

## A return to normality but regional splits: 3 calls for the CEE

Countries in Central and Eastern Europe should return to normal growth and inflation paths. Fiscal policy remains broad, but monetary policy is moving towards neutral. And so much depends on what happens in Germany and Ukraine



Decisions in Ukraine and Germany will shape the future for CEE leaders, including Poland's Donald Tusk.

### ING's base call: Monetary policy returns to normal

Within the CEE region, we should see strong growth in Poland and the Czech Republic next year, and a recovery in Hungary and Romania. For the first two, inflation should remain stable near the central banks' target, while Hungary and Romania should see some progress in disinflation, but it still remains above target.

We think the Czech National Bank completed its cutting cycle in May and the National Bank of Poland should complete its work in the first half of next year at 3.50%. The National Banks of Hungary and Romania should return to rate cuts in the second half of the year (50bps from the NBH and 100bps from the NBR) but not complete their cycle until 2027. Fiscal metrics appear stretched across the region, leading the EU deficit rankings, except for the Czech Republic. Although the political cycle suggests limited scope for consolidation, the public deficit should be further widened only to the extent permitted by financial markets

and the risk of a rating downgrade.

## Our risky call: Disappointment could lead to more rate cuts

The assumption of strong growth next year in the CEE region is heavily based on the recovery of the German economy, the main trading partner, and the effect of fiscal stimulus there. If it disappoints, both recovery and sentiment would be undermined. A weaker eurozone could also mean further rate cuts from the ECB, freeing up some space for CEE central banks to continue or accelerate their cutting cycle.

If that were the case, we could see the CNB cutting rates to a neutral level of 3.00%. The NBP would likely head towards similar levels compared to the 3.50% in our current forecast. The NBH could resume rate cuts in this environment as early as the first half of the year, delivering at least 100bps in total. The NBR will have to wait for inflation to decline in the second half of the year, but with the economy on the brink of a recession triggered by the consolidation package, we could see 150bps of rate cuts next year under this scenario.

## Our bold call: Any boom would spark rate hikes

Full delivery of the fiscal stimulus in Germany and a revival of the eurozone would fully kick-start the CEE region's economy. A full-fledged peace agreement between Ukraine and Russia would allow energy prices to be reduced for heavily industrialised countries in the region. Positive sentiment from that, along with a reconstruction project and relaxed fiscal measures, would visibly boost the economy above potential. Consumption-driven GDP growth and fiscally supported wages would quickly turn into inflationary pressures. This would force central banks to react quickly and offset the economic boom by raising rates, starting in the Czech Republic.

### Author

**Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial

Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).