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CEE: Diverging growth, converging hawks

CEE economies show contrasting trends: Poland is enjoying balanced growth and faster monetary easing as the inflation outlook improves. Czech performance remains solid but vulnerable to weak external demand. Hungary is struggling with stagnation and cautious policy, while Romania faces subdued growth and persistent inflation



Poland: NBP moves fast but terminal rate holds near 3.75%

Between the second and third quarters of the year, Monetary Policy Council members indicated that they expected a terminal rate near 4% in 2026 and favoured gradual, data-driven adjustments rather than a full-scale easing cycle. However, by October, the cumulative rate cuts in 2025 reached 125bp, including three consecutive reductions in July, September, and October.

The reason why the MPC decided to ease more decisively than previously suggested was a better-than-expected inflation picture. This is less obvious in current data – for example, in the third quarter, headline CPI was broadly in line with the July NBP projection, only core inflation was 0.2pp lower than expected. The improvement in the inflation outlook became more pronounced in the fourth quarter.

The NBP's pessimistic scenario – a spike in energy prices for households potentially adding 0.7pp to CPI – did not materialise, as the government extended the energy price freeze to 4Q25 and distributors secured 2026 energy supplies at low prices. The October CPI also surprised on the downside, which suggests both headline and core CPI will fall below the July projection – even after adjusting for the impact of the electricity price freeze for households.

The more visible improvement in the CPI picture is seen happening in 2026, where inflation is inevitably heading towards the central bank target of 2.5%. MPC members have repeatedly stressed the upside risks to the mid-term inflation outlook, including expansionary fiscal policy, robust consumption growth, elevated wages dynamics and uncertainty about the impact of ETS2 on prices. But despite that, current readings of CPI, the global backdrop and local situation call for a low CPI in 2026 as well.

Many of the risks flagged by the MPC have not materialised (e.g. an energy price spike in Q4 2025) or eased (such as slower wage growth in Q3 after a temporary acceleration in Q2). As a result, our models and presumably also NBP forecasts show inflation heading towards the central bank target of 2.5%.

We see the recent MPC decisions as front-loading the easing cycle rather than a major change in the terminal rate. We still expect the terminal rate to be around 3.75%, but it is now likely to be reached in the first half of 2026 rather than in 2027. On the other hand, the September data set from the real economy – comprising industrial production, construction and assembly output, and retail sales – paints a solid picture of the end of the third quarter of this year. The results were broadly in line with consensus (retail sales) or better (industrial and construction output).

We maintain our forecast for GDP growth in 3Q25 at 4.0% YoY, and for the full year we expect economic growth to be around 3.5%. The main drivers remain the services sector and rapidly expanding consumption, which is set to grow faster this year than in 2024, despite a slower increase in the real disposable household income. Consumer sentiment is improving, and households appear more willing to spend.

Czech Republic: The economy is humming, but lingering external demand is a threat

The primary economic driver remains unchanged, namely, consumer spending. That said, fixed investment is bottoming out, and we expect it to become a significant contributor to growth over the upcoming year, comparable to consumption. Such a scenario, however, is subject to an appropriate takeoff in the industrial base, which is closely linked to export performance.

The Czech industry has stabilised this year and is gradually diversifying away from the struggling German economy. However, the trajectory of Europe's largest economy remains a

key variable – whether it continues to struggle forward or faces more pronounced challenges will have significant implications. This is what we don't know right now, as the ominous zero German growth in 3Q25 does not provide much of a clue. Therefore, we still take the positive outlook for the solid Czech performance as the base case, but lingering external demand would likely take its toll if the disappointments were too severe and prolonged.

The inflation outlook is somewhat tricky for the upcoming years as well, as uncertainty about future price developments has amplified one thing: already upbeat energy prices and emission allowances for households and small firms, which are set to be implemented in 2027. Czech households face one of the highest energy prices in Europe, which could become even pricier due to ETS2. It's no surprise that energy prices were a key election topic, and the new government appears to be taking action to bring them down.

Several measures are underway, although timing is difficult to predict. It may be the reduction in the regulated share of the energy price, which may be scheduled to come into effect in 2026, or some other decisive ETS2 countermeasures in 2027. We currently take 0.4ppt as the best-guess ETS2 impact in 2027, while the proposed reduction in regulated price would outweigh it. Still, core inflation is poised to exceed the target, which will contribute to base rate stability if the economy continues to expand as expected and no major issues arise in the eurozone.

Hungary: Trapped in stagnation

If you don't have high hopes, you won't be hugely disappointed. This could have been the market's motto ahead of the release of Hungary's third-quarter GDP figures. However, economic activity in Q3 came as a negative surprise, with GDP growth stagnating on a quarterly basis and showing merely 0.6% year-on-year growth due to the base effect. It seems, then, that Hungary remains trapped in stagnation.

Although consumer and business confidence has improved somewhat in recent months, this was not reflected in real economic activity in the July-September period. We are still awaiting the second release with the details, but the bottom line remains the same: the services sector is supporting growth, while agriculture, industry and probably construction are dragging down the country's economic performance.

Due to the weak third quarter, we have downgraded the 2025 GDP growth forecast to 0.5%, and the lower carry-over effect means that next year's GDP forecast has also been reduced to an average of 2.3%. Consumption will be the main driver, as fiscal measures will provide sufficient impetus to increase household spending, while the labour market will remain relatively tight.

In all fairness, however, major labour market ratios are looking good due to the fact that both the demand and supply sides of the labour market are shrinking in tandem. The expected

double-digit minimum wage increase next year poses two-sided risks in a long-stagnant economy: labour force rationalisation or stronger price pressure.

However, the majority of pipeline price pressure will be masked by the extended and widened price shield measures. We predict this year's average inflation to be 4.5%, followed by 3.6% in 2026. However, the trade-off is reflected in the 2027 inflation outlook, where we anticipate an increase to an average of 4.3%, with price stability only being achieved sustainably in 2028. Therefore, the National Bank of Hungary is expected to remain hawkish and ignore the temporary drop in inflation induced by the price shield measures and base effects in early 2026.

We now anticipate only 50bp of easing in total, in a backloaded fashion next year. However, risks are twofold, with a possible renewed dovish tilt in major and regional central banks opening the door a bit wider on a relative nominal rate basis. However, a no-rate-cut scenario in 2026 is also possible if we see an upside surprise in inflation or a strong HUF fails to lower imported inflation and push down inflation expectations.

Monetary policy will support the forint, keeping the carry trade popular. However, the fiscal situation could cause market players to question the feasibility of this. Nevertheless, as we approach the end of the year, we remain optimistic about Hungarian assets, anticipating a further strengthening of the forint and a flattening of the yield curve at the long end.

Romania: Growth prospects remain limited in the short term

We maintain our GDP growth forecast of 0.3% for 2025 and 1.4% for 2026. Short-term downside risks remain pronounced as economic sentiment weakened further in October, staying well below its long-term average and signalling persistent pessimism across businesses and consumers. Manufacturing continues to lose jobs, particularly in export-oriented sectors, though overall employment remains broadly stable. On the positive side, the renegotiated NRRP has been officially approved by the European Commission, paving the way for another round of large-scale, tight-deadline investments. The budget deficit target has been revised to 8.4% of GDP, ensuring continuity of investment flows but at the expense of another year of poor fiscal performance.

Inflationary pressures remain elevated but are gradually easing. Our year-end inflation forecast remains at 9.6% for 2025 and 4.5% for 2026. Price pressures seem to moderate slightly ahead of time, supported by weaker demand and softer wage dynamics, though fiscal measures and energy adjustments keep inflation high in the near term. We expect sharply lower inflation from the second half of 2026, with downside risks at play for both our year-end estimates.

We continue to expect the NBR to start cutting rates in May 2026. Despite the above-target inflation, the growth backdrop suggests that dovish signals from the NBR cannot be ruled out.

The November Inflation Report remains the key forward guidance event in the coming months. We expect NBR to cut its key rate starting in May 2026, delivering a total of 100bp of cuts during the year.

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