

## CEE growth tested by energy shocks and geopolitics

The CEE outlook has dimmed as geopolitics lifts energy risks. Poland cools after a strong 4Q25 but stays domestically driven, while Czech growth is resilient yet inflation-prone. Hungary faces energy shocks and FX volatility. Romania's weak growth collides with renewed inflation uncertainty. Central banks turn cautious again



Harsh winter conditions slowed construction and industry in Poland, even as domestic demand remains resilient

### Poland: Cold weather, hot geopolitics

The beginning of 2026 brought some cooling in economic activity after a buoyant fourth quarter of 2025 (GDP up by 4.0%YoY) as harsh weather conditions dampened output in construction and industry in January and probably in February. The US/Israel attack on Iran has added yet another layer of uncertainty. GDP growth in 1Q26 is likely to be around 3.6%YoY. We still project 3.7% for 2026 as a whole, but see forecasts pointing to Poland's growth above 4% this year as overly optimistic. Economic growth remains domestically driven. We expect consumers to continue spending at a similar rate as in the last two years, and fixed investment to accelerate on the back of public outlays.

Inflation remains subdued and is unlikely to significantly deviate from the National Bank of Poland (NBP) target of 2.5%. However, prolonged conflict in the Middle East and higher prices of crude oil

and natural gas pose upside risks to the inflation outlook. If current spot prices of Brent were sustained, it would add up to 1pp to inflation. So, the magnitude of the oil shock poses an upside risk to headline CPI, but at the same time, the shock may be temporary in nature and possibly unwind in a few weeks.

The strike on Iran is clearly a supply shock, which central banks usually look through. Unlike the Covid and Russia related shocks, which combined both supply and demand effects and led to sharper price increases and de-anchored inflation expectations, this shock was more limited in scope. Also, the strike on Iran may dampen economic activity and weigh on business sentiment, with possible adverse effects on investment activity. At the current juncture, the shock seems to be a more persistent risk for private investments than for inflation. The NBP should continue easing, but the terminal rate may be higher than the 3.25 we expected so far.

## Czech Republic: Energy markets turmoil poses risk to inflation and growth

Economic performance is set to extend into this year, after a vibrant 4Q25 in terms of consumption, fixed investment, and foreign trade. We expect the economy to expand by 2.7% this year and next in our base case scenario, driven by equally strong contributions of household consumption and investment activity on average. The novelty is the recent turmoil in the Middle East that is about to result in some period of elevated oil and natural gas prices, with unknown duration and amplitudes in prices right now. Should Brent crude prices peak at around US\$85/b in March and weaken gradually thereafter to more reasonable levels, we believe that the harm to Czech economic performance would be rather negligible, mostly driven by transitory deterioration in sentiment. However, should the oil price peak closer to US\$100/b and remain elevated for a couple of months, the negative supply shock would take its toll on the economic performance.

As energy prices ultimately affect all price domains, the pro-inflationary risks are obvious, and the magnitude is directly linked to future developments in oil and natural gas prices. In the milder scenario, we see headline inflation averaging 1.7% and core inflation at 2.5% this year. However, should oil prices breach the US\$100/b threshold, headline inflation could cross 2% and core inflation creep close to 3%.

In any case, neither of these scenarios supports any appetite for easier monetary policy. And given this is a negative supply shock, the Czech National Bank would likely also refrain from monetary policy tightening. As a result, stable rates at 3.5% are the right answer to the price shock and heightened uncertainty about growth prospects, at least until the dust has settled. That said, we believe that the services sector is showing signs of saturation, which makes the need for a rebound in industry more urgent to maintain a robust expansion. We hope that industry will answer the call.

## Hungary: Heading into the great unknown

Hungarian economic growth in the last quarter of 2025 was lower than expected. Increased government spending has yet to have a significant impact on the economy's overall performance. While we are still forecasting accelerated GDP growth this year, downside risks are clearly growing. We have reduced our growth forecast for 2026 from 2.3% to 1.7%.

Hard data on industry and retail sales for January has not yet been released, but based on the big

data available so far, the outlook is not too rosy. One of the main negative surprises came from the labour market. Despite the shrinking labour force due to poor demographics, unemployment increased in January while employment fell to a five-year low. This is probably a reaction to the substantial increase in the minimum wage in 2026, combined with the stagnant economy of the past three years.

On a positive note, however, inflation fell well below the target in January, reaching 2.1% YoY. While the base effect was strong, monthly repricing was unusually muted at the start of the year. This was mainly due to price shield measures, as well as the strong HUF. Consequently, the National Bank of Hungary cut the interest rate by 25bp to 6.25%, as expected. In its statement, the central bank emphasised that this was a one-off move and not the start of a new cycle. It added that the March interest rate decision meeting would be open-ended and data-driven; hence, the central bank avoided committing to another interest rate decision. However, while market pricing (and our base case) still suggests the possibility of another 25bp cut in March, a significant risk factor has emerged.

The war in the Middle East has caused energy prices on the global market to rise significantly. This is an especially pressing issue for Hungary, which has not received any oil through the Druzhba pipeline since the end of January. If Russian oil supplies to Hungary do not resume in the coming months, the country will be unable to produce refined oil and will have to buy it on the global market. Given the significant increase in oil prices caused by the recent conflict in the Middle East, this would be an extremely costly purchase.

A 10% increase in energy prices would lead to a 0.4% increase in yearly average inflation and a 0.1% decrease in annual GDP compared to the base case due to Hungary's energy dependence. Our latest base case sees inflation averaging around 2.6% in 2026, so the recent price shock could push it meaningfully above 3%.

With elections approaching, the government is likely to impose price controls on fuel due to the issue's high political sensitivity. If this were to happen, the increased energy prices would not be directly reflected in the consumer price index, putting the central bank in a better position to cut the base rate at its next meeting.

The Hungarian forint has strengthened significantly since the beginning of the year. However, it has weakened in recent days due to increased geopolitical risks, and has moved close to Dec-Jan peaks, materially higher than the levels seen before the central bank's rate cut in February. Therefore, significant volatility could push the central bank to be cautious again. We believe that the recent range of EUR/HUF (375-390) will hold. Overall, the latest geopolitical developments can have significant macroeconomic consequences for Hungary.

## Romania: New layers of uncertainty on the inflation front

We expect GDP growth for 2026 to remain at a constant 0.6%, before picking up to 2.8% in 2027. Downside risks are at play, as the labour market shows visible signs of weakening while economic activity is in pain after the fourth quarter's 1.9% quarterly contraction. What's more, potential new shocks on the energy front due to the Middle East situation could extend the stagflationary forces at play. And it is growth, more than inflation, that would be affected this time compared to the previous energy shock, if the hostilities continue. Investments, which seem to be pushing forward, are set to remain the key growth driver in the short run.

More positively, data for January brought further good news for the budget, which recorded a surplus of 0.04% of GDP, following the visibly better-than-expected 7.7% deficit at the end of 2025. Our 2026 forecast currently remains at 6.4% of GDP. The 2026 budget law remains in the making and is likely to pass in March.

At this early stage, we still hold on to our 4.5% end-2026 inflation forecast. Even before the current geopolitical uncertainties, price pressures were set to remain in the 9-10% range this summer, before falling more visibly afterwards towards the 4-5% range. New energy shocks could indeed bring inflation back into the small double-digits territory. The ingredients for an inflationary impact as strong as the previous one aren't in the picture right now, as the fiscal impulse and low wage growth are pushing in the other direction on the demand front.

It has been our long-held view that the National Bank of Romania would keep its policy rate at 6.50% until May 2026, and deliver a total of 100bp of rate cuts by the end of the year, as the growth picture would require a loosening in financial conditions sooner rather than later. Depending on the length of the situation, the amplification of the Middle East conflict reduces the likelihood of our May cut call, especially as the depreciation pressures on RON have sharpened, given the broader risk-off sentiment in global markets. In a scenario of an August cut (not yet our base case but more likely now), we would expect a total of 75bp cuts this year.

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