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CZECH REPUBLIC HUNGARY

## Let's talk about CEE rate cuts again

Poland's strong data should delay its next rate cuts until March, with GDP to accelerate in 2026. The Czech economy is set to grow thanks to consumption and low inflation, allowing easing to restart. Hungary faces mixed signals, but easing is likely amid political uncertainty. Romania sees modest growth, high inflation, and rate cuts after May



We're anticipating that interest rate cuts will materialise across Central and Eastern Europe this year

### Poland: Solid performance to postpone the next interest rate cut until March

A total of 175bp in interest rate adjustments brought Poland's key interest rate to 4% by the end of December. National Bank of Poland (NBP) Governor Adam Glapiński had signalled a shift to a wait-and-see approach, and while a positive inflation surprise (2.4% year-on-year) raised the odds of a January cut, central bankers decided to keep rates unchanged.

Glapiński's dovish tone did prompt expectations of a February cut, provided that forthcoming data readings were supportive – but they were not. Surprisingly, wage growth accelerated to 8.6% YoY in December from 7.1% in November, and activity growth in industry and construction also came in well above market expectations. This suggests a revival in investments, while strong retail sales growth in December confirmed strong consumer demand. Against this backdrop, we see 3.6% real GDP growth in 2025 as a whole (data due for release today), and around 4% in the fourth quarter of 2025.

December's data gave the National Bank of Poland grounds to continue its pause in the monetary easing cycle in February. Policymakers should resume rate cuts in March, as new projections are expected to point to a low-inflation path. With the risk of inflation target undershooting rising over the medium term, and GDP growth accelerating slightly to 3.7% this year, we expect three rate cuts this year and see the target rate at 3.25%.

### **Czech Republic: Czech economy enjoys solid expansion amid low inflation**

The Czech economy's solid performance is set to continue, with the output gap expected to close next quarter. This year's expansion will likely be driven predominantly by buoyant household consumption and a rebound in fixed investment. Indeed, the recent government subsidies to electricity prices for both consumers and businesses constitute a positive supply shock, when more is produced at a lower cost. At the same time, households will benefit from more relaxed budgetary constraints as lower energy bills free up disposable income. Nevertheless, the investment activity comeback could put the net export contribution under pressure, given the relatively import-intensive nature of many investment projects. We are optimistic about the impact of reduced energy costs on manufacturing, not only in Czechia but also in Germany, a vital destination for Czech exports.

Headline inflation is set to hover well below the target throughout the year, suppressed by low food price growth and declining fuel and regulated prices. However, core inflation will likely remain elevated, fostered by ample consumer spending. The Czech National Bank will decide on its next move in this twofold environment, and service price dynamics will be a crucial factor. Low energy prices are likely to trickle down across all price circuits; for instance, restaurants may be less prone to raising prices due to subdued food and energy costs. At the same time, solid demand may lead to higher margins when revising prices in January. We see the disinflationary force linked to low energy costs marginally dominating and pushing core inflation down around the summer, facilitating more relaxed monetary policy. The opportunity to proceed with a rate cut spans from March to August, when a low headline rate will be *a fait accompli* in the spring, and potential deceleration in core inflation will be tangible in the summer.

### **Hungary: It's a whirlwind of contradictions**

While we await the release of Hungary's fourth-quarter GDP data, the results of the high-frequency data have been mixed so far. Nevertheless, we see services as the saviour, as well as agriculture, to some extent. If our forecast of 0.7% quarter-on-quarter GDP growth in 2025's fourth quarter is correct, this would create the opportunity for a positive carry-over effect and a chance to achieve GDP growth of around 2.3% in 2026. With improving consumer and business confidence, there is hope that government measures ahead of the general election will eventually lift economic activity and drag Hungary out of stagnation.

While the first half of the year is expected to be characterised by consumption growth and perhaps some improvement in investment activity, the second half could be determined by export activity. By then, flagship foreign direct investment (FDI) projects in car and electric vehicle (EV) battery manufacturing will have been completed, and factories will be in the production phase. These new export capacities will keep the labour market tight, while the improving business outlook and high minimum wage increases will keep labour costs rising. Services prices are most susceptible to this, though voluntary price cap measures (telecommunications, banking and insurance) will be in place during the first half of 2026.

On this note, while the margin freezes are officially set to expire at the end of February, it is highly unlikely that the government will extend them until after the election on 12 April 2026. Inflation remains a key political topic. One piece of evidence for this is that the cold spell in January would have prompted household energy bills to increase significantly (by up to three times the usual cost). However, the government acted quickly to cap January's bills, so this shouldn't affect inflation. As well as politics, this also has an impact on monetary policy. By avoiding a significant increase in energy prices, headline inflation will fall further, potentially reaching 2% YoY in early 2026.

This will give the National Bank of Hungary plenty of room for manoeuvre. Our base case anticipates two rate cuts in the first quarter, amounting to a total easing of 50bp in February and March. However, the outlook becomes more uncertain when we try to predict the interest rate path post-election. The main reason for this uncertainty is FX market volatility, which could be significant in either direction. Therefore, the risks are two-sided, but we expect the central bank to adhere strictly to its mandate and try to deliver on the inflation target while keeping the forint as stable as possible. We see one or two further rate cuts after the election, but the timing of future easing is uncertain. Recent polls show the largest opposition party (Tisza) with a nine-point lead over the incumbent party (Fidesz). Even this lead, however, is difficult to translate into actual electoral district wins, with 106 out of 199 seats in the Hungarian Assembly being decided in this way. Regardless of which political party you speak to, the general consensus is that it will be a close race. Based on the history of local elections, tight races tend to favour the incumbent party.

### **Romania: Challenges remain but investments are moving forward**

We maintain our GDP growth forecast at 1.1% for 2025 and 1.4% for 2026. Short-term downside risks are still on the table as economic sentiment weakened further in the fourth quarter. That said, investments seem to be pushing forward and remain the key growth driver now – at least until consumer confidence starts to gradually improve, which will likely occur later on in the year.

The budget execution data brought positive news, with the deficit ending 2025 at 7.7% of GDP,

significantly lower than the 8.4% agreed target and paving the way for a better-than-expected performance in 2026 too. Our forecast currently remains at 6.4% of GDP. The 2026 budget law remains in the making and is likely to pass in February.

Our year-end inflation forecast sits at 4.5% for 2026. By then, price pressures should remain in the 9-10% range through the summer, before the 2025 measures (tax hikes and the electricity market liberalisation) will fall out of base. We then expect visibly lower inflation from the second half of 2026. Two particular known unknowns are still in the picture – the gas price liberalisation and the removal of margin caps for essential food items.

Barring any unexpected shocks, we expect the National Bank of Romania to keep its policy rate at 6.50% until May 2026, after which we expect 100bp of rate cuts by the end of the year. The February Inflation Report remains the key forward guidance event in the meantime. Our view is that by May, policymakers will be in a better position to assess the demand dynamics and the impact of the key known unknowns on inflation.

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