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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.

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