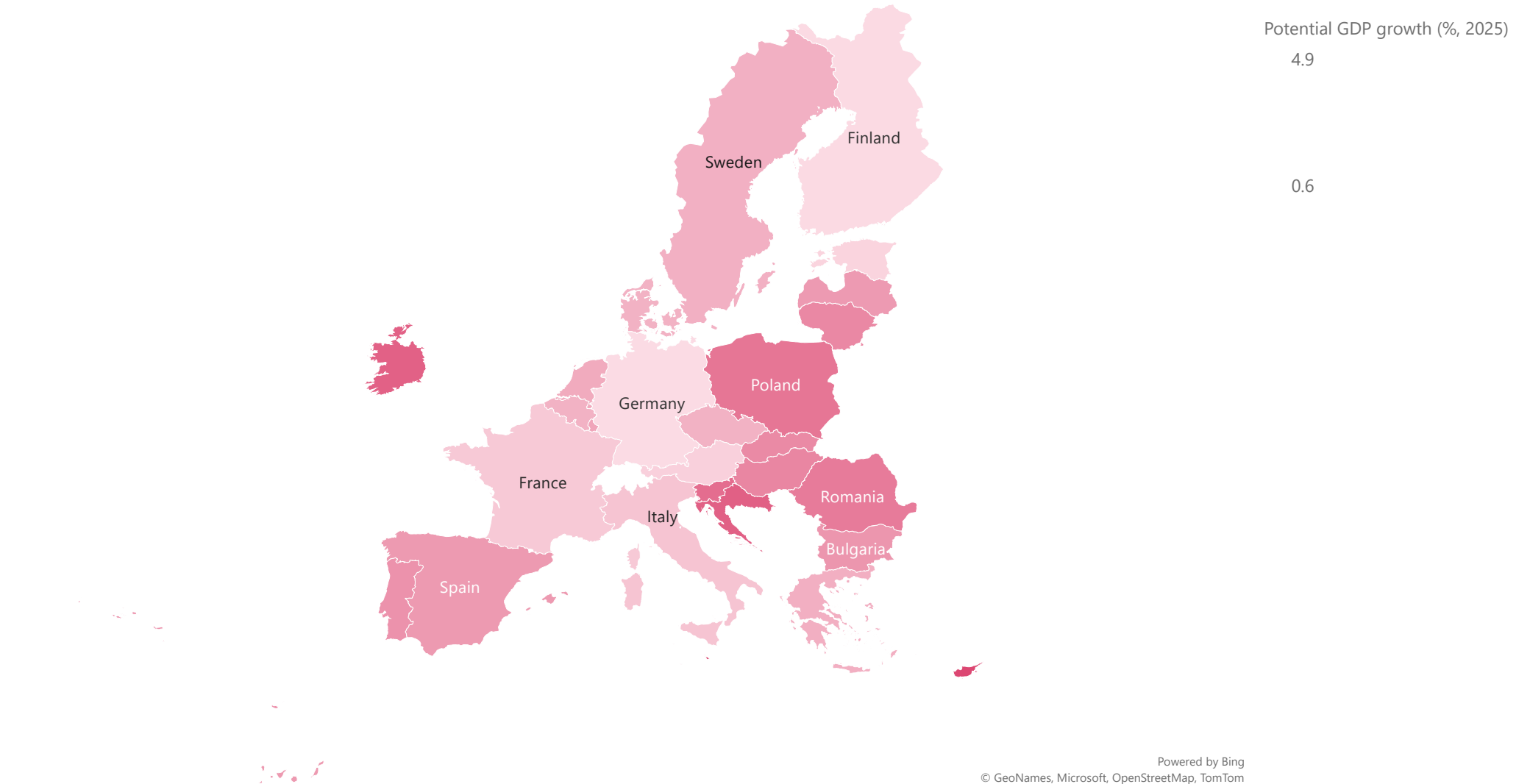




CEE context

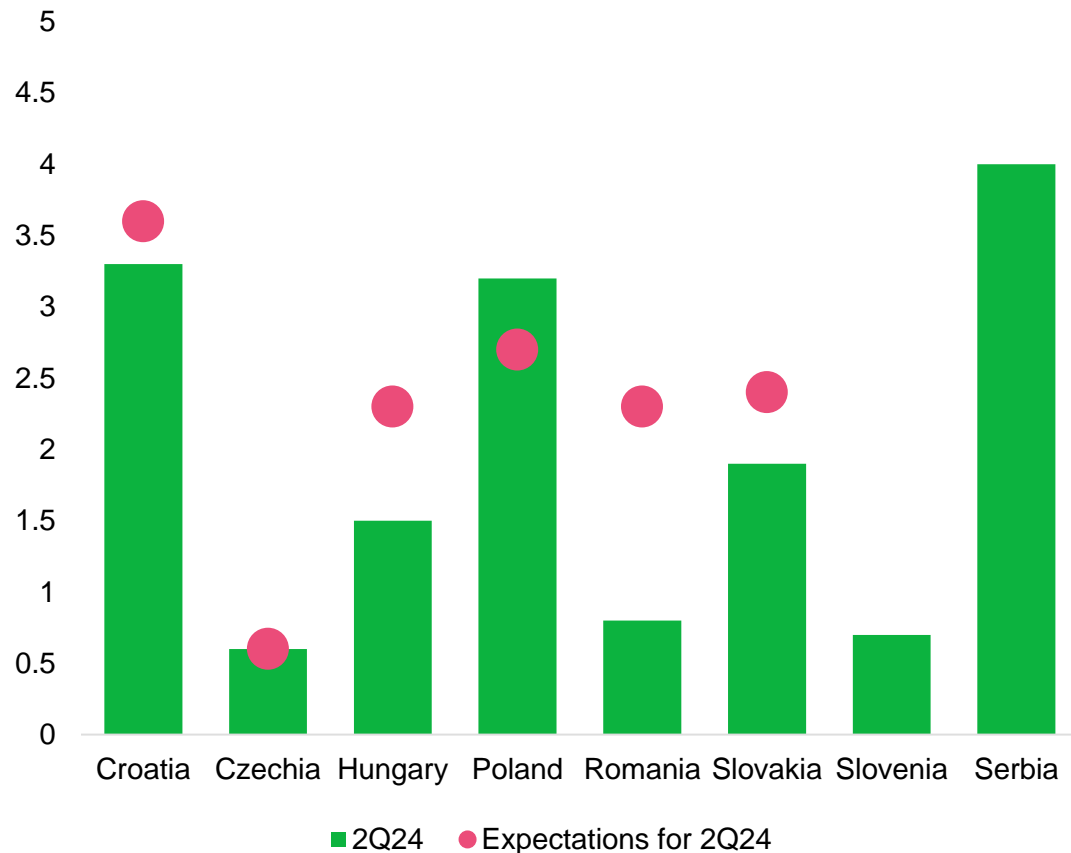
Ciprian Dascalu
24-Sep-24

CEE region - highest estimated potential GDP growth in EU

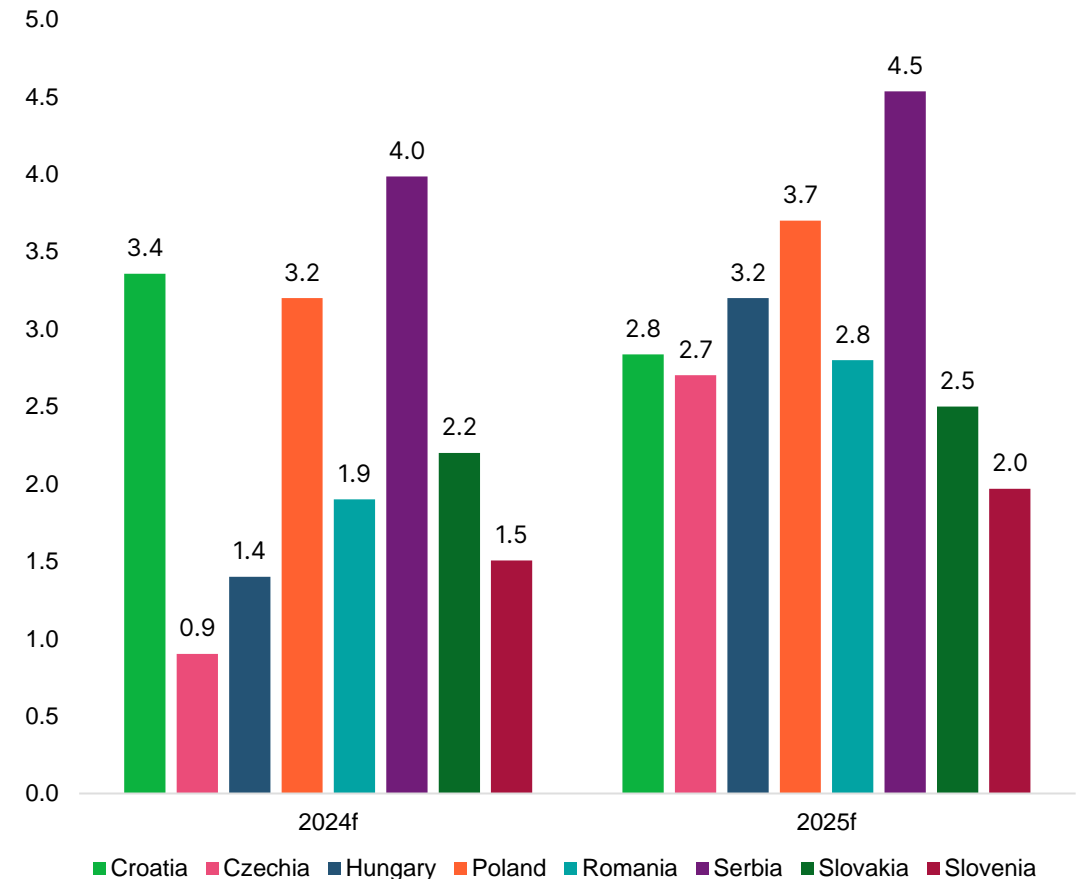


2Q24 GDP downside surprises prompt us to revise GDP accordingly. Croatia and Serbia on track with solid growth. Polish growth is stronger than monthly indicators suggest.

2Q24 GDP growth, percent



2024 and 2025 growth forecast, percent



Private consumption carries growth across the region. Weak investment activity in Hungary, in particular.



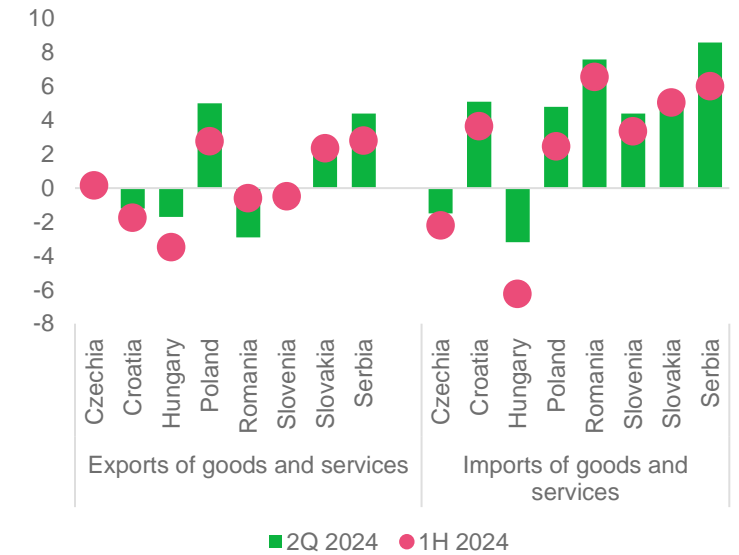
Households' consumption growth, percent y/y

Real wage growth supports private consumption, which is the key driver of the growth.



Investment growth, percent y/y

Investment growth in 2024 has weakened, due to a switch in the budgeting period of the EU funds to MFF 21-27.



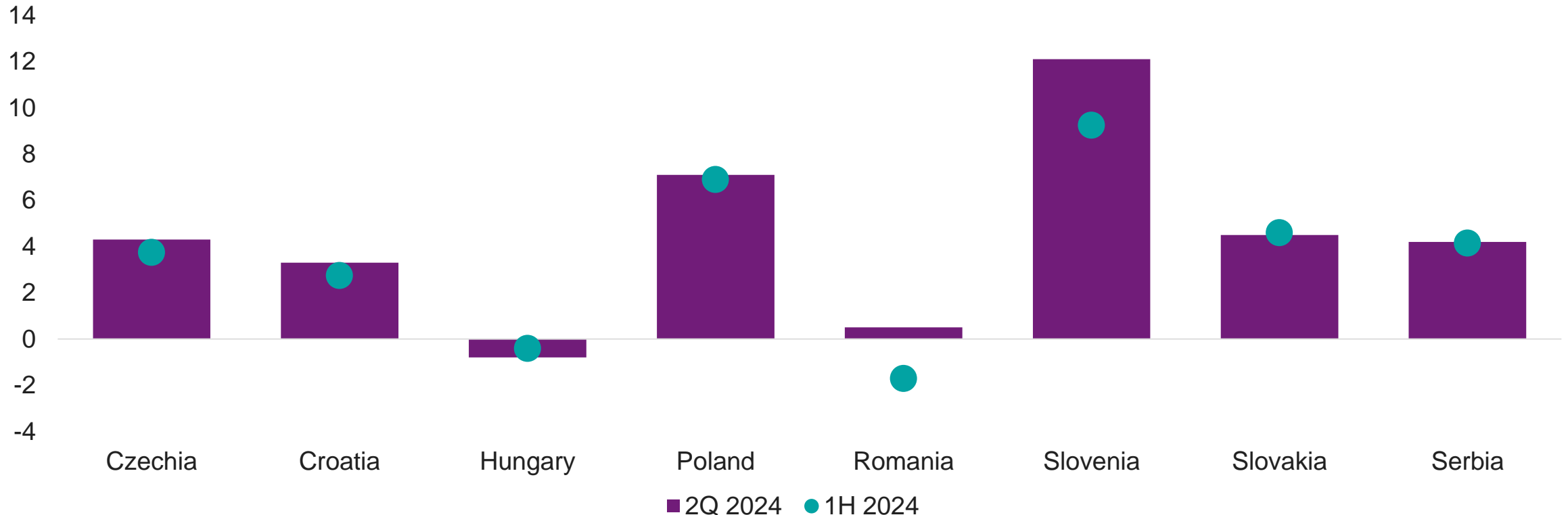
Imports grew faster than exports, percent y/y

Positive contribution of net exports declined in several CEE countries. In others, it even became negative.

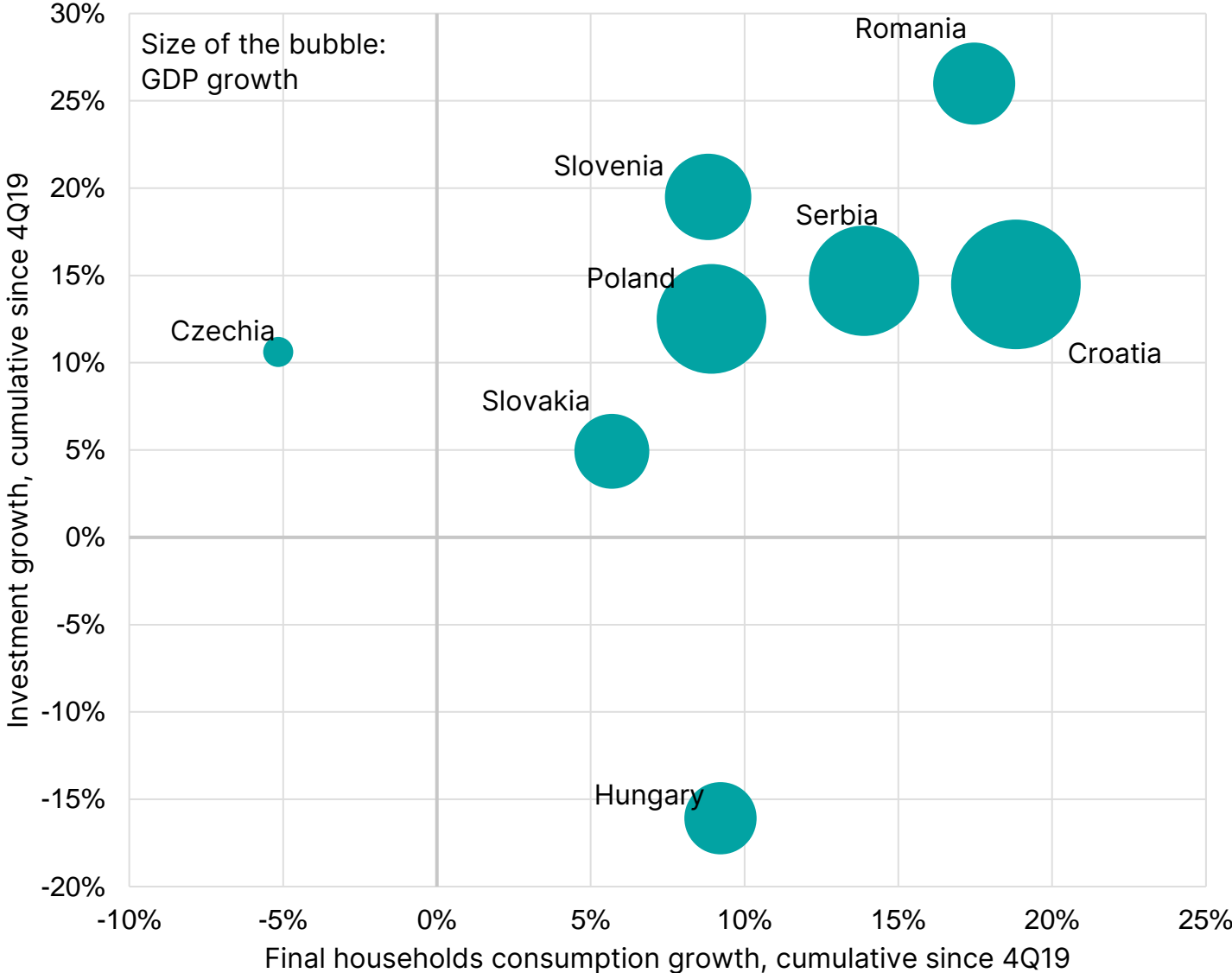
Very strong public consumption growth.

Alongside household final consumption expenditure, the public sector supported growth to a great extent in several CEE countries, most notably in Poland - growth above 10% y/y added 2 percentage points to the 2Q24 growth figure. In Slovakia, it has been driven by dynamic growth of public wages, for example.

Final consumption of government, percent y/y



GDP, consumption and investment growth since pandemic, cumulative since 4Q19



Balanced structure of post-pandemic recovery, apart from Czechia and Hungary

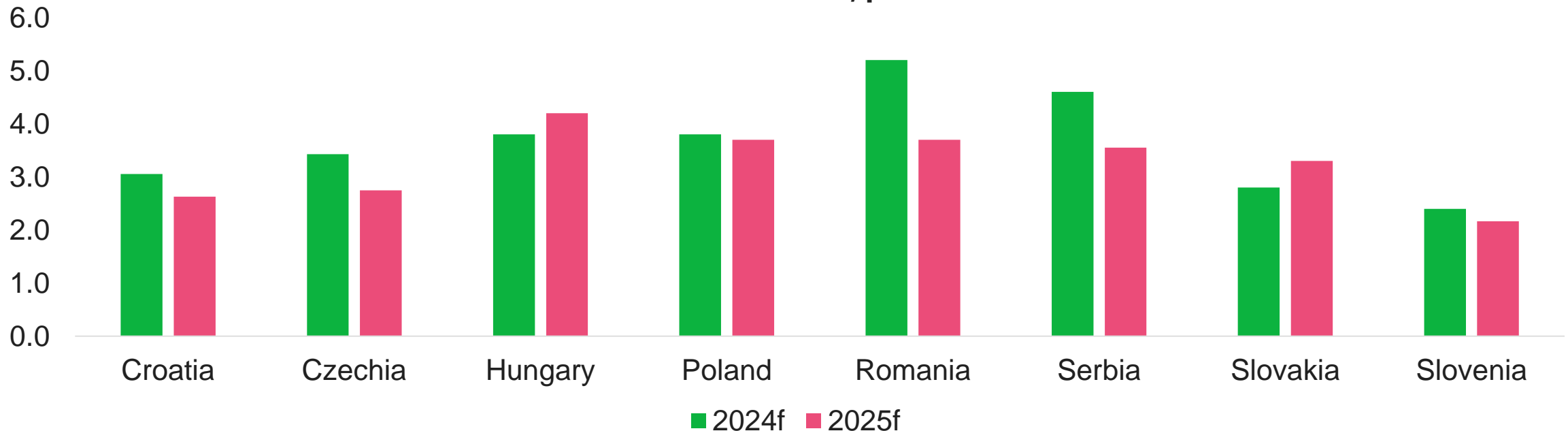
In most of the CEE countries, the post-pandemic recovery has been balanced, i.e. both consumption and investment grew compared to 4Q19.

Czechia and Hungary are the two exceptions, however. In Czechia, private consumption is roughly 5% lower compared to the pre-pandemic level, as Czechia experienced the biggest loss of purchasing power over the last couple of years. In Hungary, on the other hand, investment growth lagged behind, roughly 15% lower compared to 4Q19.

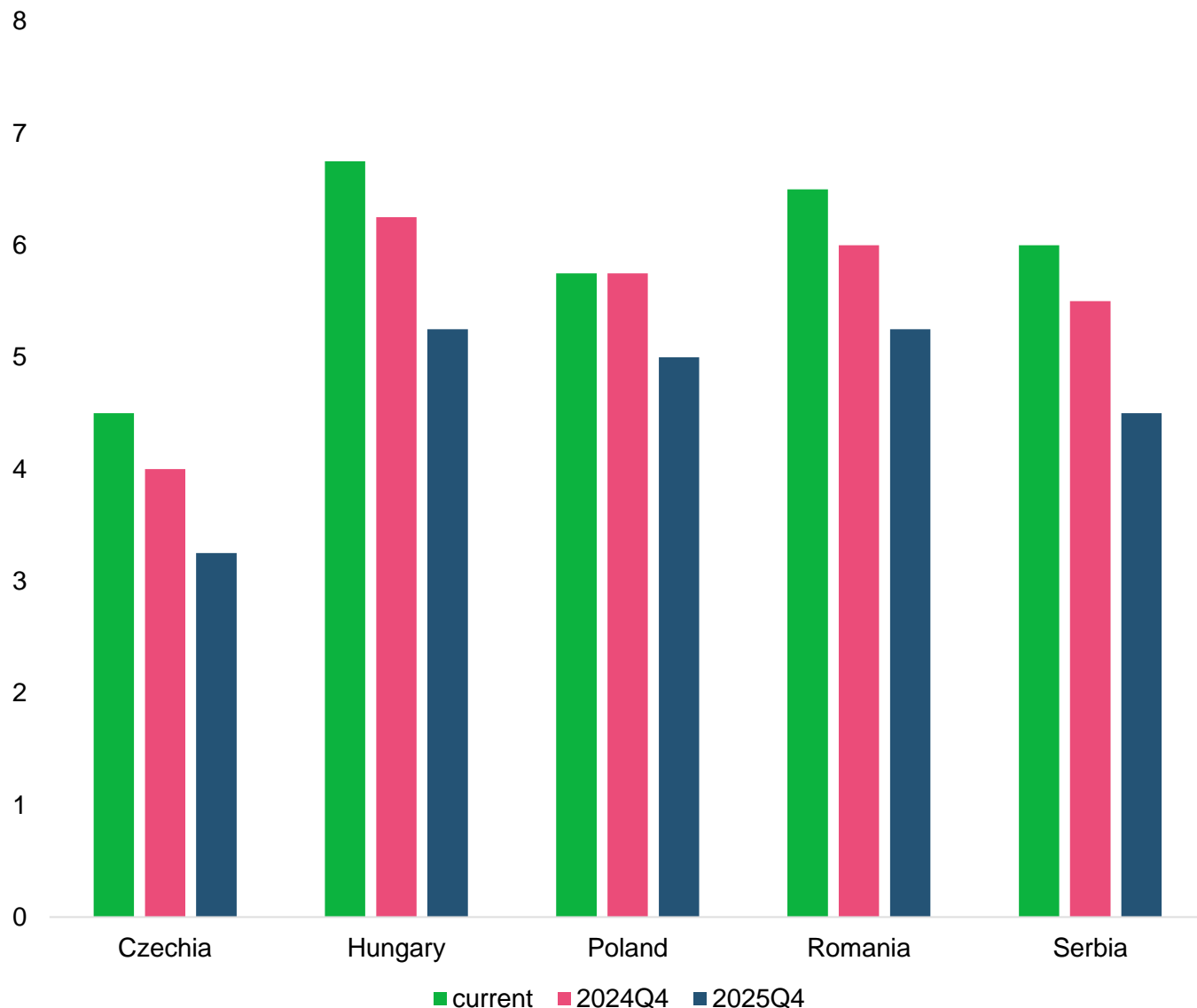
Average inflation should decline in 2025 in most CEE countries.

Next year, inflation is expected to ease further. At this point, the downside risks to the growth are mounting (Germany's weakness, fiscal consolidation in CEE). If they materialize, they will be disinflationary. On the other hand, there are upside risks stemming from pending adjustment of energy prices (Slovakia) and possible tax increases within fiscal consolidation plans.

Inflation forecast, percent



Key interest rate forecast, percent



Monetary easing to continue in 2025 across the region.

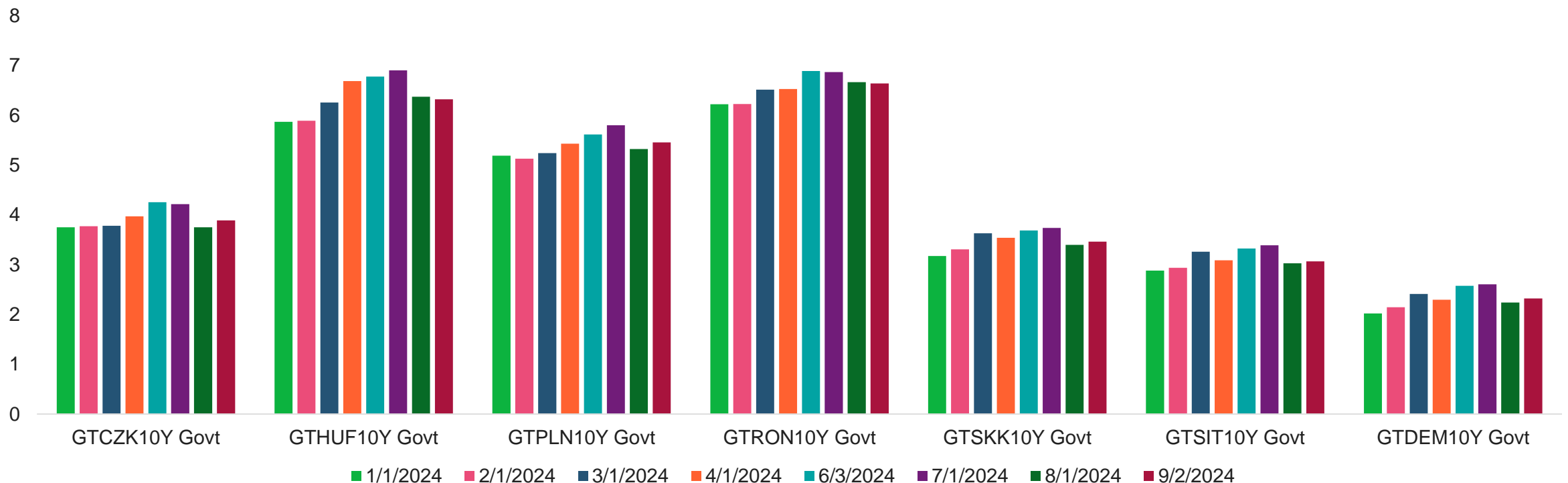
This year, the key interest rate is expected to drop in all CEE countries except for Poland, with an inflation rate increase driven by regulation of energy prices.

Czechia and Hungary lowered their key rates substantially in 2024; thus, the space for monetary easing has narrowed.

In 2025, monetary easing should continue amid inflation falling toward the central bank's target. The most sizeable monetary easing is expected in Serbia.

Long-term yields moved down recently, erasing increase from first half of year.

Long-term yields seem to have peaked in July and since then they have been moving south, as expectations for the monetary policy outlook have been changing on the major markets. We expect long-term yields to moderately decline further, amid ongoing monetary easing.



Macro Forecasts

Real GDP growth (%)				
	2022	2023	2024f	2025f
Croatia	7.0	3.1	3.4	2.8
Czechia	2.9	0.0	0.9	2.7
Hungary	4.6	-0.9	1.4	3.2
Poland	5.6	0.2	3.2	3.7
Romania	4.1	2.1	1.9	2.8
Serbia	2.5	2.5	4.0	4.5
Slovakia	1.9	1.6	2.2	2.5
Slovenia	2.5	1.6	1.5	2.0
CEE8 avg	4.4	0.7	2.4	3.2

Public debt (% of GDP)				
	2022	2023	2024f	2025f
Croatia	67.8	63.0	61.0	59.8
Czechia	42.5	42.3	44.9	45.1
Hungary	74.1	73.5	73.1	72.5
Poland	49.2	49.6	54.0	58.0
Romania	47.5	48.8	51.4	52.8
Serbia	55.2	52.0	51.2	50.4
Slovakia	57.7	56.0	58.2	59.7
Slovenia	72.3	69.2	68.6	68.0
CEE8 avg	52.6	52.4	55.0	56.8

Average inflation (%)				
	2022	2023	2024f	2025f
Croatia	10.8	8.1	3.1	2.6
Czechia	15.1	10.7	3.4	2.7
Hungary	14.5	17.6	3.8	4.2
Poland	14.4	11.4	3.8	3.7
Romania	13.7	10.5	5.2	3.7
Serbia	11.9	12.1	4.6	3.5
Slovakia	12.8	10.5	2.8	3.3
Slovenia	8.8	7.4	2.4	2.2
CEE8 avg	13.9	11.5	3.9	3.5

C/A (%GDP)				
	2022	2023	2024f	2025f
Croatia	-2.8	1.1	0.4	-0.4
Czechia	-5.9	1.2	0.5	0.8
Hungary	-8.4	0.2	2.2	2.2
Poland	-2.4	1.6	1.0	-1.0
Romania	-9.2	-7.0	-8.1	-7.8
Serbia	-6.9	-2.6	-4.2	-5.0
Slovakia	-7.3	-1.6	-0.6	-0.2
Slovenia	-1.0	4.5	2.3	1.9
CEE8 avg	-5.2	-0.3	-0.8	-1.6

Unemployment (%)				
	2022	2023	2024f	2025f
Croatia	7.0	6.1	5.6	5.5
Czechia	2.2	2.6	2.8	3.4
Hungary	3.6	4.1	4.4	3.9
Poland	5.2	5.1	5.1	5.0
Romania	5.6	5.6	5.3	5.2
Serbia	9.4	9.5	8.5	8.2
Slovakia	6.1	5.8	5.5	5.4
Slovenia	4.0	3.7	3.7	3.6
CEE8 avg	4.8	4.9	4.8	4.8

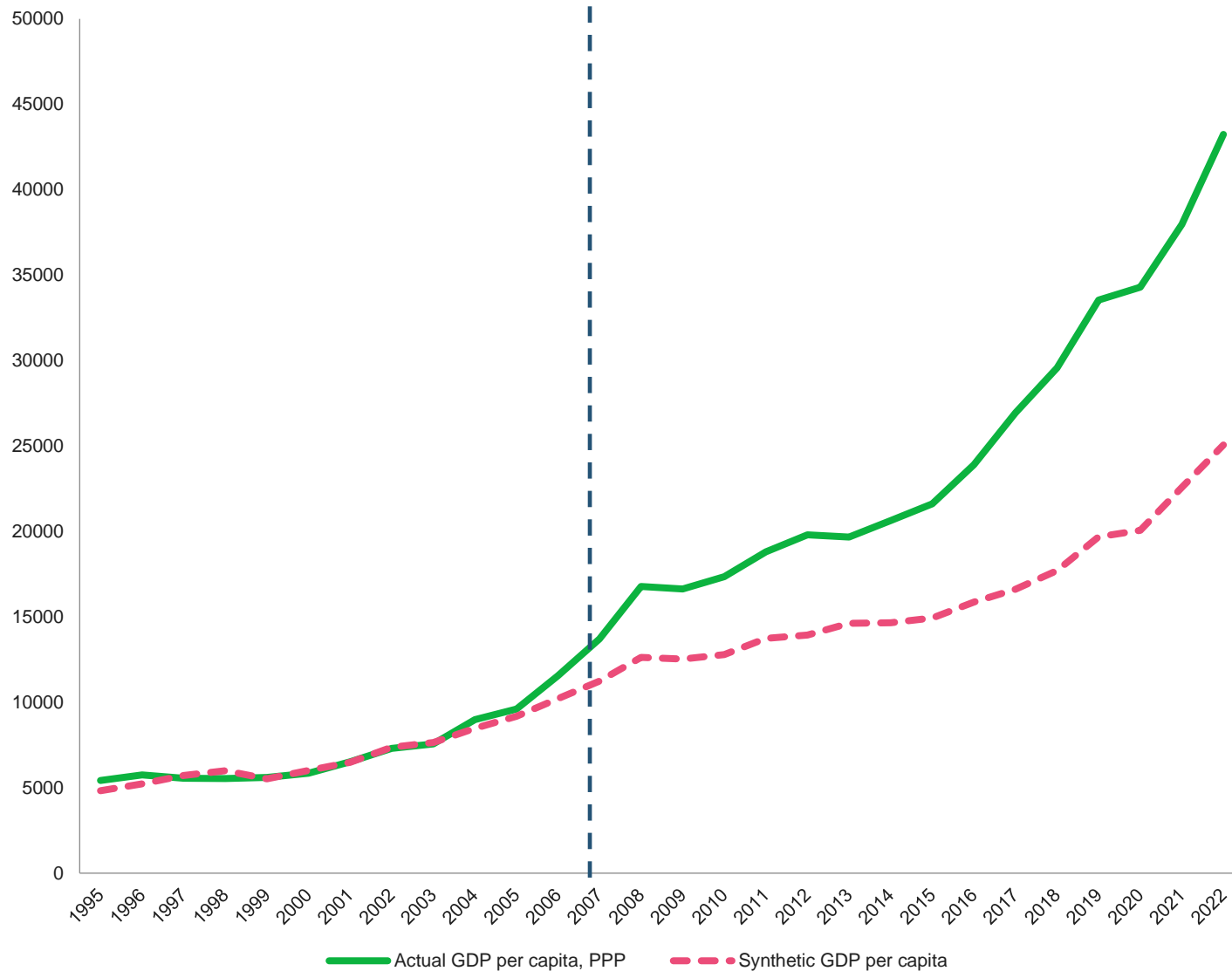
Budget Balance (%GDP)				
	2022	2023	2024f	2025f
Croatia	0.1	-0.7	-2.4	-2.0
Czechia	-3.1	-3.5	-2.7	-2.3
Hungary	-6.2	-6.7	-4.8	-4.4
Poland	-3.7	-5.6	-5.7	-5.8
Romania	-6.3	-6.6	-7.0	-5.5
Serbia	-3.1	-2.2	-2.2	-2.5
Slovakia	-1.7	-4.9	-6.0	-5.0
Slovenia	-3.0	-2.5	-3.0	-2.5
CEE8 avg	-3.9	-5.1	-5.1	-4.7



Romania: a successful convergence story

Ciprian Dascalu
24-Sep-24

Estimated impact of EU accession in GDP per capita



Empirical evidence suggest Romania has been benefiting greatly from EU membership

Romania has been an EU member state since 2007. Since then, over 95 billion EUR of EU funds have been absorbed by our country. **The estimated GDP per capita at PPP had our country not been part of EU is between 60% to 70% lower versus where it is currently.** [Looking at CEE region](#), Romania has the greatest estimated gains since EU accession.

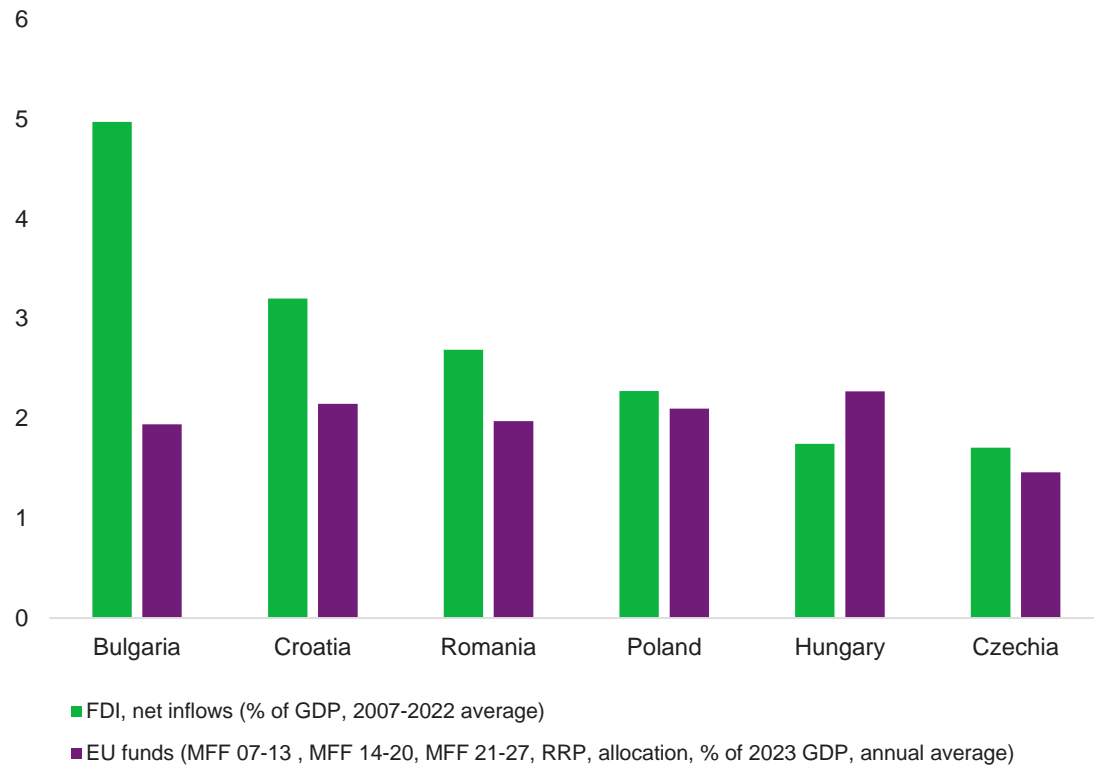
The estimation was done using the Synthetic Control Method* using data for 10 non-EU member countries around the world. The country with the highest weight in the estimation in the case of Romania was Serbia. The variables used: the GDP per capita at PPP, trade (exports+ imports), inflation (GDP deflator), secondary school enrolment ratio and industrialization.

*) The method estimates the GDP per capita before EU accession using the selected variables and countries and then assumes the relation still holds post EU accession but it exclude the positive effect of joining EU since those countries are not EU members

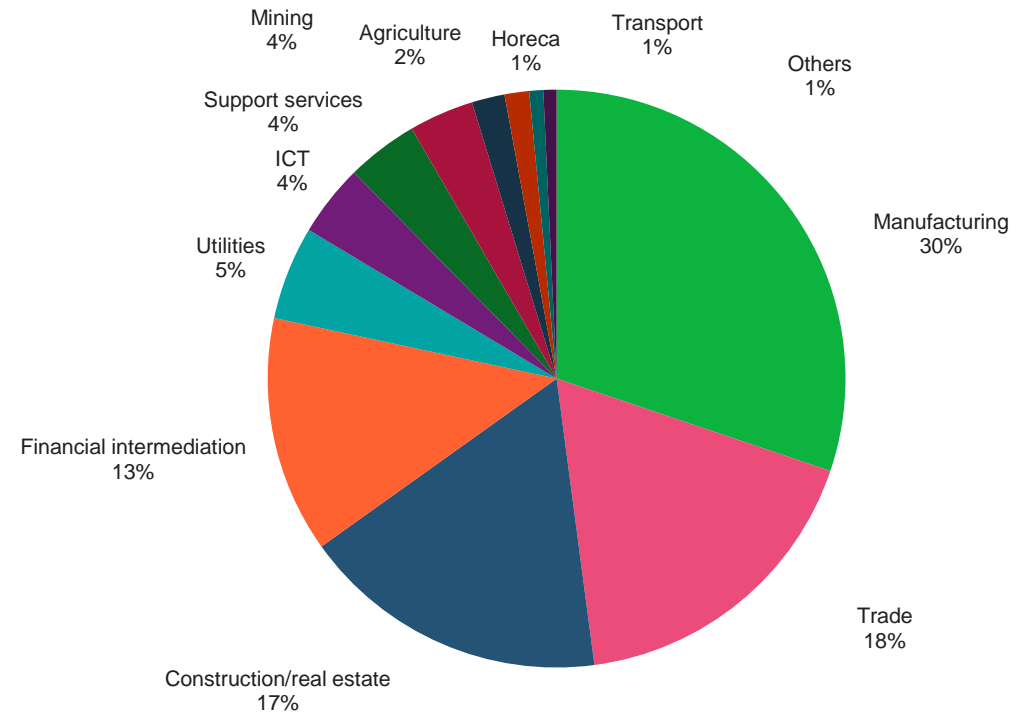
Strong FDI inflows and EU funds supported fast convergence process since EU adoption. EU funds seen at ~2% of GDP in 2024, after reaching historical record of 3.3% in 2023

FDI: Romania is top 3 destination for FDI in CEE vs. the size of the economy.

FDI breakdown by main economic activity: one third of FDI has been directed to export-oriented sectors



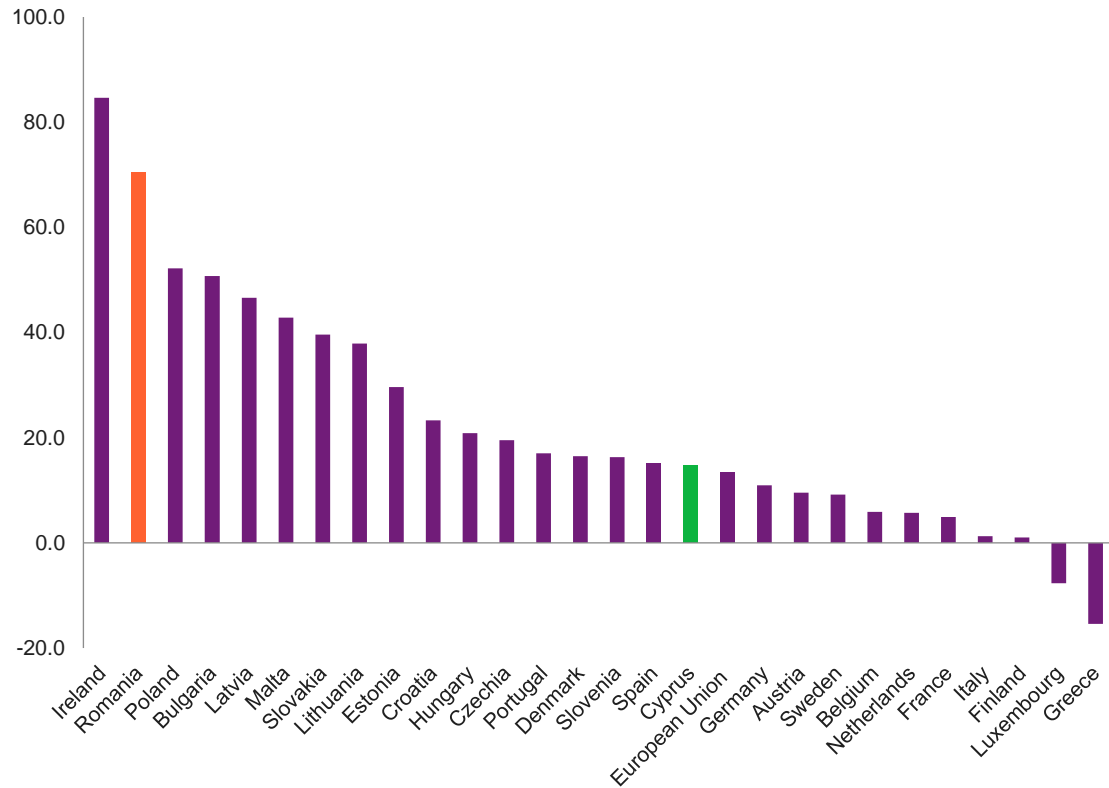
Source: Eurostat, CE, BCR Research



Source: Eurostat, EC, NBR, BCR Research

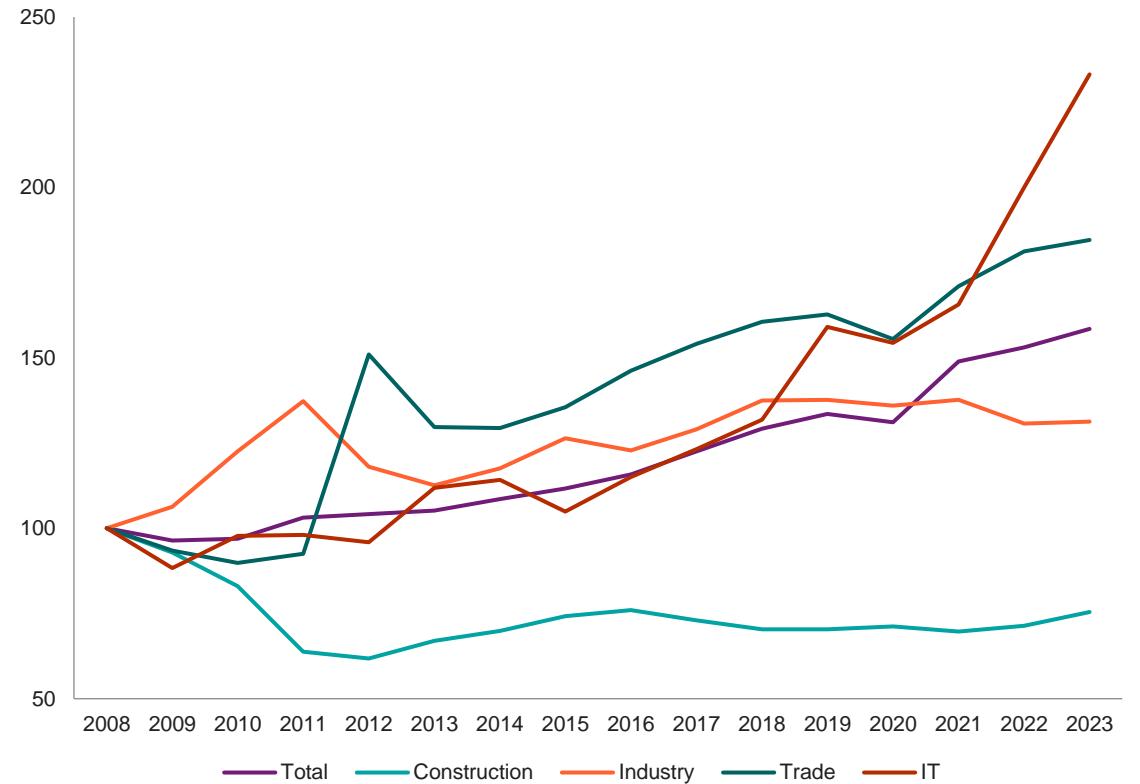
Foreign investment and EU money accelerated productivity gains post EU integration

Real labour productivity per hour worked: Romania has the 2nd fastest growth in the EU, 2023 vs 2007 (%)



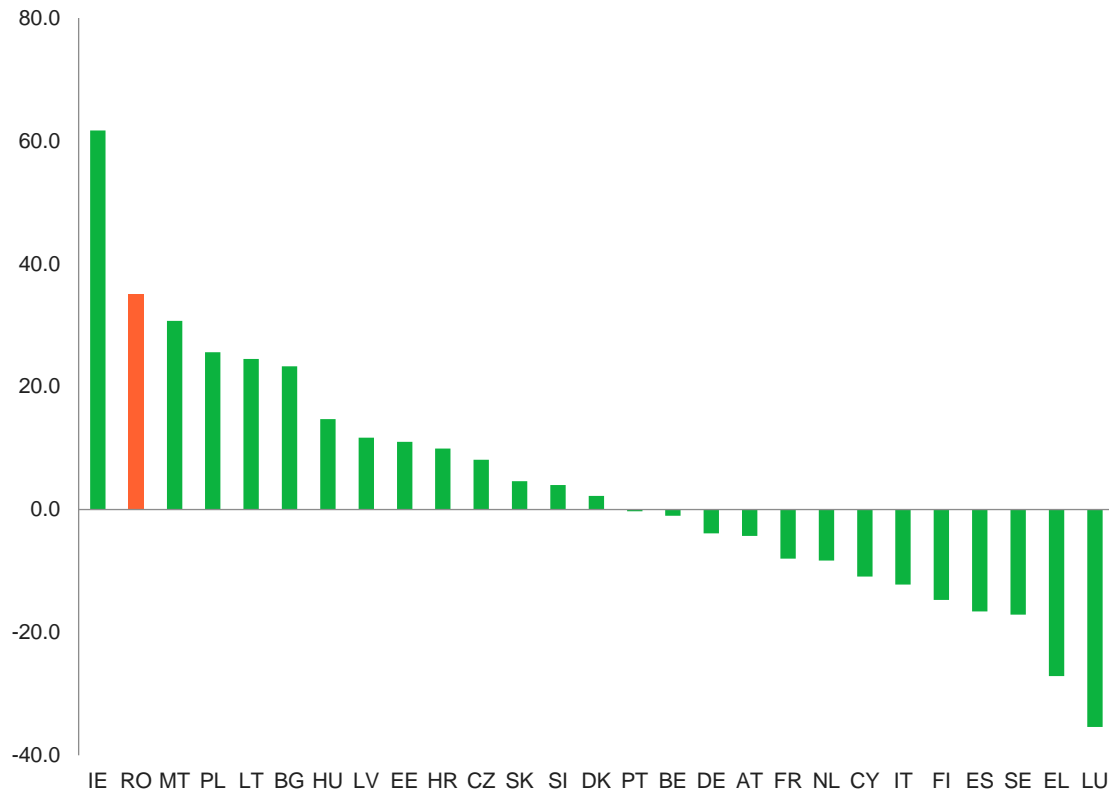
Source: Eurostat, BCR Research

Real labour productivity per employee in Romania (2008=100): up in all major sectors since joining EU



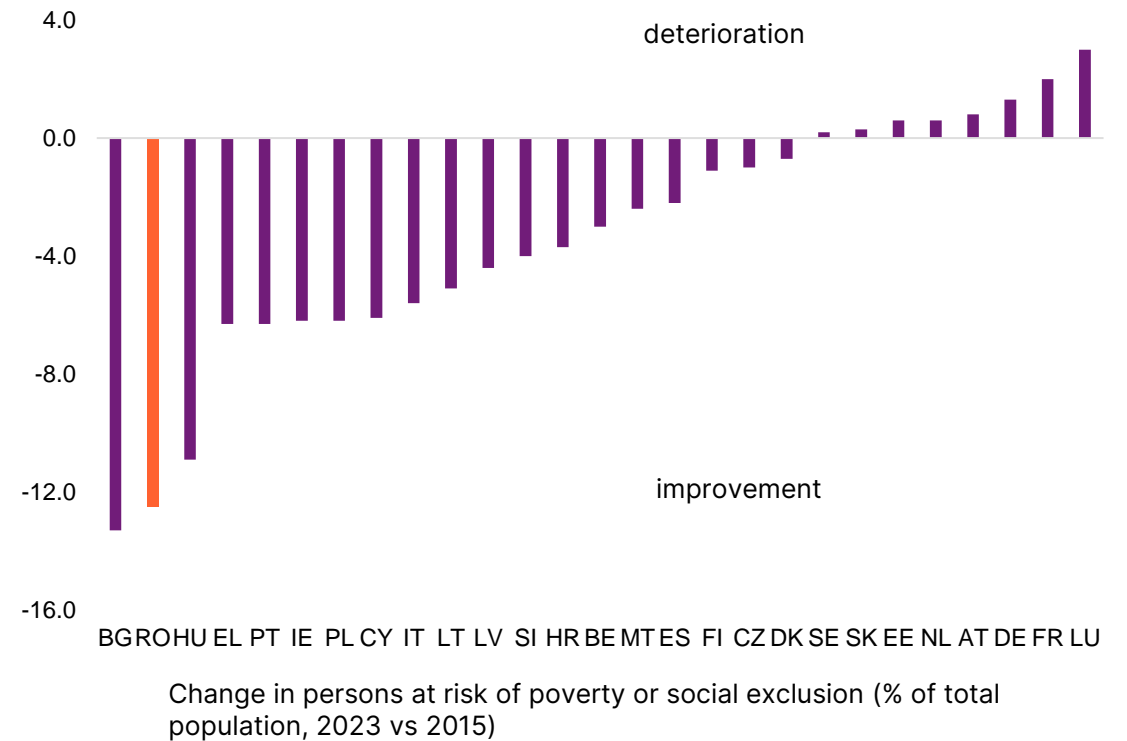
Second fastest convergence in the EU since entry, though poverty and social exclusion remain elevated, amid recent improvements

GDP per capita as % of EU average increased by 35pp from 44% to 79% since EU accession



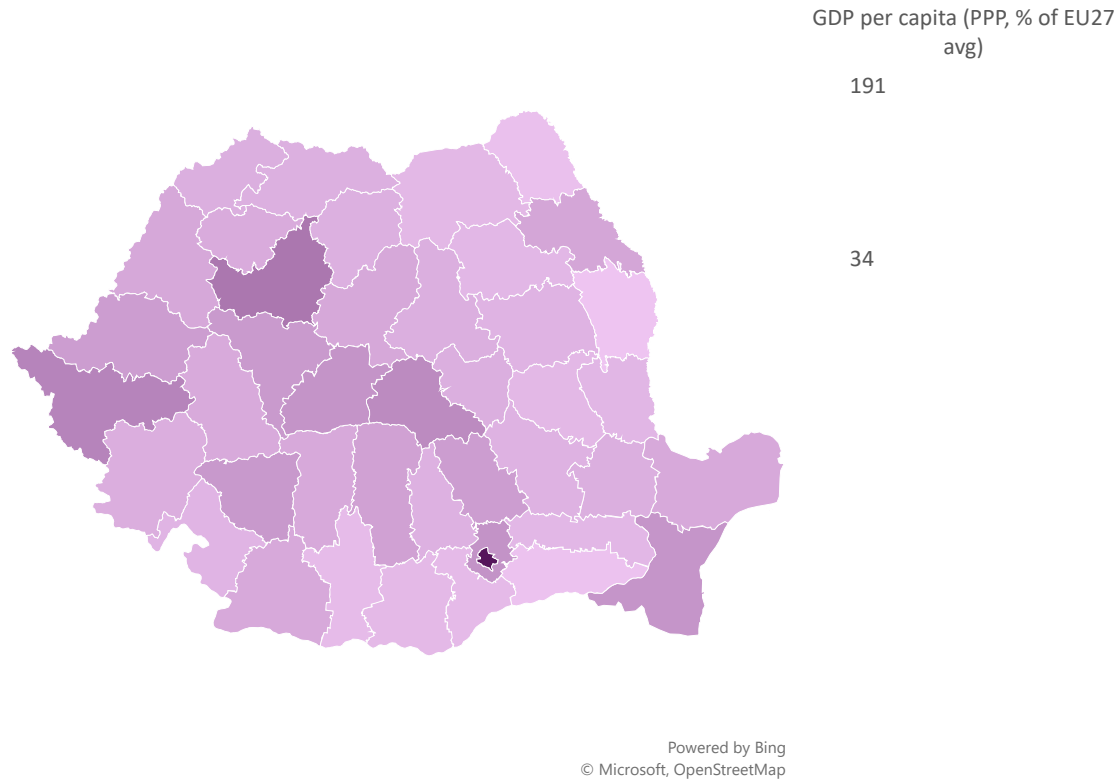
Source: Eurostat, BCR Research

32% of Romanian population is at risk of poverty or social exclusion, down almost 13pp vs 2015



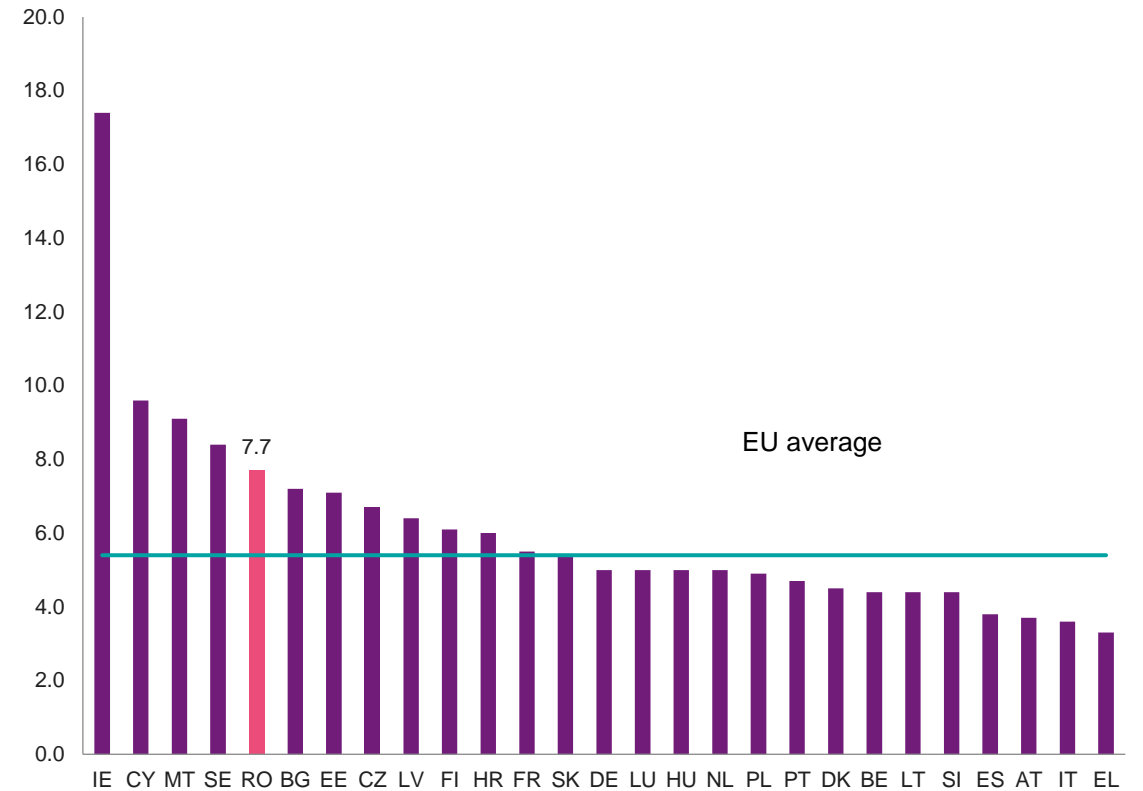
Romania: uneven development

Bucharest GDP/capita PPPs: 191% vs EU average, 6X vs the poorest county in Romania



Source: Eurostat, BCR Research

Thriving IT sector in university centers: 7.7% of GDP from ITC vs 5.4% EU average



Cheap labour force - a competitive advantage, labour supply available, though reforms needed to improve labour force participation rate

Second cheapest labour costs in the EU still represents a competitive advantage (labour costs as % of EU, 2023 data)



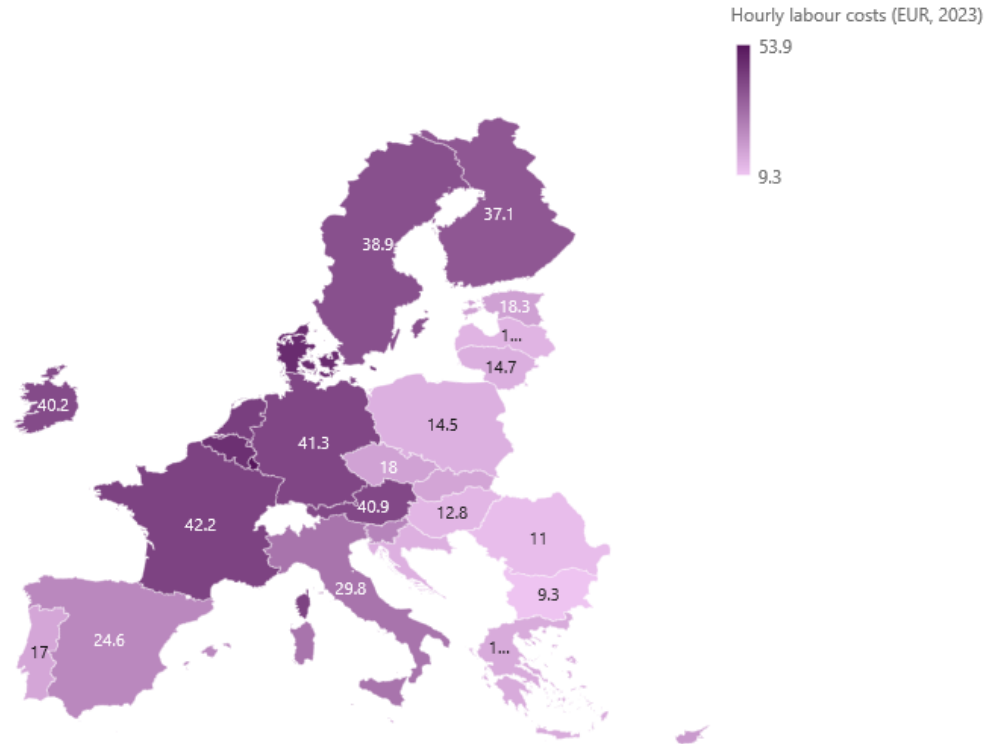
Source: Eurostat, BCR Research

... while labour force participation is one of the lowest in EU as of 2023



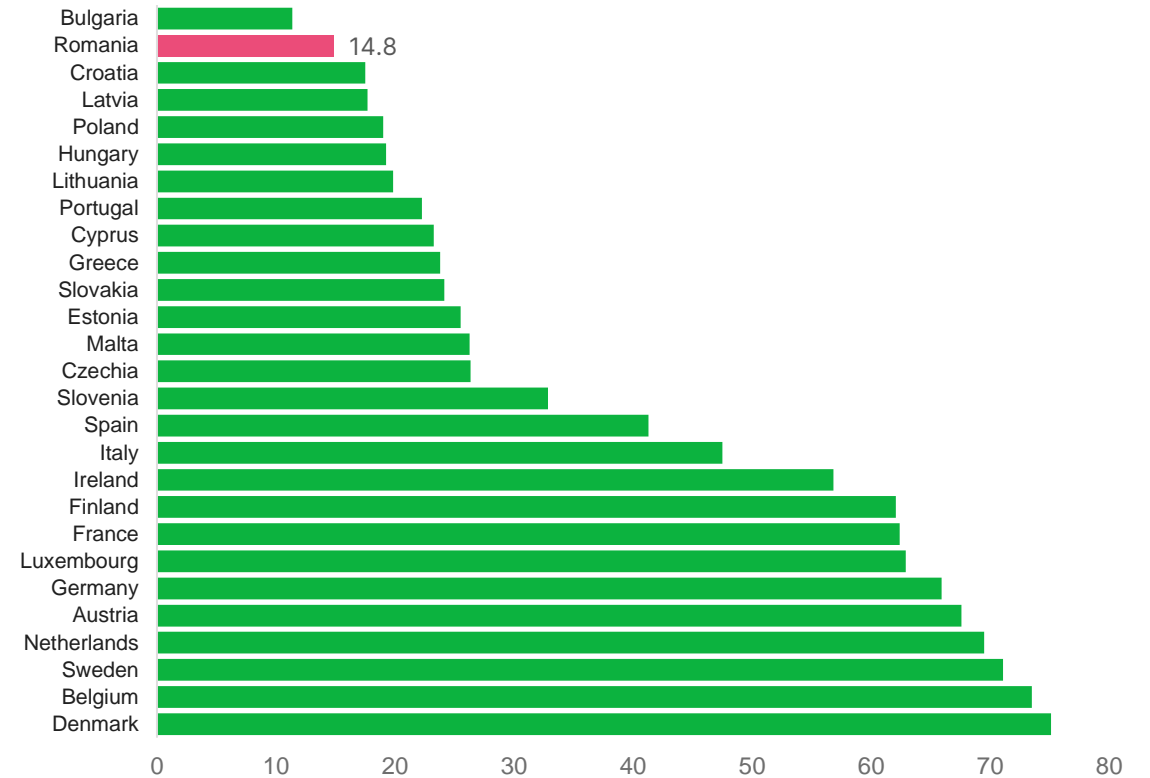
Cheap labour force – an advantage for *near-shoring and friend-shoring*

Hourly labour costs gap – favourable for CEE investments (EUR, 2023)



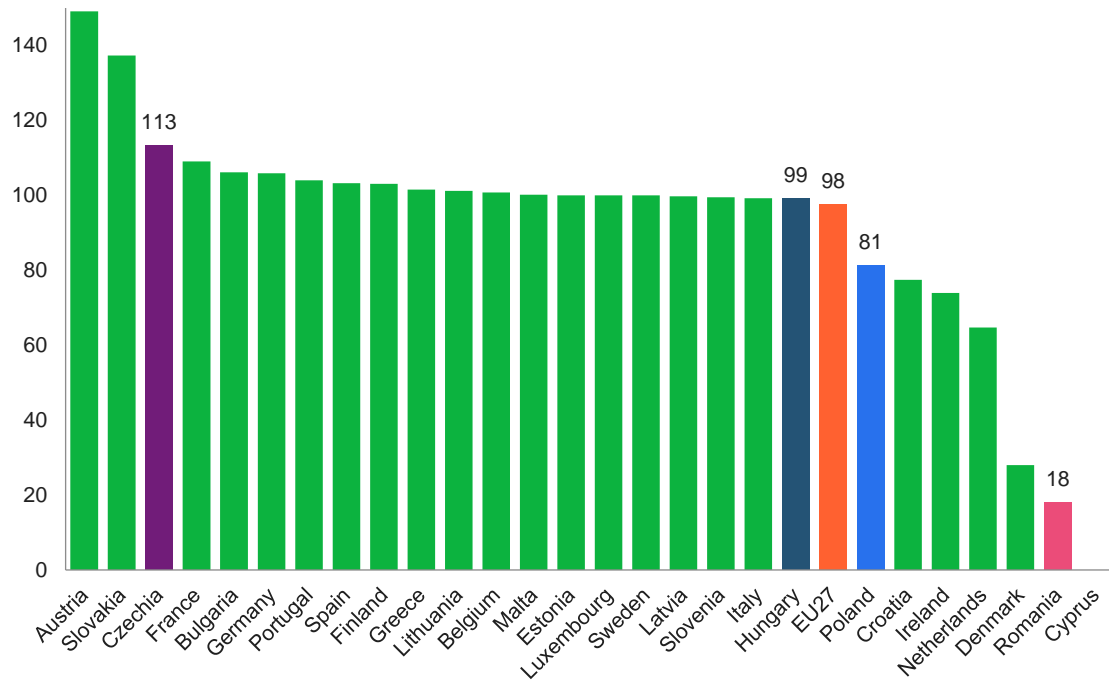
Sursa: Eurostat, BCR Research

Average annual personnel costs per employee in manufacturing (EUR thousands)



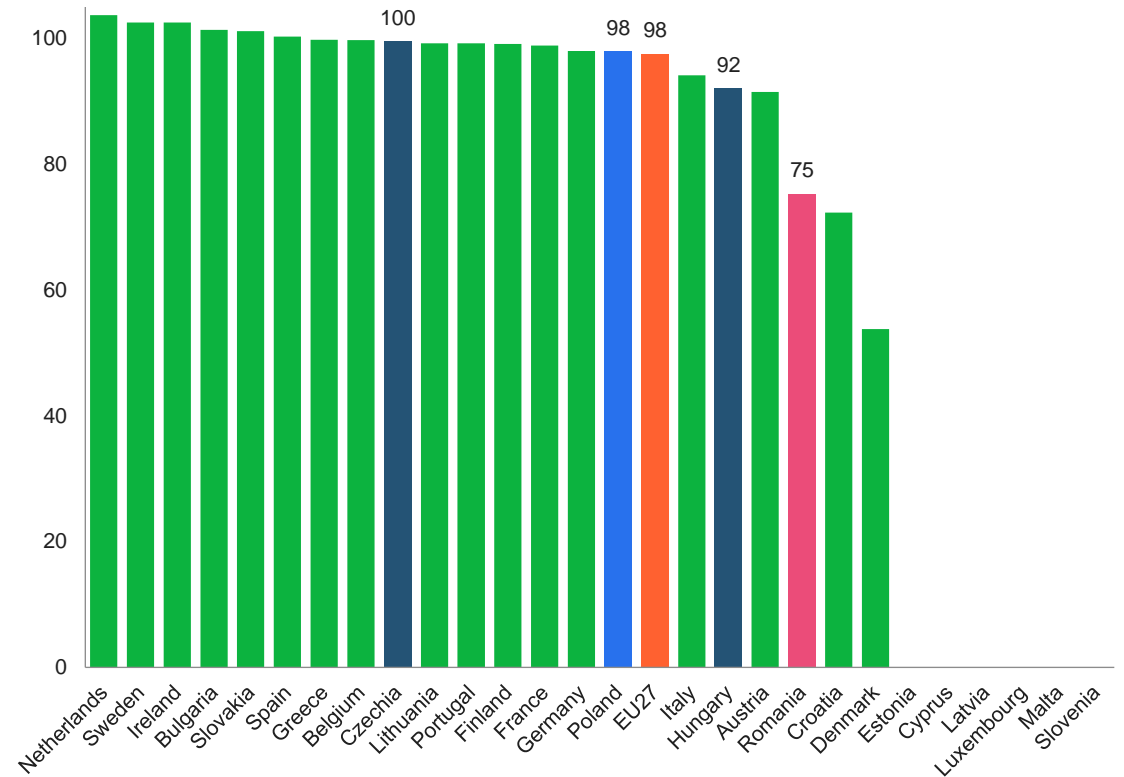
Romania has some of the lowest energy dependency ratios in EU - another advantage for *near-shoring and friend-shoring*

Energy dependency, natural gas (% of gross available energy, 2022)



Source: Eurostat, BCR Research

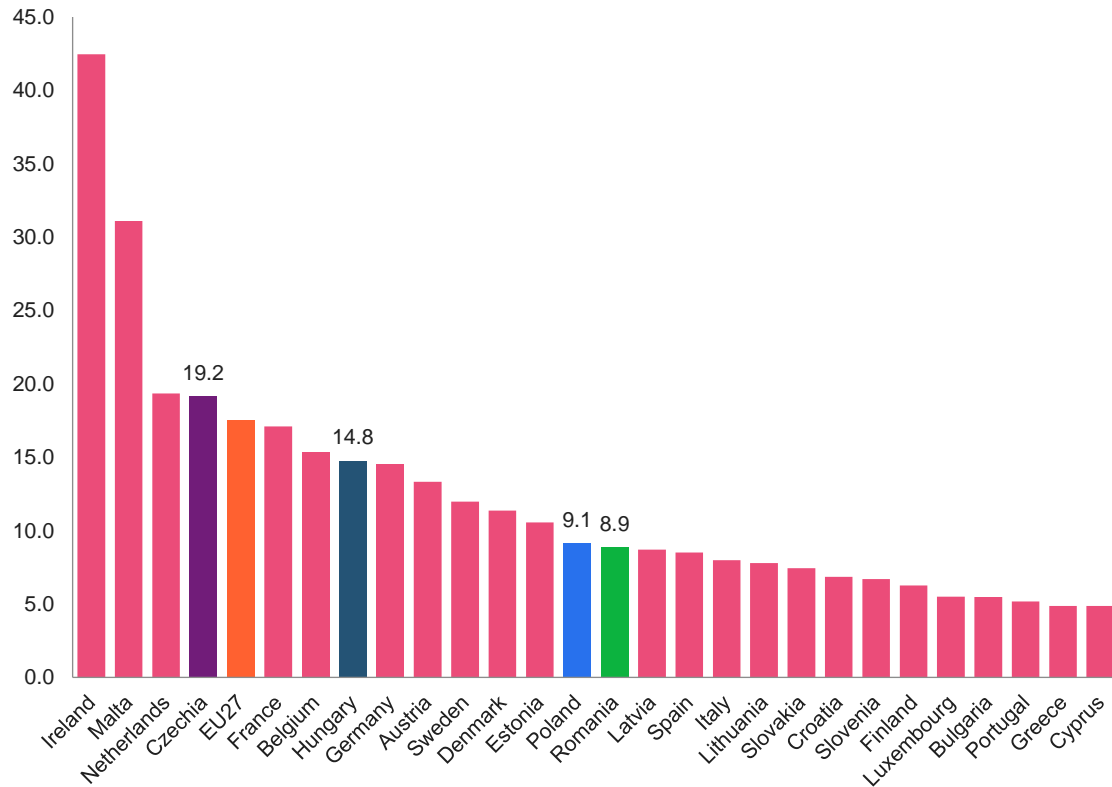
Energy dependency, crude oil (% of gross available energy, 2022)



Source: Eurostat, BCR Research

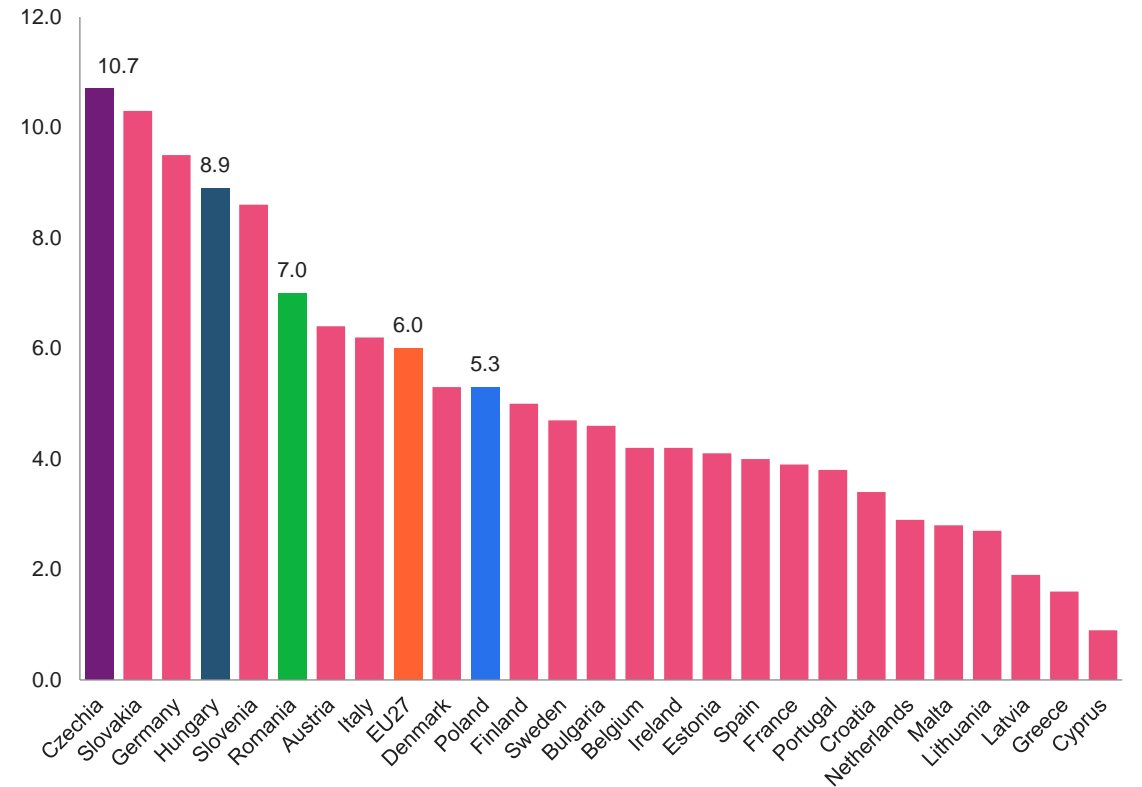
Romania stands around the middle of the pack in terms of high-tech exports in EU and has some of the highest numbers of employees in high-tech industries relative to the total

High-tech exports (% of total, 2022)



Source: Eurostat, BCR Research

Employment in high- and medium-high technology (% of total employment, 2023)



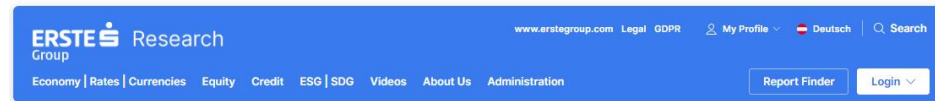
Source: Eurostat, BCR Research

Macro forecasts

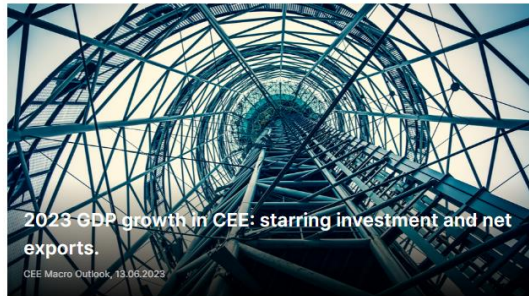
Real economy										
	2016	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
GDP (real change y/y, %)	2.9	8.2	6.0	3.9	-3.7	5.8	4.1	2.1	1.9	2.8
GDP (RON bn)	752.1	851.6	959.1	1063.8	1066.8	1187.4	1401.3	1605.6	1765.8	1916.9
GDP per capita (EUR thou.)	8.5	9.5	10.6	11.5	11.4	12.6	14.9	17.1	19.0	20.4
Household consumption (real change y/y, %)	6.4	11.7	9.4	3.3	-3.9	8.4	5.8	2.8	7.8	3.0
Gross fixed capital formation (real change y/y, %)	-2.2	5.5	0.0	12.6	1.1	2.9	5.9	14.4	3.6	5.1
Industrial production (real change y/y, %)	3.1	7.8	3.5	-2.3	-9.2	7.1	0.4	-3.0	-0.7	3.3
External sector										
	2016	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
Exports of goods (FOB, EUR bn)	57.4	62.6	67.7	69.0	62.2	74.7	92.0	93.1	92.2	93.1
Imports of goods (CIF, EUR bn)	67.4	75.6	82.8	86.3	80.6	98.4	126.0	122.0	125.1	127.0
Trade balance goods, (FOB - CIF, % of GDP)	-6.0	-7.0	-7.3	-7.7	-8.3	-9.8	-12.0	-8.9	-9.3	-9.0
C/A balance - % of GDP	-1.6	-3.1	-4.6	-4.9	-4.9	-7.2	-9.2	-7.0	-8.1	-7.8
Prices										
	2016	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
CPI (y/y, Dec, %)	-0.5	3.3	3.3	4.0	2.1	8.2	16.4	6.6	4.0	3.7
CPI (average, %)	-1.5	1.3	4.6	3.8	2.7	5.1	13.8	10.4	5.2	3.7
Labour market										
	2016	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
Unemployment rate (%)	7.2	6.1	5.3	4.9	6.0	5.6	5.6	5.6	5.3	5.2
Net nominal wages (monthly, RON)	2088	2384	2696	3099	3307	3543	3974	4584	5221	5686
Net wages (nominal change y/y, %)	13.0	14.2	13.1	14.9	6.7	7.1	12.2	15.4	13.9	8.9
Public sector										
	2016	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
Budget deficit (Eurostat, % of GDP)	-2.7	-2.7	-2.8	-4.3	-9.3	-7.2	-6.3	-6.6	-7.0	-5.5
Public debt (Eurostat, % of GDP)	37.9	35.3	34.5	35.1	46.7	48.5	47.5	48.8	51.4	52.8
Interest rates										
	2016	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
Monetary policy rate (eop, %)	1.75	1.75	2.50	2.50	1.50	1.75	6.75	7.00	6.00	5.25
ROBOR 3M (eop, %)	0.90	2.05	3.02	3.18	2.03	3.01	7.57	6.22	5.32	4.70
10Y ROMGBs yields (eop, %)	3.49	4.32	4.80	4.41	2.97	5.14	8.19	6.23	6.80	6.20
FX rates										
	2016	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
EUR/RON (eop)	4.54	4.66	4.66	4.78	4.87	4.95	4.95	4.97	5.00	5.10
USD/RON (eop)	4.30	3.89	4.07	4.26	3.97	4.37	4.63	4.50	4.42	4.43

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CEE Insights, 12.06.2023

May's inflation numbers will be flowing in

This week, May's inflation numbers will be flowing in throughout the week. We have already seen the flash estimates in Poland and Slovenia (inflation...

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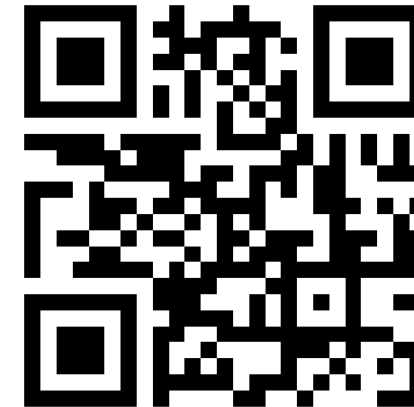
2023 GDP growth in CEE: starring investment and net exports.

We revise our 2023 GDP forecast to 1.3% (CEE8 average), driven by upward revision of growth in Croatia and Poland. Czechia and Hungary went through a...

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