



# CE Economic Outlook Winter 2024

February 2024

# Deloitte CE Economic Outlook Winter 2024

We present our Winter 2024 Deloitte **Central Europe Economic Outlook** to provide you with up-to-date macroeconomic expertise to navigate in the year of a likely economic rebound.

As we started this project 1 year ago, we go back to our first forecast consensus to analyse it against the actual 2023 GDP growth. We further continue to track the divergence of economic sentiments in Poland and Germany, and present new consensus predictions of institutional and market forecasters for Central European economies.

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As economic growth returns and inflation eases, the global economy apparently avoided a "hard landing". Uncertainty continues to linger around the path of central bank policy rates, as rebounding growth may weaken rationale for immediate rate cuts, while falling inflation may enable them. Geopolitical shocks through the commodity prices channel remain a risk, as well as negative (or positive) growth surprises in China.

Our institutional and market forecasters consensus predicts a modest growth rebound in 2024, with Central Europe growing by 2.5% GDP (GDP weighted average) and Poland by 2.7%, which is much more than the 0.5% expected in Germany. And while the economic sentiment clock continues to show expectations divergence between Poland and Germany, there may be first signs that the fears in Germany have already bottomed out, while Poland transitions from an upswing to full-fledged economic expansion.

Compared to the previous, Autumn CE Economic Outlook, forecasts of economic growth for 2024 were lowered, although with slightly better-than-expected pace of disinflation.

Yours faithfully,



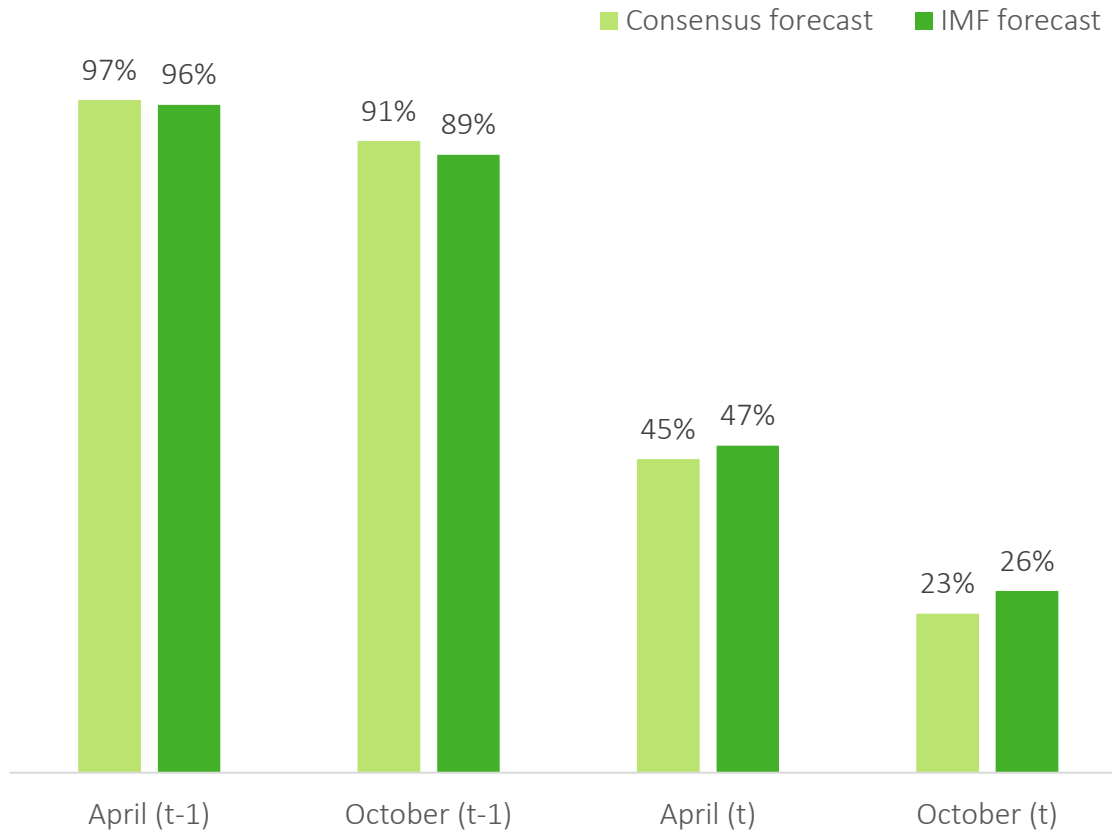
**Julia Patorska**

Partner

Leader of Economic Analysis Team  
at Deloitte Poland

# Uncertainty in macro forecasts ...

Percentage of recessions from year t not forecast in a given round of forecasts



*Prediction is very difficult,  
especially if it's about the future!*

*N. Bohr*

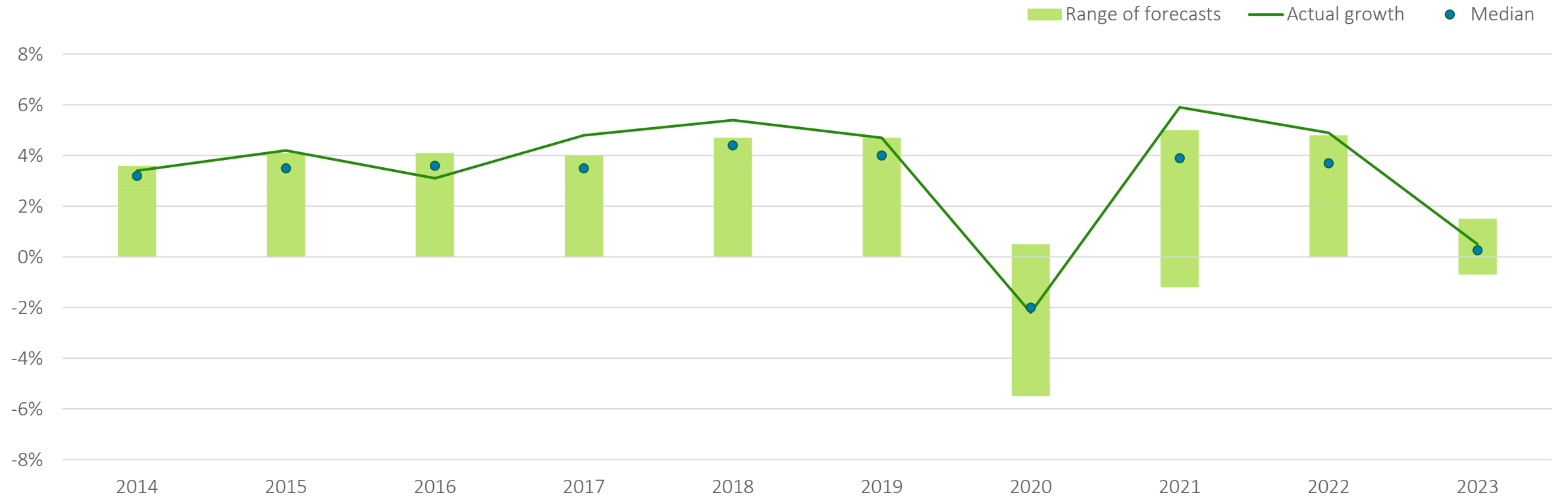
There were **153 recessions** in **63 countries** between 1992 and 2014, but in the majority of cases forecasters failed to predict them significantly earlier.

Source: Deloitte own elaborations based on IMF Working Paper, 2018, How Well Do Economists Forecast Recessions?

## ... holds for Poland as well.

The range of forecasts for the Polish economy historically have been fairly wide, especially in the pandemic years of 2020 and 2021. Although, the forecast medians gathered by the National Bank shown below proved to be quite close to the actual recorded GDP growth, in recent years the actual economic growth often beat forecasters expectations.

Range of GDP growth forecasts for Poland for a given year prepared in March compared to actual growth.



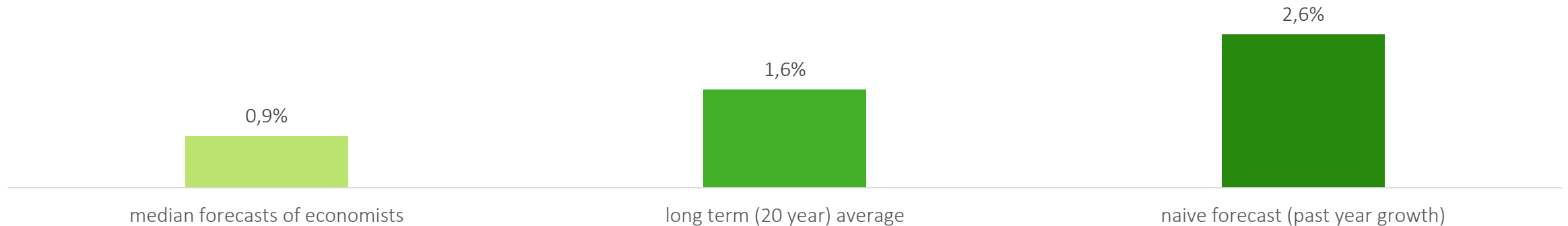
Source: Deloitte own elaboration based on NBP professional forecasters surveys

## Nevertheless its worth to listen to economists....

While one could forecast GDP growth „naively” by assuming that an economy will grow this year exactly as much as last year, which is often not far from the truth as growth usually oscillates around some potential growth rate yielded by relatively stable economic fundamentals – at least unless a crisis happens. One could even improve on that approach and assume that an economy this year will grow the same as its long-term average from the last 20 years. Both approaches are plausible first guesses, but they are clearly beaten by taking a median of economists' predictions for a given year.

### Average absolute forecast error (pp)

■ median forecasts of economists    ■ long term (20 year) average    ■ naive forecast (past year growth)

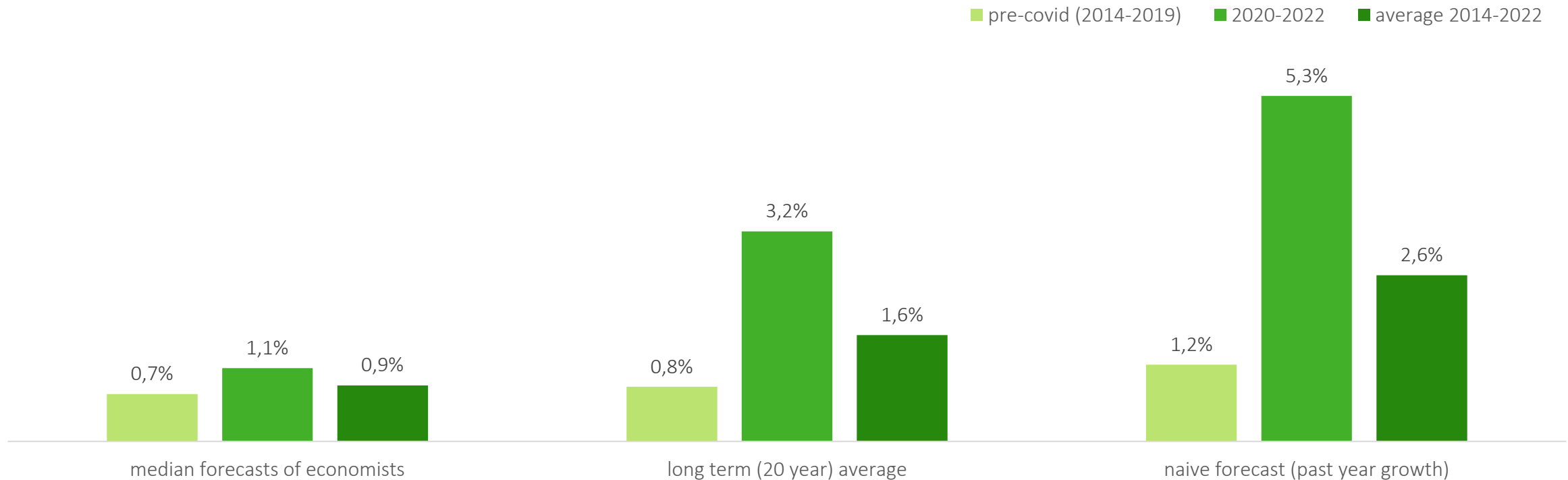


Source: Deloitte own elaboration based on NBP professional forecasters surveys and IMF WEO.

## ... particularly in uncertain times.

Aggregate economists' predictions beat the long-term average and naive forecast in the years pre-COVID-19, during COVID-19, and in the whole 2014-2022 period. It is notable, that this approach did not yield a much larger error during the COVID-19 period than in other years, hence it is much better than alternatives during times of heightened uncertainty when an economy strays from its potential growth path. This is why in our Deloitte CE Economic Outlooks we focus on aggregating economists' forecasts, giving ranges and median predictions, instead of just point forecasts.

### Average absolute forecast error (pp)



Source: Deloitte own elaboration based on NBP professional forecasters surveys and IMF WEO.

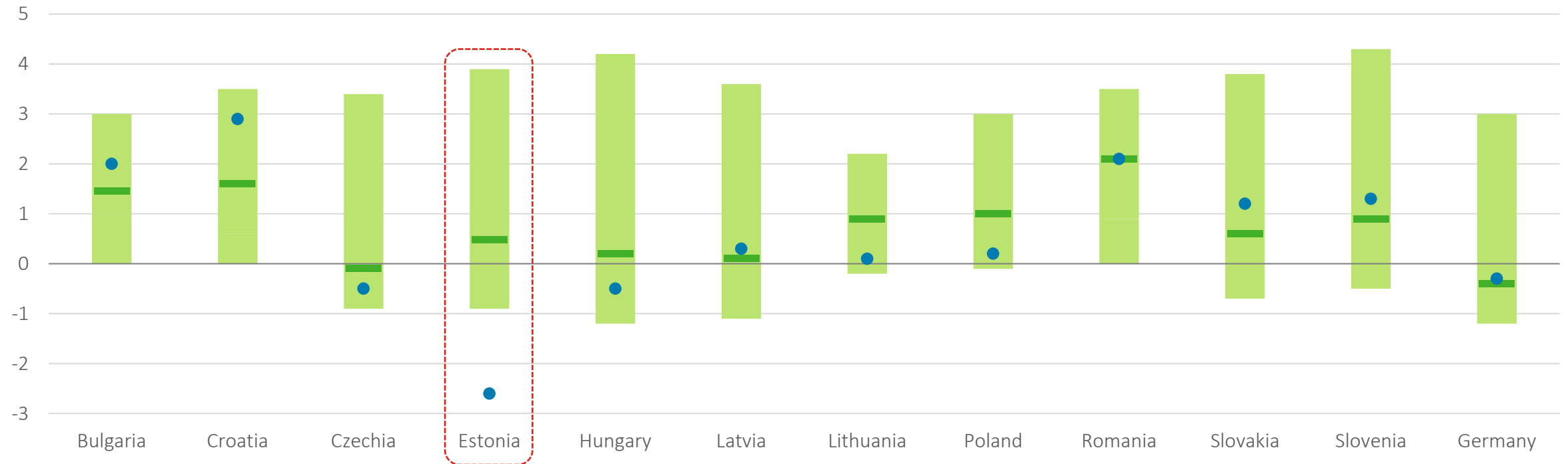
# Last year's GDP forecasts vs. preliminary data

2023 GDP growth in all CE countries, apart from Estonia, was contained within our last year forecast ranges. The forecast error relative to median predictions for CE economies, ranged from -3.1 percentage points in Estonia to +1.3 in Croatia, with a median of 0.0, while in the case of Germany it stood at +0.1.

## 2023 GDP (real, yearly growth)

Winter 2023 CE Economic Outlook consensus bands vs. preliminary data

Percentage points



Source: Deloitte own elaboration based on Winter 2023 CE Economic Outlook, and preliminary 2023 GDP growth estimates: Poland – Statistics Poland, Germany – Eurostat, Rest – Economist Intelligence Unit. Comparison to Winter 2023 CE Economic Outlook.

# Last year's inflation forecasts vs. preliminary data

2023 inflation in all CE countries, apart from Croatia and Czechia, was contained within our last year forecast ranges. The forecast error relative to median predictions, ranged from -2.5 percentage points in Poland to +2.6 in Czechia, with a median of 0.7, while in the case of Germany it stood at -1.2.

## 2023 inflation rate (HICP, yearly growth)

Winter 2023 CE Economic Outlook consensus bands vs. preliminary data

Percentage points



Source: Deloitte own elaboration based on Winter 2023 CE Economic Outlook, and Eurostat HICP inflation data.

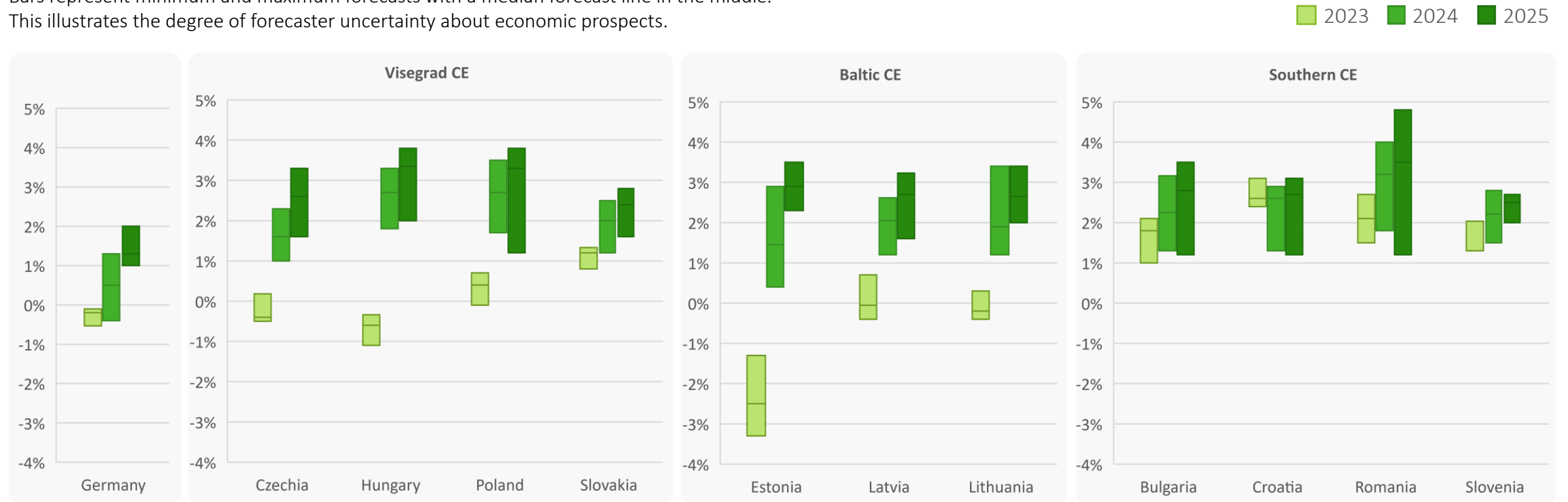


# Mild growth rebound expected in 2024

Recession in Germany dragged down growth in 2023. The year ends with predicted GDP growth of 0.5% (with -2.5% in Estonia and +2.6% in Croatia) in CE and shrinking by 0.2% in Germany. Growth rebound in 2024 will only be mild as monetary policy in the Eurozone remains restrictive, with CE economies growing on average at 2.2% (between 1.5% in Czechia and Estonia, and 3.4% in Romania), slightly better at 2.5% when weighted by GDP as Poland, the largest economy in the region, is expected to grow at a decent 2.7%. This much faster than Germany, which is expected to grow at just 0.5%. So far forecasts for 2025 are not much more optimistic with average CE growth at 2.9% and in Germany at 1.3%.

## Forecast consensus real GDP growth rate

Bars represent minimum and maximum forecasts with a median forecast line in the middle. This illustrates the degree of forecaster uncertainty about economic prospects.



Source: Deloitte own elaboration based on Conference Board, EBRD, EIU, Erste Group, European Commission, IMF, ING, Kopint-Tarki, Nordea, S&P, SEB, Swedbank, UniCredit, WH Halle, WIIW, and World Bank forecasts from September to mid-October 2023. 9-16 forecasts per country-year 2023 and 2024 (median 11), 9-15 forecasts per country-year 2025 (median 11).

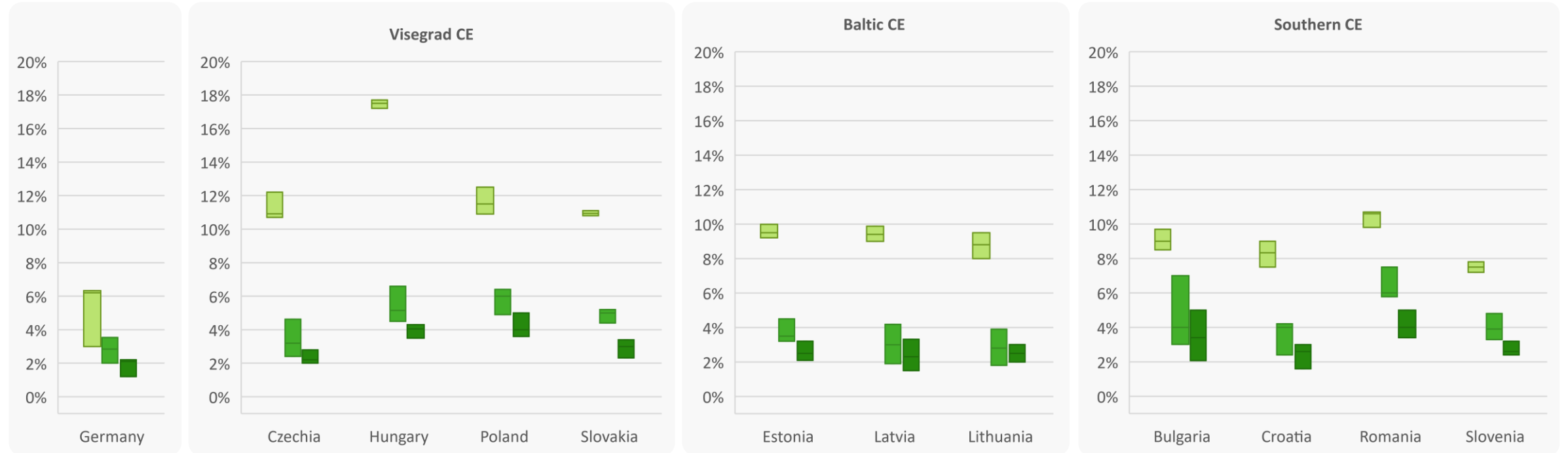
# Disinflation to continue amidst relatively slow economic growth

As economic growth halted or even reversed, 2023 has been a year of disinflation. Despite that, average 2023 inflation remained high at 10.4% on average in CE economies (between 7.2% in Slovenia and 17.7% in Hungary) and 6.3% in Germany. Even in 2024 inflation is expected to remain above target, in CE on average at 4.2% (between 2.8% in Lithuania and 6.0% in Poland) and 2.9% in Germany. Hungary has been normalizing rates from high levels (18% through the quick deposit facility, phased out in October), managing to reach 5.5% by the end of December. In 2025 forecasts show inflation in Germany back at 2.1%, but in CE average remains at 3.0% (between 2.2% in Slovakia and 4.0% in Poland).

## Forecast consensus inflation rate (HICP, yearly average)

Bars represent minimum and maximum forecasts with a median forecast line in the middle. This illustrates the degree of forecaster uncertainty about economic prospects.

2023 2024 2025



Source: Deloitte own elaboration based on European Commission, IMF, ING, Kopint-Tarki, Nordea, S&P, SEB, Swedbank, UniCredit, WH Halle, and WIIW forecasts from September to mid-October 2023. 5-8 forecasts per country-year 2023 and 2024 (median 6), 5-8 forecasts per country-year 2025 (median 6).

## Faster disinflation partly explained by slower GDP growth

In 8 out of 11 CE countries and Germany, institutional and market forecasters lowered their 2024 GDP growth predictions compared to the Autumn consensus. At the same time, in 7 out of 11 CE countries they now expect slightly faster disinflation for 2024 – in Hungary, the expected pace of disinflation markedly increased.

### 2024 GDP growth and inflation consensus forecasts in Autumn and Winter CE Economic Outlooks

Volume, percentage change on preceding year

2024 GDP		Autumn Consensus	Winter Consensus
	Germany	0.8%	0.5%
	Czechia	2.2%	1.6%
	Hungary	2.7%	2.7%
	Poland	2.7%	2.7%
Visegrad CE	Slovakia	2.4%	2.0%
	Estonia	2.3%	1.5%
	Latvia	2.0%	2.1%
Baltic CE	Lithuania	2.0%	1.9%
	Bulgaria	2.5%	2.3%
	Croatia	2.6%	2.6%
	Romania	3.4%	3.2%
Southern CE	Slovenia	2.4%	2.2%

2024 Inflation		Autumn Consensus	Winter Consensus
	Germany	2.8%	2.9%
	Czechia	3.3%	3.2%
	Hungary	6.0%	5.2%
	Poland	6.1%	6.0%
Visegrad CE	Slovakia	5.0%	5.0%
	Estonia	3.6%	3.5%
	Latvia	2.8%	3.0%
Baltic CE	Lithuania	2.9%	2.8%
	Bulgaria	4.2%	4.0%
	Croatia	4.1%	4.0%
	Romania	5.5%	6.0%
Southern CE	Slovenia	3.8%	3.9%

Notes: Autumn Consensus contained 8-15 2023 GDP growth forecasts per country (median 10) and 4-9 2023 inflation forecasts per country (median 6), while the Winter Consensus 9-16 for GDP growth (median 11) and 5-8 for inflation (median 6).

## Uncertainty around Polish zloty despite the recent rebound

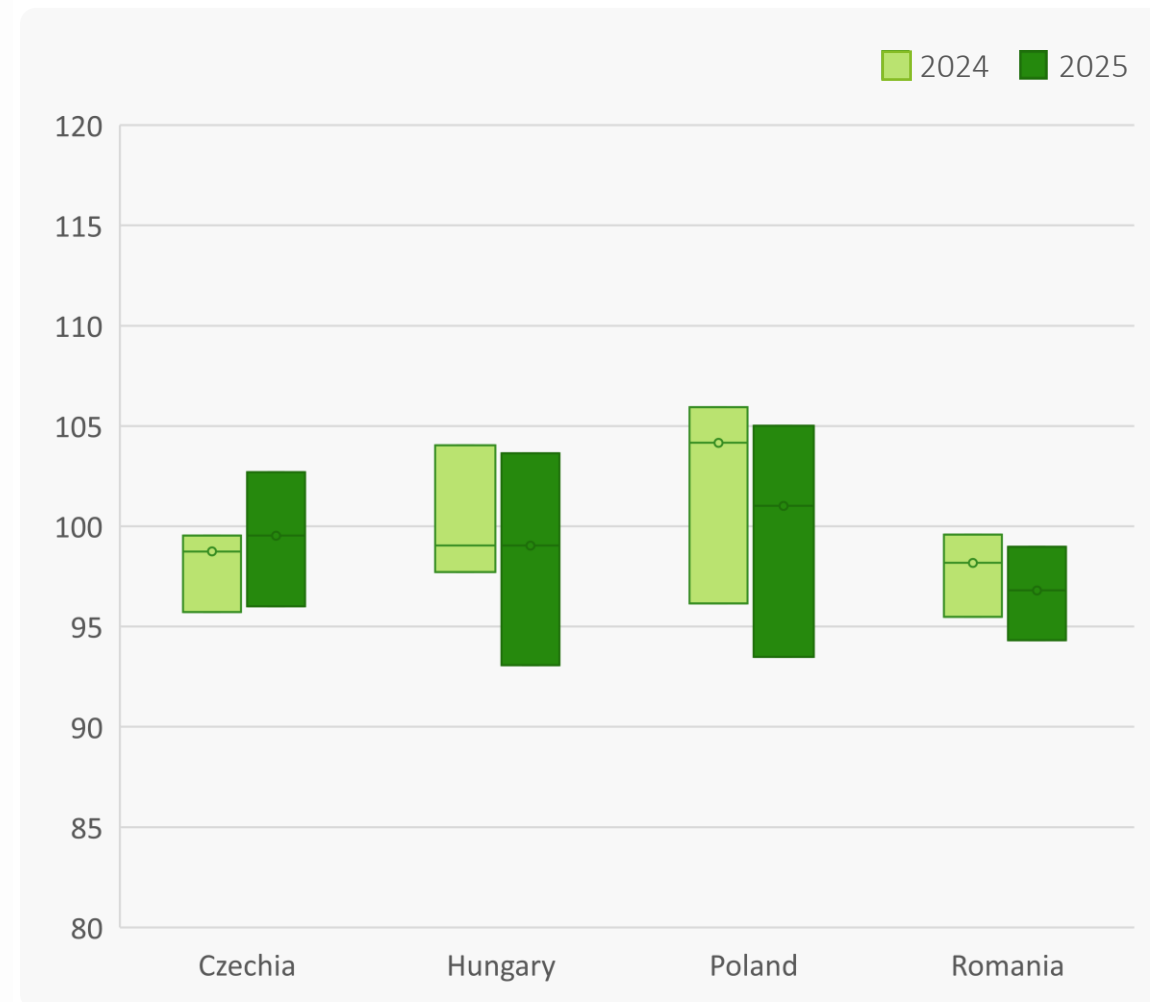
Uncertainty around exchange rates of Hungarian and Polish national currencies continues, as they experience highest inflation rates in the region. In the Winter consensus forecast, **zloty and forint** have 2-3 times wider uncertainty bands than koruna and leu.

Historic 2023 EUR exchange rates and median 2024-2025 forecasts (yearly average)

	2023	2024	2025
Czechia	24,00	24,25	24,09
Hungary	381,85	385,55	385,55
Poland	4,54	4,37	4,47
Romania	4,94	5,04	5,11

### Forecast consensus EUR exchange rate (yearly average)

100 = 2023 average, values above 100 indicate strengthening of a national currency



Source: Deloitte own elaboration based on EIU, ErsteGroup, IMF, ING, Kopint Tarki, Nordea, S&P, UniCredit. 4-6 forecasts per country-year (median 6) for 2023 and 2024, 4-6 forecasts per country-year (median 6) for 2025.

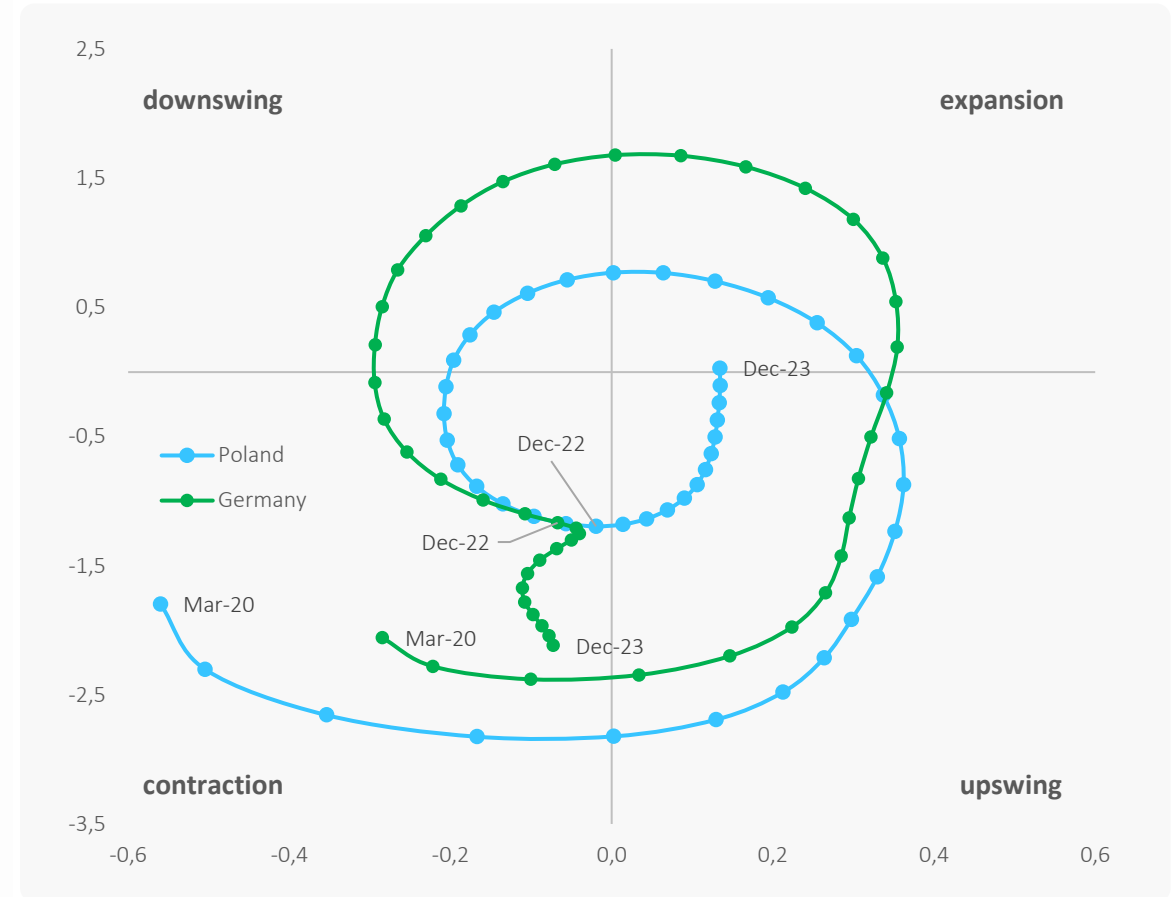
## Is economic sentiment in Germany slowly bottoming out?

For the past year we have been observing a divergence in the European Commission's economic sentiment indicator (composite of industry, construction, services, retail trade, and consumer confidence – balances between positive and negative answers from firms and consumers) in Poland and Germany – with sentiments improving in Poland and worsening in Germany.

Now Poland crossed from an upswing towards expansion in December 2023, while Germany remains in contractionary territory, but in the past five months appears to be trending in the direction of an upswing – which is a welcome change, as previously the country had been sliding deeper into contraction.

ESI needs to be treated with caution due to their poor reliability during times of uncertainty, as well as the smoothing of the readings and lower dependability at ends of time series.

Economic sentiment indicator tracer for Poland and Germany (monthly)



The chart displays the European Commission's economic sentiment indicator (ESI), which is a composite of five sectoral indicators for industry (weight 40%), services (30%), consumers (20%), retail (5%) and construction (5%). Balances are constructed as the difference between the percentages of respondents giving positive and negative replies. Economic sentiment indicator in the tracer graph has been smoothed with the Hodrick Prescott filter to eliminate fluctuations shorter than 18 months. This is a standard procedure taken by DG ECFIN (2022), but the HP filter may be unreliable at ends of the sample.

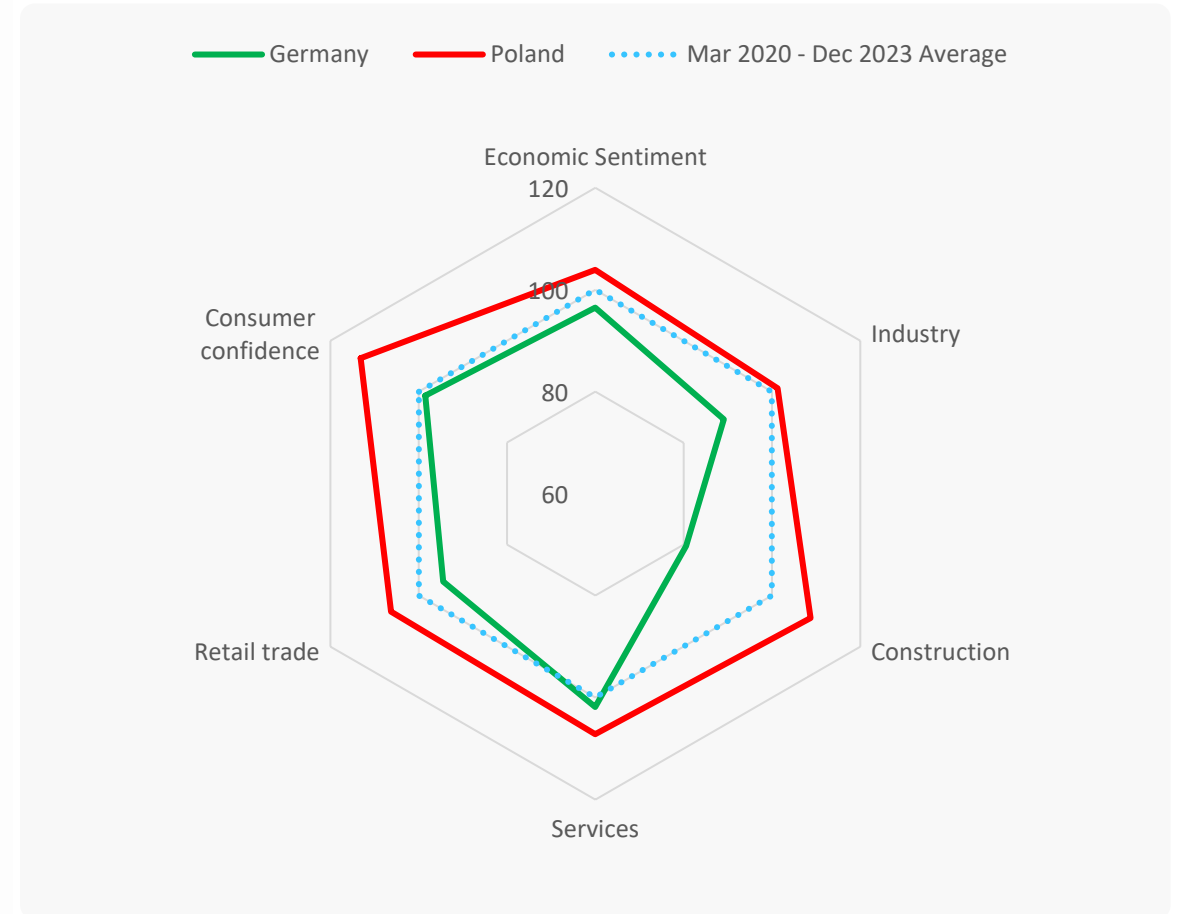
Source: Deloitte own elaboration based on European Commission data, and DG ECFIN (2023), methodology as published in European Business Cycle Indicators: 1st Quarter 2023. Technical Paper 063, April.

# Improved economic sentiment in Poland driven by construction, mood in Germany improves amidst continuously weak industry

In Poland consumer confidence and sentiment in construction remain at about 10% above the post-pandemic average, as income growth has outpaced consumer price inflation and state support to the housing industry has continued with the new government.

In Germany construction and industry continue to lag, respectively at 20% and 10% below the post-pandemic average, as industry remains weak in the Eurozone and as higher interest rates discourage borrowing and erode demand.

### Economic sentiment indicator radar chart for Poland and Germany in December 2023



The chart displays the European Commission’s economic sentiment indicator (ESI), which is a composite of five sectoral indicators for industry (weight 40%), services (30%), consumers (20%), retail (5%) and construction (5%), as well as its constituent parts. Radar indicator values above 100 indicate better than March 2020 – July 2023 average sentiment and vice versa.

Source: Deloitte own elaboration based on European Commission data, and DG ECFIN (2023), European Business Cycle Indicators: 1st Quarter 2023. Technical Paper 063, April.

# Economic forecast uncertainties in Poland for 2024

In 2024, many more or less likely events could substantially (dependent on their scale) alter the macroeconomic outlook for the year.

## Risk factors in 2024 and their short-term impacts

Factor	Macroeconomic impact			Most affected sectors
	GDP growth	Inflation	PLN exchange	
<b>Continued inflation in US and EU</b> for longer than expected could delay policy rate cuts by FED and ECB	⊖	⊕	⊖	<i>Tradable-goods industries (manufacturing), Construction, Finance</i>
<b>Disinflation in US and EU</b> faster than expected fall in inflation could pave the way for sooner policy rate cuts by FED and ECB	⊕	⊖	⊕	<i>Tradable-goods industries (manufacturing), Construction, Finance</i>
<b>AI and automatization</b>	⊕	⊖	⊖	
<b>Recession in Germany</b> weakness of German industry coupled with budgetary issues could prolong economic woes	⊖	⊖	⊖	<i>Tradable-goods industries (manufacturing)</i>
<b>Economic crisis in China</b> (slowdown in export-oriented Germany and thus CE)	⊖	⊖	⊖	<i>Tradable-goods industries (manufacturing)</i>
<b>Protectionism</b> under disguise of industrial policies rising tariffs and subsidies for domestic industries would lower efficiency of global value chains	⊖	⊕	⊖	<i>Tradable-goods industries (manufacturing)</i>
<b>Escalation of Russian war in Ukraine</b> (heightened uncertainty in the region, additional refugee inflows)	⊖	⊕	⊖	<i>FMCG (increase with refugee inflows), foreign direct investment (decrease with uncertainty)</i>
<b>Geopolitical risks</b> wars and tensions in other geographies could disrupt global trade and result in flight to security; for Poland outlook of NATO is crucial	⊖	⊕	⊖	<i>Tradable-goods industries (manufacturing)</i>
<b>Prolonged dispute on rule of law</b> in Poland would – delayed disbursement of EU funds, increased legal uncertainty	⊖	⊖	⊖	<i>Construction (civil engineering), financial sector</i>

Source: Deloitte own elaboration

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- 04** Macroeconomic **assumptions for budgeting** process
- 05** Microeconomic analyses for the **needs of disputes with other companies or authorities**



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