

Directional Economics EMEA: Old habits die hard

Compared to Western Europe, the Central and Eastern Europe, Middle East and Africa bloc has performed admirably this year. In this report, we look at what the future holds for the next 12 months



Executive summary

As we enter December it is fair to say that the outlook for the next 12 months has improved dramatically. Clearly this optimism is contingent on both the vaccine roll-out and the Biden Administration meeting most of the high hopes placed upon it. But swift action by global policymakers has certainly played a role here, with the policy decisions of CEEMEA policymakers being no exception.

In fact, compared to Western Europe, the CEEMEA bloc has performed admirably this year. Who would have thought that Polish activity would contract by only 3.3% this year? Or Turkey would move in the opposite direction and grow by 1%? Limiting the downside has been some very aggressive fiscal responses across the region, including front-loaded schemes worth around 6.5% of GDP in Poland, 5.5% in Hungary and 5.4% in Romania.

Our macro team feels that the CEEMEA region is in a good position to recover next year – with growth forecasts ranging from 2.5-4.0%.

Our forecast 2021 recovery, 3-4% for CE4 members, is not wholly reliant on the EU Recovery Fund being passed. Yet the huge sums on offer are too large to be ignored.

Combined with the proposed EU 2021-27 budget and auxiliary funds, the CE4 stand to receive anywhere between 17% (Czech Republic) and 31% (Romania) of 2018 GDP over a seven-year funding window. Our base case sees Poland and Hungary resolving their differences with the EU by year-end – both standing to receive around 25% of 2018 GDP

in 2021-27.

With regards to inflation, the legacy effect of tight labour markets heading into the pandemic has meant that many in the CEEMEA region are not suffering the deflation witnessed in Western Europe. Thus, the worldwide reflation narrative will be limited just to the growth leg in many parts of eastern Europe.

As a bunker mentality slowly starts to fade among the CEEMEA policy community in 2021 – and a benign global investment environment will certainly help here – we should start to see a little divergence emerging across the region – or a return to old habits. On monetary policy this will see the CNB lead the pack of policy normalisation, where we forecast two hikes. The typically dovish NBP and NBH will seek to keep policy loose – assuming their currencies allow it.

And Russia, typically a growth laggard in the region, may again struggle to find the growth impulse despite having the best sovereign balance sheet in the region. Thus, the final chapters in the CBR easing cycle will be welcome in 2021. Turkey, not unusually, finds itself on a different cycle. But a decisive policy shift by Ankara in November, tightening monetary and credit policy, is starting to win over international investors.

Please note that this is the non-investment research version of Directional Economics EMEA and does not include the investment strategies contained in the Global Markets Research version of this report.*

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