

Press release

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Eastern Europe standing firm in face of global headwinds

New wiiw forecast for Central, East and Southeast Europe (CESEE) in 2019-21, with a focus on Austria's relations with the region

The Vienna Institute for International Economic Studies (wiiw) has just published its new forecasts for 23 economies in CESEE up to 2021. The main conclusions are:

- › **The CESEE economy is cooling down, but much less than expected in spring; the forecasts for 2019 have been revised upwards for the majority of countries.**
- › **Particularly in the Central and East European EU Member States (EU-CEE), GDP growth has so far decoupled from the downturn in the euro area. This is due to the strong export performance of the EU-CEE countries. At the same time, their domestic demand continues to be supported by robust wage growth, not least as a result of increasing labour shortages, and by the inflow of EU transfers.**
- › **The outlook for the remaining CESEE countries for the coming years is broadly stable. The Western Balkan countries will continue to benefit from rising investment, several CIS countries from expansionary fiscal policies; the economic crisis in Turkey should be overcome by 2020 at the latest.**
- › **A further deterioration in the external environment, however, especially if reinforced by increasing protectionism, is likely to lead to a significant slowdown in growth in the coming years. The small and open economies in Central Europe would be most affected.**
- › **The developments in CESEE are also highly relevant for Austria due to the close economic links. Austria's geographical proximity and historically developed relations with the region have enabled it to assume a pioneering role after the fall of the Iron Curtain 30 years ago and the EU's Eastern enlargement 15 years ago, that continues to have an effect today.**
- › **Austria is among the top three investors in ten CESEE countries. One third of Austria's direct investment stocks are located in CESEE. In particular, investments in EU-CEE have been characterised by above-average profitability for Austria.**
- › **In trade in goods Austria achieves a surplus with EU Member States in CEE, in trade in services there is a deficit.**
- › **People from CESEE make a disproportionately high contribution to the Austrian economy: their share in the employed significantly exceeds their share in the population. The attractiveness of the Austrian labour market contributes to the labour shortages observed in its Eastern neighbours.**

The EU-CEE countries' economies continue to benefit from several factors, such as robust wage growth, buoyant investment activity (thanks to low interest rates and, in many cases, high EU transfers) and solid export performance; their growth edge over the euro area is even expected to increase slightly this year. Signs of overheating are mounting in Romania, Hungary, Poland and Bulgaria, although only in the case of Romania this is a cause for concern. The increasing labour shortages seem to be leading to investments in the automation and robotisation of workflows, particularly in the Visegrád countries.

In the Western Balkan countries, growth is expected to settle at around 3% per year. Here, too, wage growth is slowly gaining momentum, supported in several cases by fiscal easing. In addition, the Western Balkan countries are attracting significantly higher FDI inflows and benefiting from infrastructure investments, not least as part of the Chinese Belt and Road Initiative. The current growth slowdown in the region is almost exclusively due to Serbia, where one-off factors (such as the Fiat-Chrysler sales problems and the introduction of 100% customs tariffs on Serbian exports by Kosovo) play a role.

The slump in growth in Russia is mainly the result of lower oil prices and a very restrictive fiscal policy designed to ensure the economy's resilience to Western sanctions. Russia's growth will accelerate only slightly in the coming years. Even if the economies of other CIS countries and Ukraine are likely to develop better, surging consumer loans at high interest rates (similar to Russia) represent an important macroeconomic risk to financial stability in the medium term.

Austria has particularly close economic ties with CESEE, which were only made possible by the fall of the Iron Curtain 30 years ago and which deepened with the EU's Eastern enlargement 15 years ago. Austria was one of the first countries to regard the opening of the East as an economic opportunity and to take on a pioneering role, not least because of its geographical location and historically developed relations with Eastern Europe. This still has an effect today and largely explains Austria's important economic position in the region.

Austrian investments play an outstanding role both from Austria's perspective and from that of the Eastern European target countries. With over 25% of the FDI stock in Slovenia and over 19% in Croatia, Austria even leads the list of foreign investors. In a further eight countries Austria ranks among the top 3. Around one third of Austria's investment stocks abroad are located in CESEE. Investments in the EU-CEE – with the Czech Republic as the front-runner – proved to be particularly profitable. In 2018, the EU-CEE accounted for 24.5% (EUR 48.7 billion) of Austria's FDI stocks abroad, compared with almost 30% (EUR 3.7 billion) of total income generated.

Austria's trade relations with Eastern Europe are almost a mirror image of those with Western Europe. In trade in goods, Austria generated a surplus of EUR 3.3 billion with the EU-CEE, but a deficit with the rest of the EU. In trade in services, Austria recorded a deficit of EUR 3.8 billion with the EU-CEE, but a surplus with the rest of the EU. Austria's overall positive trade balance is mainly due to services exports to countries outside CESEE.

Austria's attractiveness as a place to work is contributing to the worsening labour shortages in its Eastern neighbours. The Visegrád countries represent 2.3% of the Austrian population, but 5% of the employees, and thus make a disproportionately high contribution to the Austrian economy. In the short term, Austria benefits from the ongoing East-West migration, as it can cushion the domestic labour shortages. The positive wage development in CESEE resulting from the labour shortages also benefits Austrian exporters. If, however, the critical point is exceeded at which labour shortages slow down the economy in CESEE, this would not leave Austria unaffected.

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OVERVIEW 2017-2018 AND OUTLOOK 2019-2021

		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				
		2017	2018	2019	Forecast 2020	2021	2017	2018	2019	Forecast 2020	2021	2017	2018	2019	Forecast 2020	2021	2017	2018	2019	Forecast 2020	2021
BG	Bulgaria	3.8	3.1	3.5	3.4	3.1	1.2	2.6	2.5	2.5	2.5	6.2	5.2	5.0	4.8	4.6	6.5	4.6	3.6	3.2	3.1
CZ	Czech Republic	4.4	2.9	2.5	2.4	2.5	2.4	2.0	2.5	2.1	2.0	2.9	2.2	2.2	2.2	2.2	1.0	0.3	0.1	0.2	0.3
EE	Estonia	4.9	3.9	3.2	2.7	2.4	3.7	3.4	2.6	2.3	2.1	5.8	5.4	5.0	4.5	4.3	3.2	1.7	1.3	0.7	0.9
HR	Croatia	2.9	2.6	2.9	2.7	2.7	1.3	1.6	1.8	1.8	1.5	11.2	8.5	7.5	7.0	6.5	3.7	2.6	2.0	1.6	0.8
HU	Hungary	4.1	4.9	4.1	3.1	2.6	2.4	2.9	3.5	3.2	3.0	4.2	3.7	3.5	3.5	3.5	2.8	0.5	0.1	0.1	0.4
LT	Lithuania	4.1	3.5	3.2	2.7	2.4	3.7	2.5	2.2	2.1	2.0	7.1	6.2	5.6	5.2	4.8	0.9	1.6	0.8	0.2	0.0
LV	Latvia	4.6	4.8	3.3	3.1	2.7	2.9	2.6	2.6	2.4	2.4	8.7	7.4	6.7	6.3	6.0	0.7	-1.0	-0.2	-0.5	-0.6
PL	Poland	4.8	5.1	4.6	3.7	3.4	1.6	1.2	1.7	2.6	2.0	4.9	3.9	3.7	3.4	3.4	0.2	-0.7	-1.0	-1.0	-1.1
RO	Romania	7.0	4.1	4.1	3.6	3.3	1.1	4.1	4.0	3.0	3.0	4.9	4.2	3.8	3.8	4.0	-3.2	-4.5	-4.8	-4.6	-4.7
SI	Slovenia	4.9	4.5	3.3	3.1	3.0	1.6	1.9	1.8	1.8	2.0	6.6	5.1	4.5	4.0	4.0	7.2	7.0	6.6	5.9	5.7
SK	Slovakia	3.2	4.1	3.6	3.0	2.5	1.4	2.5	2.3	2.1	2.0	8.1	6.5	6.2	5.8	5.6	-2.0	-2.5	-1.6	-1.3	-1.0
	<i>EU-CEE11</i> ¹⁾²⁾	4.8	4.3	3.9	3.3	3.1	1.8	2.2	2.5	2.6	2.3	5.3	4.3	4.1	3.9	3.8	0.6	-0.4	-0.7	-0.7	-0.7
	<i>EA19</i> ³⁾	2.4	1.9	1.4	1.5	1.4	1.5	1.8	1.6	1.6	1.6	9.1	8.2	7.8	7.6	7.6	3.8	3.5	3.1	2.9	2.8
	<i>EU28</i> ³⁾	2.5	2.0	1.6	1.8	1.6	1.7	1.9	1.8	1.9	1.9	7.6	6.8	6.3	6.1	6.1	2.6	2.1	1.8	1.6	1.5
AL	Albania	3.8	4.1	3.7	3.7	3.5	2.0	2.0	1.9	2.1	2.4	13.7	12.3	11.7	11.4	11.0	-7.5	-6.7	-5.7	-5.6	-5.2
BA	Bosnia and Herzegovina	3.2	3.1	2.7	2.8	2.8	0.8	1.4	1.5	1.6	1.4	20.5	18.4	16.6	15.0	14.0	-4.7	-4.2	-4.8	-4.6	-4.4
ME	Montenegro	4.7	4.9	3.1	3.0	2.1	2.4	2.6	1.9	1.8	1.9	16.1	15.2	14.3	14.0	13.9	-16.1	-17.2	-17.8	-18.0	-14.3
MK	North Macedonia	0.2	2.7	3.1	3.4	3.4	1.4	1.5	2.0	2.0	2.0	22.4	20.7	20.0	20.0	19.0	-1.0	-0.3	-1.5	-2.6	-3.2
RS	Serbia	2.0	4.3	2.9	2.7	2.6	3.0	2.0	2.7	2.8	2.8	13.5	12.7	11.5	10.8	10.3	-5.2	-5.2	-5.2	-4.9	-4.7
XK	Kosovo	3.7	3.9	4.1	4.1	4.0	1.5	1.1	1.6	1.6	1.6	30.5	29.6	29.5	29.0	28.0	-6.1	-8.3	-8.6	-9.3	-9.0
	<i>WB6</i> ¹⁾²⁾	2.5	3.8	3.1	3.1	2.9	2.1	1.8	2.2	2.3	2.3	16.9	15.7	14.7	14.0	13.5	-5.5	-5.5	-5.6	-5.6	-5.3
TR	Turkey	7.4	2.6	-1.2	2.8	3.1	11.1	16.3	16.5	13.0	11.2	10.9	10.9	13.5	13.4	11.5	-5.5	-3.5	-0.4	-1.5	-2.2
BY	Belarus	2.5	3.0	2.3	2.1	2.0	6.0	4.9	7.0	8.0	8.0	5.6	4.8	4.6	4.5	4.5	-1.7	-0.4	-0.9	-1.2	-1.7
KZ	Kazakhstan	4.1	4.1	3.6	3.2	3.2	7.4	6.0	5.5	5.0	5.0	4.9	4.9	5.0	5.0	5.0	-3.1	0.0	-1.8	-2.9	-2.7
MD	Moldova	4.5	4.0	4.0	3.5	3.4	6.5	2.9	4.0	4.7	4.3	4.1	3.1	3.0	3.0	3.0	-5.9	-10.5	-9.5	-7.6	-7.4
RU	Russia	1.6	2.3	1.3	1.7	1.9	3.6	2.9	4.9	3.9	2.9	5.2	4.8	4.6	4.5	4.4	2.1	6.9	4.2	4.1	3.9
UA	Ukraine	2.5	3.3	2.7	3.0	3.5	14.4	10.9	9.1	5.2	5.0	9.5	8.8	8.4	8.1	7.8	-2.2	-3.4	-3.3	-3.3	-3.0
	<i>CIS4+UA</i> ¹⁾²⁾	2.0	2.6	1.7	2.0	2.2	4.9	3.9	5.4	4.3	3.5	5.9	5.4	5.3	5.1	5.0	1.3	5.3	2.9	2.8	2.7
	<i>V4</i> ¹⁾²⁾	4.5	4.6	4.0	3.3	3.1	1.9	1.7	2.2	2.5	2.1	4.7	3.8	3.6	3.4	3.4	0.5	-0.5	-0.7	-0.6	-0.5
	<i>BALT3</i> ¹⁾²⁾	4.4	3.9	3.2	2.8	2.5	3.5	2.7	2.4	2.2	2.1	7.3	6.4	5.8	5.4	5.1	1.4	0.9	0.7	0.1	0.0
	<i>SEE9</i> ¹⁾²⁾	5.0	3.7	3.7	3.4	3.1	1.4	3.0	3.1	2.6	2.6	9.7	8.6	8.1	7.7	7.6	-1.5	-2.6	-3.0	-3.0	-3.1
	<i>CIS3+UA</i> ¹⁾²⁾	3.3	3.6	3.1	2.9	3.1	9.6	7.5	7.0	5.6	5.5	7.5	6.9	6.7	6.5	6.3	-2.7	-1.6	-2.4	-2.9	-2.8
	<i>non-EU12</i> ¹⁾²⁾	3.7	2.6	0.9	2.3	2.5	6.7	7.6	8.6	6.9	5.8	7.5	7.1	7.6	7.4	6.9	-1.0	2.6	1.8	1.4	1.1
	<i>CESEE23</i> ¹⁾²⁾	4.0	3.1	1.8	2.6	2.7	5.3	6.0	6.8	5.6	4.8	7.0	6.4	6.7	6.6	6.1	-0.4	1.5	0.9	0.7	0.5

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 (June 2019).