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CZECH REPUBLIC HUNGARY

CEE: Moving in all directions

The outlook for Central and Eastern Europe is broadly benign: Poland is holding rates steady as inflation eases and growth softens, the Czech economy is expanding with contained CPI despite cost pressures, and Hungary's post-election rally supports an easing bias with scope for summer rate cuts as risk premia falls and the inflation outlook improves



Countries within Central and Eastern Europe are all moving in various directions, although the outlook on the whole looks relatively benign

Poland: Central bank to keep rates on hold this year

In line with market consensus, the National Bank of Poland kept rates on hold in June with the main rate at 3.75%. The decision came as no surprise in light of the latest inflation data. A surprising decline in inflation to 3.1% year-on-year in May from 3.2% YoY in April provided the Monetary Policy Council with a solid argument to maintain its wait-and-see stance. The drop was driven by a sharp decrease in food prices (unusual for May) and weaker-than-expected core inflation pressure. This suggests that the oil shock – stemming from surging crude oil prices – seems to be contained and does not require an imminent policy response.

GDP data for the first quarter of 2026 showed a growth slowdown to 3.5% YoY from 4.1% in the fourth quarter of 2025. Private consumption eased amid weaker wage growth, while investment was hit by harsh weather disrupting construction. High-frequency data for April indicated a significant slowdown in the corporate wage bill (driven by lower wage growth and a decrease in employment) and idle industrial production, while a revival in construction is just a return to normality from the winter freeze.

It is no surprise, then, that the National Bank of Poland governor declared the current level of interest rates adequate to stabilise inflation, and the risk of rate hikes has declined. We expect interest rates to remain on hold through the rest of the year. The spillover from the energy shock is also being contained by policymakers. The energy minister expects the fuel shield – lower excise duties and VAT on fuels – to be withdrawn only once global oil prices return to pre-war levels. In addition, the energy regulator has extended current household gas tariffs through to the end of 2026, at just under €50/MWh. Central bankers have also received a broadly benign set of data and external assumptions ahead of the July inflation projection.

Czech Republic: Continued expansion amid relatively modest inflation

Economic expansion at 2% this year is possible, particularly if the Strait of Hormuz conflict does not re-escalate and the Brent crude price remains below US\$100/bbl. We currently see price pressures building in the producer segment, along with surging input costs for energy, refined chemicals, and metals. However, second-round effects on consumer prices seem limited so far, while some relief in fuel prices should also moderate headline inflation. Overall, we expect rather benign headline inflation until November, with a subsequent brief increase largely driven by base effects. The core rate should remain somewhat elevated this year, without crossing the 3% barrier. We then see it receding next year.

The housing market is set to remain overheated, as excess demand over supply continues to drive strong property price growth. This is accompanied by robust credit expansion, both in mortgages and consumer credit, which supports the case for a marginally tighter monetary policy stance. At the same time, there are compelling reasons to keep policy rates unchanged, including a somewhat cooling economy, benign headline inflation and potential adverse effects on economic activity linked to the Middle Eastern conflict. In any case, monetary policy is likely to remain restrictive, as real interest rates are expected to move into positive territory over the forecast horizon. The koruna should remain supported by a relatively solid economic performance and a positive interest rate differential versus the ECB, in both nominal and real terms.

Hungary: From zero to hero

Almost two months have passed since the election, and Hungary is still enjoying the honeymoon phase. The forint has strengthened by around 10% compared to the pre-election peak, while government bond yields have fallen significantly, with the 10-year yield dropping by around 200bp. With CDS spreads narrowing, a 100bp mark-up over the US 10-year and a 245bp premium over the Bund, it is fair to say that Hungary has gone from zero to hero in the eyes of the market.

Unsurprisingly, this drop in risk premium has led the National Bank of Hungary to consider the possibility of a rate cut. Our updated inflation forecast predicts an average of 2.8% in 2026, peaking at around 4.5% year-on-year at the turn of 2026-2027. Given this, it is entirely possible that the central bank will not stop at one rate cut, but will make two or even three cuts over the summer.

Moving to the real economy, we are still forecasting 1.5% GDP growth this year, but with this swift rate-cut scenario, Hungary could see 2.5–3.0% economic growth in the coming years. EU funds will certainly support this, and the expected 'defrosting' of transfers will boost budgetary finances this year. The real economic impact could be felt from next year onwards. From a fiscal perspective, the next milestone is revising this year's budget. We expect the new official accrual-based deficit target to be 6.5–7.0%, while our technical projection sees this at 6.2% of GDP in 2026. We expect the convergence programme outlining the path towards euro adoption to be released in mid-to-late autumn. In general, if the positive momentum continues and commitments are turned into action, we anticipate the possibility of rating outlook upgrades in the fourth quarter.

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