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Directional Economics CEEMEA: From working hard to working smart

What does the CEE region need to do to adapt to looming labour scarcity? Working harder is no longer an option, but working smarter will require a reallocation of resources to more productive areas, such as services. That's the focus of our flagship Directional report, with in-depth analysis of 13 economies in the region



Executive summary

Back in April, our last Directional Economics, [Trade instability - A test of strength](#), assessed how the CEEMEA region could withstand looming US tariffs. Little did we know that the levies imposed on 'Liberation Day' would be so severe. Yet our conclusion back then was that the region would prove more resilient than expected. Most would now agree that both the region and the global economy have shown greater resilience than initially feared.

Helping the CEEMEA region withstand some of those external headwinds has been domestic demand, where low unemployment rates have continued to support consumption. Yet these low unemployment rates may ultimately prove a structural headwind. For a region that has relied on abundant labour to drive growth over the last two decades, the prospect of labour scarcity now poses a challenge to conventional business models.

In our article, *From working hard to working smart: the next step for CEE*, our team deep-dives into some of the challenges. Shrinking labour forces, rising wages and lagging productivity will ultimately demand a new approach beyond merely working more intensively – cheaper labour in Romania, Turkey and North Africa will see to that.

Instead, working smart will require progress on several key fronts. Attracting both the younger and older generations into the labour force and re-assessing immigration will be key to diffusing the demographic time bomb. Here, prime age populations stand to fall anywhere between six and fourteen percent by 2040 in the likes of Poland, the Czech Republic, Hungary and Romania.

Equally important will be a re-allocation of the labour force towards more productive areas of the economy, such as services, upscaling the more productive firms, investing in automation and addressing regulatory barriers. Looking at corporate loans to GDP, the CEE4 private sector barely has half the leverage of firms in Western Europe – leverage which could be put to work in productive investments.

Returning to the more immediate macro outlook for the region, our team generally forecasts stronger growth for most economies next year. That statement masks diverging stories, where countries like Poland and the Czech Republic will retain strong momentum on the back of consumption. For the likes of Hungary and Romania, 2026 should be more of a recovery story helped by a turn in the investment cycle and in the case of Romania, the unlocking of EU funds to offset some very sizable fiscal consolidation.

Industry has been the weak link across the board, but any meaningful improvement in the eurozone economy would be a boon. Here, the Czech labour market is already looking a little tight and any further help to the economy could bring the first rate hike nearer - that could be a risk for early 2027. The region will also be monitoring the impact on headline inflation from the introduction of the EU Emissions Trading System 2, which is set to raise energy costs for households and small firms in 2027.

Monetary easing cycles in Poland, Hungary and Romania look set to continue, but at varying speeds. Poland has just cut rates and may cut another 50bp in 2026, while easing in Romania looks delayed by a CPI spike to 10%, and in Hungary by the need to keep the forint strong and the debt-to-GDP figure in check. Into 2026, we see the Czech koruna overtaking the forint as the region's favourite currency – a rally built on firmer foundations.

On the subject of currencies, the real appreciation favoured by Turkish authorities should mean that the lira remains in demand. Pressure will remain on authorities, however, to stick to their disinflationary policies as the economic costs are becoming more pronounced. And further afield, we provide updates on the CIS region and

welcome Bulgaria to the Eurozone.

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