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CEE Quarterly: Domestic demand powers growth, worries central banks

UniCredit economists foresee the economies in EU-CEE to grow by around 2.7% in 2024 and 2.9% 2025, with the Western Balkans growing by around 3%.

"***Private consumption will remain the biggest growth driver, with public investment contributing this year and capex expected to rebound in 2025. Net exports will not boost economic growth until next year***.", comments **Dan Bucsa** in the latest economic research CEE Quarterly. According to him the purchasing power will continue to rise in CEE in 2H24 and 2025.

Countries like Hungary, Slovakia, Poland, Romania and Turkey will have to reduce their budget deficits, but they will remain far from the 3%-of-GDP threshold. Fiscal risks are limited in all other CEE countries. "***In the absence of fiscal tightening, we see risks of sovereign downgrades in Hungary, Romania and Slovakia***.", says the report.

The economists observe that Central banks have turned more cautious in 2024 due to persistent inflationary pressure amid loose fiscal policy and strong consumer demand. However, markets may now be underestimating the number of rate cuts in 2025, when we see policy rates approaching terminal rates in this cycle.

Among the **main risks in the macro scenario** are the stalling energy transition in Central Europe, political infighting delaying euro adoption in Bulgaria, some CEE countries falling behind in a two-speed Europe and weak reform appetite ahead of the demographic cliff at the end of the decade.

UniCredit Research analysts expect Hungarian GDP to grow by 2.3% this year and 3.5% next year, but there are significant risks in both directions. A strong rebound in credit demand and real wages could lead to stronger growth in both years compared to their baseline forecast, while in the other direction, weakness in export demand could lead to more modest recovery numbers. Inflation could be around 4% this year, but is expected to average around 5.2% for the year next year, on the back of base effects, loose fiscal policy, lower interest rates, strong real wage dynamics and a weakening exchange rate environment.

For the full version of Q2 2023 CEE Quarterly publication. please click here: CEE Quarterly Q32024

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