

PRESS RELEASE

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Winter Forecast: Growth in Eastern Europe to strengthen in 2024

- *Falling inflation, rising real wages and interest rate cuts will provide a boost*
- *Ukraine: the hesitant Western support could jeopardise economic recovery*
- *Russia's war economy is overheating*
- *Inflation is returning to normal*

Even though the international environment is challenging, and there are significant downside risks, the economic outlook for 2024 has brightened significantly in most economies of Central, Eastern and Southeastern Europe, and especially in the EU member states. This is the finding of the new Winter Forecast by the Vienna Institute for International Economic Studies (wiiw) for 23 countries of the region. *'The dramatic fall in inflation, sharp rise in real wages and pick-up in private consumption, combined with imminent cuts in key interest rates, should put growth back on track,'* says Richard Grieveson, Deputy Director of wiiw and lead author of the Winter Forecast. *'The hoped-for recovery of the German economy, which is so important for the region and which should materialise by the middle of the year, is, of course, also an important element.'*

For 2024, wiiw forecasts average growth of 2.5% for EU members in the region. After experiencing only minimal growth of 0.6% last year, this year they are once again expected to significantly outperform the euro area (0.8%). *'The EU members in Central and Eastern Europe are returning to normality and will continue the process of economic convergence with Western Europe that was interrupted last year,'* says Grieveson. The Visegrád countries of Poland, Czechia, Slovakia and Hungary should also expand by an average of 2.5%, thus overcoming the economic stagnation of 2023 (0.1%). Poland and Hungary have regained greater access to EU funds due to political developments (new government in Poland, Viktor Orbán's Ukraine deal with the EU).

The Southeast European EU members Romania (3.0%) and Croatia (2.6%) are also expected to post solid growth. The economy there is being supported not least by inflows of funds from the NextGenerationEU COVID-19 recovery fund. The six countries of the Western Balkans will expand by an average of 2.6%, and Turkey by 3.0%. The slight recovery in war-torn Ukraine should continue, with GDP growth of 3.0%; but that is dependent on the further course of the war and, above all, on Western aid. As for Russia, the aggressor, the robust growth of its war economy observed last year (3.5%) is expected to more than halve this year (to 1.5%), while Moldova (3.7%) and Kazakhstan (4.2%) will see the most dynamic growth in the region.

Significant downside risks

Despite the positive outlook, there are significant downside risks, as mentioned at the beginning. *'A continued recession in Germany, an escalation of the wars in Ukraine and Gaza, disruptions to supply chains such as those currently occurring in the Red Sea and, above all, the election of Donald Trump as the next US president could seriously jeopardise the recovery,'*

says Richard Grieson. In his view, the geopolitical risks dominate, especially concerning the next US administration and the wars in Ukraine and the Middle East.

Ukraine: the hesitant Western support could jeopardise recovery

A Donald Trump election victory would probably have especially serious consequences for Ukraine. Although the country performed much better than expected in 2023, with growth of 5.5%, the current unpredictability surrounding the continuation of vital financial aid from the US and the EU is creating great economic uncertainty. wiiw has therefore cut its growth forecast for 2024 by 1.2 percentage points, to 3.0%. In addition to the start of EU accession negotiations, one success of last year was the increase in agricultural exports by sea: these rose to the highest level seen since the start of the war, thanks to circumvention of the Russian Black Sea blockade. *'In view of an expected budget deficit of 25% of GDP, which is primarily financed by Western aid, the ongoing delays in the commitment and disbursement of funds naturally have an extremely negative effect on confidence in the Ukrainian economy,'* warns Olga Pindyuk, Ukraine expert at wiiw. *'Unfortunately, these uncertainties are likely to become the new normal for Ukraine.'*

Russia's war economy is overheating

Despite sanctions, the ongoing armaments boom resulted in the expansion of the Russian economy by 3.5% last year. Operating at the limits of its capacity, the economy is now showing increasing signs of overheating. The acute labour shortage caused by the war and the inflation-driven increase in key interest rates to 16% are likely to limit growth to 1.5% this year. As Vasily Astrov, Russia country expert at wiiw, notes: *'Russia is increasingly dependent on the war continuing. The enormous spending on it is like a drug for the economy. Of course, this will also lead to corresponding withdrawal symptoms if this drug is reduced or discontinued.'*

Defence spending has risen to 6% of GDP – the highest figure since the collapse of the Soviet Union – and a significant 29% of the federal budget will flow into the defence budget this coming year. High military spending leads to dangerous imbalances and undermines medium-term growth prospects, not least because defence companies often win the competition for scarce skilled workers over civilian enterprises. If there is further mobilisation following Putin's presumed forthcoming re-election this March as Russia's president, this is likely to exacerbate the labour shortage. The mainly war-related budget deficit of just under 1% of GDP this year is high by Russian standards, but is easily manageable. Comments Astrov: *'Financing the war is not a problem for Putin. Rather, the question is whether sufficient Western components for weapons systems can be procured in the long term, given Western sanctions.'*

Inflation is returning to normal

Although the inflation crisis has not yet been fully resolved, inflation in those countries of the region that are EU members will more than halve in 2024, to an average of 4.7%. In the countries of the Western Balkans, there will be a similarly steep decline, to an average of 3.8%. Inflation will also fall sharply in most of the other countries surveyed, with the exception of the special cases of Turkey, Russia and Belarus. Although core inflation (excluding energy and food) is likely to remain higher, in view of strong real wage increases and rising consumer spending, the upward trend in prices is much lower than a year ago – particularly for energy,

but also for food. In the medium term, the region will nevertheless have to adjust to slightly higher inflation rates than before the invasion of Ukraine.

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 Winter 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					Consumer prices					Unemployment (LFS)					Current account					Fiscal balance				
		real change in % against prev. year					average change in % against prev. year					rate in %, annual average					in % of GDP					in % of GDP				
		Forecast					Forecast					Forecast					Forecast					Forecast				
		2022	2023 ¹⁾	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023 ¹⁾	2024	2025	2026	2022	2023 ¹⁾	2024	2025	2026	2022	2023 ¹⁾	2024	2025	2026
BG	Bulgaria	3.9	1.7	1.5	2.5	3.0	13.0	8.6	7.0	5.0	4.0	4.3	4.2	4.0	3.8	3.6	-1.4	-0.5	0.0	-0.5	-1.0	-2.9	-4.0	-4.0	-3.0	-3.0
CZ	Czechia	2.4	-0.2	1.7	2.7	2.7	14.8	12.0	2.8	2.2	2.0	2.2	2.7	2.7	2.6	2.6	-6.1	-1.0	0.0	0.3	0.7	-3.2	-4.0	-2.5	-2.0	-1.5
EE	Estonia	-0.5	-2.8	-0.2	2.6	3.3	19.4	9.1	3.5	2.3	2.2	5.6	6.8	8.8	8.0	7.4	-3.2	-2.3	-4.2	-4.0	-3.4	-1.0	-3.1	-3.5	-3.8	-3.2
HR	Croatia	6.3	2.5	2.6	2.7	3.0	10.7	8.4	4.0	3.0	2.0	7.0	6.8	6.7	6.6	6.4	-2.8	-0.3	0.2	1.0	1.3	0.1	-1.0	-2.0	-1.7	-1.6
HU	Hungary	4.6	-0.6	2.3	2.6	3.0	15.3	17.0	5.5	4.0	3.5	3.6	4.2	3.6	3.6	3.6	-8.2	0.0	-2.5	-2.9	-3.2	-6.2	-6.0	-4.5	-3.3	-4.0
LT	Lithuania	2.4	-0.2	1.5	2.0	2.4	18.9	8.7	2.4	2.3	2.5	6.0	6.8	6.5	6.3	6.1	-5.5	1.3	1.0	0.8	0.5	-0.7	-1.7	-2.5	-2.0	-1.5
LV	Latvia	3.4	-0.2	1.6	2.4	2.7	17.2	9.1	2.2	2.5	2.6	6.9	6.5	6.4	6.2	6.0	-4.7	-3.0	-2.0	-2.5	-2.8	-4.6	-2.8	-3.0	-2.5	-2.0
PL	Poland	5.3	0.3	3.0	3.5	3.0	13.2	10.9	4.7	3.6	2.5	2.9	2.7	3.5	3.6	3.5	-2.4	1.2	0.6	0.0	-0.5	-3.7	-5.5	-5.7	-5.4	-5.5
RO	Romania	4.6	2.0	3.0	3.5	3.7	12.0	9.7	6.0	4.0	3.5	5.6	5.6	5.4	5.2	5.0	-9.1	-6.8	-6.0	-5.0	-5.0	-6.3	-6.2	-5.0	-4.0	-3.5
SI	Slovenia	2.5	1.3	2.7	2.5	3.3	9.3	7.2	3.7	2.5	2.5	4.0	3.7	3.6	3.6	3.5	-1.0	2.5	2.2	2.3	2.2	-3.0	-4.2	-3.9	-2.1	-1.8
SK	Slovakia	1.8	1.1	1.6	2.2	2.6	12.1	11.0	3.7	3.5	2.5	6.1	6.0	6.0	5.8	5.6	-7.3	-1.6	-2.6	-2.4	-2.4	-2.0	-6.0	-6.0	-5.0	-4.0
	<i>EU-CEE11¹⁾²⁾</i>	4.2	0.6	2.5	3.1	3.1	13.5	11.0	4.7	3.5	2.8	4.0	4.1	4.3	4.2	4.1	-4.9	-0.9	-1.2	-1.2	-1.4	-3.8	-5.0	-4.6	-3.9	-3.8
	<i>EA20³⁾</i>	3.4	0.5	0.8	1.6	1.6	8.4	5.4	3.0	2.2	2.0	6.8	6.6	6.6	6.5	6.4	1.4	1.0	1.5	1.7	1.7	-3.6	-3.7	-2.7	-2.6	-2.5
	<i>EU27³⁾</i>	3.4	0.7	1.0	1.8	1.8	9.2	6.4	3.2	2.4	2.2	6.2	5.8	5.8	5.7	5.6	1.2	1.0	1.5	1.7	1.7	-3.3	-3.3	-2.3	-2.2	-2.1
AL	Albania	4.9	3.5	3.6	3.7	3.4	6.7	4.8	3.0	2.5	2.4	10.9	10.5	10.0	9.5	9.2	-5.9	-2.6	-3.5	-3.4	-3.4	-3.7	-1.5	-1.5	-1.0	-1.0
BA	Bosnia and Herzegovina	4.2	1.6	2.0	2.4	2.8	14.0	6.2	2.8	2.5	2.0	15.4	13.8	13.5	13.2	13.1	-4.3	-3.9	-3.8	-3.6	-3.3	-0.4	-1.0	-0.5	-0.3	0.1
ME	Montenegro	6.4	6.6	4.0	3.5	3.2	13.0	8.6	5.0	3.0	2.5	14.7	13.4	12.5	11.5	10.5	-12.9	-8.3	-10.8	-10.2	-10.0	-5.1	-3.4	-4.5	-4.8	-5.0
MK	North Macedonia	2.2	1.6	2.2	2.6	3.0	14.2	9.4	3.5	3.0	2.5	14.4	13.0	12.0	11.0	10.0	-6.1	0.0	-2.5	-2.3	-2.0	-4.4	-4.0	-3.5	-2.5	-2.0
RS	Serbia	2.5	2.0	2.4	2.7	3.0	11.9	12.1	4.5	3.5	2.8	9.4	9.5	9.0	8.5	8.0	-6.9	-2.5	-3.0	-3.5	-4.0	-3.2	-2.0	-1.5	-1.0	-1.0
XK	Kosovo	4.3	3.2	3.5	3.7	3.6	11.6	4.9	4.0	2.5	2.5	12.5	11.5	11.3	11.1	10.9	-10.3	-8.4	-7.9	-7.6	-7.0	-0.5	-1.0	-1.4	-2.0	-1.5
	<i>WB6¹⁾²⁾</i>	3.4	2.4	2.6	2.9	3.1	11.8	9.0	3.8	3.0	2.5	11.7	11.1	10.6	10.1	9.6	-6.7	-3.2	-3.8	-4.0	-4.1	-2.8	-1.9	-1.7	-1.3	-1.1
TR	Turkey	5.5	4.2	3.0	3.6	3.8	72.3	54.0	54.0	31.0	29.0	10.5	9.5	10.5	10.0	10.0	-5.4	-5.0	-3.5	-3.0	-3.0	-1.1	-4.0	-4.0	-3.5	-3.0
BY	Belarus	-4.7	3.9	2.0	2.5	3.0	15.2	5.0	8.0	8.0	7.0	3.6	3.4	3.4	3.3	3.3	3.4	-0.7	-1.0	-1.2	-1.5	-1.5	-3.0	-2.0	-1.0	-1.0
KZ	Kazakhstan	3.2	4.9	4.2	4.6	4.2	15.0	14.7	9.0	7.0	6.0	4.9	4.7	4.7	4.7	4.7	3.1	-3.7	-3.0	-1.7	-1.5	-2.1	-2.7	-2.6	-2.4	-2.3
MD	Moldova	-5.0	1.0	3.7	3.4	3.8	28.7	13.4	6.0	5.0	4.0	3.1	4.5	4.0	3.7	3.5	-17.1	-11.0	-8.0	-7.0	-7.0	-3.2	-6.0	-5.0	-4.0	-4.0
RU	Russia	-1.2	3.5	1.5	1.7	1.9	13.8	5.9	6.7	4.2	3.6	3.9	3.2	2.9	2.9	2.9	10.5	2.8	3.4	3.0	2.6	-1.4	-1.0	-0.7	-0.5	-0.5
UA	Ukraine	-28.8	5.5	3.0	4.0	6.0	20.2	12.9	8.0	6.5	5.5	25.0	20.0	15.0	13.0	10.0	4.9	-4.0	-5.0	-5.5	-5.0	-16.1	-27.0	-25.0	-20.0	-17.0
	<i>CIS4+UA¹⁾²⁾</i>	-2.8	3.8	1.9	2.2	2.4	14.4	7.2	7.0	4.7	4.1	7.4	6.0	4.9	4.6	4.1	9.2	1.4	1.8	1.6	1.3	-2.3	-3.1	-2.8	-2.3	-2.0
	<i>V4¹⁾²⁾</i>	4.3	0.1	2.5	3.1	2.9	13.7	12.0	4.4	3.4	2.5	3.2	3.2	3.6	3.6	3.6	-4.5	0.3	-0.3	-0.5	-0.8	-3.8	-5.3	-4.9	-4.3	-4.3
	<i>BALT3¹⁾²⁾</i>	2.0	-0.8	1.1	2.2	2.7	18.5	8.9	2.6	2.4	2.5	6.1	6.7	7.0	6.7	6.4	-4.7	-0.8	-1.2	-1.3	-1.4	-1.8	-2.4	-2.9	-2.6	-2.1
	<i>SEE9¹⁾²⁾</i>	4.4	2.1	2.7	3.1	3.4	12.0	9.2	5.4	3.8	3.2	7.7	7.5	7.2	6.9	6.6	-6.7	-4.3	-3.9	-3.4	-3.5	-4.2	-4.3	-3.8	-3.0	-2.7
	<i>CIS3+UA¹⁾²⁾</i>	-9.3	4.8	3.4	4.0	4.6	17.2	12.5	8.4	6.9	5.9	15.3	12.5	9.8	8.7	7.1	3.2	-3.6	-3.5	-3.0	-2.8	-6.8	-10.6	-9.8	-8.0	-6.9
	<i>non-EU12¹⁾²⁾</i>	0.0	3.8	2.2	2.6	2.9	32.0	21.5	21.3	12.7	11.6	8.3	7.1	6.5	6.2	5.8	5.1	-0.6	0.0	-0.1	-0.3	-2.0	-3.3	-3.1	-2.6	-2.3
	<i>CESEE23¹⁾²⁾</i>	1.2	2.9	2.3	2.8	2.9	26.5	18.4	16.3	10.0	9.0	7.3	6.3	6.0	5.7	5.4	1.7	-0.7	-0.5	-0.5	-0.7	-2.6	-3.9	-3.7	-3.1	-2.9

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: 18 January 2024.