JANUARY 2024

Monthly Report

Winter Forecast Update

Recovering Amid Major Risks

Economic Forecasts for Eastern Europe for 2024-26

The Vienna Institute for International Economic Studies
Wiener Institut für Internationale Wirtschaftsvergleiche

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Economic Forecasts for Eastern Europe for 2024-26

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TABLES AND FIGURES

Cut-off date for historical data and forecasts: 18 January 2024.
Most data are taken from the wiiw Databases. Direct access is available at: https://data.wiiw.ac.at/.

ABBREVIATIONS

EUR	euro
USD	US dollar
BMF	Austrian Federal Ministry of Finance
CIS	Commonwealth of Independent States
CPI	consumer price index
ECB	European Central Bank
ENTSO-G	The European Network of Transmission System Operators for Gas
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
HICP	harmonized index of consumer prices
ICT	information and communication technologies
IMF	International Monetary Fund
LFS	labour force survey
LNG	liquified natural gas
MFF	Multiannual Financial Framework
NATO	North Atlantic Treaty Organisation
PMI	purchasing managers' index
pp	percentage points
RRF	Recovery and Resilience Facility
VAT	value-added tax
WIFO	Austrian Institute of Economic Research
wiiw	The Vienna Institute for International Economic Studies
.	not available (in tables)
bn	billion
eop	end of period
m	million
p.a.	per annum
Q1 2021	first quarter of 2021
y-o-y	year on year

Keywords: CESEE, economic forecast, Central and Eastern Europe, Western Balkans, EU, euro area, CIS, war in Ukraine, energy dependence, EU accession, EU Recovery and Resilience Facility, economic growth, labour markets, inflation, stagflation, monetary policy, fiscal policy

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wiiw COUNTRY GROUPS

CESEE23 Central, East and Southeast Europe

AL	Albania	ME	Montenegro
BA	Bosnia and Herzegovina	MK	North Macedonia
BG	Bulgaria	PL	Poland
BY	Belarus	RO	Romania
CZ	Czechia	RS	Serbia
EE	Estonia	RU	Russia
HR	Croatia	SI	Slovenia
HU	Hungary	SK	Slovakia
KZ	Kazakhstan	TR	Turkey
LT	Lithuania	UA	Ukraine
LV	Latvia	XK	Kosovo
MD	Moldova		

EU-CEE11 Central and East European EU members

BG	Bulgaria	LV	Latvia
CZ	Czechia	PL	Poland
EE	Estonia	RO	Romania
HR	Croatia	SI	Slovenia
HU	Hungary	SK	Slovakia
LT	Lithuania		

V4	**Visegrád countries**	**BALT3**	**Baltic countries**
CZ	Czechia	EE	Estonia
HU	Hungary	LT	Lithuania
PL	Poland	LV	Latvia
SK	Slovakia		

SEE9 Southeast Europe

AL	Albania	MK	North Macedonia
BA	Bosnia and Herzegovina	RO	Romania
BG	Bulgaria	RS	Serbia
HR	Croatia	XK	Kosovo
ME	Montenegro		

non-EU12 Non-European Union CESEE countries

AL	Albania	MK	North Macedonia
BA	Bosnia and Herzegovina	RS	Serbia
BY	Belarus	RU	Russia
KZ	Kazakhstan	TR	Turkey
MD	Moldova	UA	Ukraine
ME	Montenegro	XK	Kosovo

WB6	**Western Balkans**		
AL	Albania	MK	North Macedonia
BA	Bosnia and Herzegovina	RS	Serbia
ME	Montenegro	XK	Kosovo
CIS3+UA	**Commonwealth of Independent States-3 and Ukraine**		
BY	Belarus	MD	Moldova
KZ	Kazakhstan	UA	Ukraine
CIS4+UA	**Commonwealth of Independent States-4 and Ukraine**		
BY	Belarus	RU	Russia
KZ	Kazakhstan	UA	Ukraine
MD	Moldova		
EU27	**European Union**		
AT	Austria	IE	Ireland
BE	Belgium	IT	Italy
BG	Bulgaria	LT	Lithuania
CY	Cyprus	LU	Luxembourg
CZ	Czechia	LV	Latvia
DE	Germany	MT	Malta
DK	Denmark	NL	Netherlands
EE	Estonia	PL	Poland
EL	Greece	PT	Portugal
ES	Spain	RO	Romania
FI	Finland	SE	Sweden
FR	France	SI	Slovenia
HR	Croatia	SK	Slovakia
HU	Hungary		
EA20	**Euro area**		
AT	Austria	IE	Ireland
BE	Belgium	IT	Italy
CY	Cyprus	LT	Lithuania
DE	Germany	LU	Luxembourg
EE	Estonia	LV	Latvia
EL	Greece	MT	Malta
ES	Spain	NL	Netherlands
FI	Finland	PT	Portugal
FR	France	SI	Slovenia
HR	Croatia	SK	Slovakia

Winter 2024 interim forecast update

Table 1 / OVERVIEW 2022-2023 AND OUTLOOK 2024-2026

		GDP real change in % against prev. year					Consumer prices average change in % against prev. year					Unemployment (LFS) rate in %, annual average				
				Forecast					Forecast					Forecast		
		2022	2023 [1]	2024	2025	2026	2022	2023	2024	2025	2026	2022	2023 [1]	2024	2025	2026
BG	Bulgaria	3.9	1.7	1.5	2.5	3.0	13.0	8.6	7.0	5.0	4.0	4.3	4.2	4.0	3.8	3.6
CZ	Czechia	2.4	-0.2	1.7	2.7	2.7	14.8	12.0	2.8	2.2	2.0	2.2	2.7	2.7	2.6	2.6
EE	Estonia	-0.5	-2.8	-0.2	2.6	3.3	19.4	9.1	3.5	2.3	2.2	5.6	6.8	8.8	8.0	7.4
HR	Croatia	6.3	2.5	2.6	2.7	3.0	10.7	8.4	4.0	3.0	2.0	7.0	6.8	6.7	6.6	6.4
HU	Hungary	4.6	-0.6	2.3	2.6	3.0	15.3	17.0	5.5	4.0	3.5	3.6	4.2	3.6	3.6	3.6
LT	Lithuania	2.4	-0.2	1.5	2.0	2.4	18.9	8.7	2.4	2.3	2.5	6.0	6.8	6.5	6.3	6.1
LV	Latvia	3.4	-0.2	1.6	2.4	2.7	17.2	9.1	2.2	2.5	2.6	6.9	6.5	6.4	6.2	6.0
PL	Poland	5.3	0.3	3.0	3.5	3.0	13.2	10.9	4.7	3.6	2.5	2.9	2.7	3.5	3.6	3.5
RO	Romania	4.6	2.0	3.0	3.5	3.7	12.0	9.7	6.0	4.0	3.5	5.6	5.6	5.4	5.2	5.0
SI	Slovenia	2.5	1.3	2.7	2.5	3.3	9.3	7.2	3.7	2.5	2.5	4.0	3.7	3.6	3.6	3.5
SK	Slovakia	1.8	1.1	1.6	2.2	2.6	12.1	11.0	3.7	3.5	2.5	6.1	6.0	6.0	5.8	5.6
	EU-CEE11 [1,2]	*4.2*	*0.6*	*2.5*	*3.1*	*3.1*	*13.5*	*11.0*	*4.7*	*3.5*	*2.8*	*4.0*	*4.1*	*4.3*	*4.2*	*4.1*
	EA20 [3]	*3.4*	*0.5*	*0.8*	*1.6*	*1.6*	*8.4*	*5.4*	*3.0*	*2.2*	*2.0*	*6.8*	*6.6*	*6.6*	*6.5*	*6.4*
	EU27 [3]	*3.4*	*0.7*	*1.0*	*1.8*	*1.8*	*9.2*	*6.4*	*3.2*	*2.4*	*2.2*	*6.2*	*5.8*	*5.8*	*5.7*	*5.6*
AL	Albania	4.9	3.5	3.6	3.7	3.4	6.7	4.8	3.0	2.5	2.4	10.9	10.5	10.0	9.5	9.2
BA	Bosnia and Herzegovina	4.2	1.6	2.0	2.4	2.8	14.0	6.2	2.8	2.5	2.0	15.4	13.8	13.5	13.2	13.1
ME	Montenegro	6.4	6.6	4.0	3.5	3.2	13.0	8.6	5.0	3.0	2.5	14.7	13.4	12.5	11.5	10.5
MK	North Macedonia	2.2	1.6	2.2	2.6	3.0	14.2	9.4	3.5	3.0	2.5	14.4	13.0	12.0	11.0	10.0
RS	Serbia	2.5	2.0	2.4	2.7	3.0	11.9	12.1	4.5	3.5	2.8	9.4	9.5	9.0	8.5	8.0
XK	Kosovo	4.3	3.2	3.5	3.7	3.6	11.6	4.9	4.0	2.5	2.5	12.5	11.5	11.3	11.1	10.9
	WB6 [1,2]	*3.4*	*2.4*	*2.6*	*2.9*	*3.1*	*11.8*	*9.0*	*3.8*	*3.0*	*2.5*	*11.7*	*11.1*	*10.6*	*10.1*	*9.6*
TR	Turkey	5.5	4.2	3.0	3.6	3.8	72.3	54.0	54.0	31.0	29.0	10.5	9.5	10.5	10.0	10.0
BY	Belarus	-4.7	3.9	2.0	2.5	3.0	15.2	5.0	8.0	8.0	7.0	3.6	3.4	3.4	3.3	3.3
KZ	Kazakhstan	3.2	4.9	4.2	4.6	4.2	15.0	14.7	9.0	7.0	6.0	4.9	4.7	4.7	4.7	4.7
MD	Moldova	-5.0	1.0	3.7	3.4	3.8	28.7	13.4	6.0	5.0	4.0	3.1	4.5	4.0	3.7	3.5
RU	Russia	-1.2	3.5	1.5	1.7	1.9	13.8	5.9	6.7	4.2	3.6	3.9	3.2	2.9	2.9	2.9
UA	Ukraine	-28.8	5.5	3.0	4.0	6.0	20.2	12.9	8.0	6.5	5.5	25.0	20.0	15.0	13.0	10.0
	CIS4+UA [1,2]	*-2.8*	*3.8*	*1.9*	*2.2*	*2.4*	*14.4*	*7.2*	*7.0*	*4.7*	*4.1*	*7.4*	*6.0*	*4.9*	*4.6*	*4.1*
	V4 [1,2]	*4.3*	*0.1*	*2.5*	*3.1*	*2.9*	*13.7*	*12.0*	*4.4*	*3.4*	*2.5*	*3.2*	*3.2*	*3.6*	*3.6*	*3.6*
	BALT3 [1,2]	*2.0*	*-0.8*	*1.1*	*2.2*	*2.7*	*18.5*	*8.9*	*2.6*	*2.4*	*2.5*	*6.1*	*6.7*	*7.0*	*6.7*	*6.4*
	SEE9 [1,2]	*4.4*	*2.1*	*2.7*	*3.1*	*3.4*	*12.0*	*9.2*	*5.4*	*3.8*	*3.2*	*7.7*	*7.5*	*7.2*	*6.9*	*6.6*
	CIS3+UA [1,2]	*-9.3*	*4.8*	*3.4*	*4.0*	*4.6*	*17.2*	*12.5*	*8.4*	*6.9*	*5.9*	*15.3*	*12.5*	*9.8*	*8.7*	*7.1*
	non-EU12 [1,2]	*0.0*	*3.8*	*2.2*	*2.6*	*2.9*	*32.0*	*21.5*	*21.3*	*12.7*	*11.6*	*8.3*	*7.1*	*6.5*	*6.2*	*5.8*
	CESEE23 [1,2]	*1.2*	*2.9*	*2.3*	*2.8*	*2.9*	*26.5*	*18.4*	*16.3*	*10.0*	*9.0*	*7.3*	*6.3*	*6.0*	*5.7*	*5.4*

Table 1 / OVERVIEW 2021-2022 AND OUTLOOK 2023-2025

		Current account in % of GDP					Fiscal balance in % of GDP				
				Forecast					Forecast		
		2022	2023 1)	2024	2025	2026	2022	2023 1)	2024	2025	2026
BG	Bulgaria	-1.4	-0.5	0.0	-0.5	-1.0	-2.9	-4.0	-4.0	-3.0	-3.0
CZ	Czechia	-6.1	-1.0	0.0	0.3	0.7	-3.2	-4.0	-2.5	-2.0	-1.5
EE	Estonia	-3.2	-2.3	-4.2	-4.0	-3.4	-1.0	-3.1	-3.5	-3.8	-3.2
HR	Croatia	-2.8	-0.3	0.2	1.0	1.3	0.1	-1.0	-2.0	-1.7	-1.6
HU	Hungary	-8.2	0.0	-2.5	-2.9	-3.2	-6.2	-6.0	-4.5	-3.3	-4.0
LT	Lithuania	-5.5	1.3	1.0	0.8	0.5	-0.7	-1.7	-2.5	-2.0	-1.5
LV	Latvia	-4.7	-3.0	-2.0	-2.5	-2.8	-4.6	-2.8	-3.0	-2.5	-2.0
PL	Poland	-2.4	1.2	0.6	0.0	-0.5	-3.7	-5.5	-5.7	-5.4	-5.5
RO	Romania	-9.1	-6.8	-6.0	-5.0	-5.0	-6.3	-6.2	-5.0	-4.0	-3.5
SI	Slovenia	-1.0	2.5	2.2	2.3	2.2	-3.0	-4.2	-3.9	-2.1	-1.8
SK	Slovakia	-7.3	-1.6	-2.6	-2.4	-2.4	-2.0	-6.0	-6.0	-5.0	-4.0
	EU-CEE11 1)2)	*-4.9*	*-0.9*	*-1.2*	*-1.2*	*-1.4*	*-3.8*	*-5.0*	*-4.6*	*-3.9*	*-3.8*
	EA20 3)	*1.4*	*1.0*	*1.5*	*1.7*	*1.7*	*-3.6*	*-3.7*	*-2.7*	*-2.6*	*-2.5*
	EU27 3)	*1.2*	*1.0*	*1.5*	*1.7*	*1.7*	*-3.3*	*-3.3*	*-2.3*	*-2.2*	*-2.1*
AL	Albania	-5.9	-2.6	-3.5	-3.4	-3.4	-3.7	-1.5	-1.5	-1.0	-1.0
BA	Bosnia and Herzegovina	-4.3	-3.9	-3.8	-3.6	-3.3	-0.4	-1.0	-0.5	-0.3	0.1
ME	Montenegro	-12.9	-8.3	-10.8	-10.2	-10.0	-5.1	-3.4	-4.5	-4.8	-5.0
MK	North Macedonia	-6.1	0.0	-2.5	-2.3	-2.0	-4.4	-4.0	-3.5	-2.5	-2.0
RS	Serbia	-6.9	-2.5	-3.0	-3.5	-4.0	-3.2	-2.0	-1.5	-1.0	-1.0
XK	Kosovo	-10.3	-8.4	-7.9	-7.6	-7.0	-0.5	-1.0	-1.4	-2.0	-1.5
	WB6 1)2)	*-6.7*	*-3.2*	*-3.8*	*-4.0*	*-4.1*	*-2.8*	*-1.9*	*-1.7*	*-1.3*	*-1.1*
TR	Turkey	-5.4	-5.0	-3.5	-3.0	-3.0	-1.1	-4.0	-4.0	-3.5	-3.0
BY	Belarus	3.4	-0.7	-1.0	-1.2	-1.5	-1.5	-3.0	-2.0	-1.0	-1.0
KZ	Kazakhstan	3.1	-3.7	-3.0	-1.7	-1.5	-2.1	-2.7	-2.6	-2.4	-2.3
MD	Moldova	-17.1	-11.0	-8.0	-7.0	-7.0	-3.2	-6.0	-5.0	-4.0	-4.0
RU	Russia	10.5	2.8	3.4	3.0	2.6	-1.4	-1.0	-0.7	-0.5	-0.5
UA	Ukraine	4.9	-4.0	-5.0	-5.5	-5.0	-16.1	-27.0	-25.0	-20.0	-17.0
	CIS4+UA 1)2)	*9.2*	*1.4*	*1.8*	*1.6*	*1.3*	*-2.3*	*-3.1*	*-2.8*	*-2.3*	*-2.0*
	V4 1)2)	*-4.5*	*0.3*	*-0.3*	*-0.5*	*-0.8*	*-3.8*	*-5.3*	*-4.9*	*-4.3*	*-4.3*
	BALT3 1)2)	*-4.7*	*-0.8*	*-1.2*	*-1.3*	*-1.4*	*-1.8*	*-2.4*	*-2.9*	*-2.6*	*-2.1*
	SEE9 1)2)	*-6.7*	*-4.3*	*-3.9*	*-3.4*	*-3.5*	*-4.2*	*-4.3*	*-3.8*	*-3.0*	*-2.7*
	CIS3+UA 1)2)	*3.2*	*-3.6*	*-3.5*	*-3.0*	*-2.8*	*-6.8*	*-10.6*	*-9.8*	*-8.0*	*-6.9*
	non-EU12 1)2)	*5.1*	*-0.6*	*0.0*	*-0.1*	*-0.3*	*-2.0*	*-3.3*	*-3.1*	*-2.6*	*-2.3*
	CESEE23 1)2)	*1.7*	*-0.7*	*-0.5*	*-0.5*	*-0.7*	*-2.6*	*-3.9*	*-3.7*	*-3.1*	*-2.9*

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. Cut-off date for historical data and forecasts: 18 January 2024.

Table 2 / Policy rate and exchange rate for selected CESEE countries: overview 2022-2023 and outlook 2024-2026

		Policy rate eop, p.a.					Exchange rate NCU/EUR average				
				Forecast					Forecast		
		2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
AL	Albania	2.75	3.25	3.00	3.00	2.50	119.0	108.8	105.0	104.0	103.0
BY	Belarus	12.00	9.50	10.00	10.00	9.00	2.78	3.25	3.40	3.60	3.80
CZ	Czechia	7.00	6.75	4.25	3.50	3.00	24.6	24.0	24.4	24.2	24.0
HU	Hungary	13.00	10.75	6.00	4.50	3.00	391.3	381.9	390.0	400.0	420.0
KZ	Kazakhstan	16.75	15.75	12.00	9.00	8.00	484.2	493.3	510.0	520.0	530.0
MD	Moldova	20.00	4.75	4.50	4.00	4.00	19.90	19.64	20.20	20.70	21.50
MK	North Macedonia	4.75	6.30	6.00	5.50	5.00	61.62	61.56	61.50	61.50	61.50
PL	Poland	6.75	5.75	4.75	3.50	2.50	4.69	4.54	4.60	4.65	4.60
RO	Romania	6.25	7.00	5.50	3.50	3.00	4.93	4.95	5.00	5.05	5.12
RS	Serbia	5.00	6.50	5.75	5.00	4.50	117.5	117.3	117.0	116.8	116.5
RU	Russia	7.50	16.00	12.00	8.00	7.00	72.48	92.14	105.00	110.00	110.00
TR	Turkey	9.00	42.50	35.00	20.00	15.00	17.41	25.76	38.00	49.50	54.50
UA	Ukraine	25.00	15.00	11.00	8.00	7.00	33.98	39.56	41.00	43.00	44.00

Source: wiiw, forecasts by wiiw. Cut-off date for historical data and forecasts: 18 January 2024.

Table 3 / Real GDP growth forecasts and direction of revisions since wiiw Autumn 2023 Forecast Report

Region		2024		2025	
EU-CEE					
BG	Bulgaria	1.5		2.5	
CZ	Czechia	1.7	▼	2.7	
EE	Estonia	-0.2	▼	2.6	▼
HR	Croatia	2.6	▼	2.7	▼
HU	Hungary	2.3	▲	2.6	▲
LT	Lithuania	1.5	▼	2.0	▼
LV	Latvia	1.6	▼	2.4	▲
PL	Poland	3.0	▲	3.5	▼
RO	Romania	3.0	▼	3.5	
SI	Slovenia	2.7		2.5	
SK	Slovakia	1.6	▼	2.2	▼
Western Balkans					
AL	Albania	3.6		3.7	
BA	Bosnia and Herzegovina	2.0	▲	2.4	▲
ME	Montenegro	4.0	▲	3.5	▲
MK	North Macedonia	2.2	▲	2.6	▲
RS	Serbia	2.4	▲	2.7	▲
XK	Kosovo	3.5	▲	3.7	
Turkey					
TR	Turkey	3.0	▲	3.6	
CIS+UA					
BY	Belarus	2.0	▼	2.5	
KZ	Kazakhstan	4.2	▲	4.6	▲
MD	Moldova	3.7	▲	3.4	▼
RU	Russia	1.5	▼	1.7	
UA	Ukraine	3.0	▼	4.0	▼

Source: wiiw forecasts as of 18 January 2024.

Table 4 / CPI growth forecasts and direction of revisions since wiiw Autumn 2023 Forecast Report

Region		2024		2025	
EU-CEE					
BG	Bulgaria	7.0		5.0	
CZ	Czechia	2.8	▼	2.2	▼
EE	Estonia	3.5	▲	2.3	▼
HR	Croatia	4.0		3.0	
HU	Hungary	5.5	▼	4.0	
LT	Lithuania	2.4	▼	2.3	▲
LV	Latvia	2.2	▼	2.5	▼
PL	Poland	4.7	▼	3.6	
RO	Romania	6.0	▼	4.0	▼
SI	Slovenia	3.7	▲	2.5	▲
SK	Slovakia	3.7	▼	3.5	▲
Western Balkans					
AL	Albania	3.0		2.5	
BA	Bosnia and Herzegovina	2.8	▼	2.5	
ME	Montenegro	5.0		3.0	▲
MK	North Macedonia	3.5	▼	3.0	
RS	Serbia	4.5	▼	3.5	
XK	Kosovo	4.0		2.5	
Turkey					
TR	Turkey	54.0		31.0	▼
CIS+UA					
BY	Belarus	8.0		8.0	
KZ	Kazakhstan	9.0		7.0	▲
MD	Moldova	6.0		5.0	
RU	Russia	6.7	▲	4.2	▲
UA	Ukraine	8.0		6.5	▲

Source: wiiw forecasts as of 18 January 2024.

1. Global assumptions: Risks abound

BY RICHARD GRIEVESON[1]

1.1 GLOBAL ECONOMY: STILL SUBDUED

The global economy starts 2024 in a difficult position, with overall momentum at historically weak levels and a multitude of risks on the horizon. According to the World Bank's January 2024 Global Economic Prospects Report, global growth will slow to 2.4% this year, from 2.6% in 2023. By the end of 2024, the global economy will have suffered its worst half decade of growth for 30 years.[2] The most recent IMF World Economic Outlook, published in autumn 2023, saw the global economy as 'limping along'.[3] It then expected the global economy to expand by 2.9% in 2024, one of the lowest rates of expansion in the past 20 years.[4] Global inflation has led to a cost-of-living crisis, and massive monetary tightening is weighing on economic activity in many key economies (given the typical transmission lag, it may be that the full effect has yet to be felt).

Yet while the subdued rate of economic momentum is concerning, in light of the economic shocks of the last few years the global economy has actually proven to be remarkably resilient. A once-in-a-century pandemic, leading to the shutdown of large parts of the global economy, has been followed by the biggest war in Europe for almost 80 years – one that involves two of the world's most important commodity producers. Last year then saw the outbreak of war between Israel and Hamas, with risks of a wider regional conflict that would upend global trade and commodity markets. Partly as a result of the pandemic and these wars, the global economy has had to contend with the highest rate of inflation for almost three decades.

The global economy should continue to expand this year, at a rate below its long-term average, but nevertheless showing a fairly high degree of resilience to a number of headwinds. According to the World Bank's January 2024 forecasts, while the advanced economies will grow more slowly in 2024 than in 2023, growth in the emerging economies will be roughly the same overall, providing much-needed support to global economic growth. This is despite an expected slowdown in Chinese growth this year. The Chinese economy is not going to be the motor of global growth that it has been for most of the time since the 2008-2009 global financial crisis. China's real estate crisis has kept growth low. According to the World Bank, the main positive improvements in growth relative to 2023 will be seen in Latin America, the Middle East and North Africa, South Asia and Sub-Saharan Africa.

The US economy is still doing well, but it will also struggle with headwinds this year. Considering the sharp monetary tightening that the US has faced, the economy has remained remarkably strong, growing by an estimated 2.5% in 2023, according to the World Bank. Inflation is back below 2%, and

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1 Thanks to Vasily Astrov, Alexandra Bykova, Gábor Hunya, Branimir Jovanović and Olga Pindyuk for valuable comments and suggestions.

2 https://www.worldbank.org/en/news/press-release/2024/01/09/global-economic-prospects-january-2024-press-release

3 https://www.imf.org/en/Blogs/Articles/2023/10/10/resilient-global-economy-still-limping-along-with-growing-divergences

4 Since 2002, annual real global economic growth has only been lower than 2.9% three times: in 2009, 2019 and 2020.

monetary loosening will commence this year. Nevertheless, economic growth will slow to 1.6% this year, according to the World Bank.

1.2 EURO AREA: WAITING FOR SOME GREEN SHOOTS

At the time of writing, the economy of the euro area is not in good shape. The second half of 2023 was weaker than expected, with inflation having a big impact on household spending power, and industry adversely affected by the disappointing recovery in China. The sharp tightening of monetary policy by the European Central Bank (ECB) also had a negative impact on the economy.

The weakness of the German economy is especially problematic, given its central importance to the euro area and the fact that it is the most important economic partner for most CESEE countries. According to an initial estimate released by the Federal Statistics Office in January, the economy declined by 0.3% in 2023. Industrial output fell for the sixth consecutive month in November, and the December purchasing managers' indices (PMIs) suggest that the situation will not improve much anytime soon. Factors such as the competitiveness shock caused by higher energy prices and weaker-than-expected demand from China will not dissipate quickly.

While the euro area is not out of the woods, conditions should improve by the second half of the year. The euro area composite PMI was still below 50 in December, indicating contraction, and data for the fourth quarter of 2023 may show that the single-currency area has entered a technical recession. With last year proving worse than expected, we have made a downward revision to our 2024 euro area real GDP growth forecast, mostly owing to carry-over effects. However, we still expect 2024 growth to be a bit higher than in 2023. In the second half of 2024, the ECB expects the euro area economy to get back to 0.4% quarter-on-quarter expansion, which is roughly in line with the long-term average. Those are conditions under which CESEE has grown very strongly in the past.

Growth in 2024 will be supported by much lower inflation than over the past two years and by strong monetary policy loosening. Inflation briefly picked up in the euro area in December, due to a temporary spike in energy prices in the second half of 2023, but the general direction is downward. The narrative that it was a supply shock which unwound itself seems largely to have held, although the recent disinflation in goods (where the role of energy prices is greater) has been much faster than in services (Figure 1). Overall, the outlook for inflation has improved since our last forecast, and we have made downward revisions to our projections for 2024 and 2025. In the case of monetary loosening, the positive effects will not be immediate. The market expects about 150 basis points (bps) of cuts this year, but we are being more conservative and expect 100 bps of cuts. Yet even if the euro area economy does recover this year as we expect, a cyclical upturn should not disguise the deep structural challenges faced by the whole EU – challenges that were so clearly and starkly outlined by Mario Draghi in 2023.[5]

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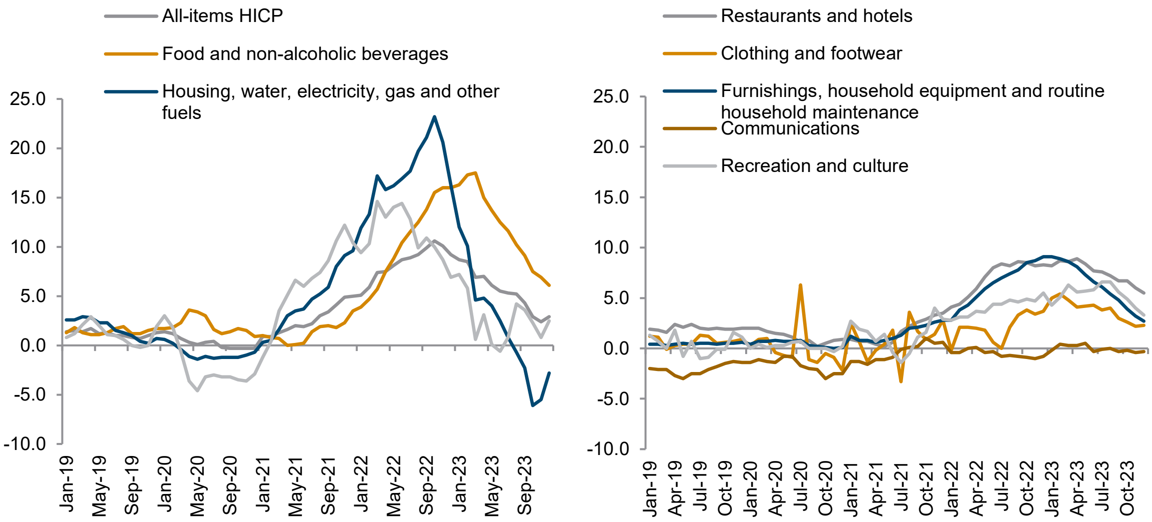
5 https://www.ft.com/content/39ec07ea-2ca6-4539-bf70-b0348347898f

Figure 1 / Euro area harmonised index of consumer prices (HICP), % change per year, selected components



Source: Eurostat.

From a CESEE perspective, even if global growth stays at a decent rate, the expected change to the regional composition of this growth is not good news. If China and the euro area continue to underperform, and if global growth is led by the US and emerging markets with which CESEE has fewer direct connections, that will have limited positive spillovers for the region. Deeper connections with economies such as India may emerge over time, but that will not help immediately.

Table 5 / wiiw winter 2024 global assumptions

	Winter 2024			Changes since autumn		
	2024	2025	2026	2024	2025	2026
Euro area real GDP growth, %	0.8	1.6	1.6	-0.4	0.0	-
Euro area HICP, %	3.0	2.2	2.0	-0.2	-0.3	-
Euro area unemployment rate, %	6.6	6.5	6.4	0.0	-0.1	-
Euro area current account, % of GDP	1.5	1.7	1.7	0.0	-0.8	-
USD/EUR exchange rate, average	1.08	1.08	1.08	0.0	0.0	-
ECB refinancing rate, %, end of period	3.50	2.50	2.00	0.0	0.5	-
Brent crude oil, US$ per barrel, average	80.0	77.0	74.0	3.0	4.0	-

Source: forecasts by wiiw. Cut-off date: 18 January 2024.

1.3 POLITICAL RISK HIGH ON THE AGENDA

There is always political risk, and it always has the potential to impact the economy; but 2024 looks to be a particularly challenging year. Two broad factors are of particular concern from the perspective of the global economy. First, there are active wars that involve – or have the potential to involve – major global players. The wars in Gaza and Ukraine are of particular concern in this regard, while the potential war between China and Taiwan would also have a big impact on the global economy. Tensions in the Middle East are already affecting the price of oil; transport costs are rising due to the diversion of ships onto longer routes; and there is a serious risk to global trade arising from shipping disruptions in the Red Sea.[6] The second factor is that more than half of the world's population will go to the polls this year. In many cases, the outcome would seem to be clear; however, the race in the US is very tight and the result will have major implications for the global economy and CESEE.

As well as the obviously dire implications for Ukraine, the Russian invasion of that country also represents a continued risk to the economies of CESEE more broadly. While the main impact so far has been felt because of the exchange of sanctions, trade disruption and higher inflation, there are additional risks. A further escalation of the war – potentially involving the use of tactical nuclear weapons – would have serious consequences across the region.

At the time of writing, Donald Trump is favourite to be the next US president.[7] The stakes are very high: as a recent *Financial Times* editorial put it, 'for the first time since the eve of the US civil war in 1860, the American system itself is poised to be on the ballot'.[8] (There is also the unknown factor arising from the dizzying array of legal cases against him.[9]) Trump's policies are impossible to predict in advance with any certainty, but our best guesses about the implications of a Trump victory are as follows:

- **Doubts about the US security commitment to Europe:** a victory for Trump would cast doubt on the US commitment to NATO, making European governments spend more on defence (and potentially less on welfare). He could also force the Ukrainian government into a 'peace' deal with Russia that may simply pause the war, but not prevent Russia from attacking Ukraine again in the future. The implications for European security could be severe.
- **An even more antagonistic US policy towards China, with negative implications for the global economy:** Trump could take further steps to reduce the economic integration between the US and China, including erecting trade barriers and imposing restrictions on flows of investment into China. This would further reduce China's growth at a time when its economy is already struggling, and could have an adverse impact on the global economy more generally.
- **The US role in the world would be more unpredictable, leading to security vacuums in global hotspots and increased regional competition and arms races.** This could be the case particularly in the Middle East, where the Israel-Hamas war risks spreading into a broader regional conflict involving a number of players. There is a partial vacuum, which others are seeking – and will continue to seek – to fill, increasing the risks of instability. There is a very real chance that the coming years will see a series of rolling geo-political crises, much more frequent than in the past, with negative repercussions for the global economy and CESEE.
- **The fragmentation of the global trading system would probably accelerate, with big costs for CESEE's open and trade-dependent economies.** Trump has promised a 10% tariff on all imports (a reprise of the Smoot–Hawley tariff of 1930). That would hurt world trade.

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6 The Kiel Institute for the World Economy estimates that disruptions in the Red Sea already caused global trade to fall by 1.3% between November and December 2023. See: https://www.ifw-kiel.de/publications/news/cargo-volume-in-the-red-sea-collapses/

7 https://www.oddstrader.com/betting/analysis/us-election-odds/

8 https://www.ft.com/content/7a99563b-6b66-4e43-94de-0dcaca5d60dc

9 https://www.justsecurity.org/88039/trumps-legal-and-political-calendar-all-the-dates-you-need-to-know/?campaign_id=9&emc=edit_nn_20240109&instance_id=112054&nl=the-morning&regi_id=85700218&segment_id=154673&te=1&user_id=8b64f7f2050c75bf0f6df4a7235cf947

In this context, it is exceptionally difficult to make predictions about the war in Ukraine, but for now we assume the following:

› The war in Ukraine is likely to last at least into 2025.

› There will be no major (i.e. nuclear) escalation.

› The further impact of the war on most European economies will be quite limited.

› US and EU military and financial support for Ukraine will continue, but with delays in disbursement and with a lot of political noise and uncertainty. Ukraine will get enough to hold off Russia, but not enough to go more decisively on the offensive. The US in particular will remain wary of 'provoking' Russia by delivering more long-range weapons.

› As long as the war continues, reconstruction cannot start properly, which will hold up Ukraine's economic recovery.

› The European Parliament elections may well see a rise in support for far-right parties, but this will not fundamentally impact EU support for Ukraine. The five biggest EU member states all have governments that have expressed unambiguous support for Ukraine. In terms of both the functioning of the Council and EU support for Ukraine, the recent election result in Poland is good news.

› If Trump does win, the outlook is much bleaker, as outlined above.

2. Regional overview: Recovering amid major risks

BY RICHARD GRIEVESON

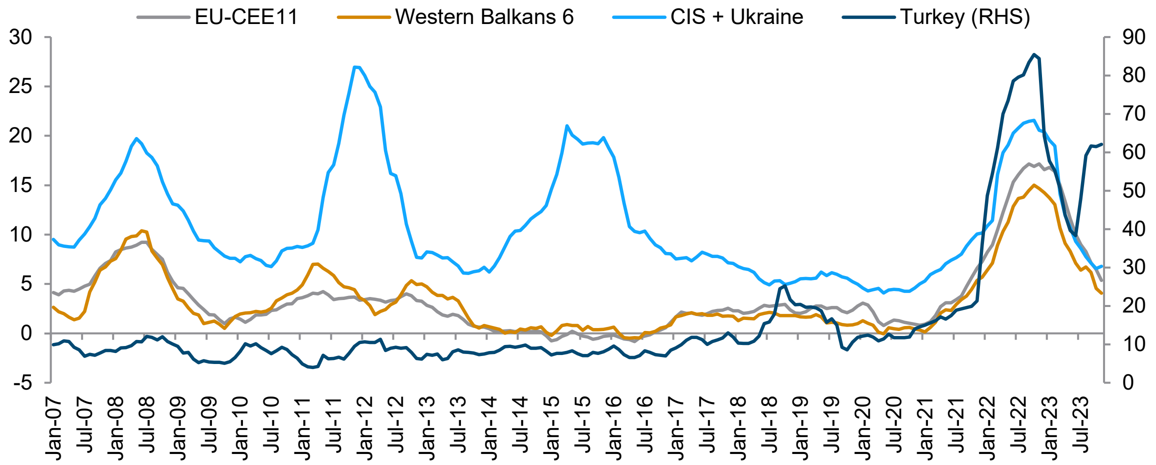
2.1 2023: A YEAR TO FORGET

Last year, 2023, was largely one for CESEE to forget, as the full impact of the inflation shock made itself felt across the region. The top performers last year were those economies that had experienced a sharp contraction in the wake of Russia's invasion of Ukraine in 2022, as well as many of the countries of Southeast Europe. The latter benefited from one or more of the following factors: limited pre-invasion trade and investment links with Russia and Ukraine; a high share of domestically produced renewable energy in total consumption; another strong tourism year; and counter-cyclical inflows of remittances. Yet for almost all countries of CESEE, last year was weak by historical standards.

The impact of this is that convergence in the region has stalled, indicating that the relative resilience that the region showed in previous crises (compared to Western Europe) has not been as visible this time. In 2009, in the wake of the global financial crisis, both EU-CEE and the Western Balkans clearly outperformed the euro area; and in the pandemic downturn of 2020, all sub-regions of CESEE did better than the single-currency area. During the inflation shock of 2022/2023, performance was more mixed: in particular, the CIS underperformed the euro area in 2022, and last year EU-CEE achieved a very similar (low) growth rate as the euro area. This points to the very particular nature of the current downturn, which has been largely driven by the fallout from a war within CESEE.

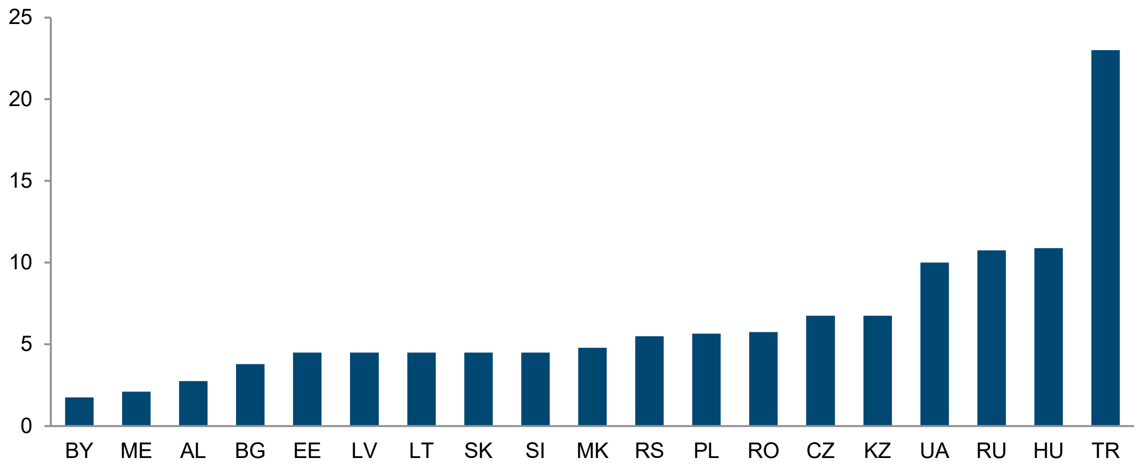
Inflation surged over the last three years to levels way above anything experienced by most CESEE countries since 2007, and this drove a sharp monetary response. While the CIS and Ukraine suffered similar bouts of inflation in 2008, 2011-2012 and 2015-2016, the EU member states of the region, the Western Balkans and Turkey have all in the past 12-24 months faced their worst inflation for several decades (Figure 2). Although policy played a role – especially in Turkey, where monetary conditions were far too loose for too long – the CESEE region overall faced the same challenges of surging global energy and food prices, as well as some signs of profit gouging by firms within CESEE. In the context of this scale of inflation shock, the fact that the economies struggled was hardly surprising. Since the start of 2021, most CESEE countries have also experienced major monetary tightening (Figure 3).

Figure 2 / Consumer price inflation, % per year



Note: Weighted averages.
Source: National sources, Eurostat, wiiw.

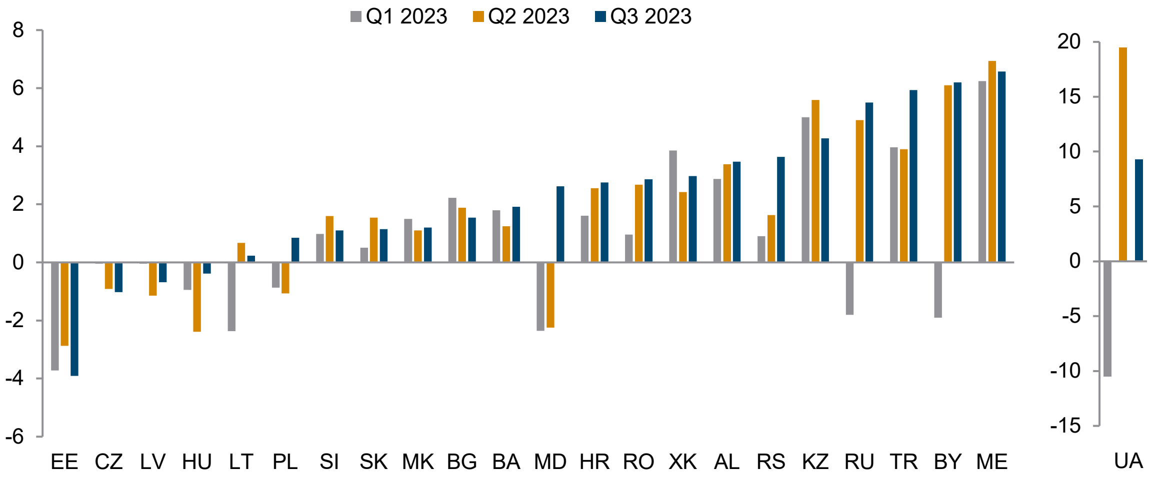
Figure 3 / Cumulative change to policy rate, January 2021-November 2023, percentage points



Source: National sources, wiiw.

Quarterly GDP data show that, at least by Q3 2023, most of the region had returned to positive year-on-year growth. The strongest growth in the third quarter of last year was recorded in Ukraine, as it recovered some of the lost output caused by the 2022 invasion, while Belarus and Russia also performed quite strongly as they adapted to sanctions and took advantage of the military production boom (Figure 4). Other strong performers in Q3 included economies that benefited from another good tourist season, especially Montenegro, Turkey and Albania. Only four countries continued to post negative year-on-year real GDP growth in Q3: Estonia, Czechia, Latvia and Hungary.

Figure 4 / Real GDP growth, % year on year



Source: National sources, Eurostat, wiiw.

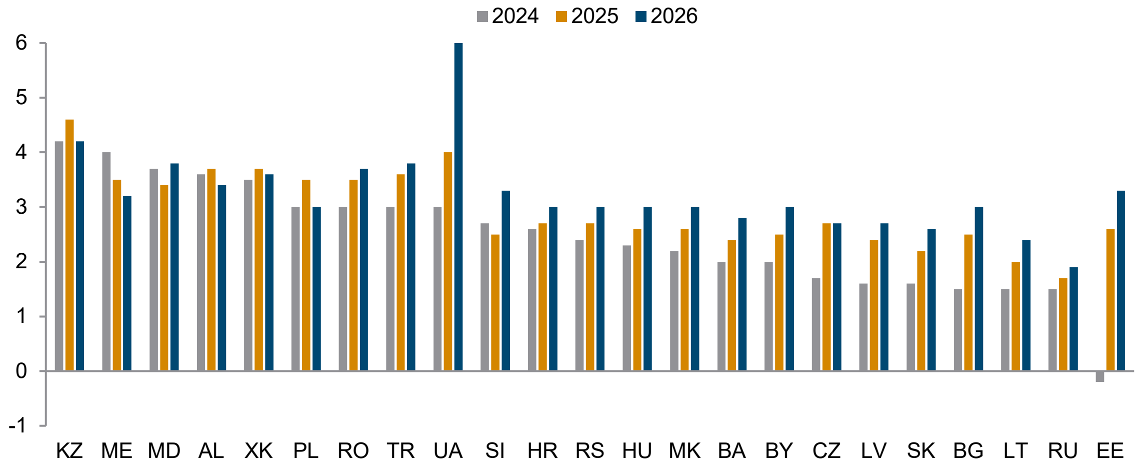
2.2 2024-2026 OUTLOOK: GETTING BETTER, SLOWLY

2.2.1 GROWTH AND DRIVERS

After four tumultuous years, we expect 2024 to be the year when things start to get back to normal, at least for EU-CEE and the Western Balkans. Interest rates, inflation and growth will all start to look a bit more like the pre-2020 world. So long as there is no major political upheaval – either within the region or emanating from one of the major global powers – this year should be quite good for most of CESEE; and 2025 should be even better. Two things give rise to a fair bit of optimism in 2024-2025: inflation will be much lower than in the previous two years, and interest rates will be cut sharply. Inflation was lower than expected last year in most countries of the region, and for 2024 we have also reduced our inflation forecasts for most EU-CEE and Western Balkan countries. As a result of this, we are more convinced than before that central banks will engage in significant monetary loosening this year.

While Russia's invasion of Ukraine has cast a dark shadow over the region, 2023 was actually a year of positive political and policy developments in the other two big CESEE economies of Poland and Turkey; these could bear further fruit in 2024. In Poland, the most important economy in EU-CEE, the election in 2023 produced a government that will have a much more constructive relationship with the EU; that should allow for the release of the withheld funds, which will help drive economic growth. The new Polish government will also have a more constructive relationship with Germany, which will be crucial in the EU's efforts to support Ukraine, especially if the US role is reduced. Meanwhile in Turkey, CESEE's second-biggest economy, a fundamental change in course on monetary policy last year should help bring down inflation, stabilise the lira and reduce the risks of serious macro-financial volatility. It already seems to have significantly improved foreign investor sentiment towards the country.

Figure 5 / Real GDP growth forecasts, % per year

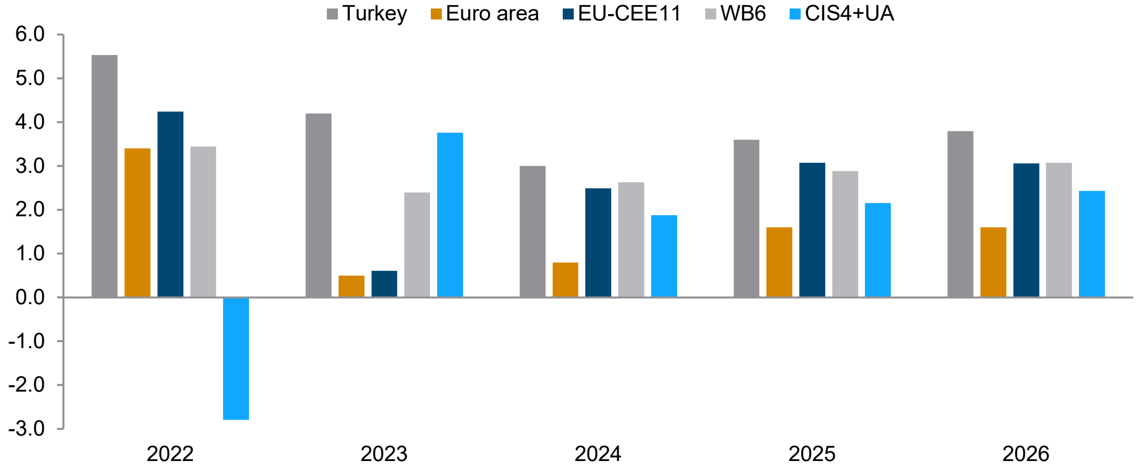


Note: Ordered based on 2024 forecasts, from highest to lowest.
Source: wiiw Winter 2024 forecasts, cut-off date: 18 January 2024.

This year will also see a return to something like 'normal' in terms of the performance of individual countries. After a lot of volatility in growth rates in 2020-2023, Figure 5 indicates a fairly typical ordering of countries, with traditionally strong performers such as Kazakhstan, Albania, Kosovo, Romania, Poland and Turkey all near the top. Moldova and Ukraine are also above average in the region, reflecting a combination of catch-up gains (following severe downturns associated with the initial impact of the Russian invasion) and the potential afforded by accelerated EU integration. The Baltic states are among the weakest performers – especially Estonia, which is the only economy we expect to contract in 2024, as it suffers from the hit to external competitiveness caused by the war and weakness in key markets such as Finland. Russia will also struggle under the weight of sanctions and sharp monetary policy tightening, while the outlook for several EU-CEE countries is similarly fairly muted.

We expect all sub-regions of CESEE to return to a decent rate of convergence with the euro area in 2024. EU-CEE will grow by 2.5%, up from 0.6% in 2023, which will easily outpace the expected 0.8% expansion in the euro area. This will be driven above all by the major improvements in the two biggest countries, Romania and Poland, both of which we expect to expand by 3% this year. The Western Balkans will grow by 2.6%, up slightly on last year's 2.4%. We expect a slowdown in Turkey to 3% growth, after last year's 4.2% expansion, due to the pass-through of major monetary tightening and the challenges of still sky-high inflation. For the CIS and Ukraine, we expect a slowdown in growth to 1.9%, from last year's 3.8%.

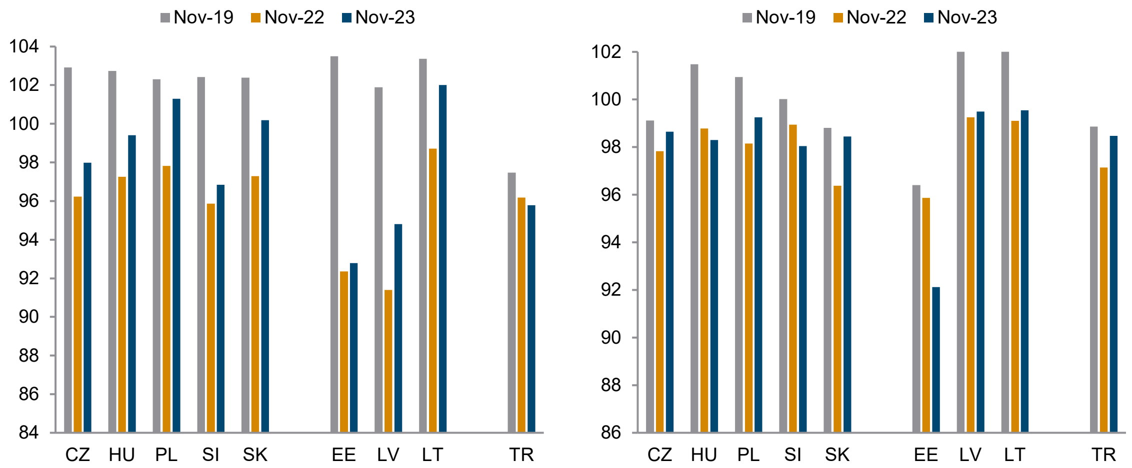
Figure 6 / Real GDP growth, % per year



Note: Weighted averages.
Source: National sources, Eurostat, wiiw Winter 2024 forecasts, cut-off date: 18 January 2024.

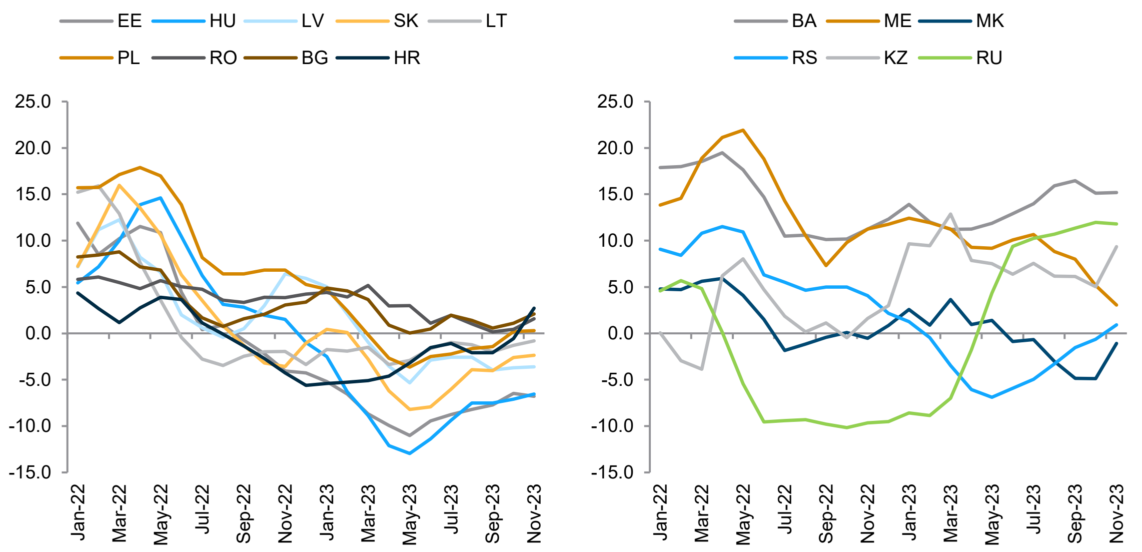
The main driver of growth in 2024 will be private consumption, as inflation falls back and real wages rise. Consumer confidence is still below its long-term average and pre-pandemic levels, but in Central Europe and the Baltic states it is improving as real wages rise, and is above the levels of a year ago (Figure 7). Retail sales for most of the region seem to have bottomed out around the second quarter of 2023, and to have established a clear upward trend by November (Figure 8).

Figure 7 / OECD consumer (left) and business (right) confidence, long-term average=100



Source: OECD.

Figure 8 / Retail sales, volume, % change year on year, 3-month moving average



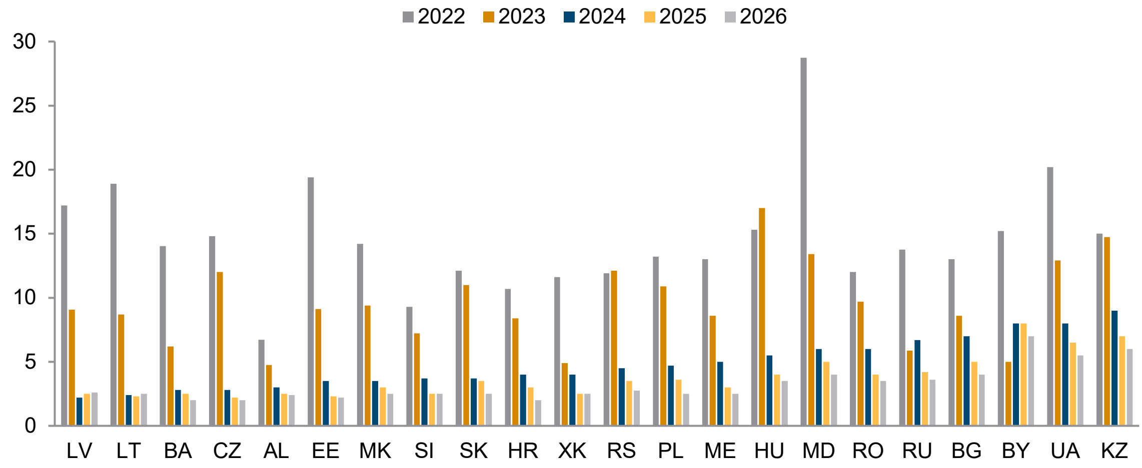
Note: selected countries shown, based on data availability up to November 2023.
Source: Eurostat, national sources, wiiw.

Investment should also contribute to growth this year, but the impetus from external demand will be limited, at least during the first half of the year. Investment will pick up in 2024 thanks to the falling cost of borrowing, the arrival of EU money (for EU members) and foreign direct investment (FDI), which seems to have held up well in most of the region, despite the invasion of Ukraine (more details below). Exports should also improve as the euro area recovers (at least from the second half of the year). That said, their contribution to growth is likely to be limited this year. This is reflected in business confidence, where the latest data for November 2023 show a more muted recovery compared to a year earlier, and even some declines (Hungary, Slovenia, Estonia; Figure 7). The most recent manufacturing PMIs for the region also show that the sector remains firmly in contractionary territory and that sentiment regarding foreign demand is still mostly negative, indicating that no sharp bounce-back for exports is imminent.

2.2.2 INFLATION AND MONETARY POLICY

For most of CESEE, we expect inflation to be considerably lower on average this year than in 2022-2023. Except for in Hungary and Serbia, annual average inflation peaked in the region in 2022, but stayed very high by historical standards last year as well. In both EU-CEE and the Western Balkans, we see inflation falling back below 5% on average in 2024, having reached (or been close to) double digits on average in the previous two years. Turkey's idiosyncratic inflation problem, largely domestically driven, will continue. Inflation will be particularly low this year in Latvia, Lithuania, Bosnia and Herzegovina, and Czechia, all of which will see the figure fall below 3% (Figure 9). Meanwhile, although Turkey will be the only country still to have double-digit inflation, consumer price growth will remain high in Kazakhstan (9%), Ukraine (8%), Belarus (8%), Bulgaria (7%) and Russia (6.7%).

Figure 9 / Consumer price inflation, % per year



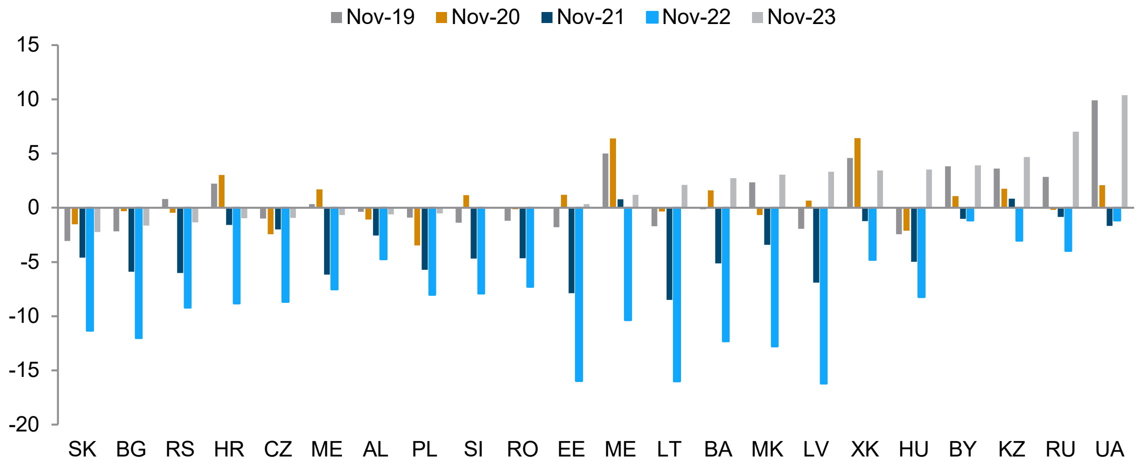
Note: Data are ordered based on 2024 forecasts, from lowest to highest. Turkey not shown.
Source: National sources, Eurostat, wiiw Winter 2024 forecasts, cut-off date: 18 January 2024.

While the inflation problem has not been totally resolved in the region, 2024 will see a major step back towards normality. This year will see at least some phasing-out of measures to reduce prices (caps, subsidies, etc.); but in such a busy election year, this process is likely to be limited, with difficult decisions delayed. Core inflation will probably remain robust as real wages rise, fuelling consumer demand. But energy prices are much lower than a year ago, food prices are also down, and there is an excess of supply over demand for many consumer goods on global markets.

In most cases, we do not see inflation getting back to pre-pandemic levels even by 2026, indicating that the legacy of the 2022-2023 inflation shock will be a long one in CESEE. Our forecasts suggest that, apart from in Turkey, inflation in CESEE will settle at a higher level than in 2013-2020. In very few countries do we anticipate inflation falling back to 2% on average, even by 2026 (Figure 9).

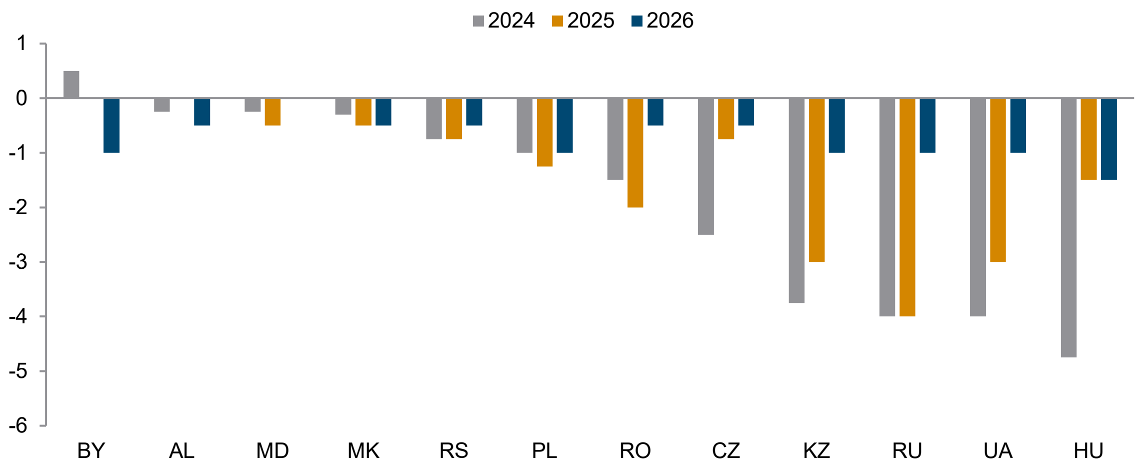
With inflation falling, central banks will have room to start or continue interest rate cuts this year, which will further support the economy. As of November 2023, in real terms monetary policy was already a lot tighter than a year earlier (Figure 10), suggesting imminent relaxation. This was reinforced in parts of the region by the December inflation readings, which came in at below expectation in several countries. We expect almost all central banks in the region to cut interest rates this year – the exception being Belarus (Figure 11). Our forecasts indicate a cumulative 750 bps of cuts in Turkey by the end of 2024, with major easing also expected in Hungary (475 bps), Ukraine (400 bps), Russia (400 bps) and Kazakhstan (375 bps). Apart from in Hungary, monetary easing in EU-CEE and the Western Balkans will be more limited, although we do expect quite sizeable cumulative easing in Czechia (250 bps), Romania (150 bps), Poland (100 bps) and Serbia (75 bps). In Poland and Romania, we expect monetary easing to be greater in 2025 than in 2024, since in those countries inflation will come down more slowly than in most of the rest of EU-CEE and the Western Balkans.

Figure 10 / Real policy rates, percentage points



Note: CPI-deflated, arranged from lowest to highest as of November 2023.
Source: National sources, wiiw.

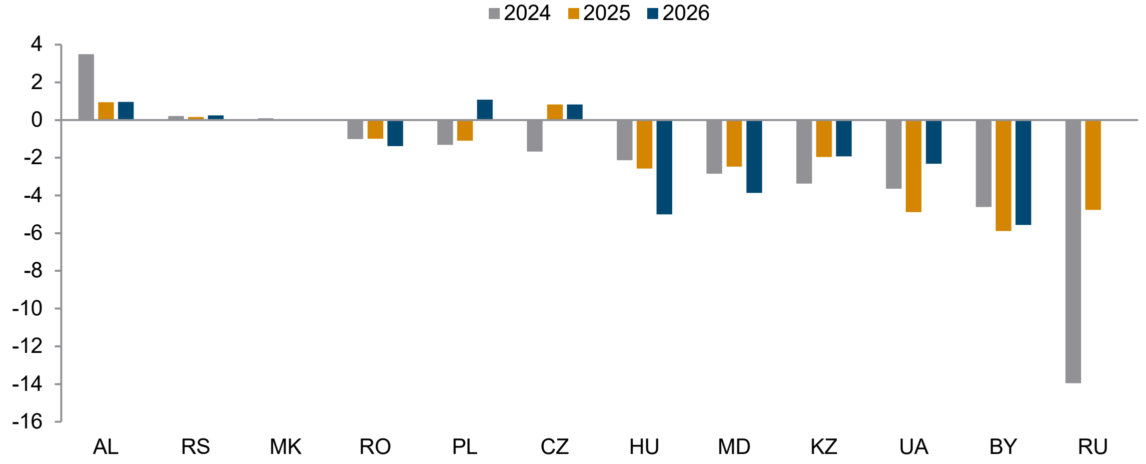
Figure 11 / Net forecast change in policy rate at end of year from end of previous year, percentage points



Source: wiiw Winter 2024 forecasts, cut-off date: 18 January 2024.

As many central banks will be moving more aggressively than the ECB this year, several CESEE currencies will weaken against the euro. Only in the Western Balkans do we expect some very mild appreciation versus the euro this year. The sharpest declines in the value of domestic currencies versus the euro in 2024 will be in Turkey, Ukraine and the CIS; but in EU-CEE, Hungary, Czechia, Poland and Romania will also experience some moderate depreciation this year.

Figure 12 / Forecast change in value of currency versus the euro, % per year

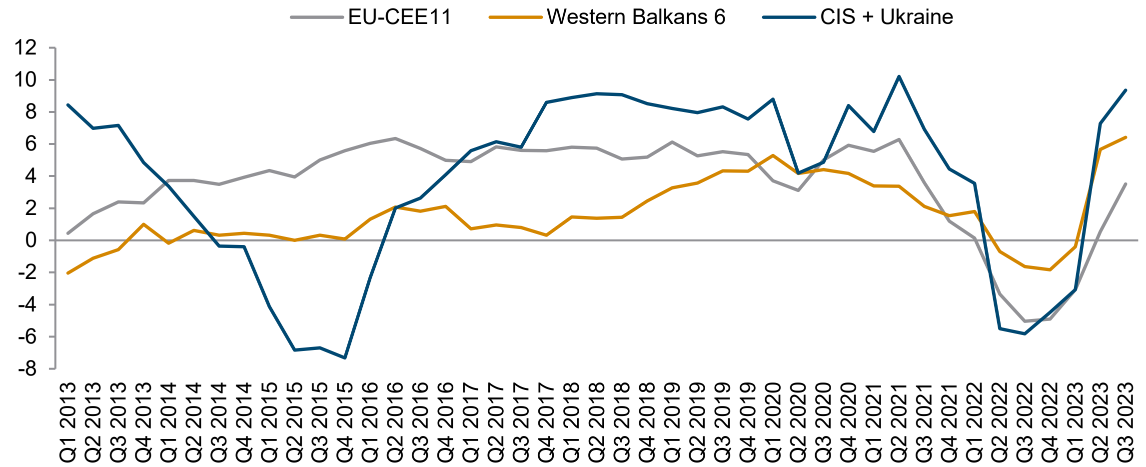


Note: Negative change = depreciation, positive change = appreciation.
Source: National sources, wiiw, cut-off date: 18 January 2024.

2.2.3 LABOUR MARKET AND WAGES

Even during the worst of the downturn over the last couple of years, labour markets have remained strong, and this will be an important supportive factor for the recovery in 2024. Although the impressive strength of the labour markets partly reflects policy support measures to keep people in work, it also likely points to the long-term demographic decline in most of CESEE, with labour supply an increasing constraint on growth.

Figure 13 / Real wage growth, % year on year



Note: simple average.
Source: National sources, Eurostat, wiiw.

The strength of the labour markets, combined with falling inflation, is driving an increase in real wages, and we expect this to be a key driver of consumer spending and overall GDP expansion in 2024. After plunging over the previous two years, real wage growth had picked up strongly everywhere by Q3 2023 (Figure 13).

2.2.4 FISCAL POLICY

After over a decade of ultra-loose monetary policy, both globally and regionally, which reduced the cost of servicing public debt, governments in CESEE are increasingly under pressure to tighten fiscal policy. Support packages to offset the socio-economic impact of the pandemic and, more recently, the inflation shock have caused many countries in the region to run large fiscal deficits. Although the rise in borrowing costs has not so far had an obvious impact on the ability of most countries to finance large deficits, this is not guaranteed to last.

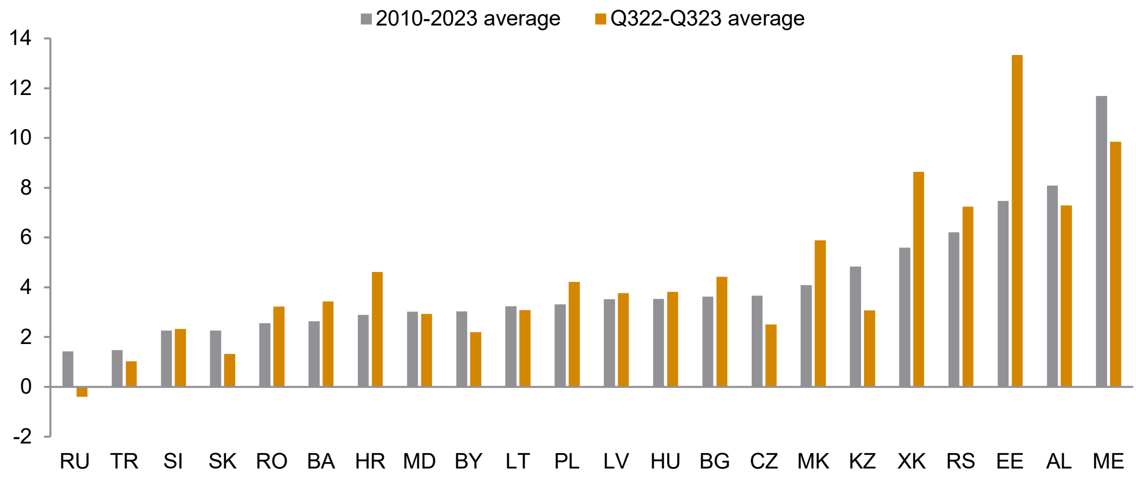
Nevertheless, we see little chance of an abrupt move towards austerity in the region this year. Markets seem willing to continue to finance deficits in EU-CEE countries, at least at higher rates, meaning that the pressure to cut spending or raise taxes will not be too great. Moreover, many countries have elections this year, while the need to increase defence spending and public-sector wages will also limit the scope for fiscal consolidation. While deficits will generally be smaller as a share of GDP in 2024 than in 2023 (mostly on account of the cyclical upturn in revenues), they will still generally be elevated by historical standards, especially in EU-CEE countries and Turkey. The fiscal stance will, typically, be tighter in the Western Balkans and especially in Russia, which has limited borrowing options. We expect Ukraine to continue to run a huge fiscal shortfall, financed mainly by foreign aid – although there are material risks surrounding the amount of such aid, and assistance from both the EU and the US is likely to arrive with some delay.

2.2.5 EXTERNAL SECTOR

The external sector is unlikely to provide much support to CESEE countries' recovery this year, at least not until the second half of 2024. As outlined above, the euro area in general, and Germany in particular, will only recover slowly. The latest high-frequency data on export orders do not suggest any reason for optimism in the short term. On the services side, however, the picture is more upbeat, with the tourism sector booming in parts of the region. Albania is the frontrunner; but even with last year's weakness, services exports in several countries of the region posted very strong growth up to Q3.

External funding is likely to remain robust, and could even increase in some countries, thanks to the inflow of EU funds. After a long period of stalemate, Hungary has secured a resumption of at least some EU funds; the new government in Poland will be more successful at unlocking its allocation under the Recovery and Resilience Facility; and in general the pandemic recovery funds will help to bridge the gap between the usual EU funding cycles. FDI inflows into the region also look to be fairly strong, despite the heightened political risk due to the Russian invasion of Ukraine. While acknowledging all the caveats about FDI decisions being long term in nature, there is little evidence yet that the invasion has fundamentally altered foreign investor appetite to invest in CESEE. In many countries of the region, the average quarterly inflow of FDI relative to GDP since the invasion has been slightly lower than the long-term average, but not materially so (Figure 14). In several countries it has actually risen – perhaps most significantly in Estonia, despite its being one of the countries theoretically most exposed to a change in investor sentiment owing to the war.

Figure 14 / FDI inflows, in % of GDP, quarterly



Note: FDI liabilities according to the balance of payments methodology (BPM6).
Source: National sources, Eurostat, wiiw.

This could indicate that the much-hoped-for near-shoring has already started, although (once again) it is probably unwise to make any firm statements on the basis of a few quarters of FDI flows. Increased geo-economic competition could certainly see more FDI arrive in EU-CEE countries. However, high European energy prices, labour shortages and institutional decline in some countries could also put foreign investors off. Renewed accession momentum, if maintained, could be a big driver of new FDI inflows into the Western Balkans and Moldova.

2.2.6 RISKS TO THE OUTLOOK

While our outlook is relatively upbeat in the context of the last two years, the risks to it are serious and on the downside:

› **A delayed German recovery:** if Europe's biggest economies continue to struggle, and if the gradual recovery we expect does not materialise this year, there will be major implications for CESEE. Germany (in particular) and the euro area (in general) are the most important sources of export demand, remittances and FDI for CESEE countries.

› **A renewed spike in oil prices, rising shipping costs and/or a downturn in global trade due to tensions in the Middle East or the South China Sea:** a surge in oil prices would probably not, on its own, be enough to fundamentally change the picture of declining inflation in CESEE. However, it would certainly push prices higher than would otherwise be the case, thereby dampening the consumer recovery. Meanwhile the open economies of the region would be badly affected by renewed disruptions to global trade.

› **A Trump victory in the next US election:** as outlined above, we think a Trump victory would place US funding and military support in even greater doubt than is currently the case, and would reduce the credibility of the NATO security deterrence in CESEE. Under those conditions, foreign investor sentiment towards the region would decline.

- **The EU fails to live up to its commitments on Ukraine:** following on from the above, if US support for Ukraine declines, the EU will be forced either to increase its own commitment or to abandon Ukraine. Although a Trump victory could speed up this decision, the idea that ultimately the EU should assume the main burden of reconstruction, tied to EU integration, seems to be generally accepted in Brussels. The successful postwar integration of Ukraine would provide a major economic boost for the EU (in terms of market size, green energy, critical raw materials and defence capabilities, to name just a few advantages), but would also be a powerful statement of the continued importance and validity of the EU and of the ideals it stands for. On the other hand, if the EU does not successfully facilitate Ukraine’s reconstruction and its integration into the bloc, not only would this spell disaster for Ukraine itself, but it would also damage the EU.
- **The EU loses focus on the candidate and potential candidate countries in general:** the Russian invasion of Ukraine has provided fresh impetus to EU integration and enlargement, which could benefit the Western Balkans, Ukraine, Moldova and Georgia. If the EU intensifies its commitment to this region, a bright future awaits. The previous enlargement rounds showed that a strong EU commitment and a credible accession process can be very powerful drivers of reform and economic development. But if the EU abandons the candidate and potential candidate countries on the fault line of geo-political and geo-economic competition, there is a risk that those countries will remain stuck at a low level of economic development, with all the associated social and political implications of that; meanwhile the risk of negative blow-back for the EU itself will be high.
- **CESEE does not take the need to reform seriously:** CESEE economies have again generally shown impressive resilience to the shocks that have hit the region since 2020; but the impact of these has also emphasised structural weaknesses in the existing growth model and the need to reform. CESEE governments have a daunting to-do list, including taking action to implement fit-for-purpose industrial and innovation policies, tackle labour shortages, reduce the dependence on external demand at a time of increased trade tensions, and manage the digital and green transitions. If they handle all this successfully, that will kick-start the next phase of convergence. But if CESEE governments do nothing, there is a risk that the region will be left behind in the new global economy.

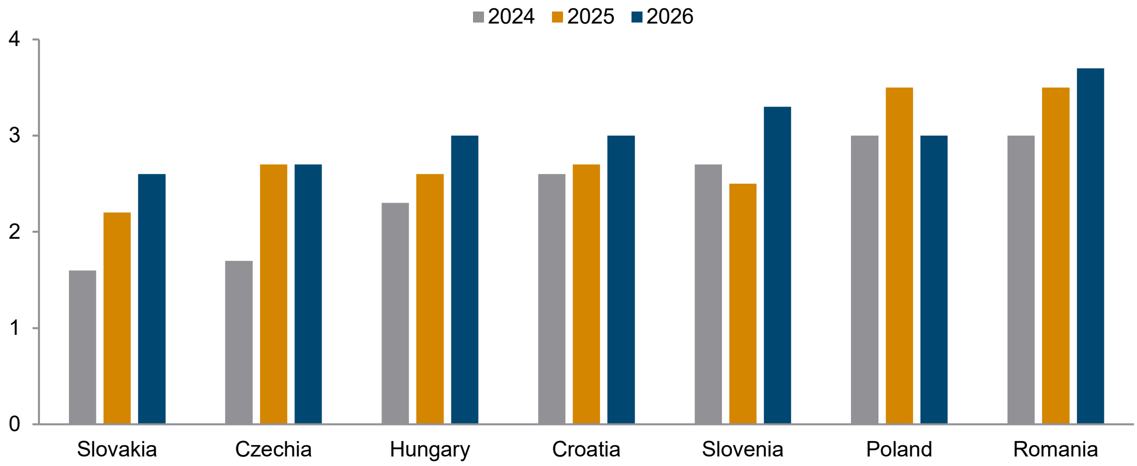
3. Austria and CESEE: Recovering growth in the region will help Austria

BY DORIS HANZL-WEISS

- *While the forecasts for Austria's main EU-CEE trade partners have been revised downwards for this and next year, the economies of those countries are growing faster than the euro area and will thus provide a favourable growth impetus for Austria*
- *Growth is projected to pick up from 2025 onwards, and especially in 2026: all of Austria's main trading partners – except Slovakia and Czechia – are forecast to grow by about 3%, with Romania doing best*
- *Austria's performance in terms of its exports to CESEE in 2023 was weak, with only exports to the Western Balkans increasing*
- *Imports from the region dropped by 14%, with imports from Russia falling most*
- *Unlike the EU as a whole, Austria is still highly dependent on Russian gas imports: in November 2023, 76% of all gas came from Russia – not much different from the 79% of February 2022.*

Despite downward revisions of the GDP forecasts for the CESEE region, Austria's main EU-CEE trade partners offer a favourable growth impetus for Austria, compared to the euro area. The growth forecasts for Austria's main trading partners in the CESEE region have been revised slightly downward for this year and next. While its trade and investment ties with Germany predominate, Austria has strong trading and investment links with the Visegrád countries, Romania, Slovenia and Croatia. Of these, only Slovakia and Czechia are projected to grow at below 2% this year, still hampered as they are by low growth prospects in the euro area, especially Germany. All Austria's other main trading partners in the region are expected to grow by more than 2%, with Poland and Romania reaching 3%. Thus, there will be a pronounced growth differential compared to the euro area – which is forecast to grow by only 0.8% in 2024 and 1.6% in 2025 and 2026 – and Austria will gain a marked stimulus from the region. With things expected to pick up in the EU in 2025, the CESEE region's prospects will also improve. In 2026, Austria's main trading partners – except for Slovakia and Czechia – will grow by around 3% (or above), with Slovenia and Romania (3.7%) taking the lead. Recent elections in Slovakia and Poland have yielded divergent outcomes, potentially steering those countries in opposing political directions. This could have a direct impact on the EU funds that flow to those countries. Both nations have witnessed opposition-organised protests in response to the election results. Political instability could have repercussions for economic growth in these countries.

Figure 15 / Real GDP growth forecasts, percentage change compared to the previous year, ranked by 2024 growth



Source: wiiw.

Austria's exports to the region struggled in the first ten months of 2023, with only exports to the Western Balkans growing in January-October. During the first ten months of 2023, the value of Austrian exports to the CESEE region failed to grow: in fact, exports to the EU-CEE region even fell back slightly (-0.5%), while exports to the Visegrád countries dropped by about 2%. The only region where Austrian exports were able to expand was the Western Balkans, where Austria's exports increased by 7.5%. Figure 16 shows the change in exports from Austria to the individual countries of the region: the biggest increases were to the Western Balkan countries of Montenegro, Albania, Kosovo and Montenegro, and to Kazakhstan.

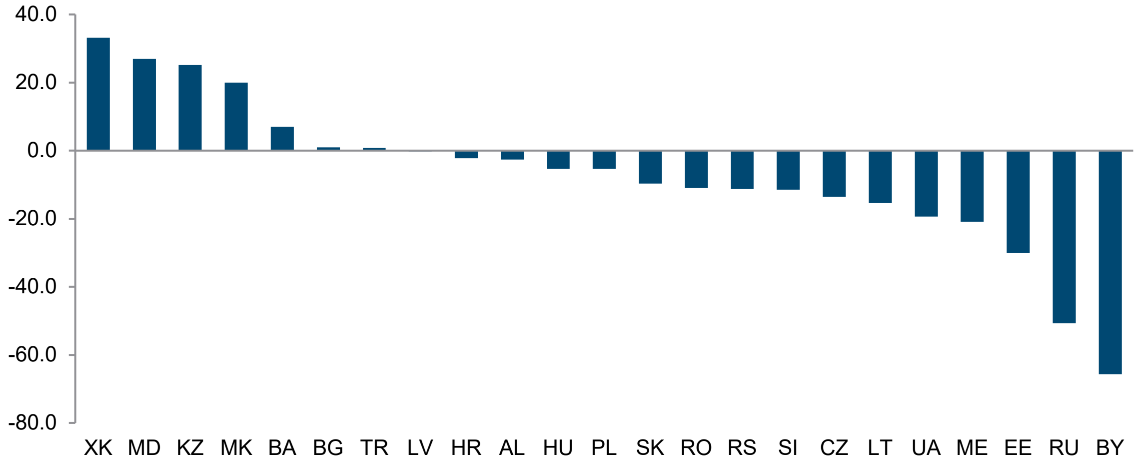
Figure 16 / Change in the value of Austrian exports, percentage change Jan-Oct 2023 compared to Jan-Oct 2022

Source: Statistics Austria.

As an effect of the war, the value of Austrian exports to Russia fell particularly sharply in the first ten months of 2023. Russia's war against Ukraine and the wide-ranging Western sanctions have led to a change in trade patterns across the region.[1] Austria's exports to Russia dropped sharply over the first ten months of 2023 and are now 29.9% lower than before the war. The main export products are medical and pharmaceutical products (which are generally unaffected by sanctions). Austria's exports to Ukraine bounced back in the first ten months of 2023 and were 1.5% up on their pre-war level. Here, too, medical and pharmaceutical products were the main export goods.

The value of Austrian imports from the region declined sharply in the first ten months of 2023. Between January and October 2023, Austria's imports from the CESEE region fell by about 14%. Its imports from the EU-CEE region dropped by 9%, while the value of imports from the Western Balkans remained the same. Figure 17 depicts the change in the value of Austrian imports coming from the individual countries of the region. In fact, imports from seven countries increased, while from all other countries they fell. Russia is especially crucial to Austria as a natural gas supplier and was Austria's sixth-largest import partner in 2022. Due to large fluctuations in the price of gas (a sharp increase in 2022, followed by a decline in 2023) import values in EUR also changed dramatically: during the first ten months of 2023, imports from Russia dropped sharply, falling back to their pre-war level.

Figure 17 / Change in the value of Austrian imports, percentage change Jan-Oct 2023 compared to Jan-Oct 2022



Source: Statistics Austria.

Unlike the EU as a whole, Austria is still very dependent on Russian gas imports. Austria is heavily dependent on imported fossil fuels, and its import structure is strongly centred on Russia.[2] While the volume of EU gas imports from Russia (excluding LNG) have fallen markedly since the start of 2022, Austrian gas imports have dropped by much less.[3] Figure 18 shows EU imports falling sharply up until September, and then plateauing at 20-30% of the February 2022 level. Austrian imports also dropped initially, but picked up again in 2023. While there have been big monthly fluctuations, the values for

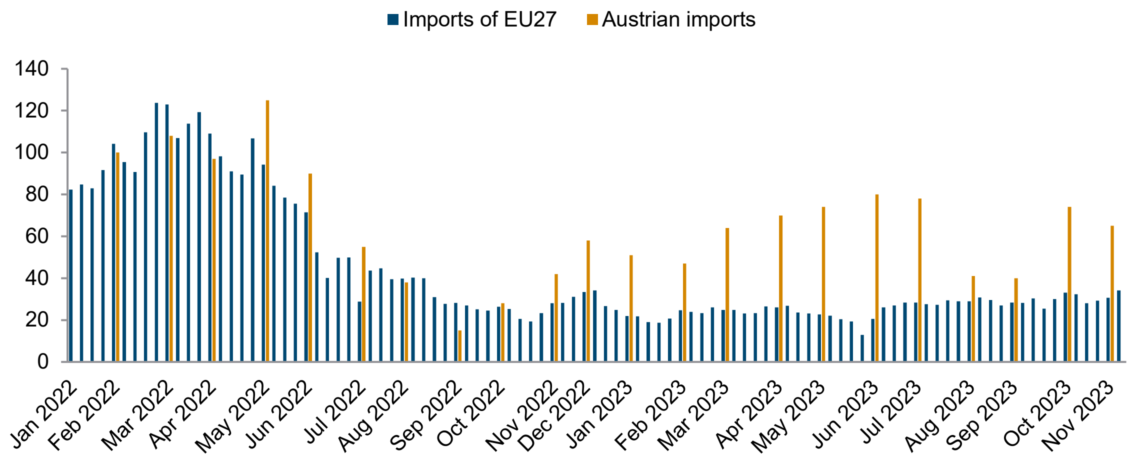
1 For further details see Astrov (2024).

2 See WIFO (2023).

3 For further details, see Astrov (2024).

October and November 2023 were again very high, reaching 74% and 65% of the February 2022 level. There are historical reasons for Austria's dependence on Russian gas that centre on a long-term supply contract between Austria's OMV and Gazprom (until 2040), which includes a 'take-or-pay' clause. In addition, with diversification towards other sources of natural gas taking place only slowly, deliveries from these sources being generally more volatile, and less needs to find other routes (gas transit via Ukraine and Slovakia has fallen, but is still operating while other routes have been capped), the share of Russian gas in Austria's total gas supplies has remained high: in November 2023, 76% of all gas came from Russia – not much different from the 79% of February 2022.[4]

Figure 18 / Import volumes of Russian natural gas by the EU and Austria, February 2022=100



Note: EU imports (excluding LNG) on a weekly basis; the average value for February 2022=100. Austrian imports on a monthly basis; February 2022=100.
Source: Astrov (2024). Own calculations, based on data from Bruegel (https://www.bruegel.org/dataset/european-natural-gas-imports) and the Austrian government (https://energie.gv.at/, based on data from ENTSO-G and E-Control).

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4 https://energie.gv.at/, based on data from ENTSO-G and E-Control.

4. Country updates

ALBANIA: RIDING ON THE CREST OF A TOURISM WAVE

by Isilda Mara

Economic growth in 2023 is estimated to have been 3.5%, supported by strong government and household consumption, as well as gross fixed capital formation. The country had an exceptionally good tourist season in 2023 (expected to be repeated in 2024), with the result that in Q3 it recorded a positive current account for the first time since 2000. For 2023 as a whole, the current account deficit is estimated to have dropped to a historically low level of -2.6% of GDP. Due to strong capital inflows, the national currency appreciated relative to the euro by 9.5%; this had repercussions for goods exports, which fell by around 10%. The central bank has already taken action in early 2024 to prevent the domestic currency from appreciating even further; but this will be difficult, as remittances and foreign direct investment inflows are expected to be robust in 2024. Last year, Albania had the lowest inflation of all CESEE countries, averaging 4.8%. However, real household disposable incomes, particularly of the most vulnerable groups, were tempered by the inflation rate for foodstuffs, which stood at 9.5%. Despite the decent GDP growth rate, employment growth remained weak. In Q3 2023, unemployment fell from 10.6% to 10.5%, year on year, while over the same period youth unemployment rose from 20.5% to 22%. The reform of public-sector wages – which will see them rise to EUR 900 a month on average in 2024 – will likely spill over to other wages. The reform will entail some costs for the budget, although the budget deficit will not exceed 2% of GDP.

BELARUS: ECONOMY RECOVERS FROM THE SHOCKS, BUT LACKS GROWTH DRIVERS

by Rumen Dobrinsky

In 2023, GDP grew by close to 4%, thereby almost totally recouping the losses incurred the previous year as a result of Western sanctions. This recovery was possible thanks to a widening of Russia's economic support and accommodative domestic policies. Growth in 2023 was predominantly driven by domestic demand, which was boosted by the supportive policy stance. Belarus also managed to find new markets for a significant share of the exports it previously shipped to Western countries. Increased price controls helped to keep inflation in check, despite the loosening of fiscal and monetary policies. On the supply side, the upturn in manufacturing was the main factor that contributed to GDP growth last year: other sectors, such as agriculture and ICT, remained in recession. Over recent years, the Belarusian economy has suffered from severe underinvestment, which has reduced the potential for sustained high growth. The final months of 2023 suggest that the recovery has probably run its course, and so 2024 is expected to see lower GDP growth of around 2%. If the process of successful reorientation to new markets continues, economic growth could accelerate somewhat in the coming years, but will remain modest. The effect of price controls has weakened: inflation has been on the rise again and will probably reach some 8% in 2024.

BOSNIA AND HERZEGOVINA: DECENT ECONOMIC GROWTH, INCREASED POLITICAL INSTABILITY

by Selena Duraković

Inflation has slowed considerably – from 14.1% in January 2023 to 1.7% in November; for the year as a whole, it is estimated to have averaged 6.2%. Its rapid decline in the last quarter of 2023 has led us to trim our previous inflation forecast for 2024 from 3% to 2.8%. The annual growth of real GDP in the first three quarters of 2023 was 1.6%, and was probably similar in Q4. While consumption and investments have been steadily increasing, net exports and industrial production declined in 2023. We anticipate a somewhat better situation in 2024, with 2% GDP growth, thanks to lower inflation, which will support real incomes. The country's future prospects are again in jeopardy, with the President of Republika Srpska recently threatening further secession activities if the High Representative imposes changes to property law.

BULGARIA: SLUGGISHNESS LIKELY TO PREVAIL IN 2024

by Rumen Dobrinsky

The economy lost steam throughout 2023, so that annual GDP growth is expected to come in at below 2%. The external environment worsened considerably, due to the weakening of the European economy. Manufacturing output slowed continuously and the sector ended the year in recession. After the boom of 2022, electricity production dropped by 21% in 2023, reflecting the plunge in exports. Despite the formation of a regular government, domestic policies remained unfocused, on account of the patchwork nature of the current coalition. Bulgaria incurred further delays in submitting its Recovery and Resilience Plan, which was only tentatively approved by the European Commission in the final months of 2023. Personal consumption was the main growth driver in 2023, supported by a surge in consumer credit. However, a rise in interest rates led to a deceleration in household lending. There is no sign of a reversal of the current negative trends in the short run. The continuing slowdown in exports to the main EU market will curb manufacturing activity. The growth push from personal consumption is likely to weaken, due to the ongoing credit restraint. The prospects for fixed investment will depend partly on the implementation of projects under the Recovery and Resilience Plan – and there is something of a question mark hanging over that. Overall, GDP growth is expected to be modest in 2024, at around 1.5%; meanwhile inflation should decelerate somewhat, though still remaining high, at some 7%. Performance may only improve in the coming years if the external environment turns more favourable.

CROATIA: ROBUST TOURISM SECTOR AND RISING WAGES TO UNDERPIN GROWTH

by Bernd Christoph Ströhm

Despite high levels of inflation (averaging 8.4%), Croatia's GDP grew by 2.5% in 2023. Solid household consumption amid rising real wages, a robust summer tourist season and the inflow of funds from the EU's Recovery and Resilience Facility (RRF) all supported economic growth. The country's introduction of the euro in January 2023, alongside its accession to the EU Schengen area, helped tourism: compared to 2022, visitor arrivals grew by 9% and overnight stays were up by 3%. We expect the economy to grow moderately in 2024, at a rate of 2.6%. Inflation will continue gradually to decline, but strong wage growth means that it will remain at above the euro area target, averaging 4% in 2024. The budget deficit is expected to widen somewhat to around 2% of GDP, due to higher public-sector wages and pensions, income-tax cuts and state aid measures that have been extended to April 2024. The extension of this aid package means that an additional EUR 1.7bn (2.5% of GDP) has been earmarked to provide support for households and local companies in managing rising food and energy bills and to promote investment in energy efficiency. Last but not least, Croatia is heading into an election-heavy year in 2024, with European parliamentary, local parliamentary and presidential elections all on the horizon. As a pre-election sweetener, the government is set to increase social spending, along with public-sector wages and pensions. Nevertheless, it is committed to maintaining sustainable public finances, which is why the fiscal deficit in 2025 should decrease to 1.7%.

CZECHIA: WAITING FOR GERMANY

by Richard Grieveson

The economy struggled during the second half of 2023, owing primarily to weaker export performance as the German economy stuttered. Survey data indicate sluggish demand from both domestic and external sources over the winter, and firms drew down stocks as weak sales expectations limited purchases of new inventory. Household spending also continued to contract in Q3 2023, although the pace of decline moderated relative to Q2. Amid weak demand, inflation is falling fast, and at the end of December 2023 the central bank embarked on a monetary easing cycle – which it will continue, albeit cautiously, in 2024. The koruna may weaken slightly versus the euro in 2024, but will remain generally stronger than over the past few years. High-frequency data do not suggest that any sharp upturn in the economy is imminent – particularly in industry, which continues to suffer from German weakness. Nevertheless, we expect a gradual improvement in economic growth in 2024 and during the remainder of the forecast period. This will be supported by lower inflation, higher real income growth, lower interest rates, EU funds inflows and a gradual upturn in external demand. We now expect higher fiscal deficits than previously during the forecast period, despite austerity measures that have led to large-scale protests, although the shortfall should remain well below 3% of GDP. After three years of deficits, the current account will return to moderate surplus over the forecast period, as exports expand and import price growth moderates.

ESTONIA: RECESSION LINGERS ON

by Maryna Tverdostup

The economy performed at well below expectations last year, contracting by an estimated 2.8%. The reasons for this included a decline in manufacturing output, a weakening of private consumption, no sign of recovery in external demand and a deterioration in competitiveness on foreign markets. The same headwinds, coupled with tax hikes, sluggish investment activity and persistent uncertainty, will result in GDP stagnating in 2024. The economy will start to grow again in the following years – by 2.6% in 2025 and 3.3% in 2026 – largely due to price stabilisation, a revival in manufacturing and investment activity, a recovery in private consumption and a general economic upswing in the EU. The labour market has been losing resilience since the second half of 2023, and unemployment is expected to peak at 8.8% in 2024, to be followed by a gradual decline to 7.4% in 2026, as the overall economic outlook improves. The budget deficit will remain at above 3% of GDP across the forecast horizon, since tax revenue declines during a recession, while government spending on social benefits, pensions, public-sector wages and security is set to rise.

HUNGARY: SLOW RECOVERY AFTER A HARD LANDING

by Sándor Richter

Following the election-related overheated growth of 2022, the economy experienced a hard landing in 2023 and entered a period of recession. The falling cost of imported energy, shrinking consumption and investment, and monetary tightening all led to a dramatic drop in inflation in the course of the year: from 25.7% in January to 5.5% in December. The recession brought about an improvement in the current account deficit – from over 8% of GDP in 2022 to close to zero last year. However, the economy is far from being in good shape. The general government deficit was as high last year as it was in 2022, at around 6% of GDP. Economic policymakers face a dilemma. On the one hand, any premature relaxation of monetary policy and increased public spending would boost growth, but would also risk an upsurge in inflation and a runaway fiscal deficit. On the other hand, a recovery that is more self-supporting and less policy induced would prevent the re-emergence of potentially dangerous macroeconomic imbalances, but would also mean slower growth for longer. Both approaches have influential supporters in the government, and so the outcome of the deliberations cannot yet be predicted. Our forecast reckons on a moderately interventionist economic policy and a modest recovery based on a gradual upturn in private consumption, marginal investment growth and close to neutral net exports. There will be no surge in inflation, which will most probably remain in the region of 5% throughout the year. The fiscal position, backed by a partial resumption of EU transfers, is expected to improve, but it will continue to remain a concern.

KAZAKHSTAN: ECONOMIC GROWTH SLOWS BUT REMAINS STRONG

by Alexandra Bykova

Notwithstanding a fall in global oil prices of 18% year on year in 2023, Kazakhstan ended the year with estimated GDP growth of 4.9%, making it one of the best-performing economies in CESEE. The main drivers of economic growth were primarily domestic. Private consumption was supported by credit growth and a minimum wage hike: retail trade grew by 7.7% in real terms, despite the double-digit inflation. Investments posted 14.6% annual growth over the first 11 months of 2023, owing to infrastructure investment projects in transport and logistics, as well as investments in the modernisation of utilities. As a result, strong demand led to rapidly rising imports, which had an offsetting adverse impact. Economic growth will remain strong in 2024 at 4.2%, supported by the 21.4% rise in the minimum wage in January 2024 and continuing infrastructure investments. In 2025, economic growth is expected to accelerate following the completion of the Tengiz oil field expansion, which should boost the country's oil production by 10%. In 2026, GDP will grow by around 4% again. Monetary policy easing, which started in October 2023, is expected to continue; however, possible new fiscal stimulus, a relaxation of fuel price regulation and tariff hikes could limit its speed. After several years of large fiscal support packages, gradual fiscal consolidation is likely in the medium term, with a possible hike in VAT from 12% to 16%.

KOSOVO: FINALLY, VISA-FREE TRAVEL TO THE SCHENGEN AREA

by Isilda Mara

In 2023, domestic demand was the main driver of the economy, which grew by 3.2%. External demand was moderate and will remain weak in 2024. Consumer price inflation stood at 4.9% in 2023 and is expected to drop further to 3.2% this year, as inflationary pressure in the EU recedes. Foreign direct investment remained solid and expanded further by 7% in the period January-October 2023, year on year, though there was a shift in the country's main partners: there was a marked surge in investment from Austria, Turkey and Slovenia. Those sectors that absorbed most of this investment were energy and financial and insurance activities. The signals from the labour market appear positive: employment grew by 3.5% up to October 2023, year on year. Most of the jobs were generated in the public sector and went to people in the age group 25-34. As of January 2024, citizens of Kosovo can finally travel without a visa in the Schengen area. We expect youth emigration to accelerate, as the unemployment rate for this group rose to 20% in 2022. Another positive development marked the start of 2024: Serbia and Kosovo agreed to recognise each other's car number plates, finally ending a dispute that had rumbled on for years. The government is pursuing an expansionary fiscal policy targeting the most vulnerable groups. Public investment will continue to rise. Accordingly, the budget deficit is expected to reach 1.5% in 2024. In the medium term, we anticipate that economic growth will accelerate to above 3.5%, again supported by domestic demand.

LATVIA: THE UPSWING NEEDS TIME

by Sebastian Leitner

Shrinking external demand resulted in GDP declining both in the second half of 2023 and for the year as a whole. Looking ahead, in 2024 the economy will recover by just 1.6%. Exports will pick up only gradually, since EU – and particularly German – industrial activity will remain subdued. The main growth driver will be investment financed from the NextGenerationEU programme. Consumer price inflation at long last fell below 2% in the final months of 2023 and will remain at around that mark in 2024 and 2025. Although this will result in real incomes again rising fairly swiftly, private household demand will remain sluggish until the second half of 2024 – consumer sentiment continues to be fairly pessimistic. Given the rather low growth, the public deficit will amount to 3% of GDP this year. The labour market remained quite tight last year, and the unemployment rate is expected to decline to 6.4% in 2024 (and further thereafter). In the next years, growth is projected to pick up to 2.4% in 2025 and 2.8% in 2026.

LITHUANIA: HOUSEHOLDS LIKELY TO END STAGNATION

by Sebastian Leitner

In the second half of 2023, the Lithuanian economy was hit harder than expected by declining external demand from its main trading partners. This resulted in a GDP decline of 0.2% for the year as a whole. It was not until December 2023 that the consumer price index fell to below 2%. For 2024 and the following years, we expect inflation to be maintained at somewhat above this level, since wages will continue to rise rapidly. Household consumption declined throughout 2023. This year it is likely to pick up again – retail trade is reporting the first signs of an upturn. The growth in gross fixed investment will be driven mainly by the public sector. However, the inflows of EU funds will also support private investment to modernise the production infrastructure of enterprises. After a budget deficit of well below 2% of GDP in 2023, we are likely to see a slight increase this year to 2.5%. There will be only a gradual revival in external demand from EU countries in 2024 and thereafter. Although GDP fell by about 0.2% in 2023, the unemployment rate increased by only 0.8 percentage points, to 6.8% last year. For 2024 and the coming two years, only a modest decline in unemployment is likely, given the stagnant labour supply. We expect real GDP to grow again by 1.5% in 2024, followed by an upswing of 2.0% in 2025 and 2.4% in 2026.

MOLDOVA: ECONOMIC RECOVERY AT HIGH POLITICAL RISK

by Gábor Hunya

Economic growth resumed from Q3 2023 and is expected to remain fairly upbeat over the coming years. Sharp disinflation has helped household consumption to recover, but investment is still lagging behind. A good harvest in 2023 has had a positive impact on incomes, exports and food production in the short run, but the country's vulnerability to weather conditions remains a permanent challenge. Moldova has managed to switch its trade flows, including energy supplies, from Russia to the West, which has provided an important anchor of stability. Multinational institutions are financing much of the fiscal and current account deficits and support the country in strengthening the rule of law and in combating poverty. Central bank interventions kept the local currency stable as part of the policy to combat inflation in 2023. Curbing the current account deficit may be a more important target in the future, which would require some depreciation. The war in neighbouring Ukraine and Russian subversion in Moldova pose a constant threat to the country and represent a downside risk to the forecast. The country's Western orientation will be challenged in the presidential election and in a referendum on EU integration towards the end of 2024. The current leadership should survive if its reform measures produce rapid progress towards greater transparency, less corruption and higher living standards. Should it lose – which seems rather less likely now – the country would rein in its EU membership ambitions, receive less Western support and face slower growth prospects.

MONTENEGRO: AMBITIOUS PLANS, CAUTIOUS OPTIMISM

by Marko Sošić

Inflation has fallen significantly, but at over 4% was still relatively high at the end of 2023. The big influx into Montenegro of refugees from Ukraine and of other foreigners has boosted private consumption, tourism, the real estate sector, the banking sector and employment. We estimate that the country's GDP grew by 6.6% in 2023, the highest in CESEE. There were favourable trends on the labour market, with unemployment dropping to a historic low of below 12%; that said, a significant part of the new recruitment has been in the already overblown public administration. After a period of political instability, in October 2023 the country got its third government in three years. The new government, headed by the Europe Now! movement responsible for the 2022 tax reforms, has promised to implement an ambitious agenda in 2024. That will include increasing pensions, the minimum wage and average salaries, and striving for full employment – and all while reducing working hours. Additionally, a number of structural reforms have been announced, ranging from reform of policy on state-owned enterprises to an overhaul of public infrastructure investments. Implementation of all these measures will have an impact both on the fiscal balance and on the wider economic outlook. The EU integration agenda is billed as the new government's top priority, and it remains to be seen whether this momentum will be used to break the lengthy logjam in the accession process.

NORTH MACEDONIA: EMERGING FROM THE DARK?

by Branimir Jovanović

Inflation came down faster than expected, falling to below 4% at the end of 2023. Our new projection is that it will average 3.5% in 2024 – significantly lower than the previous forecast of 5%. The slowdown in inflation means that real wages have begun to gain ground again, growing by more than 10% in the final months of 2023. The real wage growth is likely to stay around for some time, boosting consumption in the first half of 2024. That will be accompanied by the fiscal support package that the government has announced ahead of the parliamentary and presidential elections in April and May 2024. Growth will likely slow in the second half of the year, as the fiscal support package – which includes temporary rises in pensions and various transfers to different groups of people – runs out. Furthermore, there may be uncertainty about the formation of the new government and its future course, especially regarding the constitutional changes that are required before EU accession talks can start. Nevertheless, we are upgrading our GDP growth forecast for 2024 – though only slightly, to 2.2% (0.2 percentage points higher than our previous forecast).

POLAND: BACK ON THE GROWTH TRACK

by Adam Żurawski

After the shallow recession recorded in the first half of 2023, output growth resumed in Q3 (+0.5% year on year) and accelerated further in Q4 (to an estimated 1.5%). In 2023 as a whole, GDP probably grew by 0.3%. Growth has consistently been driven by net exports of goods and services (with imports falling much more than exports), public gross fixed capital formation and public consumption. The contribution made to growth by private consumption has remained insignificant, while the contribution of sharply declining inventories has been negative. This decline in inventories is likely to be less pronounced in 2024, while the big expansion in public consumption – fuelled by a growing fiscal deficit – will continue for a few quarters at least. Overall GDP growth will accelerate, as fixed investments are set to expand further – even if private consumption grows less dynamically than is generally expected and foreign trade performs less favourably. Inflation fell to 6.2% in December 2023, but further disinflation may be at risk if there is a return to positive VAT rates on foodstuffs and if the subsidies on energy prices are reduced. The parliamentary elections held on 15 October brought to power a broad coalition of centre-left parties. The new government under Mr Tusk inherited a hostile state president and a budget designed by its predecessor. Social policies will not change much, at least in 2024.

ROMANIA: MODEST RECOVERY AMID FISCAL CONSOLIDATION

by Gábor Hunya

Economic growth suffered a severe setback in 2023 on account of depressed domestic demand, stubborn inflation, sluggish external demand and public-sector wage restraint. Fixed investment financed by EU programmes boomed, but private investment fell. There was some modest GDP recovery from the middle of the year based on net exports, while industrial production and retail sales also recovered more recently. The year 2024 will be more buoyant, as moderate inflation will allow for higher consumption and investment. Labour shortages and compensation for the previous inflation will mean a hike in real incomes, as will the increase in the minimum wage and the forthcoming pension reform. Fiscal consolidation will be a key issue for economic policy, as that has been set as a condition for the smooth inflow of EU funds. New tax burdens on banks and companies have been introduced, which will hinder somewhat any revival of private investment. Further fiscal tightening may become necessary if the government is not able to improve tax collection through digitalisation. We reckon on a compromise with the European Commission that will allow protracted fiscal stabilisation and the implementation of public projects. Capital inflows (EU and FDI) will permit the financing of a considerable current account deficit. Exchange rate stability will not remain a major tool of anti-inflationary policy. The central bank will allow some modest depreciation, but it will be cautious about cutting the policy rate. On the whole, we expect higher fiscal deficits and lower economic growth than envisaged by the government for 2024, to be followed by modest acceleration of growth in the coming years.

RUSSIA: MILITARY PRODUCTION BOOM DRIVES ECONOMIC RECOVERY

by Vasily Astrov

Last year, the economy grew by an estimated 3.5%, following a slump of 1.2% in 2022 (according to newly revised data). The economy proved resilient to Western sanctions, thanks to the strong macro fundamentals (such as low public and foreign debt) and the reorientation of trade flows to China and other countries that have not joined in the sanctions. The main drivers of the recovery have been war-related industrial production and government investment, which have contributed 60% to manufacturing growth and 40% to the growth of GDP, according to some estimates. On a negative note, fiscal expansion pushed the federal budget into a deficit that reached 1.9% of GDP last year; this is quite a novelty for Russia, which prior to the war had a track record of mostly budget surpluses. Besides, economic recovery has increasingly been facing capacity constraints, with most companies reporting acute and rising labour shortages. Nominal wages soared by 17.2% year on year in October, and inflation climbed to 7.4% at the end of 2023, fuelled in part by depreciation of the rouble, which lost around 30% of its value against the main currencies in the course of the year. In response to these clear signs of overheating, the central bank has hiked the policy rate – by a combined 8.5 percentage points since mid-2023 – to 16%. Tight financial conditions and mounting capacity constraints will likely keep growth subdued at 1.5% in 2024, while inflation will subside to around 5% by the end of the year, thereby allowing gradual monetary policy relaxation.

SERBIA: WELL-WORN PATHS

by Branimir Jovanović

The rate of inflation has slowed, but only gradually: it remained close to double digits at the end of 2023 – one of the highest figures in CESEE. Real wages began to pick up towards the end of the year, yet they are still below the level seen at the end of 2021. Economic activity showed signs of improvement, bolstered by robust fiscal support ahead of the parliamentary elections in December. The ruling party's landslide victory has reinforced its grip on power, indicating that no shift in governance or economic policies is to be expected in the near future. Public investments are expected to remain strong, and FDI inflows are likely to stay robust, with the country continuing to attract investment from both West and East. However, structural challenges will persist. These include issues to do with the current economic model, such as the neglect of domestic private investment, lack of rule of law, widespread corruption and democratic backsliding, all of which will hinder the potential for higher growth rates. Reflecting recent developments, we have adjusted our inflation forecast for 2024 downward to 4.5% (from 5.5%) and our GDP growth forecast upward to 2.4% (from 2%).

SLOVAKIA: HOUSEHOLD SPENDING TO DRIVE RECOVERY

by Doris Hanzl-Weiss

After reaching 1.8% in 2022, real GDP growth slowed in 2023. This was on account of households spending less, limited as they were by declining real wages and the depletion of household savings the previous year. While the rate of inflation fell from 15.4% year on year in February to 6.6% in December, in annual average terms (11%) it was the highest in the euro area. Investment grew favourably, thanks to the arrival of EU funds at the end of the multiannual financial framework (MFF) 2014-2020 funding period and successful payments from the Recovery and Resilience Facility (RRF), the third one coming in December. However, a sharp drawdown of inventories rendered the contribution of gross capital formation to GDP growth negative. The biggest positive contribution to GDP growth in 2023 came from net exports. The important automotive sector had a successful year: it increased car production and maintained export growth, making up for the supply-chain challenges of previous years. For this and the next two years we expect growth to improve gradually, reaching 1.6% (2024), 2.2% (2025) and 2.6% (2026). With inflation tumbling, household consumption will recover and will be the main source of growth. On the other hand, net exports will lose out due to weak growth in the euro area and especially in Slovakia's main trade partners of Germany and Czechia. The prospects for growth are overshadowed by the ongoing war in Ukraine and by recent events in the Red Sea, which could possibly create fresh disruptions in global trade and lead to supply-chain bottlenecks. Domestically, the budget deficit will remain high, while consolidation will be left for a future agenda.

SLOVENIA: GETTING BACK TO NORMAL AFTER A YEAR OF EXTREME EVENTS

by Niko Korpar

This year should see a return to normality for Slovenia, following the traumatic floods of 2023. As inflation recedes, so consumer confidence and manufacturing should recover from the bruising they suffered in Q2 and Q3 2023. Growth will (again) be driven by investment in infrastructure, fuelled by both the EU recovery funds and flood reconstruction activity, as well as by international trade, resulting once more in a current account surplus. Real GDP is expected to grow by 2.6% in 2024 and by 2.5% in 2025. Annual inflation should settle at 3.7% in 2024 (slightly above the anticipated EU average) and is expected to decrease gradually to 2.4% in 2025. The increase in spending that was necessary to support flood reconstruction has prompted the government to announce cuts to the 2024 budget, although the costs of reconstruction and the increased commitments to public salaries and pensions will still result in a public deficit only slightly narrower than in 2023. After seeing a substantial dip in support in 2023, the government of Dr Robert Golob is likely to weather the storm, although its ability to deliver reform – particularly in health care, public salaries, pensions and taxes – has been brought into question.

TURKEY: CHALLENGES PERSIST DESPITE TIGHTER MONETARY POLICY

by Meryem Gökten

Although economic growth exceeded expectations in 2023 (with quarterly growth of 3.9% and 5.9% in Q2 and Q3), driven by both government and private consumption, there has been no noticeable improvement in the macroeconomic imbalances. Inflation closed the year at 64.8% (about the same as the year before), while the current account deficit similarly remained pretty well unchanged (also at a high level). The central focus of the central bank has been exclusively on controlling demand-side inflation, with gradual policy rate hikes serving as the principal measure. However, given its preference for a soft-landing approach in both growth and inflation, policy rates are likely to be cautiously cut again toward the end of 2024. With the March 2024 local elections looming and with post-February 2023 earthquake reconstruction efforts continuing, government spending and investment will stay high, suggesting that it will take several years to resolve the macroeconomic imbalances. Therefore, from 2024 we anticipate that inflation will decline, but will still persist at an elevated level until 2026. Economic growth is expected to moderate in 2024 (3%) due to tighter financial conditions, a slow recovery in external demand and persistent high inflation, and to remain relatively modest through 2026.

UKRAINE: PERSEVERING AMID DWINDLING WESTERN SUPPORT

by Olga Pindyuk

Economic growth in 2023 exceeded expectations to reach an estimated 5.5%. After Russia withdrew from the Black Sea Grain Initiative in mid-2023, Ukraine managed to establish new maritime routes for its exports. Thanks to these, by December 2023 the volume of exports of agricultural products by sea had reached its highest level since the start of the all-out invasion by Russia. Inflation slowed significantly through 2023, reaching 5.1% year on year in December 2023; meanwhile the country's forex reserves increased by 42% over the course of the year. However, this macro-financial stability – remarkable for a country at war – has been highly dependent on foreign financial aid; accordingly, the difficulties that have emerged recently in securing aid for 2024-2025 have dented consumer and business confidence. The decision by the European Council on 14 December to open accession negotiations with Ukraine is a strong, positive signal for the country; but it will yield no significant economic benefits in the short run, so long as the war continues to rage. Due to the negative external factors, economic growth will slow down in 2024. In 2025-2026, we expect the recovery of the Ukrainian economy to accelerate – provided the West continues its military and financial support.

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multi-country articles and statistical overviews

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