Growth in the Balkans: Between zero and hero

We review the main macroeconomic forecasts for Bulgaria, Croatia, Romania and Serbia. While the eurozone's anaemic growth is set to be a headwind for all, we remain moderately upbeat on the growth prospects for the region as each country has sufficient individual drivers to grow in 2024

Clockwise from top left: Parliament of Serbia in Belgrade. Ban Jelacic square in Zagreb, Croatia. The National Library in Romania, Bucharest. Opera and Ballet Sofia theatre in Sofia, Bulgaria.

The second half of 2023 came with some shivers for the Balkan countries that we cover, as their economies slowed down rather abruptly and the word 'recession' did not necessarily seem inappropriate at some point. While 2024 might look a touch better, the external context is not – especially the economic growth in the eurozone, their main trading partner. Nevertheless, we generally pencil in some modest GDP acceleration given that for each country we can find reasonably supportive domestic factors to sustain growth in 2024, while positive real wage growth is common for all.

Our main macroeconomic forecasts:

- **Bulgaria**: We maintain our growth estimate for 2024 at 2.9%, which is our highest in the group. 2024 should be the year when the projects submitted under the Recovery and Resilience Facility should really kick-in, boosting investment activity.

- **Croatia:** Joining the eurozone and Schengen area continued to deliver positive momentum while EU-funds absorption remains strong. The tourism sector has stabilised as well after the pandemic and the economy seems on track to deliver largely in line with its potential.
- **Romania:** The good momentum in public investments kept the economy afloat in 2023 as private consumption flattened. 2024 comes with many elections along with higher disposable income, but the struggle to keep the fiscal side under control darkens the outlook.
- **Serbia:** While growth has regained pace, political and social stability was less rosy in the second half of 2023, with the snap elections in December 2023 apparently bringing more instability than certainty.

Main macroeconomic forecasts

	Bulgaria			Croatia			Romania			Serbia		
	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
Real GDP (%YoY)	3.9	1.8	2.9	6.3	2.6	2.6	4.7	1.7	2.8	2.5	2.4	2.8
CPI (average, %YoY)	15.3	9.7	3.9	10.8	8.1	2.9	13.8	10.5	5.6	11.9	12.5	5
Budget balance (% of GDP)	-2.9	-2.2	-2.8	0.4	-0.3	-1.2	-5.7	-5.7	-5.0	-3.1	-2.4	-2.2
Govt debt (% of GDP)	22.9	26.5	26.0	68.4	61.1	58.3	47.3	49.4	48.9	55.6	52.0	51.6
Current account (% of GDP)	-1.4	0.5	0.1	-1.6	3.1	2.1	-9.4	-6.9	-6.8	-6.9	-2.1	-3.3
FX rate vs EUR (year-end)	1.96	1.96	1.96	n/a	n/a	n/a	4.94	4.98	5.02	117.3	117.2	117.2

Source: National sources, ING estimates

Bulgaria: a decisive year for euro adoption

Growth: After a long period of political instability, which delayed reforms and EU-funds absorption, the country has been improving the pace of its reforms under what looks like a broad political willingness to join the eurozone in 2025. Growth-wise, 2024 should be the year of public investments boom, as the country expects at least one (though more likely two) disbursements from the Recovery and Resilience Facility. In December 2023 the European Commission approved Bulgaria's revised Recovery and Resilience Plan, which now consists of EUR5.7bn in grants, down from EUR6.3bn in the previous plan. A first EUR1.4bn tranche was received back in December 2022, while another payment request worth EUR724m is under examination by the European Commission. All in all, we expect improvements in private consumption and government spending to accelerate GDP growth towards the pre-pandemic trend. We've marginally revised the full-year growth in 2023 from 1.9% to 1.8% while maintaining 2024 at 2.9%.

Inflation: CPI inflation slowed down significantly towards the end of 2023 and might close the year below 5.0%, mainly on base effects and lower energy prices. This has so far been largely in line with our estimates and consensus view, but we maintain our relatively cautious estimates for 2024 and beyond. We see inflation stabilising closer to 4.0% rather than 3.0% seen by the consensus and the central bank, given that conditions such as the tight labour market and solid real wage growth are likely to maintain pressure on prices, more than offsetting the favourable commodities prices. Nevertheless, if all other conditions are met, this is unlikely to be a showstopper for eurozone accession in 2025.

Fiscal: Bulgaria closed 2023 with a cash deficit estimated at 2.2% of GDP, below the initial 3.0% target. The budget for 2024 was already adopted by Parliament and it again envisages a 3.0% of GDP deficit on a slightly optimistic 3.2% estimated GDP growth. The budget includes a 20% rise in the minimum wage (which affects the private sector primarily) and 11% in average pensions. While the projected budget deficit is not material and needed to support investments, it does mark a departure from the previous year's quasi balanced-budget stance.

Politics: With inherent hiccups, the coalition between GERB and PP-DB seems to move ahead largely in line with the agreement. A prime minister rotation from PP-DB to GERB should take place in March-April 2024 and we don't expect issues here. The new PM mandate will expire at the beginning of 2025 when the country should join the eurozone.

Ratings (Baa1/BBB/BBB): Our base case assumes that Bulgaria will join the eurozone in 2025, which, once confirmed, should almost automatically bring around a two notch upgrade within a relatively short time span.

Next scheduled reviews: 26 January – Moody's; 26 April – Fitch; 24 May – S&P

Croatia: the sun and the sea remain key

Growth: With a rather flattish tourism sector performance, the economy performed as good as it gets supported by a still robust private consumption and fixed investments acceleration. Given the downward revision of the first-half 2023 data we have adjusted our full-year growth for 2023 to 2.6% from 3.1% previously. We expect the economy to perform decently in 2024 for which we again estimate a 2.6% expansion. For the next couple of years, the growth balance could shift more towards investments, supported by the EUR10bn under the Recovery and Resilience Plan (EUR5.8bn grants + EUR4.2bn loans). Almost EUR3bn has already been disbursed by the European Commission, with a fourth payment request already submitted in December 2023.

Inflation: The disinflation process gained traction in the second half of 2023, as CPI looks on track to stabilise below 3.0% by mid-2024. Dipping much below 3.0% is going to be a challenge in our view. Core inflation remained consistently above the headline and is likely to prove stickier going forward as well given the tight labour market and robust real wage growth.

Fiscal: The 2023 budget performance has exceeded expectations as the country closed the year with a small 0.3% of GDP deficit. The 2024 budget law envisages a 1.9% of GDP deficit, putting the country at risk of not meeting EU fiscal recommendations, as per the latest Eurogroup statement. Even under these conditions, the debt-to-GDP ratio is bound to dip below 60% of GDP in 2024, a threshold last met back in 2010.

Politics: As in many other countries in Europe, 2024 is a very important political year in Croatia. European elections, parliamentary and presidential, are all due to take place within a few months of each other. The base case is that the ruling HDZ will form the new government but the exact picture of the post-election coalition is still uncertain.

Ratings (Baa2/BBB+/BBB+): With positive outlooks from all main rating agencies, a rating upgrade seems rather unavoidable in 2024, with the main question being "when" rather than "if". A post-elections move might seem more logical, but we give a pretty good chance (say 50%) for a rating upgrade in the first part of 2024.

Next scheduled reviews: 15 March – S&P; 5 April – Fitch; 10 May – Moody's

Romania: struggling to balance elections with fiscal consolidation

Growth: The release of detailed data for third-quarter 2023 GDP growth, alongside upbeat high-frequency data for the fourth quarter points to a resilient growth picture in Romania. For 2024, we are likely to see a rebalancing of the growth drivers from investments towards consumption, though the former should still hold on close to double-digit growth. However, with public wages likely to stay well within double-digit growth and pensions due to be increased by 13.8% starting

January 2024 and approximately 22.0% starting September 2024, the private consumption story is likely to show marked improvement. We maintain our 2024 GDP growth estimate at 2.8%.

Inflation: The growth story could complicate the National Bank of Romania's (NBR) decision-making process, as the rising demand corroborated with a general increase in taxation, could slow the disinflationary process. Nevertheless, we continue to be at the lower end of inflation estimates for 2024 as we see December 2024 inflation at 4.7%, with risks to the downside. We also maintain our long-standing view that the NBR will start lowering the key rate in the second quarter, with a total of easing of 150bp by the end of 2024.

Fiscal: Lowering the budget gap continues to be the main headache for Romanian governments and nothing indicates that this will change anytime soon. First estimates show that the 2023 deficit stood at around 5.7% of GDP, similar to the 2022 level and far from the initial 4.4% target. Moreover, the 2024-2026 fiscal strategy does not envisage the budget deficit anywhere near 3.0% of GDP, with 2026 official estimates now at -4.2%. Due to a more favourable redemption schedule, the 2024 financing needs look better than in 2023 (see here fore more details). We see the 5.0% of GDP deficit target for 2024 as ambitious but not unrealistic. However, negotiations with the European Commission over the pace of deficit reduction could still bring some changes to the plan.

Politics: A super-electoral year is expected in Romania, with European, local, general and presidential elections due to take place within a 6-7-month time span. The base case is that the current grand socialist-liberal coalition will continue to form the government after the elections, though the balance of power is likely to skew more heavily towards the socialists.

Ratings (Baa3/BBB-/BBB-): We continue to see no change in Romania's investment grade rating for the foreseeable future (around 2 years). The recent fiscal slippage and announced pension hikes might tilt the risk balance to the downside, but we find it unlikely to be a game changer, at least as long as Romania's relationship with the EU (and EU money) remains solid.

Next scheduled reviews: 1 March – Fitch; 29 March – Moody's; 12 April – S&P

Serbia: headwinds, sidewinds, not many tailwinds

Growth: After losing speed in the first half of the year, the economy firmed up in the second half of 2023 and GDP growth looks on track to touch our 2.4% estimate (marginally increased from 2.3% previously). We see an acceleration to 2.8% in 2024, as the positive impact from domestic consumption and investments will be darkened by a sluggish external demand.

Inflation: End-2023 inflation is likely to have printed around 7.8%, slightly below the National Bank of Serbia's (NBS) estimate of 8.0% and generally a touch below market consensus. While we've constantly been at the lower end of the consensus estimates in 2023, our view is slightly different for 2024 and even beyond. While touching the NBS's upper end of its 1.5%-4.5% target range looks possible in mid-2024, we don't estimate the headline inflation moving towards the 3.0% mid-point over the next two years, as in the NBS's latest estimates. This is unlikely to stop the NBS from cutting rates. We estimate a total of 150bp of rate cuts to 5.00% by the end of the year with the first move possibly in April-May.

Fiscal: In 2023 the budget gap seems to have been around 2.4% of GDP, in line with the latest forecasts and better than what was estimated at the beginning of the year. The overall fiscal performance gathered IMF praises which, back in December 2023 concluded a positive review under the current Stand-By Arrangement. The 2024 budget plan sets the deficit at 2.2% of GDP, considered "tight" by the IMF. The hosting of the 2027 World Expo in Belgrade could keep investment spending above the historical average. The latest statements from the finance ministry speak about EUR12-14bn to be invested, which represents almost 20% of the projected 2023 GDP.

Politics: While growth has regained pace, political and social stability was less rosy in the second half of 2023, with the snap elections that took place in December apparently bringing more instability than certainty. Another SNS-led government seems the most likely scenario, but the history is an indicator of how fluid politics can be in the country.

Ratings (Baa2/BB+/BB+): While the market pricing suggests that Serbia is largely treated as investment grade (IG) already, we believe that the uncertainties surrounding the geo-political context have the potential to delay the long-awaited upgrade to IG. The macro story does offer hope for a positive outlook this year, with an actual upgrade possibly to follow in 2025 if the dust comes to rest on the local and international scene.

Next scheduled reviews: 9 February – Fitch; 8 March – Moody's; 5 April – S&P

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