Outlook for selected CESEE countries and Russia

CESEE-6: broad-based recovery subject to still high uncertainty – Russia: from rebound back to moderate growth amid persistently high risks[1,2]

Taking into account the sharp economic rebound observed in the second quarter of 2021, we have revised upward our regional economic growth projections for Bulgaria, Croatia, Czechia, Hungary, Poland and Romania (CESEE-6) to 5.1% p.a. for the full year. For 2022 and 2023, we forecast continued strong growth of 4.5% and 3.8%, respectively. So far, Croatia, Romania and Hungary have exhibited the strongest growth dynamics, while the rebound has been muted in Czechia. Regarding growth drivers, domestic demand remains strong, albeit with a somewhat declining contribution to overall growth over the projection horizon. The composition of domestic demand will shift from private consumption toward gross fixed capital formation backed by EU funds from 2022 onward. With double-digit growth of both exports and imports in 2021 – the latter in line with strong internal demand – and continued solid growth beyond 2021, the net contribution of exports will remain negative over the forecasting horizon, with a few exceptions. The positive growth differential toward the euro area last observed in 2020 will not re-emerge until 2023 (+1.7 percentage points), given the strong rebound assumed for the euro area in 2021 and 2022. One-and-a-half year into the coronavirus pandemic, our forecast continues to be surrounded by considerable uncertainty,

Table 1

OeNB-BOFIT GDP projections for 2021 to 2023 compared with the IMF forecast

	Eurostat/ Rosstat	OeNB-BOFIT projections, October 2021			IMF WEO forecast, October 2021		
	2020	2021	2022	2023	2021	2022	2023
	Year-on-year growth in %						
CESEE-6	–3.8	5.1	4.5	3.8	5.6	4.9	3.7
Bulgaria	–4.3	4.4	3.8	2.8	4.5	4.4	4.0
Croatia	–7.8	7.0	4.1	3.5	6.3	5.8	4.0
Czechia	–5.8	3.3	4.1	3.2	3.8	4.5	4.1
Hungary	–4.8	6.2	4.5	3.2	7.6	5.1	3.8
Poland	–2.5	4.4	4.8	4.1	5.1	5.1	3.5
Romania	–3.7	7.0	4.5	4.1	7.0	4.8	3.8
Russia	–3.0	3.7	2.8	2.4	4.7	2.9	2.0

Source: Eurostat, Rosstat, OeNB/BOFIT, IMF World Economic Outlook (WEO).

[1] *Cutoff date for data underlying the CESEE-6 outlook: October 1, 2021. The projections for the CESEE-6 countries were prepared by the OeNB, those for Russia by the Bank of Finland in cooperation with the OeNB. All projections are based on the assumptions of the September 2021 ECB staff macroeconomic projection exercise (MPE) for the euro area, according to which real annual GDP growth in the euro area is projected to amount to 5.0% in 2021, 4.6% in 2022 and 2.1% in 2023. Import growth is projected to come to 9.0% in 2021, 7.0% in 2022 and 3.8% in 2023.*

[2] *Compiled by Julia Wörz with input from Stephan Barisitz, Melanie Koch, Mathias Lahnsteiner, Thomas Reininger, Tomáš Slačík, Melani Stanimirovic and Zoltan Walko.*

with the balance of risks tilted to the downside, depending on pandemic and international supply chain developments.

Furthermore, we now see the Russian economy recovering from last year's comparatively mild 3% dip to above 3.5% growth in 2021 and easing to slightly over 2.5% p.a. on average in 2022/2023. We have thus also revised upward our spring economic forecast for Russia, to reflect improved prospects for global economic growth and hence exports, coupled with already high oil prices that are expected to rise even further in 2022.[3] While this short-term outlook is subject to significant uncertainties, we do not see Russia's long-term growth exceeding 1.5% to 2.0% p.a. as there are no signs of broader systemic adjustments that would improve the functioning of markets and boost economic activity in the forecast period.

1 CESEE-6: balanced growth composition, with contributions shifting from private consumption to fixed investment over the forecast horizon

COVID-19 vaccination started in the first half of 2021, raising hopes for a quick exit from pandemic mode even though initial vaccine shortages and people's vaccine hesitancy have so far prevented vaccination from acting as a full game changer. Vaccination rates (measured as the share of the total population who have received all doses prescribed by the vaccination protocol) have hardly increased since August 2021 and ranged from 20% in Bulgaria to almost 60% in Hungary in early October 2021. In economic terms, a decisive recovery set in during the first half of 2021 in all CESEE-6 economies apart from Czechia, and vigorous inflation dynamics induced first interest rate hikes by the four central banks in the region that pursue an inflation target (for further details on the most recent developments see the section on "Recent Developments in selected CESEE countries" in this issue).

Fading out policy stimulus

While these monetary policy reactions added to the generally tightening financial conditions, we do not expect that they will exert a significant dampening effect in the current year, especially since nonstandard measures, such as quantitative easing programs in Hungary and Poland, and other measures, like state guarantees in Romania, remain in place. In our baseline projections, we continue to assume a gradual and orderly phasing out of the monetary stimulus. Hence, the monetary policy stance will attenuate economic activity in the region only moderately, at least in the near term.

At the same time, fiscal support is being reduced. Yet, in contrast to the scaling-back of fiscal stimulus in normal times, the removal of crisis-related measures such as wage support and furlough schemes will not weigh on growth dynamics, especially in light of vivid demand. Beyond the removal of crisis-related measures, we do not expect substantial fiscal consolidation. Although pandemic-related support measures are being scaled back, other fiscal support measures in individual countries add toward an overall rather supportive fiscal stance. Cases in point are higher pension benefits in Bulgaria, Czechia, Hungary, Poland (due to a one-off 14th pension payment) and Romania (due to the indexation system in place), family support

[3] *Forecast oil prices based on the average of oil futures contracts for the ten days preceding October 8–10, 2021, yield the following oil price per barrel: USD 70 in 2021, USD 78 in 2022 and USD 71 in 2023.*

measures in Bulgaria and Hungary, and personal income tax or social security exemptions in Hungary and Poland. In sum, we expect the mildly dampening effect of monetary policy to be compensated by a still moderately positive impetus from fiscal policy.

Some deceleration of economic activity in the second half of 2021

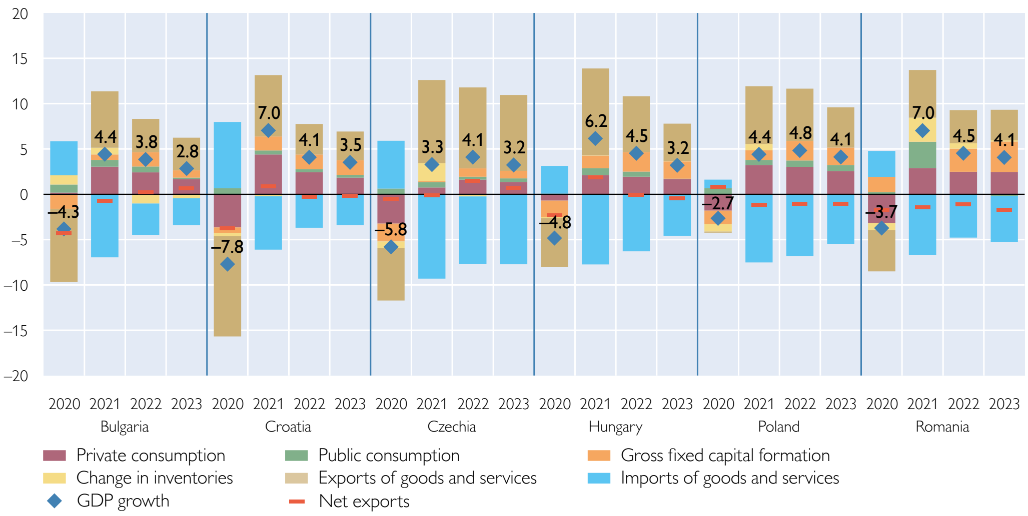
Compared to the first half of 2021, growth will decelerate again during the second half of the year but remain solid, prompting us to revise our regional forecast upward by 1.1 percentage points for 2021 to 5.1% year on year. The most striking difference across countries is marked by the considerable weaker performance of the Czech economy, which is among other things related to supply chain frictions, the shutdown of a major car production line in the final quarter of the year, surprisingly strong monetary tightening and worsening business and household sentiment. Also, in Poland, high inflation and weaker consumer spending expected for late 2021 will lead to a comparatively moderate GDP expansion of 4.4% year on year, albeit implying an upward revision. Thereafter, CESEE-6 GDP growth will slow down somewhat to 4.5% in 2022 and 3.8% in 2023. Deviating from this pattern in line with weaker performance this year, GDP growth in Poland and Czechia will accelerate in 2022 before softening again in 2023. The positive growth differential of the CESEE-6 region vis-à-vis the euro area in 2020 (almost 3 percentage points) will vanish to zero in 2021 and 2022 and re-emerge only in 2023 (+1.7 percentage points).

Pre-crisis GDP levels were reached in the second quarter of 2021 in Hungary, Poland and Romania. According to our projections, Bulgaria will catch up in the final quarter of 2021, Croatia in the second quarter of 2022 and Czechia in the third quarter of 2022. Note that these figures do not reflect GDP loss, though, which has to be measured against a counterfactual without the pandemic. According

Chart 1

CESEE-6: GDP and GDP components

GDP contributions in percentage points, year-on-year GDP growth in %



Source: Eurostat, OeNB.

Note: Actual outcomes for 2020, projections for 2021 to 2023.

to our current projections, the GDP levels projected by the European Commission in its Winter 2020 Economic Forecast for end-2021 will likely be reached with a delay of around one year in all countries in this sample, with the exception of Bulgaria (where we estimate the delay to be almost two years).

Economic growth will be balanced, resting on both strong domestic and external demand, which will moderately increase the weight of domestic demand in total final demand in the CESEE-6 aggregate over the projection horizon. Within domestic demand, the growth composition will shift from private consumption toward gross fixed capital formation from 2022 onward, as the latter will strongly be backed by EU funds. With solid growth of exports and imports, the net contribution of exports remains negative over the projection horizon, with a few exceptions (see chart 2).

Private consumption remains a major growth pillar

Private consumption will lead the rebound of domestic demand during 2021, adding some 2.7 percentage points to GDP growth for the full year. With reviving employment growth, decreasing unemployment rates and robust wage growth, labor market conditions remain favorable and, together with rising pension income, will spur private consumption. At the same time, currently strong inflation dynamics will weigh on disposable incomes in the near term before being (partially) incorporated in wage increases, especially so in Poland. As such, negative inflation effects on private consumption should be more than offset by positive labor market developments over the projection horizon. Overall, private consumption growth will remain robust at around 4% p.a. in 2022 and 2023, while its growth contribution will decline somewhat.

Public consumption will also make a notable growth contribution of more than 1 percentage point in 2021. Apart from pandemic-related spending that is not accounted for as transfers, this increase will be driven by public sector wage increases (Bulgaria, Hungary), government job creation measures (Croatia) and election-related spending (Hungary). As the fiscal stimulus weakens, the growth contribution of public consumption will halve in 2022 and fall further in 2023. Beyond Hungary, where some pre-election spending will continue until spring 2022, no elections have been scheduled in other CESEE-6 countries for 2022, but there is a certain risk of early elections in Romania.

EU funds back investments from 2022 onward

Gross fixed capital formation, while rebounding strongly in 2021, has so far been mainly driven by base effects. In 2021, a sharper rebound has been prohibited by comparatively low levels of capacity utilization (despite a pronounced increase since the trough observed in the second quarter of 2020) and continuously elevated uncertainty. Croatia is an outlier, as earthquake reconstruction efforts have been supporting gross fixed capital formation already in 2021. For 2022 and 2023, we expect a notable boost with the greatly increased availability of EU funds from the overlapping payment cycles of two multiannual financial frameworks (2014–2020 and 2021–2027) and recourse to the Recovery and Resilience Facility, the centerpiece of the NextGenerationEU program. The growth contribution will more than double in this period to 2 percentage points, driven by particularly buoyant investment growth in Hungary, Poland and Romania (subject to the caveat that Romania's absorption rate is hard to pin down as yet). While tightening financing conditions act as a countervailing factor, investment growth is underpinned by increasing labor shortages, loan guarantee programs and subsidies in some countries (i.e. loan guarantees for corporates in Bulgaria, new home program in Romania, housing subsidies in Hungary).

Strong trade dynamics, yielding a negative net contribution to growth

Overall, foreign demand remains a major growth pillar given the simultaneous strong recovery of economic activity in important trading partner countries and the deep economic integration of all CESEE-6 countries. Exports will record double-digit growth rates in 2021 and remain strong beyond 2021, although they will soften year after year. It is unclear to what extent delivery bottlenecks and hence supply shortages will weigh on export growth, thus counteracting favorable external demand conditions. In tandem with export growth, import growth will recover vividly as well, backed further by strong domestic demand, including fixed investment. This will render the net contribution of exports slightly negative over the forecast horizon, except for Hungary in 2021, and Czechia and Bulgaria in 2022 and 2023.

Risks to CESEE-6 projections are skewed downward, uncertainty remains elevated

The future evolution of the COVID-19 pandemic continues to pose a major risk due to comparably low vaccination rates and little vaccination progress. There is also a residual risk of the emergence of coronavirus variants against which suitable vaccines are not readily available, and this risk is inverse to the level of (global and country-specific) vaccination rates. That said, new economy-wide lockdowns appear to be highly unlikely in most CESEE-6 countries, apart from Bulgaria and Romania. Should further full lockdowns materialize nonetheless, we would generally expect the decoupling of economic trends from the development of the pandemic to prevail. The probability of targeted lockdowns, affecting individual economic sectors or parts of the population, differs across countries. Sectoral lockdowns could present a severe strain on the recovering tourism sectors especially in Bulgaria and Croatia. More generally, the pandemic strongly raises uncertainty for all countries, especially in the near term.

A second major risk – which again affects individual countries to different degrees – are persistent disruptions in global value chains, as have already occurred in the last few months. Over the forecast horizon, the coincidence of intense global demand coupled with protracted input shortages may cause standstills in production lines beyond what we see currently. This would further increase backlogs in delivery and production. Unwinding these distortions may take more time than anticipated, thus hampering the recovery of exports, which is a major growth pillar in our baseline projections. In our baseline, we expect these imbalances to fade out in 2022, yet in the worst case this risk could prevail over the entire projection horizon.

Political uncertainty is also prevalent in the region, in different forms, and may potentially affect economic activity, thus rendering our projections too optimistic. In Bulgaria and Romania, the difficulties in forming stable governments have been impairing an adequate management of the pandemic, thus compounding pandemic-related risks. In Poland and Hungary, the ongoing dispute with the EU about the conformity of national regulations with EU law has created uncertainty about the disbursement of EU funds, including NextGenerationEU funds, and thus poses a significant downward risk to our projections in particular for these two countries.

With domestic inflation posing a nonnegligible downward risk, the central banks of the inflation-targeting countries among the CESEE-6 may have to tighten their monetary policies more sharply than anticipated, as a result of which financing conditions would worsen beyond what we assume in our baseline. Alternatively, too little or too late a monetary policy response implies the risk of monetary policy remaining behind the curve and may lead to persistently high inflation, thus lowering consumers' disposable income by more than envisaged if inflation is not fully incorporated in wage increases. At the current juncture, it is hard to assess how long the currently elevated inflation rates will prevail and whether price pressures will indeed ease in mid-2022 as anticipated by the central banks.

As always, economic growth in the CESEE-6 depends largely on the economic growth of their trading partners. Therefore, should the world economy, and in particular the euro area economy, grow at a faster or slower pace than that we assumed in our baseline scenario, the growth prospects of the CESEE-6 countries would improve or deteriorate accordingly, notwithstanding supply problems related to disruptions in global value chains.

Overall, uncertainty remains elevated and we assess the balance of risks to be strongly on the downside, with some rebalancing of risks toward the end of the projection horizon.

2 Projections for Bulgaria, Croatia, Czechia, Hungary, Poland and Romania

Bulgaria: delayed policymaking and low vaccination rate might hamper long-term growth

We have revised our forecast for 2021 upward and now expect a full rebound of the Bulgarian economy to happen by the end of the year. During the summer, rising domestic tourism and fewer pandemic-related restrictions spurred private consumption. The low vaccination rate will make increased public spending necessary for longer than anticipated while investments will be delayed due to political uncertainty. Subdued international tourist arrivals and, at the same time, revitalized international trade caused imports to recover much faster than exports. Downward revisions for 2022 and 2023 are mostly due to base effects. We still project that GDP growth will come back to its pre-pandemic trajectory in mid-2023.

We expect that Bulgaria will experience further infection waves over the projection horizon. Vaccination rates are substantially below the worldwide average, posing a risk to private consumption over the next few quarters and in particular to domestic winter tourism. Public consumption will continue to be high in 2022, dampening the negative effects of the pandemic and of rising energy prices. Wage support measures will remain in place at least until the end of 2021. Increases in pensions and heating allowances for the poorest are planned for the winter, and further rises in minimum wages are envisaged for 2022. Both private and public consumption growth rates are expected to ease off only in 2023.

Gross fixed capital formation, while threatened by political instability and hence by delays in major public investment projects, is still expected to fuel economic growth in the years ahead. The submission of the country's recovery and resilience plan to the European Commission was delayed until late October 2021 by political quarrels surrounding parliamentary elections. Moreover, some initial investments have already been postponed due to issues around public procurement procedures. The fact that the composition of the new parliament and government is still uncertain jeopardizes chances to fully absorb the NextGenerationEU funds until 2027.

The numbers of tourists from abroad and the tourism industry's revenues have remained far below pre-pandemic levels in 2021. Given the simultaneous rise in energy prices in recent months, the contribution of net exports to GDP is negative in 2021 and will become slightly positive from 2022 onward. Imports already reached pre-pandemic levels in early 2021 whereas exports are not expected to catch up before the second half of 2022. Inflationary pressures in the service sector have been low so far, creating favorable conditions for international tourism. However, the low vaccination rate and vaccine hesitancy constitute a serious downside risk. This makes Bulgaria less attractive as a travel destination than its peer countries in the region that have higher vaccination rates.

Croatia: speedy recovery toward pre-crisis GDP level

The surprisingly strong performance of the Croatian economy in the first half of 2021, which was in particular related to the successful tourism season and the strong increase of exports, prompted us to revise our 2021 GDP forecast up to 7% year on year (from 4.2% in the previous forecast). The strong increase is also due to a pandemic-related base effect. We thus project Croatia to reach pre-crisis GDP levels by mid-2022.

The upward revision in GDP growth is attributable to all growth components. Private consumption will benefit from pandemic-related support measures (job retention schemes and tax reliefs) as well as continually strong employment and wage growth. Job retention grants remain in place but have been narrowed down to businesses that continue to be affected by the pandemic, such as travel agencies, catering and the event industry. However, the impetus has shifted from job preservation to job creation measures. Beyond pandemic-related conditions, employment is expected to continue to rise due to efforts to reconstruct earthquake-hit areas and in line with the absorption of EU funds. After the revival of bank lending to households in the first half of 2021, the further acceleration of household lending will also stimulate consumer spending. Hence, private consumption is now expected to rise by more than 7% year on year.

Public consumption will make mildly positive contributions to growth over the forecast horizon as Croatia will endeavor to keep the balance between necessary fiscal stimulus for pandemic recovery and fiscal consolidation toward meeting the convergence criteria for euro adoption.

Regarding gross fixed capital formation, we are projecting continued growth of close to 7% over the forecast horizon, mainly driven by intensified reconstruction works in earthquake-hit areas, the absorption of EU funds and the implementation of investment measures as outlined in Croatia's recovery and resilience plan. In terms of digital transformation and green transition, national strategic projects such as P3 Mobility (development of driverless passenger vehicles, with Rimac Automobili being the main shareholder) will receive notable grants from the EU's Recovery and Resilience Facility as well as increasingly attract foreign investors.

Overall, while the growth contribution from private consumption will be receding over the projection horizon, gross fixed capital formation will provide a sustained notable contribution over all three years.

Furthermore, we are projecting net exports to make a positive contribution to growth in 2021, given first-half results for 2021 and the fact that the summer tourist season exceeded expectations. Increasing domestic demand over the forecast horizon will, however, accelerate import growth and thus lead to a small negative growth contribution of the external sector in 2022 and 2023.

Overall, we continue to expect that economic growth in Croatia will be relatively strong at 4.1% and 3.5% year on year in 2022 and 2023. Apart from the envisaged euro adoption as of January 1, 2023, Croatia's aim of joining the Schengen Area in 2022 could also further stimulate GDP growth in the next few years. Yet, uncertainty with regard to corporate and household solvency poses a downside risk to the economy.

Czechia: gradual economic recovery amid pandemic hangover and accelerating inflation

Following the deepest dive since the beginning of transformation in 2020, the Czech economy started to recover at a relatively modest pace in the first half of 2021. As a result of long shadows of the pandemic particularly in the form of frictions in supply chains, elevated inflation with ensuing monetary policy tightening and the phasing-out of fiscal stimuli, we expect the economy to recover only gradually over the forecast horizon. Quite unusually, this year's GDP growth will be driven mainly by public consumption and the buildup of inventories while the contribution of private consumption will strengthen progressively. Fixed investment and net exports will return to play a more significant role as growth drivers only in the medium term.

As a result of the severe COVID-19 situation that lasted until early March 2021 and the fact that restrictions were not significantly loosened before late spring, economic recovery in the first half of 2021 was rather muted. For the medium term ahead, business and consumer confidence indicators imply continued massive disruptions to global supply chains and production processes (particularly the lack of microchips in the country's crucial automotive industry) and ballooning prices (especially of industrial goods but also of food and services, for both global and domestic reasons). Frictions in raw material and component supplies, particularly the shortage of semiconductors, are expected to last well into 2022. So far, this has translated, inter alia, into reduced production and/or the buildup of large stocks of unfinished products. Accordingly, we expect enforced stockpiling to remain a key driver of growth not only in the remainder of this year but also well into 2022. In the short to medium term, supply chain disturbances and the shortage of inputs will moreover affect exports, which could otherwise benefit more strongly from the recovery in foreign demand. In the second half of the forecast horizon, the frictions should start to ease, triggering a significant destocking and boosting exports.

The marked inflationary pressures are likely to persist for quite some time, certainly until mid-2022. Sharp increases in the prices of imported (particularly industrial) goods and energy will be exacerbated by domestic factors such as renewed signs of an overheating labor market, post-pandemic price adjustments or the development of owner-occupied housing costs. To contain inflationary pressures and prevent inflation expectations from becoming unanchored, the Czech central bank is resolutely determined to accelerate its monetary policy tightening. As a result, the growth contribution of private consumption (to some extent) and that of fixed investment will be dampened in the short to medium term before strengthening again, not least on the back of a stronger drawdown of funds under the EU's Recovery and Resilience Facility. Public consumption will be a significant driver of growth in 2021 due to high health care-related expenditures – particularly on COVID-19 testing and vaccination – as well as extraordinary payments for health, social and security services employees. Yet this effect will be only temporary. Correspondingly, fiscal policy will exercise a significant positive impact on GDP growth in 2021 due to government support for firms and households hit by the pandemic in combination with higher social expenses and tax reliefs. Yet, as most support measures will be gradually wound down, the fiscal impulse will fade away in the second half of 2021 and turn negative in 2022 despite a renewed significant increase in pensions.

While renewed waves of the pandemic are possible, they pose only a limited economic risk, as a potential deterioration of the health situation should remain relatively contained given the progress of the vaccination program and, in particular, the broad-based decoupling of the economy from pandemic developments. Major downside risks to this forecast thus stem mainly from possible (structural) changes to the global and domestic economy if these were to result in lasting supply chain disruptions, more persistent inflation or an unanchoring of inflation expectations.

Hungary: economy bounces back from low base supported by strong dynamics

Hungarian GDP expanded by 7.2% year on year during the first half of 2021, i.e. substantially more strongly than we had expected. Net real exports accounted for more than half of the annual growth rate as exports recovered more quickly than imports. Led by public consumption, domestic demand components recovered as well, but by much less than overall GDP growth. Much of annual GDP growth during the first half of 2021 was caused by the base effect related to restocking. Only private consumption grew more strongly than during the period from 2017 to 2019 on average. Overall, we have revised our growth projection substantially upward for 2021 and downward for 2022, envisaging a somewhat steeper GDP path over the forecast horizon.

In 2021, we expect the economic policy impetus to become somewhat less supportive of growth than in 2020. In response to rising inflation and higher inflation expectations, the central bank embarked on a rate hike cycle in June 2021 and also scaled back its quantitative easing measures. At the same time, it launched various new (mainly "green") quantitative easing programs. Fiscal policy is expected to remain loose, with plans to bring down the budget deficit from an estimated 7.5% of GDP in 2021 to no more than 5.9% in 2022, despite strong expected GDP growth.

In 2022, private consumption will benefit from various fiscal policy measures, such as the conditional refund of personal income tax paid by families in 2021, a personal income tax exemption for employees under the age of 25 and the increase of the 13th pension payment by at least one further weekly installment. Wage growth will likely accelerate on the back of the proposed hike in minimum wages by nearly 20% (with a compensation for companies), wage hikes in the public sector and in state-owned enterprises and the increasing tightness on the labor market. Households' net financial assets continued to rise to record highs through the first quarter of 2021, and we expect pent-up demand to materialize over the forecast horizon. Moreover, the government extended the loan repayment moratorium until mid-2022 for selected debtor groups.

The outlook for investment activity has become more mixed than expected in our previous forecast but remains positive, overall, for the forecast horizon. While monetary tightening may negatively affect corporate investment activity, the Hungarian central bank's "green" programs should offer partial compensation. Also, the amount of net financial assets held by nonfinancial corporations is comparatively large by historic standards. Although capacity utilization in industry is still below its long-term average, it has gradually increased over the past few quarters, which together with rising labor costs may be an increasing motivation for corporate investments. Higher budgets have been allocated for gross fixed capital formation in 2021 and 2022. While there is heightened uncertainty about the timing and magnitude of EU funds available for Hungary, the government has pledged to prefinance projects even if payments by the EU are delayed. Lending to households has remained elevated, which – combined with households' strong net financial position – bodes well not only for consumption but also for housing investments. Moreover, the preferential VAT rate on new house purchases will remain in place while some of the various home purchase or reconstruction subsidies will be made more generous.

Government consumption expanded strongly during the first half of 2021. Going forward, we expect it to gain momentum prior to the parliamentary elections in spring 2022, especially as recent polls continue to suggest a close run.

In line with the economic recovery in main trading partner countries, export growth is expected to bounce back after it collapsed in 2020. Exports should also benefit from past and ongoing investments in main export industries and the relatively weak exchange rate. At the same time, strong expected wage growth may eat into price competitiveness. Partly due to their much smaller contraction in 2020, imports will rebound in 2021, although by somewhat less than exports. In this context, the contribution of net exports will become positive in 2021. However, with import growth outpacing export growth in 2022 and 2023, we expect the contribution of net real exports to turn negative again in the second half of the forecast horizon.

Poland: moderate acceleration of growth in 2022

Following a contraction by 2.5% year on year in 2020, we expect GDP growth in Poland to reach 4.1% in 2021 and to accelerate to 4.8% in 2022. In 2021, the contribution of foreign demand will moderately exceed the contribution of domestic demand to total final demand and GDP growth, followed by an almost balanced situation in 2022. In 2021, exports, with a weight of about 38% in total final demand, will expand substantially by about 11%, on the back of a large carryover and the fact that goods export-oriented branches, particularly manufacturing, have generally been less affected by the pandemic. Domestic demand is expected to grow by about 5.5% and thus less than exports, but this rate will be by far sufficient to offset the decline seen in 2020. In 2022, export growth will slow moderately to a still high level of 9.5%, on account of weaker German import growth and substantially weaker growth of global imports excluding euro area imports. Domestic demand growth is expected to accelerate slightly to almost 6%, still at a lower rate than exports.

As a result, in both 2021 and 2022, strong foreign and domestic demand growth will lead to strong import growth, after imports contracted due to declining domestic demand in 2020 and stagnating exports. In both years, import growth is forecast to exceed export growth. While starting from a sizable external surplus, the growth differential will be sufficiently large to push the contribution of net exports to GDP growth into negative territory (about –1 percentage point of GDP). From the domestic demand side, inventory increases will decisively contribute to higher imports in 2021, while fixed investment will play a far stronger role in 2022.

Private consumption is expected to grow strongly at a rate of close to 5.5% in 2021, after having grown by 6.2% in the first half of the year although quite restrictive health policy measures were in force until end-April. The strong growth measured in 2021 was supported by the favorable base effect between March and May and by the partial extension of crisis-mitigation measures, including wage subsidies, exemptions from social security contributions, support to the self-employed and the childcare allowance. On top of this, one-off 14th pension payments will be made in the second half of 2021. In 2022, private consumption growth will remain strong at about 5%. In both years, pent-up demand and accumulated additional savings together with expanding employment and rising real wages, including hikes in minimum wages, will constitute major supportive factors. The decline of consumption loans in the first half of 2021 will probably not reflect credit supply constraints for private consumption going forward. However, the temporary rise of inflation in the fourth quarter of 2021 and in early 2022 may dampen private consumption slightly, until wage increases will partly reflect this acceleration of inflation. Public consumption growth will be below 4% and thus weaker than in the previous year.

Fixed investment is expected to expand at about 6% in 2021, after having grown by only 3.4% in the first half of the year when less EU funds were available for public investment from the previous multiannual financial framework (MFF) and new EU funds were not yet available. In 2022, fixed investment growth will accelerate strongly to about 12%, with both public and corporate sector fixed investment benefiting from the new MFF funding cycle and the NextGenerationEU recovery package via the national recovery and resilience plan. In both years, growth of exports and private consumption as well as strongly rising capacity utilization levels coupled with substantial corporate saving and supportive monetary conditions for loan supply will be conducive to strong corporate investment. Bottlenecks in the supply chain for semiconductors may be a limiting factor. Residential housing investment will benefit from employment growth in combination with the higher saving rate and low interest rates.

Romania: outlook for robust GDP growth clouded by pandemic and political instability

Romania's economy recovered more strongly in the first half of 2021 than expected in our spring forecast. Hence, we have revised upward our GDP growth projection for this year to 7% and expect growth to consolidate at still robust rates of 4.5% in 2022 and 4.1% in 2023. The forecast for 2021 implies a growth deceleration in quarter-on-quarter terms in the third and fourth quarters. Short-term economic indicators overwhelmingly showed softening tendencies at the beginning of the third quarter of 2021. As vaccination progress has been modest so far in Romania, further waves of the pandemic will go hand in hand with the tightening of containment measures and will weigh on economic recovery in the final quarter of 2021 and possibly also in 2022. Due to the political turmoil in the country, uncertainty about the fiscal consolidation course has increased. The first budget revision for 2021 missed out on the opportunity to use higher-than-expected revenues to bring down the deficit significantly. Hence, further measures will be required to correct the budget deficit in the years until 2024 under the excessive deficit procedure.

After rebounding sharply from its lockdown-related depressed levels, private consumption will likely continue to make a noticeable contribution to GDP growth. Yet, real income growth will be more moderate over the next few years than in the years up to 2019/2020, when minimum wages and pensions rose steeply. Starting from January 2022, the statutory minimum gross wage will be raised by 10.9%. Furthermore, pensions are expected to increase according to the existing indexation system (inflation plus 50% of the increase in average real wages). We assume that the government will stick to the nominal public sector wage freeze for 2022. Positive effects of the economic recovery on the labor market will also provide some support for private consumption, but renewed restrictions may dampen labor demand in certain sectors. In particular, consumer loan growth has recovered in the course of 2021 and might underpin consumption growth.

Gross fixed capital formation will be a key growth driver over the forecast horizon. International companies have signaled further interest in investing in Romania's automotive sector. Beyond this, substantial support will come from remaining funds that still flow from the 2014–2020 EU multiannual budget, funds allocated to Romania under the multiannual budget 2021–2027 and the NextGenerationEU program. Yet, substantial uncertainty remains about effective EU fund absorption and full implementation of the national recovery and resilience plan in particular in case of prolonged or recurrent political instability. As regards financing conditions, elevated inflation will probably prompt the central bank to tighten its monetary policy further (after a 25 basis point hike to 1.5% in early October). The IMM Invest program that offers state-guaranteed loans to corporates is scheduled to run until end-2021.

Exports will also continue to recover in line with our external assumptions. However, global semiconductor shortages will dampen automotive production and related exports for a while. The growth contribution of net exports will remain negative as the projected pickup in domestic demand will entail a considerable rise in imports.

3 Russia: from rebound back to moderate growth amid persistently high risks

We now see the Russian economy recovering from last year's comparatively mild 3% dip to above 3.5% growth in 2021 and easing to slightly over 2.5% p.a. on average in 2022/2023. Hence, we have revised upward our spring economic forecast for Russia to reflect improved prospects for global economic growth and thus exports, coupled with already high oil prices. However, we do not see Russia's long-term growth exceeding 1.5% to 2.0% p.a. in the presumed absence of broader systemic adjustments that would improve the functioning of markets and boost economic activity in the forecast period. Meanwhile, our outlook is subject to significant uncertainties. There could be unexpected changes related to the COVID-19 pandemic, global growth, oil prices, the return of international tourism, the development of (pent-up) consumer demand and possibilities for more generous budget spending.

While the pandemic will likely restrain growth in Russia in 2022, some growth-supporting factors have also gathered momentum. Most importantly, the price of oil has gone up and is expected to rise even further in 2022, while market expectations of its gradual decline have somewhat moderated and now see the oil price at around USD 71 per barrel in 2023.[4]

Related to this, the outlook for Russia's export industry is supported by the more benign forecasts for the global economy. The easing of oil production ceilings in the OPEC+ agreement this summer has improved the outlook for Russian oil exports. The outlook for gas exports has also become more favorable. Russia's revenues from travel (over 2% of export earnings in 2019) should also recover in the later part of the forecast period.

With a growing economy, rising household incomes and employment will lift private consumption to the extent that it should (finally) surpass the 2014 peak in 2023. The rise in pensions should exceed projected inflation by a couple of percent in line with the 2019–2024 pension hikes. Consumption should also receive a boost from the yet-to-materialize unwinding of the unusually high accumulation of household assets in 2020. Travel abroad from Russia contracted sharply last year and should reverse at a good pace in 2022 and 2023.

The recovery in fixed investment will continue, and capital formation should (finally) exceed the 2012–2014 level by 2023. While the rise in fixed investment is not expected to be particularly swift as, e.g., industrial capacity utilization remains quite low, selected projects are expected to receive higher financing from the National Welfare Fund (NWF) in the near term. The aim is also to motivate corporate investors to participate and thus boost investment growth while avoiding crowding-out effects.

With both export and domestic demand recovering robustly, Russian goods and services imports should also increase rather well. Growth in imports, however, will be limited by the Russian ruble's real exchange rate, which is expected to remain fairly stable as Russian inflation should only slightly outpace inflation in the country's trading partners. The recovery in expenditure on travel will raise Russia's total imports substantially as travel had accounted for 10% of total imports in 2019 (before imports collapsed). Russia's total imports should eventually re-attain about 90% of their 2012–2014 peak. The country's current account surpluses will remain substantial throughout the forecast period.

There are no signs that the Russian government considers abandoning its current fiscal rule, which was relaxed in 2019 to allow for extra spending, similar to the policies pursued in the wake of the 2009 and 2015 recessions. Rising fiscal

[4] *Forecast oil prices based on the average of oil futures contracts for the ten days preceding October 8–10, 2021, yield the following oil price per barrel: USD 70 in 2021, USD 78 in 2022 and USD 71 in 2023.*

revenues and improved revenue prospects from higher oil prices would permit the government to ease its tight spending plan.

Forecast saddled with several significant uncertainties

The development of the COVID-19 pandemic as well as of global economic growth and of the oil price could take unexpected turns. Notably, the pandemic may not subside globally as expected, thus pulling down growth and oil price indicators. Russia's relatively difficult situation, which is characterized by rising COVID-19 fatalities and still modest vaccination rates, might trigger new restrictive measures or lockdowns that might stifle economic activity. Global markets and Russia's relatively nonintegrated markets could heighten inflationary pressures, which in turn could create risks of an increased erosion of households' and other sectors' purchasing power.

At the same time, rising oil price futures and brisk economic activity in Russia in recent weeks produce upside risks. Surprise upswings in private consumption may materialize with the unwinding of last year's unusually large accumulation of household assets. Investment growth could strengthen by more than anticipated if planned NWF financing brings in corporate investors in a manner that raises overall corporate investment. Swelling government budget revenues may create considerable room for higher budget spending. Last but not least, certain branches and parts of the Russian economy (e.g. goods transportation including pipeline transmission, and services offered to households) have still not experienced post-COVID-19 recoveries. Sectoral recovery timelines are hard to foresee, and the speed at which international travel returns to normal may vary.