3. Austria and CESEE: Regional growth to continue to provide an important stimulus for Austria

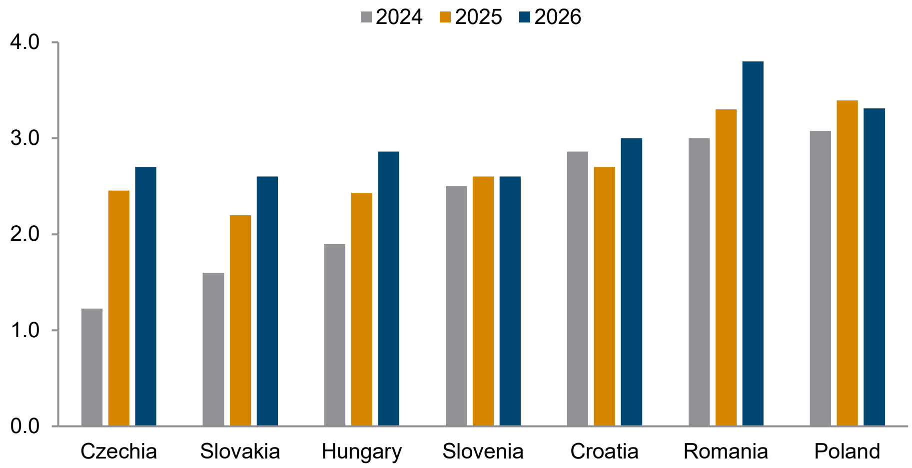
BY DORIS HANZL-WEISS

- **Despite slight downward revisions in our forecasts, growth in CESEE will be higher than in the euro area, providing impetus for the Austrian economy.**
- **Austria's goods exports to the region fell by 1.6% in 2023; but exports to the Western Balkans expanded by 7%.**
- **Eight countries of the CESEE region featured among Austria's Top 20 export destinations in 2023.**
- **Goods imports to Austria from CESEE dropped by 15% last year.**
- **Goods imports from Russia have declined due to the falling gas price, causing Russia to drop once again to 11th place among Austria's main import partners.**
- **The potential expiration of the gas transit agreement between Gazprom and Ukraine at the end of 2024 presents a challenge for countries along the gas route from Ukraine, through Slovakia to Austria.**
- **Different gas diversification strategies have occurred in the region over the years.**
- **Neighbouring CESEE countries are again a primary focus for Austrian investors, with Croatia and Hungary the main targets.**
- **Austrian companies are largely maintaining their presence and activity in Russia.**

Despite some downward forecast revisions, this year Austria's primary trading partners in EU-CEE will provide a positive growth stimulus for the Austrian economy, compared to the euro area. While Germany is its main economic partner, Austria also maintains strong trade and investment ties with the Visegrád nations, Romania, Slovenia and Croatia. Growth forecasts for this year have been revised significantly downward for Czechia and Hungary, whose economies are now expected to grow by 1.2% and 1.9%, respectively (Figure 3.1). Alongside Slovakia (1.6%), growth in those countries will be hampered by the low growth in the euro area, particularly Germany. On a positive note, the forecasts have been adjusted slightly upward for Croatia and Romania: together with Poland, they are expected to grow by 3% this year. Compared to the anticipated growth of 0.6% in the euro area, there will thus be a pronounced growth differential – and thus a notable stimulus originating from the EU-CEE region for the Austrian economy.

The EU-CEE region's growth advantage over the euro area continues to be considerable in 2025 and 2026 (albeit somewhat smaller than in 2024). With an expected acceleration of growth in the euro area in 2025, EU-CEE's prospects will also improve. Although the forecasts for some of Austria's main trading partners in EU-CEE for the years 2025 and 2026 have also been revised slightly downward, the growth differential with the euro area will still amount to 1.1 and 1.4 percentage points (pp). The economies of all Austria's main trading partners in EU-CEE are projected to grow by more than 2%, with Poland and Romania even exceeding 3%. However, leaving aside those two, EU-CEE countries are small, open economies that are heavily reliant on foreign trade. Any disruption to supply chains – such as those occurring on transport routes in the Red Sea – could potentially have repercussions for the region and could pose downside risks to the above forecasts.

Figure 3.1 / Real GDP growth forecasts for Austria's main trading partners in EU-CEE, percentage change compared to last year, ranked by 2024 growth

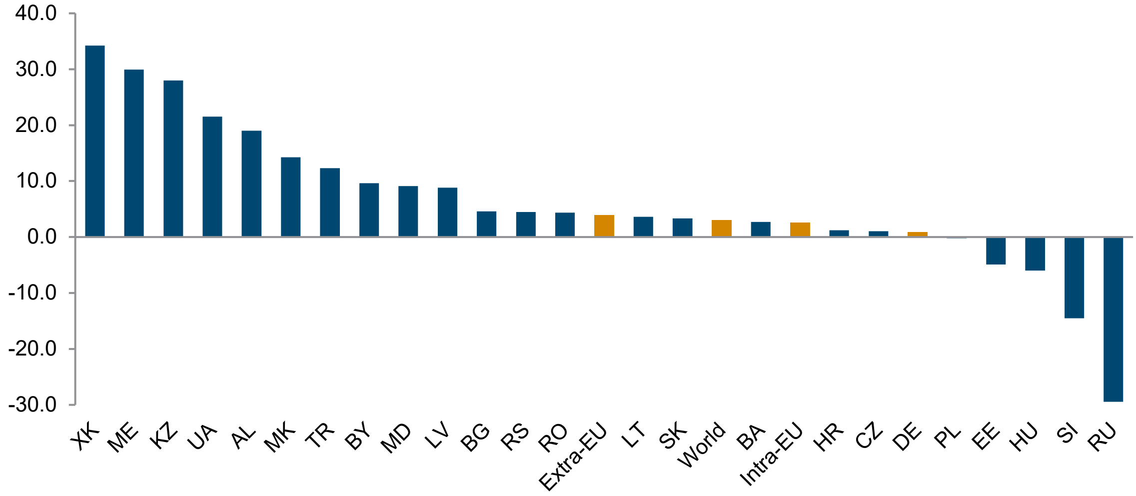


Source: wiiw.

Austrian exports to CESEE fell by 1.6% in 2023, but those to the Western Balkans expanded by 7%. Figure 3.2 illustrates the change in Austrian exports to individual countries within the region: at the upper end, Austrian exports increased by approximately 30% to countries such as Kosovo, Montenegro and Kazakhstan. Additionally, Austrian exports to Ukraine rose by nearly 20%, rebounding from a collapse in 2022 due to Russia's war in Ukraine. At the lower end, exports to Poland, Estonia, Hungary and Slovenia declined. Finally, exports to Russia fell by 29% due to sanctions, including export bans on a wide range of high-tech products, machinery and equipment, and luxury goods, and the withdrawal of some companies from the Russian market. Today, Austria's main exports to Russia are medical and pharmaceutical products, which are not affected by sanctions.

Although some neighbouring countries lost ground, eight CESEE countries figured among Austria's Top 20 export destinations for 2023. In the Top 10 were Poland, Hungary and Czechia (6th, 7th and 9th, respectively): compared to 2022, Poland moved up the rankings, while Hungary slipped down. Slovenia, Slovakia and Romania ranked 12th, 13th and 14th. The strong growth in exports to Turkey (+12%) meant that country moved up three places to occupy 17th spot. Croatia ranked 19th. Russia held 19th place in 2022, but it has now dropped to 26th.

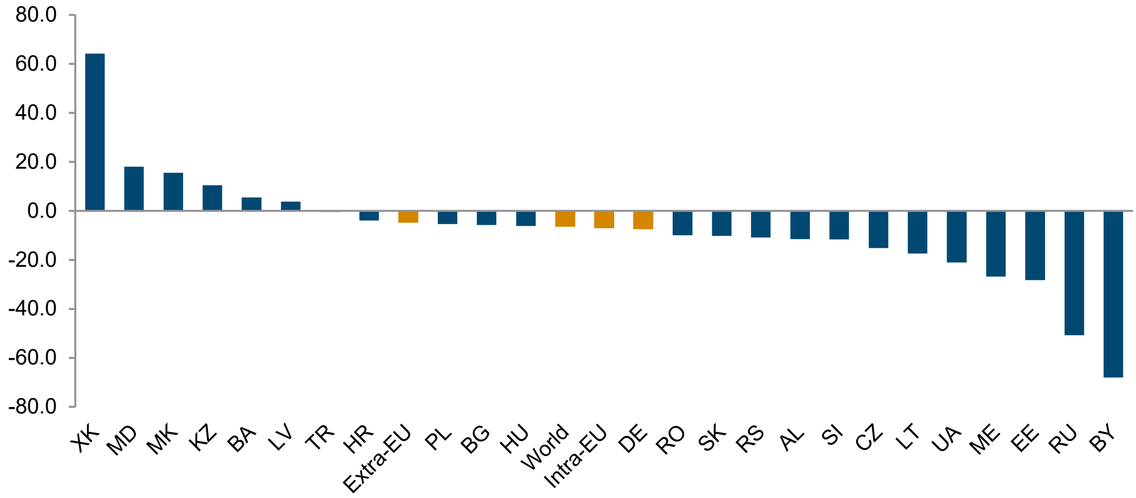
Figure 3.2 / Change in Austrian goods exports to CESEE, in EUR, 2023 compared to 2022 (nominal)



Source: Statistics Austria.

The value of Austrian imports from CESEE fell by 15% in 2023, with imports from all sub-regions recording a decline. Figure 3.3 illustrates the change in Austrian imports from individual countries within the region. Specifically, imports from Russia fell by about 50% and from Belarus by about 70%; imports from EU-CEE dropped by 10%; meanwhile the value of imports from the Western Balkans declined only slightly (-1.3%). Interestingly, imports from six countries increased, particularly those from Kosovo (+60%).

Figure 3.3 / Change in Austrian goods imports from CESEE, in EUR, 2023 compared to 2022 (nominal)



Source: Statistics Austria.

The significant decline in imports from Russia meant that that country fell to 11th place among Austria's main import partners. Overall, of Austria's Top 20 import partners, eight are part of CESEE: Czechia, Poland and Hungary (ranking 5th, 7th and 10th, respectively), as well as Russia, Slovakia, Slovenia, Turkey and Romania (11th, 12th, 14th, 18th and 19th, respectively). The marked decline in energy prices contributed to Russia's fall from 6th place in 2022 to 11th last year. Austria's dependence on Russian gas imports continues to be strong. Although the amount of imported gas decreased, the share of Russian gas is still very high (97% and 87%, respectively, of all imported gas in January and February 2024).[3]

A potential challenge is looming regarding the termination of gas transit through Ukraine at the end of 2024. Russian gas used to be delivered to Europe via four pipeline corridors: Nord Stream 1, Yamal–Europe (via Poland), Ukraine gas transit and Turkstream. While the first two corridors have been capped, Russian gas still flows to Europe via the latter two routes. In Q1 2024, the volume of EU imports of Russian gas via Ukraine was 3,976 million cubic metres, representing 5.2% of EU gas imports; meanwhile Turkstream gas flows amounted to 3,904 million cubic metres, or 5.3% of EU gas imports.[4] However, Ukrainian gas transit – which involves gas flowing from Russia, through Ukraine to Slovakia and then Austria – may come to an end, as the transit contract between Ukraine and Russia expires on 31 December 2024. Consequently, the countries involved will need to seek alternative gas supplies. The development is not unexpected, as disputes over the gas transit and gas pricing between Russia and Ukraine have arisen on numerous occasions in the past, and Russia's invasion of Ukraine only served to aggravate the situation.

Various gas diversification strategies have been implemented in the CESEE region over the years. For instance, ever since the 2009 gas crisis Slovakia has invested in its gas transmission infrastructure, enabling reverse gas flows. In addition, in 2015 it launched a Slovak-Hungarian interconnector; this was followed in August 2022 by a Polish-Slovak interconnector. Slovakia also diversified its gas suppliers following the outbreak of Russia's war in Ukraine.[5] By contrast, Hungary has largely shifted its gas imports from the Ukraine route to Turkstream, receiving gas via Bulgaria and Serbia. Czechia has almost totally decoupled itself from Russian gas: from almost 100% in the first 10 months of 2022 the proportion of Czechia's gas that originated in Russia had fallen to 2% in the first eight months of 2023. This was achieved by stepping up gas imports from Norway, as well as by boosting liquefied natural gas (LNG) imports, with the acquisition of a share in an LNG terminal in the Netherlands.[6] While the diversification of gas supplies in the event of a halt to Ukrainian gas transit will be inevitable, there are concerns about possible gas price increases as a result, particularly because of the higher transport costs.

Neighbouring EU-CEE countries have once again become a primary focus for Austrian investors, with Croatia and Hungary the main targets. While Turkey was Austria's main investment target in CESEE in 2021 and 2022, there was a noticeable shift towards investing in nearby countries in 2023 (see Figure 3.4). In 2023, the top destinations announced for Austrian investment projects were Croatia

3 https://energie.gv.at/

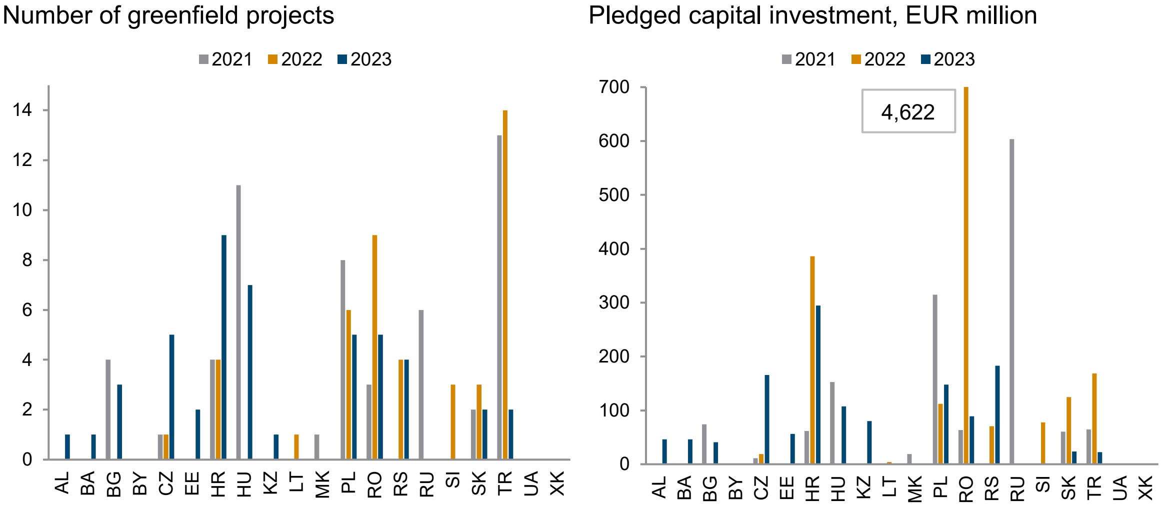
4 https://www.bruegel.org/dataset/european-natural-gas-imports

5 https://www.euractiv.com/section/politics/news/slovakia-will-survive-winter-even-without-russian-gas-says-economy-minister/

6 https://www.irozhlas.cz/ekonomika/plyn-rusko-dovoz_2402081822_gut, https://www.euractiv.com/section/politics/news/czechia-decreases-russian-gas-dependence-over-eight-months/

(nine projects), Hungary (seven), Czechia, Poland and Romania (five projects apiece). In terms of capital pledged for investment projects, Croatia led the way with approximately EUR 300m; it was followed by Serbia (EUR 200m), Czechia, Poland and Hungary. The largest investment project was announced in Serbia, where the Austrian company RP Global plans to build a solar park, with a pledged investment of EUR 157m. Last year, the main sectors that attracted Austrian investment were renewable energy (particularly solar power, with five projects), real estate (five projects, mainly in Croatia), industrial equipment (seven projects, especially in Czechia, Hungary and Slovakia) and transportation (10 projects).

Figure 3.4 / Greenfield investment commitments from Austria in selected CESEE countries

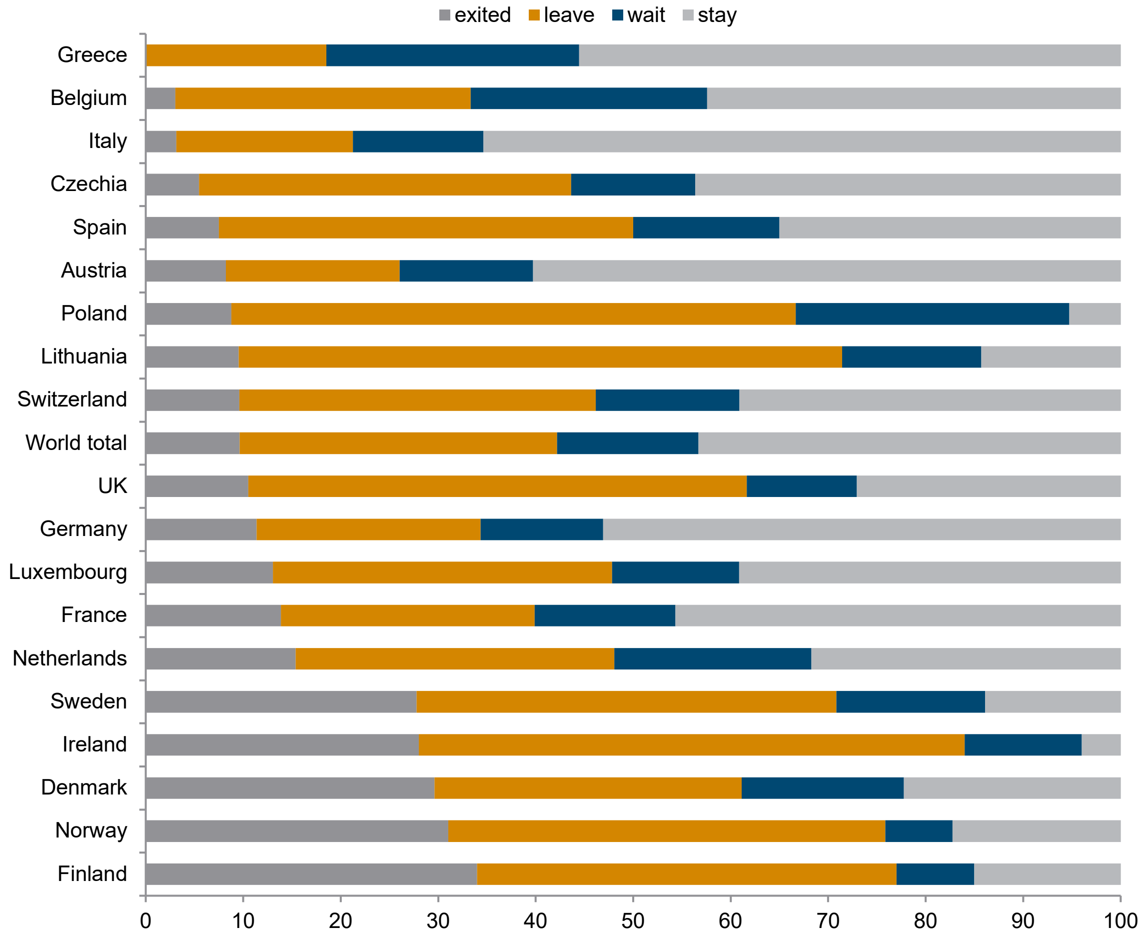


Source: fDi Markets.

Austrian companies are largely maintaining their presence and activity in Russia. Since the outbreak of Russia's war in Ukraine, many foreign companies have either left Russia or announced their intention of doing so. The reasons for this have included concerns about maintaining their public image, sanctions, logistical and payment difficulties, as well as fears of asset nationalisation (see Astrov, 2024). Asset nationalisation, for instance, occurred at the end of 2023, when Austria's OMV had its stake in the Yuzhno-Russkoye gas field seized by the Russian government. Most recently, Wienerberger was reported to be winding up its business in Russia and selling two factories.[7] However, overall only six Austrian companies have fully exited Russia thus far since the war began, while 13 are in the process of leaving. Taken together, this represents only 26% of all Austrian companies, which is low compared to the world average of 42.2% (Figure 3.5). In some cases, the sale of assets is difficult, complicated as it is by legislative hurdles or unfavourable terms – or even outright prohibited (particularly in the financial, fuel and energy sectors; see Astrov, 2024); in other cases, profit considerations persist. It should be noted, however, that many Austrian companies had already left Russia following the annexation of Crimea in 2014.

7 https://industriemagazin.at/news/wienerberger-verlaesst-russland (published 28 March 2024).

Figure 3.5 / Status of EU firms in Russia as of 18 February 2024, by country of origin, % of total



Note: Country of origin is defined as the country where the company's headquarters are located. Status 'stay' is assigned to companies which are continuing with their Russian operations; 'wait' to companies that have reduced their current operations and are holding off on new investment; 'leave' to companies that have curtailed their Russian operations; and 'exited' to companies that have completed their withdrawal from Russia. Countries are ranged by the combined share of 'exited' and 'leave'.
Source: wiiw calculations based on data from the Kyiv School of Economics, https://kse.ua/selfsanctions-kse-institute/

REFERENCES

Astrov, V. (2024), Austria's economic relations with the EU Eastern Partnership countries and Russia, *BMF Policy Note*, forthcoming.