CEE: Similar hawkish messages for quite different reasons

Poland's economy is expanding steadily, while Romania's growth is more subdued. The Hungarian economy is struggling to recover. Meanwhile, a robust economic rebound in the Czech Republic faces external risks. We've just published our comprehensive Directional guide to the CEE region. Download it here

A border sign between Poland and the Czech Republic

Poland: Solid growth but fiscal risks and downgrades cloud outlook

Poland's economy grew around 4% YoY in the third quarter, while inflation fell below 3%. Fiscal policy remains expansionary, with a 2025 deficit near 7% of GDP and no consolidation plan before the 2027 elections. Austerity is absent from political debate.

Fitch and Moody's downgraded Poland's outlook due to fiscal imbalance and political tensions. Public debt is rising, driven by high deficits and the absorption of EU loans (RRF, SAFE). Growth is supported by private consumption without derailing the disinflation process. September CPI surprised on the downside, and core inflation likely fell further.

The Monetary Policy Council cut rates in July, September, and October, though communication was unclear. The terminal rate is seen at 4% in 2026.

Czech Republic: Robust economic rebound faces external risks

Czech consumers are benefiting from strong wage growth, with August retail sales up 3.5%. This is a decent increase, but below the pre-2020 expansion norms, where retail sales expanded by almost 5% between 2016 and 2019. Industrial performance remains weak, posing a risk to the broader recovery, especially given the eurozone's instability, notably in Germany and France. With a sharp deterioration in German industrial output and the political strife in France, Czech exporters could be particularly exposed.

Growth is expected to exceed 2.5% in the coming years, although external demand may have a significant impact. Core inflation and persistent price growth in services continue to be a threat to overall price stability, and we're unlikely to see that reaching the target rate anytime soon. It appears that 2026 will offer calmer waters for policymakers, with rate stability expected to persist through 2026.

ETS2's CPI impact may emerge in 2027, with housing market pressures persisting. It remains to be seen whether the new government can effectively address these challenges.

Hungary: Still chasing a recovery

It sometimes feels as if Hungary is fighting a losing battle to recover economically, with 2025 marking the third year of missed economic expectations. Consumption supports growth, but investment is hindered by low confidence and limited fiscal space. Net exports remain a drag, and GDP is forecast to grow just 0.7% this year, rising to 2.5% in 2026.

Inflation stays high due to rising wages, energy costs, and expectations. Without price shield measures, inflation would average 6% instead of 4.6% in 2025. These measures will end, likely triggering a sharp price adjustment. Inflation is expected to average around 4% in 2026–27.

Monetary policy remains tight to support the forint and contain inflation. The base rate is likely to stay at 6.5% through most of 2026, with easing delayed. Fiscal policy is cautiously supportive to avoid rating downgrades.

Despite challenges, Hungarian assets look promising in the short term, with expectations of a stronger HUF and a flatter yield curve.

Romania: Investment growth should keep the economy fairly buoyant

On the growth front, we maintain our 0.3% forecast for 2025 GDP growth, but have trimmed our 2026 forecast from 1.7% to 1.4%. On the supply side, a positive turnaround from agriculture is likely on the cards for the third quarter. That said, bearish consumer sentiment keeps downside risks alive on the demand side. Investments remain key for growth ahead.

On the fiscal front, the latest agreement between the government and the European Commission involves a deficit target of 8.4% for this year. A positive aspect is that most investments will continue, which should benefit the productive potential in the medium term, despite a lack of more visible fiscal deficit gains in the short run. This should sustain activity in the construction sector and keep the economy afloat.

We expect price pressures to edge slightly into double digits before moderating slightly and ending the year at 9.6%. Base effects kicking in around next summer, as well as downward pressures from demand, should bring inflation closer to the 4-5% area by the end of 2026. We don't see any rate hikes from the National Bank of Romania, and our current base case remains for a rate cut in May 2026 and a total of 100bp of cuts next year..

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