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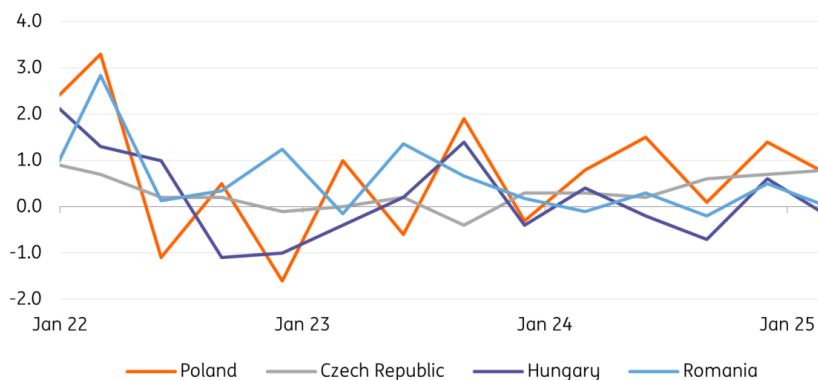
CZECH REPUBLIC HUNGARY

CEE: Focus returns to the local story

Within the CEE region, the Hungarian and Romanian economies continue to surprise to the downside, while the Czech economy surprises to the upside. Inflation remains more mixed, with attention to local factors and more divergence within the region as central banks remain cautious



GDP in CEE region (%QoQ)



Source: Macrobond, ING

Czech Republic: Strong consumer shadow lukewarm investment appetite

The Czech economy did well over the start of the year when it came to wage increases and overall GDP growth figures, and the expansion is set to carry on over the subsequent quarters.

However, there are some soft spots when looking into the details, such as almost stagnant household consumption in quarterly terms and barely growing fixed investment over the medium term.

We see the economy further outperforming the eurozone, although elevated uncertainty and a low propensity to invest in the Czech Republic and across Europe pose tangible risks to a speedy rebound. The structural issues, such as prohibitively high energy prices and a suffocating regulatory burden, don't seem to be getting addressed decisively or swiftly, which only adds to the fundamental question of whether the desire to improve competitiveness is still serious.

Czech annual headline inflation ticked up to 2.4% in May, coming in above market expectations and slightly above the Czech National Bank's forecast. The strong overall GDP figure, along with more potent headline and core inflation, will pave the way for a hawkish stance by rate-setters. In contrast, the subdued propensity to invest and lower European Central Bank rates are reasons for a lower terminal rate. The interplay between persistent services inflation driven by household spending, lukewarm investment activity in uncertain times, and the euro rate path will determine the landing runway for the Czech base rate.

Our base case scenario for the June CNB decision is no change to rates, while we still see some room for easing, with the rate potentially landing at 3.25% at the August meeting. The potent rate differential to the euro and better growth performance will further support the koruna.

Hungary: The economy remains grounded and is facing several challenges

Based on the details of the unexpectedly weak first quarter, the short-term outlook for the Hungarian economy has worsened. Consequently, we have further downgraded the 2025 GDP growth outlook to just 1.0%, with an average forecast of around 3% for 2026-2027.

The elephant in the room remains the lack of confidence among households and businesses. As a result, consumption growth has slowed down significantly, and investment activity continues to decline sharply. The economy has now reached a point where even the labour market, seen as a silver lining until now, has started to weaken. The number of participants and the number of people employed in the labour market have sunk to levels not seen in two years. While wage growth has unsurprisingly continued to decelerate, there has been no significant easing of price pressures.

Inflation continues to hover around 4%, despite the lack of demand-side pressure and the implementation of price-curbing measures (both mandatory and voluntary). High inflation expectations appear to be becoming increasingly ingrained in the mindsets of economic actors, creating a long-term issue. We therefore forecast inflation to average 4% during the 2025-2027 period.

Despite all the challenges, we don't believe that demand for Hungarian assets will collapse. The risk premium will increase relatively as major central banks and regional peers continue to ease monetary policy. While this could theoretically lead to easing in Hungary, we expect the National Bank of Hungary to keep the base rate unchanged until at least the end of the year. This will provide investors with the necessary risk premium to counterbalance the risks stemming from the deteriorating fiscal outlook (via weaker economic activity and labour market metrics, as well as mounting political challenges for the government), and the risk of a downgrade to Hungary's credit rating.

In this environment, we expect range trading in the Hungarian forint with a potential slide towards the top of the range. In our view, this equates to 415–420 by the end of the year. The rates market is taking back some expectations of NBH rate cuts this year, pushing the IRS curve up, also supported by global developments. Still, the long end of the curve seems too high given our bearish views, but the risk sheet for a further move up is decent.

Romania: Catching the last train on fiscal correction

With calmer waters in the Romanian markets following the electoral turmoil, all eyes are now on the soon-to-be-adopted fiscal measures. Political negotiations for the formation of a new government are also ongoing. The latest EU Commission assessments released on 4 June point to the fact that Romania needs to implement fiscal measures quickly, throughout June, to remain in good standing with EU funds. We now expect a fiscal deficit of 7.5% of GDP in 2025 (previously: 7.0%).

Our GDP growth base case remains for slight acceleration to 1.2% (2024: 0.8%), with downside risks at play. Private consumption growth should moderate while exports are set for another sluggish year, but productivity improvements amid infrastructure upgrades and the Schengen ascension should contribute positively to activity through higher productivity.

On FX, from the current range of 5.04–5.07, we anticipate a gradual depreciation to 5.10 by end-2025 and towards 5.18 by end-2026. Under normal market conditions and with improved EU fund inflows, a sharper depreciation would likely be unacceptable to policymakers at this stage.

On the monetary policy front, the National Bank of Romania left rates on hold at its May meeting. Our base case remains for two 25bp rate cuts in October–November, with clear upside risks, and for inflation to end 2025 at 5.0%. Multiple factors at play are key for rate cuts to even be on the table going forward: stable government, credible fiscal reform, continued access to EU funds, preserved rating, money market rates falling back below the policy rate, and well-behaved inflation.

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