

Macroeconomic Outlook for the CEE Region



December 2024

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Group Chief Economist

1. GLOBAL OUTLOOK

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22.608

19.307

4.852

23.795

1.803

35.891



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Current situation: much better than expected...

- Inflation back within sight of target
- Low cost to growth and employment
- Central banks are easing policy

But not uniformly so

- Industry in global recession; Germany stagnating
- Consumers reeling with price level shock
- Incumbent politicians getting punished



Forward base case: soft landing in all regions

but

Continued US exceptionalism

With risks to both growth and inflation

Magnified by Trumponomics



Longer term challenges loom large

Public debt, defense, population ageing,
energy transition, AI

And need to be dealt with amid repeated shocks

Wars, geoeconomic fragmentation, climate events, populism



2. CENTRAL EUROPEAN ECONOMIES: LOSING STEAM BUT RESISTING



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1- Global Panorama



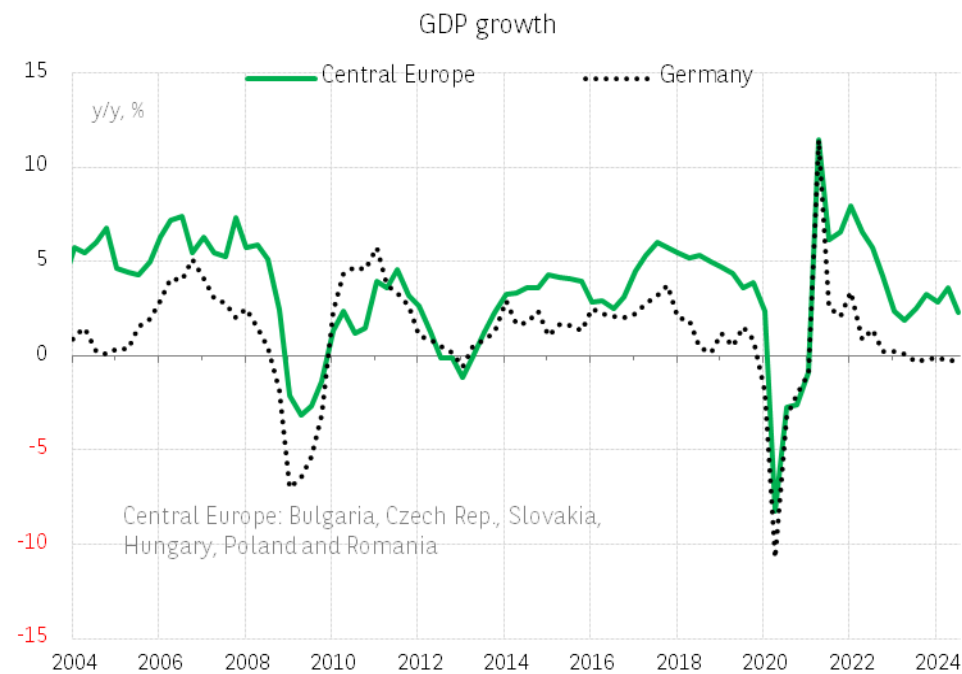
2- Central European Economies

3- Outlook



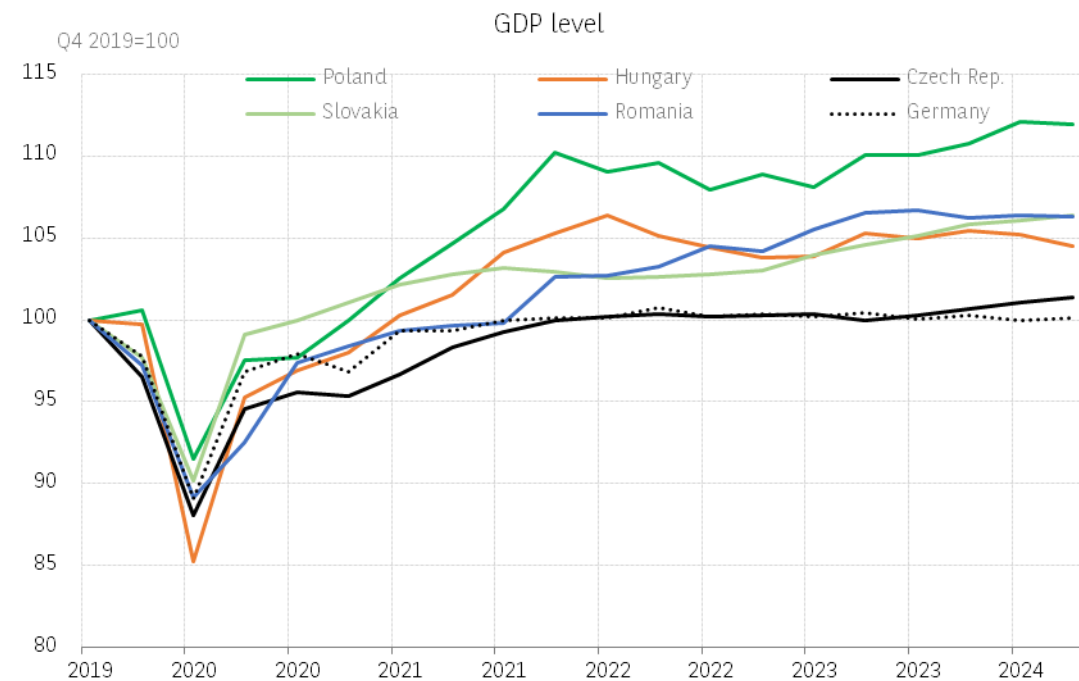
4- Special Focus

Synchronised economic slowdown in Central Europe (CE) and in Germany



Source: Eurostat, National Statistics Institutes, BNPParibas

Across CE economies, diverging growth paths



Source: Eurostat, BNPParibas



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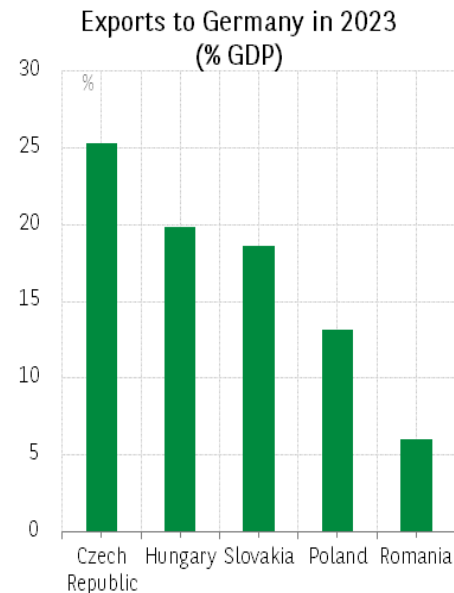
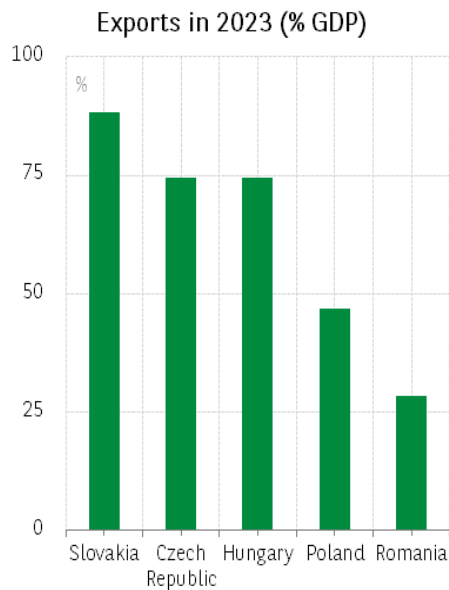
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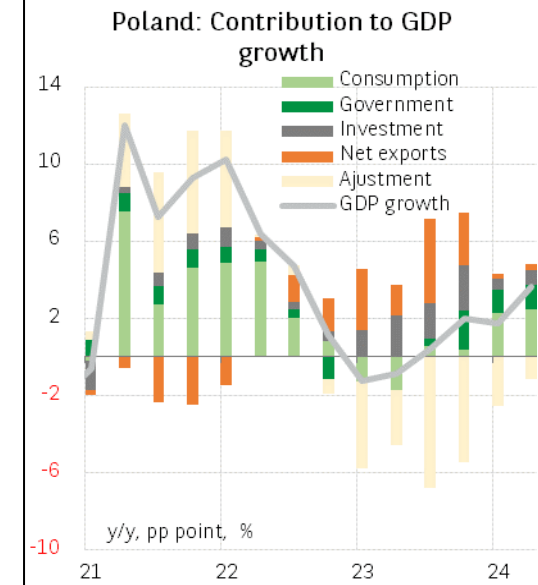
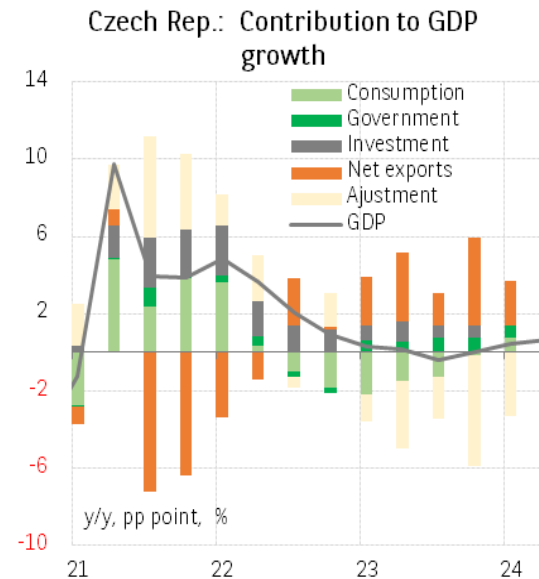
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Most CE countries are very open economies; hence are exposed to external shocks. They are also strongly exposed to Germany



Source: IMF DOTS, WEO, BNPParibas

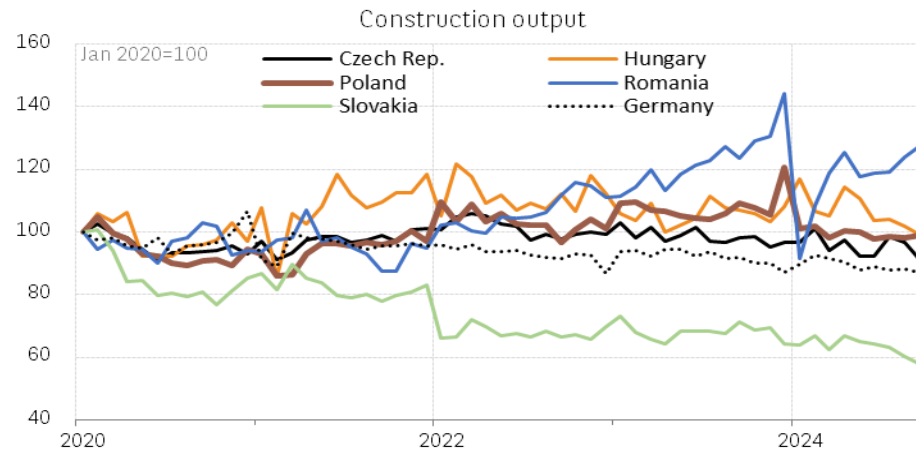
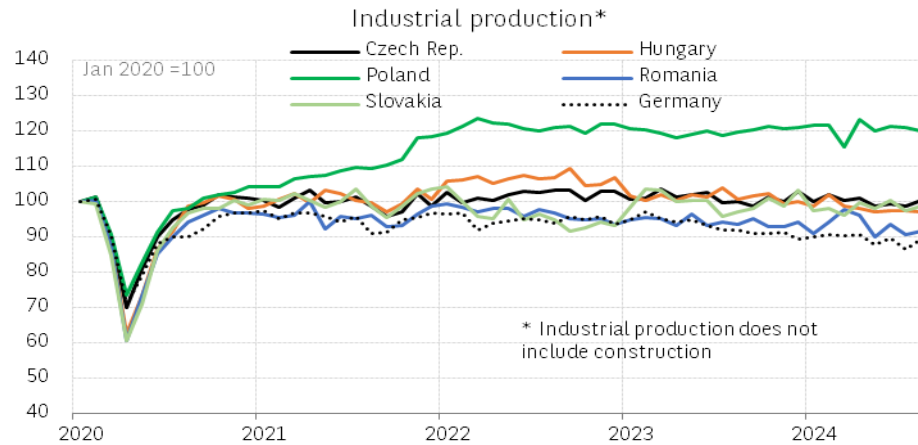
Contribution of external demand to growth narrowing for very open and less open economies



Source: Eurostat, BNPParibas

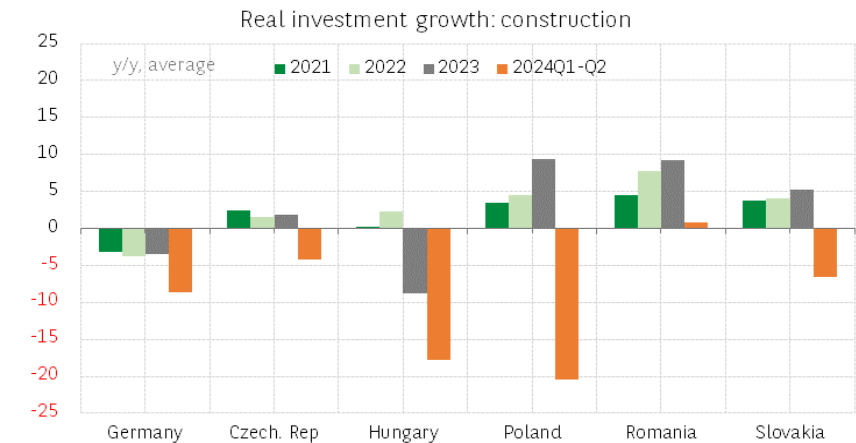
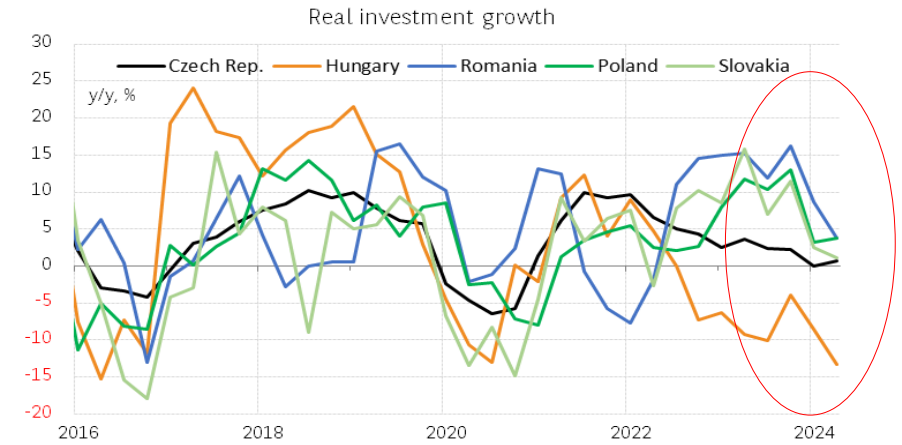
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Industrial production is depressed. Poland's industrial activity is hovering higher but is still stagnant ; Construction output also subdued



Source: Eurostat, BNPParibas

Investment is weakening in all countries. In Hungary, investment is contracting and the decline is more pronounced in the region



Source: Eurostat, BNPParibas



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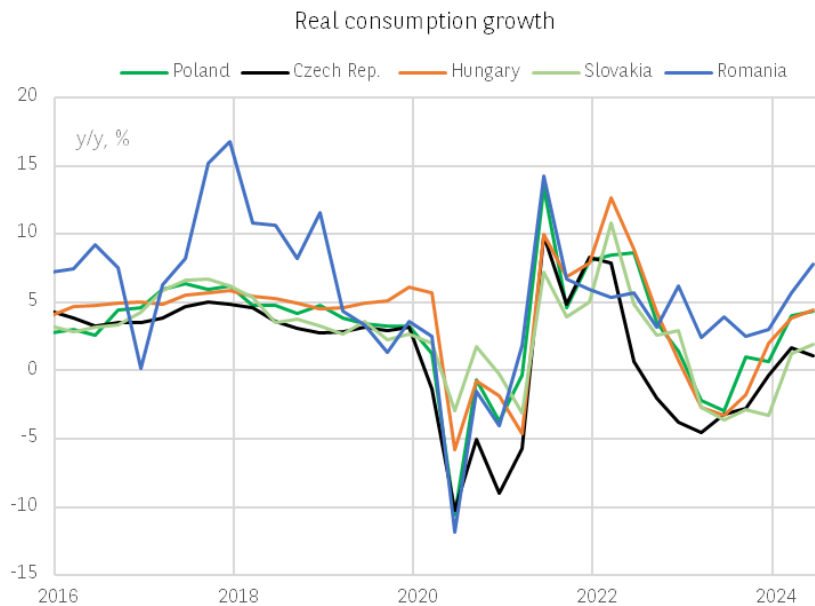
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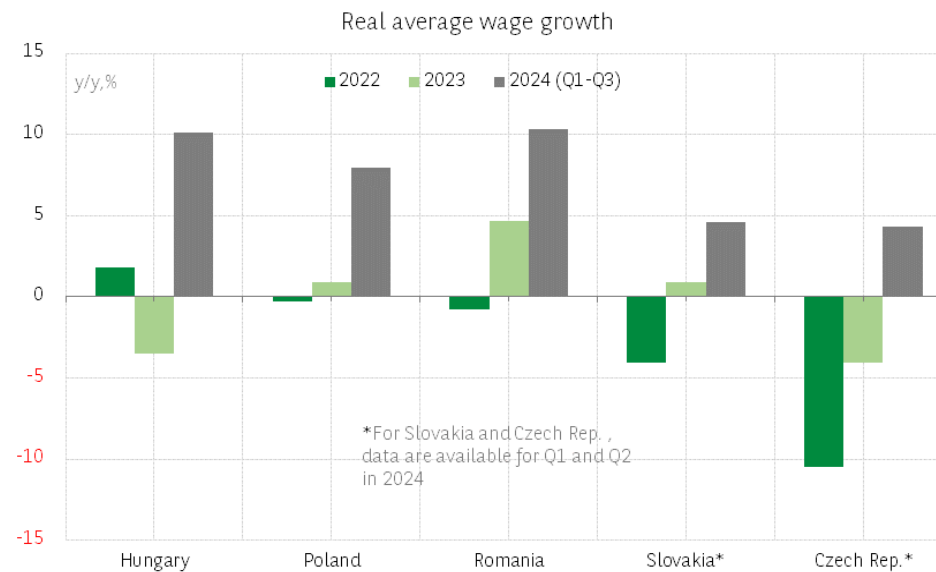
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Consumption is recovering since end 2023 but the boost is not enough to compensate for weak investment and net exports



Source: Eurostat, BNPParibas

Improvement in real wages have supported households' purchasing power since mid-Q3



*For Slovakia and Czech Rep., data are available for Q1 and Q2 in 2024

Source: Eurostat, BNPParibas



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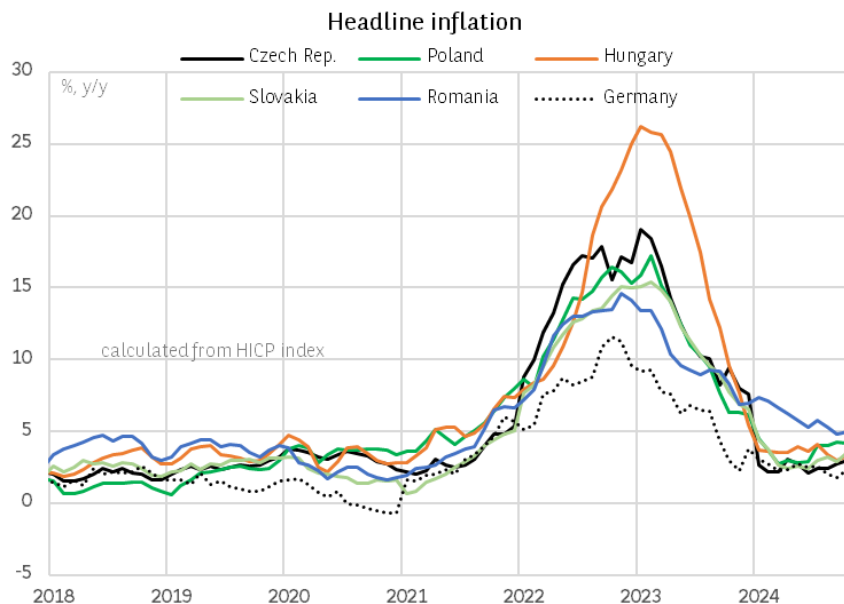
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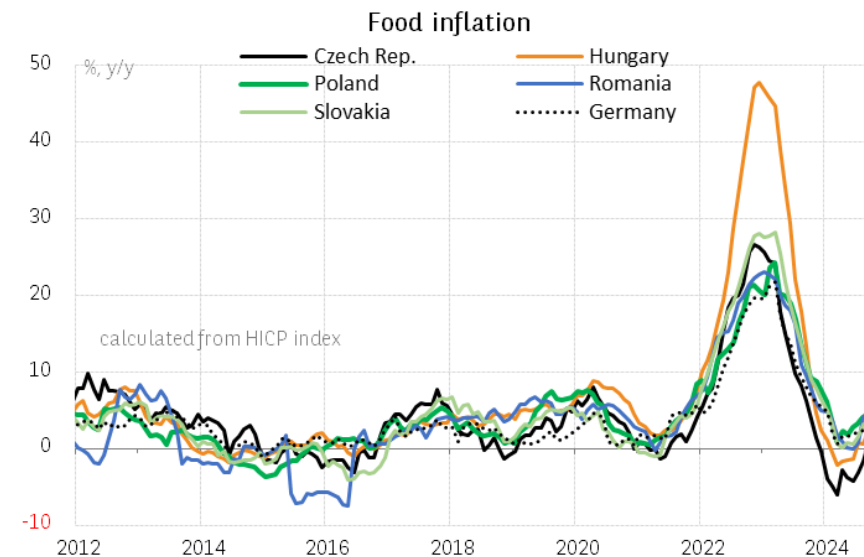
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Inflation receded from the peak in 2023 but is picking up moderately



Source: Eurostat, BNPParibas

The rise in headline inflation is driven by the recent increase in food prices



Source: Eurostat, BNPParibas



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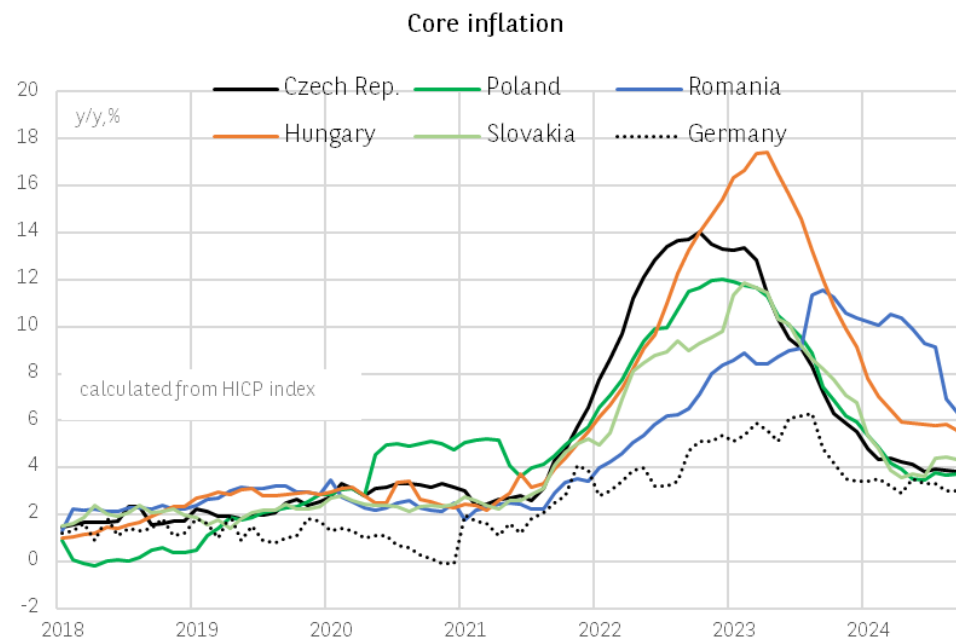
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Core inflation lower but remains sticky



Source: Eurostat, BNPParibas



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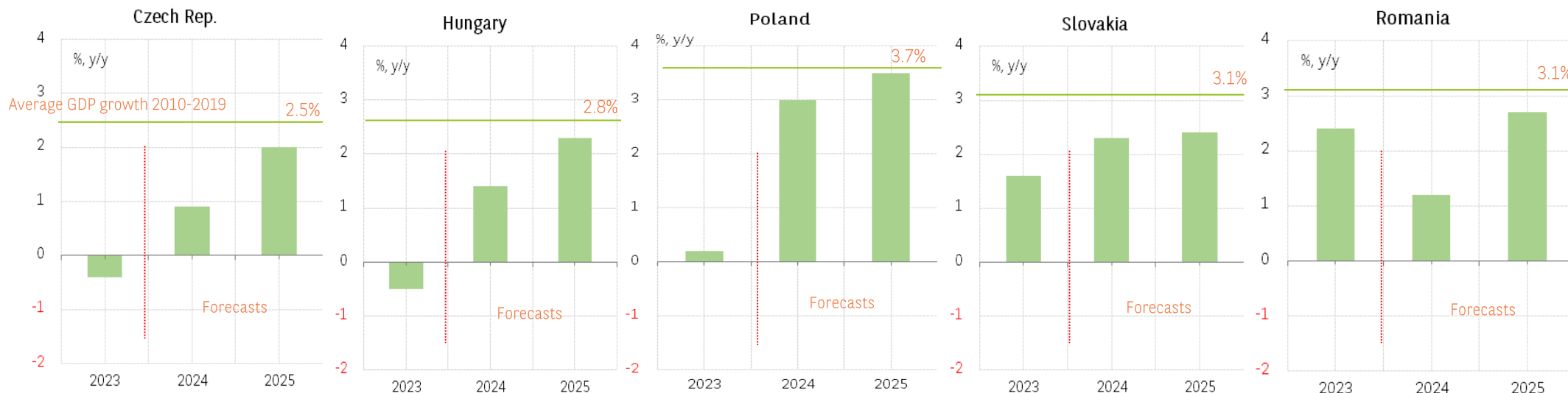
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GDP growth and forecasts



Source: Eurostat, Global Markets forecasts, BNPParibas

- Growth prospects below long-term average of 2010-2019
- Growth prospects to remain below medium-term growth potential except for Poland in 2025.

	Medium term GDP growth potential,%
Czech Rep.	2.5
Hungary	3.0
Poland	3.0
Slovakia	2.7
Romania	3.75

Source: IMF, BNPParibas





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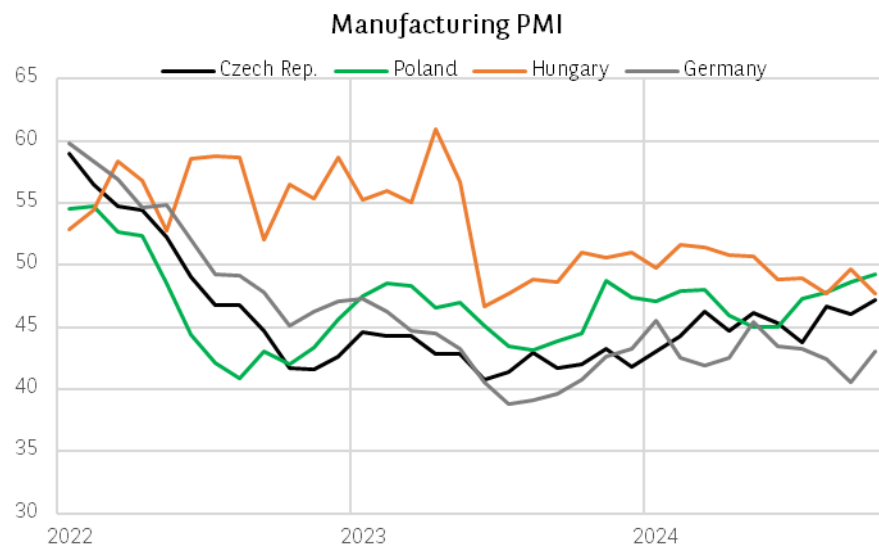
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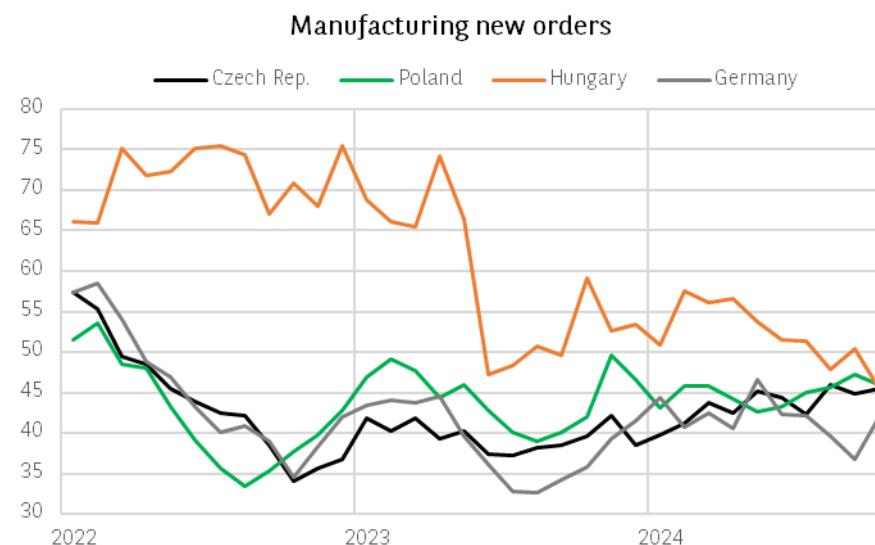
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Manufacturing PMI still pointing to a contraction



Source: S&P Global, Halpim, BNPParibas

Manufacturing orders a tad higher in Germany but still subdued; hence slow recovery ahead in external demand; Orders still soft in CEE



Source: S&P Global, Halpim BNPParibas



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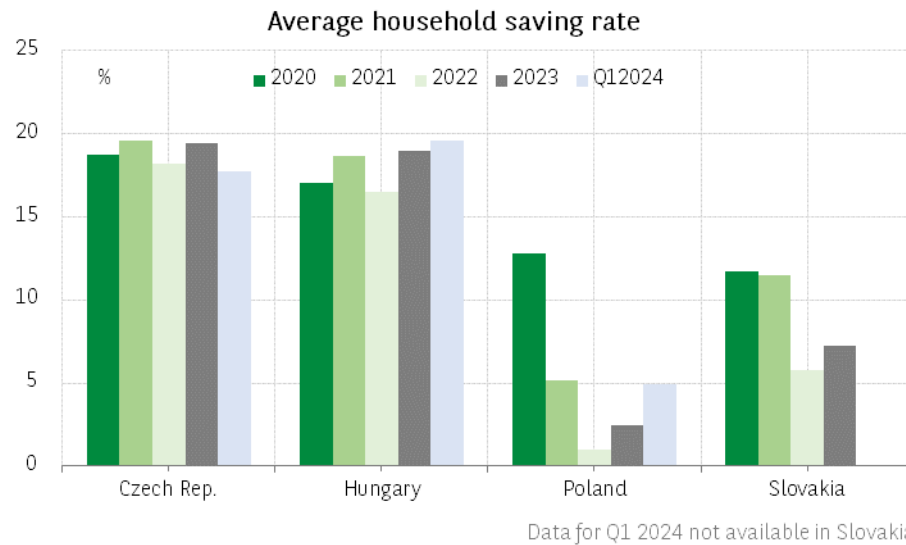
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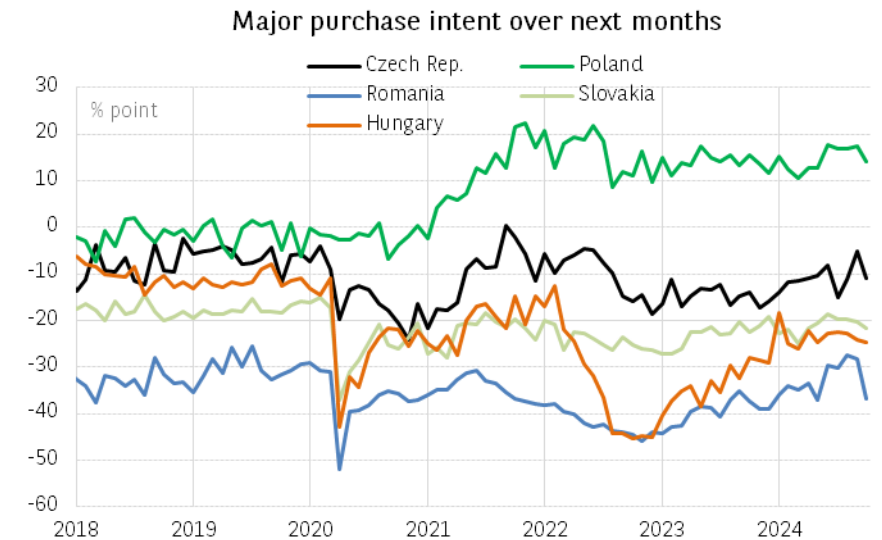
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Average household savings rate remain high in Czech Republic and in Hungary



Source: Eurostat, BNP Paribas

Survey on consumers' purchase intent point to cautious behaviour in the near term



Source: ECFIN, European Commission, BNP Paribas



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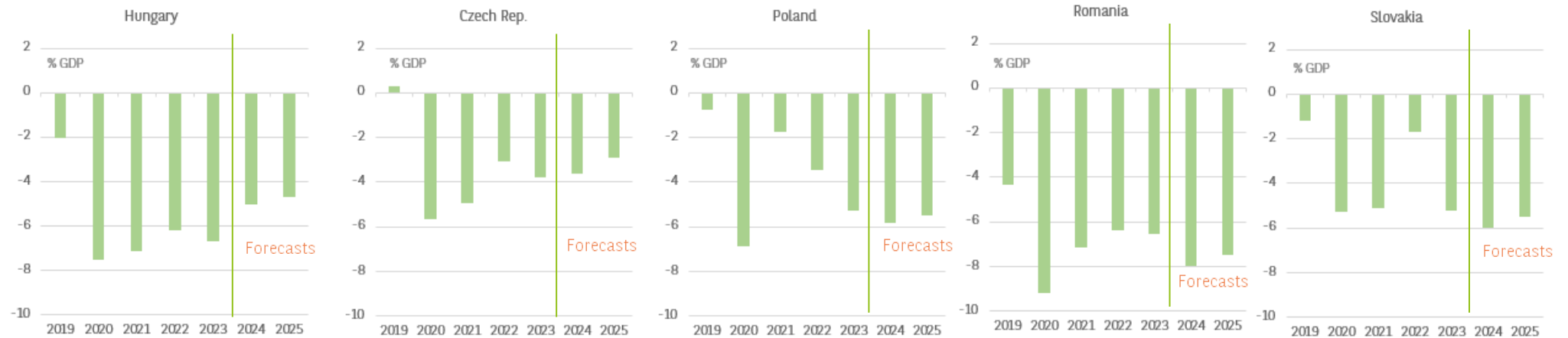
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Fiscal deficit expected to remain elevated despite most Central European countries placed under Excessive Deficit Procedure by the European Union

Fiscal deficit-to-GDP forecasts



Source: Eurostat, BNPParibas

- All CE countries except Czech Republic are expected to breach EU's fiscal rule in 2024 and 2025 (fiscal deficit target of 3% of GDP)
- According to fiscal adjustment plans in respective CE countries, the required reduction in the structural primary balance ranges from 0.7-1.3 ppt of GDP per year
- Busy election calendar and strong defense spending needs suggest enhanced consolidation plans pushed towards 2026



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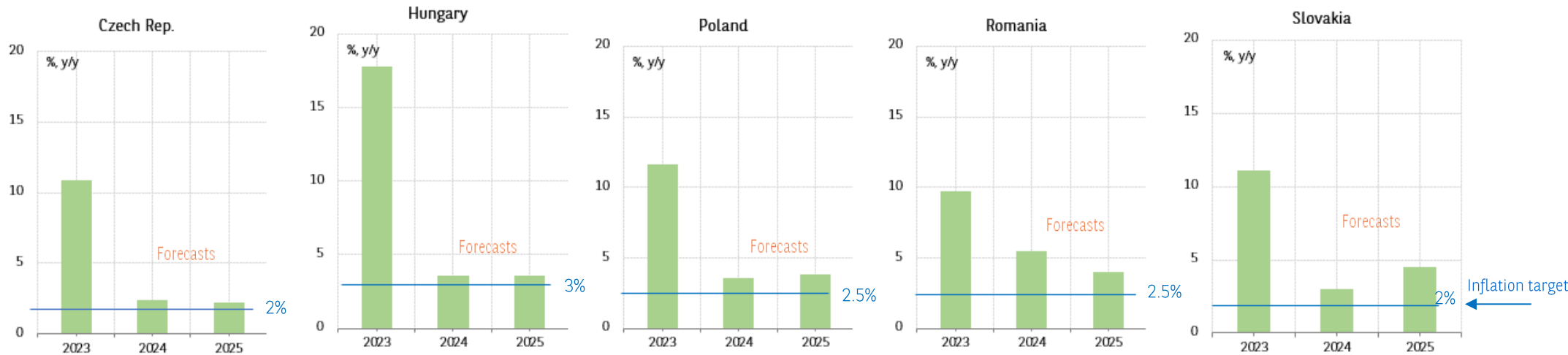


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Source: Eurostat, Global Markets forecasts, BNPParibas

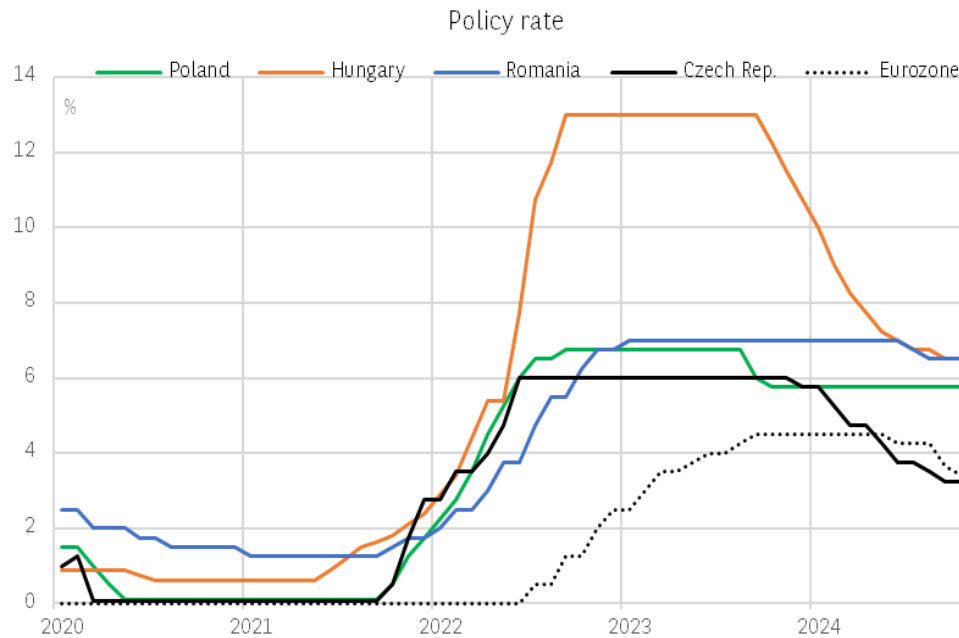
Specific case for Poland and Slovakia and to a lesser extent Hungary : Inflation expected to pick up due to policy measures

- Poland : Cap on energy prices was raised in H2 2024; Inflation is expected to peak in Q1 2025
- Slovakia : Increase in VAT rate from 20% to 23% from 1 January 2025
- Hungary : Financial transaction tax introduced last August expected to increase inflation by 0.1 percentage point in 2024 and 0.2/0.3 ppt in 2025 according to the Central Bank's estimates



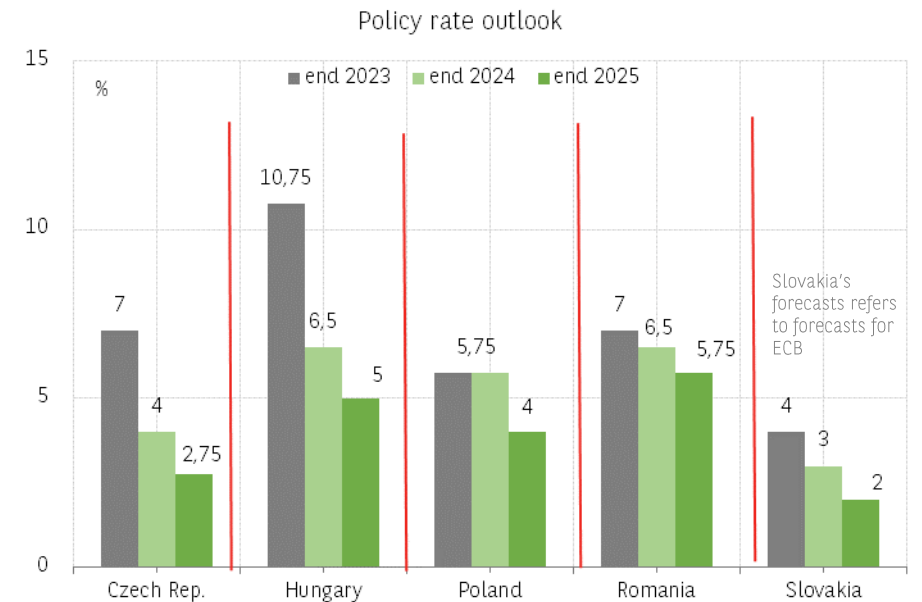
Monetary policy: easing bias to remain in the near term, with moderate cuts in 2025

Central banks in CEE shifted to lower gear since end 2023; Policy rate remains well above pre-Covid levels



Source: Central Banks, BNPParibas

Policy rate outlook: More easing in the pipeline next year but moderate policy rate cuts expected



Source: Central Banks, Global Markets forecasts, BNPParibas

- Poland's Central Bank was the first in the region to kick off the easing cycle but maintained a status quo shortly after
- Hungary followed suit and policy easing was more aggressive;
- Czech Republic and Romania joined the bandwagon with a measured easing

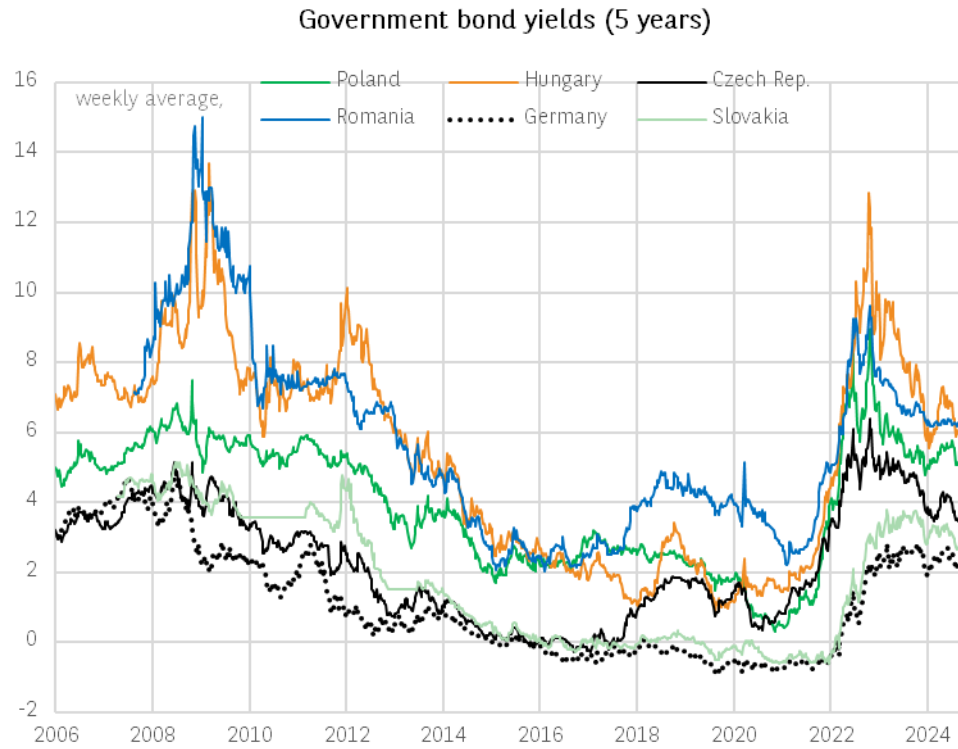
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Monetary easing has provided relief for Government bond yields



Source: Datastream, Thomson Financial, BNPParibas

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4. SPECIAL FOCUS



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Romania - 2024

Presidential elections: November/December

- * First round: 24th November
- * Surprise outcome: Far-right candidate C. Georgescu and centre-right candidate Elena Lasconi in the presidential race
- * Second round: 8th December

General elections: 1 December

- * What is at stake? To what extent are Euroskeptic parties gaining ground.
- * Basecase scenario: Romania likely to maintain its pro-EU stance



Poland - 2025

Presidential elections: May 2025

- * What is at stake? Will the ruling Party continue to face potential Presidential veto.
- * Currently, the government lacks a majority of 60% in Parliament and cannot bypass the Presidential veto.
- * Coalition Government of Donald Tusk has faced several veto from current President, affiliated to the opposition



Czech Republic - 2025

General elections: to be held by October 2025

- * What is at stake? To what extent are Euroskeptic parties gaining ground.
- * Euroskeptic, former Prime Minister, A.Babis, will run in next elections
- * His party (ANO) won the regional elections held in September 2024
- * ANO party is gaining ground in opinion polls for general elections



Hungary - 2026

General elections: 2026 (April)

- * What is at stake? Is a shift towards a pro-EU stance possible in 2026.
- * Recently formed opposition party, Tisza, represented by Peter Magyar is gaining ground in polls
- * Tisza scored 29% of votes in last June's EU elections





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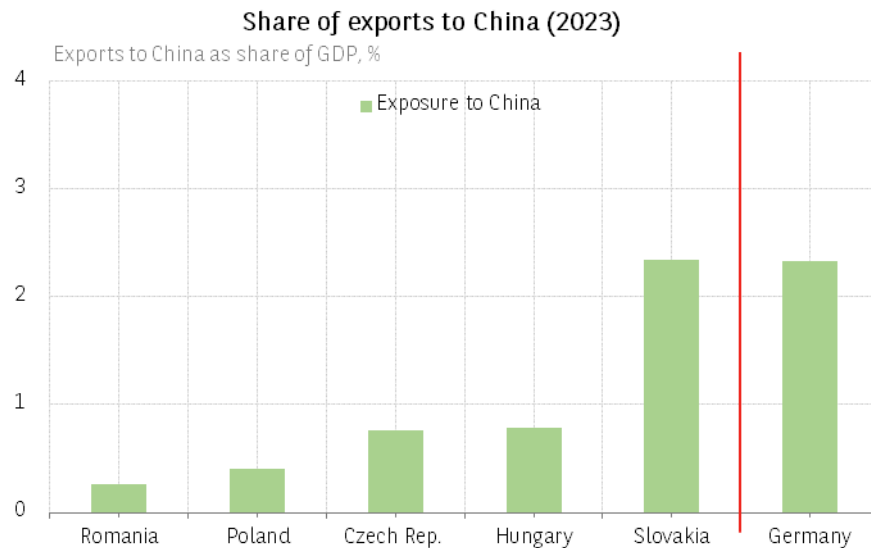
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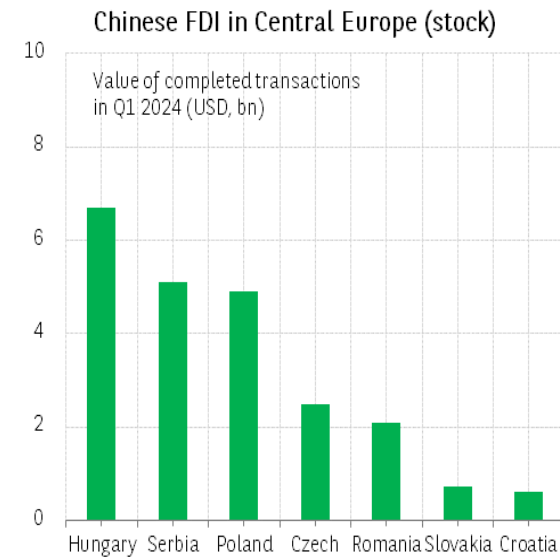
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Impact from trade channel: CE economies have limited direct exposure to China. CEE exports as a share to China very limited (except Slovakia). CEE countries likely to be impacted indirectly via Germany, their main trade partner. Germany is exposed to softer demand from China

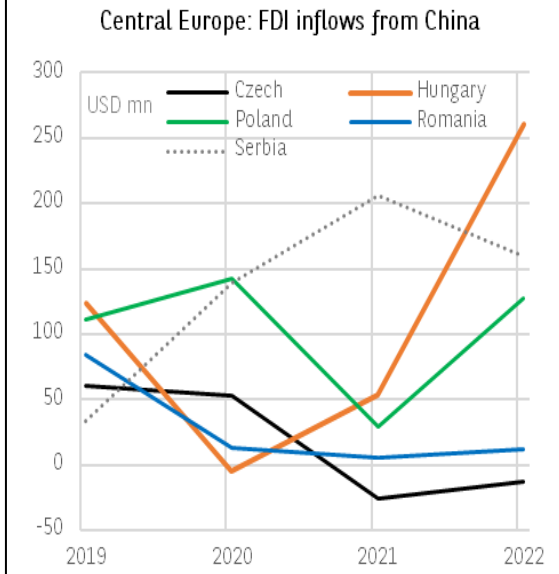


Source: IMF DOTS, BNP Paribas

Mitigating factor: CEE is an attractive destination for FDI flows from China. Hungary obtained the lion's share in CEE; FDI inflows from China increased in 2021 and in 2022 especially in Hungary and Poland



Source: Rhodium group, BNP Paribas



Source: Chinese Ministry of Commerce, BNP Paribas



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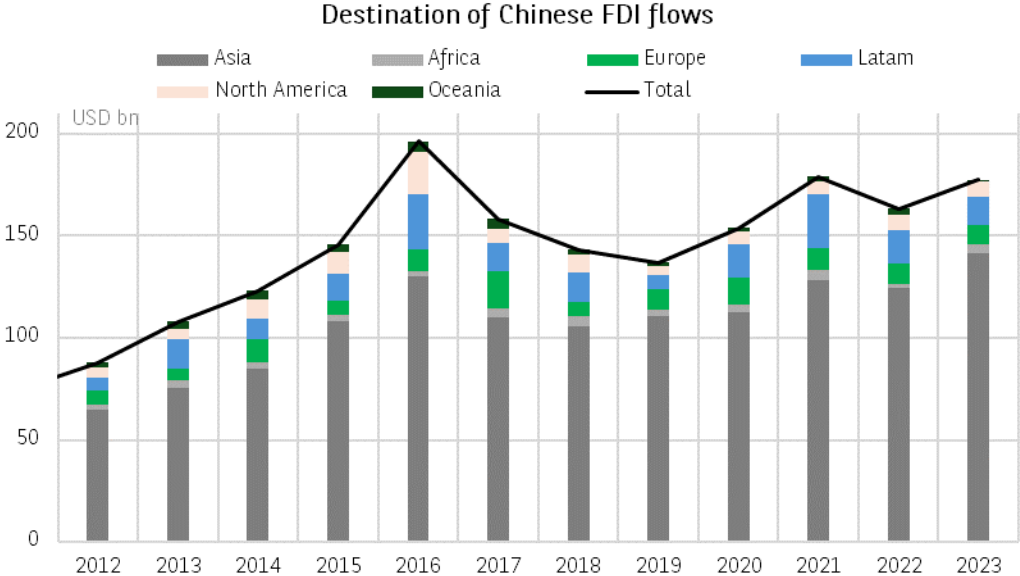
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FDI inflows from China towards Europe have remained moderate compared to other regions ; They are concentrated in Asia



Source: Chinese Ministry of Commerce, BNP Paribas



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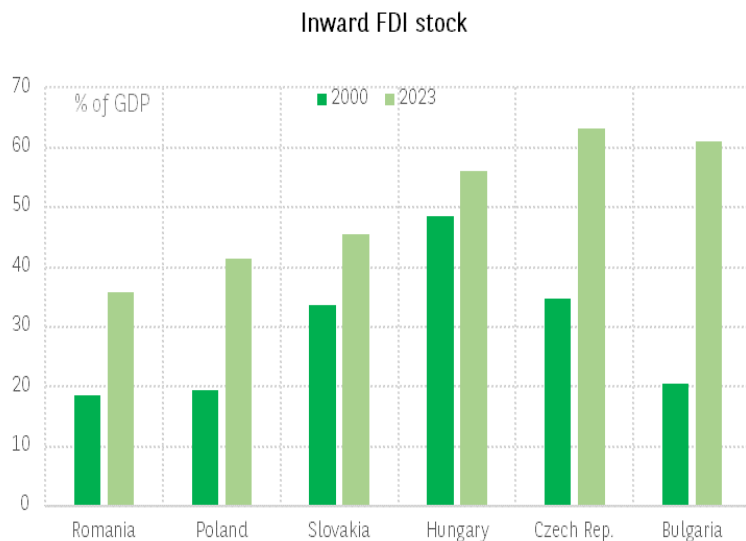
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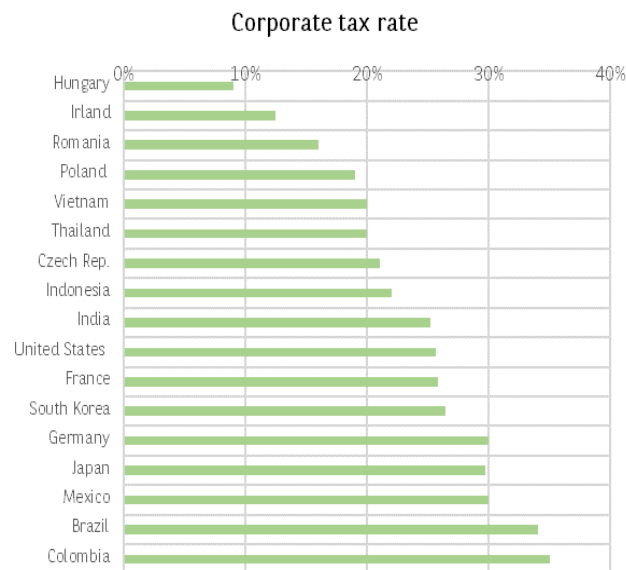
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FDI stock has increased compared to 2000



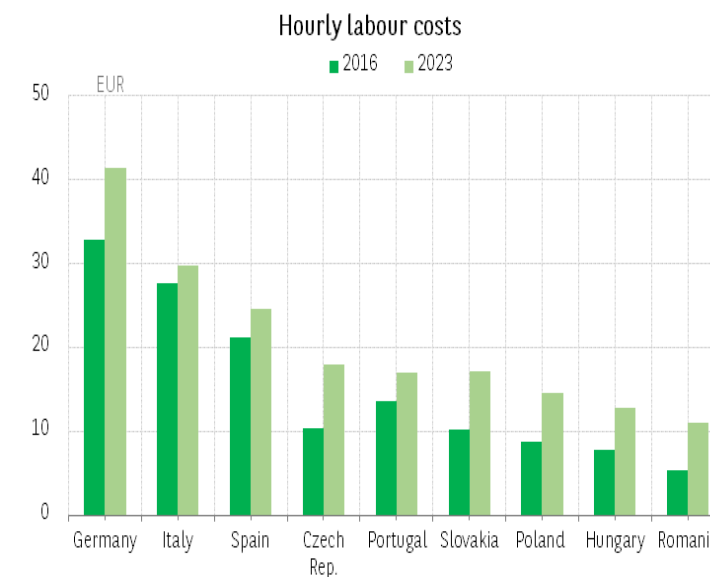
Source: UNCTAD, World Investment report, BNP Paribas

Corporate tax rates are competitive



Source: OECD, BNP Paribas

Wage costs still below Western Europe



Source: Eurostat, BNP Paribas