

PRESS RELEASE

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Spring Forecast: Eastern Europe recovery remains on track

- *Rising real wages and private consumption are the main drivers of growth.*
- *There are several geopolitical downside risks.*
- *Russian attacks and delayed Western aid are holding Ukraine's economy back.*
- *Russia's war economy is reaching its limits and secondary sanctions could hurt.*

Despite the challenging international environment and significant downside risks, the economies of most Central, Eastern and Southeastern European countries are expected to perform well in 2024 – especially the EU member states among them. This is the finding of the new Spring Forecast issued by the Vienna Institute for International Economic Studies (wiiw) for 23 countries of the region. *'With rising real wages – due primarily to a significant decline in inflation – private consumption is the main driver of growth,'* says Olga Pindyuk, Economist at wiiw and lead author of the Spring Forecast. *'Investment activity will only recover gradually. However, in manufacturing – particularly in the Visegrád countries, which are closely intertwined with the struggling German economy – we still observe challenges,'* notes Pindyuk. *'The hoped-for recovery of the German economy from 2025 onwards – so crucial for the region – will naturally play a key role.'*

For 2024, wiiw forecasts average growth of 2.5% for the EU members of the region; this should pick up to 3% in 2025. That means they are likely to significantly outperform the euro area (0.6%), which will almost stagnate this year, and will grow almost twice as fast as the euro area next year (1.6%). *'The EU members of Central and Eastern Europe are thus continuing their economic catch-up process 20 years after the start of the EU's eastward enlargement, even if this will slow down somewhat from 2025,'* comments Pindyuk.

The Visegrád countries of Poland, Czechia, Slovakia and Hungary are expected to expand at a rate of 2.4% on average this year, increasing to 3.0% in 2025. Although Poland and Hungary have in theory increased access to EU funds again, thanks to recent developments (a new government in Poland and Viktor Orbán's Ukraine deal with the EU), the actual flow of funds is still slow in the case of Poland and largely yet to materialise in the case of Hungary.

The Southeastern European EU members Romania (3.0%) and Croatia (2.9%) are expected to grow particularly strongly in 2024. The inflow of funds from the NextGenerationEU coronavirus recovery fund is supporting the economy there. The six countries of the Western Balkans will expand by an average of 3%, and Turkey by 3.4%. The slight recovery in war-torn Ukraine should continue, with GDP growth of 3.2% this year. However, the difficult military situation and persistent uncertainty over and delays to Western military and economic aid is holding back the recovery. In the case of the aggressor Russia, last year's strong growth in the war economy (3.6%) is likely to weaken somewhat to 2.8% this year, as there are clear signs of overheating.

Geopolitical risks dominate

However, there are considerable downside risks. *'A major war in the Middle East between Israel and Iran would probably lead to another energy price shock and fuel inflation again,' warns Pindyuk. 'An excessively weak recovery in Germany, disruptions to global supply chains and the election of Donald Trump as the next US president could also create turbulence in the region.'*

Ukraine: Uncertainty over Western aid is holding back the recovery

For Ukraine in particular, a possible Trump election victory is already casting a long shadow. Although the country has shown astonishing resilience since the start of the Russian invasion, persistent uncertainty over and delays to Western military and economic aid is holding back the recovery. wiiw is forecasting growth of 3.2% for Ukraine this year, after 5.3% in 2023. Despite such economic successes as the reopening of the Black Sea corridor for the export of agricultural and metallurgical products – something of a lifeline for Ukraine – the country has been suffering from a blockade of trade via the common border with Poland by the country's farmers. In 2023, Ukrainian exports of goods to Poland fell by around a third. Added to this are the recent massive Russian air strikes. *'The lack of air defence missiles is also increasingly becoming an economic problem, because energy supplies and important industrial companies are being hit more and more frequently,'* comments Pindyuk. *'Ultimately, everything will stand or fall on the receipt of adequate and timely military and financial aid from the West: in 2024 alone, Ukraine faces a financing gap of 40 billion US dollars.'*

Russia's war economy is reaching its limits, secondary sanctions could hurt

After unexpectedly strong growth of 3.6% last year, Russia's GDP growth is likely to slow to 2.8% this year and then weaken further in 2025. Compared to the wiiw Winter Forecast, this nevertheless represents a remarkable upwards revision of 1.3 percentage points for 2024. The Russian economy is growing robustly on account of high government spending on the war, and is likely to pass its cyclical peak in the second quarter of the current year. Even the acute labour shortages, capacity bottlenecks and record-high real interest rates of around 8% have not yet put a brake on growth. *'A shortage of skilled labour and military Keynesianism caused real wages to rise by almost 8% last year, which boosted private consumption by 6.5%. This trend could carry on for some time to come. However, high interest rates are likely to slow the economy and thus inflation,'* says Vasily Astrov, Russia expert at wiiw.

Despite high military spending and lower revenues from fossil fuel exports last year, the outlook for the Russian state budget continues to be positive. Tax revenues were buoyant in the first quarter of 2024, both from the country's oil and gas business and in most other areas. *'Putin will not run out of money for the war. For the Russian economy, the question is rather what comes after the war, as it is currently completely dependent on it,'* comments Astrov. In the short term, the West's increasingly tough secondary sanctions against third countries such as China or Turkey could become a problem: up until now Russia has been able to circumvent the Western sanctions via these countries. *'If Turkish banks suddenly stop accepting payments for Russian imports, as happened recently, and if transactions in Chinese yuan also become more difficult, Russia could very soon find itself short of important machines and components from the West, such as microchips,'* says Astrov.

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 Spring Forecast 2024 is available upon request.

About the Vienna Institute for International Economic Studies (wiiw)

For more than 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, labor markets, migration, and income distribution.

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OVERVIEW 2022-2023 AND OUTLOOK 2024-2026

		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									
		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	-0.2	-0.6	-0.9	-2.9	-3.0	-4.0	-3.0	-3.0
CZ	Czechia	2.4	-0.3	1.2	2.5	2.7	14.8	12.0	2.0	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	-3.3	-2.5	-2.0	-1.5
EE	Estonia	-0.5	-3.0	0.4	3.0	3.6	19.4	9.1	3.5	2.8	2.4	5.6	6.4	7.5	6.2	5.6	-3.2	-2.1	-2.0	-1.7	-1.8	-1.0	-3.3	-3.6	-4.5	-3.7
HR	Croatia	6.3	2.8	2.9	2.7	3.0	10.7	8.4	3.5	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	-1.0	-2.0	-1.4	-1.2
HU	Hungary	4.6	-0.9	1.9	2.4	2.9	15.3	17.0	5.2	4.0	3.5	3.6	4.1	4.0	3.8	3.5	-8.4	0.2	0.0	0.2	0.4	-6.3	-6.7	-5.0	-4.0	-3.5
LT	Lithuania	2.4	-0.3	1.5	2.2	2.6	18.9	8.7	1.5	2.3	2.5	6.0	6.8	6.5	6.3	6.0	-5.5	1.9	2.2	2.8	2.5	-0.7	-1.0	-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	6.3	6.0	5.8	-4.8	-4.0	-3.1	-4.6	-5.7	-4.7	-3.0	-2.8	-2.3	-2.0
PL	Poland	5.3	0.2	3.1	3.4	3.3	13.2	10.9	4.5	3.5	2.8	2.9	2.8	2.8	3.0	3.1	-2.4	1.6	0.5	-1.2	-1.0	-3.7	-5.6	-5.4	-5.3	-5.3
RO	Romania	4.1	2.1	3.0	3.3	3.8	12.0	9.7	5.8	4.0	3.5	5.6	5.6	5.5	5.4	5.2	-9.2	-7.0	-6.5	-6.0	-6.0	-6.3	-6.2	-5.7	-4.3	-3.5
SI	Slovenia	2.5	1.6	2.5	2.6	2.6	9.3	7.2	3.3	2.4	2.2	4.0	3.7	3.7	3.6	3.6	-1.0	4.5	5.1	4.5	3.8	-3.0	-3.3	-3.5	-2.0	-0.6
SK	Slovakia	1.8	1.1	1.6	2.2	2.6	12.1	11.0	2.2	3.4	3.4	6.1	5.8	5.8	5.6	5.4	-7.3	-1.6	-1.3	-0.9	-1.1	-2.0	-6.0	-6.0	-5.0	-4.0
	<i>EU-CEE11</i> ¹⁾²⁾	4.2	0.6	2.5	3.0	3.2	13.5	11.0	4.1	3.3	2.9	4.0	4.1	4.1	4.0	4.0	-4.8	-0.4	-0.7	-1.2	-1.1	-3.8	-4.9	-4.6	-4.1	-3.7
	<i>EA20</i> ³⁾	3.4	0.4	0.6	1.6	1.6	8.4	5.4	2.5	2.2	2.0	6.8	6.5	6.7	6.6	6.6	1.3	1.8	3.2	3.2	3.1	-3.6	-3.2	-2.6	-2.6	-2.5
	<i>EU27</i> ³⁾	3.4	0.4	0.8	1.8	1.8	9.2	6.4	2.7	2.4	2.2	6.2	5.7	5.9	5.8	5.8	1.2	1.8	3.2	3.2	3.1	-3.3	-2.8	-2.2	-2.2	-2.1
AL	Albania	4.9	3.4	3.6	3.7	3.4	6.7	4.8	3.0	2.5	2.4	10.9	10.7	10.4	10.0	9.7	-5.9	-0.9	-1.4	-1.3	-1.4	-3.7	-1.4	-1.5	-1.5	-1.0
BA	Bosnia and Herzegovina	4.2	1.7	2.5	2.9	3.4	14.0	6.1	2.8	2.5	2.0	15.4	13.2	12.9	12.7	12.4	-4.3	-2.8	-3.6	-3.1	-3.0	-0.4	1.0	-0.5	-0.7	-1.0
ME	Montenegro	6.4	6.0	4.2	3.7	3.5	13.0	8.6	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	-5.1	-5.0	-6.0	-6.0	-6.0
MK	North Macedonia	2.2	1.0	2.2	2.6	3.0	14.2	9.4	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	3.0	3.3	3.5	11.9	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	3.5	3.7	3.6	11.6	4.9	3.5	2.5	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	-2.0
	<i>WB6</i> ¹⁾²⁾	3.4	2.6	3.0	3.2	3.4	11.8	9.0	3.8	3.0	2.5	11.7	11.1	10.8	10.0	9.8	-6.7	-2.8	-3.2	-3.3	-3.3	-2.8	-1.8	-2.0	-1.7	-1.4
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	-5.3	-3.5	-3.0	-3.0
BY	Belarus	-4.7	3.9	2.0	2.3	2.5	15.2	5.1	8.0	7.0	6.0	3.6	3.5	3.5	3.4	3.4	3.5	-1.4	-2.1	-1.3	-0.9	-1.5	-1.0	-1.5	-1.0	-1.0
KZ	Kazakhstan	3.2	5.1	4.7	4.9	4.9	15.0	14.7	8.5	6.5	6.0	4.9	4.7	4.6	4.5	4.4	3.1	-3.3	-2.3	-1.5	-0.5	-2.1	-2.4	-2.3	-2.0	-2.0
MD	Moldova	-4.6	0.7	3.5	3.5	4.0	28.7	13.4	5.0	5.0	4.0	3.1	4.6	4.0	3.8	3.5	-17.1	-11.9	-9.7	-8.9	-8.1	-3.2	-5.2	-4.0	-3.5	-3.0
RU	Russia	-1.2	3.6	2.8	2.5	2.3	13.8	5.9	7.2	4.5	3.7	4.0	3.2	2.9	2.9	2.9	10.5	2.5	3.3	3.2	3.0	-1.4	-2.3	-1.7	-1.5	-1.0
UA	Ukraine	-28.8	5.3	3.2	4.2	4.6	20.2	12.9	8.0	6.0	6.0	25.0	20.0	15.0	10.0	9.0	4.9	-5.2	-4.3	-4.7	-6.4	-16.1	-20.3	-17.0	-15.0	-12.0
	<i>CIS4+UA</i> ¹⁾²⁾	-2.9	3.9	3.0	2.8	2.8	14.5	7.2	7.4	4.9	4.2	7.4	5.9	4.9	4.1	3.9	9.2	1.2	1.8	1.8	1.7	-2.3	-3.5	-2.9	-2.6	-2.0
	<i>V4</i> ¹⁾²⁾	4.3	0.0	2.4	3.0	3.1	13.7	12.0	3.9	3.3	2.8	3.2	3.3	3.3	3.3	3.3	-4.3	0.8	0.3	-0.6	-0.3	-3.8	-5.3	-4.8	-4.4	-4.2
	<i>BALT3</i> ¹⁾²⁾	1.9	-0.9	1.3	2.5	2.8	18.6	8.9	1.9	2.4	2.5	6.1	6.6	6.7	6.2	5.8	-4.7	-0.7	-0.3	-0.3	-0.8	-1.8	-2.1	-2.9	-3.0	-2.6
	<i>SEE9</i> ¹⁾²⁾	4.2	2.3	2.8	3.1	3.5	12.0	9.2	4.8	3.5	3.1	7.7	7.5	7.3	7.0	6.8	-6.7	-4.1	-4.0	-3.8	-3.8	-4.2	-4.1	-4.2	-3.2	-2.7
	<i>CIS3+UA</i> ¹⁾²⁾	-9.4	4.8	3.7	4.2	4.4	17.3	12.5	8.1	6.4	5.9	15.3	12.5	9.8	7.1	6.5	3.2	-3.9	-3.2	-2.7	-2.7	-6.8	-8.3	-7.1	-6.2	-5.2
	<i>non-EU12</i> ¹⁾²⁾	-0.1	4.0	3.1	3.2	3.3	32.3	21.8	23.3	12.9	10.9	8.3	7.0	6.4	5.9	5.7	5.1	-0.5	0.1	0.1	0.1	-2.0	-4.0	-3.0	-2.7	-2.3
	<i>CESEE23</i> ¹⁾²⁾	1.2	3.0	2.9	3.1	3.3	26.6	18.5	17.5	10.0	8.5	7.3	6.3	5.8	5.5	5.3	1.8	-0.5	-0.2	-0.4	-0.4	-2.6	-4.3	-3.7	-3.2	-2.8

1) wiw estimates. - 2) Current account data include transactions within the region (sum over individual countries). - 3) Forecasts estimated by wiw.

Source: wiw, Eurostat. Forecasts by wiw. Cut-off date for historical data and forecasts: 10 April 2024