



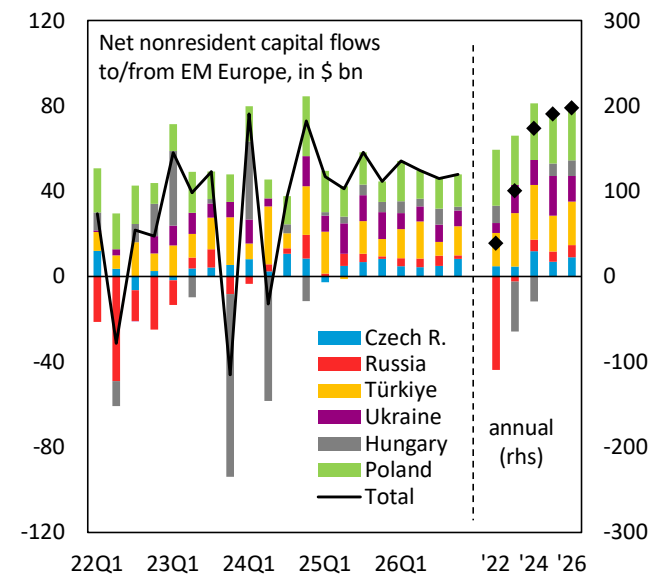
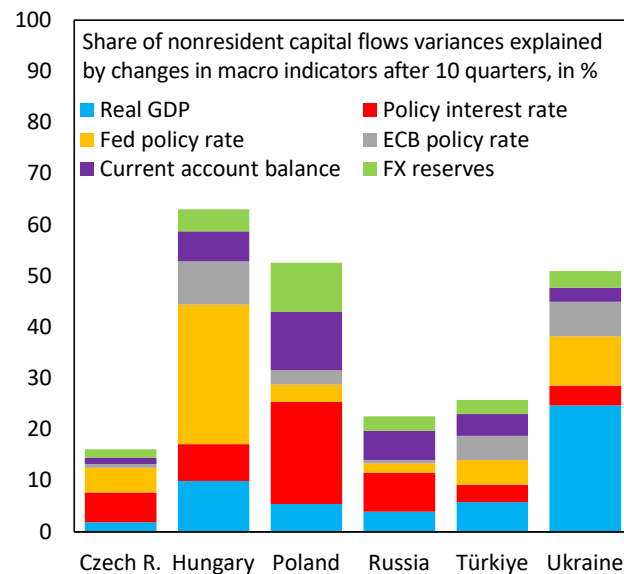
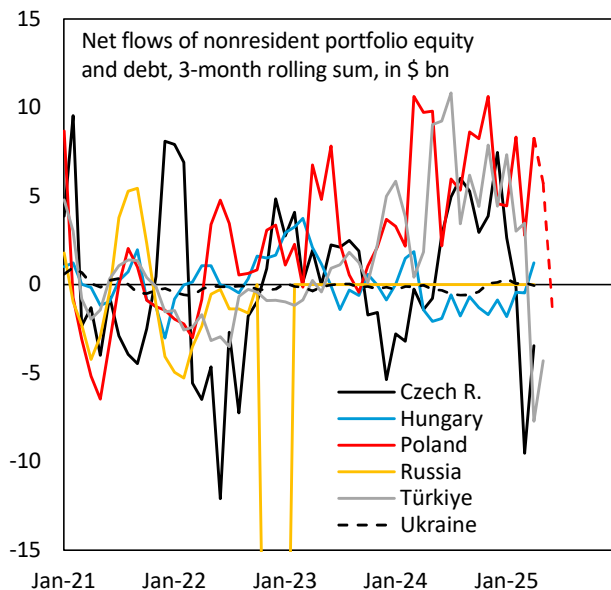
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Capital Flows to Emerging Europe: Steady Gains Amid Rising Risks

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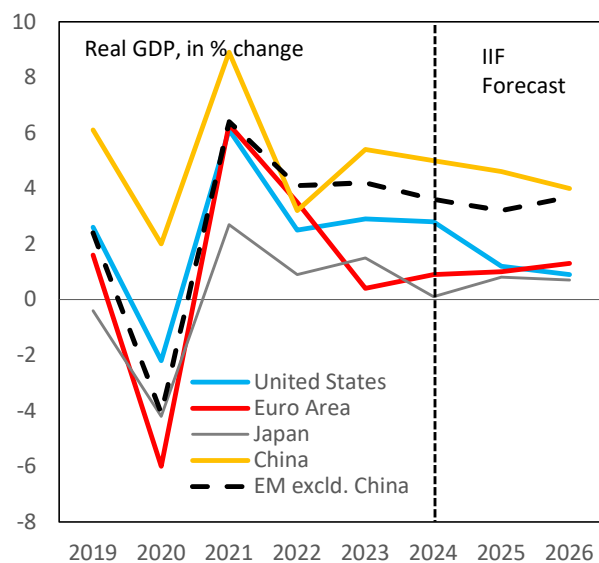
SUMMARY

- Net capital inflows to Emerging (EM) Europe look set to rise from 2024 levels, led by modest rebounds in FDI and portfolio flows, especially to Poland, Türkiye, and Ukraine. [IIF high frequency capital flows tracker](#) shows that political and geopolitical shocks increasingly shape investor sentiment and capital flows, as seen following elections in Poland in June and arrests in Türkiye earlier in the year in March.
- Tariff uncertainty and weak German exports weigh on outlook, with Hungary and the Czech Republic most exposed via auto supply chains. Lower energy prices and demand slowdown help narrow external imbalances, curbing inflation and opening space for rate cuts, particularly in Türkiye and Russia.
- Russia drags regional growth lower. Excluding it, EM Europe growth should pick up gradually through 2026.

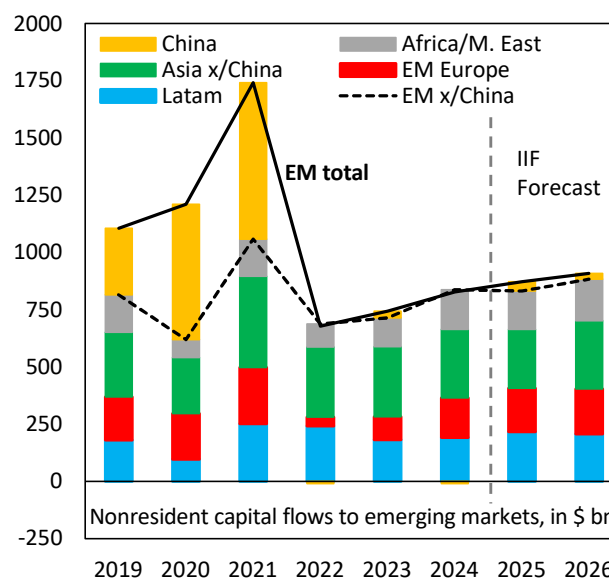


GLOBAL OUTLOOK

- Global growth outlook:
 - U.S.: A shallow recession in 2025H2
 - Euro Area: A gradual growth pick up in 2026
 - Japan: Downward revision in growth forecasts
 - China: Weaker exports and output growth
 - EMs: Divergent growth outlook amid global uncertainties. but stronger EM growth vs AEs

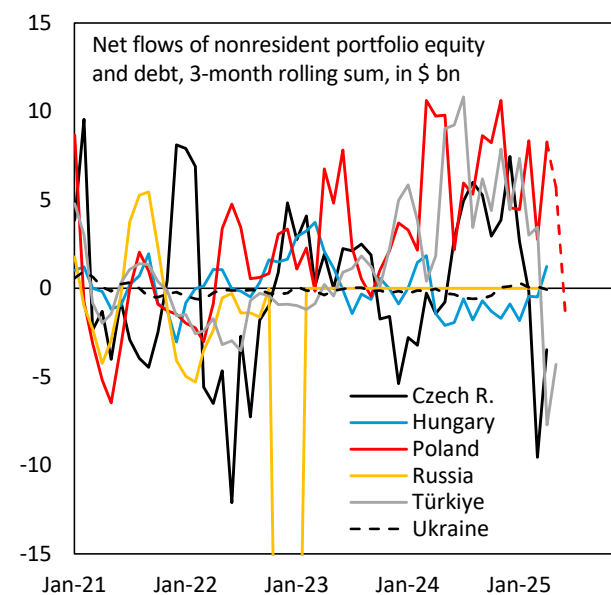
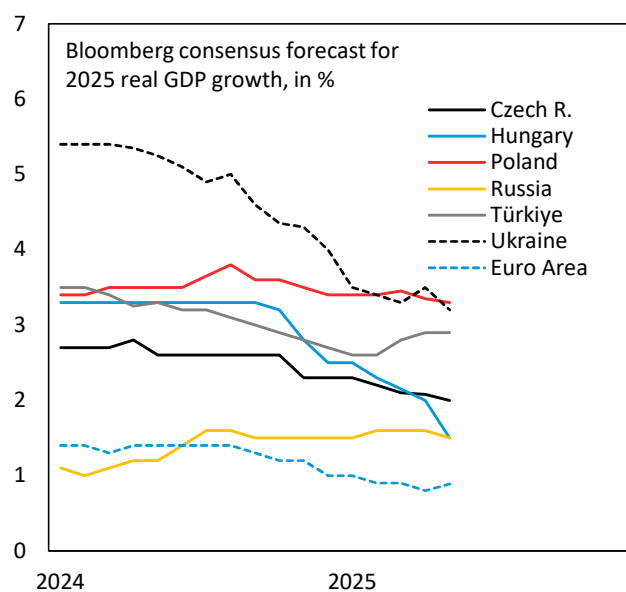


- Policy stance expectations for the 2025-2026 period:
 - Fed: from 4.50% currently to 3.75% in Dec 25 and 3.00% in Dec 26
 - ECB: from 2.00% currently to 1.75% in Dec 25 and 1.50% in Dec 26
 - Implications for capital flows to EMs



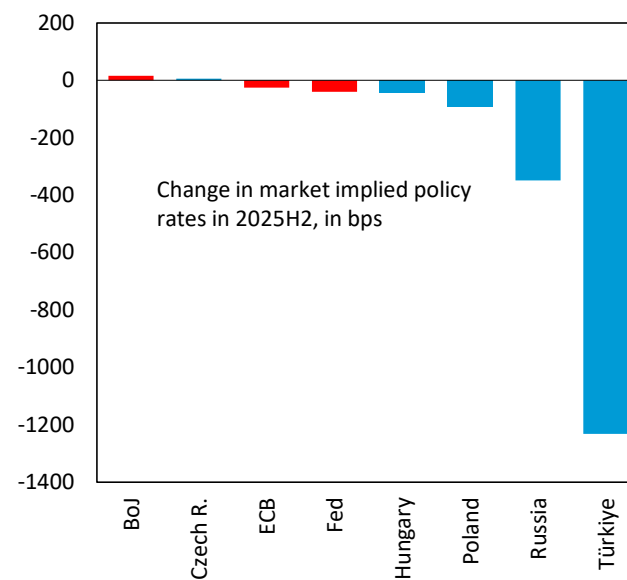
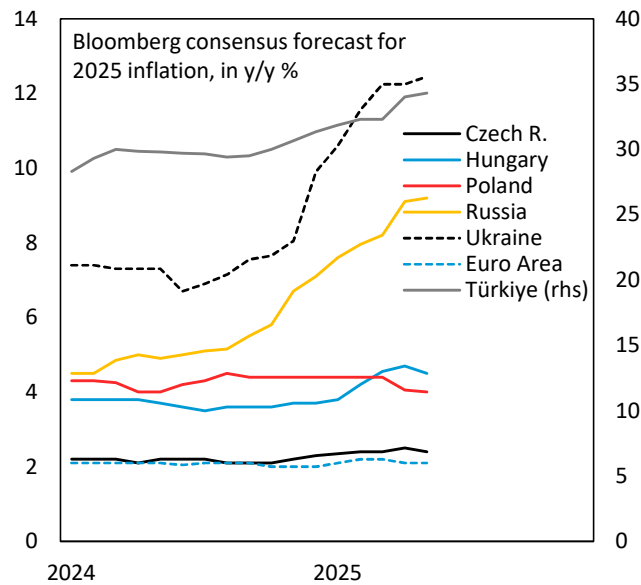
OUTPUT GROWTH & CAPITAL FLOWS DYNAMICS

- The ongoing uncertainty around the tariffs will continue to weigh on investor sentiment.
- Downward revisions to 2025 output growth forecasts for Emerging Europe, ...
- ... broadly align with dynamics we observe in [IIF's high-frequency capital flows tracker](#).



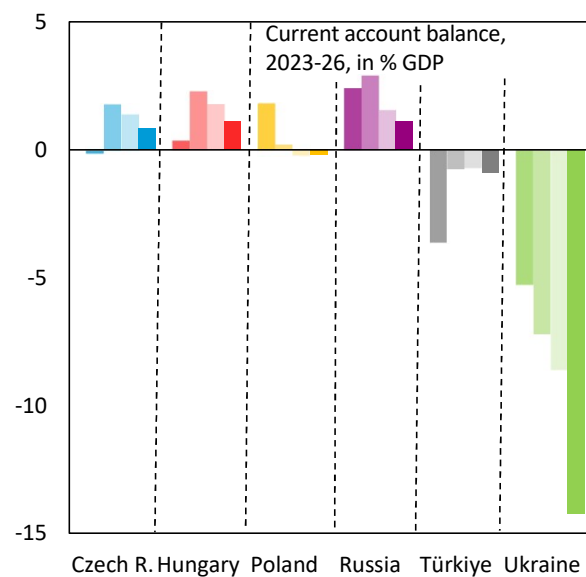
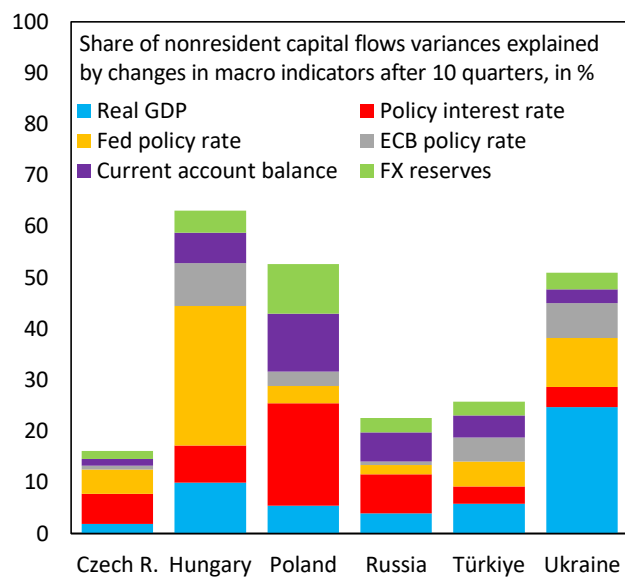
INFLATION & MONETARY POLICY OUTLOOK

- Subdued demand and lower energy prices will likely improve the inflation outlook.
- Reflecting this expectation of a more benign inflation outlook into 2026, ...
- ... markets are pricing in cuts in policy interest rates, particularly in Türkiye and Russia.



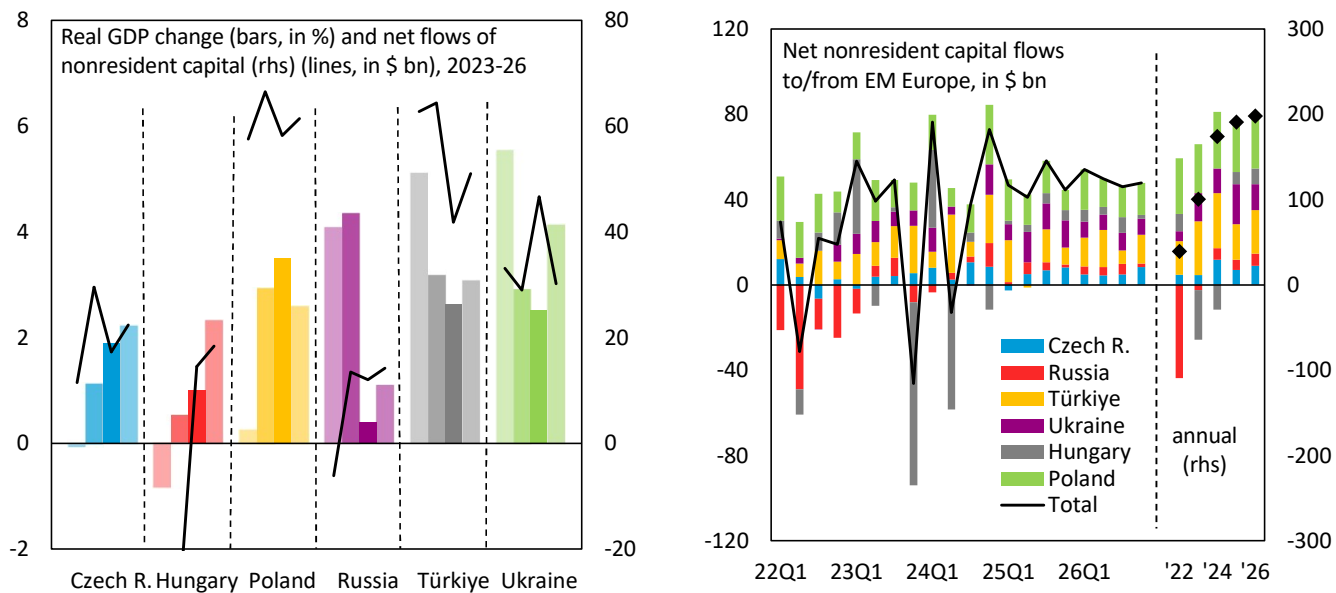
DRIVERS OF NONRESIDENT CAPITAL FLOWS

- Further cuts by the Fed and ECB should boost investors' risk appetite for EM assets.
- Macro fundamentals play a role in nonresident investors' capital allocation decisions.
- External financing needs/geopolitical developments are also important drivers.



NONRESIDENT CAPITAL FLOWS FORECASTS

- Excluding Russia, we project regional output growth to rise from 2.6% in 2024
- ... 2.7% in 2025, and further to 2.8% in 2026. This growth momentum will be ...
- ... accompanied by capital flows rising from \$173 bn in 2024 to \$198 bn in 2026.



DOWNSIDE RISKS

- The CEE region is deeply embedded in the supply chains of German carmakers.
- Germany's export performance matters for the CEE region's growth prospects.
- Hungary and the Czech Republic are especially vulnerable to tariff-related volatility.

