

## CEE: A land without rate cuts

Poland leads the region with 3.4% GDP growth and CPI near target, but the central bank remains cautious due to the loose fiscal stance. The Czech economy is expanding steadily, with rate hikes possible in 2026. Hungary's inflation remains high, delaying easing. Romania stagnates, with inflation set to peak near 10%, and rate cuts likely from mid-2026



### Poland: CPI down, GDP up

Economic growth accelerated to 3.4% year-on-year in the second quarter from 3.2% YoY in the first. On the supply side, GDP expansion was driven by services, while on the expenditure side, data showed that households' consumption propelled economic growth. Due to buoyant services sectors, the Polish economy is growing faster than its CEE peers, despite facing similar headwinds in industry. In the second half of the year, GDP growth should accelerate to nearly 4% YoY, and we still expect 3.5% GDP growth in 2025, clearly above the pace seen in other countries in the region. Investment activity remains subdued, but is expected to bounce back as the Recovery and Resilience Facility and Cohesion Funds from the EU begin to flow more widely into the economy.

The 2026 draft budget reflects deteriorating fiscal conditions in 2025, with the general government deficit projected at 6.9% of GDP, up from the previously expected 6.3%. The 2026 fiscal plan offers limited consolidation, and policy remains expansionary – potentially discouraging the National Bank of Poland (NBP) from further monetary easing. Poland's new President, Karol Nawrocki, says he will veto tax increases and social spending cuts, which suggests that Poland is unlikely to tackle its excessive deficit targets by 2028. This could increase pressure from rating agencies and

investors amid rising public debt and the absence of a meaningful fiscal adjustment.

August CPI inflation decreased to 2.8% YoY from 3.1% YoY in July and is close to the central bank's target of 2.5% (+/- 1 percentage point). Core inflation, which excludes food and energy prices, is also on a downward trend. According to current estimates, it probably moderated to 3.1% YoY from the 3.3% YoY reported in July. With inflation close to the NBP target and securely within the range of acceptable deviations from the target, the Monetary Policy Council cut rates by 25bp to 4.75% on 3 September, but took a more cautious policy stance with respect to further policy easing amid highly expansionary fiscal policy. In October, policymakers may pause and return to the debate on rate cuts in November, when the new NBP staff economic projections become available. Real rates are relatively high, though, and policymakers have room for further policy easing, and in 2026 as well.

## **Czech Republic: Stable rates do the job for the expanding economy**

Czech annual inflation eased in August primarily due to a continued slowdown in food price dynamics. The reading also showed that price growth in the services sector remains unshattered, hovering around 5% since 2024. We see this as a structural issue that could start to embed into inflation expectations, especially after such a protracted period. With both nominal and real wage growth exceeding expectations in the second quarter, households will have sufficient resources to continue spending as the year progresses. We see the economy gradually entering a fully-fledged growth setup, with the labour market flipping into a retightening mode in the coming quarters. This would mean upward pressure on wages throughout the upcoming year, with wage growth representing a candidate for upward surprises compared to general expectations. In such a situation, we see rate stability as an optimal response for the time being.

That said, there are inflationary risks when looking ahead, primarily driven by several factors: persistent overheating in the housing market, which could push up rents and core inflation; a genuine economic rebound in Germany spurred by fiscal stimulus; nominal wage growth potentially exceeding 7%, leading to renewed inflation in the services sector; a significant CPI impact from ETS2, including pronounced secondary effects and front-loading into 2026.

With the economy expanding swiftly and the labour force once again becoming a scarce resource, an additional combination of the risks mentioned above would likely result in a renewed hiking cycle around mid-2026. Indeed, the current rate of 3.5% is generally considered only slightly restrictive in terms of domestic demand, while further strengthening of the koruna will provide some relief via cheaper imports.

## **Hungary: Our case for a more hawkish monetary policy outlook is growing**

The breakdown of Hungary's weak second-quarter GDP growth highlights that household consumption is currently the main driver of the economy. However, despite low unemployment and robust real wage growth, consumer spending remains solid but not exceptional. In contrast, investment continues to decline. The underlying issue? A lack of confidence. Households are concerned that prolonged stagnation over the past three years could jeopardise job security, while inflation remains elevated. Unlike expectations, high inflation in Hungary hasn't spurred spending – it has encouraged saving, as households are still recovering from recent economic shocks that

depleted their financial reserves.

A lack of strong domestic demand, coupled with weak external demand, is making businesses less confident. Add to this geopolitical uncertainty, global and local economic policy uncertainty, and rising labour costs, and you have the perfect storm for investment delays.

Meanwhile, inflation has continued to surprise on the upside, suggesting entrenched price pressures that won't ease soon. Unsurprisingly, the National Bank of Hungary is sticking to its hawkish playbook, emphasising that anchoring inflation expectations is essential. To achieve this, a cautious, patient monetary policy is needed, which prioritises the stability of the Hungarian forint too, according to the Monetary Council.

However, it is not just the central bank. The Ministry of National Economy is sending out the same messages, which makes us increasingly doubtful about our monetary policy baseline, which assumes that the base rate will remain unchanged in 2025, but expects a significant easing cycle in 2026. If we see further upside surprises in inflation in the coming months – despite the strong forint – and if there are some hawkish surprises globally, we will need to flip the switch.

If policymakers are serious about the forint, this could lead to a complete overhaul of our monetary policy and FX market outlook. Our alternative scenario, which is becoming increasingly likely, is that the base rate will remain at 6.50% in 2026, with the forint hovering in the 380-400 range to the euro. Investors' long HUF bias could be supported by a credible fiscal policy that uses all the room given by investors and rating agencies, but no more. In this regard, we estimate this year's fiscal deficit to be 4.6% of GDP, and next year's to be 4.5%. The additional financing required could be covered by EU SAFE funds, and we can envisage some adjustments to the retail bond market too.

## Romania: Growth stalls amid fiscal and inflationary pressures

On the growth front, the situation is yet to improve at this stage. Detailed GDP figures for the second quarter reaffirm that Romania's economy is essentially flatlining. Year-on-year growth stood at just 0.3%, matching the weak pace of the first quarter and leaving first-half 2025 growth at a mere 0.3%. The slowdown in consumption is becoming more visible, but at the same time, it also helps to partly offset the large trade imbalances.

In the near term, public investment financed by EU funds should become the economy's primary engine, which should sustain activity in the construction sector and help prevent a deeper downturn. On the fiscal front, the deficit is expected to remain elevated this year, likely above 7.5%, and only diminish more substantially next year when the recently adopted measures will bring the desired impact.

Looking at inflation, we think that the recently implemented VAT and excise duty hikes will push up price pressures close to 10% in the coming months, before base effects kick in around next summer and bring inflation closer to the 4-5% area by the end of 2026. Given the pressures on growth and the likely temporary nature of this inflationary episode, we don't see any rate hikes from the National Bank of Romania, and our current base case is for a rate cut in May 2026 and further support to the economy from there onwards.

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