Press release

CEE Quarterly: Domestic demand powers growth, worries central banks

Belgrade, July, 2024 - UniCredit economists foresee the economies in EU-CEE[i] to grow by around 2.7% in 2024 and 2.9% 2025, with the Western Balkans growing by around 3%.

"***Private consumption will remain the biggest growth driver, with public investment contributing this year and capex expected to rebound in 2025. Net exports will not boost economic growth until next year***.", comments **Dan Bucsa** in the latest economic research CEE Quarterly. According to him, CEE households will see their purchasing power continue to rise in 2H24 and 2025.

The expectations are that the Hungarian presidency of the Council of the EU will prioritize EU expansion to the Western Balkans, reducing migration to the EU and improving competitiveness. The Western Balkans have a historic opportunity to reform, receive EU funding and, in the longer term, access the European customs union and receive sovereign upgrades. So far, reform momentum remains weak, and UniCredit economists see Montenegro as the frontrunner in negotiations.

Commenting on the Report, **Nikola Vuletić, President of the Management Board of UniCredit Bank Serbia**, pointed out: "*Given the favorable macroeconomic trends in the first half of the year in our country, economists have revised growth from 3.0 to 3.4% by the end of 2024. Relaxation of monetary policy as well as a strong inflow of foreign direct the investment should additionally accelerate the growth of private investments in the coming period. I would also emphasize the fact that for Serbia, a strong commitment to the implementation of the new EU plan for the Western Balkans is extremely important, which would additionally have an impact on the stronger growth of the economy and the approximation of the country's investment credit rating*".

The economists observe that Central banks have turned more cautious in 2024 due to persistent inflationary pressure amid loose fiscal policy and strong consumer demand. However, markets may now be underestimating the number of rate cuts in 2025, when we see policy rates approaching terminal rates in this cycle.

Countries like Hungary, Slovakia, Poland, Romania and Turkey will have to reduce their budget deficits, but they will remain far from the 3%-of-GDP threshold. Fiscal risks are limited in all other CEE countries. "***In the absence of fiscal tightening, we see risks of sovereign downgrades in Hungary, Romania and Slovakia***", says the report.

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Digitalization and our commitment to ESG principles are key enablers for our service. They help us deliver excellence to our stakeholders and creating a sustainable future for our clients, our communities, and our people.

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[1] EU-CEE se odnosi na zemlje CIE koje su članice EU: Bugarsku, Hrvatsku, Češku, Mađarsku, Poljsku, Rumuniju, Slovačku i Sloveniju.