

April 27th 2022

Webinar

Spring Forecasts for CESEE: Overshadowed by war and sanctions

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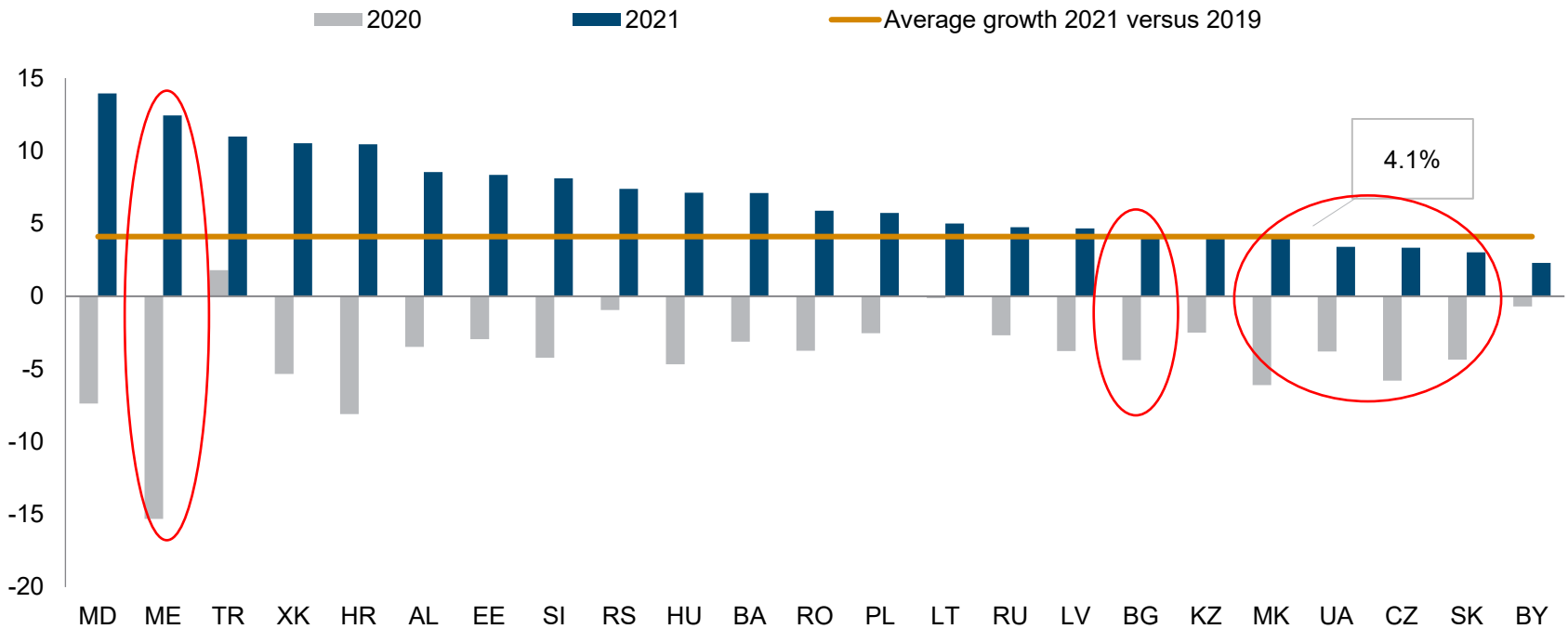
Overview

1. A review of 2021
2. Impact of war in Ukraine and Russia sanctions
 - Economic sentiment and exchange rates
 - Rising commodity prices
 - Trade disruptions
 - Influx of Ukrainian refugees
3. Outlook for 2022-2024 and key risks

1. A review of 2021

COVID-related slump left behind

Real GDP growth in %

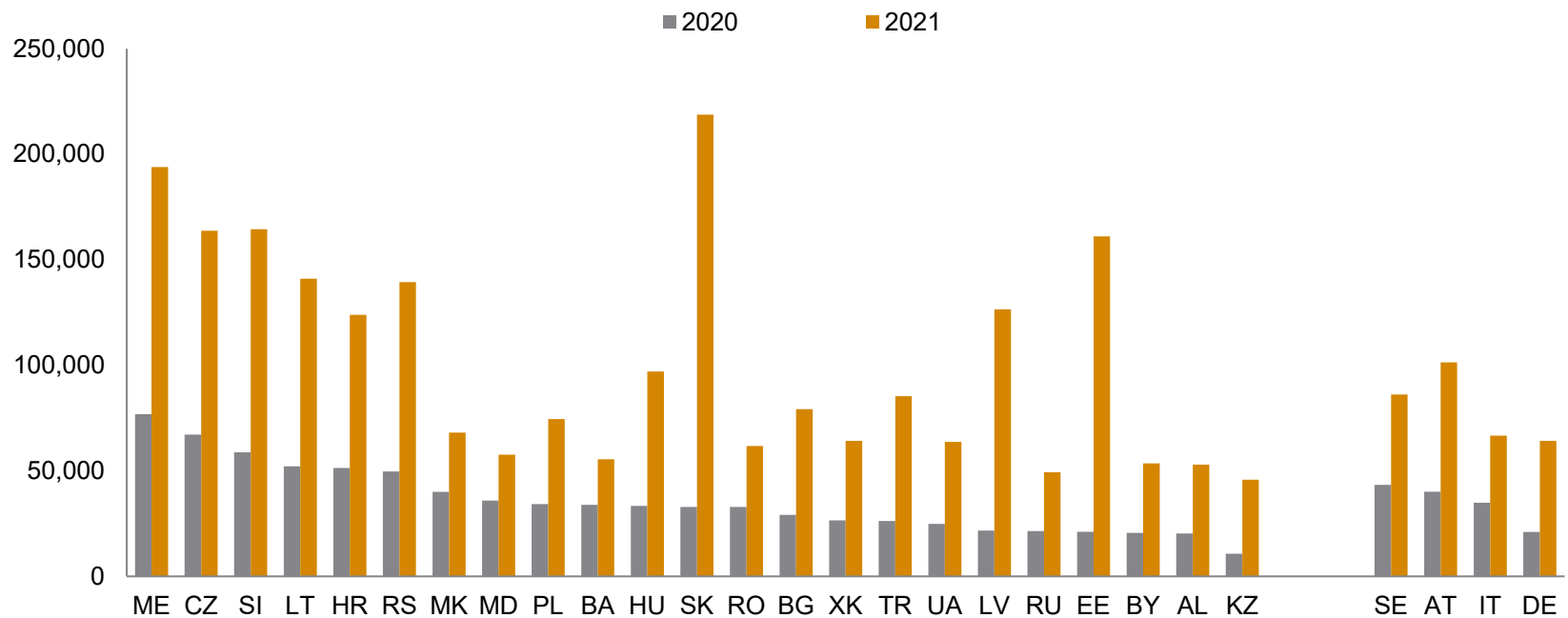


Note: Average growth 2021 versus 2019 is a weighted average over all countries.

Source: wiiw Annual Database incorporating national statistics and Eurostat.

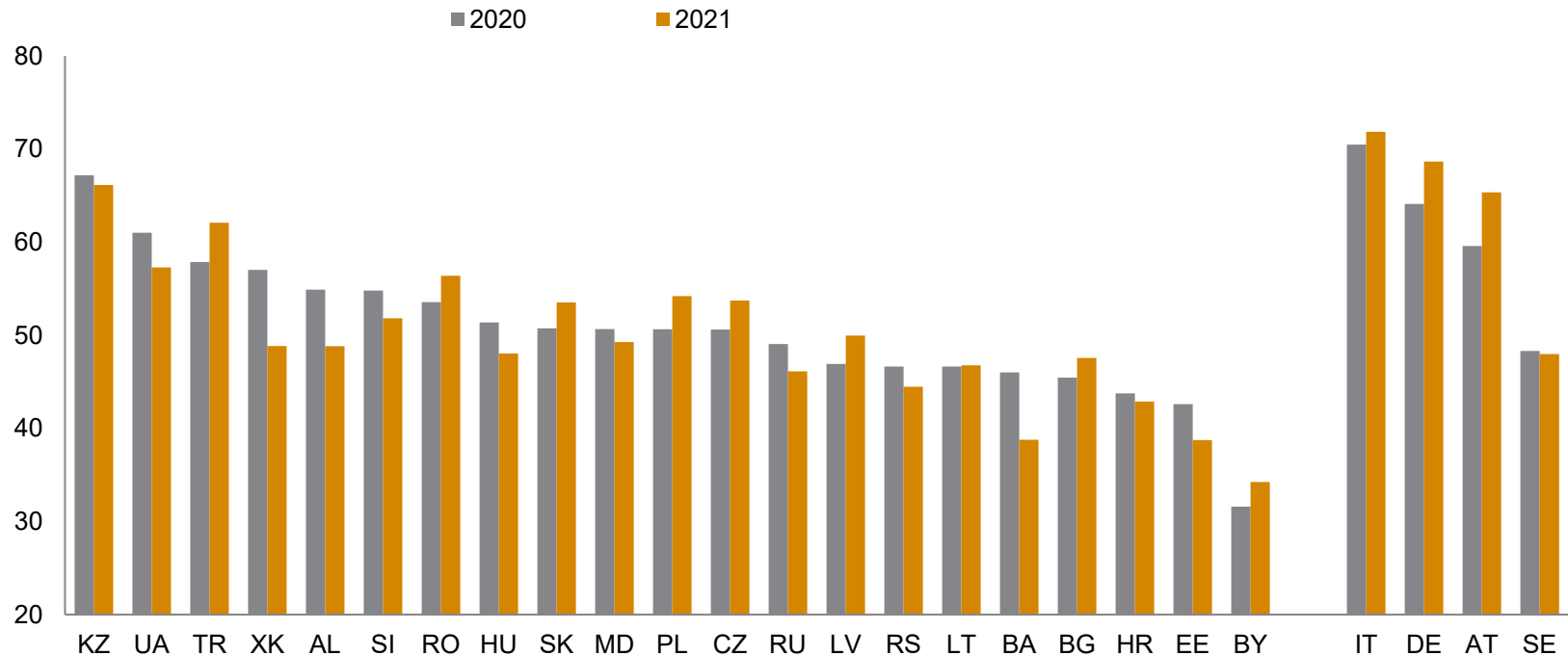
High numbers of infections...

Number of new COVID-19 cases per million population



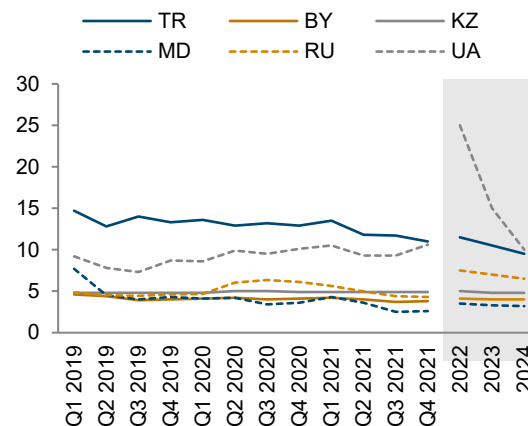
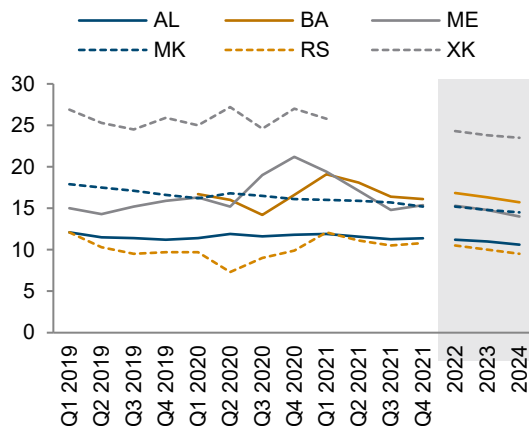
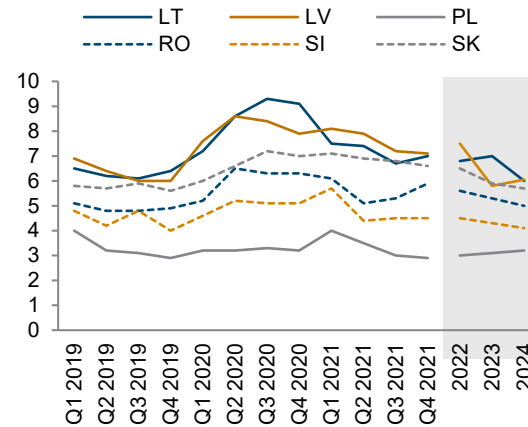
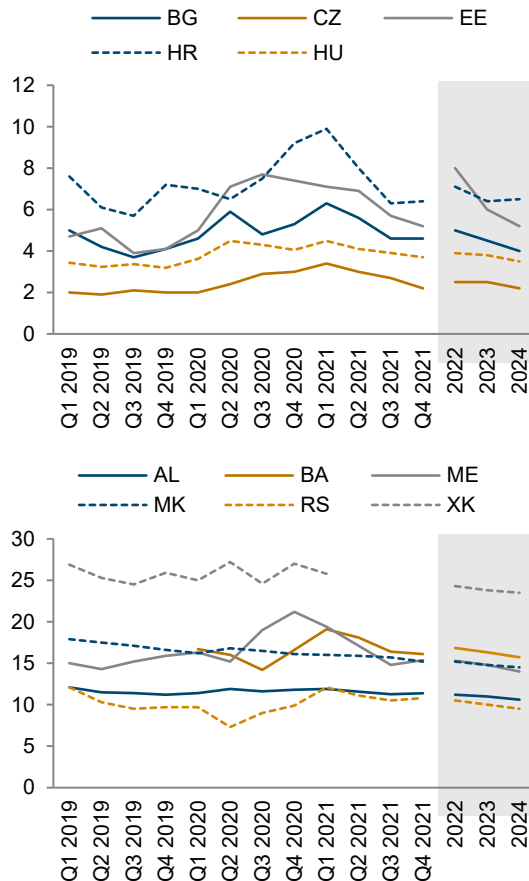
... but only limited COVID-19 restrictions

Stringency Index



Labour markets recovered swiftly...

Unemployment rate in % (LFS)

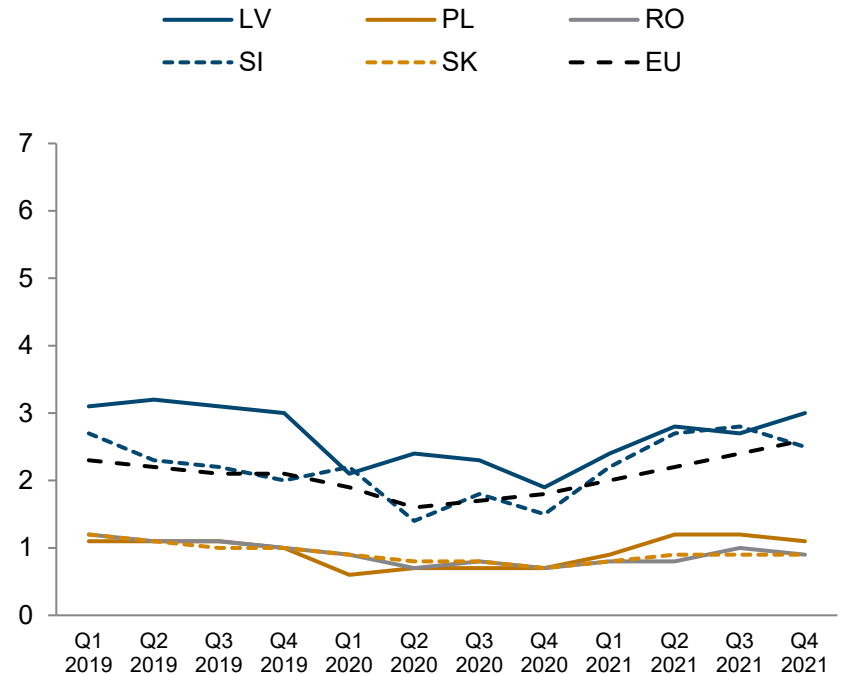
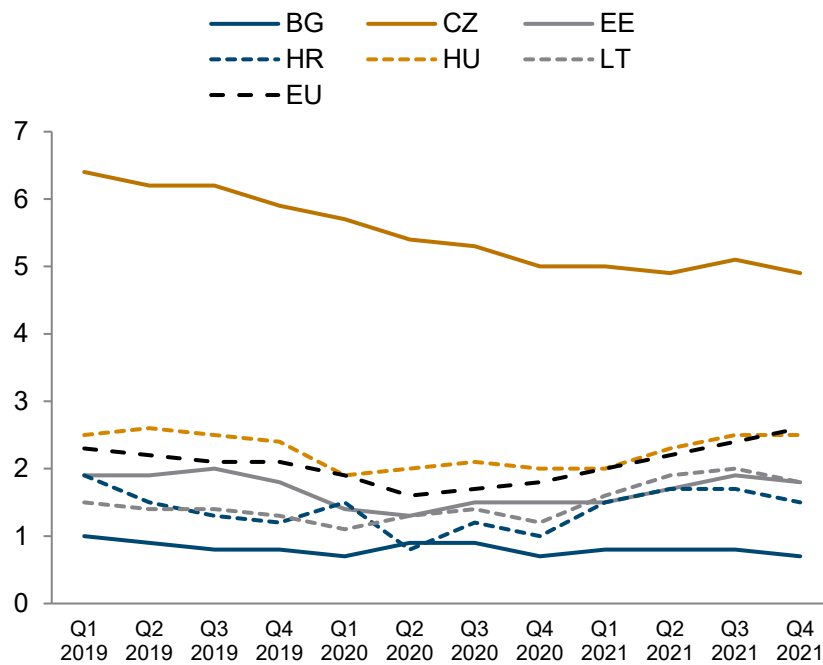


Note: BG,EE,HR,SI,SK,BA,ME,RS,TR: break due to a new methodology in 2021.

Source: wiiw Monthly Database incorporating national statistics, wiiw forecasts for 2022-2024.

... and labour shortages re-emerged in some countries

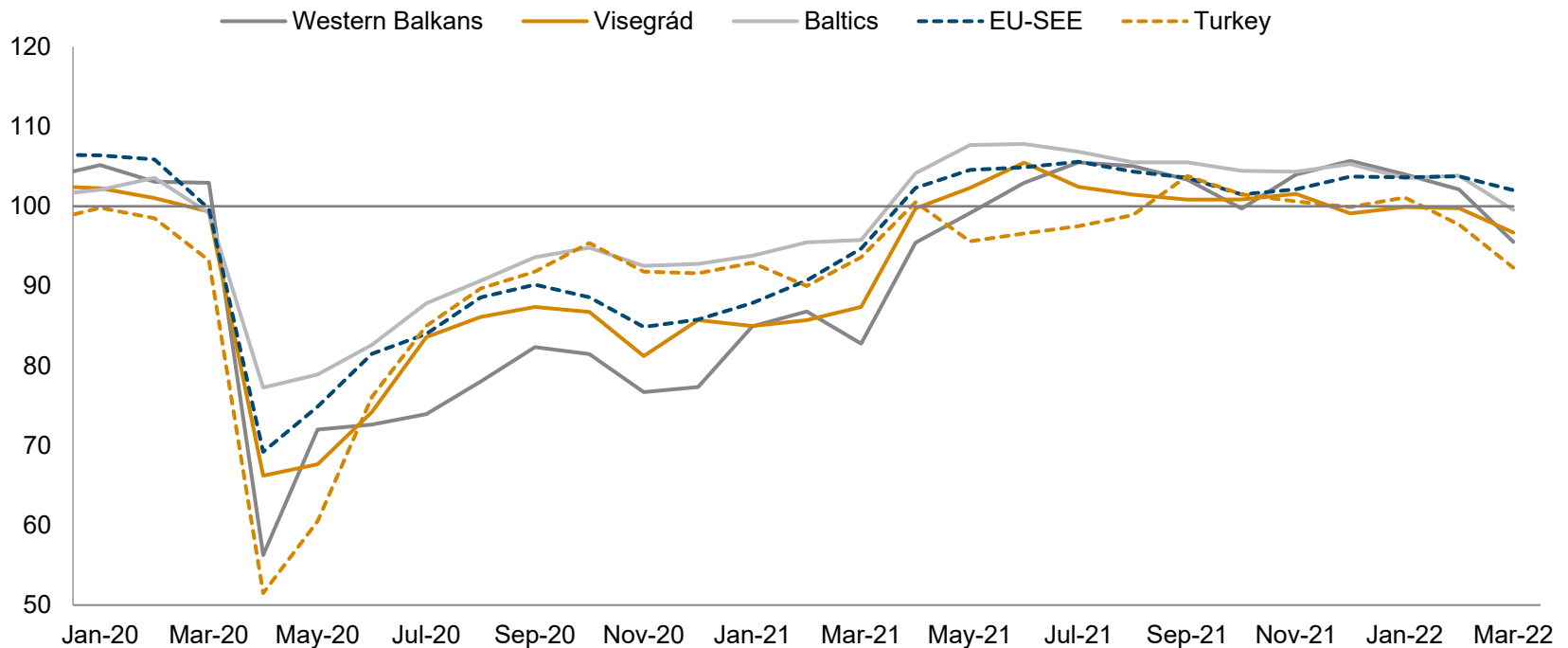
Job vacancy rate, in %



2. Impact of war and sanctions

Economic sentiment suffered...

European Commission economic sentiment indicator,
long-term average = 100

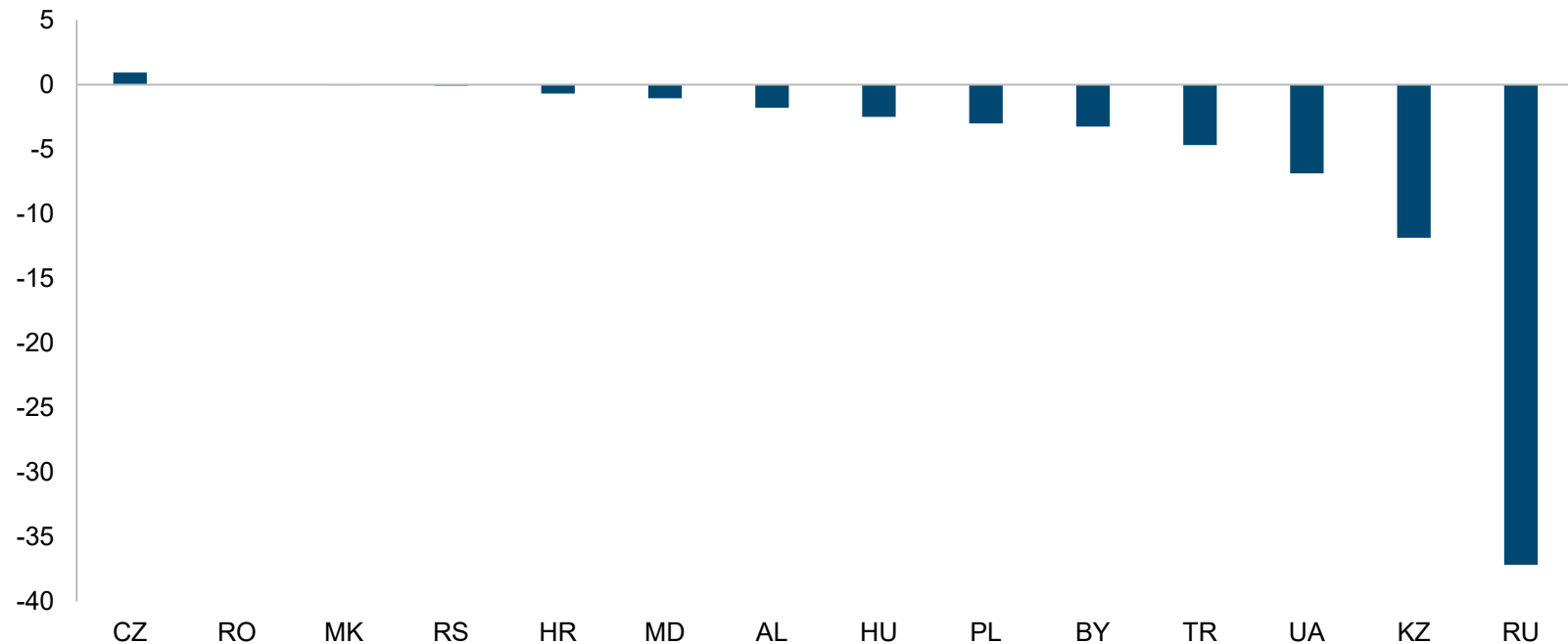


Note: Simple average of each country group. Western Balkans: AL, ME, MK; EU-SEE: BG, HR, RO, SI.

Source: European Commission, Eurostat.

... with many CESEE currencies under pressure initially

% change versus EUR, December 2021 to March 2022

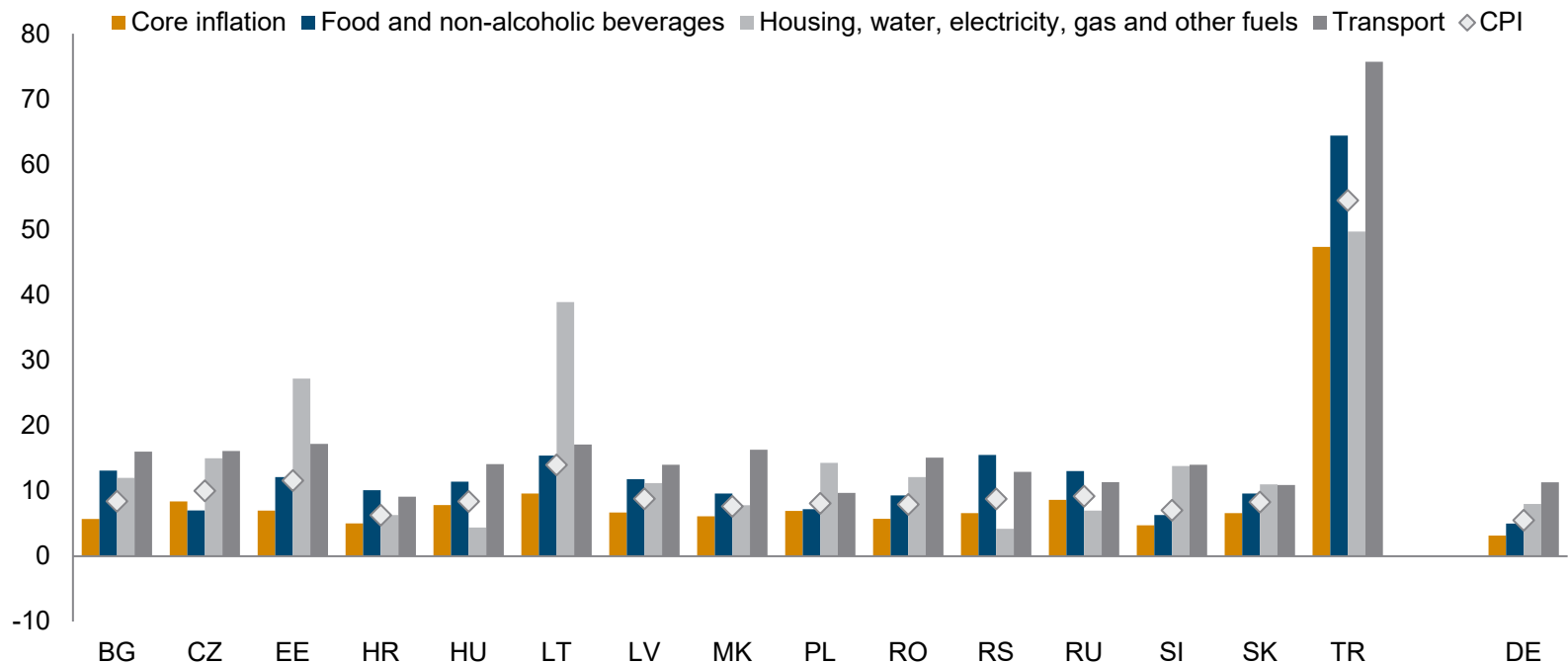


Notes: Based on monthly averages. Data for Belarus refer to February 2022.

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

Food and energy were key inflation drivers already before...

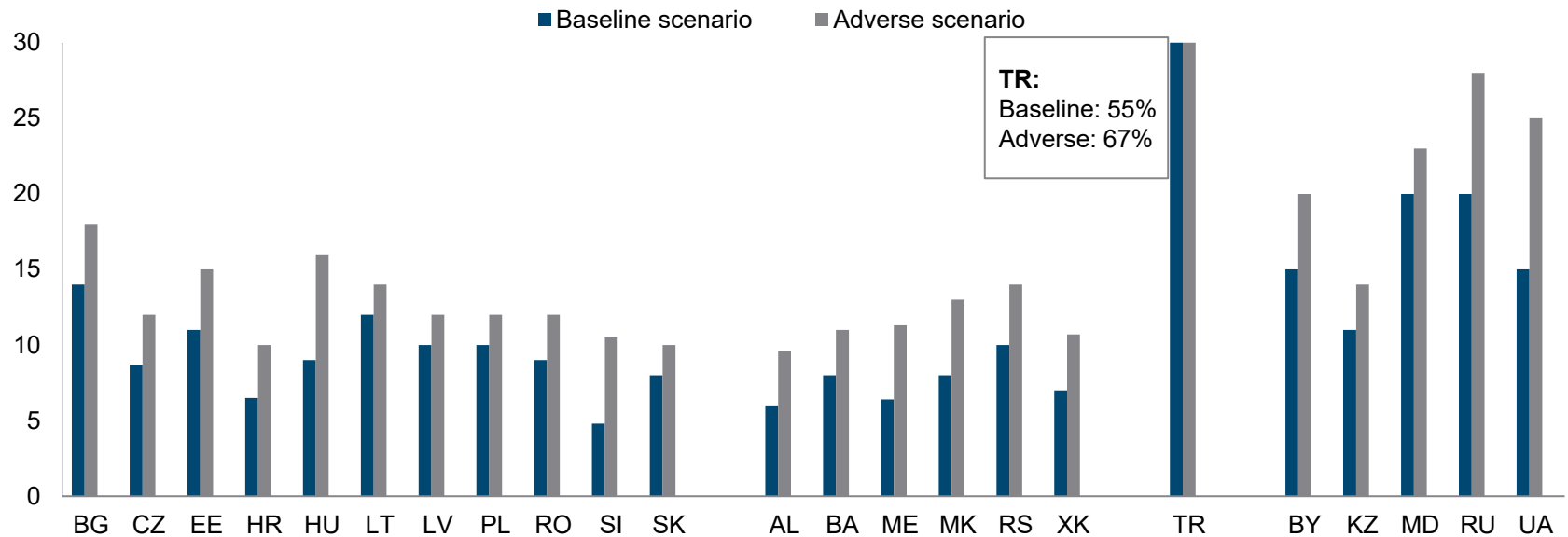
CPI sub-components in February 2022,
percentage change year on year



... and will be so even more in the months to come

- Baseline scenario: status quo
- Adverse scenario: immediate EU embargo on Russian oil and gas

Average CPI inflation in 2022, in %



Policies to offset the impact of energy price rises

	Reduced energy tax/VAT	Retail price regulation	Transfers to vulnerable groups	Windfall profits tax/regulation
Albania		x		
Bosnia and Herzegovina	x	x		
Bulgaria		x		x
Croatia	x	x	x	
Czechia	x	x	x	
Estonia	x	x	x	
Hungary		x		
Kosovo			x	
Latvia	x		x	
Lithuania		x	x	
North Macedonia	x		x	
Poland	x	x	x	
Romania	x	x	x	x
Serbia	x	x		
Slovakia		x		
Ukraine	x			

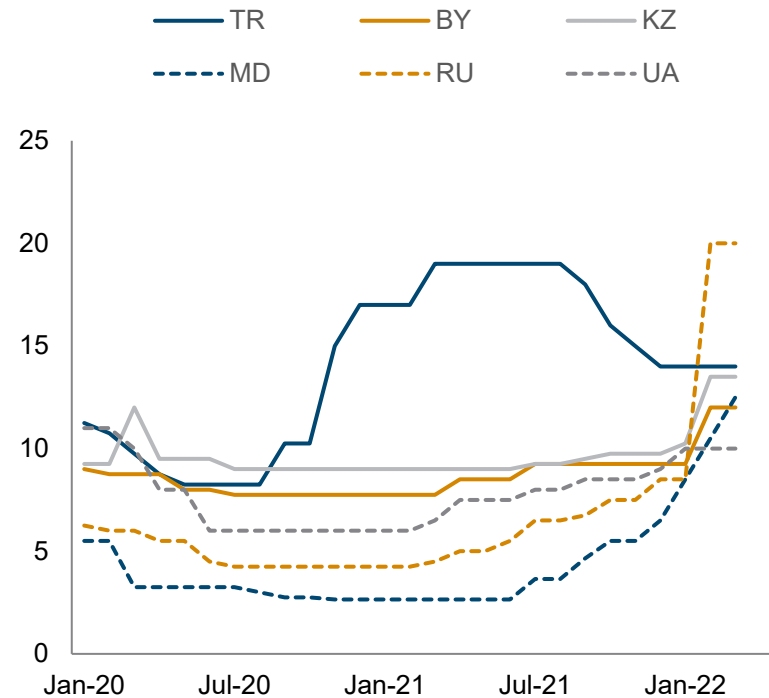
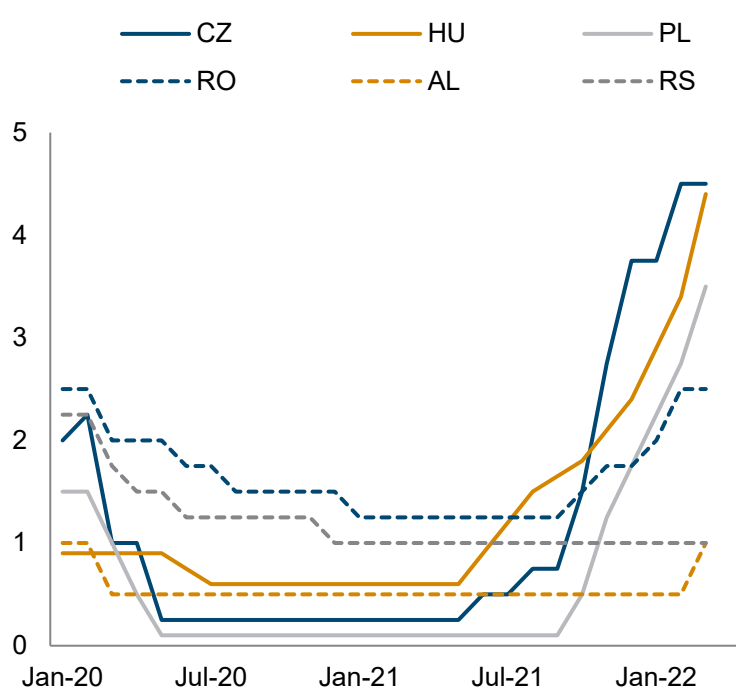
Notes: Includes measures both announced and already approved. Fuel price regulation in Croatia ended at the end of March 2022.

In Hungary, electricity price regulation has been in place since 2015.

Sources: Bruegel, Raiffeisen Research, wiiw research.

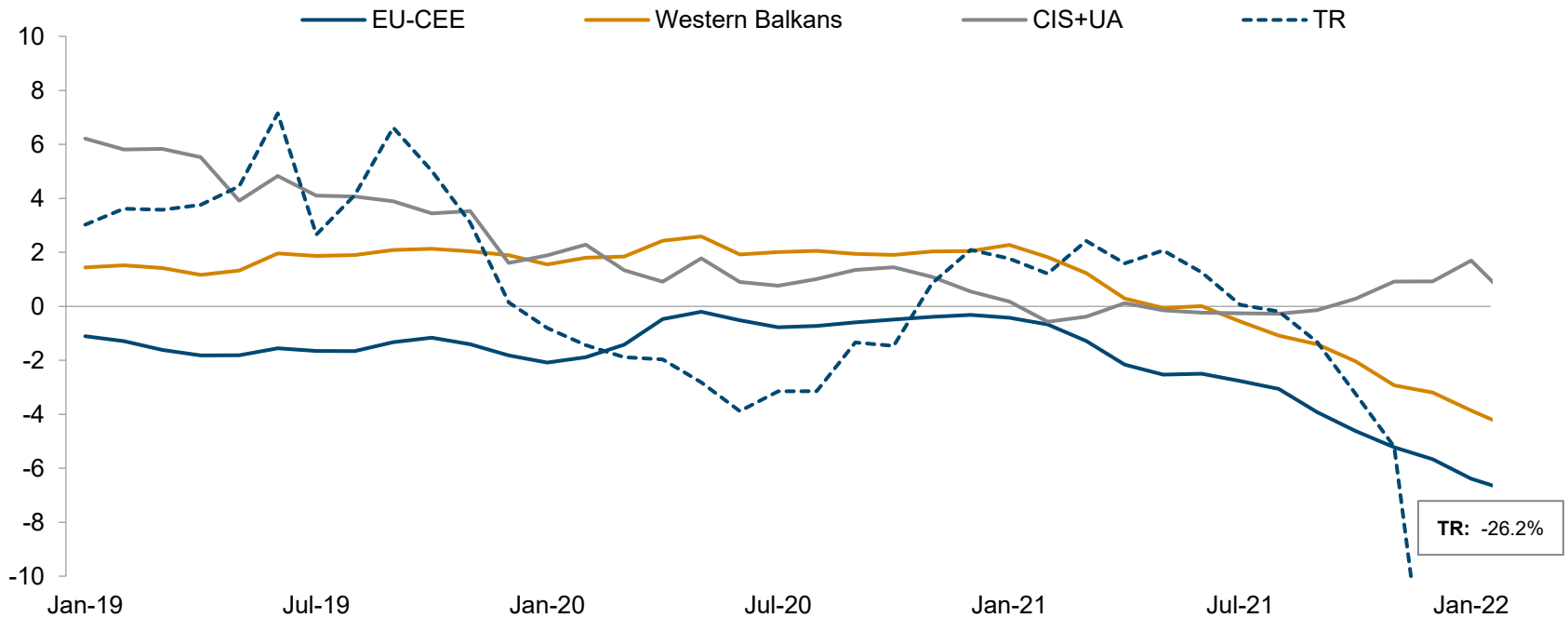
Monetary policy tightened in response to higher inflation...

Central bank nominal policy rate, end of month, %



... but real interest rates in the negative territory

Real policy rate, %

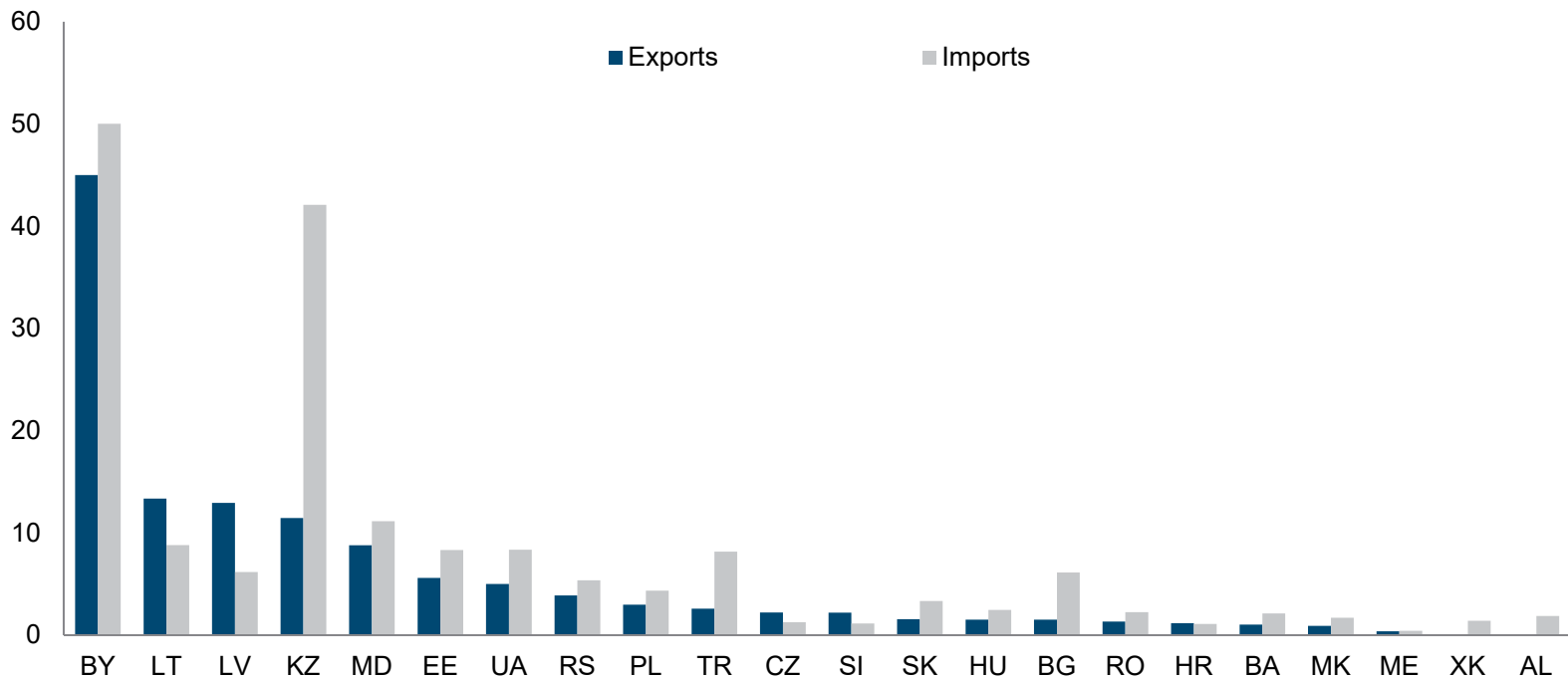


Notes: Deflated with CPI. Simple averages for country aggregates.

Source: wiiw Monthly Database incorporating national statistics.

Russia is not important trading partner for most CESEEs...

Merchandise trade with Russia, in % of total

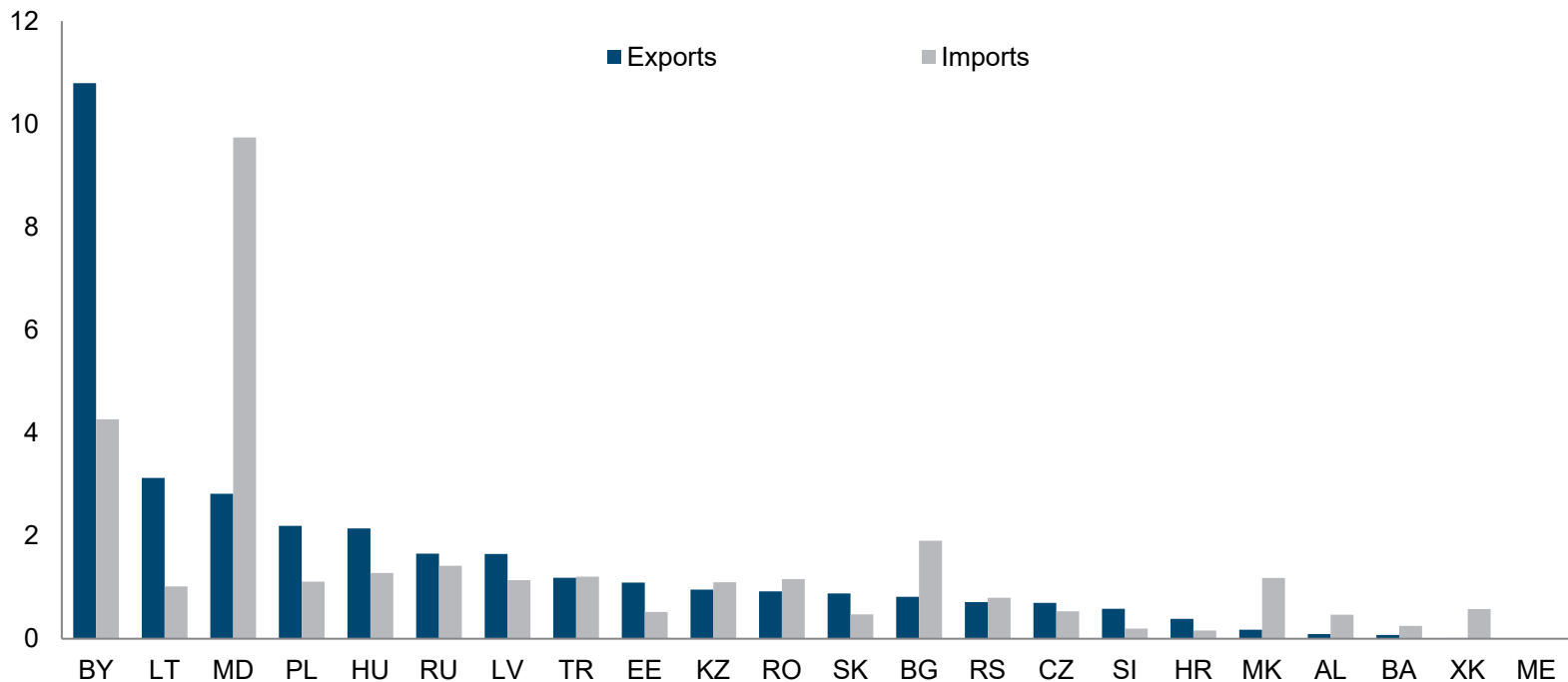


Note: Data refer to last available year.

Source: wiiw Annual Database incorporating national statistics and Eurostat.

... while Ukraine even less so

Merchandise trade with Ukraine, in % of total

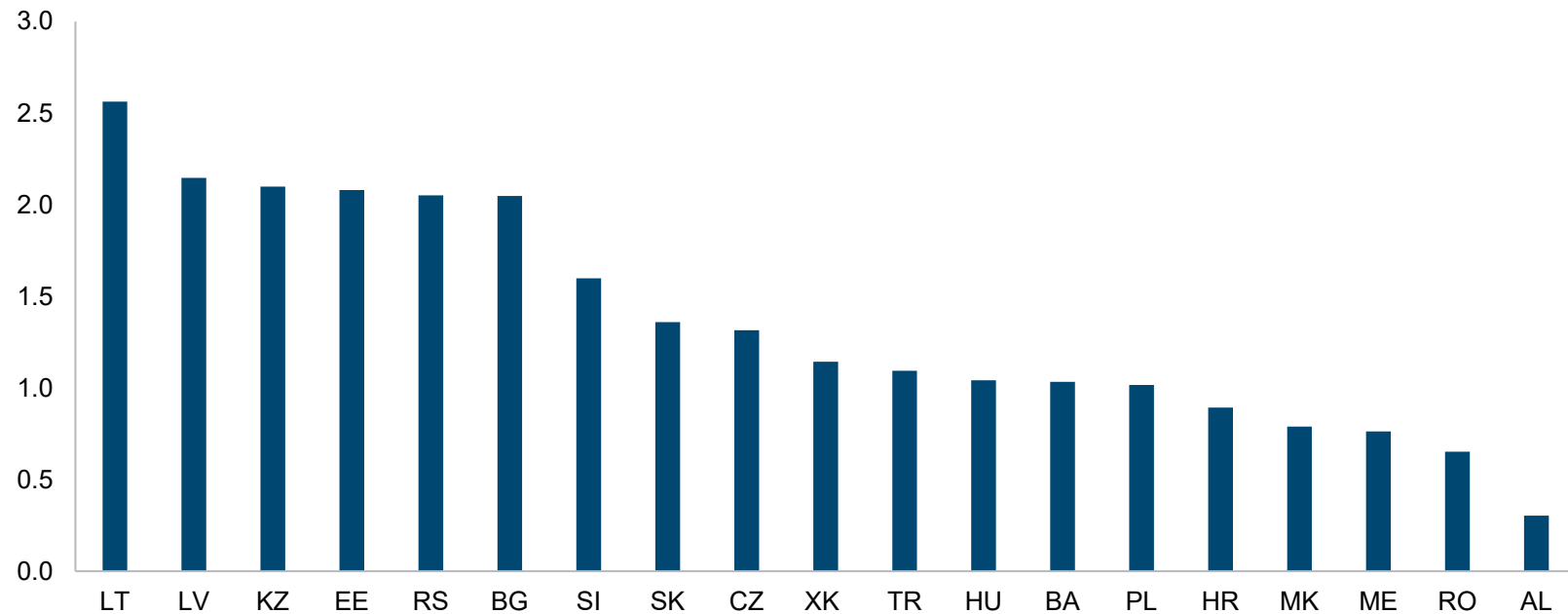


Note: Data refer to last available year.

Source: wiiw Annual Database incorporating national statistics and Eurostat.

How to account for value chain linkages?

Value-added in exports to Russia in 2018, share of GDP in %

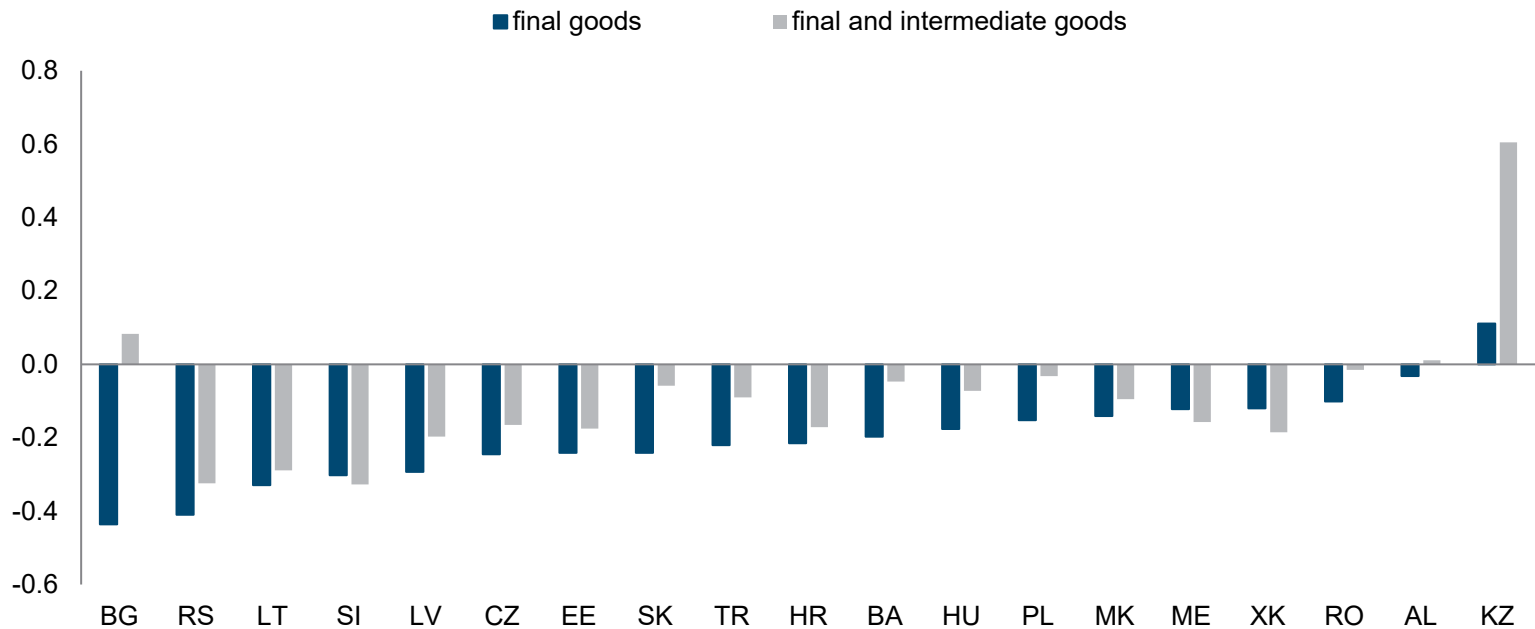


Note: Western Balkan countries based on wiiw MC-IOT.

Source: OECD TIVA database, Release 2021, own calculations.

Recession in RU and UA will cost ~0.5 pp of GDP growth

Estimated GDP effects of a 9% recession in Russia via the trade channel, in pp



Note: Western Balkan countries based on wiiw MC-IOT.

Source: OECD TIVA database, Release 2021, own calculations.

The influx of Ukrainian refugees

- Most refugees: children or women not entering labour force immediately
- Many of those who do will help alleviate labour shortages
- Good prospects for long-term integration
 - High levels of education and skills
- But initially a burden on public finances
 - Many CESEEs at the front-line of refugee flows
 - Spending on refugees partly covered by the EU (even in Moldova)

3. Outlook for 2022-2024

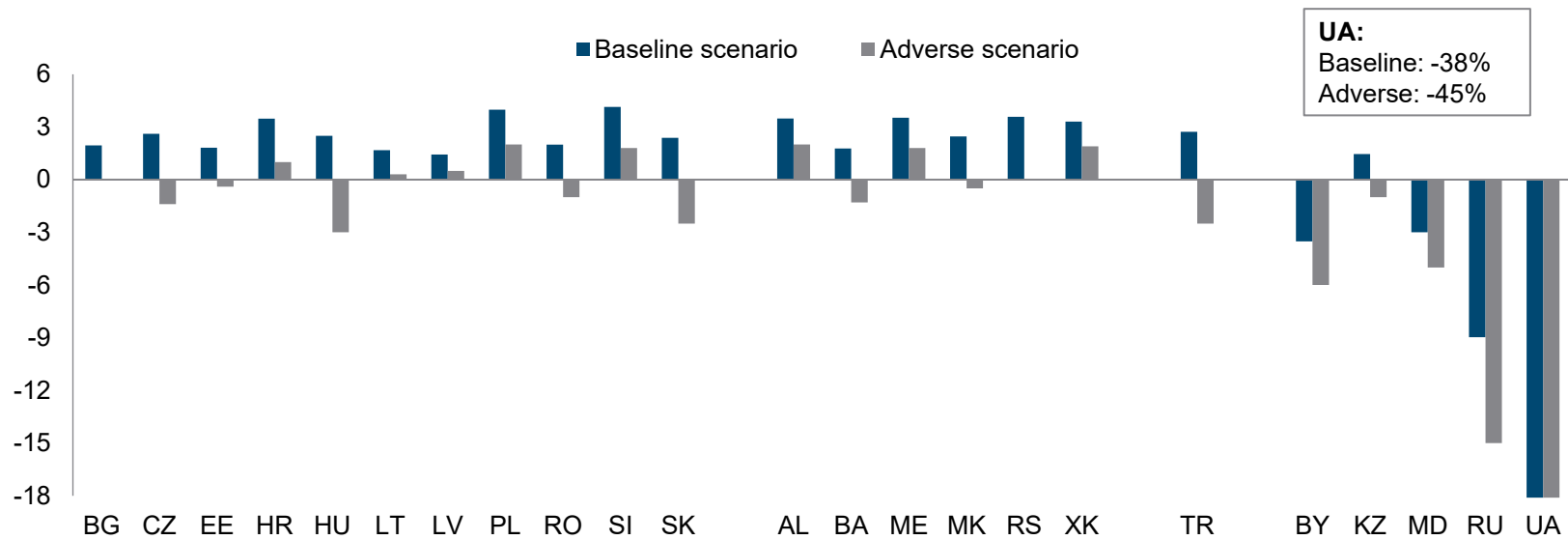
Growth forecasts and revisions – baseline scenario

		Forecast, %			Revisions, pp		
		2022	2023	2024	2022	2023	2024
EU-CEE	BG	2.0	3.7	3.5	↓ -1.8	↑ 0.2	⇒ 0.0
	CZ	2.6	3.5	4.2	↓ -1.4	↓ -0.1	↑ 0.6
	EE	1.8	3.4	3.1	↓ -1.7	↓ -0.6	↓ -0.2
	HR	3.5	4.0	3.1	↓ -1.2	↓ -0.1	↓ -0.2
	HU	2.5	3.9	4.5	↓ -2.0	↓ -0.1	↑ 0.8
	LT	1.7	2.8	2.6	↓ -2.0	↓ -0.5	↓ -0.3
	LV	1.4	2.2	2.3	↓ -2.9	↓ -1.4	↓ -0.7
	PL	4.0	3.5	3.6	↓ -0.9	↓ -1.4	↓ -0.7
	RO	2.0	3.5	4.5	↓ -2.3	↓ -1.0	↓ -0.3
	SI	4.1	3.3	2.8	⇒ 0.0	⇒ 0.0	↓ -0.2
Western Balkans	SK	2.4	3.1	3.0	↓ -1.5	↓ -0.6	↓ -0.3
	AL	3.5	3.7	3.9	↓ -0.7	↓ -0.3	↑ 0.1
	BA	1.8	2.3	2.3	↓ -0.7	↓ -0.5	↓ -0.3
	ME	3.5	3.7	3.3	↓ -1.0	↑ 0.7	↑ 0.6
	MK	2.5	2.7	2.7	↓ -1.0	↓ -0.5	↓ -0.3
	RS	3.6	3.4	3.4	↓ -1.3	↓ -1.1	↓ -0.6
Turkey	XK	3.3	3.7	3.9	↓ -1.0	↓ -0.3	↓ -0.1
TR	2.7	2.8	3.2	↓ -0.8	↓ -0.7	↓ -0.8	
CIS+UA	BY	-3.5	1.6	2.0	↓ -4.5	↓ -0.4	⇒ 0.0
	KZ	1.5	3.2	4.0	↓ -2.7	↓ -1.2	↓ -0.1
	MD	-3.0	3.0	4.0	↓ -7.0	↓ -1.5	↓ -0.5
	RU	-9.0	-1.5	1.0	↓ -11.0	↓ -3.0	↓ -0.5
	UA	-38.0	5.0	13.0	↓ -41.5	↑ 1.5	↑ 9.0

Adverse scenario: half of CESEE slide into recession

- Baseline scenario: status quo
- Adverse scenario: immediate EU embargo on Russian oil and gas

Real GDP growth in 2022, in %



Main messages

- COVID-related slump now left behind
- But war and sanctions will fuel inflation via rising commodity prices
 - growth in 2022 in most CESEEs 1-2 pp lower than forecast in winter
 - of which ~0.5 pp due to trade disruptions
- Response: monetary policy tightening and price controls on food & energy
- Ukrainian refugees more an opportunity than a risk
- Russian energy embargo: half of CESEE in recession, inflation double-digit
- 2023-2024: growth picking up, but scars remain

Thank you for your attention!

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