Executive summary

The autumn 2024 forecast for Central, East and Southeast Europe (CESEE) projects steady, albeit unspectacular, growth. CESEE as a whole is expected to grow by 3.2% in 2024, 3.1% in 2025 and 3.2% in 2026. Domestic demand remains strong, driven by rising real wages and increased investment, particularly supported by EU funds and falling interest rates. However, external demand remains weak, especially on account of Germany's sluggish growth. Net exports and government spending are unlikely to boost growth significantly.

Growth rates will vary across the region, reflecting different economic conditions and business cycles. Russia will see marked growth in 2024, driven by military spending; but it will face slower growth in 2025-2026, on account of sanctions, monetary tightening and capacity constraints. Kazakhstan is expected to remain one of the fastest-growing economies, supported by strong consumption and oil production. In the EU-CEE region, countries like Poland and Croatia will experience solid growth, with Poland ahead of the pack in 2025-2026; meanwhile, Romania's growth will slow due to fiscal consolidation. Estonia's economy, recovering now from the effects of the war, is gradually improving. The EU accession countries (Western Balkans, Ukraine and Moldova) are projected to grow by 3-4%, though Ukraine and Moldova face uncertainty due to the ongoing conflict. Turkey's growth is expected to rebound in 2025-2026, after a temporary slowdown in 2024. Overall, CESEE is set to outperform the euro area in terms of economic growth, with strong performances from Ukraine, Croatia, Serbia and Montenegro (though Latvia, Lithuania, Romania, Slovakia and Belarus will lag behind).

Industrial output, however, has weakened, particularly in countries closely associated with Germany's struggling economy, such as Czechia. The automotive sector is also showing signs of difficulty in many CESEE countries (see Box 1). The manufacturing outlook remains pessimistic, particularly in the Visegrád countries and the Baltics, while Southeast Europe has maintained higher levels of confidence, owing to its lower integration with German industry and strong foreign direct investment (FDI). Export growth is weak, hindered by the subdued demand from Germany; but FDI inflows, particularly in the Western Balkans, are helping to boost export capacity, partly driven by near-shoring trends.

Inflation has decreased sharply, which is supporting real wage growth. Central banks have started to cut interest rates, though real monetary conditions remain tight. Rate reductions are expected to accelerate over the forecast period, particularly in Turkey, Hungary and Ukraine, which should stimulate economic activity. Overall, the region faces tight monetary conditions, which will place a cap on lending and limit short-term economic expansion, though a gradual recovery is expected as monetary loosening continues. Currencies in CESEE have mostly depreciated against the euro, with Turkey, Ukraine and Kazakhstan seeing the biggest declines. However, the Albanian lek and Polish złoty have appreciated.

Fiscal deficits remain elevated, but manageable across the region, with Ukraine and Romania expected to undergo the most significant fiscal tightening. The fact that public debt/GDP ratios still seem to be manageable in most countries may explain why there is limited momentum towards sharp fiscal consolidation in most of the region, which is good for economic growth prospects over the rest of the forecast period.

A Donald Trump victory in the upcoming US election poses significant risks to the CESEE region. Economically, Trump could introduce higher tariffs on imports from Europe and China, thus damaging growth in those two areas and deepening US-China economic disengagement. Trade barriers and restrictions on investment flows would likely follow, with negative spill-overs for CESEE countries. Security concerns would be heightened, as Trump's stance on NATO raises doubts about US defence commitments. This could force European countries to increase their defence spending and fuel investor uncertainty. Additionally, Trump's potentially hardline approach to Ukraine, including reduced military aid, could lead to a Ukrainian defeat, which would embolden Russia and destabilise the CESEE region further.

Other global risks include the possibility of conflict escalating in the Middle East, which could severely affect the global economy through higher energy prices and disruption to shipping. A Chinese invasion of Taiwan also looms as a major geopolitical threat, with significant repercussions for trade-reliant CESEE countries. Additionally, EU-China relations may worsen on the back of European concerns about China's economic dominance. This could lead the EU to adopt a tougher US-style stance, further damaging the CESEE economies. Finally, a resurgence of inflation in light of any of these risks could hinder consumer spending and prolong the high interest rates, thus dampening the economic outlook for CESEE.

COUNTRY SUMMARIES

ALBANIA

Economic growth is projected to reach 4% in 2024. Inflation remains low and stable. However, vigilance is required, as credit demand for real estate is growing rapidly. Currency appreciation has been hurting the export of goods. The growth in tourism is continuing, but it will not prevent the current account deficit from widening further. FDI inflows will remain buoyant, with the energy sector and manufacturing benefiting the most.

BELARUS

Despite early signs of a slowdown at the beginning of the year, Belarusian GDP growth kept on accelerating in H1 2024. This was made possible by a rapid expansion in domestic demand (fuelled largely by real wages, pushed briskly upwards by the labour shortage) and a fresh surge in exports to Russia. For 2024 as a whole, we project GDP to grow by 4%, followed by 2.2% in 2025 and 1.3% in 2026. This slowdown will result from a weaker growth in exports – owing to a lack of available production capacity and moderating demand from Russia – as well as a weaker growth in domestic demand, as various macroeconomic factors make their presence felt.

BOSNIA AND HERZEGOVINA

The year kicked off with economic growth that was somewhat higher than in 2023 – the result of a rise in household consumption, thanks to lower inflation and higher real wages. In anticipation of a further increase in consumption and a mild improvement in exports, we have revised our GDP growth forecast for 2024 slightly upward – to 2.6%. Inflation was stable at around 2% for the first half of the year, and is expected to remain at that level for the whole year. Local elections scheduled for October 2024 are unlikely to change the situation in the country fundamentally.

BULGARIA

Following failure after failure to form a stable government, Bulgarians are going to the polls in October for the seventh snap election since 2021. Economic activity remains weak, due to an unfavourable external environment and a lack of clear policy direction. Robust private consumption has provided the main support for GDP growth. No major changes are expected in economic performance in the short term. We expect GDP to grow by 2.2% in 2024 and by slightly more in the next two years, driven largely by domestic demand.

CROATIA

Croatia’s accession to the EU’s border-free Schengen zone and the euro area continued to boost tourism, while EU funds have supported investment activity in 2024. The country’s full EU integration will encourage trade and investment over the 2025-2027 outlook. A lower unemployment rate and reduced price pressures will also help private consumption. That and a strong showing by services exports should bring economic growth in 2024 to 3.3%, while inflation is projected to decline to 3.6%.

CZECHIA

The Czech economy is slowly entering recovery mode: the second quarter saw a return to growth and tamed inflation. However, any optimism about the economic prospects must be tempered by the weak performance of Czechia’s export-oriented industry, which continues to grapple with the stagnation in Germany. Investments also remain sluggish amidst the high level of uncertainty. While consumption will support growth this year, a more extensive recovery is to be anticipated in the years to follow, assuming gradually improving external demand and revived investment activity.

ESTONIA

After the recession in 2023 and stagnation this year, Estonia's economy is projected to rebound gradually in 2025-2026. The revival of export markets, businesses adapting to a multifaceted crisis, and the enhanced competitiveness of Estonian firms will all support growth in the coming years. However, despite the low starting point, the pace of recovery is expected to be slower than initially anticipated, due to moderate growth in foreign demand, subdued private consumption and the impact of stringent fiscal consolidation measures.

HUNGARY

In the first half of 2024, the performance of the economy was disappointing. The main driver of growth, household consumption, increased by much less than might have been expected from real wage growth of nearly 10%. Investment fell and only net exports improved. Annual growth will be around 1.2% for 2024. In 2025 and 2026, consolidation of the budget will necessitate further painful measures. That will permit only a modest acceleration of growth. The downside risks are high: the elections due in 2026 bring with them the danger of a repetition of the irresponsible fiscal spending via 'election sweeties'. And the consequences of that would be a surge in inflation, a marked weakening of the currency and a deterioration in the country's fiscal position.

KAZAKHSTAN

Credit-led private consumption is expected to be the main growth driver in 2024. Impressive investment growth in manufacturing – as well as in the transport and logistics infrastructure related to the Middle Corridor – has also been an important factor. However, the declines in oil production in the wake of OPEC+ production restrictions and in investment in the oil sector have imposed something of a drag on overall economic growth. Against this background, we have revised our GDP forecast for 2024 downwards, to 4%. The outlook for the coming years is positive: the economy is likely to grow by over 4.5%, with a robust performance from manufacturing and services, and a recovery in oil production driven by expansion of the Tengiz oil field.

KOSOVO

Growth is projected to hover at above 4% this year, driven by strong domestic demand. Inflationary pressures have eased significantly and are expected to decline further in the coming months. A solid fiscal performance has helped keep public debt relatively low. The energy sector has had a particularly good year, recording a positive trade balance. However, the overall trade balance is expected to deteriorate as imports continue to outstrip exports.

LATVIA

According to a substantial revision of the GDP series by Statistics Latvia (largely of the gross investment data for 2022 and 2023), last year was not, in fact, a year of recession. Rather, economic activity actually increased by 1.7% in real terms. We expect to see a more modest upswing of 0.8% in 2024. We anticipate a continued reduction in external demand, although at a slower pace than last year. Significantly, the declining inflation is driving a robust growth in real wages this year. However, household consumption remains subdued. The government has postponed some public investment planned for 2024, and private businesses also remain reluctant to expand further. Owing to the relatively tight labour market, the unemployment rate is expected to rise only slightly in 2024, and will gradually decline over the following two years. Assuming Latvia's trading partners also recover next year, we expect the economy to pick up, with GDP growth of 2.2% in 2025 and 2.4% in 2026.

LITHUANIA

The economy performed better than expected in the first half of 2024, with GDP increasing by 2.4%. Thanks to a substantial fall in inflation, real incomes are picking up considerably, and will continue to do so over the next two years, boosting household consumption. In line with the economic upswing, employment is expanding significantly, and unemployment increased only slightly this year. However, private investment activity is lagging, as external demand remains in the doldrums. Meanwhile, the government plans to raise infrastructure investment further. We expect real GDP to grow by 2.1% in 2024, and for that to be followed by a modest acceleration to 2.5% in 2025 and 2.8% in 2026.

MOLDOVA

Moldova has now digested most of the shocks from the war in neighbouring Ukraine through high inflation and trade reorientation, but it remains exposed to elevated political and climatic risks. The economy is expected to grow by 2% in 2024. Growth will accelerate in the coming years on the back of investment. The country can count on external support, including from the EU, to finance its large current account and fiscal deficits. This positive outlook is based on the expected victory of pro-EU forces in the forthcoming presidential election and in the referendum on EU membership.

MONTENEGRO

Montenegro's economy grew by 3.4% in the first half of 2024, and we expect a figure of 3.5% for the whole year. While private consumption and public infrastructure investment increased, exports fell (notably of electricity and aluminium) and the tourist season underperformed. Inflation, now standing at 4.3%, remains of concern, as wage and pension increases under the ambitious Europe Now 2 programme may fuel a further rise. With record low unemployment, Montenegro's credit rating has also improved, reflecting a stabilisation of public finances – although the management of public debt remains a challenge.

NORTH MACEDONIA

The economy continues to struggle, weighed down by the recession in Germany. Despite strong real wage growth, robust FDI inflows and slowing inflation, there is no clear sign that the situation is improving. The new government has yet to provide a coherent economic vision for the country's future. Its primary focus has been on a strategic partnership with Hungary, which has so far resulted in a EUR 500m loan, with no clear plan on how the money will be used. This partnership also brings political risks that could prove costly for the country.

POLAND

A weak recovery in the fourth quarter of 2023 was followed by GDP growth of 2% (year on year) in Q1 2024 and 3.2% in Q2. The continued expansion of consumption, both private and public, will push GDP growth in 2024 as a whole above 3%. Nominal wages are rising, though less dynamically than before. Spurred by a partial deregulation of energy prices in July 2024, inflation jumped from 2.5% in Q2 2024 to about 4.4% in Q3; it is expected to peak in Q1 2025 and decline thereafter.

ROMANIA

Economic growth will not exceed 2%, despite bullish household demand in 2024. The fiscal and current account deficits will increase from their already high levels. Fiscal austerity is expected to be implemented by the incoming government that will be formed following the December elections; however, the measures are likely to be spread out over several years, in order to maintain the country's capacity to invest. Inflation will decline in 2025, but only slowly in view of the cuts to subsidies and the higher taxes. An improvement in the external balance and higher EU-funded investment could lead to GDP growth accelerating to 2.5% in 2025 and 3% in 2026, despite slowing household demand.

RUSSIA

With high growth, skyrocketing inflation and unemployment plunging to an all-time low, the economy remained overheated in the first half of 2024. However, recent high-frequency indicators suggest the strong likelihood of a slowdown in the offing. That will be reinforced by the ongoing monetary tightening cycle, with the policy rate already standing at 19% and likely to be hiked even further. The H1 performance has prompted us once again to upgrade our growth forecast for the full year to 3.8%. But thereafter, growth is projected to slip to 2.5% in 2025 and 2.2% in 2026, while inflation will return to the 4% target only in 2026.

SERBIA

The economy showed solid, broad-based growth in the first half of the year, but much of this is due to the relatively weak first half of 2023. We expect the pace to slow in the second half of 2024. Real wages are rising strongly, unemployment has fallen to a historic low, the fiscal position appears stable, and monetary policy has started to ease. However, numerous structural problems (of which we repeatedly warn) raise concerns about whether this growth can be sustained in the coming years.

SLOVAKIA

In 2024, Slovakia's economic growth is likely to reach 2%, driven mainly by household consumption on the back of rising real wages and a favourable labour market. Growth is expected to pick up gradually in the coming years. However, fiscal consolidation plans, which include phasing out energy subsidies and hiking the VAT rate, will probably push inflation up to above 5% next year. Overall, both domestic and external risks are rising, and the outlook for the key automotive sector is uncertain.

SLOVENIA

In 2024, real GDP will grow by 1.7% – a figure that is lower than expected, on account of sluggish export growth and a wariness on the part of companies to invest. Private spending and government investment will be the drivers of growth in 2024 and 2025. Growth should bounce back slightly in 2025, as foreign demand improves. The current account will remain in surplus, while inflation will settle at 2.5% and then decrease steadily in 2025. Low unemployment is fuelling wage hikes. Solid revenue will reduce the planned deficit, which will nevertheless remain significant until 2026.

TURKEY

Economic activity began losing momentum in Q2 and is likely to deteriorate further throughout the rest of the year, while inflation has been declining since June. The current account balance improved significantly this year, due to declining imports and stable energy prices. As the Fed and the ECB have begun their easing cycles, the central bank is expected to start cutting its rates this year as well. We have maintained our growth forecast for 2024 at 3.4%, with growth picking up in 2025 and 2026 to 4%

and 4.5%, respectively. With little progress in its relations with the EU and the US, Turkey is increasingly focusing on strengthening its ties with BRICS and the Arab League.

UKRAINE

Ukraine's economic activity has been hampered by Russia's missile attacks on its energy sector infrastructure and by its tightening labour markets. As a result, economic growth in 2024 will slow significantly, compared with the previous year. We have revised our GDP growth forecast for 2025 downwards, to 3.3%, to take account of the energy shortages and the decline in agricultural exports following this summer's drought. In the baseline scenario, we assume that the war with Russia will continue over the forecast period, but that there will be sufficient external support for Ukraine to keep the economy afloat. However, risks continue to be on the downside, with the most significant being Ukraine losing the war due to lack of support from the West.

Keywords: CESEE Central and Eastern Europe, economic forecast, Western Balkans, CIS, Ukraine, Russia, Turkey, EU, euro area, convergence, business cycle, labour markets, unemployment, Russia-Ukraine war, Russia sanctions, commodity prices, inflation, price controls, trade disruptions, Ukrainian refugees, energy crisis, gas, electricity, monetary policy, fiscal policy, impact on Austria, near-shoring, automotive industry, droughts

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