Report | 7 December 2023 FX

Directional Economics: CEEMEA in 2024

Same path, different journeys. 2024 should be the year in which many economies in Central and Eastern Europe, and Central Asia attempt to normalise their economies. The journey to that destination, however, will look very different depending on the government and central bankers in charge

Executive summary

Same path, different journeys. 2024 should be the year in which many economies in Central and Eastern Europe, and Central Asia attempt to normalise their economies – be that through a return to growth, lower interest rates and/or better fiscal positions. The journey to that destination, however, will look very different depending on the government and central bankers in charge.

When it comes to growth, most of the region, except Turkey, should witness higher growth rates next year. The aggressive rate hiking cycles that many in the region undertook starting in 2021 have served their purpose in turning the tide on inflation. Lower inflation will deliver some welcome real wage growth and private consumption will be a crucial driver of activity across the region next year.

The degree to which lower inflation will allow monetary easing to support growth will look very different across the region. Disinflation seems most advanced in the Czech

Republic, allowing a 300-400bp easing cycle. We forecast a similar magnitude of rate cuts in Hungary, though from a much higher level. Romania has been struggling with stickier inflation but may still cut rates by 150bp. Poland is the outlier here, where the central bank may well keep rates at 5.75% given the highest upside risk for GDP in the region and the structural opportunities that the new ruling camp may utilise to speed up the economy. Also, Poland has already surprised with 100bp of recent easing.

Part of the differentiation in monetary policy may well be driven by the fiscal position. The Czech Republic stands out here in its plans for fiscal consolidation, while both Poland and Romania look set to keep fiscal policy loose – good for short-term growth, bad for inflation. Nonetheless, 2024 growth rates in CEE4 are all expected in the 1.4-3.0% region – substantially better than the 0.3% our team are forecasting for Eurozone growth.

Expect politics to remain very much in focus too. Both Poland and Hungary will be keen to secure funds from the EU next year – with Hungary's need more pressing. We take an optimistic view on the release of funds here, but will be keeping a close watch on the headlines. European parliamentary elections in June will also be very much in focus – with the outcome having some important implications for foreign aid to Ukraine. Romania has a presidential election next year and we see local elections in Turkey too.

Talking of Turkey, policymakers have been impressing by their return to policy orthodoxy. A continuation of this policy – including restrictive monetary policy for the majority of 2024 – could well see a turn in the inflation profile by year end. This could see the continued re-assessment of Turkish asset markets by foreign investors.

Elsewhere, we highlight Bulgaria's continued pursuit of euro entry in 2025, we evaluate Croatia's year in the eurozone and also extend our coverage across the CIS space.

In terms of our feature articles, we take a fascinating look into the theme of 'Carbon and Commodities' across the region. Poland and the Czech Republic are spending as much as 1% of GDP in securing carbon emission allowances – an expenditure that is hitting their external accounts. And Hungary, Romania and Turkey remain very exposed to natural gas prices. We conclude it has never been a better and more urgent time to scale up investments in energy transition.

As always, this Directional Economics showcases ING's global reach with our local team of experts in the CEE region. Please reach out to them with any questions.

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Disclaimer