

# Directional Economics EMEA: Making the best of it

After facing three years of headwinds to economic growth, the economies of Central and Eastern Europe might just be on the verge of an upturn. As we move into the second half of the year, our team sees the region 'making the best' of an admittedly still challenging environment



Improving trade trends, falling energy prices and the return of tourism will all be key for CEE countries over the latter part of this year

## Outlook

After facing three years of headwinds to economic growth, the economies of Central and Eastern Europe (CEE) might just be on the verge of an upturn. So far this year, most economies have managed to avoid the most pessimistic forecasts. And moving into the second half we see the region 'making the best' of an admittedly still challenging environment.

In our main article, we analyse which economies in the region might be able to benefit from

1. Modestly improving trade trends
2. Lower energy prices
3. The return of tourism to pre-pandemic levels

While forecasts for a rebound in global trade are not particularly aggressive, trade has already delivered an important offset to poor domestic demand in the region. In theory, the more open economies of Hungary and the Czech Republic stand to benefit more from the improvement in merchandise trade volumes.

Lower energy prices benefit the region as a whole – particularly Turkey. Higher energy prices wreaked havoc on CEE external balances last year and lower prices this year are most welcome. Lower energy prices also support governments – in the likes of the Czech Republic and Poland – in encouraging fuel retailers not to expand margins. This will help the disinflation process across the region.

When it comes to tourism, Turkey, Hungary and Poland have all typically enjoyed net positive tourism receipts. Romania notably runs a net negative position here. A return of tourism to pre-pandemic levels can certainly provide some support. These effects will be felt more keenly in Croatia and Bulgaria, where tourism is worth one-fifth of GDP.

## Improvements in growth trends on the cards

Incorporating these trends into our overall forecasts for the region, our team of economists feel that growth trends will improve in the second half. A major driver of this will be the broad disinflation process, where we forecast 2024 inflation at roughly half that seen in 2023.

The evidence of disinflation should be enough to start/extend easing cycles in Hungary, the Czech Republic and even a one-off cut in Poland this year. Romania may be tempted to join in with lower rates if it sees peers making the move. The clear disinflation process should also mean less pressure on real household incomes and suggests that domestic demand will not weigh as heavily on activity as it has done during the recent cost of living crisis.

However, there will be key differences across the region driven by the local political climate. Fiscal policy is one clear example here. Fiscal policy looks set to stay loose into October elections in Poland, while the Czech Republic is embarking on an aggressive fiscal consolidation programme. Equally, politics plays a role in the region's access to EU funds, where we should know a lot more by September/October this year.

Turkey, again, is very much focused on its own political cycle. A new economics team faces a much greater challenge in getting inflation under control. It is early days, but hints of more orthodox policy points to large rate hikes through the summer. Looking further across the region, we note the improvement in Ukraine's FX reserves amidst the tragedy of the ongoing conflict.

As always, this Directional Economics showcases ING's global reach with our local team of experts in the CEE region. Catch up on all of our latest updates and forecasts in the full report here: [Directional Economics: Making the best of it](#). We very much hope you enjoy reading it as much as we do sharing our latest views.

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