

CEE MACRO OUTLOOK

CEE Growth Navigator

Expected development after 3Q24 GDP data

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Spot Rates as of: November 19, 2024
Note: Information on past performance is not a reliable indicator for future performance.
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Expected development in response to flash GDP estimates

Growth

The economic growth in Hungary and Romania was the most surprising in Q3, with the former contracting and the latter expanding by 1.1% YoY, well below expectations. As a result, we have already revised our 2024 growth forecast downwards to 0.5% and 0.8%, respectively. High-frequency indicators in Romania suggest that consumption decelerated in Q3 2024. Similarly, flash GDP in Slovakia was also disappointing at 1.2% YoY, below expectations of expansion close to 2%. Economic growth in Serbia was solid at 3.1% YoY in Q3 2024, although below our expectations. We still expect Serbia to expand by 4% in 2024, the most within the CEE region. In other countries (Czechia, Poland, and Slovenia), flash estimates were mostly in line with market consensus regarding year-on-year growth dynamics. Nevertheless, the Polish economy unexpectedly contracted quarter-on-quarter, as flash 3Q24 landed at -0.2% QoQ. Overall, the economic recovery has been weaker than initially anticipated.

Regarding the outlook for 2025, we continue to see risks to the downside concerning our current forecasts due to the relatively sluggish recovery of the German economy. In Czechia, we already revised the 2025 growth forecast down to 2.3%. While the Eurozone as a whole seems to be doing slightly better than expected, the weakness of the German industry is weighing on the economic development of the main trading partner of CEE countries. Moreover, the increased uncertainty in the aftermath of the US election and the impending presidency of Donald Trump will affect market sentiment and the appetite to undertake new investment projects. The scale of protectionism will determine to what extent the economies in the region will be held back in 2025 and beyond.

Expected development in response to flash GDP estimates

Inflation

Since the beginning of the year, inflation has been continuously dropping in all CEE countries except Czechia and Poland. Although October's inflation was lower in most of the region compared to January 2024, the headline footprints in October increased in all the CEE countries but Slovenia. Energy and food prices are behind such development. In Slovakia, the increase in food prices was particularly high. In Romania, inflation surprised to the upside as well, but it is at the lowest levels in three years. While local factors may play a role in Slovakia, in general, the development of the World Food Price Index suggests that food prices are likely to increase and contribute positively to the headline inflation numbers in the short-term. The World Food Price Index rose to 127.4 in October, which is the highest in a year and a half.

While external factors may add to inflation figures, we expect disinflation to continue in 2025 in most of the CEE countries. The weak economic recovery and high uncertainty ahead regarding growth prospects are disinflationary in nature. The most outstanding exception is Slovakia, where changes in indirect taxes and delayed adjustment of energy prices will increase inflation in 2025.

Monetary policy

While the CEE central banks may be done with monetary easing in 2024, we expect more interest rate cuts in 2025 and 2026. In Czechia, we see the terminal interest rate being 100 basis points lower compared to the current level, while in Hungary and Romania, roughly 200 basis points may be expected. The inflation outlook supports monetary easing across the region in the following year.

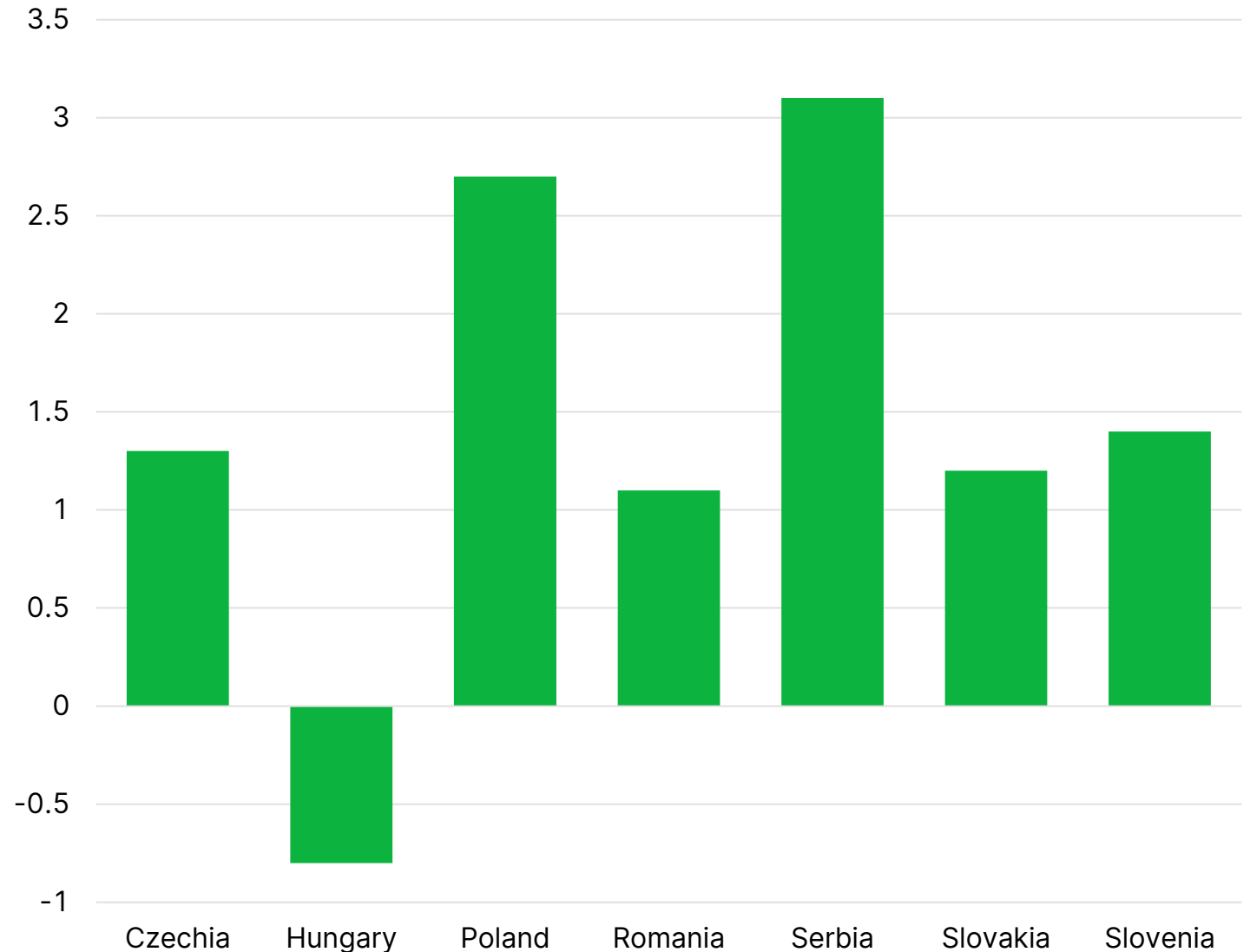
Flash GDP growth

The economic growth proved to be much weaker than expected in most of the CEE countries. The flash 3Q24 estimates surprised Hungary, Slovakia, and Romania the most. In Poland, although year-on-year growth dynamics were mostly in line with expectations, the economy contracted unexpectedly in quarter-on-quarter terms.

Hungary was the only country with negative year-on-year growth dynamics in the third quarter while the economic expansion was most solid in Serbia.

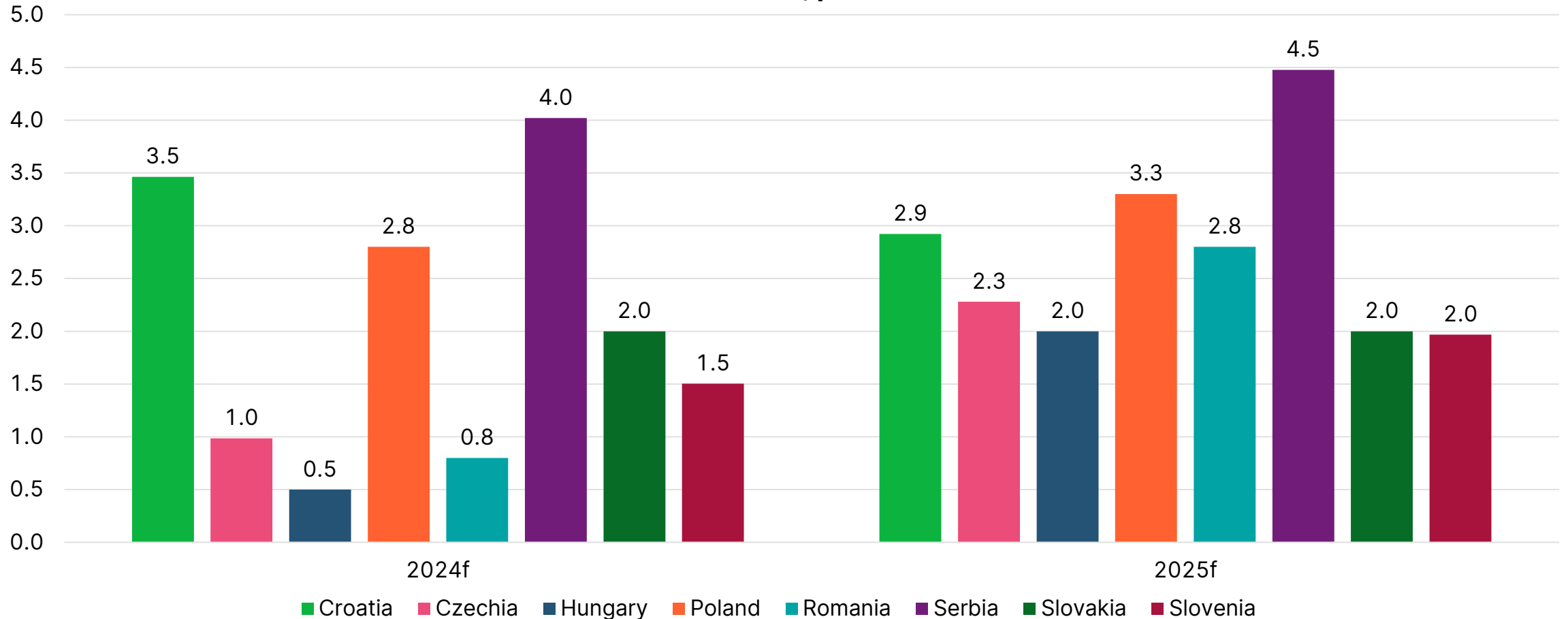
Croatia does not publish flash estimates of GDP, and the growth numbers will be released at the end of November.

Flash 3Q24 GDP, y/y percent



Current growth outlook

GDP forecast, percent



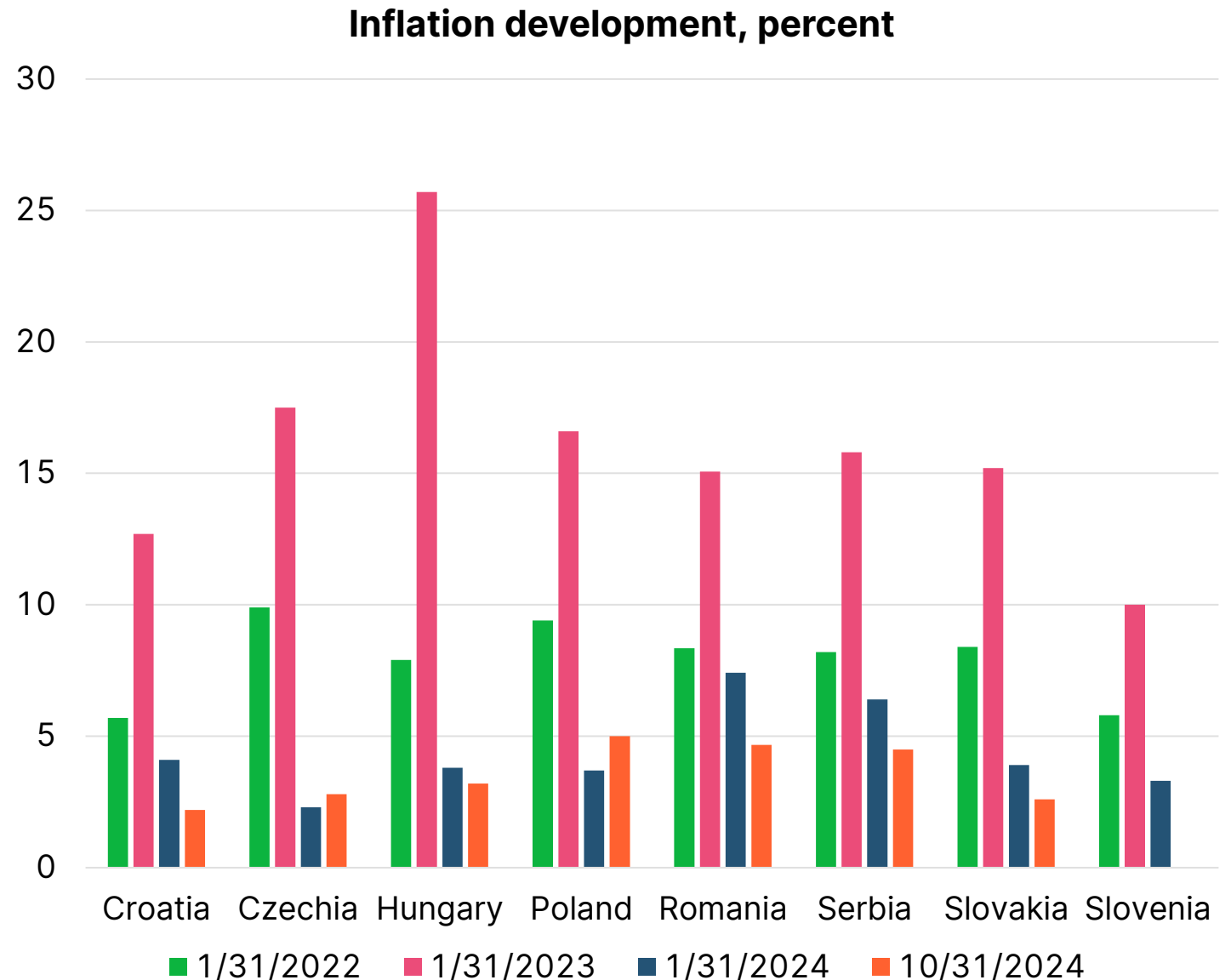
Expected revisions

	Economic development	Revision
Croatia	Solid economic performance according to 3Q24 GDP data.	Solid economic growth close to 3% expected in 2024 and 2025
Czechia	Flash estimates of 3Q24 in line with expectations.	We revised 2025 growth forecast down to 2.3% due to sluggish external environment
Hungary	2Q24 GDP estimate surprised visibly to the downside.	We already revised 2024 GDP growth forecast to 0.5%
Poland	Although y/y growth was close to expectations, economy contracted in q/q terms as GDP declined -0.2%.	We moved back our 2024 growth forecast below 3% in 2024.
Romania	Growth surprised to the downside arriving at 1.1% y/y in 3Q24.	After nine months, the economy has grown by only 0.9% y/y. We revised 2024 growth forecast down to 0.8%.
Serbia	Although the 3Q24 arrived at solid pace of 3.2% y/y, it fell short of expectations.	Serbia is going to be the fastest growing economy in the region with growth expected at 4% in 2024.
Slovakia	The 3Q24 growth was weaker than expected at 1.2% y/y.	We believe economy should sustain the pace of growth close to 2% in 2024.
Slovenia	Economic growth accelerated to 1.4% y/y in the third quarter.	We keep our view for FY24 unchanged i.e. GDP is expected to increase around 1.5% in this year

Inflation development

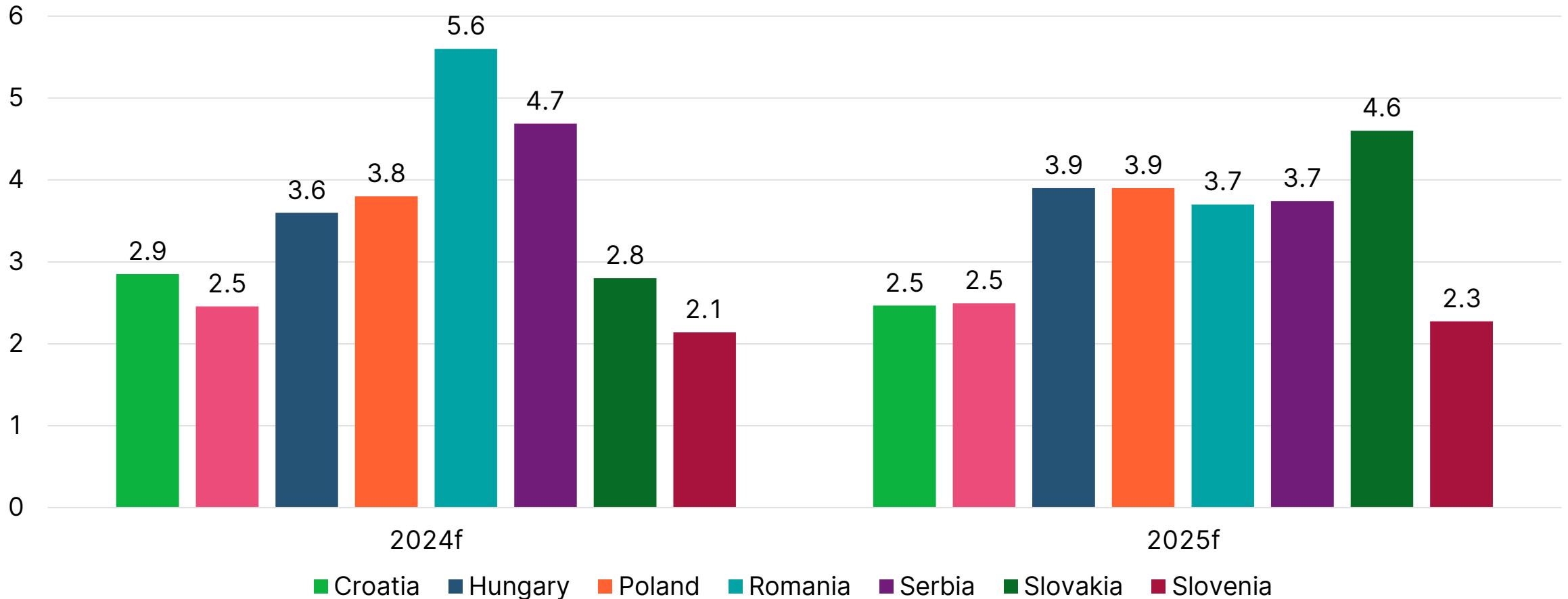
Compared to the beginning of the year, headline inflation is lower in all CEE countries but Czechia and Poland. In these two countries, inflation was expected to go up toward the end of the year; however, that didn't happen.

As far as 2025 is concerned, inflation is expected to increase in Hungary and Slovakia. In Slovakia, the visible rise of average inflation next year is related to the regulatory changes, in particular, an increase of the VAT tax that is a key measure in the consolidation package.



Current inflation outlook

Inflation forecast, percent

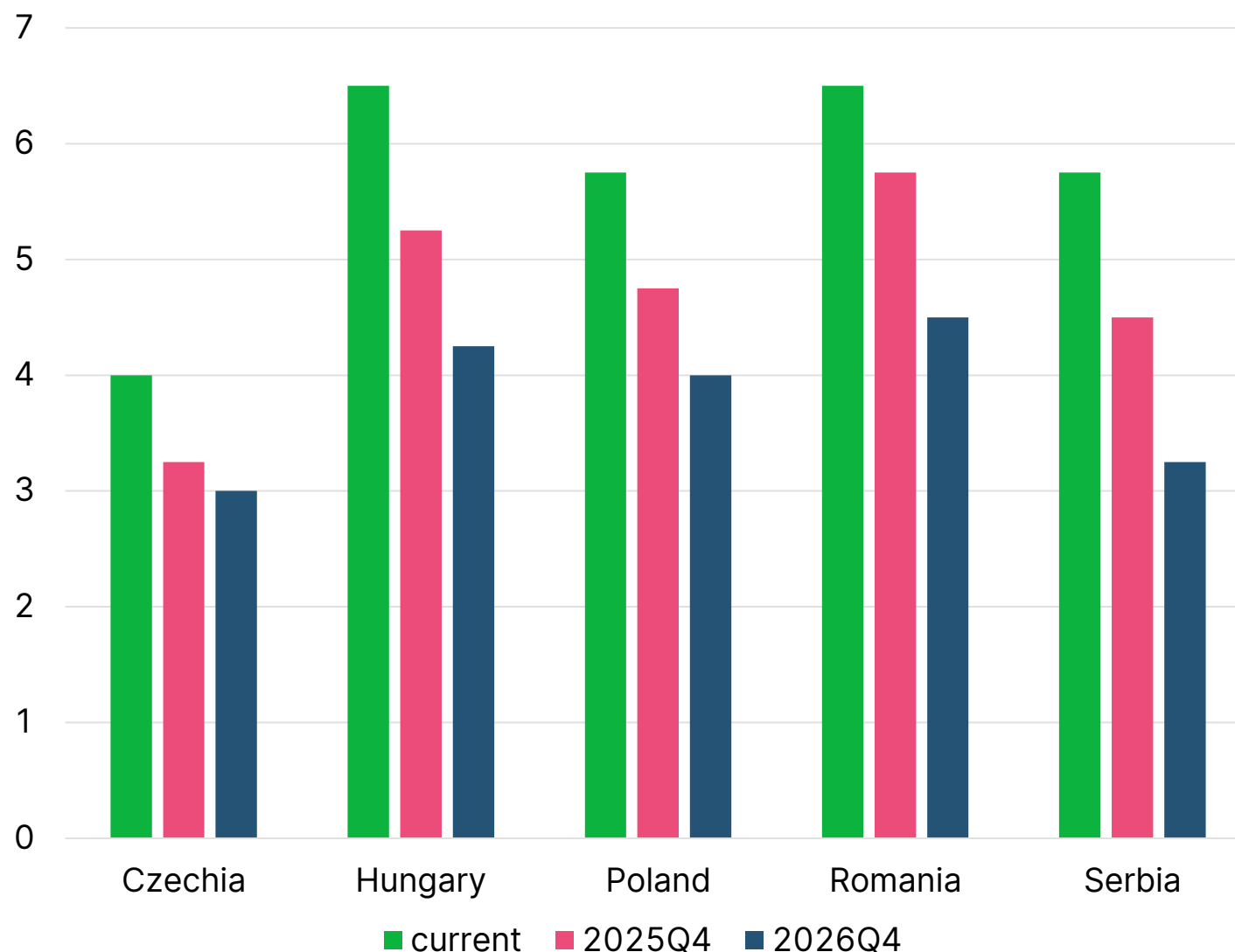


Monetary policy outlook

Central banks in the region are mostly done with interest rate cuts this year. However, the continuation of monetary easing in 2025 and beyond is our baseline scenario. In Czechia, we expect an overall 100 basis points cut until the end of 2026, while in Hungary and Romania, at least 200 basis points may be expected.

Poland should start with interest rate cuts in the course of the first half of 2025, and matching the March 2025 growth and inflation projections will be the key determinant for the timing of monetary easing.

Interest rate, current and year-end forecast, percent



Forecasts

Real GDP growth (%)				
	2022	2023	2024f	2025f
Croatia	7.3	3.3	3.5	2.9
Czechia	2.9	0.0	1.0	2.3
Hungary	4.3	-0.9	0.5	2.0
Poland	5.6	0.2	2.8	3.3
Romania	4.0	2.4	0.8	2.8
Serbia	2.6	3.8	4.0	4.5
Slovakia	0.4	1.4	2.0	2.0
Slovenia	2.5	1.6	1.5	2.0
CEE8 avg	4.3	0.8	1.9	2.8

Public debt (% of GDP)				
	2022	2023	2024f	2025f
Croatia	68.5	61.8	59.1	58.2
Czechia	42.5	42.4	43.5	44.4
Hungary	74.1	73.5	73.1	72.5
Poland	49.2	49.6	54.0	58.0
Romania	47.5	48.8	52.4	54.2
Serbia	52.5	48.1	47.7	47.4
Slovakia	57.7	56.1	58.3	58.9
Slovenia	72.3	69.2	68.5	67.5
CEE8 avg	52.5	52.2	54.7	56.6

Average inflation (%)				
	2022	2023	2024f	2025f
Croatia	10.8	8.1	2.9	2.5
Czechia	15.1	10.7	2.5	2.5
Hungary	14.5	17.6	3.6	3.9
Poland	14.4	11.4	3.8	3.9
Romania	13.7	10.5	5.6	3.7
Serbia	11.9	12.5	4.7	3.7
Slovakia	12.8	10.5	2.8	4.6
Slovenia	8.8	7.4	2.1	2.3
CEE8 avg	13.9	11.5	3.8	3.6

C/A (%GDP)				
	2022	2023	2024f	2025f
Croatia	-3.5	0.4	0.1	-0.3
Czechia	-5.9	1.2	0.5	0.8
Hungary	-8.5	0.7	2.2	2.1
Poland	-2.2	1.8	0.0	-1.0
Romania	-9.2	-7.0	-8.1	-7.8
Serbia	-6.6	-2.4	-5.6	-5.8
Slovakia	-7.3	-1.6	-0.6	-0.2
Slovenia	-1.1	4.5	3.2	2.8
CEE8 avg	-5.1	-0.2	-1.2	-1.6

Unemployment (%)				
	2022	2023	2024f	2025f
Croatia	7.0	6.1	5.2	5.1
Czechia	2.2	2.6	2.7	3.2
Hungary	3.6	4.1	4.5	3.9
Poland	5.2	5.1	5.1	5.0
Romania	5.6	5.6	5.3	5.3
Serbia	9.4	9.5	8.5	8.2
Slovakia	6.1	5.8	5.5	5.5
Slovenia	4.0	3.7	3.6	3.6
CEE8 avg	4.9	4.9	4.8	4.8

Budget Balance (%GDP)				
	2022	2023	2024f	2025f
Croatia	0.1	-0.9	-2.6	-2.2
Czechia	-3.1	-3.8	-3.1	-2.5
Hungary	-6.2	-6.7	-4.7	-4.4
Poland	-3.7	-5.6	-5.7	-5.8
Romania	-6.3	-6.6	-7.9	-6.0
Serbia	-3.0	-2.1	-2.9	-3.0
Slovakia	-1.7	-5.2	-6.0	-4.5
Slovenia	-3.0	-2.5	-3.0	-2.5
CEE8 avg	-3.9	-5.1	-5.3	-4.8

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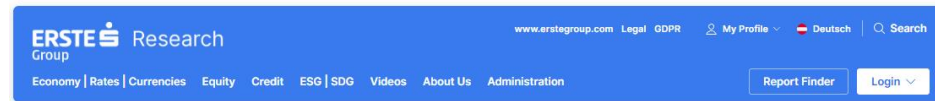


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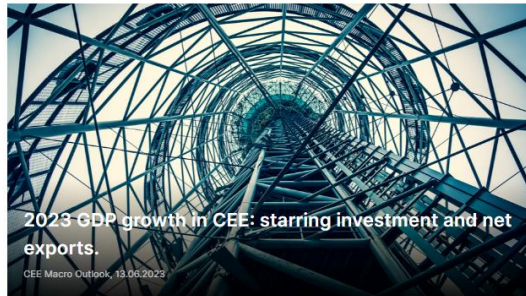


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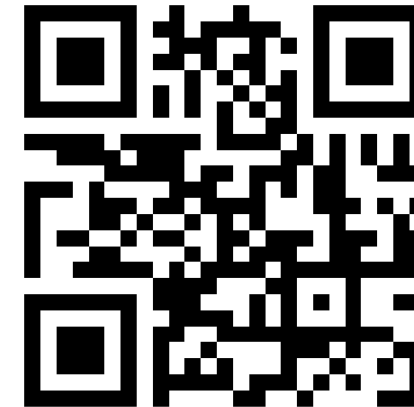
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