	3.2	6.2	5.1	6.7	5.2	4.6	6.6	7.2	7.2	6.7	6.3	1.0	0.3	0.5	0.6	0.7

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: 25 March 2021.