Executive summary

Last year was a challenging one for the CESEE region, with many economies growing more slowly than in 2022; only the CIS countries and Ukraine witnessed a significant acceleration of economic growth over the previous year. The Baltic and Visegrád countries turned in the worst performance of all the sub-regions, as they were hit disproportionately hard by inflation. Besides, the Baltic countries continued to be worst affected by the repercussions of Russia's war in Ukraine, while the Visegrád countries were dragged down by the recession in their main export market of Germany.

Consumers and industry have maintained a pessimistic outlook; only in the services sector does sentiment appear largely positive, supported by rising demand. There seems to have been some improvement in consumer sentiment in Q4 2023 to Q1 2024, most visibly in the Western Balkans and the Visegrád countries. Sentiment in industry, on the contrary, has shown no sign of recovery, with industry in the Visegrád and Baltic countries having on average far worse expectations than in the rest of the region. The rising bankruptcy rates in industry in many countries point to structural issues exacerbated by the recent economic crisis.

Inflation slowed significantly in all CESEE countries, apart from Turkey and CIS, but core inflation is proving more persistent, backed by rising real wages and tight labour markets. Turkey remains an outlier, with consumer prices having been trending upward since mid-2023, driven by negative real interest rates, national currency depreciation and high import demand. Core inflation is higher than headline inflation everywhere except for Croatia, indicating the continuing pass-through of higher production costs to prices. This is driven primarily by the cost of services, which appear to be slower to respond than food or transport.

Thanks to a strong decline in inflation, real interest rates have moved above zero. Many countries have started to loosen their monetary policy, but national banks have been cutting interest rates more slowly than inflation has been falling, resulting in a tightening of real financing conditions. Turkey, by contrast, has been trying to tighten its monetary policy, but the interest rate hikes in H2 2023 were too small to offset the accelerating inflation; thus that country still has a double-digit negative real interest rate.

In 2024-2026, consumer prices will decline further, as wage growth moderates and global prices remain low. Falling global food and energy prices will allow the relatively painless removal of price controls in many countries, although robust wage growth will stimulate private demand and push prices upwards. Along with Turkey, CIS will continue to see the highest growth of consumer price inflation in CESEE, with prices growing fastest in Belarus and Kazakhstan, where inflation will be driven by high consumer demand, in particular for imports. Russia, by contrast, is expected to have a soft landing, with inflation decelerating rapidly to 3.7% year on year in 2026.

This year, 2024, will bring an acceleration of economic growth for most of the region, apart from CIS, Ukraine and Turkey. The Visegrád and Baltic countries will achieve the most rapid acceleration of annual GDP growth in 2024 – nevertheless, growth there (2.4% and 1.3% year on year, respectively) will be the lowest of all the sub-regions. In CIS, economic growth will moderate to 3.3% year on year in 2024, as the statistical effect of a lower base of comparison in 2022 vanishes. Turkey's economic growth will slow down to 3.4% year on year in 2024, due primarily to monetary tightening.

In 2025-2026, annual GDP growth in CESEE will be about 3%; that will allow economic convergence with the euro area, but at a relatively low speed. Growth will be driven mainly by household consumption, whereas investment will be constrained by limited access to the sources of financing and will be insufficiently high to promote a faster green and digital transition and to ensure the structural changes needed to boost the region's competitiveness. Growth will become more uniform across the sub-regions, as the economies of the Visegrád and Baltic countries will accelerate to grow on a par with other sub-regions. Moderation of the growth in wages and a tightening of fiscal policy will prevent more dynamic economic performance.

Risks to the outlook remain mostly on the downside, with the most significant of these related to geopolitics. Inadequate support from the West could lead to Ukraine losing the war, which would increase the security risks for the whole of Europe. Tensions in the Middle East could cause a significant increase in global energy prices, as well as supply-chain disruptions.

COUNTRY SUMMARIES

ALBANIA

The economy expanded by 3.4% in 2023, driven by increased domestic and external demand. Public finances remain robust, and efforts toward fiscal consolidation will continue. However, imbalances on the labour market are intensifying, posing a risk to growth as emigration rates surge and as labour and skills shortages loom. While inflation is expected to moderate, seasonal challenges persist. The current account deficit has nearly bottomed out and will likely remain low due to sustained external demand. Positive trends in tourism and foreign direct investment are set to continue to fuel the momentum, which is expected to result in growth of 3.5% in the medium term.

BELARUS

In 2023, the economy almost totally recouped the losses incurred the previous year as a result of the Western sanctions. GDP grew by 3.9%, underpinned by a widening of Russia's economic support and accommodative domestic policies. Inflation slowed considerably. However, the indications are that this recovery has come to an end – and the short-term prospects are not propitious. GDP growth is expected to slow to some 2% in 2024 and is likely to remain sluggish in the years to come.

BOSNIA AND HERZEGOVINA

GDP growth in 2023 is estimated to have been 1.7% and to have been largely driven by a rise in consumer spending, spurred by falling inflation and higher real wages. Inflation averaged 6.1% last year; it is expected to continue to fall – to 2.8% in 2024 and 2.5% in 2025. GDP growth is likely to rise to 2.5% in 2024 and 2.9% in 2025, bolstered by increased individual and government spending, alongside a modest improvement in exports. The European Commission's decision in March 2024 to open EU accession negotiations for Bosnia and Herzegovina provides added momentum and impetus for economic growth.

BULGARIA

Bulgarians are being summoned to the polls again in June, in the fifth snap election since 2021. Growth slowed in 2023 and weak performance has continued in the first months of 2024. Inflation has fallen back thanks to a downturn in the non-core component. GDP growth is expected to be around 2% in 2024 and should remain moderate in the coming years. It is anticipated that the external economic environment will remain unfavourable and that growth will predominantly be driven by domestic demand.

CROATIA

Croatia's accession to the euro area and the EU's border-free Schengen zone boosted tourism in 2023, with EU-related funds supporting investment activity. The country's full EU integration will continue to stimulate trade and investment in the period 2024-2026. Improving private consumption and strong services exports will ensure robust growth of 2.9% in 2024; we also expect inflation to decline further to 3.5%. Nevertheless, a lack of skilled workers remains an issue and an obstacle to higher GDP growth.

CZECHIA

Following a minor contraction in 2023, the Czech economy will see a mild recovery this year. As inflation falls sharply and real wages rise, consumption will be the main driver behind this. Uncertainty looms over Czech industry, its trajectory hinging on the pace of growth in certain major economies, particularly Germany. A more dynamic growth path lies ahead in 2025 and 2026, as industry revives and capacity-expanding investment picks up.

ESTONIA

The past year presented significant challenges for the Estonian economy. A constellation of factors, including the disproportionately severe impact of the war in Ukraine, weak domestic and international demand, disruption to supply chains and a shift away from traditional export markets, dealt the economy a heavy blow. However, 2024 will mark a turning point, with stabilising prices, a modest resurgence in external demand and a robust labour market all indicating that the worst may be over. Nevertheless, to enter a new cycle of economic growth, the competitiveness of Estonian firms needs to be revived and new export markets need to be established.

HUNGARY

Runaway inflation was curbed by the end of 2023. The current account closed with a surplus, largely because of a decline in imports due to shrinking consumption, a drop in investment and lower import prices. GDP declined last year and there will be no spectacular recovery of economic growth in 2024 either. A chronic deficit in the general government balance necessitates painful measures, which in turn will put a brake on the pace of economic growth. Inflation continues to be of concern, while the current account will likely remain balanced or in surplus over the forecast horizon.

KAZAKHSTAN

Kazakhstan's economy ended 2023 among CESEE's top-performing economies, with strong private consumption and investment driving economic growth. Despite sluggish exports and skyrocketing imports to meet domestic demand, the economy grew by 5.1%. Private consumption was supported by wage increases, decelerating inflation and credit growth. However, we expect a slight slowdown in private consumption growth this year. By contrast, major investment in transport and logistics infrastructure (resulting from geopolitical shifts) and in modernisation of the energy system and utilities sector is likely to remain an important growth driver in the medium term. We expect the economy to grow by 4.7% in 2024 and by 4.9% in 2025-2026 – one of the fastest rates in CESEE.

KOSOVO

The risks related to external tensions tend toward the upside. Despite the challenges posed by certain external events, the economy has demonstrated remarkable resilience, achieving a growth rate of 3.4% last year. Household consumption and investment both played a pivotal role in bolstering the economy, and these are expected to continue as the primary drivers of growth in the medium term. Moreover, inflation has receded and that trend is likely to continue in the coming years. In addition, there has been a surge in foreign direct investment specifically targeting renewable energy projects.

LATVIA

While 2023 ended with GDP declining slightly (0.3%), this year will see an upswing of 1.6%. We expect external demand to shrink further, but by less than last year. Lower inflation will result in real wages rising – and accordingly in growth in household consumption. The government plans to further increase public investment in 2024, though private business remains reluctant to expand further. Given the still rather tight labour market, the unemployment rate fell slightly in 2023 – and will do so even more in the coming two years. Assuming that Latvia's trading partners also find their way back on track next year, we expect the economy to pick up, with GDP growth of 2.5% in 2025 and 2.7% in 2026.

LITHUANIA

The economy performed worse than expected in 2023, with GDP declining by 0.3%. With the substantial fall in inflation, real incomes had already started to pick up by the end of last year and will continue to do so in 2024; this will support household consumption. Despite the stagnation, the labour market remains robust, and unemployment is likely to decline further. Private investment activity is ailing, since external demand is in the doldrums; meanwhile the government will further raise infrastructure investment. We expect real GDP to increase by 1.6% in 2024; this will be followed by a modest acceleration to 2.2% in 2025 and thereafter to 2.6% in 2026.

MOLDOVA

Economic growth will pick up to 3.5% in 2024, following a very modest showing of 0.7% last year. Inflation will stabilise at a low level, allowing for monetary policy to be loosened. The current account and fiscal deficits will remain relatively high, but multinational institutions will provide a stable source of financing. The Europe-oriented leadership will be challenged in October in a presidential election and a referendum on EU membership. Russia’s subversive activities and domestic oligarchic interests support a strong opposition.

MONTENEGRO

Amidst political turmoil, Montenegro managed in 2023 to achieve considerable growth of 6%. This owed much to a record tourist season, the influx of Russian and Ukrainian immigrants and improvements on the labour market. Starting as it does from such a high base, 2024 will likely see a slowing of growth to 4.2%. A range of cross-cutting reforms aimed at increasing salaries and pensions is likely to boost consumption; but it will also place a strain on public finances. EU integration is back on the agenda of both the government and the EU. However, political stability may be tested during the planned government reshuffle in 2024.

NORTH MACEDONIA

The measures adopted by the government ahead of the elections in April and May are breathing life into the economy, with all the indicators now pointing in a positive direction. There is some doubt, though, about the extent to which this can sway the election outcome, and a transfer of power seems likely. If that happens, the biggest question will be how the new government positions itself on the constitutional changes required for EU accession talks to commence. In terms of economic policy, one should expect no great change, as both the main parties support neoliberal agendas. The second half of the year will continue to be exciting, as the current stimulus measures are due to expire, and the new government (whoever leads it) will have to tighten the country’s belt.

POLAND

A shallow recession in the first half of 2023 was followed by a moderate recovery in the second, allowing GDP to grow by 0.2% in 2023 as a whole. Inflation and inflationary expectations are falling, while wages are rising apace. If this extra money is saved rather than spent, then the higher household incomes could depress output growth and support disinflation. Though the energy prices are likely to jump by up to 20% in July 2024, this need not provoke a return to high inflation. Nonetheless the move will affect private consumption and limit GDP growth.

ROMANIA

While high fiscal and current account deficits are lasting features of the Romanian economy, they do not pose any imminent danger. Fiscal austerity will not be implemented in the current election year. Economic growth will be about 3% in 2024, fuelled by bullish household demand but hampered by sluggish foreign demand and the slow arrival of EU funds. Fiscal consolidation will dampen growth in 2025, while external demand and private investment will boost it to 3.3% in 2025 and further to 3.8% in 2026.

RUSSIA

Last year, GDP expanded by 3.6%, thanks largely to the boom in military production, which has had positive effects – both direct and indirect – for most of the rest of the economy. With inflation running in excess of 7% and the unemployment rate plunging to below 3%, the economy has clearly been overheating. However, the recent stabilisation of inflation suggests that 'peak overheating' has already been reached. Growth is projected to slip below 3% in 2024 and beyond, while inflation will gradually return to closer to the 4% target.

SERBIA

The decline in inflation is boosting real incomes and consumption, while the industrial sector appears to be coming back to life, after two challenging years. Foreign direct investment remains strong, as always, with a notable return of EU investors and the continued strong presence of the Chinese. Public investment is strong, too, lately focused on the upcoming EXPO 2027 in Belgrade. Although the economic conditions in the country have undoubtedly improved, we maintain that numerous structural issues will continue, limiting the potential for higher growth.

SLOVAKIA

While Slovakia's GDP increased by only 1.1% in 2023, wiiw forecasts a gradual improvement in growth in the coming years. This will mainly be driven by household consumption, bolstered by lower inflation, leading to rising real wages and a favourable labour market. However, the domestic risks are rising due to ongoing political changes.

SLOVENIA

This year will bring higher growth than 2023. Real GDP is expected to grow by 2.5%, thanks to private spending and investment in infrastructure. Exports and industrial production will recover, but will be hampered by sluggish export demand. Inflation will fall to 3.3%. A labour shortage and upward wage pressure are key issues for the labour market. Mid-term growth rates are expected to be lower than pre-pandemic, potentially reflecting the effects of increased energy prices.

TURKEY

In 2023, Turkey's economy grew by 4.5%, driven by strong domestic demand, but constrained by declining exports. The current account deficit improved modestly in the second half of the year. However, inflation surged to 68.5% year on year in March 2024, prompting a surprise policy rate hike to 50%. The rise in inflation expectations poses a challenge to the effectiveness of monetary policy. The government's defeat in Turkey's recent local elections reflects public outrage over inflation and the cost of living, and increases the uncertainty regarding future economic policies.

UKRAINE

GDP growth exceeded 5% in 2023, thanks to the resilience of the economy under war conditions and ample financial and military aid from the West. The establishment of a new shipping route in the Black Sea helped Ukraine partly offset the effects of the border blockade by Poland. However, friction has recently surfaced over the provision of military and financial assistance to Ukraine, and that could hamper further recovery of the economy in 2024. Economic growth will accelerate in 2025-2026, conditional on a reduction in security risks and an expansion of the reconstruction efforts. Downside risks to the forecast have increased: top among these is the risk that Ukraine could lose the war, due to inadequate support from the West.

Keywords: CESEE Central and Eastern Europe, economic forecast, Western Balkans, CIS, Ukraine, Russia, Turkey, EU, business cycle, economic sentiment, euro area, convergence, labour markets, unemployment, Russia-Ukraine war, commodity prices, inflation, price controls, trade disruptions, renewable energy, gas, electricity, monetary policy, fiscal policy, impact on Austria

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