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Directional Economics CEEMEA

From working hard to working smart: the next step for CEE

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Summary

Back in April, our last Directional Economics, *Trade instability - A test of strength*, assessed how the CEEMEA region could withstand looming US tariffs. Little did we know that the levies imposed on 'Liberation Day' would be so severe. Yet our conclusion back then was that the region would prove more resilient than expected. Most would now agree that both the region and the global economy have shown greater resilience than initially feared.

Helping the CEEMEA region withstand some of those external headwinds has been domestic demand, where low unemployment rates have continued to support consumption. Yet these low unemployment rates may ultimately prove a structural headwind. For a region that has relied on abundant labour to drive growth over the last two decades, the prospect of labour scarcity now poses a challenge to conventional business models.

In our article, *From working hard to working smart: the next step for CEE*, our team deep-dives into some of the challenges. Shrinking labour forces, rising wages and lagging productivity will ultimately demand a new approach beyond merely working more intensively – cheaper labour in Romania, Turkey and North Africa will see to that.

Instead, working smart will require progress on several key fronts. Attracting both the younger and older generations into the labour force and re-assessing immigration will be key to diffusing the demographic time bomb. Here, prime age populations stand to fall anywhere between six and fourteen percent by 2040 in the likes of Poland, the Czech Republic, Hungary and Romania.

Equally important will be a re-allocation of the labour force towards more productive areas of the economy, such as services, upscaling the more productive firms, investing in automation and addressing regulatory barriers. Looking at corporate loans to GDP, the CEE4 private sector barely has half the leverage of firms in Western Europe – leverage which could be put to work in productive investments.

Returning to the more immediate macro outlook for the region, our team generally forecasts stronger growth for most economies next year. That statement masks diverging stories, where countries like Poland and the Czech Republic will retain strong momentum on the back of consumption. For the likes of Hungary and Romania, 2026 should be more of a recovery story helped by a turn in the investment cycle and in the case of Romania, the unlocking of EU funds to offset some very sizable fiscal consolidation.

Industry has been the weak link across the board, but any meaningful improvement in the eurozone economy would be a boon. Here, the Czech labour market is already looking a little tight and any further help to the economy could bring the first rate hike nearer - that could be a risk for early 2027. The region will also be monitoring the impact on headline inflation from the introduction of the EU Emissions Trading System 2, which is set to raise energy costs for households and small firms in 2027.

Monetary easing cycles in Poland, Hungary and Romania look set to continue, but at varying speeds. Poland has just cut rates and may cut another 50bp in 2026, while easing in Romania looks delayed by a CPI spike to 10%, and in Hungary by the need to keep the forint strong and the debt-to-GDP figure in check. Into 2026, we see the Czech koruna overtaking the forint as the region's favourite currency – a rally built on firmer foundations.

On the subject of currencies, the real appreciation favoured by Turkish authorities should mean that the lira remains in demand. Pressure will remain on authorities, however, to stick to their disinflationary policies as the economic costs are becoming more pronounced. And further afield, we provide updates on the CIS region and welcome Bulgaria to the Eurozone.

Chris Turner, Global Head of Markets and Regional Head of Research, UK & CEE

Country summaries: CEE4

Czech Republic

The Czech economy is gradually entering a full swing rebound, with household consumption set to gain around 3% this year, a dynamic observed throughout the fat years. The construction boom, now in its teens, is expected to carry on, as excessive demand, ample savings, and upbeat credit levels further fuel the trend. The one missing part of the boom jigsaw – industry – has only started to stabilise, while sentiment looks better than at any time over the past three years. The economy is poised to thrive, unless interrupted by an unforeseen external event. Labour market tightening is just around the corner, setting the stage for daring wage demands across sectors. Here we stand with the monetary policy having a rather neutral effect right now. In such a setup, we see base rate stability with potentially a need for greater stringency. We believe the koruna will remain on solid ground.

Hungary

Sometimes it appears as if Hungary is fighting a losing battle to recover economically, and this has become increasingly evident over time. 2025 marks the third consecutive year in which the reality has fallen far short of economic expectations. While consumption remains a positive factor in the real economy, investment activity suffers from a lack of business confidence and limited fiscal space. The global inventory cycle has yet to turn, so net exports are holding back growth. Despite this elusive recovery, inflation remains high, fuelled by rising labour costs, high energy prices for businesses and elevated inflation expectations. Consequently, monetary policy is maintaining a restrictive stance to support the forint via the high interest rate risk premium. Fiscal policy is expected to remain opportunistically supportive to avoid a backlash from rating agencies. Therefore, in the short term, we are constructive on Hungarian assets.

Poland

Poland's GDP continues to outperform both the CEE region and the Eurozone, despite stagnation in manufacturing, the country's traditional growth engine. The services sector is bridging the gap. However, the current labour-intensive growth model faces long-term constraints due to labour scarcity, necessitating structural change. A large public investment cycle is underway and should support growth near potential GDP. Yet, Poland runs the second-highest fiscal deficit in the EU. Consolidation appears unlikely in the near term, given political gridlock and the approaching 2027 general elections. Only a market shock would force austerity, but such a scenario is unlikely as foreign holdings of POLGBs are already at record lows and the MinFin can keep replenishing a high liquidity buffer from high EU fund flows. The currency is stable. Fragile fiscal side calls for POLGBs and PLN adjustment, but GDP outperformance prevents it.

Romania

Romania is seeking to maintain a delicate equilibrium between restoring fiscal discipline and supporting economic growth. Facing the EU's largest budget deficit in 2024, the government introduced a major fiscal consolidation package in July 2025 to stabilise public finances and protect the country's investment-grade credit rating. This plan, exceptional in scale by European standards, leans heavily on tax increases and, to a lesser extent, on spending cuts. Growth, however, has been virtually flat so far in 2025, weighed down by persistent inflation and weaker consumer demand. Authorities are counting on fiscal discipline to rebuild investor confidence and unlock EU funds, which could help soften the adjustment through EU-financed investment projects.

Country summaries: Other Central & Eastern Europe

Bulgaria

In what has been the 'done deal' year for the euro adoption process, Bulgaria's economy has so far gained steam from both consumption and investments. These developments have stimulated imports visibly and, along with changes in taxation, have fuelled inflationary pressures so far this year. In this context, with exports struggling, the trade deficit in July went up by a substantial 62% in annual terms. The fiscal stance is now slightly more under the radar as the pressure from rising public incomes and co-financing public investments could become tricky to manage, especially for the cash deficit. That said, a steady progress on reforms should bring more RRF payments to the table and improve Bulgaria's productive potential ahead.

Croatia

Croatia continues to deliver growth above its potential at this time, buoyed by the tailwinds of euro adoption and Schengen entry (which boosted tourism flows) alongside high absorption of EU funds, especially under the RRF. This robust performance, coupled with relatively prudent policies, has propelled a swift climb up the credit ladder from sub-investment grade in 2019 to an enviable A- at present, reflected in resilient sovereign spreads. However, inflation remains stubbornly high at around 3.5–4.0%, underscoring lingering price pressures in an otherwise upbeat outlook. Looking ahead, sustaining this momentum will hinge on managing inflationary pressures without undermining growth prospects.

Serbia

Serbia's political situation remains in a tough spot on the back of the persistent anti-corruption student protests seen this year, which have weighed on an otherwise strong momentum in the economy. While an end to the situation is still uncertain, the economy has so far proved relatively resilient, especially on day-to-day spending and the planned investments ahead of the EXPO 2027 event. The unemployment rate has even continued its downwards trend. That said, other investments, including FDIs, took a hit this year, while consumer behaviour as a whole moderated overall. Geopolitics-wise, the Serbian oil firm NIS's refinery case shows that the prospect of finding the right balance between the West and the East is narrowing. The risks of full US sanctions targeting NIS remain a risk further down the line, should Serbia get another waiver extension on 8 October.

Turkey

Domestic political uncertainty resurfaced, briefly shaking investor confidence during March and April. However, clear signals from policymakers indicating no shift in policy direction, combined with swift and decisive actions by the Central Bank (CBT), helped restore stability. Since May, gross reserves have been climbing, reaching record highs. This increase has been driven not only by renewed inflows from abroad but also by a resurgence in local interest in Turkish lira-denominated assets. Investor response to another bout of political news in September has remained calm, supported by continued confidence in policy continuity and stronger macro fundamentals in a more favourable global risk environment. Domestic politics is likely to remain under focus in the near term, while the Medium-Term Program (MTP) signals macroeconomic policies remain on track, providing relief for the outlook.

Country summaries: CIS

Armenia

The slowdown in Armenia's economic growth is being cushioned by robust fiscal stimulus and sustained credit expansion. Recent months have seen a moderate improvement in external conditions, with the ongoing peace process with Azerbaijan offering the prospect of unlocking new capital inflows and supporting the external balance. We have revised our GDP outlook upward, though risks to the inflation trajectory have also increased. The dram remains strong, now more firmly underpinned by capital inflows, yet this currency strength continues to weigh on the trade balance. Notably, the Armenian dram has gained around 3% against the US dollar since the beginning of the year, reflecting strong portfolio capital inflows.

Azerbaijan

We are worsening the near-term outlook for Azerbaijan's GDP, budget, external balance and CPI based on 1H25 performance. The country's financial position remains solid, underpinned by substantial sovereign assets and prudent fiscal management. The sovereign rating upgrade from Moody's to investment-grade Baa3 is potentially positive for portfolio inflows. Nevertheless, the risk of the current account turning negative next year remains high, keeping FX stability in focus as oil prices and export volumes face headwinds. The normalisation of twin surpluses we flagged in 1Q25 has come through faster than expected; we lower 2025 growth to 1.5% and now see the 2026 current account at -3.3% of GDP, while monetary policy remains cautious despite July's 25bp cut.

Kazakhstan

Economic activity in Kazakhstan has continued to outperform expectations, but this has come at the cost of heightened inflation risks and increased pressure on both fiscal and external balances. The outlook for fiscal consolidation and the impact of the upcoming VAT hike on growth and CPI remain central to the macro story. The National Bank of Kazakhstan (NBK) has signalled that a hike in the key rate is likely in the near term, as inflation remains stubbornly high. Currency risks also persist, with the tenge experiencing renewed volatility recently, leading to NBK boosting FX sales guidance for 4Q25 to reflect higher gold prices.

In line with our previous warnings, stronger activity has coincided with stickier inflation and a softer near-term KZT; we raise 2025 growth to 5.5%, 2025 CPI to 13.3%, and the YE-policy rate to 18.0%, with consolidation around the 2026 VAT hike remaining pivotal.

Ukraine

The hryvnia exchange rate against the dollar remains broadly stable, supported by high FX reserves and a restrictive monetary policy stance (main rate at 15.50% since March). External aid, mainly in the form of bilateral and multilateral loans, supported a smooth financing of large fiscal and external deficits and a rise of international FX reserves. The National Bank of Ukraine (NBU) is likely to allow for a slight weakening of the hryvnia, especially against the euro, while using the exchange rate as an inflation anchor. The economy continues to suffer from the ongoing war with air strikes that have intensified in 2025. Despite the pressure from the US administration, prospects for a ceasefire or a peace agreement remain highly uncertain and rather distant.

Uzbekistan

Uzbekistan continues to stand out as the main CIS beneficiary in the current environment, thanks to elevated global gold prices and resilient domestic demand. The outlook for GDP growth, fiscal balance, current account and the Uzbek soum has improved further in recent months. The government's commitment to gradual fiscal consolidation and prudent macroeconomic management has been recognised by international observers. The recent slowdown in CPI amid USZ strength creates room for a moderate cut in the policy rate, but the medium-term stance should remain cautious. The Central Bank of Uzbekistan (CBRU) has reiterated its cautious stance, emphasising the need to anchor inflation expectations before considering any easing cycle.

ING main macroeconomic and financial forecasts

Real GDP (% YoY)

	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	2025F	2026F
Armenia	5.9	5.5	5.5	4.5	5.0	5.5	4.5
Azerbaijan	2.5	0.0	3.0	4.0	2.5	1.5	2.8
Bulgaria	3.5	3.4	3.2	3.1	2.9	3.3	2.7
Croatia	3.4	3.2	2.4	2.8	2.1	3.0	2.2
Czech Republic	2.6	2.6	2.4	2.4	2.7	2.5	2.6
Hungary	0.1	1.1	1.7	2.7	2.4	0.7	2.5
Kazakhstan	6.9	5.2	4.3	3.5	4.5	5.5	4.8
Poland	3.4	4.0	3.6	3.9	3.0	3.5	3.4
Romania	0.3	0.7	-0.1	0.6	0.0	0.3	1.4
Serbia	2.1	2.5	2.3	4.0	3.9	2.3	3.8
Turkey	4.8	3.0	3.2	3.2	3.6	3.3	4.0
Ukraine	0.8	2.3	3.9	2.1	2.6	1.8	2.5
Uzbekistan	7.5	7.0	6.5	6.5	6.3	7.0	6.0
Eurozone*	0.5	0.7	0.5	1.0	1.3	1.3	1.0
US*	3.8	2.4	1.1	1.1	1.7	1.9	1.7

*% QoQ annualised; shading denotes forecast figures

Source: National sources, Bloomberg, ING estimates

Exchange rate (quarterly is eop, annual is avg)

	2Q25	3Q25	4Q25F	1Q26F	2Q26F	2025F	2026F
USD/AMD	384	383	383	387	392	387	392
USD/AZN	1.70	1.70	1.70	1.70	1.70	1.70	1.80
EUR/BGN	-	-	-	-	-	-	-
EUR/HRK	-	-	-	-	-	-	-
EUR/CZK	24.8	24.3	24.3	24.3	24.2	24.7	24.2
EUR/HUF	399.6	390.0	385.0	389.5	385.0	398.0	388.9
USD/KZT	520	549	535	530	545	526	545
EUR/PLN	4.26	4.27	4.25	4.25	4.25	4.24	4.26
EUR/RON	5.08	5.07	5.09	5.09	5.09	5.04	5.12
EUR/RSD	117.2	117.1	117.0	117.0	116.9	117.1	116.9
USD/TRY	39.78	41.57	45.00	47.48	49.61	40.19	49.74
USD/UAH	41.8	41.1	41.5	41.5	41.9	41.4	41.8
USD/UZS	12,688	12,095	12,122	12,182	12,243	12,508	12,243
EUR/USD	1.18	1.17	1.20	1.20	1.20	1.16	1.21

*Quarterly data is eop, annual is average; shading denotes forecast figures

Source: National sources, Bloomberg, ING estimates

CPI (%YoY, quarterly is eop except for US/EZ avg, annual is avg)

	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	2025F	2026F
Armenia	3.9	3.7	4.6	5.1	4.2	3.5	4.2
Azerbaijan	6.0	5.1	5.1	5.8	5.3	5.5	5.4
Bulgaria	3.9	5.6	5.7	3.6	4.3	4.8	3.4
Croatia	3.6	4.2	2.9	3.5	3.8	3.6	3.5
Czech Republic	2.9	2.3	2.9	2.3	2.4	2.6	2.4
Hungary	4.6	4.3	4.3	3.5	4.4	4.6	4.1
Kazakhstan	11.8	12.9	13.7	15.2	13.7	11.6	13.2
Poland	4.1	2.9	2.6	2.5	2.8	3.7	2.5
Romania	5.7	10.0	9.6	9.1	9.1	7.3	7.0
Serbia	4.6	4.7	4.2	4.5	4.2	4.4	4.0
Turkey	35.0	32.2	30.5	26.6	23.7	34.8	23.5
Ukraine	14.3	13.5	10.5	9.2	8.5	13.2	8.1
Uzbekistan	8.7	8.0	8.7	8.6	7.1	9.1	7.5
Eurozone	2.0	2.1	1.8	1.8	1.9	2.1	1.9
US	2.5	2.9	3.2	3.0	3.1	2.8	2.7

Shading denotes forecast figures

Source: National sources, Bloomberg, ING estimates

Central Bank rate (%, eop)

	2Q25	3Q25	4Q25F	1Q26F	2Q26F	2025F	2026F
Armenia	6.75	6.75	6.75	6.75	6.50	6.75	6.50
Azerbaijan	7.25	7.00	7.00	7.00	7.00	7.00	7.75
Bulgaria	2.07	1.82	1.82	2.00	2.00	2.00	2.00
Croatia	2.25	2.00	2.00	2.00	2.00	2.00	2.00
Czech Republic	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Hungary	6.50	6.50	6.50	6.50	6.50	6.50	5.50
Kazakhstan	16.50	16.50	18.00	18.00	18.00	18.00	17.00
Poland	5.25	4.75	4.50	4.25	4.25	4.50	4.00
Romania	6.50	6.50	6.50	6.50	6.25	6.50	5.50
Serbia	5.75	5.75	5.25	5.0	4.5	5.3	4.5
Turkey	46.00	40.50	37.50	34.50	31.50	37.50	27.00
Ukraine	15.5	15.5	15.0	14.5	14.0	15.0	13.0
Uzbekistan	14.00	14.00	13.50	13.00	12.50	13.50	12.00
Eurozone	2.00	2.00	2.00	2.00	2.00	2.00	2.00
US	4.50	4.25	3.75	3.50	3.25	3.75	3.25

*Upper level of 25bp range; [1] Deposit Rate; shading denotes forecast figures

Source: Bloomberg, ING estimates

10yr local yield (%, quarterly is eop, annual is avg)

	2Q25	3Q25	4Q25F	1Q26F	2Q26F	2025F	2026F
Armenia	9.9	9.5	-	-	-	-	-
Azerbaijan	-	-	-	-	-	-	-
Bulgaria	-	-	-	-	-	-	-
Croatia	3.1	3.1	3.2	3.2	3.3	3.3	3.4
Czech Republic	4.2	4.5	4.3	4.2	4.2	4.2	4.2
Hungary	7.0	6.8	6.7	7.1	7.0	6.9	6.9
Kazakhstan	-	-	-	-	-	-	-
Poland	5.45	5.46	5.25	5.10	4.90	5.49	4.85
Romania	7.35	7.50	7.50	7.10	7.00	7.30	6.90
Serbia	5.25	5.20	5.10	5.10	5.10	5.20	5.10
Turkey	30.93	31.54	28.94	26.18	24.31	30.67	24.20
Ukraine	-	-	-	-	-	-	-
Uzbekistan	-	-	-	-	-	-	-
Eurozone	2.60	2.71	2.80	2.80	2.90	2.71	2.93
US	4.22	4.15	4.25	4.50	4.50	4.21	4.38

Shading denotes forecast figures

Source: National sources, Bloomberg, ING estimates

3m local rate (%, quarterly is eop, annual is avg)

	2Q25	3Q25	4Q25F	1Q26F	2Q26F	2025F	2026F
Armenia	7.4	7.3	n/a	n/a	n/a	n/a	n/a
Azerbaijan	-	-	-	-	-	-	-
Bulgaria	-	-	-	-	-	-	-
Croatia	-	-	-	-	-	-	-
Czech Republic	3.5	3.5	3.5	3.5	3.5	3.6	3.5
Hungary	6.5	6.5	6.5	6.5	6.5	6.5	6.2
Kazakhstan	16.2	16.2	17.7	17.7	17.7	14.5	15.0
Poland	5.23	4.72	4.58	4.33	4.23	5.19	4.25
Romania	7.09	6.50	6.30	6.20	5.75	6.43	5.71
Serbia	4.68	4.50	4.30	4.20	3.90	4.30	3.70
Turkey	45.99	42.58	37.13	34.29	31.52	43.38	26.08
Ukraine	-	-	-	-	-	-	-
Uzbekistan	-	-	-	-	-	-	-
Eurozone	1.90	2.00	2.00	2.00	2.10	2.08	2.08
US	4.30	4.00	3.70	3.50	3.30	4.08	3.35

Shading denotes forecast figures

Source: National sources, Bloomberg, ING estimates

ING EM FX and local rates views summary

Country	Foreign exchange	Local debt and rates
Czech Republic	Despite temporarily lower inflation, we expect the CNB to remain hawkish, supporting further CZK appreciation. Although the FX is already 2.4% stronger than the central bank forecasts, the bank board welcomes a stronger FX in the fight against persistent inflation segments.	The CNB may remain on hold for some time, which will keep the front end anchored. On the other hand, the long end has built up some fiscal premium ahead of the general election. We do not expect any significant changes here and assume that the premium will narrow in the coming months, which should lead to a flattening of the curve.
Hungary	The HUF remains the most long currency in the CEE region, supported by the central bank's hawkish forward guidance. Heavy positioning and sensitivity to global developments appear to be the main risks here. On the other hand, rates remaining unchanged until the end of the first half of next year should keep the HUF supported.	The hawkish central bank should keep the front end of the curve anchored higher, while the weak economy and the prospect of lower inflation in the longer term should push the long end of the curve down, resulting in further flattening of the curve. Local factors indicate stable supply of HGBs for the rest of the year, while demand should increase, making us bullish on HGBs.
Poland	EUR/PLN remains trapped in the 4.240–4.275 range, and there is little reason to expect any change in the near future. A strong economy and high inflows of EU funds should offset the central bank's continuing cycle of cuts and keep the PLN roughly stable. No more cuts this year, two next year and reaching 3.75% in 2027 in our forecast with market frontloading this scenario.	The NBP is the only central bank continuing with rate cuts, supported by falling inflation. However, the market has shifted to the dovish side and the risk is now more on the hawkish side given the fiscal outlook and the central bank's concerns about a return of inflation. However, the curve looks fairly priced in most segments.
Romania	After a period of volatility, EUR/RON stabilised around 5.080, but recent days show that the wide current account deficit and market pressure on a weaker RON continue. We expect the NBR to be more active in the market and keep EUR/RON under control. Withdrawing liquidity from the market should lead to higher FX implied yields at the front of the curve.	Following the August sell-off and September rally in ROMGBs, we view bonds as expensive given the current balance of risk shifting to the negative side. The market has become overly optimistic about fiscal consolidation and political stability, which may come under pressure in the coming weeks. That's why we want to see more progress here, and we are neutral on ROMGBs.
Ukraine	The UAH against the dollar remains broadly stable, supported by high FX reserves and a restrictive monetary policy stance. External aid supported a smooth financing and a rise of international FX reserves. The NBU is likely to allow for a slight weakening of the hryvnia, especially against the euro, while using the exchange rate as an inflation anchor.	The country has had to draw from foreign loans rather than grants. This translated into fast rising public and external debt levels, which are set to rise further but should stabilise above 100% of GDP levels in the medium term. This will require significant fiscal consolidation efforts in 2026-27 and higher demand from the private sector, but this is linked to further war developments.
Kazakhstan	Net monthly FX sales for NFRK combined with net FX sales by the NBK increased from US$0.7bn in 2024 to US$1.1bn in 2025. However, the effectiveness of these interventions has diminished, as wider CA deficit and stronger capital outflows amplified seasonal pressure on the tenge. For now, we continue to see a weakening of the tenge in the medium term.	
Turkey	The market has become accustomed to political noise, and the CBT is committed to keeping the current FX regime unchanged for the foreseeable future. The CBT has built up sufficient ammunition to defend the FX if necessary, and despite the ongoing cuts, carry more than compensates for nominal depreciation.	The latest inflation figures indicate some stagnation in the disinflation process, which will keep the central bank cautious and likely slow down the pace of cuts. The OIS and TurkGBs markets are thus coming under pressure in the short term. We expect the disinflation process to resume later, improving the fixed income picture again, but for now we remain neutral on TurkGBs.

Source: ING

From working hard to working smart: the next step for CEE

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Central and Eastern Europe's labour markets are undergoing a profound transformation. Once characterised by a surplus of workers, the region now finds itself grappling with a growing labour shortage. This shift, which is set to intensify due to unfavourable demographic trends, demands a new approach from businesses and policymakers. The time to act is now.

Key findings

- **Working hard:** Poland, Hungary and the Czech Republic now match euro area employment rates, while working hours per employee are relatively high. Labour shortages are perceived by local businesses and foreign investors as a key bottleneck to expansion. At the same time, productivity per hour worked is about 30% below the euro area average.

- **Labour scarcity is already driving change:** This structural shift is already manifesting in higher wages and increased immigration. Between 2012 and 2025, Poland's labour costs per hour increased from €7.6 to €18.0 and are now only 30% lower than in Spain. In contrast, innovation and capital intensity still lag Western Europe as capital stock per worker is less than half that of the euro area.

- **Demographic pressures mount:** Fertility levels well below the replacement rate point to a shrinking labour pool in the years ahead. Compared to 2024, Romania's working age population is set to shrink by 4% by 2030 and 14% by 2040. Turkey is a positive outlier in demographic projections, but its recent fertility rate is also low.

- **The current growth model is not sustainable:** Labour-intensive growth delivered impressive results in the past, but its future success is questionable. Despite some options to engage domestic labour, increase immigration and encourage CEE emigrants to return home, future growth cannot be based on employment expansion.

- **A strategic pivot is essential**: Successful strategies for the future must take into account the reallocation of labour towards its most effective use. Upscaling productive firms and sectoral reallocation are crucial in this respect. The current over-employment in smaller firms is hardly sustainable as value added per worker in large entities is more than twice as high as in SMEs. Rebalancing towards higher value services or manufacturing, also related to defence, could unlock productivity growth. A supportive business environment and capital deepening would be helpful in this process.

- **Working smart:** Capital deepening, automation, structural reform and immigration will be central to sustaining growth in the years ahead. Economic expansion based on working harder can be continued only if it is also based on working smarter.

Introduction

Since joining the European Union in the mid-2000s, Central and Eastern Europe has experienced a huge improvement in the labour market, with falling unemployment, relatively high labour activity, especially in tradeable business services, and surging wages. This is a source of pride for the region. But as labour pools shrink, these trends also present a challenge.

There is still some slack in the labour market, especially when comparing employment rates to countries like the Netherlands, but it is limited. Demographic headwinds pose a threat to long-term GDP growth. Migration, higher participation rates among older workers, and closing the gender gap across all age groups could mitigate the impact.

Going forwards, CEE countries must support the reallocation of resources towards the most productive firms and sectors, while strategically managing migration flows. Staying competitive will require rethinking past policy successes and avoiding the pitfalls seen in Japan and Italy, where resistance to immigration and structural reform led to stagnation. The consequences of that resistance are clear. Japan’s near-zero immigration policy and Italy’s reluctance to abandon once-thriving industries made both countries vulnerable to competition from lower-cost economies.

Addressing the challenges in the CEE labour market will require a step-up in productivity through economies of scale, and moves to reallocate workers to high-growth sectors like business services. Many large regional firms remain small by European or global standards, limiting their impact on the economy. In the past, productivity gains came from trade exposure, competition and foreign investment. In the future, scaling up will be key.

All of this will call for deeper financial markets, a supportive business environment for entrepreneurs and increased physical investment, especially as the region lags behind the EU in capital-to-labour ratios. Given its talent pool and comparative advantages, CEE also has room to shift more labour into modern services. Interviews with Polish business leaders (see our report *Engines of Polish economic growth: Concerns and postulates of businesses*) highlight how unequal competition from China has constrained manufacturing expansion, reinforcing the need to pivot toward services.

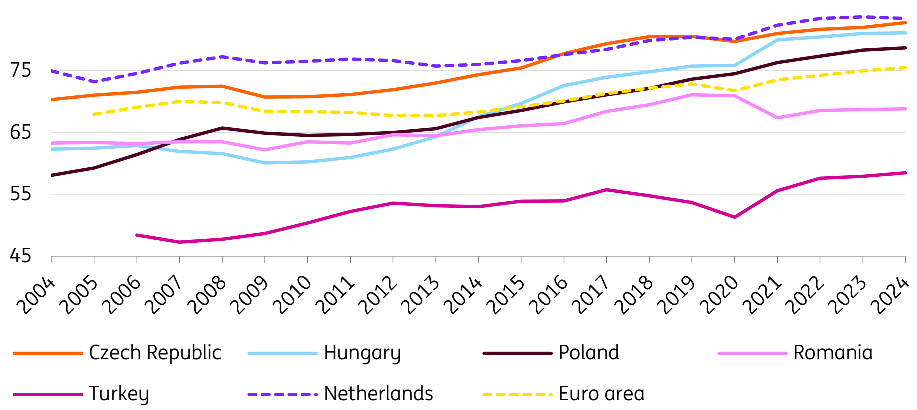
From labour abundance to scarcity

Over the past two decades, Central and Eastern Europe has shifted from a region of abundant labour supply to one marked by increasing shortages.

Employment surge

Employment rates in the Czech Republic, Hungary, and Poland have increased so much that they now exceed the euro area average, rivalling top performers like the Netherlands (Figure 1). Between 2005 and 2024, Poland and Hungary saw large gains as employment rates among 20–64-year-olds rose by 19.4 and 18.7 percentage points, respectively. Romania and Turkey still show lower employment rates, suggesting untapped labour potential.

Fig 1 Convergence in employment rate in working-age population (20-64)



The figure presents the employment rate defined as the percentage of employed persons in population in the age class 20-64. EA represents 20 euro area members.
Source: Eurostat, ING

Activity versus unemployment

Employment rates can be broken down into two key components: activity and unemployment rates. Rising employment has been driven primarily by increased labour market participation. As shown in Figure 2, activity rates have risen markedly since the mid-2000s, with gains ranging from 4.8ppt in Romania to 17.4ppt in Hungary. This compares to the benchmark 5.8ppt increase recorded in the euro area. Today, the Czech Republic and Hungary boast activity rates near 85%, comparable to the Netherlands. Poland sits just above 80%, while Romania and Turkey trail behind.

Unemployment rates are now very low in Poland and The Czech Republic, slightly higher in Hungary and Romania, and elevated in Turkey. In other words, low participation rates, not high unemployment, explain the lower employment rates in Romania and Turkey.

Fig 2 Employment rate decomposition

	Czech Republic	Hungary	Poland	Romania	Turkey	Euro area	Netherlands
Employment rate (%)							
2005	71	62.4	59.3	63.4	48.4	67.9	73.2
2024	82.7	81.1	78.7	68.8	58.5	75.5	83.5
ppt change	11.7	18.7	19.4	5.5	10.1	7.5	10.2
Activity rate (%)							
2005	76.6	67.2	71.2	67.9	52.7	74.5	77.2
2024	84.8	84.6	80.9	72.7	63.9	80.3	86
ppt change	8.1	17.4	9.8	4.8	11.3	5.8	8.8
Unemployment rate (%)							
2005	7.3	7.1	16.7	6.7	8.2	8.8	5.1
2024	2.4	4.1	2.7	5.3	8.6	6	3
ppt change	-4.9	-3	-14	-1.4	0.4	-2.8	-2.2

Notes: The table presents the results for the in working-age group (20-64). Euro area represents 20 members.
Source: Eurostat, ING

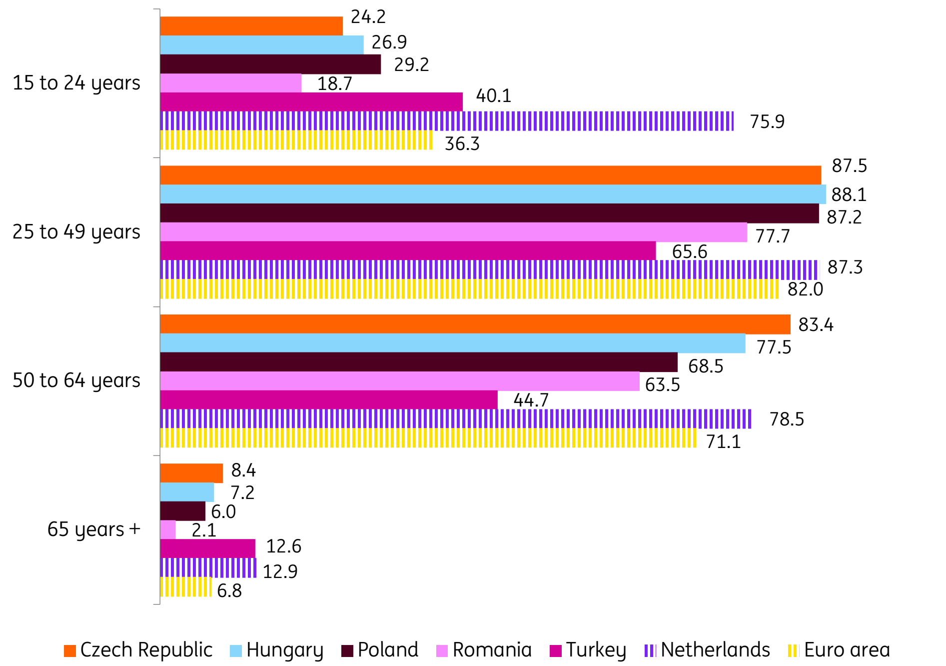
Age cohort breakdown

In the Czech Republic, Hungary and Poland, domestic labour reserves have diminished substantially. As Figure 3 shows, employment rates across key age groups broadly align with benchmarks in the Netherlands and the euro area. The rates among individuals aged 25-49 and 50-64 are comparable to Dutch levels, with the most pronounced gaps seen in the youngest (15-24) and oldest (65+) cohorts. If youth participation matched Dutch levels, labour supply could grow by 0.5 million in Hungary and the Czech Republic, and over 1.5 million in Poland. However, Dutch youth average just 20 working hours per week, limiting the impact on total hours worked.

Room for expansion in Romania and Turkey

Figure 3 shows Romania and Turkey still have sizeable pools of underutilised labour, particularly among older workers (50+), signalling greater potential for future employment growth.

Fig 3 Employment rate by age group in 2024



Notes: The figure presents the employment rate defined as the percentage of employed persons in population in a given age cohort. Euro area represents 20 members.
Source: Eurostat, ING

Relatively long working hours

Figure 4 shows the intensive margin of work effort, measured by average weekly working hours. In the Czech Republic, Hungary, and Poland, employees work around 38 hours in their main job, plus an additional 14 hours in the secondary one, roughly five hours more than the euro area average. Workers in Turkey log even longer hours, exceeding their CEE peers by about 10 hours per week.

Figure 4 also shows that over the past two decades, working hours have generally declined across the region, with Poland as an exception, where hours have remained virtually unchanged (down just 30 minutes). Overall, the relatively long working hours suggest limited scope for increasing labour input through more intensive work effort alone.

Fig 4 Weekly hours in work

	Czech Republic	Hungary	Poland	Romania	Turkey	Euro area	Netherlands
Main job							
2005	41.9	40.4	40.7	40.6	51.7	37.7	33.1
2024	37.8	37.4	38.9	38.8	43.1	35.4	32.1
Second job							
2005	13.7	13.8	13.5	14.4	16.6	12.6	11.2
2024	13.2	13.4	14.8	10.8	16.2	10.5	10.7
Total							
2005	55.6	54.2	54.2	55	68.3	50.3	44.3
2024	51	50.8	53.7	49.6	59.3	45.9	42.8
ppt change	-4.6	-3.4	-0.5	-5.4	-9	-4.4	-1.5

Notes: The table presents the results for employed persons in the age group 20-64. The data for Turkey are available for 2006. Euro area represents 20 members
Source: Eurostat, ING

Much longer working hours in CEE4 and Turkey compared to Western Europe help explain differences in real GDP (PPP-adjusted), whether measured per capita, per employed person, or per hour worked. As shown in Figure 5, GDP per working hour has increased more slowly than GDP per capita. In absolute terms, the gap between CEE countries and the EU27 is significantly wider when measured by GDP per hour worked than by GDP per capita, suggesting that longer hours have masked a deeper shortfall in efficiency.

Fig 5 GDP in PPS per capita, per employed and per working hour, EU27=100

	Czech Republic	Hungary	Poland	Romania	Turkey	Euro area	Netherlands
GDP per capita							
2005	81.8	63.3	51.6	35.6	44.1	111.6	140
2024	91.1	76.8	79	78.3	71	104	135.3
ppt change	9.3	13.5	27.4	42.7	26.8	-7.6	-4.7
GDP per employed							
2005	75.1	68.8	61.9	36.6	66.5	110	120.9
2024	89	74.8	82.5	83.9	90.7	104	114.1
ppt change	13.9	6	20.6	47.3	24.2	-6.1	-6.8
GDP per working hour							
2005	70	63	50	32.7	n/a	113.5	140.6
2024	80.5	71.5	66.1	73.5	n/a	107.7	126.9
ppt change	10.5	8.6	16.1	40.7	n/a	-5.9	-13.7

Source: Ameco database, ING calculations

Meanwhile, job quality indicators, ie, the balance between flexibility and security, remain weaker in CEE and Turkey compared to Western Europe. As Figure 6 shows, part-time work is far less common: just 2.9% in Romania and 10.7% in Turkey, versus 19.9% in the euro area and 38.6% in the Netherlands.

In terms of job security, the share of employees on temporary contracts hovers around the euro area average of 13.8%. It is slightly higher in Poland (14.9%) and lower in Turkey (11.0%). However, many workers report that their employment status is due to a lack of permanent work, suggesting structural weaknesses in job stability.

Fig 6 Labour markets quality

	Czech Republic	Hungary	Poland	Romania	Turkey	Euro area	Netherlands
Employed persons working part-time (20-64 years, % of total employment)							
2009	4.7	5	7.3	5.5	10.3	33.8	18.3
2024	7.5	4.2	5.5	2.9	10.7	38.6	19.9
ppt change	2.8	-0.8	-1.8	-2.6	0.4	4.8	1.6
Percentage of employees on temporary contracts (15-64 years, % of employees)							
2005	7.9	7	25.6	2.4	12.4*	15.3	15.9
2024	7.9	4.7	14.9	1.8	11	26.1	13.8
ppt change	0	-2.3	-10.7	-0.6	-1.4	10.8	-2.1
Reasons of temporary contracts in 2024 (% of total responses)							
Education or training	1.7	3	7.1		7.2	18.9	1.7
Only temporary job available	31.7	13.5	26	10.6	2	22.1	31.7
No permanent job found	19.2	22.7	19.2	59.3	13.2	27.8	19.2
No permanent job wanted	10.8	3.8	23.2	18.1	7	7.7	10.8
No response	0.9				14.5	2.9	0.9
Other reason	12	45.5		12		9.2	12

*2006

Notes: On reasons of temporary contracts in Romania, the category 'other reason' was corrected to sum up to 100.

Source: Eurostat, ING

Effects of labour market scarcity

Labour market scarcity typically triggers key economic adjustments, notably through:

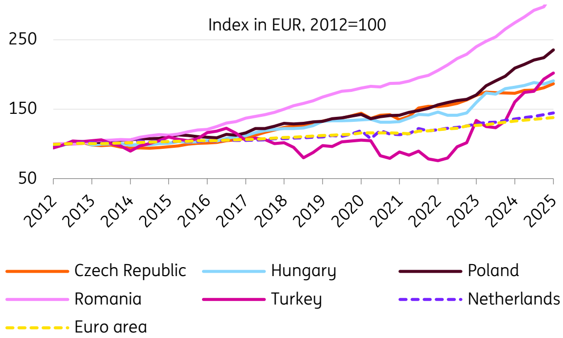
1) rising wages, as employers offer higher pay to retain increasingly scarce talent,
2) inflows of immigrants, as they are attracted by higher wages and living standards,
3) capital investments in labour saving technologies.

1) Rising labour costs

The left panel of Figure 7 shows that over the past decade, labour costs in CEE countries have increased much more than in Western Europe. The right panel shows that hourly labour costs in the Czech Republic and Poland, and to a lesser extent in Hungary and Romania, have risen to levels approaching those in Spain. However, they still remain below the euro area average.

This trend highlights that the cost advantage for these CEE economies has narrowed rapidly. As a result, businesses reliant on low labour costs may begin to shift operations to more competitive regions such as Asia or North Africa. In contrast, labour costs in Turkey remain relatively low, which could position the country as an attractive destination for firms relocating from other parts of the region.

Fig 7 Labour cost in business economy (in €/h)



	2012	1Q25
Czech Republic	10.1	19.2
Hungary	7.9	14.8
Poland	7.6	18
Romania	4.3	13.6
Turkey	5.4	8.6
Euro area	28.1	38.1
Netherlands	31.9	45.3
Spain	20.9	25.6

Notes: For all countries but Turkey the data refer to business economy (B-S NACE sectors). For Turkey the data refer to manufacturing. Values for 1Q25 are based on ING estimates.
Source: Eurostat, ING

2) Transition from emigrant to immigrant countries

CEE countries are increasingly turning to immigration to fill gaps in the workforce. Rising wages and job vacancies have made the region increasingly attractive to foreign workers. Domestic firms, struggling to recruit locally, are now turning to international hiring, often via employment agencies. Figure 8 shows a notable increase in immigrant numbers, driven by inflows of Ukrainian and Syrian refugees, and economic migrants. Yet, despite these trends, the share of immigrants in the population remains well below levels seen in Western Europe, such as Germany or the Netherlands. This underscores the region's continued reliance on domestic labour.

While assessing migration flows, it's important to remember that CEE countries have traditionally been emigrant nations (see Figure 8) This means there is potential to encourage return migration. So far, returns have been modest, but they could play a more significant role in the future. Demographic projections typically assume negative net migration for CEE, making a "no migration" scenario more optimistic than the "baseline" scenario. For example, Eurostat's baseline forecast for 2030 anticipates net outflows in Poland and Romania, a balanced flow in the Czech Republic, and slightly positive migration in Hungary.

Fig 8 Number of migrants

	Czech Republic	Hungary	Poland	Romania	Turkey	Euro area	Netherlands
Immigrants (thousands), levels							
2010	692	437	649	148	1,420	11,666	1,851
2024	1,025	690	1,740	656	7,084	16,750	2,957
Immigrants (% of total population)							
2010	6.6	4.4	1.7	0.7	1.9	14.4	11
2024	9.5	7.1	4.5	3.4	8.1	19.8	16.2
Contribution to 2010-24 change by country of origin (thousands)							
Ukraine	390	55	864	174	60	1,205	120
Syria	1	2	0	2	3,517	819	146
Other	-58	197	226	332	2,086	3,060	839
Total	**333**	**253**	**1,091**	**507**	**5,663**	**5,084**	**1,106**
Emigrants (thousands), levels							
2010	660	378	4,155	3,535	2,728	4,207	594
2024	583	539	4,573	4,584	3,130	4,297	631

Notes: An international migrant as a person who lived continuously in another country for 12 months or longer.
Source: United Nations (International Migrant Stock 2024), ING calculations

3) Investment in automation and capital deepening

Investment in automation and capital deepening is the third key adjustment that firms are making in response to tight labour markets. Rising wages and a shrinking working-age population are pushing companies to adopt labour-saving technologies to boost productivity and remain competitive. Figure 9 shows that over the past decade, CEE countries have made visible progress in fostering innovation, including business sector investment in new technologies. However, they still trail the EU average and innovation leaders like the Netherlands. The data also reveals a persistent gap in physical capital accumulation between CEE and Western Europe, which has barely narrowed in the last decade.

Fig 9 European Innovation Scoreboard (EIS) and capital stock

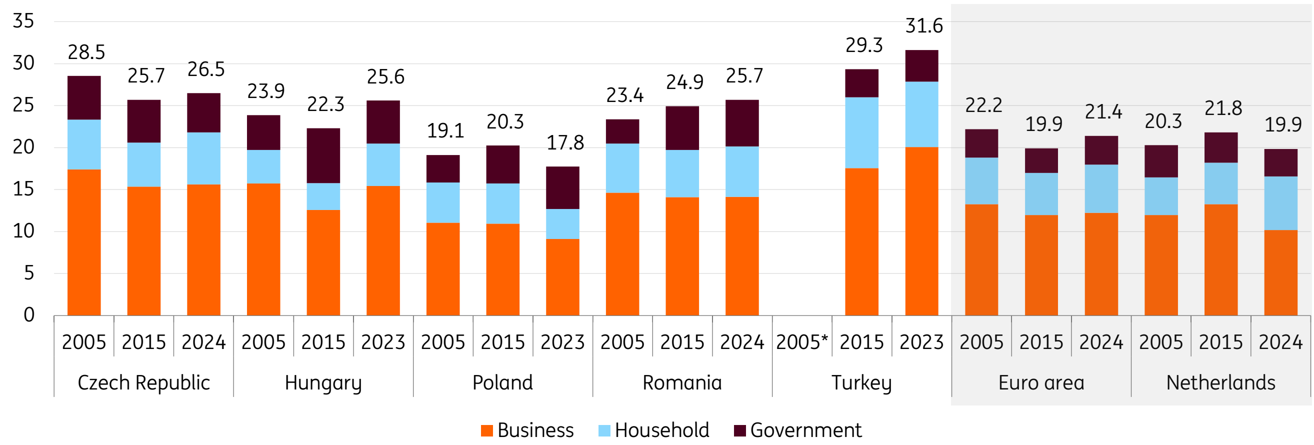
	Czech Republic	Hungary	Poland	Romania	Turkey	Euro area	Netherlands
EIS Summary Innovation Index							
2025	90.8	78.3	74.2	42.4	65.3	112.6	145.3
2018	74.4	62.1	56.1	34.2	58.8	100	134.4
EIS: R&D expenditure in the business sector							
2025	85.8	71.6	71.6	20.9	66.4	108.2	113.4
2018	72.4	82.1	44	17.2	38.8	100	108.2
EIS: SMEs introducing product innovations							
2025	106.8	66.9	29.6	12.3	74.5	103.6	118.2
2018	99.7	45.8	21.9		136.9	100	156.3
Capital-output ratio							
2024	2.74	2.34	1.92	2.19		2.87	2.56
2018	2.62	2.11	1.85	1.86		2.87	2.55
2010	2.85	2.22	1.8	1.97		2.98	2.63
Net capital stock at 2020 prices per person employed (€ thousands)							
2024	121	76.1	68.2	63.6		204.1	281.6
2018	110	63.3	58.4	47.7		201.3	279.9
2010	105.2	62.6	45.3	36.9		195.8	276

Notes: The data for capital-output ratio for EU refer to 2023.
Source: European Commission (EIS and AMECO), ING.

Despite some progress over the past two decades, the gap in capital stock between CEE countries and Western Europe has remained largely unchanged, as investment rates in the region have hovered close the euro area average of 20–22% of GDP. CEE countries have maintained relatively high public investment levels, around 5% of GDP, often supported by EU funds, compared to 3% in the euro area. Household investment rates were just marginally higher than in Western Europe, with Poland at the lower end and

Turkey at the upper end of the spectrum. Notably, business investment in Poland has been particularly weak in recent years, at merely 9.1% of GDP in 2023. In contrast, other CEE countries have maintained business investment rates closer to 15%, while Turkey reached 20%, underscoring its stronger momentum in capital formation.

Fig 10 Investment rate by institutional sectors, % of GDP



*No data
Source: Eurostat, ING estimates

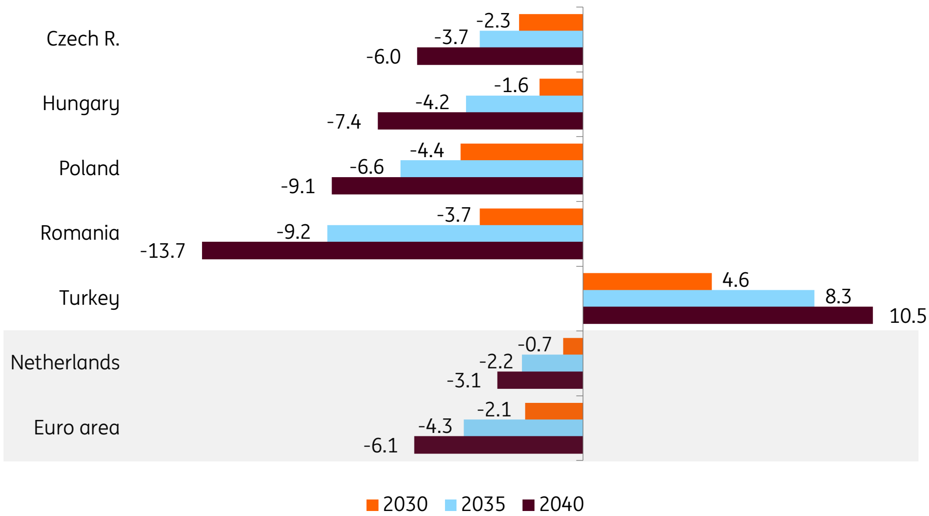
Unfavourable demographic projections

Shrinking populations in CEE and still rising in Turkey

Labour scarcity in CEE will be further exacerbated by a shrinking population, as reflected in baseline demographic projections. As shown in Figure 11, by 2030, the working-age population (20–64) is expected to contract by roughly 2% in the Czech Republic and Hungary, and by 4% in Poland and Romania.

The outlook worsens over longer horizons: by 2040, the prime-age population is projected to fall by 6% in the Czech Republic, 7% in Hungary, 9% in Poland, and as much as 14% in Romania. The figure also shows that the pace of depopulation in these four CEE countries is faster than in the euro area. In contrast, Turkey's working-age population is forecast to grow by over 10% over the next 15 years, highlighting a demographic divergence within the region.

Fig 11 Projected working-age population (20-64) change versus 2024



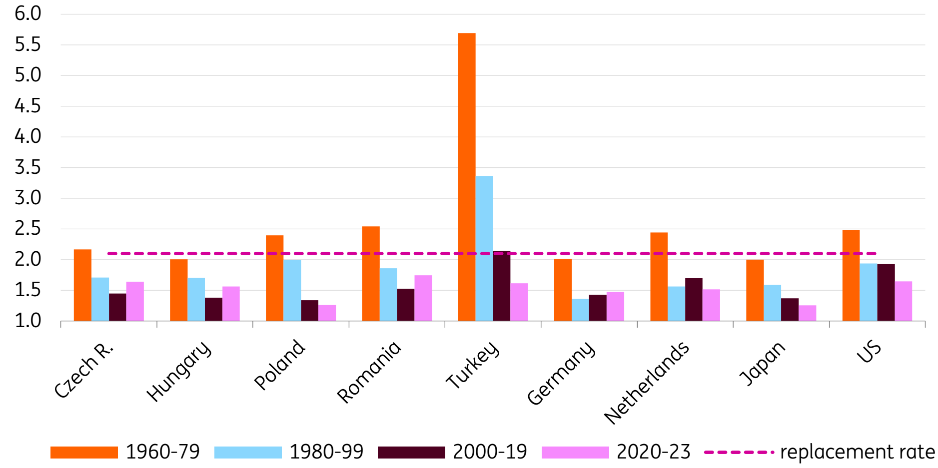
Notes: The data for Turkey are from OECD database, whereas for the remaining countries from Eurostat. Euro area represents 20 members.
Source: Eurostat, OECD, ING

Declining fertility rates across the whole region

These demographic trends are set to weigh heavily on medium-term output growth in CEE. Fertility rates have fallen sharply over the past two decades to levels well below the replacement level of 2.1 children per woman (see Figure 12). This has been driven by shifting societal norms, evolving family roles, and changing attitudes among post-X generations. Policy efforts to reverse this trend have largely proven ineffective.

Initially, falling fertility delivered a demographic dividend, as a rising share of working-age individuals with fewer dependents boosted GDP per capita. However, this phase is ending. The region now faces a rising old-age dependency ratio, and most CEE countries are entering a demographic 'repayment' period, where a shrinking working-age population begins to constrain economic growth.

Fig 12 Fertility rates, births per woman



Source: World Bank World Development Indicators, ING.

The decline in fertility rates across CEE has coincided with rising life expectancy. In 2023, newborns in the region could expect to live around eight years longer than in 1990. Life expectancy at age 50 also rose significantly, by 3.5 years in Romania, 4.1 in Hungary, 5.5 in Poland, and 6.2 in the Czech Republic. While this reflects major improvements in healthcare and quality of life, it also contributes to a rising old-age dependency ratio, intensifying the demographic pressures already weighing on labour markets and economic growth.

Deteriorating demographics and output

In the long run, once demographic structures stabilise, the impact of ageing on GDP per capita will hinge on its effect on productivity. As discussed by André et al.,[1] this relationship is ambiguous. On the one hand, entrepreneurial dynamism tends to peak around age 45, when energy and experience intersect, suggesting that older societies may see reduced business vitality. On the other hand, ageing populations typically generate higher aggregate savings, which can support capital deepening and the adoption of labour-saving technologies like automation and robotics. This dual effect means ageing could either dampen or enhance productivity, depending on how economies adapt. Elements of this transition were already touched on in the previous section.

To illustrate the impact of demographics on economic performance, Figure 13 compares GDP growth across the United States, the euro area, and Japan, i.e. a country where the working-age population has been declining for three decades. Japan's average annual GDP growth of just 0.4%, compared to 1.1% in the euro area and 1.9% in the US, is largely attributable to a shrinking population and reduced working hours. Notably, differences in GDP growth per hour worked are relatively modest across the three regions. This underscores the importance of labour input for headline growth.

[1] See André, C., P. Gal and M. Schief (2024), Enhancing productivity and growth in an ageing society: Key mechanisms and policy options, OECD Working Papers 1807, https://doi.org/10.1787/605b0787-en

Fig 13 Sources of real GDP growth

	Czech Republic	Hungary	Poland	Romania	Turkey	Euro area	Netherlands	US	Japan
Average annual growth in the period 2005-2024									
GDP	1.9	1.7	3.7	3	4.9	1.1	1.5	1.9	0.4
Population	*0.3*	*-0.3*	*-0.1*	*-0.6*	*1.2*	*0.3*	*0.5*	*0.7*	*-0.2*
GDP per capita	1.6	2	3.8	3.6	3.6	0.8	1	1.2	0.6
Hours	*0.4*	*0.3*	*0.9*	*-0.5*		*0.5*	*1.1*	*0.7*	*-0.3*
GDP per working hour	1.5	1.4	2.8	3.5		0.6	0.4	1.2	0.7
GDP in 2024 in PPS, Euro Area = 100									
GDP per capita	87.3	73.7	75.8	75	68	100	129.7	131.7	79.1
Hours per capita	*117.4*	*111.5*	*124.1*	*110.5*		*100*	*110.6*	*113.6*	*119.4*
GDP per working hour	74.4	66.1	61.1	67.9		100	117.3	115.9	66.3

Source: European Commission (AMECO), ING

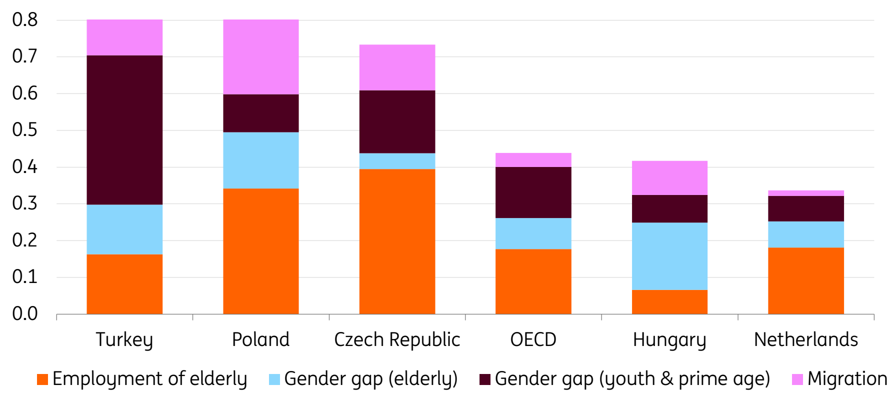
Figure 13 shows that in CEE, the robust expansion in real GDP growth over the past two decades has been driven by both productivity gains and an increase in total working hours. However, output per hour worked in CEE remains well below the euro area average, ranging from 61.1% in Poland to 74.4% in the Czech Republic. This suggests that future convergence in GDP per capita with Western European standards will depend less on expanding employment and more on substantially improving labour productivity.

This challenge is reflected in the OECD Employment Outlook 2025, which warns that demographic trends will significantly slow GDP per capita growth in CEE countries over the coming decades. The report identifies several policy measures that could help to mitigate this impact.

- First, increasing employment among those aged 55 and above - to match the top decile of OECD countries - could boost labour supply. This would require policies that improve incentives to remain in the workforce, enhance employability, and shift employer attitudes. Supporting older workers with relevant skills and removing barriers to job mobility are also key.
- Second, closing the gender employment gap could deliver substantial gains. This involves promoting equal pay, access to leadership roles and education, and implementing family-friendly policies. It also requires greater male participation in unpaid care work or expanded public provision of childcare and eldercare.
- Third, the OECD assesses the impact of higher net migration, aligned with the top quartile of OECD countries (2021–2024). Given CEE's large emigrant populations, return migration could play a vital role.

Combined, these measures could add 0.4 to 0.8 percentage points to annual GDP per capita growth through 2060 (see Figure 14).

Fig 14 Long-term impact on GDP growth from labour market policies, in ppt relative to the baseline scenario



Source: OECD Employment Outlook 2025, https://www.oecd.org/en/publications/oecd-employment-outlook-2025_194a947b-en/full-report.html

Future adjustment to labour shortages

CEE's impressive GDP per capita convergence in the last two decades has largely been powered by mobilising underutilised labour, supported by fiscal and regulatory policies that stimulated employment. At the same time, firms often pursued expansion by growing headcount rather than investing in capital or innovation.

While this labour-intensive model delivered impressive results in the past, it does not look sustainable. Strategies that thrived in an environment of labour abundance may falter under conditions of scarcity. Conversely, approaches once seen as costly, e.g. automation and upskilling, are becoming essential.

The challenge ahead lies in reallocating labour to its most productive uses. This will require not only targeted policy support but also a dynamic business environment that enables firm entry, exit, and sectoral shifts to drive productivity gains.

Upscaling the most productive firms

As the pool of available workers shrinks and wages rise, CEE companies will face mounting pressure on profitability. Adjustment is inevitable: companies will either need to pass on costs through higher prices or boost productivity to remain competitive.

For firms in non-tradable or sheltered service sectors, price increases may be a feasible path forward, implying that services inflation could stay elevated in the medium term. In contrast, companies operating in tradable sectors, which are exposed to international competition, can only survive if they increase productivity to catch up with rising labour costs. This can be achieved through consolidation, scaling operations, and investing in technology and capital. In each case, increased leverage may play a critical role in facilitating the transition.

Last year's Directional Economics article highlighted that firms in CEE countries are, on average, smaller than their Western EU counterparts - and that productivity tends to rise with firm size (see Figure 15).[2] The relatively high share of micro-enterprises is reinforced by the fact that a larger proportion of workers in CEE are employed by newly established firms. This suggests that high-potential companies in the region are not growing fast enough. One contributing factor may be unintended regulatory incentives, including EU policies and funds that disproportionately support SMEs. Internal decisions, particularly around capital structure, may also discourage growth, keeping productive firms smaller than they could be.

Fig 15 Firm size distribution and productivity by firm size

	Czech Rep.	Hungary	Poland	Romania	Netherlands	Germany
Share in employment (%, 2023)						
Below 10 employees	32.7	41.2	37.1	32.3	29.6	30.3
From 10 to 49	17.5	17.5	16.0	19.2	14.9	18.9
From 50 to 249	18.2	13.9	14.3	17.1	11.3	15.4
250 and above	31.5	27.4	32.5	31.4	44.2	35.3
Value added per employed (€000, 2022)						
Below 10	25.0	14.2	17.1	19.5	61.3	59.4
From 10 to 49	35.1	27.8	30.8	26.2	72.2	58.0
From 50 to 249	45.0	34.8	37.5	27.6	107.4	72.3
250 and above	43.1	47.9	50.8	38.7	86.4	89.5
Employment in newly born enterprises (% total employment, 2022)						
Total	2.30	2.82	4.17	3.32	1.49	1.14

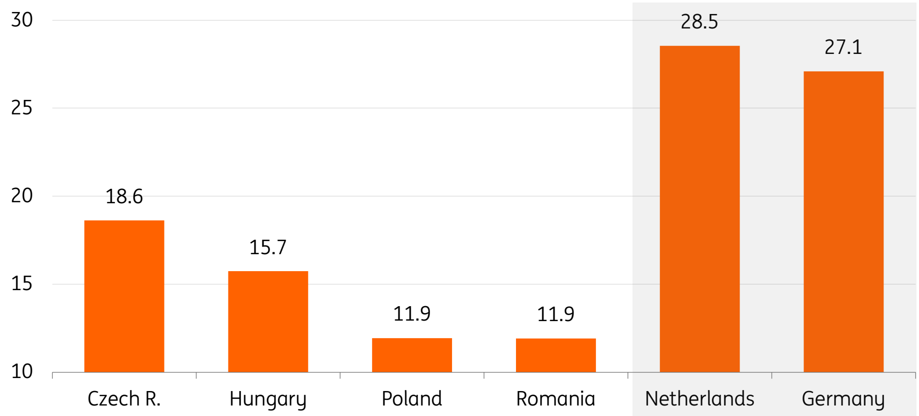
Source: Eurostat, ING calculations

[2] The fact that larger businesses pay higher wages has been well established in the literature (see, eg, Berlingieri, G., S. Calligaris, and Ch. Criscuolo. 2018. *The Productivity-Wage Premium: Does Size Still Matter in a Service Economy?* AEA Papers and Proceedings 108: 328–33).

At the firm level, the ability to scale operations is closely tied to how the capital structure is managed. Corporate finance theory distinguishes between two dominant models: the trade-off theory and the pecking order theory. The trade-off theory suggests that firms aim for an optimal level of leverage to maximise value, hence they use external financing to expand rapidly when profitable opportunities arise. In contrast, the pecking order theory posits that firms prefer a conservative financing hierarchy: starting with internal funds (retained earnings or EU funds), followed by debt, and lastly equity. This approach often limits the ability of firms to seize growth opportunities through external funding.

The empirical evidence indicates that CEE companies largely behave as suggested by the pecking order model.[3] As a result, they remain smaller in scale and under-leveraged, which is reflected in relatively low levels of corporate borrowing (Figure 16) and physical capital stock (Figure 9). While this cautious stance has kept debt levels in check, it may also be constraining the region's capacity for productivity-driven growth.

Fig 16 Corporate loans, in % of GDP



Notes: The figure presents the value of loans vis-a-vis domestic Non-Financial Corporations reported by Monetary Financial Institutions excluding ESCB
Source: ECB Data Portal, ING

There are also external factors at play. Firms often face penalties as they grow in size, ranging from reduced access to grants and subsidies to increased taxes and compliance costs. The complexity of navigating regulatory frameworks and bureaucratic hurdles can be so discouraging that many small firms choose to remain small. For instance, Gourio and Roys[4] highlight that in France, regulatory thresholds applying to firms with 50 or more employees distort the size distribution, resulting in an overrepresentation of firms with 49 employees and leading to productivity losses. Aghion et al[5]. estimate that such regulation reduces aggregate innovation in France by more than 5%.

The EU Accounting Directive (2013/34/EU) exemplifies how size-dependent regulations operate across CEE and other EU countries. It grants simplified reporting requirements to companies that do not exceed two of the following three thresholds: a balance sheet total of ≤ EUR 5 million, net turnover of ≤ EUR 10 million, and a workforce of ≤ 50 employees[6]. The recent Corporate Sustainability Reporting Directive (CSRD) amendment (2022/2464/EU) reinforces these benefits by exempting smaller firms from mandatory sustainability reporting. The rationale of these policies is to protect small companies

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[3] Czerwonka L., J. Jaworski, 2021. *Capital structure determinants of small and medium-sized enterprises: evidence from Central and Eastern Europe*. Journal of Small Business and Enterprise Development 28: 277–297. https://doi.org/10.1108/JSBED-09-2020-0326

[4] Gourio F. and Roys, N. (2014), Size-dependent regulations, firm size distribution, and reallocation. Quantitative Economics, 5: 377-416

[5] Aghion, Philippe, Antonin Bergeaud, and John Van Reenen. 2023. "The Impact of Regulation on Innovation." American Economic Review 113 (11): 2894–2936.

[6] These thresholds can be modified at a country level. For instance, in Poland net turnover threshold is lower and amounts to €2.5m

from high compliance costs. But they inadvertently impose a marginal 'tax' on growth, discouraging productive firms from expanding beyond regulatory thresholds and limiting their incentive to scale.

Supporting sectoral re-allocation, especially to business services

Labour scarcity and higher wages can be also addressed through sectoral reallocation, a process that has been underway for the past decade. CEE countries have seen a growing share of employment in services, a decline in agriculture and industry, and relatively stable employment in construction. However, comparisons with the euro area and the Netherlands suggest further potential for transition towards a service-based economy (Figure 17). The share of employment in services ranges from 50% in Romania to 68% in Hungary, significantly below the euro area average of 77% and the Netherlands at 84%.

Agriculture continues to absorb a disproportionately high share of employment in Romania (20%) and Poland (7%), far above levels in the euro area (3%) and the Netherlands (2%). These figures underscore the potential for productivity gains through labour shifts into higher-value-added sectors, particularly services.

Fig 17 Employment shares by sector, in % of total employment

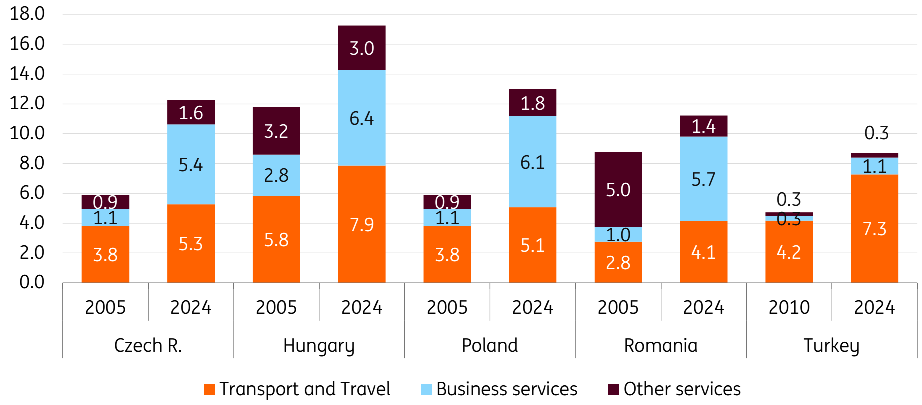
	Czech Rep.	Hungary	Poland	Romania	Turkey	Euro areas	Netherlands
Agriculture							
2005	3.7	5.1	17.3	33.9	25.5	4.1	2.6
2024	2.9	3.4	6.9	20.1	14.8	2.8	1.8
ppt change	-0.8	-1.7	-10.3	-13.9	-10.7	-1.3	-0.8
Industry							
2005	30	24.9	23.6	33.9	21.4	17	9.6
2024	26.8	19.7	22.3	20.1	20.7	14	8.3
ppt change	-3.2	-5.2	-1.3	-13.9	-0.7	-3	-1.3
Construction							
2005	8.9	7.5	6	5.6	5.7	7.5	6.1
2024	7.7	8.4	7.2	9.6	6.6	6.4	5.8
ppt change	-1.2	0.9	1.2	4	0.9	-1.1	-0.3
Services							
2005	57.4	62.4	53.2	36.6	47.4	71.3	81.6
2024	62.7	68.5	63.6	50.6	57.9	76.8	84.1
ppt change	5.3	6	10.5	14	10.5	5.5	2.4
of which business services							
2005	13.1	11.9	9.2	5.2		17	24.2
2024	17	19.7	15	9.3		21.4	26.9
ppt change	3.9	7.8	5.8	4.1		4.4	2.7

Notes: Business services are defined as NACE J-N sectors (information and communication; financial and insurance activities; real estate activities; professional, scientific and technical activities; administrative and support service activities)
Source: Ameco database, ING calculations

Figure 17 also shows that the increase in the share of services in employment was largely driven by tradable business services, such as information and communication technologies or consulting services, which was supported by the rapid expansion of service centres in the region. This shift was enabled by access to the European single market and accelerated by the increased adoption of remote work during and after the Covid-19 pandemic.

The trend is mirrored in the remarkable rise of services exports from CEE countries, predominantly led by modern business services (Figure 18). Sectors like ICT, consulting, and technical business services have now surpassed traditional service exports such as transport and travel. This surge has been facilitated by the development of service support centres, many of which are foreign-owned or controlled. Large firms (with over 250 employees) account for nearly half of all CEE services exports, with even higher shares in ICT and administrative support services. In contrast, Turkey's modern services exports remain in an early stage, with travel and transport still dominating the country's export profile.

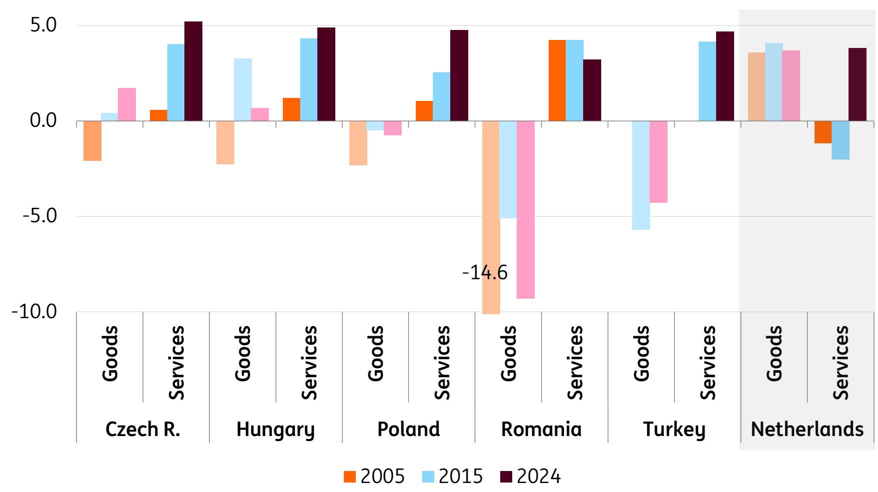
Fig 18 Exports of services by activity, as % of GDP



Notes: **Business services** include the following categories: technical, trade-related, and other business services; professional and management consulting services; telecommunications, computer, and information services; R&D; financial services and insurance and pension services. **Other services** include, inter alia, maintenance and repair services; manufacturing services on physical inputs owned by others; construction services; charges for the use of intellectual property; personal, cultural, and recreational services.
Source: Eurostat, series: bop_c6_a, ING calculations

The growing importance of services exports is reshaping the external balances of CEE economies. As shown in Figure 19, services trade surpluses in 2024 ranged from 3% to 5% of GDP, highlighting their growing contribution to overall economic stability and source of FX flows. This contrasts with broadly balanced positions in trade of goods in the Czech Republic, Hungary and Poland, and large and persistent deficits in merchandise trade in Romania and Turkey. The combination of surpluses in services and deficits (or tiny surpluses) in goods diverges from the trend seen in the Netherlands, which recorded surpluses of around 4% of GDP in both categories.

Fig 19 External balances of goods and services in balance of payments, as % of GDP



Source: Eurostat (series estat_bop_c6_a), ING calculations.

Over the past decade, resources have increasingly shifted towards higher value-added sectors across CEE economies. Rising labour costs in countries such as the Czech Republic, Hungary and Poland have eroded competitiveness in certain manufacturing segments, prompting several multinationals to relocate production to lower-cost destinations such as Romania, Turkey, or Northern Africa. This loss has been offset by the expansion in tradable business services, helping to sustain growth and stabilise external balances. Nonetheless, the sectoral composition of the CEE economies still remains more dependent on agriculture and industry than Western Europe. This underscores the considerable scope for further structural transformation, particularly through continued reallocation toward high-productivity service sectors.

Sectoral reallocation is a complex and nuanced process, often lacking clear-cut guidelines. According to the EBRD's Transition Report 2024-2025, industrial policies that target the development of specific sectors usually require high bureaucratic quality and large fiscal space. In other words, their implementation requires an efficient state and low level of public debt.

Insights from our recent Poland study, based on interviews with business leaders, suggest that targeted protection of individual sectors rarely yields positive outcomes. On the contrary, empirical evidence points to the effectiveness of broad, economy-wide policies, which reduce frictions in labour, financial, and product markets, as key drivers of faster and more efficient sectoral reallocation.

While a detailed assessment of institutional quality lies beyond the scope of this article, comparative data suggests that the regulatory environment in CEE countries, especially in Turkey, continues to lag behind the Dutch and German benchmarks. As shown in Figure 20, there is a sizeable gap in the Fraser Institute's Economic Freedom Index between CEE and these two Western European countries, with the Czech Republic being a notable exception. What's more, the index's subcomponent on regulation points to significant room for potential improvement in areas that affect firm growth and competitiveness. Adjusting regulations and enhancing institutional efficiency could deliver new opportunities for business expansion, re-allocation and productivity gains.

Fig 20 Frazer Economic Freedom Index (2022)

	Czech Rep.	Hungary	Poland	Romania	Turkey	Netherlands	Germany
Summary index							
Score	**7.65**	**7.12**	**6.85**	**7.41**	**5.57**	**7.74**	**7.8**
Rank	22	55	70	43	138	18	16
Area 5: Regulation							
Score	**7.53**	**6.66**	**6.84**	**6.9**	**5.61**	**7.61**	**7.75**
Rank	26	74	59	54	133	23	17
Credit market	*9.28*	*8.19*	*7.02*	*7.61*	*5.99*	*7.71*	*8.05*
Labor market	*7.72*	*6.77*	*7.24*	*7.87*	*5.08*	*7.39*	*7.1*
Business	*5.9*	*5.38*	*5.73*	*5.77*	*4.1*	*6.95*	*7.5*
Market entry and competing	*7.24*	*6.31*	*7.37*	*6.34*	*7.26*	*8.37*	*8.34*

Source: Frazer institute, ING calculations.

The way forward

Central and Eastern Europe's growth story has been impressive. But the labour-led model that powered it is reaching its limits. Shrinking labour resources, rising wages, and lagging productivity require a new approach. The region must now work smarter, by reallocating labour to its most productive uses, scaling efficient firms, embracing automation, and fostering a regulatory environment that supports innovation and sectoral shifts. Immigration, upskilling, and structural reform will be essential to sustaining growth and competitiveness in the years ahead.

Countries

Armenia

Dmitry Dolgin, Chief Economist, CIS

Forecast summary

	2Q25	3Q25	4Q25F	1Q26F	2Q26F	2025F	2026F
Real GDP (%YoY)	5.9	5.5	5.5	4.5	5.0	5.5	4.5
CPI (%YoY)*	3.9	3.7	4.6	5.1	4.2	3.5	4.2
Policy interest rate (eop, %)	6.75	6.75	6.75	6.75	6.50	6.75	6.50
3m interest rate (%)*	7.4	7.3	n/a	n/a	n/a	n/a	n/a
10yr yield (%)*	9.9	9.5	n/a	n/a	n/a	n/a	n/a
USD/AMD*	384	383	383	387	392	387	392
EUR/AMD*	453	449	459	465	471	448	474

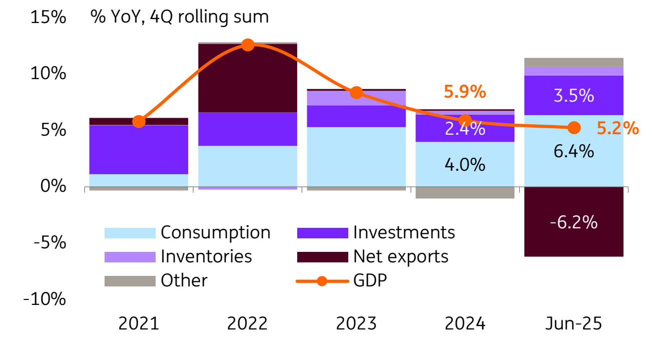
Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: 2029	S&P	BB-	BB-
Fiscal	Easing	Parliamentary: 2026	Moody's	Ba3	Ba3
Monetary	Neutral	Local: n/a	Fitch	BB-	BB-

*Quarterly data is eop, annual is average. Shading denotes ING forecast data
Source: National sources, ING estimates

Country strategy: Peace process is key

The slowdown in Armenia's economic growth is being cushioned by robust fiscal stimulus and sustained credit expansion. Recent months have seen a moderate improvement in external conditions, with the ongoing peace process with Azerbaijan offering the prospect of unlocking new capital inflows and supporting the external balance. We have revised our GDP outlook upward, though risks to the inflation trajectory have also increased. The dram remains strong, now more firmly underpinned by capital inflows, yet this currency strength continues to weigh on the trade balance. Notably, the Armenian dram has gained around 3% against the US dollar since the beginning of the year, reflecting strong portfolio capital inflows.

GDP growth composition by usage

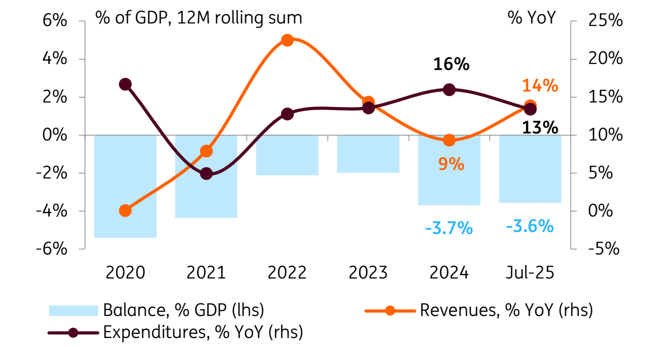


Source: National sources, CEIC, ING

Activity: Gradual softening towards pre-2022 levels

On a 12-month rolling basis, the Armenian GDP growth continues to decelerate, though at somewhat slower pace. Sectoral data shows that construction and financial services are pillars of support. From the usage perspective, Armenia's growth has become increasingly reliant on foreign trade, as higher consumption and investment are now accompanied by a notable rise in imports. The contribution of re-exports to overall growth has diminished. Industrial activity is now showing signs of recovery, as evidenced by a rebound in manufacturing output and a continued acceleration in corporate lending (now at 29% YoY, 36% of GDP). We have modestly raised our GDP growth forecast for this year from 5.0% to 5.5% but anticipate further moderation in 2026–27 as base effects fade and policy support is gradually withdrawn.

Key parameters of the state budget

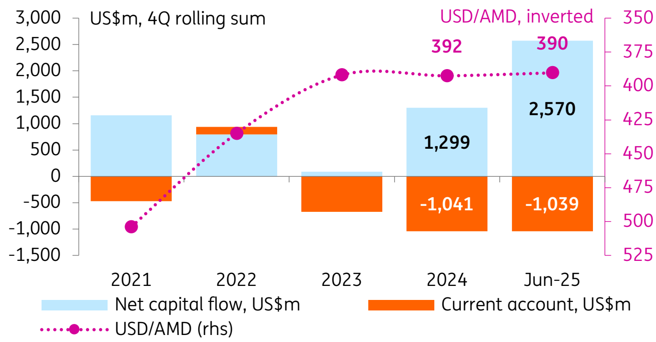


Source: National sources, CEIC, ING

Budget policy is increasingly growth-supportive

The budget deficit has widened to 3.5-4.0% of GDP, primarily due to increased defence spending, and upward pressure from both defence and social expenditures is likely to persist in the coming quarters. On the revenue side, collections have slightly outperformed expectations, buoyed by stronger economic activity and elevated gold prices, which have boosted mining royalties and export receipts. This has allowed us to improve our deficit projections by 0.5 percentage points for both this year and next, though the fiscal deficit is still expected to hover around 4% of GDP. Following the placement of a €750m Eurobond in March 2025, the authorities are likely to prioritise domestic debt issuance as the primary source of budget financing, aiming to limit the accumulation of currency risk and deepen the local capital market.

Current account, remittances and Armenian dram (AMD)



Source: National sources, CEIC, ING

AMD: Near-term outlook improved thanks to peace process

The trade balance remains in a sizeable deficit, and the re-exports story has largely run its course. The current account remains in a substantial deficit of around US$1bn, while net remittances are gradually returning to pre-2022 levels. Support for the local FX market has increasingly come from the capital account, with FDI and portfolio inflows offsetting the current account shortfall. In this context, the peace process with Azerbaijan – despite the non-binding nature of recent announcements – could prove supportive for capital flows, particularly if it leads to a sustained improvement in investor sentiment. We have significantly improved our near-term AMD expectations, now projecting a 1% appreciation against the US dollar in 2025, though we continue to see depreciation risks over the longer term due to structural factors such as persistent trade deficits and limited export diversification.

Armenia

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Activity													
Real GDP (%YoY)	3.2	0.2	7.5	5.2	7.7	-7.2	5.8	12.6	8.3	5.9	5.5	4.5	4.0
Private consumption (%YoY)	-7.6	-2.1	13.7	4.9	11.5	-13.9	2.8	5.6	5.6	6.8	6.0	4.0	3.5
Government consumption (%YoY)	4.7	-2.4	-2.1	-3.0	12.9	9.2	-6.2	-2.2	28.3	-22.3	4.0	6.0	5.0
Fixed investment (%YoY)	2.5	-11.4	9.7	4.8	4.4	-1.5	23.6	14.0	10.1	11.1	4.0	6.0	5.0
Industrial production (%YoY)	5.2	6.5	12.3	4.2	9.0	-0.9	3.3	7.9	6.4	4.7	6.0	4.0	3.5
Unemployment rate (average, %)	18.5	18.0	17.8	19.0	18.3	18.2	15.5	13.5	12.4	13.9	12.5	12.2	11.7
Nominal GDP (AMDbn)	5,044	5,067	5,564	6,017	6,543	6,182	6,992	8,501	9,493	10,193	11,138	12,129	13,097
Nominal GDP (€bn)	9.5	9.5	10.2	10.5	12.2	11.1	11.7	18.4	22.4	24.0	24.8	25.6	25.8
Nominal GDP (US$bn)	10.6	10.5	11.5	12.5	13.6	12.6	13.9	19.5	24.2	26.0	28.7	30.9	31.5
GDP per capita (US$)	3,512	3,524	3,869	4,196	4,597	4,269	4,685	6,572	8,159	8,556	9,583	10,308	10,497
Gross domestic saving (% of GDP)	9.0	10.2	7.7	8.7	4.0	9.7	15.1	21.4	20.5	22.7	n/a	n/a	n/a
Prices													
CPI (average, %YoY)	3.7	-1.4	1.0	2.5	1.4	1.2	7.2	8.6	2.0	0.3	3.5	4.2	3.8
CPI (year-end, %YoY)	-0.1	-1.4	2.6	1.8	0.7	3.7	7.7	8.3	-0.6	1.5	4.6	4.0	3.6
Wage rates (nominal, %YoY)	8.0	2.3	3.2	-11.4	5.6	4.0	7.4	15.3	14.7	6.4	5.0	4.0	3.5
Fiscal balance (% of GDP)													
Consolidated government balance	-4.8	-5.5	-4.8	-1.6	-0.8	-5.1	-4.5	-2.2	-1.9	-3.5	-4.3	-3.9	-3.2
Consolidated primary balance	-3.3	-3.6	-2.6	0.7	1.6	-2.4	-2.0	0.1	0.7	-0.4	-0.9	-0.3	0.5
Total public debt	48.7	56.7	58.8	55.5	53.6	67.4	63.4	49.2	50.7	50.3	51.0	51.5	51.6
External balance													
Exports (US$bn)	1.6	1.9	2.4	2.7	3.3	2.7	3.2	5.9	8.9	13.2	9.7	10.4	10.6
Imports (US$bn)	2.8	2.9	3.8	4.5	5.0	4.0	4.7	7.7	11.3	15.4	11.4	12.0	12.0
Trade balance (US$bn)	-1.2	-1.0	-1.4	-1.8	-1.7	-1.4	-1.5	-1.8	-2.4	-2.2	-1.7	-1.6	-1.4
Trade balance (% of GDP)	-11.2	-9.3	-12.2	-14.2	-12.6	-10.9	-10.8	-9.2	-10.0	-8.5	-6.0	-5.2	-4.5
Current account balance (US$bn)	-0.3	-0.1	-0.1	-0.9	-1.0	-0.5	-0.5	0.1	-0.7	-1.2	-0.9	-1.2	-1.3
Current account balance (% of GDP)	-2.7	-1.0	-1.3	-7.2	-7.1	-4.0	-3.4	0.7	-2.8	-4.6	-3.2	-3.8	-4.0
Net FDI (US$bn)	0.2	0.3	0.2	0.3	0.2	0.1	0.3	0.9	0.5	0.1	0.2	0.3	0.3
Net FDI (% of GDP)	1.5	2.5	1.9	2.1	1.7	0.7	2.5	4.7	2.2	0.3	0.7	1.0	1.0
Current account balance plus FDI (% of GDP)	-1.2	1.5	0.7	-5.1	-5.3	-3.3	-0.9	5.5	-0.6	-4.3	-2.5	-2.8	-3.0
Gross international reserves (US$bn)	1.8	2.2	2.3	2.3	2.8	2.6	3.2	4.1	3.6	3.7	4.5	4.2	4.0
Import cover (months of merchandise imports)	7.6	9.2	7.3	6.0	6.8	7.8	8.2	6.4	3.8	2.9	4.7	4.2	4.0
Debt indicators													
Gross external debt (US$bn)	8.9	10.0	10.5	10.9	12.4	12.9	13.8	15.2	15.3	16.3	18.0	19.5	21.0
Gross external debt (% of GDP)	84.5	94.4	91.3	87.7	90.9	102.1	99.8	78.1	63.2	62.9	62.7	63.2	66.8
Gross external debt (% of exports)	549	526	441	401	374	485	431	258	172	124	186	188	199
Lending to corporates/households (% of GDP)	40.5	42.2	46.2	49.1	53.8	65.3	54.2	49.0	53.0	62.3	63.9	65.3	66.6
Interest & exchange rates													
Central bank key rate (year-end, %)	8.75	6.25	6.00	6.00	5.50	5.25	7.75	10.75	9.25	7.00	6.75	6.50	6.00
Broad money supply (average, %YoY)	5.2	24.8	28.9	13.2	21.5	14.8	12.8	13.4	22.1	19.0	20.0	17.0	15.0
3m interest rate (average, %)	12.09	8.56	6.11	6.02	5.83	5.44	7.10	10.00	10.75	8.81	n/a	n/a	n/a
3m interest rate spread over US$-Libor (ppt)	11.77	7.82	4.85	3.71	3.50	4.79	6.94	7.60	5.35	3.76	n/a	n/a	n/a
2yr yield (average, %)	13.30	11.15	7.68	7.04	6.80	6.17	8.22	10.62	11.05	9.66	n/a	n/a	n/a
10yr yield (average, %)	14.92	14.00	11.10	9.72	9.48	7.99	9.39	11.24	11.03	9.87	n/a	n/a	n/a
USD/AMD exchange rate (year-end)	484	484	484	484	480	523	480	394	405	397	383	402	430
USD/AMD exchange rate (average)	478	480	483	483	480	489	504	436	392	393	387	392	416
EUR/AMD exchange rate (year-end)	529	512	580	554	537	641	543	420	448	414	459	490	525
EUR/AMD exchange rate (average)	530	532	545	571	538	558	597	461	425	425	448	474	507
Brent oil price (annual average, US$/bbl)	54	45	55	72	64	43	71	99	82	80	68	57	65

Shading denotes ING forecast data

Source: National sources, ING estimates

Quarterly forecasts

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F
Real GDP (%YoY)	7.1	6.3	3.8	5.2	5.9	5.5	5.5	4.5	5.0	4.5	4.0	4.5	4.0
CPI (eop, %YoY)	0.8	0.6	1.5	3.3	3.9	3.7	4.6	5.1	4.2	3.7	4.0	3.9	3.8
Central bank key rate (eop, %)	8.00	7.50	7.00	6.75	6.75	6.75	6.75	6.75	6.50	6.50	6.50	6.50	6.25
3m interest rate (eop, %)	8.52	8.35	8.18	7.50	7.37	7.35	n/a	n/a	n/a	n/a	n/a	n/a	n/a
10yr yield (eop, %)	9.69	9.72	9.84	9.69	9.88	9.53	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USD/AMD exchange rate (eop)	388	387	395	392	384	383	383	387	392	397	402	409	416
EUR/AMD exchange rate (eop)	415	431	409	424	453	449	459	465	471	480	490	499	507

Shading denotes ING forecast data

Source: National sources, ING estimates

Azerbaijan

Dmitry Dolgin, Chief Economist, CIS

Forecast summary

	2Q25	3Q25	4Q25F	1Q26F	2Q26F	2025F	2026F
Real GDP (%YoY)	2.5	0.0	3.0	4.0	2.5	1.5	2.8
CPI (%YoY)*	6.0	5.1	5.1	5.8	5.3	5.5	5.4
Policy interest rate (eop, %)	7.25	7.00	7.00	7.00	7.00	7.00	7.75
3m interest rate (%)*	n/a	n/a	n/a	n/a	n/a	n/a	n/a
10yr yield (%)*	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USD/AZN*	1.70	1.70	1.70	1.70	1.70	1.70	1.80
EUR/AZN*	2.00	1.99	2.04	2.04	2.04	1.97	2.18

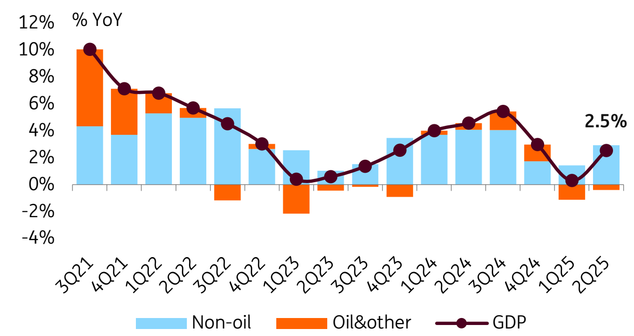
Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: 2031	S&P	BB+	BB+
Fiscal	Neutral	Parliamentary: 2029	Moody's	Baa3	Baa3
Monetary	Neutral	Local: n/a	Fitch	BBB-	BBB-

*Quarterly data is eop, annual is average. Shading denotes ING forecast data
Source: National sources, ING estimates

Country strategy: Healthy financials, but weaker activity

We are worsening the near-term outlook for Azerbaijan's GDP, budget, external balance and CPI based on 1H25 performance. The country's financial position remains solid, underpinned by substantial sovereign assets and prudent fiscal management. The sovereign rating upgrade from Moody's to investment-grade Baa3 is potentially positive for portfolio inflows. Nevertheless, the risk of the current account turning negative next year remains high, keeping FX stability in focus as oil prices and export volumes face headwinds. The normalisation of twin surpluses we flagged in 1Q25 has come through faster than expected; we lower 2025 growth to 1.5% and now see the 2026 current account at -3.3% of GDP, while monetary policy remains cautious despite July's 25bp cut.

GDP and oil/non-oil contribution (%YoY, ppt)

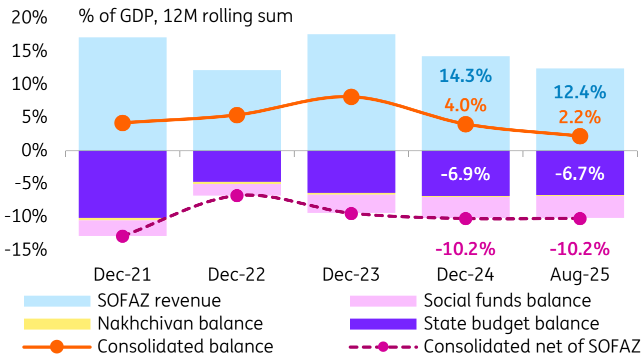


Source: National sources, CEIC, ING

Activity: Softening on sluggish oil sector output

The slowdown in GDP growth this year, following a strong 4.1% increase in 2024, was not unexpected, but the scale of the deceleration has exceeded earlier projections. Both oil and non-oil sectors – including transport, construction and other industries – came under pressure in 1Q25, with only a partial recovery in 2Q25. Monthly GDP data for July–August indicate a further loss of momentum, with industrial output and services activity both moderating. The oil sector remains the main drag on growth, while non-oil sectors have shown resilience but are not immune to the broader slowdown. We have therefore downgraded our GDP growth expectations from 3.0% to 1.5% for 2025 but still see scope for a recovery to 2.5–3.0% next year if external conditions improve and public investment accelerates.

Consolidated budget balance by components (% of GDP)

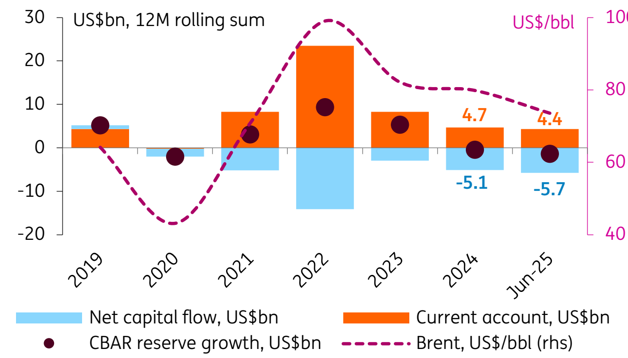


Source: National sources, CEIC, ING

Fiscal policy remains growth-supportive

The overall slowdown in economic activity is occurring despite a continued easing in the fiscal stance. On the revenue side, the main drag has come from lower fuel receipts, reflecting both softer oil prices and reduced export volumes. On the expenditure side, higher social and defence spending, alongside persistently high investment outlays, continue to underpin spending pressures. This has led to a faster than expected shrinking in the consolidated surplus – from 4.0% GDP in 2024 to 2.2% GDP. Fuel fundamentals remain robust, with annualised revenues per US$1/bbl of oil price recovering to US$189m. This has helped keep the fiscal breakeven oil price stable at around US$60-65/bbl. The scope for consolidation may be limited by capital and social spending obligations on the one side and by soft oil prices on the other.

Balance of payments composition vs Brent oil price



Source: National sources, CEIC, ING

External balance: Current account continues to weaken

The current account surplus continues to shrink as the trade surplus approaches zero, driven by lower oil prices and robust import growth. The CBRA has become increasingly focused on FX market flows, with recent communications emphasising the importance of maintaining external stability. We expect the current account to post a small surplus of 2% of GDP in 2025 but see a risk of a negative current account in 2026 if current trends persist. Despite the downgrade, buffers remain large and the 1.70 peg is credibly backed for now. Currently, the financials look healthy, with annualised fuel exports of US$306m per US$1/bbl of oil price and sovereign assets at 100% of GDP. In the event of a temporary drop in oil prices below breakeven, the government should have sufficient resources to defend the current US$1.70 AZN/USD peg, as was the case during previous episodes of market stress in 2020.

Azerbaijan

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Activity													
Real GDP (%YoY)	1.1	-3.1	0.2	1.5	2.5	-4.2	5.6	4.7	1.4	4.1	1.5	2.8	2.0
Real oil GDP (%YoY)	0.6	0.1	-5.3	0.5	0.4	-6.5	1.4	-2.5	-2.5	0.3	-1.0	1.0	1.0
Real non-oil GDP (%YoY)	1.1	-4.4	2.7	2	4	-2.9	7.1	9.0	4.5	6.1	3.5	4.0	3.0
Investment (%YoY)	-11.1	-21.7	2.8	-4.3	5.5	-7.3	-4.5	3.3	9.8	-0.7	4.5	4.0	3.0
Industrial production (%YoY)	2.5	-0.5	-3.5	1.5	1.8	-4.0	5.0	-1.1	-0.7	1.1	-3.5	4.0	2.0
Unemployment rate (average, %)	5.0	5.0	5.0	4.9	4.9	6.4	6.4	5.8	5.6	5.4	5.3	5.3	5.3
Nominal GDP (AZNbn)	54.4	60.4	70.3	80.1	81.9	72.6	93.2	134.0	123.1	126.3	135.2	146.4	162.7
Nominal GDP (€bn)	47.8	34.2	36.2	39.9	43.0	37.4	46.3	74.7	67.0	68.7	70.2	67.3	70.5
Nominal GDP (US$bn)	53.0	37.9	40.9	47.1	48.2	42.7	54.8	78.8	72.4	74.3	79.6	81.3	73.6
GDP per capita (US$)	5,562	3,929	4,199	4,798	4,851	4,269	5,458	7,806	7,133	7,284	7,631	7,720	6,928
Gross domestic saving (% of GDP)	31	28	31	35	31	23	34	45	32	30	n/a	n/a	n/a
Prices													
CPI (average, %YoY)	4.0	12.4	12.9	2.3	2.6	2.8	6.7	13.9	8.9	2.2	5.5	5.4	8.9
CPI (year-end, %YoY)	7.6	15.7	7.9	1.6	2.3	2.6	12.0	14.4	2.1	4.9	5.1	5.8	8.8
Wage rates (nominal, %YoY)	5.0	7.0	5.7	3.0	16.6	11.4	3.4	14.7	11.2	8.1	10.0	6.9	10.4
Fiscal balance (% of GDP)													
Consolidated government balance	-5.3	0.3	-1.5	5.9	9.1	-6.5	4.2	6.0	8.1	4.0	1.3	-1.7	4.0
Consolidated primary balance	-3.8	2.4	0.9	8.7	10.9	-4.4	6.3	6.4	8.9	4.7	2.0	-1.0	4.7
Total public debt	18.0	20.6	22.5	18.7	17.7	21.3	26.3	17.3	21.8	20.9	21.5	25.5	24.0
External balance													
Exports (US$bn)	15.6	13.2	15.2	20.8	19.9	12.6	21.7	40.9	29.2	26.0	24.1	21.8	25.7
Imports (US$bn)	9.8	9.0	9.0	11.0	11.3	10.1	10.4	13.5	16.4	17.2	19.0	20.9	17.3
Trade balance (US$bn)	5.8	4.2	6.1	9.8	8.5	2.5	11.3	27.4	12.8	8.8	5.0	1.0	8.4
Trade balance (% of GDP)	11.0	11.1	15.0	20.9	17.7	5.9	20.6	34.7	17.7	11.9	6.3	1.2	11.4
Current account balance (US$bn)	-0.2	-1.4	1.7	6.1	4.4	-0.2	8.3	23.5	8.3	4.7	1.6	-2.7	7.2
Current account balance (% of GDP)	-0.4	-3.6	4.1	12.8	9.1	-0.5	15.1	29.8	11.5	6.3	2.0	-3.3	9.8
Net FDI (US$bn)	0.8	1.9	0.3	-0.8	-1.4	-0.8	-2.2	-5.1	-2.1	-1.0	-1.0	-1.0	-1.0
Net FDI (% of GDP)	1.5	5.1	0.7	-1.7	-2.9	-1.8	-4.1	-6.5	-2.9	-1.3	-1.3	-1.2	-1.4
Current account balance plus FDI (% of GDP)	1.1	1.5	4.9	11.1	6.2	-2.3	11.0	23.3	8.6	5.0	0.7	-4.5	8.5
Gross international reserves (US$bn)	7.7	7.3	7.0	6.7	7.1	7.8	8.3	10.8	13.7	12.7	13.2	10.2	11.2
Import cover (months of merchandise imports)	9.4	9.7	9.3	7.3	7.5	9.3	9.5	9.5	10.1	8.9	8.3	5.9	7.8
Debt indicators													
Gross external debt (US$bn)	13.3	14.6	15.4	16.6	16.5	16.5	15.6	15.3	14.5	15.0	15.5	16.0	16.5
Gross external debt (% of GDP)	25.2	38.6	37.8	35.2	34.3	38.6	28.5	19.4	20.1	20.2	19.5	19.7	22.5
Gross external debt (% of exports)	85.6	110.6	101.9	79.8	83.2	130.9	72.1	37.4	49.8	57.8	64.5	73.4	64.2
Lending to corporates/households (% of GDP)	40.0	27.2	16.7	16.3	18.7	20.0	18.4	15.1	19.5	23.2	25.2	26.2	26.2
Interest & exchange rates													
Central bank key rate (year-end, %)	3.00	15.00	15.00	9.75	7.50	6.25	7.25	8.25	8.00	7.25	7.00	7.75	10.25
Broad money supply (average, %YoY)	-1.3	-1.9	9.0	5.7	20.0	1.1	18.7	23.6	5.3	3.2	8.4	10.9	12.9
3m interest rate (Bakibor, average, %)	9.2	13.5	20.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
3m interest rate spread over US$-Euribor (ppt)	884	1279	1936	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2yr yield (average, %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
10yr yield (average, %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USD/AZN exchange rate (year-end)	1.56	1.77	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	2.21	2.21
USD/AZN exchange rate (average)	1.02	1.60	1.72	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.80	2.21
EUR/AZN exchange rate (year-end)	1.70	1.90	2.04	1.95	1.91	2.08	1.93	1.81	1.88	1.76	2.04	2.70	2.43
EUR/AZN exchange rate (average)	1.14	1.77	1.94	2.01	1.90	1.94	2.01	1.79	1.84	1.84	1.97	2.18	2.31
Brent oil price (annual average, US$/bbl)	54	45	55	72	64	43	71	99	82	80	68	57	65

Shading denotes ING forecast data

Source: CEIC, National sources, ING estimates

Quarterly forecasts

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F
Real GDP (%YoY)	4.3	5.4	3.0	0.3	2.5	0.0	3.0	4.0	2.5	3.5	1.0	0.5	1.5
CPI (eop, %YoY)	1.1	3.5	4.9	5.1	6.0	5.1	5.1	5.8	5.3	5.5	5.8	9.4	9.2
Central bank key rate (eop, %)	7.25	7.25	7.25	7.25	7.25	7.00	7.00	7.00	7.00	7.25	7.75	10.75	10.50
3m interest rate (eop, %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
10yr yield (eop, %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USD/AZN exchange rate (eop)	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	2.21	2.21	2.21
EUR/AZN exchange rate (eop)	1.82	1.90	1.76	1.84	2.00	1.99	2.04	2.04	2.04	2.06	2.70	2.70	2.70

Shading denotes ING forecast data

Source: CEIC, National sources, ING estimates

Bulgaria

Valentin Tataru, Chief Economist | Stefan Posea, Economist

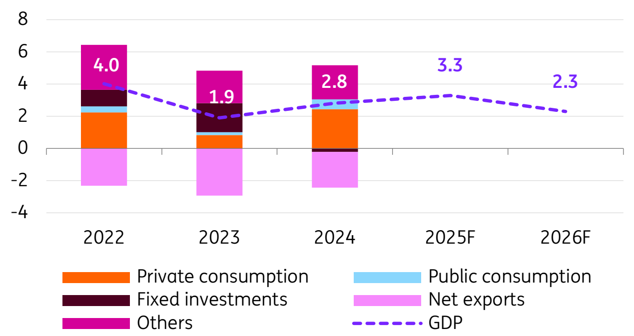
Forecast summary

	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	2025F	2026F
Real GDP (%YoY)	3.5	3.4	3.2	3.1	2.9	3.3	2.7
CPI (%YoY)*	3.9	5.6	5.7	3.6	4.3	4.8	3.4
Base interest rate (%)**	2.07	1.82	1.82	2.00	2.00	2.00	2.00
7yr yield (%)*	2.93	3.10	3.10	3.12	3.14	3.07	3.15

Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: 2026	S&P	BBB+	BBB+
Fiscal	Loose	Parliamentary: 2028	Moody's	Baa1	Baa1
Monetary	Loose	Local: 2027	Fitch	BBB+	BBB+

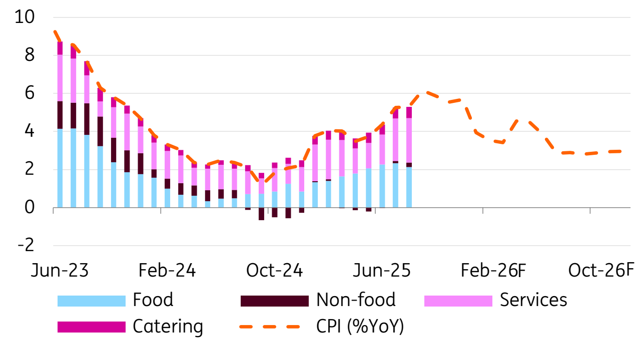
*Quarterly data is eop. annual is average; **ECB Depo Rate as of 1 January 2026
Shading denotes ING forecast data
Source: National sources. ING estimates

Real GDP (%YoY) and contributions (ppt)



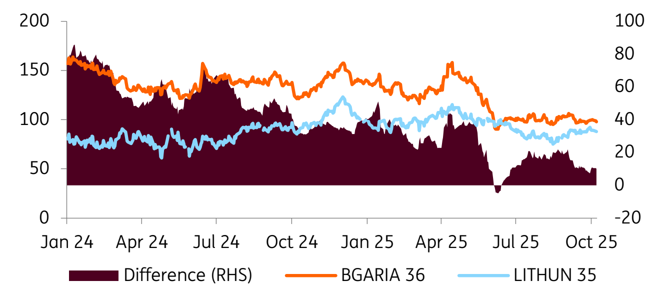
Source: NSI, ING

Inflation (%YoY) and main components (ppt)



Source: NSI, ING

BGARIA credit spreads vs Lithuania (bp)



Source: Refinitiv, ING

Country strategy: Finding the right balance

In what has been the 'done deal' year for the euro adoption process, Bulgaria's economy has so far gained steam from both consumption and investments. These developments have stimulated imports visibly and, along with changes in taxation, have fuelled inflationary pressures so far this year. In this context, with exports struggling, the trade deficit in July went up by a substantial 62% in annual terms. The fiscal stance is now slightly more under the radar as the pressure from both rising public incomes and co-financing public investments could become tricky to manage in the near term, especially for the cash deficit. That said, a steady progress on reforms should bring more RRF payments to the table and improve Bulgaria's productive potential ahead.

Growth should pick up this year

Bulgaria's GDP growth came in at 3.3% in the first half of 2025. Private consumption has continued to be fuelled by significant wage increases, which in turn have been fuelled by an expansionary fiscal policy, as well as labour shortages. On the outlook, we expect GDP growth to firm up and reach 3.0% in 2025, before moderating towards 2.3% in 2026 as the consumption cycle finds its balance. In the near term, improvements in the services sector, coupled with the added benefits of the euro adoption, the Schengen membership and a still-ongoing momentum in private consumption should compensate for a still-struggling industrial sector and exports.

Inflation: Running a bit hot now

Labour costs, firm private sector demand and restored VAT rates have been key contributors to inflation this year. Food and services inflation have been the highest-impact categories in recent inflation prints. More broadly, the tight labour market and the consumption stimulating fiscal policy have been providing, and are likely to continue to provide, upside price pressures in the short run. Base effects should prove more friendly next year.

In numbers, inflation averaged 3.9% in the first half of 2025, before picking up to a constant 5.3% in July-August. We have pencilled in a 5.7% print in December while next year we forecast price pressures converging towards 3.0% by end-2026.

Sovereign credit: Squeezing towards Eurozone peers

With the confirmation of Eurozone accession, Bulgaria's Eurobonds have performed well this year, with spread levels in EUR compressing towards Euro area peers. On the front end, maturities out to 2030 are roughly in line with Croatia, while there does at least remain some steepness in the curve, with the BGARIA 38s offering 30bp pickup over the 36s. With 10Y maturities now generally in line with higher-rated Lithuania, we would see limited scope for further compression – Bulgaria may be less exposed to geopolitical headline risk from Ukraine than the Baltic nations, but we would need to see more signs of domestic political stability and further progress in structural reforms for more fundamental/ratings improvement.

James Wilson, EM Sovereign Strategist

Bulgaria

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Activity													
Real GDP (%YoY)	3.4	3.0	2.7	2.5	3.8	-3.2	7.8	4.0	1.9	2.8	3.3	2.7	2.5
Private consumption (%YoY)	2.8	2.1	2.5	3.7	6.0	-0.4	8.5	3.9	1.4	4.2	6.0	4.0	3.0
Government consumption (%YoY)	1.8	2.2	4.3	5.3	2.0	8.3	0.5	8.0	1.1	4.5	7.0	4.0	2.0
Investment (%YoY)	2.7	-6.6	3.2	5.4	4.5	0.6	-8.3	6.5	10.2	-1.1	10.0	5.0	4.0
Industrial production (%YoY)	2.7	2.5	4.0	0.3	0.5	-6.3	10.1	12.8	-8.2	-3.7	-5.0	2.5	3.5
Unemployment rate (eop, %)	9.0	7.7	6.7	5.7	5.3	6.3	4.6	4.0	4.3	4.2	3.5	3.7	3.9
Nominal GDP (BGNbn)	89.6	95.3	102.7	109.8	119.9	121.1	139.6	168.8	185.2	198.8	214.9	228.0	242.1
Nominal GDP (€bn)	45.8	48.7	52.5	56.1	61.3	61.9	71.4	86.3	94.7	103.7	111.7	116.3	120.0
Nominal GDP (US$bn)	50.3	53.9	60.3	66.1	68.5	71.5	83.0	90.7	102.6	112.2	129.3	140.4	146.4
GDP per capita (US$)	7,100	7,600	8,600	9,500	9,900	10,400	12,000	13,300	15,100	16,200	16,400	17,100	17,600
Gross domestic saving (% of GDP)	21.8	23.9	24.2	23.8	24.0	22.7	23.2	23.8	23.9	22.7	19.7	18.2	17.2
Prices													
CPI (average %YoY)	-0.1	-0.8	2.1	2.8	3.1	1.7	3.3	15.3	9.6	2.4	4.8	3.4	3.7
CPI (year-end %YoY)	-0.4	0.1	2.8	2.7	3.8	0.1	7.8	16.9	4.7	2.2	5.7	3.0	4.0
Wage rates (nominal %YoY)	7.9	7.0	10.5	7.4	12.0	8.6	12.0	13.7	14.5	15.3	10.0	8.0	6.0
Fiscal balance (% of GDP)													
Consolidated government balance	-1.9	0.3	1.6	1.7	2.2	-3.8	-3.9	-2.9	-2.0	-2.6	-3.0	-3.0	-2.9
Consolidated primary balance	-0.9	1.2	2.4	2.4	2.7	-3.3	-3.4	-2.5	-1.5	-2.0	-2.6	-2.6	-2.5
Total public debt	25.9	29.1	25.1	22.1	20.1	24.4	23.8	22.5	22.9	24.1	25.2	27.2	29.0
External balance													
Exports (€bn)	22.9	23.1	26.9	27.7	29.1	27.3	34.4	47.1	43.5	43.3	42.4	44.6	46.8
Imports (€bn)	26.3	24.1	27.7	30.4	32.0	29.2	37.3	52.2	47.4	48.8	51.7	54.3	57.0
Trade balance (€bn)	-3.5	-1.0	-0.8	-2.7	-2.9	-1.9	-2.9	-5.1	-3.9	-5.5	-9.3	-9.8	-10.2
Trade balance (% of GDP)	-7.6	-2.0	-1.5	-4.8	-4.7	-3.1	-4.0	-5.9	-4.1	-5.3	-8.3	-8.4	-8.5
Current account balance (€bn)	0.0	1.5	1.7	0.5	1.0	0.3	-0.8	-2.2	-0.8	-1.9	-4.5	-3.6	-4.0
Current account balance (% of GDP)	0.0	3.1	3.3	0.9	1.6	0.5	-1.1	-2.5	-0.8	-1.8	-4.0	-3.1	-3.3
Net FDI (€bn)	2.0	0.9	1.6	1.0	1.6	2.8	1.4	4.1	4.6	2.9	3.0	3.4	3.8
Net FDI (% of GDP)	-4.1	-0.6	-1.3	-0.8	-1.2	-2.8	-1.3	-2.0	-4.9	-2.8	-2.7	-2.6	-2.9
Current account balance plus FDI (% of GDP)	-4.1	2.5	2.0	0.2	0.4	-2.3	-2.4	-4.6	-5.7	-4.6	-6.7	-5.7	-6.2
Foreign exchange reserves (€bn)	18.2	21.6	21.4	22.8	22.2	28.0	30.5	34.2	37.5	36.7	35.2	34.7	34.1
Import cover (months of merchandise imports)	8.3	10.8	9.3	9.0	8.3	11.5	9.8	7.9	9.5	9.0	8.2	7.7	7.2
Debt indicators													
Gross external debt (€bn)	36.7	38.1	37.7	37.2	37.7	39.3	41.2	43.6	45.1	49.8	54.8	57.0	58.1
Gross external debt (% of GDP)	80	78	72	66	61	63	58	51	48	48.0	49.0	49.0	48.4
Gross external debt (% of exports)	160	165	140	134	129	144	120	93	104	115	129	128	124
Lending to corporates/households (% of GDP)	54.8	52.0	49.8	50.4	49.7	51.3	48.1	44.7	45.2	48.0	49.6	50.9	52.2
Interest & exchange rates													
Base interest rate (year-end %)*	0.01	0.00	0.00	0.00	0.00	0.00	0.00	1.30	3.80	3.04	2.00	2.00	2.25
Broad money supply (average %YoY)	8.8	7.6	7.7	8.8	9.9	10.9	10.7	13.2	8.7	8.7	9.4	9.9	10.4
3yr yield (average %)	1.56	0.83	0.33	0.06	-0.06	-0.15	-0.14	-0.06	2.10	3.08	3.18	2.50	2.40
7yr yield (average %)	2.66	1.88	1.57	0.92	0.36	0.27	0.22	0.03	4.11	4.04	3.56	3.15	3.10

Shading denotes ING forecast data

Source: National sources, ING estimates

Quarterly forecasts

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F
Real GDP (%YoY)	2.3	2.6	4.1	2.9	3.5	3.4	3.2	3.1	2.9	2.6	2.3	2.5	2.5
CPI (eop. %YoY)	2.5	1.2	2.2	4.0	4.4	6.2	5.7	3.4	3.8	2.8	3.0	3.5	3.7
Base interest rate (eop. %)*	3.78	3.54	3.04	2.59	2.07	1.82	1.82	2.00	2.00	2.00	2.00	2.00	2.00
7yr yield (eop. %)	3.55	3.58	3.10	3.23	2.92	3.10	3.10	3.12	3.14	3.16	3.17	3.20	3.20

*ECB Depo Rate as of 1 January 2026; Shading denotes ING forecast data

Source: National sources, ING estimates

Croatia

Valentin Tataru, Chief Economist | Stefan Posea, Economist

Forecast summary

	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	2025F	2026F
Real GDP (%YoY)	3.4	3.2	2.4	2.8	2.1	3.0	2.2
HICP (%YoY)*	4.4	5.2	4.4	4.6	4.6	4.6	4.2
CPI (%YoY)	3.6	4.2	2.9	3.5	3.8	3.6	3.5
Key interest rate (eop,%)**	2.25	2.00	2.00	2.00	2.00	2.00	2.00
10yr yield (%)*	3.10	3.10	3.15	3.15	3.25	3.25	3.35

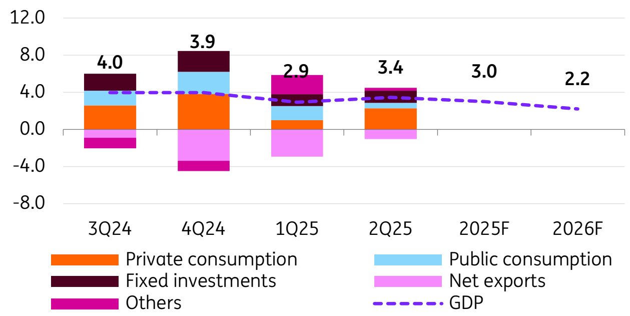
Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: 2029	S&P	A-	A-
Fiscal	Loose	Parliamentary: 2028	Moody's	A3	A3
Monetary	Neutral	Local: 2029	Fitch	A-	A-

*Quarterly data is eop, annual is average **ECB rate starting 1 January 2023.
Shading denotes ING forecast data
Source: National sources, ING estimates

Country strategy: High growth meets price pressures

Croatia continues to deliver growth above its potential at this time, buoyed by the tailwinds of euro adoption and Schengen entry (which boosted tourism flows) alongside high absorption of EU funds, especially under the RRF. This robust performance, coupled with relatively prudent policies, has propelled a swift climb up the credit ladder from sub-investment grade in 2019 to an enviable A- at present, reflected in resilient sovereign spreads. However, inflation remains stubbornly high at around 3.5–4.0%, underscoring lingering price pressures in an otherwise upbeat outlook. Looking ahead, sustaining this momentum will hinge on managing inflationary pressures without undermining growth prospects.

Real GDP (YoY%) and contributions (ppt)

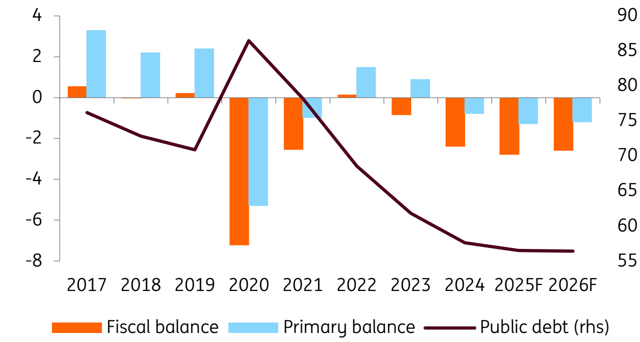


Source: Eurostat, ING

Domestic demand anchors growth

Growth has exceeded expectations so far in 2025. After a strong first half, we now project GDP growth of 3.0% for the year. This above-potential pace should extend into 2026, though with some moderation. Domestic demand remains the main engine, driven by robust private consumption and investment, supported by solid real incomes, a tight labour market and strong consumer confidence. Substantial EU fund inflows and improving credit conditions are further boosting capital spending. Net exports, however, remain a weak spot. The crucial tourism sector has largely plateaued, implying minimal contribution to GDP. Meanwhile, merchandise exports continue to struggle amid weak demand from key trading partners and ongoing global trade uncertainties.

Public debt and fiscal balance (% of GDP)



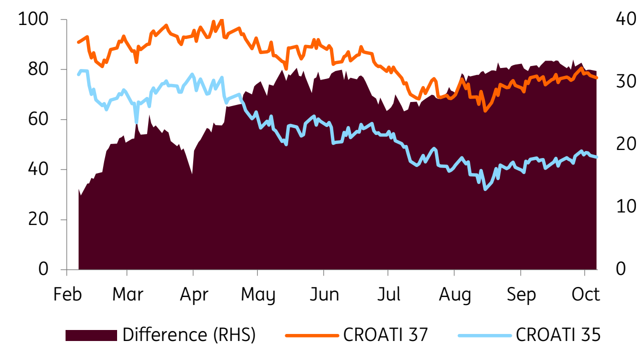
Source: Eurostat, ING

Inflation stays high as fiscal space narrows

Inflation remains sticky. After easing to around 3.2% mid-year, it climbed to 4.2% in August. Price pressures are mostly demand-driven: food prices have regained momentum and services inflation remains elevated. Base effects should help inflation ease towards year-end. Still, we expect the 2025 average CPI to stay slightly above 3.5%, underscoring persistent overheating risks.

Fiscal risks are emerging. VAT revenues have fallen short of targets, while spending - especially on public wages and pensions - remains high following last year's increases. We expect a modest overshoot of the deficit target, but still under 3.0% of GDP. With limited fiscal room, caution is warranted as room to absorb shocks is narrow.

CROATI EUR credit spreads (bp)



Source: Refinitiv, ING

A safe haven in CEE

Funding conditions remain favourable, supported by Croatia's improved fundamentals and euro-area membership. Government 10Y bond yields hover just above 3.0% and sovereign spreads versus Germany remain near historical lows. Having pre-financed much of its 2025 borrowing, the government faces minimal rollover needs in the near term, anchoring these favourable conditions. We expect credit spreads to stay resilient, underpinned by Croatia's ratings upgrade trajectory and solid fundamentals. In this context, valuations don't offer much scope for further tightening, even among Eurozone peers, but should remain a solid defensive option..

James Wilson, EM Sovereign Strategist

Croatia

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Activity													
Real GDP (%YoY)	2.3	3.5	3.3	2.9	3.1	-8.3	12.6	7.3	3.3	3.9	3.0	2.2	1.7
Private consumption (%YoY)	0.4	3.2	3.2	3.4	4.1	-5.2	10.6	6.7	3.0	5.6	3.1	2.2	1.5
Government consumption (%YoY)	-0.4	1.1	2.1	2.2	2.8	3.5	3.1	2.7	6.6	4.4	3.3	2.5	2.1
Investment (%YoY)	8.2	5.0	1.6	3.9	9.0	-5.0	6.6	0.1	4.2	5.9	4.5	3.1	2.9
Industrial production (%YoY)	2.5	4.8	1.9	-0.7	0.6	3.4	6.3	1.6	-2.0	-2.3	3.1	1.8	1.7
Unemployment rate (year-end, %)	16.0	13.5	10.5	8.1	6.6	8.9	6.8	7.0	6.0	5.3	5.0	4.9	4.8
Nominal GDP (€bn)	46.0	47.6	49.7	52.2	54.9	50.7	58.3	67.6	78.1	85.6	91.9	97.5	103.3
Nominal GDP (US$bn)	50	53	57	61	61	59	68	71	85	93	106	118	126
GDP per capita (US$)	12,000	12,600	13,800	15,000	15,100	14,600	17,400	18,200	21,700	23,800	27,500	30,600	32,300
Gross domestic saving (% of GDP)	19.8	21.2	21.6	21.8	22.0	16.9	19.9	20.6	21.4	20.0	20.2	20.7	21.2
Prices													
HICP (average, %YoY)	-0.3	-0.6	1.3	1.6	0.8	0.0	2.7	10.7	8.4	4.0	4.6	4.2	4.1
HICP (year-end, %YoY)	-0.3	0.7	1.3	1.0	1.3	-0.3	5.2	12.7	5.4	4.5	4.4	3.9	4.2
CPI (average, %YoY)	-0.5	-1.1	1.1	1.5	0.8	0.1	2.6	10.8	8.0	3.0	3.6	3.5	3.6
CPI (year-end, %YoY)	-0.6	0.2	1.2	0.9	1.4	-0.7	5.5	13.1	4.5	3.4	2.9	4.1	3.4
Wage rates (net nominal, %YoY)	-3.4	2.5	5.3	4.3	3.5	4.7	5.4	7.3	13.0	14.8	9.0	6.0	4.0
Fiscal balance (% of GDP)													
Consolidated government balance	-3.5	-1.0	0.5	0.0	0.2	-7.2	-2.6	0.1	-0.9	-2.4	-2.8	-2.6	-2.5
Consolidated primary balance	-0.1	2.0	3.3	2.2	2.4	-5.3	-1.0	1.5	0.9	-0.8	-1.3	-1.2	-1.0
Total public debt	82.8	79.3	76.2	72.8	70.9	86.5	78.2	68.5	61.8	57.6	56.5	56.4	56.8
External balance													
Exports (€bn)	11.5	12.3	14.0	14.5	15.2	14.9	18.4	24.1	22.9	24.0	25.0	26.0	27.0
Imports (€bn)	18.5	19.7	21.9	23.7	25.0	22.9	28.4	41.9	39.6	42.9	44.7	46.6	48.5
Trade balance (€bn)	-7.0	-7.4	-7.9	-9.2	-9.8	-8.0	-10.0	-17.8	-16.7	-18.9	-19.7	-20.6	-21.5
Trade balance (% of GDP)	-15.1	-15.5	-15.8	-17.6	-17.8	-15.8	-17.2	-26.3	-21.4	-22.1	-21.5	-21.1	-20.9
Current account balance (€bn)	1.2	1.0	1.7	0.6	1.3	-0.7	0.3	-2.3	0.3	-1.1	-0.6	-0.1	0.5
Current account balance (% of GDP)	2.5	2.1	3.4	1.1	2.5	-1.5	0.5	-3.5	0.4	-1.2	-0.7	-0.1	0.5
Net FDI (€bn)	-0.6	-2.0	-1.1	-1.1	-3.6	-1.2	-3.6	-4.1	-1.9	-1.6	-1.6	-1.7	-1.7
Net FDI (% of GDP)	-1.2	-4.2	-2.2	-2.1	-6.5	-2.3	-6.2	-6.0	-2.4	-1.9	-1.8	-1.7	-1.7
Current account balance plus FDI (% of GDP)	1.3	-2.2	1.1	-1.0	-4.1	-3.8	-5.7	-9.5	-2.0	-3.1	-2.4	-1.8	-1.2
Foreign exchange reserves ex gold (€bn)	13.7	13.5	15.7	17.4	18.6	18.9	25.0	27.9	28.8	32.1	33.0	33.5	34.1
Import cover (months of merchandise imports)	8.9	8.2	8.6	8.8	8.9	9.9	10.6	8.0	8.7	9.0	8.9	8.6	8.4
Debt indicators													
Gross external debt (€bn)	48.6	45.0	43.9	42.8	40.6	41.3	47.3	49.9	60.9	56.2	58.4	61.9	65.6
Gross external debt (% of GDP)	105.8	94.5	88.3	82.0	73.9	81.4	81.2	73.8	78.0	65.6	63.5	63.5	63.5
Gross external debt (% of exports)	422	366	313	294	266	277	257	207	266	234	234	239	243
Lending to corporates/households (% of GDP)	65.2	60.3	56.5	54.7	53.3	61.0	53.8	51.6	48.1	47.8	47.2	47.3	47.1
Interest & exchange rates													
Central bank key rate (year-end, %)*	-0.30	-0.40	-0.40	-0.40	-0.50	-0.50	-0.50	2.00	4.00	3.00	2.00	2.00	2.25
3yr yield (average, %)	2.60	1.70	1.20	0.70	0.15	0.15	0.10	3.00	3.15	2.30	2.35	2.45	2.60
10yr yield (average, %)	3.90	3.00	2.50	2.40	0.60	0.65	0.85	4.00	3.00	3.00	3.25	3.35	3.50
EUR/USD (average)	1.10	1.11	1.15	1.18	1.12	1.16	1.16	1.05	1.08	1.08	1.16	1.21	1.22
EUR/USD (end-period)	1.09	1.05	1.20	1.15	1.12	1.22	1.14	1.07	1.10	1.04	1.20	1.22	1.22

*ECB key rate as of 1 January 2023. Shading denotes ING forecast data

Source: National sources, ING estimates

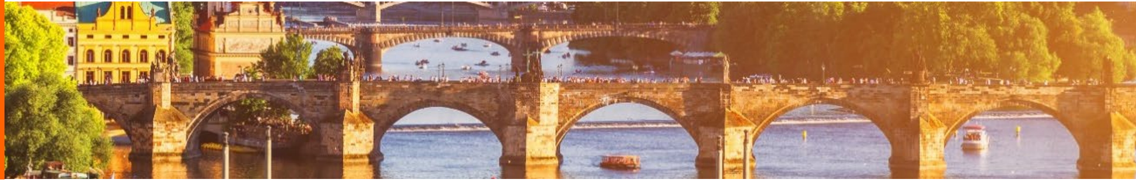
Quarterly forecasts

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F
Real GDP (%YoY)	3.7	4.0	3.9	2.9	3.4	3.2	2.4	2.8	2.1	2.1	1.8	1.6	1.7
HICP (eop, %)	3.5	3.1	4.5	4.3	4.4	5.2	4.4	4.6	4.6	3.9	3.9	4.0	4.1
CPI (eop, %YoY)	2.4	1.6	3.4	3.2	3.6	4.2	2.9	3.5	3.8	3.8	4.1	3.9	3.5
Central bank key rate (eop, %)*	3.75	3.50	3.00	2.50	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.25
10yr yield (eop, %)	3.50	3.10	3.05	3.35	3.10	3.10	3.15	3.15	3.25	3.25	3.30	3.40	3.50

*ECB key rate as of 1 January 2023. Shading denotes ING forecast data

Source: National sources, ING estimates

Czech Republic



David Havrlant, Chief Economist, Czech Republic

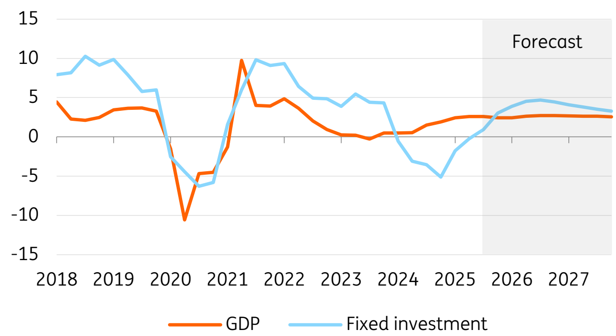
Forecast summary

	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	2025F	2026F
Real GDP (%YoY)	2.6	2.6	2.4	2.4	2.7	2.5	2.6
CPI (%YoY)*	2.9	2.3	2.9	2.3	2.4	2.6	2.4
Policy interest rate (%)	3.5	3.5	3.5	3.5	3.5	3.5	3.5
3m interest rate (%)*	3.5	3.5	3.5	3.5	3.5	3.6	3.5
10yr yield (%)*	4.2	4.5	4.3	4.2	4.2	4.2	4.2
USD/CZK*	21.5	20.7	20.7	20.7	20.6	21.9	20.6
EUR/CZK*	24.8	24.3	24.3	24.3	24.2	24.7	24.2

Macro trend		Political cycle	Ratings	FC	LC
Activity	++	Presidential: 2028	S&P	AA-	AA
Fiscal	Looser	Parliamentary: 2029	Moody's	Aa3	Aa3
Monetary	Neutral	Local: 2026	Fitch	AA-	AA-

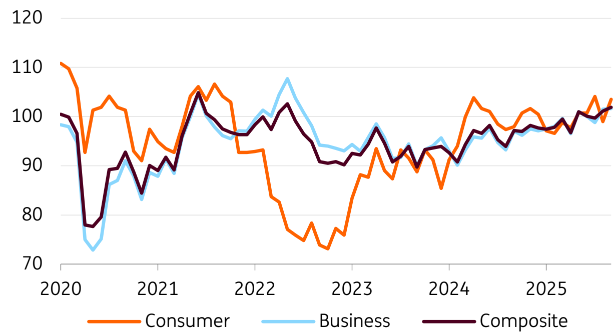
*Quarterly data is eop, annual is avg. Shading denotes ING forecast data
Source: National sources, ING estimates

Fixed investment bottoming out (% YoY)



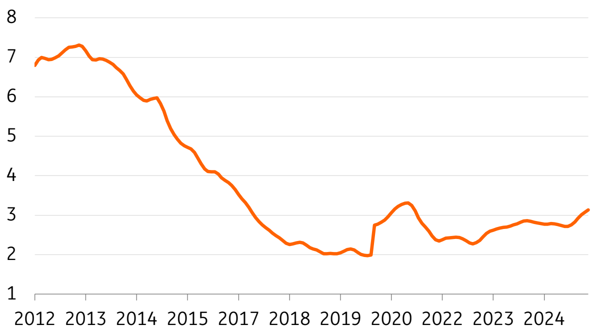
Source: CZSO, ING

Business sentiment improves (2003-23 = 100)



Source: CZSO

The labour market set to retighten (Unemployment, %)



Source: CZSO

Country strategy: Economic upswing warrants stringency

The Czech economy is gradually entering a full swing rebound, with household consumption set to gain around 3% this year, a dynamic observed throughout the fat years. The construction boom, now in its teens, is expected to carry on, as excessive demand, ample savings, and upbeat credit levels further fuel the trend. The one missing part of the boom jigsaw – industry – has only started to stabilise, while sentiment looks better than at any time over the past three years. The economy is poised to thrive, unless interrupted by an unforeseen external event. Labour market tightening is just around the corner, setting the stage for daring wage demands across sectors. Here we stand with the monetary policy having a rather neutral effect right now. In such a setup, we see base rate stability with potentially a need for greater stringency. We believe the koruna will remain on solid ground.

Industrial rebound is the missing piece

We expect the economy to grow by 2.5% this year and 2.7% next, with household consumption being the primary driver of this rebound. Robust nominal and real wage gains are about to improve household budgets, with more resources available for discretionary spending. Meanwhile, fixed investment is expected to shift to moderate growth, following a 0.8% decline in the previous year. As the appetite of Czech businesses for expansion gains solid ground, the contribution of fixed investment to overall real growth is expected to be broadly in line with that of household spending.

Such a turnaround represents a significant improvement in the economic outlook, supported by the recent increases in business sentiment and upbeat new orders. Indeed, we see overseas exports accelerating, as Czech firms find customers directly in the US, the Middle East and Asia. Still, a rebound in demand from main European trading partners, such as Germany and France, would provide an extra boost to the exporting base and overall economic performance. It remains to be seen whether the German economy can escape its 'treading-water' modus operandi, which has become the new normal in the perception of Czech firms.

The economy entering a fully-fledged recovery would have repercussions for the labour market. Despite some relaxation, the unemployment rate remains relatively low compared to historical standards. Moreover, we attribute its recent increase to the aftermath of the 2023 economic stagnation, along with the industry remaining in limbo throughout 2024. The labour market notoriously exhibits the longest lags in terms of adjustment speed, especially across Europe. Should the hypothesis of an industrial recovery prove correct, labour market conditions would start to re-tighten through the coming year. Indeed, Czech firms report the shortage of a skilled and reliable labour force as one of the decisive growth barriers.

So, wage growth is becoming a strong candidate for upwards surprises, which could add to wrinkles for the price stability guardians. With the economy likely to exceed its potential by mid-next year, the broad environment is expected to shift to a generally more pro-inflationary stance. Considering the risks associated with introducing emission allowances for households and small firms in 2027, we believe that base rate stability is the right approach.

Czech Republic

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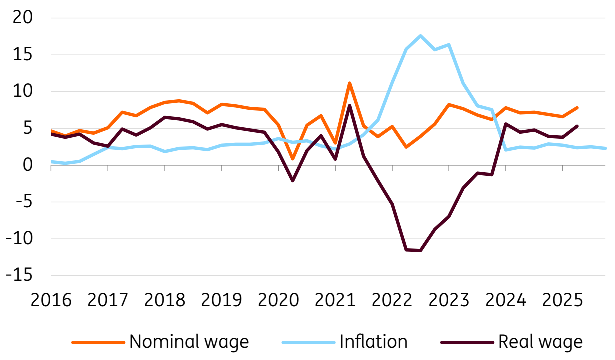
Buoyant wage growth is a risk (% YoY)

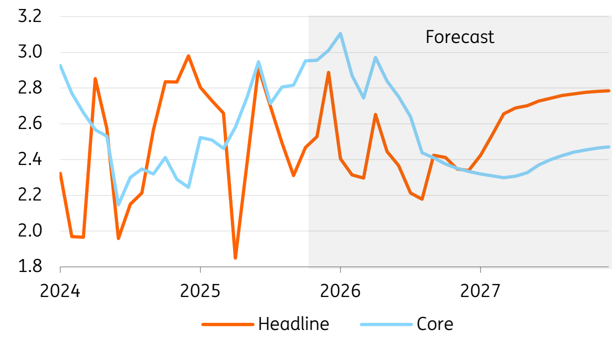


Source: CZSO

Households have learnt their lesson

Nominal wage growth picked up to 7.8% in the second quarter, 1.1ppt stronger than the CNB had expected. Should the economy continue to expand, we view the conditions as ideal for sustained, robust wage increases. Households have learned their lesson from the 2021-23 inflationary drama, when their real purchasing power crumbled, losing almost 10% cumulatively. Moreover, real wage growth hasn't made up for this loss since. Workers have become accustomed to the idea that wage gains should outpace inflation and have incorporated this notion into their expectations and demands. So, if the economy performs well, we expect the labour market to re-tighten, while the risk of a wage-price spiral is no longer an ephemeral bogeyman.

ETS2 likely to hit in 2027 or sooner (% YoY)

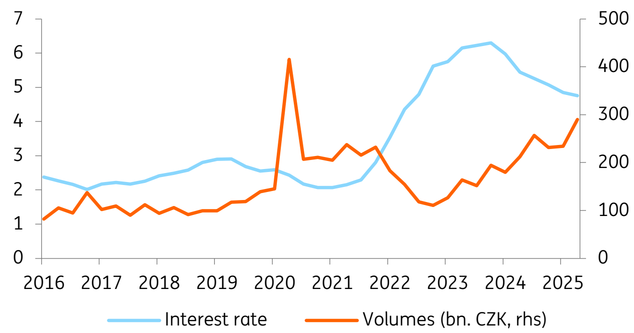


Source: CZSO

To front-load or not to front-load?

Consumer inflation in 2027 is set to be affected by the introduction of emission allowances for households and small firms (ETS2). There is a range of uncertainties associated with the implementation. For instance, regarding whether the government will implement certain countermeasures, such as reducing fuel duties or providing subsidies for low-income households, and how the statistical office would measure the impact on the CPI. Our estimate of the full effect on annual inflation is 1.2ppt but, given the amount of uncertainty, we take on board one-third into our baseline scenario and two-thirds in the alternative. The CNB is likely to exempt part of the primary impact via fuel and regulated prices from its response. Still, secondary effects will emerge via food and core inflation with possible front-loading.

Mortgage volumes are increasing (%, CZKbn)

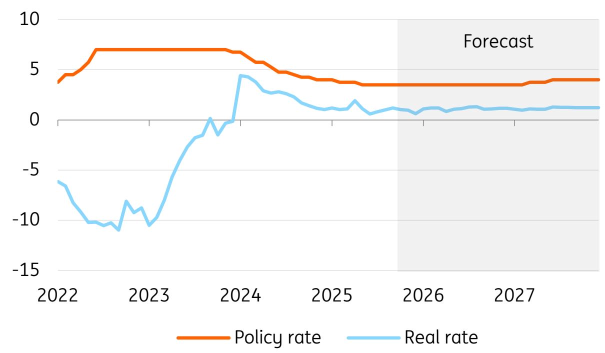


Source: CNB

Housing market imbalances set to last

The ample amount of money in circulation and buoyant credit is one of the repeatedly highlighted issues by Governor Ales Michl that could jeopardise price stability over the medium term. The excessive demand on the Czech housing market drives prices to unseen heights, while no vision of resolution of the imbalances whatsoever incentivises taking a mortgage here and now, before property prices increase further. The booming construction drives the economic recovery and adds to employment and wage growth. The flip side, however, is continued increases in rents, which also trickle down to still elevated core inflation. Making housing more accessible was one of the shared election topics this autumn, and we must see whether the new government comes up with viable solutions.

Rates stability is the way-to-go for some time



Source: CNB, ING

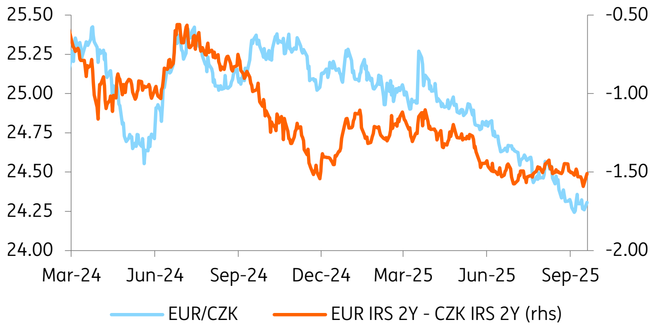
Rate stability with upward risks to foster the koruna

The broad monetary policy stance is currently deemed to be only slightly restrictive or neutral. We can hardly identify any dampening effects on the real economy at this stage. That said, maintaining positive real interest rates seems a good idea while the economy continues to hum. The stability of the nominal rate will suffice for quite some time, especially as 2026 appears likely to be calm from a price stability perspective. Nevertheless, with the ETS2 in sight and the potential for upwards wage growth surprises, we see the possibility of hikes in early 2027. The pronounced rate differential against the euro and economic outperformance vis-à-vis the eurozone will further provide solid ground for the koruna.

Czech Republic

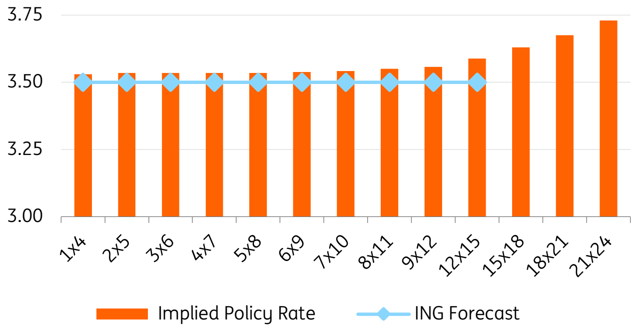
Strategy

FX vs rate differential



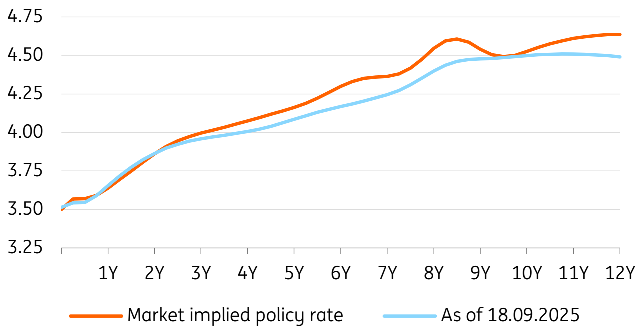
Source: Eikon, ING

FRA curve vs ING forecast



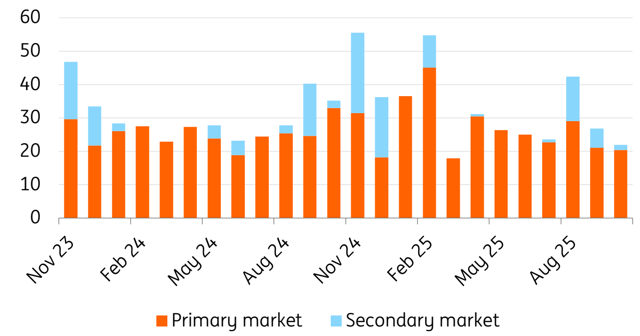
Source: Eikon, ING

Market implied policy rate



Source: Eikon, ING

Ministry of Finance issuance activity (CZKbn)



Source: MinFin, ING

FX strategy

The Czech koruna is benefiting from the CNB completing its cutting cycle as the first central bank in the region to do so and its very hawkish forward guidance. We believe that this rhetoric will persist for some time and that FX will remain supportive even though the CNB will be on hold for a longer period before potentially hiking rates. A stronger FX is supported not only by a hawkish central bank but also by underlying fundamentals. The economy is recovering and is the biggest positive surprise in the CEE region this year. The current account remains visibly positive. And the overall setup leads to a wider interest rate differential, pushing EUR/CZK lower.

The FX is already about 2.4% stronger than the CNB expected on average for 4Q. However, we believe that the central bank is satisfied with this trend and that it will not lead to a change in tone in the near future. At the same time, we believe that the CNB will be the first central bank in the region to hike rates if necessary, which we believe will further support the CZK's appreciation.

We are generally positive on CEE currencies due to global conditions and our view of a weaker USD. Therefore, we see the most potential in a lower USD/CZK. Long CZK positioning has become heavier here during the summer months and, after the HUF, the CZK is probably the second most popular currency in the region. Therefore, we expect further gains to be only gradual but, on the other hand, the dovish risk threatening the CZK is limited. We see any drop in the CZK as an opportunity for new longs.

Fixed Income strategy

The IRS curve has shifted significantly upwards in recent weeks under pressure from hawkish CNB rhetoric at the short end of the curve and fiscal concerns following the general election at the long end of the curve. The market seems confused as to whether the curve should flatten or steepen. The market is pricing in roughly one rate hike over the next two years, and we believe there is more room for the front end to rise, also supported by rising PRIBOR. On the other hand, we believe that the risk premium priced in at the long end of the curve due to post-election fiscal easing is exaggerated and that the political situation will soon show that no significant change in direction is taking place. Therefore, at this point, we prefer receivers at the long end of the curve and expect the curve to flatten.

In the bond space, the Ministry of Finance has probably decided to frontload its CZGB supply after the CNB ended its cutting cycle and, according to our estimates, 91% of this year's issuance has been covered. At the same time, however, it cannot be ruled out that the Ministry of Finance will be more active in pre-financing next year given the unclear picture of the state budget due to the current formation of a new government.

Czech Republic

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Activity													
Real GDP (%YoY)	5.0	2.5	5.3	2.8	3.5	-5.3	4.0	2.9	0.2	1.1	2.5	2.6	2.6
Private consumption (%YoY)	3.7	3.5	4.5	3.4	3.0	-6.6	4.1	0.4	-2.7	2.2	2.9	2.6	2.2
Government consumption (%YoY)	1.8	2.4	1.7	3.5	2.6	4.1	1.5	0.4	3.2	3.2	2.6	2.9	2.6
Investment (%YoY)	9.0	-2.2	3.2	8.9	7.3	-4.8	6.6	6.3	4.5	-3.1	0.5	4.4	3.7
Industrial production (%YoY)	4.5	2.5	6.6	3.0	-0.5	-6.8	6.1	2.2	-0.8	-1.0	1.1	2.2	2.7
Unemployment rate (year-end, %)	5.0	4.0	2.9	2.1	2.1	3.1	2.2	2.3	2.7	2.7	3.0	2.9	2.8
Nominal GDP (CZKbn)	4,654	4,841	5,185	5,481	5,891	5,830	6,306	7,048	7,627	8,008	8,399	8,833	9,269
Nominal GDP (€bn)	171	179	197	214	230	220	246	287	318	319	340	365	386
Nominal GDP (US$bn)	189	198	222	252	257	251	291	302	344	345	384	428	452
GDP per capita (US$)	18,008	18,835	21,083	23,939	24,351	23,908	27,701	28,056	31,585	31,504	34,970	38,901	41,003
Gross domestic saving (% of GDP)	27.3	26.6	27.5	26.9	27.3	26.9	28.8	28.2	29.8	29.6	29.4	29.3	29.2
Prices													
CPI (average, %YoY)	0.3	0.7	2.5	2.1	2.8	3.2	3.8	15.1	10.7	2.4	2.6	2.4	2.7
CPI (year-end, %YoY)	0.0	2.0	2.4	2.0	3.2	2.3	6.6	15.8	6.9	3.0	2.9	2.3	2.8
Wage rates (nominal, %YoY)	3.2	4.4	6.7	8.2	7.9	4.6	5.8	4.3	7.2	7.2	7.0	5.6	5.5
Fiscal balance (% of GDP)													
Consolidated government balance	-0.7	0.7	1.5	0.9	0.3	-5.6	-5.0	-3.1	-3.7	-2.2	-2.1	-2.6	-2.0
Consolidated primary balance	0.4	1.6	2.2	1.6	1.0	-4.9	-4.2	-2.0	-2.5	-1.3	-1	-1.4	-0.8
Total public debt	39.5	36.2	33.8	31.7	29.6	36.9	40.7	42.5	42.2	43.3	44.4	45.5	46.1
External balance													
Exports (€bn)	135	142	157	167	168	149	166	183	192	186	196	205	215
Imports (€bn)	123	127	138	150	152	135	158	174	177	169	181	193	203
Trade balance (€bn)	10.1	13.5	15.0	13.0	14.0	14.7	9.1	3.1	15.7	20.8	19.7	21.2	23.1
Trade balance (% of GDP)	5.9	7.5	7.6	6.1	6.1	6.7	3.7	1.1	5.0	6.5	5.8	5.8	6.0
Current account balance (€bn)	0.8	3.2	3.0	0.8	0.8	3.9	-5.1	-13.5	-0.4	5.6	4.8	4.0	5.4
Current account balance (% of GDP)	0.4	1.8	1.5	0.4	0.3	1.8	-2.1	-4.7	-0.1	1.8	1.4	1.1	1.4
Net FDI (€bn)	1.8	-6.9	-1.7	-2.0	-5.3	-5.6	-1.1	-3.4	-3.2	-1.7	-2.5	-1.4	-1.2
Net FDI (% of GDP)	1.1	-3.9	-0.9	-0.9	-2.3	-2.6	-0.5	-1.2	-1.0	-0.5	-0.7	-0.4	-0.3
Current account balance plus FDI (% of GDP)	1.5	-2.1	0.7	-0.5	-2.0	-0.8	-2.5	-5.9	-1.1	1.2	0.7	0.7	1.1
Foreign exchange reserves ex gold (€bn)	59	81	120	125	132	134	149	129	138	141	143	145	146
Import cover (months of merchandise imports)	5.5	7.6	10.3	10.0	10.3	11.8	10.7	7.4	8.1	8.3	8.2	8.3	8.6
Debt indicators													
Gross external debt (€bn)	115	129	171	172	173	165	185	193	195	209	217	226	239
Gross external debt (% of GDP)	67.7	72.3	86.9	80.3	75.2	74.7	75.1	67.4	61.2	65.7	63.8	62.0	62.0
Gross external debt (% of exports)	85.2	91.2	109.1	102.9	102.4	110.2	111.0	105.8	101.3	112.7	110.7	110.2	111.2
Lending to corporates/households (% of GDP)	47.0	48.3	48.2	48.4	47.7	50.6	49.3	47.5	46.0	46.4	46.6	46.8	46.9
Interest & exchange rates													
Central bank key rate (year-end, %)	0.05	0.05	0.50	1.75	2.00	0.25	3.75	7.00	6.75	4.00	3.50	3.50	4.00
Broad money supply (average, %YoY)	7.9	8.6	9.5	5.3	6.9	10.0	9.5	5.3	7.4	7.0	3.4	3.6	4.2
3m interest rate (Pribor, average, %)	0.31	0.29	0.42	1.32	2.12	0.77	1.25	6.39	7.10	4.87	3.58	3.50	3.97
3m interest rate spread over Euribor (ppt)	0.33	0.55	0.75	1.64	2.48	1.20	1.79	6.04	3.67	1.30	1.51	1.40	1.64
2yr yield (average, %)	-0.07	-0.29	-0.22	0.97	1.44	0.43	1.42	5.26	5.13	3.78	3.60	3.65	4.22
10yr yield (average, %)	0.70	0.46	1.03	1.99	1.54	1.10	1.97	4.42	4.46	4.02	4.24	4.23	4.59
USD/CZK exchange rate (year-end)	24.82	25.65	21.69	22.70	22.94	21.62	22.32	22.91	22.44	24.01	20.68	20.56	20.47
USD/CZK exchange rate (average)	24.59	24.45	23.38	21.74	22.93	23.22	21.68	23.35	22.20	23.23	21.86	20.63	20.49
EUR/CZK exchange rate (year-end)	27.02	27.03	25.66	25.83	25.49	26.30	25.22	24.26	24.49	25.13	24.25	24.12	23.95
EUR/CZK exchange rate (average)	27.29	27.03	26.33	25.65	25.67	26.46	25.64	24.56	24.00	25.12	24.68	24.20	24.03

Shading denotes ING forecast data
Source: National sources, ING estimates

Quarterly forecasts

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F
Real GDP (%YoY)	0.5	1.5	1.9	2.4	2.6	2.6	2.4	2.4	2.7	2.7	2.7	2.7	2.6
CPI (eop, %YoY)	2.6	3.0	3.0	2.7	2.9	2.3	2.9	2.3	2.4	2.4	2.3	2.7	2.7
Central bank key rate (eop, %)	4.25	4.00	4.00	3.75	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.75	4.00
3m interest rate (eop, %)	4.20	3.92	3.92	3.72	3.49	3.51	3.50	3.50	3.50	3.50	3.50	3.83	4.08
10yr yield (eop, %)	3.74	4.20	4.20	4.24	4.23	4.54	4.30	4.20	4.20	4.20	4.28	4.52	4.68
USD/CZK exchange rate (eop)	22.61	24.01	24.01	23.12	21.51	20.74	20.68	20.66	20.64	20.60	20.56	20.52	20.48
EUR/CZK exchange rate (eop)	25.10	25.13	25.13	24.99	24.80	24.35	24.25	24.27	24.22	24.16	24.12	24.08	24.03

Shading denotes ING forecast data
Source: National sources, ING estimates

Hungary

Péter Virovácz, Chief Economist, Hungary

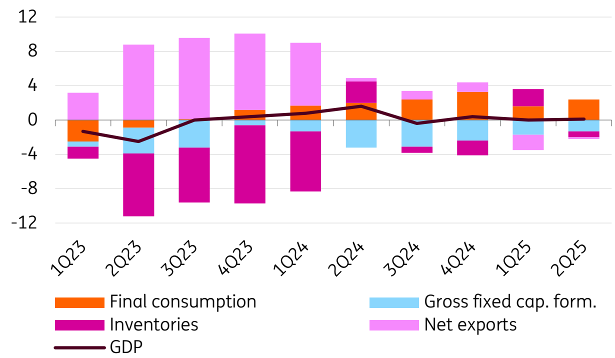
Forecast summary

	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	2025F	2026F
Real GDP (%YoY)	0.1	1.1	1.7	2.7	2.4	0.7	2.5
CPI (%YoY)*	4.6	4.3	4.3	3.5	4.4	4.6	4.1
Policy interest rate (eop, %)	6.50	6.50	6.50	6.50	6.50	6.50	5.50
3m interest rate (%)*	6.50	6.50	6.50	6.50	6.50	6.50	6.19
10yr yield (%)*	7.01	6.82	6.70	7.10	7.00	6.90	6.91
USD/HUF*	338.7	333.3	320.8	324.6	320.8	343.8	322.1
EUR/HUF*	399.6	390.0	385.0	389.5	385.0	398.0	388.9

Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: 2027	S&P	BBB-	BBB-
Fiscal	Supportive	Parliamentary: 2026	Moody's	Baa2	Baa2
Monetary	Restrictive	Local: 2029	Fitch	BBB	BBB

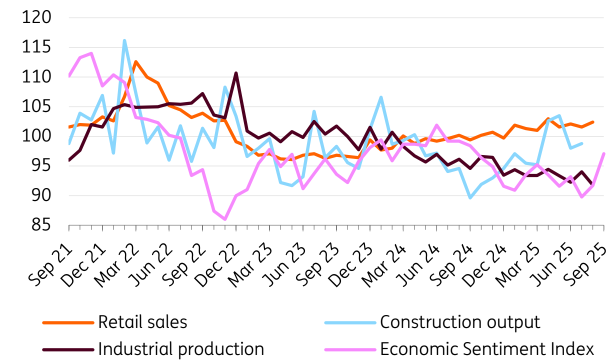
*Quarterly data is eop, annual is avg. Shading denotes ING forecast data
Source: National sources, ING estimates

Contribution to YoY GDP growth (ppt)



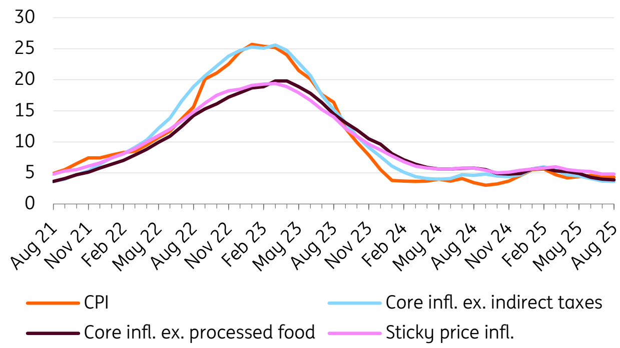
Source: Hungarian Central Statistical Office

Key activity indicators (swda; 2015 = 100%)



Source: Eurostat, Hungarian Central Statistical Office

Headline and underlying measures of inflation (%YoY)



Source: National Bank of Hungary

Country strategy: Elusive recovery

Sometimes it appears as if Hungary is fighting a losing battle to recover economically, and this has become increasingly evident over time. 2025 marks the third consecutive year in which the reality has fallen far short of economic expectations. While consumption remains a positive factor in the real economy, investment activity suffers from a lack of business confidence and limited fiscal space. The global inventory cycle has yet to turn, so net exports are holding back growth. Despite this elusive recovery, inflation remains high, fuelled by rising labour costs, high energy prices for businesses and elevated inflation expectations. Consequently, monetary policy is maintaining a restrictive stance to support the forint via the high interest rate risk premium. Fiscal policy is expected to remain opportunistically supportive to avoid a backlash from rating agencies. Therefore, in the short term, we are constructive on Hungarian assets.

Macro digest

For the third year in a row, the Hungarian economy is turning heads due to its atypical operation. GDP growth has surprised on the downside again with an 0.1% YoY rate in the first half of 2025. The structure is imbalanced, with consumption growing by 3.1% YoY and investment activity collapsing by 7.0%. Export volumes are shrinking, while consumption-led imports lessen at a lower rate than exports. Overall, we see the glass half empty as confidence issues continue to hinder the recovery. High inflation is urging households to save rather than spend. This uncharacteristic move is fuelled by memories of the cost-of-living crisis, which also depleted savings. Businesses are facing an ever-changing external environment characterised by a lack of demand, which is keeping them from investing. The budget is also under pressure due to the elusive economic recovery, with public investments being kept under strict control.

Economic fragmentation is also clearly visible at a sectoral level. In the first half of 2025, bad weather and animal epidemics reduced the value added in agriculture by 6.1% YoY. Industry has continued to decline, with a 3.0% fall so far this year. Conversely, construction has shown some growth (0.5%), largely due to large investments related to FDI, while services have risen by 1.2%.

We forecast GDP growth of 0.7% in 2025, followed by increases of 2.5% and 2.8% in 2026 and 2027, respectively. This growth will be driven by continued increases in consumption and gradual improvements in investment dynamics, ensuring a more balanced growth structure over time. However, three years of sluggish capital stock growth, coupled with deteriorating demographics, will make it increasingly challenging for the Hungarian economy to maintain a growth rate of over 3% without significant imbalances emerging in the longer term.

Returning to the dichotomy, inflation has reared its ugly head again. In a stagnant economy, prices grew by 4.7% YoY between January and August 2025. Without the government's price shield measures, which have been in place since March, inflation would be in the six-percent range. Services remain the main driver of price pressure, with a price increase of almost 7%, though the trend shows some deceleration during the year. High energy and labour costs, as well as rising demand, keep underlying repricing strong. Food prices have increased by an average of more than 6%. Consequently, perceived inflation and price expectations are creating pipeline price pressure, which is the most significant concern for the monetary authority. We project inflation averaging 4.6% in 2025 and a 3.9% average in 2026-27. There is likely to be a lot of volatility ahead, with inflation only reaching the 3% target in a sustainable manner in late 2027.

Hungary

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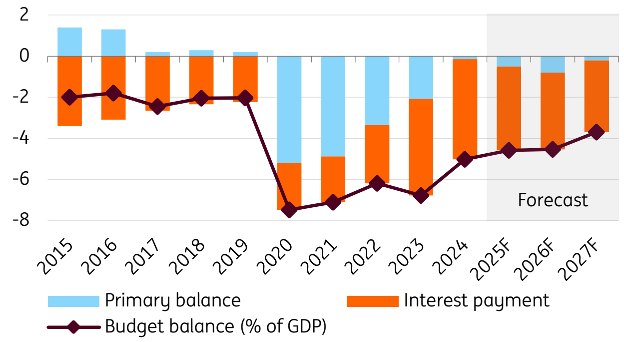
Budget and primary balances of general government (%)

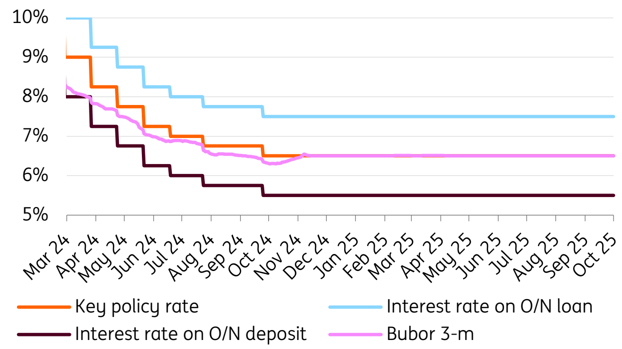


Source: AMECO, ING estimates

Fiscal policy walks a tightrope

The main issue for markets regarding fiscal policy remains the approaching general election and the risk of excessive spending. We are taking a conservative view on the matter, given that the government has already announced a series of targeted measures for the remainder of 2025 and 2026. These measures are on a different scale to those announced in 2021/22. Four years ago, the announced measures were unbudgeted and equalled 3.3% of GDP. This time, the measures equate to spending of around 2.0-2.5% of GDP, with only a small proportion being unbudgeted. This year's deficit slippage is mainly due to insufficient corporate related revenues. We forecast a deficit-to-GDP ratio of 4.6% in 2025 and 4.5% in 2026, and the debt-to-GDP ratio will rise only marginally if the stronger HUF holds.

Benchmark policy rate and interest rate corridor

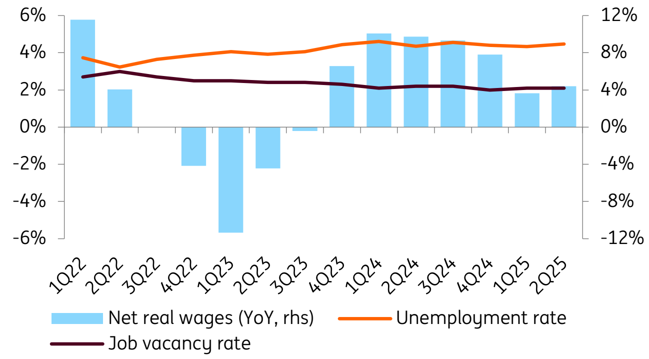


Source: National Bank of Hungary

Monetary policy remains restrictive to curb expectations

Despite the recent strength of the forint, we think the National Bank of Hungary will keep its hawkish stance over the next two to three quarters. In our view, policymakers would favour a stronger or stable currency over a lower-interest-rate environment. Lower rates would not stimulate the real economy significantly, but the lower risk premium would make the forint vulnerable to a disorderly sell-off. A strong forint helps to tame underlying inflation and can slowly but surely reduce perceived inflation and inflation expectations. This would also be welcomed on the fiscal side. With 31.3% of public debt denominated in foreign currencies, a strong HUF could keep the debt-to-GDP ratio relatively stable. We see a back-loaded easing cycle in 2026 with cuts totalling 100bp to reach 5.50% by year end.

Unemployment, job vacancy rate and wage growth

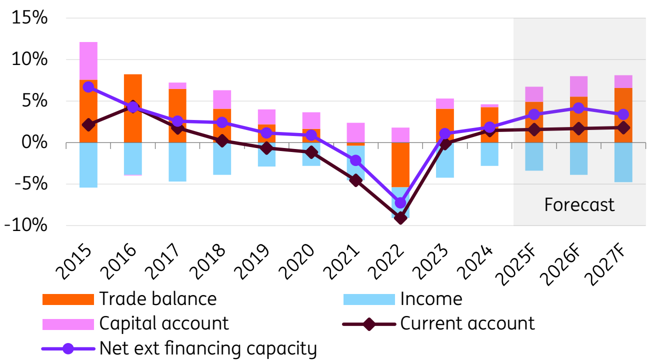


Source: Hungarian Central Statistical Office, ING estimates

The labour market is a source of two-sided risks

The three-month moving average of the unemployment rate was 4.4% in August 2025, reflecting stability since the beginning of the year. However, this stability is due to the fact that demand and supply in the labour market are shrinking in tandem. A lack of business confidence and rising labour costs on the one hand and poor demographics on the other hand are shaping the labour landscape. Against this backdrop, the potential labour reserve remains low, keeping the market tight. In terms of risks stemming from the labour market, an enforced minimum wage increase of 13-14% in 2026-27 (based on the three-year wage settlement signed in November 2024) combined with further economic weakness could trigger labour cost rationalisation and a pro-inflationary shock.

Structure of the current account (% of GDP)



Source: National Bank of Hungary, ING estimates

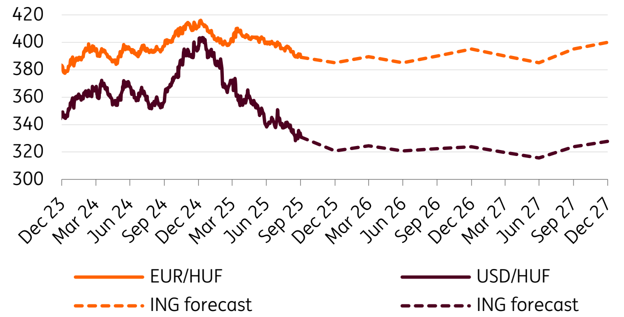
Solid external balances, complemented by concerns

External balances are holding up quite well. The balance of payments for goods and services remains in surplus, despite non-existent export growth, and the lack of demand-driven pressure is helping to reduce imports. As we don't expect these trends to shift in the short term, the trade balance will provide solid support for the economy in several areas (FX reserves, credit ratings, etc). However, there are major red flags ahead. If the inventory cycle fails to turn, new FDI capacities won't be able to boost exports. Meanwhile, a stronger-than-expected increase in consumption could stimulate imports. Last but not least, Hungary's energy dependence on Russia could pose a significant threat not only to the external balances, but to the economy as a whole, should the EU decide to impose tariffs.

Hungary

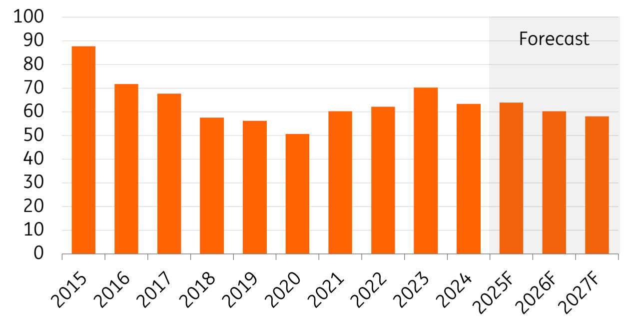
Strategy

FX – spot and INGF



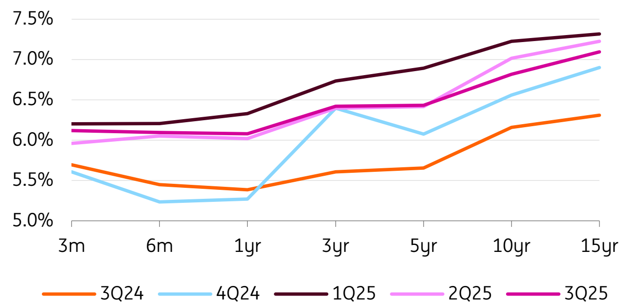
Source: National Bank of Hungary, ING estimates

Evolution of gross external debt (% of GDP)



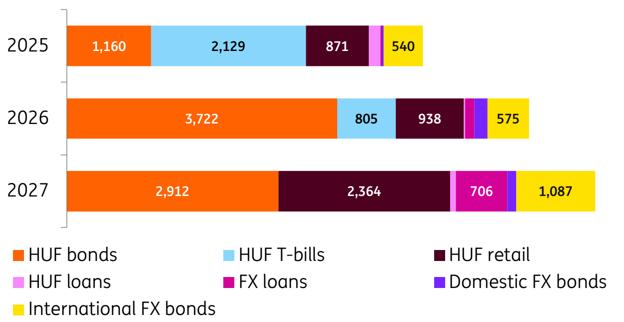
Source: National Bank of Hungary, ING estimates

Local curve (%)



Source: Government Debt Management Agency

Public debt redemption profile (end-Jun 2025, HUFbn)



Source: Government Debt Management Agency

FX strategy

The National Bank of Hungary's hawkish rhetoric and the stable environment in Hungary have given the HUF its best performance yet, with it outperforming its CEE peers in 2025. However, the hawkish rhetoric alone would not be enough if the markets were to have second thoughts, as has been the case with the HUF and rate cut expectations in the past. Despite the recent strengthening of the forint, however, market players now seem to have a different mindset. The market only sees a slim chance of easing in the fourth quarter. Therefore, in our view, any kind of premature dovish shift in forward guidance would cause major market distortion.

Summer was an especially bright time for the forint, as it attracted a lot of new buyers, and there has been little change since then. Although positioning indicates maximum long exposure, the market seems to have decided to maintain this carry trade for longer. Given our hawkish view on the central bank's interest rate path, we expect this trend to continue until the end of the year, with a EUR/HUF forecast of 385.

However, we must keep in mind the overcrowded positioning, which leaves the HUF sensitive to global or country-specific shocks, such as the possibility of a Russian oil-related EU tariff. Moreover, the upcoming general election in April 2026 will introduce a great deal of uncertainty and provide market players with ample opportunity to speculate wildly about the outcome. This could lead to higher volatility and, in our view, some HUF weakness.

Fixed income strategy *(with James Wilson, EM Sovereign Strategist)*

We believe that market conditions are perfect for a further flattening of the curve. The front end of the curve should be anchored by a hawkish NBH, while the weak economy and dovish core market should push the long end down.

At the same time, fiscal policy confirms the determination to keep the deficit under control, below most CEE peers, despite the market pricing in some risk premium. We therefore expect further flattening of the curve and tightening of asset spreads between IRS and HGBs.

Recently, the share of FX debt within the public debt rose to 31.3%, which gives a relatively strong sensitivity to forint. Yet, we don't expect the government to try to push this lower as we believe the aim is now to reduce the debt service cost which is still hovering around 4.0-4.5% of GDP. The best chance to reduce this quickly would be to heavily rely on EU SAFE funds when available, which can reduce excessive reliance on sovereign FX bond issuance.

All in these policy changes should generally keep Hungary's credit profile stable (lower debt service costs outweighing the higher FX share in debt), so we are comfortable with current valuations for the sovereign's Eurobonds.

While next year's elections could offer some potential catalysts with the EU fund situation in focus, the situation remains highly uncertain so we would rather not take a directional view on the potential outcome and would be more likely reduce exposure into the event.

Hungary

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Activity													
Real GDP (%YoY)	3.7	2.4	4.1	5.6	5.1	-4.3	7.2	4.2	-0.8	0.6	0.7	2.5	2.8
Private consumption (%YoY)	3.7	4.2	4.9	4.1	4.7	-0.8	4.8	7.0	-1.5	4.9	3.3	3.6	2.6
Government consumption (%YoY)	1.3	0.5	3.8	4.3	9.6	4.2	2.1	0.6	3.8	-4.2	2.0	0.6	-0.2
Investment (%YoY)	4.8	-10.4	19.7	16.4	12.7	-7.6	5.9	-0.4	-6.7	-9.9	-6.2	1.0	3.0
Industrial production (%YoY)	7.4	0.9	4.6	3.5	5.6	-6.0	9.5	6.1	-5.5	-4.1	-3.1	3.1	7.4
Unemployment rate (year-end, %)	5.7	4.1	3.5	3.3	2.9	4.2	3.8	3.8	4.3	4.3	4.5	4.3	4.2
Nominal GDP (HUFbn)	34,985	36,312	39,336	43,554	47,940	48,808	55,560	65,950	75,293	81,448	86,733	93,664	100,761
Nominal GDP (€bn)	113	117	127	137	147	139	155	169	197	206	218	241	256
Nominal GDP (US$bn)	124	129	146	161	165	161	180	177	214	223	252	291	313
GDP per capita (US$)	12,777	13,220	14,745	16,603	17,013	16,390	19,020	18,462	22,160	23,265	26,442	30,620	33,084
Gross domestic saving (% of GDP)	26.0	26.4	25.1	27.3	28.1	26.7	26.8	26.0	26.2	25.8	25.8	25.4	25.0
Prices													
CPI (average, %YoY)	-0.1	0.4	2.4	2.8	3.4	3.3	5.1	14.5	17.6	3.7	4.6	4.1	3.7
CPI (year-end, %YoY)	0.9	1.8	2.1	2.7	4.0	2.7	7.4	24.5	5.5	4.6	4.3	4.4	3.2
Wage rates (nominal, %YoY)	4.3	6.1	12.6	11.4	11.2	9.0	9.0	17.6	14.2	12.4	9.0	10.6	11.6
Fiscal balance (% of GDP)													
Consolidated government balance	-2.0	-1.8	-2.5	-2.0	-2.0	-7.5	-7.1	-6.2	-6.8	-5.0	-4.6	-4.5	-3.7
Consolidated primary balance	1.4	1.3	0.2	0.3	0.2	-5.2	-4.9	-3.4	-2.1	-0.1	-0.6	-0.9	-0.2
Total public debt	75.7	74.6	72.0	68.8	65.0	78.7	76.2	74.1	73.2	73.5	73.8	73.1	72.6
External balance													
Exports (€bn)	90.5	93.0	100.7	104.9	109.1	105.0	119.2	142.5	149.6	144.0	143.8	154.3	167.1
Imports (€bn)	81.9	83.3	92.6	99.3	104.8	99.4	117.6	151.7	140.6	134.5	133.4	143.5	157.1
Trade balance (€bn)	8.6	9.7	8.1	5.5	4.3	5.6	1.6	-9.1	9.0	9.5	10.4	10.8	10.1
Trade balance (% of GDP)	7.6	8.3	6.3	4.0	2.9	4.0	1.0	-5.4	4.6	4.6	4.8	4.5	3.9
Current account balance (€bn)	2.4	5.1	2.3	0.3	-0.9	-1.6	-7.0	-15.3	-0.2	3.1	3.5	4.1	4.7
Current account balance (% of GDP)	2.2	4.4	1.8	0.2	-0.6	-1.1	-4.5	-9.1	-0.1	1.5	1.6	1.7	1.8
Net FDI (€bn)	2.1	3.7	4.9	5.4	3.0	4.5	6.6	8.0	5.3	3.7	2.7	4.6	5.2
Net FDI (% of GDP)	1.9	3.2	3.9	3.9	2.0	3.3	4.2	4.8	2.7	1.8	1.2	1.9	2.0
Current account balance plus FDI (% of GDP)	4.1	7.5	5.7	4.2	1.4	2.1	-0.3	-4.3	2.6	3.3	2.8	3.6	3.9
Foreign exchange reserves ex gold (€bn)	30.0	24.0	22.6	25.8	26.5	31.8	30.8	30.8	30.1	32.6	33.4	34.4	35.4
Import cover (months of merchandise imports)	4.4	3.5	2.9	3.1	3.0	3.8	3.1	2.4	2.6	2.9	3.0	2.9	2.7
Debt indicators													
Gross external debt (€bn)	98.9	83.6	86.1	78.5	82.8	70.3	93.3	105.0	138.8	130.6	140.5	146.5	150.5
Gross external debt (% of GDP)	88	72	68	57	56	51	60	62	70	63	64	61	59
Gross external debt (% of exports)	109	90	85	75	76	67	78	74	93	91	98	95	90
Lending to corporates/households (% of GDP)	33.8	32.1	31.3	31.2	32.1	35.8	35.5	33.2	30.0	29.7	29.9	29.7	29.5
Interest & exchange rates													
Central bank key rate (year-end, %)	1.35	0.90	0.90	0.90	0.90	0.60	2.40	13.00	10.75	6.50	6.50	5.50	4.50
Broad money supply (average, %YoY)	4.7	4.6	9.6	13.9	7.5	14.5	17.4	16.3	1.0	6.8	7.5	8.3	8.0
3m interest rate (Bubor, average, %)	1.61	0.99	0.15	0.12	0.19	0.69	1.45	9.96	14.30	7.31	6.50	6.19	5.05
3m interest rate spread over Euribor(ppt)	163	125	48	44	55	112	200	961	1087	374	443	409	272
3yr yield (average, %)	2.1	1.5	0.9	1.3	0.8	1.0	2.0	8.5	9.0	6.3	6.5	6.1	5.5
10yr yield (average, %)	3.4	3.1	3.0	3.0	2.5	2.2	3.1	7.6	7.5	6.5	6.9	6.9	6.7
USD/HUF exchange rate (year-end)	288.3	295.7	258.3	280.4	294.8	298.9	324.5	373.9	346.8	396.1	320.8	323.8	327.9
USD/HUF exchange rate (average)	282.3	281.6	269.5	270.9	291.1	304.0	308.2	372.2	352.4	365.3	343.8	322.1	322.1
EUR/HUF exchange rate (year-end)	313.1	311.0	310.1	321.5	330.5	365.1	369.0	400.3	382.8	410.1	385.0	395.0	400.0
EUR/HUF exchange rate (average)	309.9	311.5	309.2	318.9	325.4	351.2	358.5	391.3	382.0	395.2	398.0	388.9	393.0

Shading denotes ING forecast data
Source: National sources, ING estimates

Quarterly forecasts

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F
Real GDP (%YoY)	1.6	-0.4	0.4	0.0	0.1	1.1	1.7	2.7	2.4	2.4	2.4	1.8	3.1
CPI (eop, %YoY)	3.7	3.0	4.6	4.7	4.6	4.3	4.3	3.5	4.4	4.5	4.4	3.9	3.8
Central bank key rate (eop, %)	7.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	5.50	5.50	5.50
3m interest rate (eop, %)	6.89	6.32	6.50	6.51	6.50	6.50	6.50	6.50	6.50	6.10	5.35	5.35	5.35
10yr yield (eop, %)	6.82	6.16	6.56	7.23	7.01	6.82	6.70	7.10	7.00	6.95	6.80	6.85	6.75
USD/HUF exchange rate (eop)	368.9	357.0	396.1	372.1	338.7	333.3	320.8	324.6	320.8	322.3	323.8	319.7	315.6
EUR/HUF exchange rate (eop)	395.2	397.6	410.1	401.9	399.6	390.0	385.0	389.5	385.0	390.0	395.0	390.0	385.0

Shading denotes ING forecast data
Source: National sources, ING estimates

Kazakhstan

Dmitry Dolgin, Chief Economist, CIS

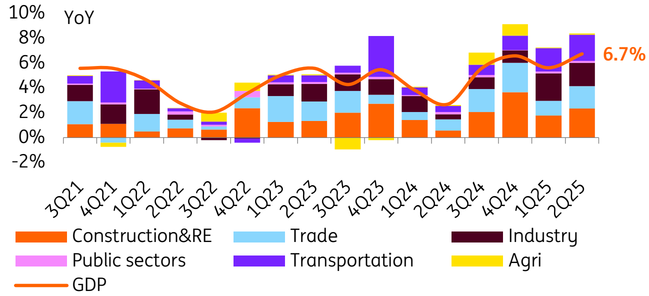
Forecast summary

	2Q25	3Q25	4Q25F	1Q26F	2Q26F	2025F	2026F
Real GDP (%YoY)	6.9	5.2	4.3	3.5	4.5	5.5	4.8
CPI (%YoY)*	11.8	12.9	13.7	15.2	13.7	11.6	13.2
Policy interest rate (%)	16.50	16.50	18.00	18.00	18.00	18.00	17.00
3m interest rate (%)*	16.2	16.2	17.7	17.7	17.7	14.5	15.0
10yr yield (%)*	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USD/KZT*	520	549	535	530	545	526	545
EUR/KZT*	612	644	642	636	654	609	658

Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: 2029	S&P	BBB-	BBB-
Fiscal	Neutral	Parliamentary: 2028	Moody's	Baa1	Baa1
Monetary	Tightening	Local: 2028	Fitch	BBB	BBB

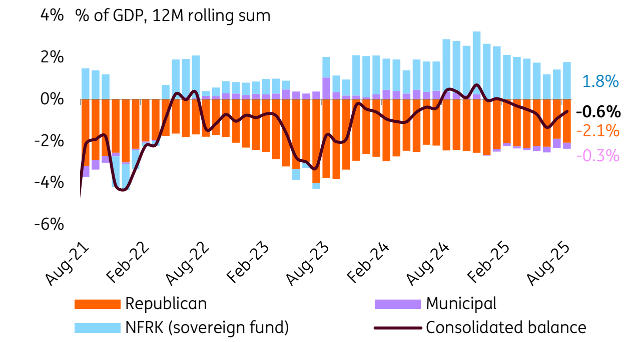
*Quarterly data is eop, annual is avg. Shading denotes ING forecast data
Source: National sources, ING estimates

GDP growth and major contributors (%YoY)



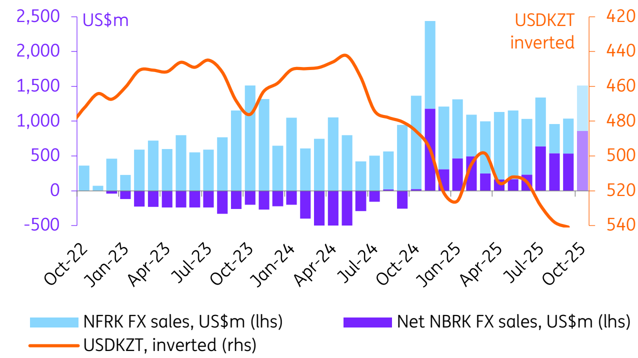
Source: National sources, CEIC, ING

Consolidated budget balance by components (% of GDP)



Source: National sources, CEIC, ING

Key parameters of state FX transactions (US$m)



Source: National sources, CEIC, ING

Country strategy: Watch out for upcoming VAT rate hike

Economic activity in Kazakhstan has continued to outperform expectations, but this has come at the cost of heightened inflation risks and increased pressure on both fiscal and external balances. The outlook for fiscal consolidation and the impact of the upcoming VAT hike on growth and CPI remain central to the macro story. The National Bank of Kazakhstan (NBK) has signalled that a hike in the key rate is likely in the near term, as inflation remains stubbornly high. Currency risks also persist, with the tenge experiencing renewed volatility recently, leading to NBK boosting FX sales guidance for 4Q25 to reflect higher gold prices.

In line with our previous warnings, stronger activity has coincided with stickier inflation and a softer near-term KZT; we raise 2025 growth to 5.5%, 2025 CPI to 13.3%, and the YE-policy rate to 18.0%, with consolidation around the 2026 VAT hike remaining pivotal.

Activity: Growth is exceeding expectations

Kazakhstan's economic activity has maintained strong momentum since mid-2024, with GDP growth accelerating to 6.7% YoY in 2Q25. Oil production and exports have posted double-digit growth since the start of the year, supported by the ramp-up of new projects and favourable export conditions. Non-oil industries have also contributed positively, with construction and transport sectors showing robust growth. The construction sector has benefited from public infrastructure investment, while the services sector has seen a boost from increased domestic demand. We are upgrading our GDP growth expectations to 5.5% for this year, though we anticipate some slowdown in 2026 as the effects of tighter monetary policy and the VAT hike feed through to domestic demand.

Budget policy: Consolidation in focus for 2026

The budget deficit remains under control but is wider than previously expected, reflecting both weaker fuel revenues and persistently high spending. The state budget balance is currently around 2% of GDP, while the consolidated balance has deteriorated from zero to a 0.5-1.0% deficit. Oil-related revenues are resilient thanks to strong production and exports, but expenditures have remained elevated, particularly for social transfers and capital projects. We now expect the consolidated deficit to widen to 2.5% of GDP this year, which corresponds to an increase in the headline fiscal breakeven oil price back above US$100/bbl. The government has reaffirmed that the VAT hike is set to take effect in 2026, but the pace and credibility of consolidation will be closely watched.

FX market: Weaker current account is a challenge to KZT

Net monthly FX sales for the sovereign fund (NFRK) combined with net FX sales by the NBK increased from US$0.7bn in 2024 to US$1.1bn in 2025. However, the effectiveness of these interventions has diminished, as wider current account deficit and stronger capital outflows amplified seasonal pressure on the tenge in summer, resulting in NBK announcing higher FX sales for 4Q25. If the government delivers on fiscal consolidation next year, NFRK FX outlays should decline, but this will need to be accompanied by improved current account balance and private or state capital inflows, to avoid renewed pressure on KZT. For now, we continue to see a weakening of the tenge in the medium term as our base case scenario, with KZT likely to remain sensitive to shifts in oil prices and global risk sentiment.

Kazakhstan

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Activity													
Real GDP (%YoY)	1.2	1.1	4.1	4.1	4.5	-2.5	4.3	3.2	5.1	4.8	5.5	4.8	4.0
Private consumption (%YoY)	1.8	1.2	1.5	6.1	6.1	-3.7	6.3	4.0	7.6	6.7	5.5	3.0	2.5
Government consumption (%YoY)	2.4	2.3	2.1	-14.1	15.5	12.8	-2.4	4.3	7.4	1.0	3.0	2.0	2.0
Investment (%YoY)	4.2	3.0	4.5	5.4	13.8	-0.2	2.6	3.8	17.1	6.5	5.0	4.5	3.5
Industrial production (%YoY)	-1.6	-1.1	7.3	4.4	-4.1	-0.5	3.6	1.1	4.3	2.8	6.0	5.0	4.0
Unemployment rate (average, %)	5.0	5.0	4.9	4.9	4.8	4.8	4.0	4.9	4.7	4.7	4.6	4.5	4.5
Nominal GDP (KZTbn)	40,884	46,971	54,379	61,820	69,533	70,649	83,952	103,766	119,442	136,693	160,935	190,864	211,747
Nominal GDP (€bn)	166	124	148	152	162	150	167	214	242	269	354	423	453
Nominal GDP (US$bn)	184	137	167	179	182	171	197	225	262	291	306	350	371
GDP per capita (US$)	10,511	7,715	9,248	9,813	9,813	9,122	10,371	11,477	13,153	14,445	14,926	16,848	17,618
Gross domestic saving (% of GDP)	35	34	37	40	39	34	37	40	37	n/a	n/a	n/a	n/a
Prices													
CPI (average, %YoY)	6.6	14.7	7.4	6.0	5.2	6.8	8.0	14.9	14.8	8.7	11.6	13.2	6.7
CPI (year-end, %YoY)	13.6	8.5	7.1	5.3	5.4	7.5	8.4	20.3	9.8	8.6	13.7	10.5	6.0
Wage rates (nominal, %YoY)	4.1	13.4	5.5	7.9	14.8	14.0	17.5	23.1	24.1	11.6	15.5	16.1	9.4
Fiscal balance (% of GDP)													
Consolidated government balance	9.6	-4.4	-4.1	2.6	-0.4	-3.7	-4.3	-0.8	-0.5	0.0	-2.5	-1.0	-1.2
Consolidated primary balance	10.3	-3.3	-3.2	3.6	0.5	-2.6	-3.1	0.6	1.1	1.6	-0.7	0.8	0.7
Total public debt	22.1	24.3	24.8	24.9	23.7	29.2	26.2	24.4	22.7	23.3	21.8	20.3	21.1
External balance													
Exports (US$bn)	41.6	37.0	49.5	59.0	59.5	44.1	65.8	85.6	80.3	79.0	75.4	71.1	77.9
Imports (US$bn)	33.9	26.6	31.0	35.0	41.1	38.1	41.6	50.6	60.4	61.8	61.8	63.0	64.3
Trade balance (US$bn)	7.7	10.5	18.5	24.0	18.4	6.0	24.2	35.0	19.9	17.2	13.6	8.0	13.6
Trade balance (% of GDP)	4.2	7.6	11.1	13.4	10.1	3.5	12.3	15.5	7.6	5.9	4.4	2.3	3.7
Current account balance (US$bn)	-10.0	-7.0	-3.4	-1.8	-7.0	-11.1	-2.7	6.4	-9.3	-7.9	-9.9	-12.4	-10.1
Current account balance (% of GDP)	-5.4	-5.1	-2.1	-1.0	-3.9	-6.5	-1.4	2.9	-3.6	-2.7	-3.3	-3.5	-2.7
Net FDI (US$bn)	3.3	13.7	3.8	5.0	5.9	5.9	1.9	7.9	2.6	3.9	3.0	2.0	2.0
Net FDI (% of GDP)	1.8	10.0	2.3	2.8	3.3	3.4	1.0	3.5	1.0	1.3	1.0	0.6	0.5
Current account balance plus FDI (% of GDP)	-3.6	4.9	0.2	1.8	-0.6	-3.0	-0.4	6.4	-2.6	-1.4	-2.3	-3.0	-2.2
Gross international reserves (US$bn)	27.9	29.7	31.0	30.9	29.0	35.6	34.4	35.1	35.9	45.8	55.8	56.8	57.8
Import cover (months of merchandise imports)	9.9	13.4	12.0	10.6	8.5	11.2	9.9	8.3	7.1	8.9	10.8	10.8	10.8
Debt indicators													
Gross external debt (US$bn)	153	164	167	160	160	164	164	161	164	166	171	176	181
Gross external debt (% of GDP)	83	119	100	89	88	96	83	71	63	57	56	50	49
Gross external debt (% of exports)	367	442	339	272	268	372	249	188	204	72	74	71	62
Lending to corporates/households (% of GDP)	31.0	27.1	23.4	21.2	19.9	20.7	22.0	23.9	25.0	0.0	1.0	2.0	3.0
Interest & exchange rates													
Central bank key rate (year-end, %)	16.00	12.00	10.25	9.25	9.25	9.00	9.75	16.75	15.75	15.25	18.00	17.00	13.50
Broad money supply (average, %YoY)	8.0	46.2	7.5	7.1	11.0	19.2	24.1	18.0	16.8	19.9	15.0	13.0	11.0
3m interest rate (TONIA, average, %)	32.6	14.2	8.6	9.3	9.6	11.4	8.1	18.1	15.8	12.7	14.5	15.0	15.7
3m interest rate spread over US$-Euribor (ppt)	32.29	13.46	7.30	7.01	7.24	10.70	7.92	15.72	10.42	7.63	10.4	11.7	12.4
2yr yield (average, %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
10yr yield (average, %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USD/KZT exchange rate (year-end)	339	333	332	384	381	421	432	463	455	524	535	560	580
USD/KZT exchange rate (average)	222	342	326	345	383	413	426	460	456	469	526	545	570
EUR/KZT exchange rate (year-end)	371	352	398	439	427	516	488	493	502	546	642	683	708
EUR/KZT exchange rate (average)	246	379	368	407	429	471	504	485	493	507	609	658	695
Brent oil price (annual average, US$/bbl)	54	45	55	72	64	43	71	99	82	80	68	57	65

Shading denotes ING forecast data

Source: CEIC, National sources, ING estimates

Quarterly forecasts

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F
Real GDP (%YoY)	2.7	5.6	6.6	5.6	6.9	5.2	4.3	3.5	4.5	5.0	6.0	4.5	4.3
CPI (eop, %YoY)	8.4	8.3	8.6	10.0	11.8	12.9	13.7	15.2	13.7	11.8	10.5	6.9	6.6
Central bank key rate (eop, %)	14.50	14.25	15.25	16.50	16.50	16.50	18.00	18.00	18.00	17.50	17.00	15.50	14.50
3m interest rate (eop, %)	12.16	10.39	14.65	15.71	16.20	16.20	17.70	17.70	17.70	17.20	16.70	15.20	14.20
10yr yield (eop, %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USD/KZT exchange rate (eop)	473	481	525	504	520	549	535	530	545	555	560	550	560
EUR/KZT exchange rate (eop)	507	536	543	544	612	644	642	636	654	672	683	671	683

Shading denotes ING forecast data

Source: CEIC, National sources, ING estimates

Rafał Benecki, Chief Economist, Poland

Forecast summary

	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	2025F	2026F
Real GDP (%YoY)	3.4	4.0	3.6	3.9	3.0	3.5	3.4
CPI (%YoY)*	4.1	2.9	2.6	2.5	2.8	3.7	2.5
Policy interest rate (eop, %)	5.25	4.75	4.50	4.25	4.25	4.50	4.00
3m interest rate (%)*	5.23	4.72	4.58	4.33	4.23	5.19	4.25
10yr yield (%)*	5.45	5.46	5.25	5.10	4.90	5.49	4.85
USD/PLN*	3.62	3.63	3.54	3.54	3.54	3.66	3.52
EUR/PLN*	4.26	4.27	4.25	4.25	4.25	4.24	4.26

Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: 2029	S&P	A-	A
Fiscal	Loose	Parliamentary: 2027	Moody's	A2	A2
Monetary	Restrictive	Local: 2028	Fitch	A-	A-

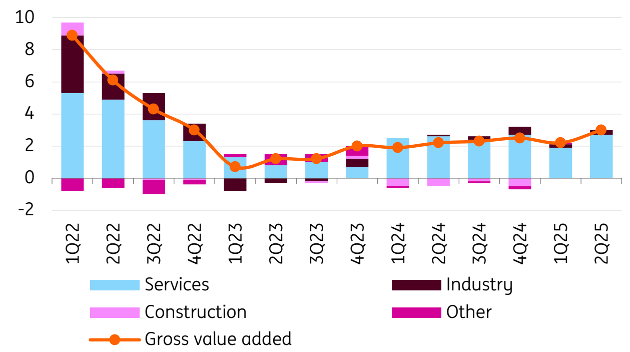
*Quarterly data is eop, annual is avg

Source: National sources, ING estimates

Country strategy: No austerity without market pressure

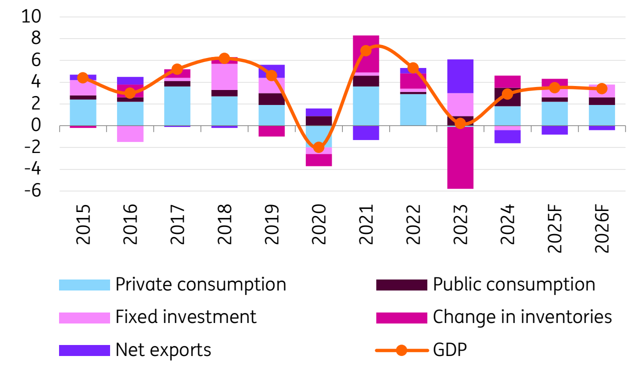
Poland's GDP continues to outperform both the CEE region and the Eurozone, despite stagnation in manufacturing, the country's traditional growth engine. The services sector is bridging the gap. However, the current labour-intensive growth model faces long-term constraints due to labour scarcity, necessitating structural change. A large public investment cycle is underway and should support growth near potential GDP. Yet, Poland runs the second-highest fiscal deficit in the EU. Consolidation appears unlikely in the near term, given political gridlock and the approaching 2027 general elections. Only a market shock would force austerity, but such a scenario is unlikely as foreign holdings of POLGBs are already at record lows and the MinFin can keep replenishing a high liquidity buffer from high EU fund flows. The currency is stable. Fragile fiscal side calls for POLGBs and PLN adjustment, but GDP outperformance prevents it.

Gross value added composition (%YoY)



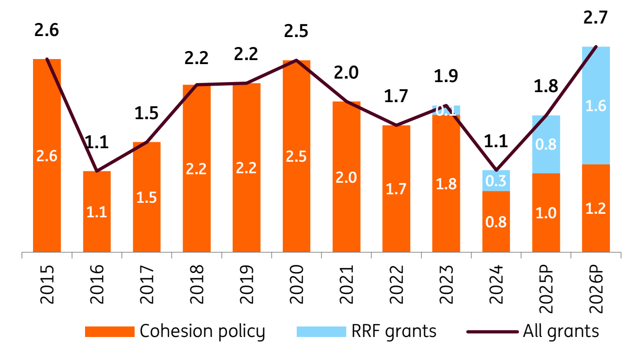
Source: Polish Statistical Office

GDP composition (%YoY)



Source: Polish Statistical Office, ING forecast

EU funds (grants) utilisation, % of GDP



Source: ING estimates

Poland maintaining robust growth amid fiscal expansion

Poland continues outperforming CEE peers on economic growth, despite sharing the same headwind for manufacturing activity of poor demand from the euro area countries and experiencing a downturn in construction, particularly in the residential part of the market. A more diversified economy enables Poland to maintain economic growth above 3% as the robust services sector compensates for weaknesses in other parts of the economy. Delays in the implementation of the Recovery and Resilience Funds (RRF) are contributing to weaker fixed investment in 2025. However, a gradual improvement is evident compared to 2024, with a more robust performance anticipated in 2026, once the funds begin to flow more widely into the real economy. At the same time, household consumption is stronger than previously expected and consumers seem to be eager to tap savings generated in 2024, when consumption failed to catch up with the buoyant increase in real disposable income.

Headline inflation returned to the band of acceptable deviations from the NBP target of 2.5% (+/- 1ppt) as the impact of a partial unfreeze of energy prices died out, and core inflation continues its disinflationary trend. CPI inflation is expected to continue running close to the central bank target, which means that policymakers still have room for downwards adjustment in policy rates, even though the National Bank of Poland (NBP) keeps stressing the upside risks for inflation and calls for a cautious approach to further policy easing. We see terminal rate in 2026 at 4% and potentially some fine-tuning in 2027.

Both Fitch and Moody's downgraded Poland's sovereign ratings outlook as fiscal policy remains expansionary and the clash between the ruling coalition and new president supported by the opposition make any austerity measures rather unlikely over the medium term. The country runs the second highest deficit in the European Union (EU), with the general government gap expected to be around 7% of GDP this year. The fiscal balance is overburdened by generous social spending and rising expenditure on healthcare, while authorities pursue an ambitious programme of strengthening military defence capacity to address the threats from the aggressive behaviour of Russia. Even with a national exit clause allowing for the special treatment of defence spending, Poland may fail its obligation to put an end to the excessive deficit by 2028. At the same time, public debt is on track to exceed 60% of GDP in 2025 and 70% of GDP in 2027 making it a relatively high level compared to other countries with similar rating as the country intends to tap both RRF loans and borrow from the Security Action for Europe facility.

Poland

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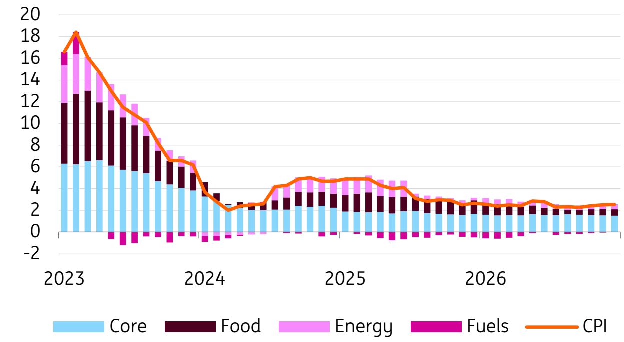
CPI inflation and its composition (%, percentage points)

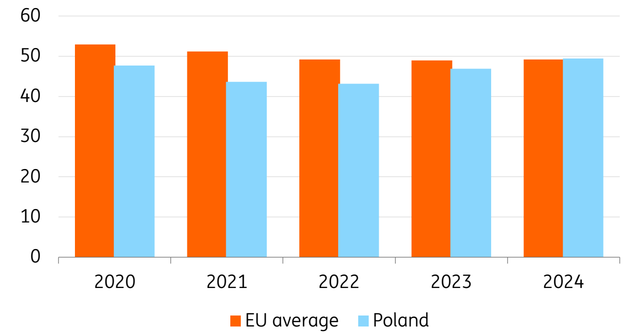


Source: Polish Statistical Office, ING forecast

CPI inflation to continue running close to the target

Headline inflation moderated below 3% YoY in mid-2025 as the temporary impact of a partial unfreeze of energy prices in mid-2024 died out, and core inflation continues moderating as wages growth slows down and prices of core tradable goods remain under pressure amid excessive production capacity in China. The government authorities extended a freeze on electricity prices for households for 4Q25 and CPI inflation should continue running close to the NBP target of 2.5% (+/- 1ppt). Relatively low increases in public wages and the minimum wage (3.0% in both cases) in 2026 should alleviate wage pressure further next year, allowing for a continued decline in core inflation.

General government expenditure, % of GDP

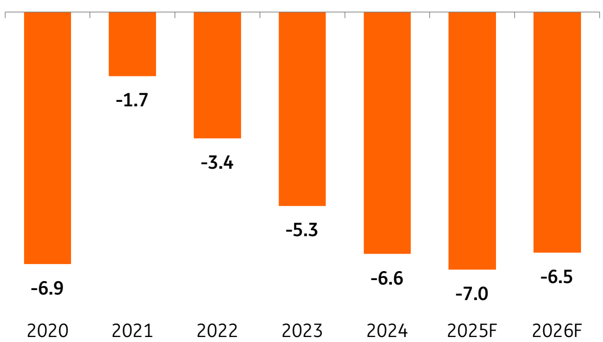


Source: Eurostat

High deficit driven not only by elevated defence spending

Recent years have brought increases in social spending (higher child benefits, additional pension and care benefits), substantial increases in public sector wages, and mounting healthcare spending. The rapid increase in defence spending is also responsible for the higher deficit, but definitely less so than the generous social agenda. At the same time, revenue is no longer benefiting from high unexpected inflation, as in 2022-24, and has been somewhat undermined by higher tax free allowance in personal income tax (PIT) and tax exemptions for young workers. As a result, Poland has one of the lowest PIT revenues as a percentage of GDP in the EU, while pursuing social policies as generous as the wealthiest EU nations. General government expenditure is close to the EU average (49.4% of GDP), while revenue is c.3% of GDP below.

General government balance (% of GDP)



Source: Eurostat, ING forecast

High fiscal deficit here to stay for some time

The general government deficit is projected to be around 7% of GDP in 2025 and 6.5% in 2026. There is no serious debate about any fiscal consolidation ahead of the 2027 general elections and President Karol Nawrocki publicly declared that any cuts in social spending or tax hikes would be opposed. Since the ruling coalition does not have a sufficient majority in the parliament (two-thirds required) to overrule a presidential veto, it is unlikely that Poland will put an end to the excessive deficit by 2028. The wide fiscal imbalance means that public debt will continue mounting rapidly in the coming years, exceeding the EU threshold of 60% of GDP already in 2026 and rising above 70% of GDP in 2027. The limit of 55% of GDP according to the domestic debt definition may be hit in 2028, potentially requiring abrupt fiscal adjustment (no deficit) in 2030.

General government debt and its drivers, % of GDP

% of GDP	2022	2023	2024	2025	2026
Public debt	**48.8**	**49.5**	**55.3**	**60.8**	**66.8**
Change in debt	**-4.2**	**0.7**	**5.7**	**5.5**	**6.0**
Deficit	3.4	5.3	6.6	7.0	6.5
Nominal GDP	-7.5	-4.5	-3.1	-3.8	-3.4
Stock-flow adjustment	-0.2	-0.1	2.2	2.3	2.9

Source: Eurostat, ING forecast

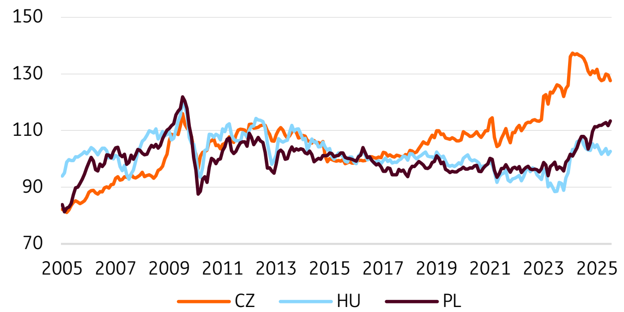
Debt driven by deficits, EU loans and defence spending

The increase in the debt to GDP ratio is faster than implied by deficits due to high stock-flow adjustments and off-budget borrowing needs. In the 2026 draft budget, the MinFin declared it would borrow 2.8% of GDP from the EU (mainly Recover and Resilience facility loans) and lend it to domestic beneficiaries. In the following years Poland will also tap the Security Action For Europe (SAFE) funds (€43bn). The Eurostat methodology allows counting prepayment for defence deliveries as below the line categories. European funding facilities offer better financial conditions than the country sovereign issuance but still add to net and gross borrowing needs. On a short term horizon, they do not increase treasury securities issuance; however, they will need to be refinanced in the future, most likely at a higher cost.

Poland

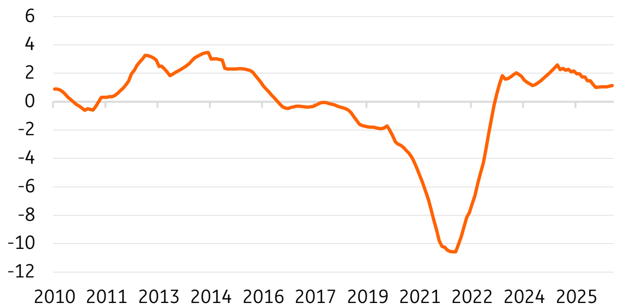
Strategy

CEE real effective exchange rate (%)



An increase represents depreciation of CEE currency
Source: Eurostat

Real rate ex-ante (%)



Source: GUS, ING estimates

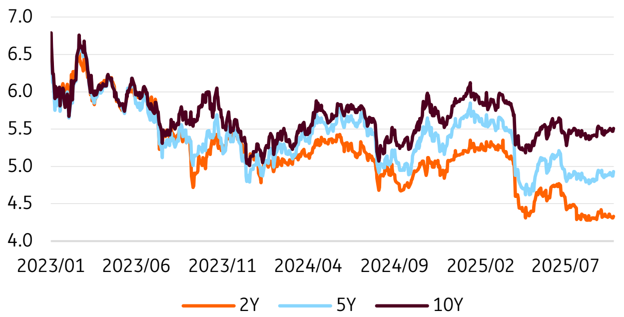
FX strategy

Since mid-April the EUR/PLN has traded within a narrow range of 4.23-4.30. Over recent months, the PLN's performance has been largely disconnected from the EUR/USD moves. The Polish currency has also proven resilient to local factors, including the downgrades of Poland's rating outlook by both Fitch and Moody's, Russian military provocation and a deteriorating fiscal position. The zloty has remained rock-solid.

The rationale behind the currency strength despite the risks remain valid and includes: (1) outperformance of Poland's GDP versus the region and the Eurozone; (2) positive carry trade as the Monetary Policy Council is rather hawkish compared to market expectations; (3) inflows of European funds from the RRF and SAFE programmes (with the latter expected in 2027); (4) BGK activity in the FX market in times of any turbulence; and (5) a more favourable outlook for the Eurozone's economy thanks to the German fiscal stimulus.

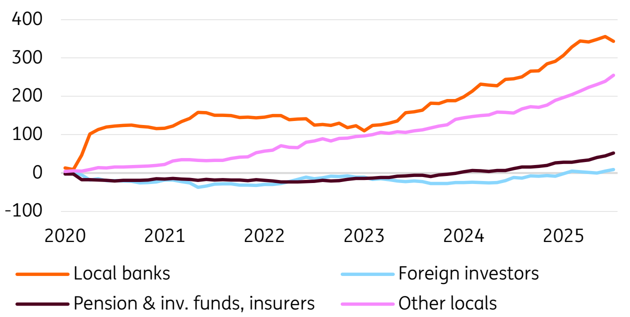
We maintain a neutral outlook for the zloty. Solid macro fundamentals (a wall of public investment supporting GDP outperformance) should shield the currency from significant depreciation, while the external environment remains supportive of EM FX (weakening of US$). The downside risks are linked to the ongoing Russia conflict with Ukraine, but also escalation of a hybrid war with the NATO countries. Also a cohabitation between the president and government from different political camps undermines any fiscal consolidation and may discourage foreign portfolio capital inflow to Poland.

The 2-, 5- and 10-year yields (%)



Source: Macrobond

Structure of POLGB holders; change since December 2019



Source: MinFin

Fixed income strategy

Slowing inflation prints pushed the Monetary Policy Council into a "cycle of interest rate adjustments". Our forecast assumes a terminal rate at 3.75% in 2027 while the market has priced-in a slightly more aggressive and front-loaded approach. Theoretically, the monetary easing cycle should determine a downwards direction of the T-bonds, but the space for lower yields is limited. Especially at the long end of the curve as the main challenge is a lack of fiscal consolidation before the 2027 elections, despite the second highest general government deficit in the EU. On top of that, another year of record high borrowing needs should keep the POLGBs under pressure, but mostly in 1Q26 when the T-bond supply from the MinFin will be the highest. Therefore, the rating agencies should keep a warning bias. As a result, the asset swaps are likely to remain under pressure (with 10Y ASW around 100bp). However, the MinFin's liquidity buffer should protect from market shocks caused by a high supply of POLGBs (still c.60% of RRF to be absorbed in 2026 and SAFE programme in 2027). The spread versus Bund should stay stable even as German curve yields are expected to move upwards (due to fiscal stimulus and the end of the ECB's loosening cycle).

The negative sentiment of foreign investors towards POLGBs manifests itself via a record low foreign holding (around 13% of POLGBs). The biggest risk to our forecast is a slower rise of net savings in the local banking sector due to recovering credit. Given that, the banks' bids for POLGBs will be lighter. Still, we don't see a POLGBs market shock in the coming quarters.

Poland

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Activity													
Real GDP (%YoY)	4.4	3.0	5.2	6.2	4.6	-2.0	6.9	5.3	0.2	2.9	3.5	3.4	3.0
Private consumption (%YoY)	4.0	3.7	6.1	4.6	3.3	-3.4	6.2	5.0	-0.3	3.1	4.0	3.2	3.2
Government consumption (%YoY)	2.4	2.0	2.7	3.5	6.5	4.8	5.0	0.6	4.5	8.2	2.2	3.5	3.0
Investment (%YoY)	6.8	-7.4	1.8	13.7	7.5	-3.0	1.5	1.7	12.7	-2.2	5.7	7.0	3.7
Industrial production (%YoY)	6.0	3.6	6.2	5.4	5.1	-1.9	14.7	9.1	0.3	0.3	2.0	3.2	2.6
Unemployment rate (year-end, %)	9.7	8.2	6.6	5.8	5.2	6.8	5.8	5.2	5.1	5.1	5.7	5.6	5.5
Nominal GDP (PLNbn)	1,810	1,866	1,997	2,314	2,314	2,363	2,662	3,101	3,415	3,641	3,910	4,144	4,371
Nominal GDP (€bn)	433	428	469	504	538	532	583	658	752	846	922	973	1,019
Nominal GDP (US$bn)	480	473	529	594	603	606	689	683	813	915	1,068	1,177	1,242
GDP per capita (US$)	12,637	12,467	13,924	15,659	15,881	16,305	18,635	18,077	21,598	24,394	28,611	31,656	33,524
Gross domestic saving (% of GDP)	22.9	23.0	22.7	23.5	24.4	24.4	25.0	23.7	23.4	21.7	21.6	21.8	21.8
Prices													
CPI (average, %YoY)	-0.9	-0.6	2.0	1.6	2.3	3.4	5.1	14.4	11.4	3.5	3.7	2.5	2.3
CPI (year-end, %YoY)	-0.5	0.8	2.1	1.1	3.4	2.4	8.6	16.6	6.2	4.7	2.6	2.6	1.9
Wage rates (nominal, %YoY)	3.5	4.1	5.6	7.1	6.6	4.8	8.6	12.9	12.7	11.2	8.0	6.5	5.5
Fiscal balance (% of GDP)													
Consolidated government balance	-2.6	-2.4	-1.5	-0.2	-0.7	-6.9	-1.7	-3.4	-5.3	-6.6	-7.0	-6.5	-5.8
Consolidated primary balance	-0.8	-0.7	0.1	1.2	0.7	-5.6	-0.6	-1.9	-3.2	-4.4	-4.4	-3.9	-3.5
Total public debt	51.1	54.1	50.4	48.2	45.2	56.6	53.0	48.8	49.5	55.3	60.8	66.8	70.5
External balance													
Exports (€bn)	164.0	169.2	191.2	205.2	220.3	220.5	263.6	324.3	335.6	333.3	337.0	348.5	363.2
Imports (€bn)	166.2	170.6	196.0	216.4	224.7	213.6	271.3	346.3	330.8	339.5	350.4	364.1	387.6
Trade balance (€bn)	-2.1	-1.3	-4.8	-11.3	-4.4	7.0	-7.7	-22.0	4.7	-6.2	-13.4	-15.6	-24.4
Trade balance (% of GDP)	-0.5	-0.3	-1.0	-2.2	-0.8	1.3	-1.3	-3.3	0.6	-0.7	-1.5	-1.6	-2.4
Current account balance (€bn)	-5.7	-4.5	-5.5	-9.9	-1.4	12.6	-7.8	-14.9	11.6	2.6	-8.0	-8.7	-18.6
Current account balance (% of GDP)	-1.3	-1.1	-1.2	-2.0	-0.3	2.4	-1.3	-2.3	1.5	0.3	-0.9	-0.9	-1.8
Net FDI (€bn)	9.7	3.5	7.5	14.7	12.1	13.3	23.1	27.2	21.6	9.7	14.7	18.7	22.2
Net FDI (% of GDP)	2.2	0.8	1.6	2.9	2.2	2.5	4.0	4.1	2.9	1.1	1.6	1.9	2.2
Current account balance plus FDI (% of GDP)	0.9	-0.2	0.4	1.0	2.0	4.9	2.6	1.9	4.4	1.5	0.7	1.0	0.4
Foreign exchange reserves (€bn)	86.9	108.1	94.6	102.3	114.5	125.6	146.6	156.5	175.4	214.2	229.8	244.5	257.5
Import cover (months of merchandise imports)	6.3	7.6	5.8	5.7	6.1	7.1	6.5	5.4	6.4	7.6	7.9	8.1	8.0
Debt indicators													
Gross external debt (€bn)	304.2	321.8	320.3	317.9	317.3	307.9	324.0	352.1	391.0	442.9	471.4	494.8	521.4
Gross external debt (% of GDP)	70.3	75.2	68.3	63.1	59.0	57.9	55.6	53.5	52.0	52.3	51.1	50.9	51.2
Gross external debt (% of exports)	185.5	190.1	167.5	154.9	144.0	139.6	122.9	108.6	116.5	132.9	139.9	142.0	143.6
Lending to corporates & households (% of GDP)	57.2	58.1	56.2	56.3	54.4	53.4	49.9	43.4	39.4	38.8	38.6	39.8	40.7
Interest & exchange rates													
Central bank key rate (year-end, %)	1.50	1.50	1.50	1.50	1.50	0.10	1.75	6.75	5.75	5.75	4.50	4.00	3.75
Broad money supply (average, %YoY)	8.4	10.2	6.1	7.0	9.5	14.9	10.6	7.1	7.5	7.8	10.2	7.8	7.5
3m interest rate (WIBOR, average, %)	1.75	1.70	1.73	1.71	1.72	0.66	0.55	6.04	6.53	5.86	5.19	4.25	3.99
3m interest rate spread over EURIBOR (ppt)	177	196	206	203	208	109	110	569	310	229	302	215	159
2yr yield (average, %)	1.73	1.66	1.89	1.59	1.57	0.53	0.83	6.33	5.67	5.01	4.56	4.14	4.06
10yr yield (average, %)	2.71	3.05	3.44	3.22	2.38	1.52	1.95	6.11	5.83	5.53	5.49	4.85	4.72
USD/PLN exchange rate (year-end)	3.90	4.18	3.48	3.76	3.80	3.76	4.06	4.40	3.94	4.10	3.54	3.50	3.52
USD/PLN exchange rate (average)	3.77	3.94	3.78	3.61	3.84	3.90	3.86	4.46	4.20	3.98	3.66	3.52	3.52
EUR/PLN exchange rate (year-end)	4.26	4.42	4.17	4.30	4.26	4.61	4.60	4.69	4.35	4.27	4.25	4.27	4.29
EUR/PLN exchange rate (average)	4.18	4.36	4.26	4.26	4.30	4.44	4.57	4.69	4.54	4.31	4.24	4.26	4.29

Shading denotes ING estimates
Source: National sources, ING estimates

Quarterly forecasts

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F
Real GDP (%YoY)	3.2	2.8	3.4	3.2	3.4	4.0	3.6	3.9	3.0	3.0	3.6	3.5	3.1
CPI (eop, %YoY)	2.6	4.9	4.7	4.9	4.1	2.9	2.6	2.5	2.8	2.3	2.6	2.8	2.4
Central bank key rate (eop, %)	5.75	5.75	5.75	5.75	5.25	4.75	4.50	4.25	4.25	4.00	4.00	4.00	4.00
3m interest rate (eop, %)	5.85	5.85	5.84	5.84	5.23	4.72	4.58	4.33	4.23	4.08	4.08	4.08	4.08
10yr yield (eop, %)	5.74	5.24	5.90	5.72	5.45	5.46	5.25	5.10	4.90	4.83	4.76	4.74	4.70
USD/PLN exchange rate (eop)	4.03	3.82	4.10	3.86	3.62	3.63	3.54	3.54	3.54	3.53	3.50	3.52	3.52
EUR/PLN exchange rate (eop)	4.31	4.28	4.31	4.20	4.26	4.27	4.25	4.25	4.25	4.27	4.27	4.29	4.29

Shading denotes ING estimates
Source: National sources, ING estimates

Romania

Valentin Tataru, Chief Economist | Stefan Posea, Economist

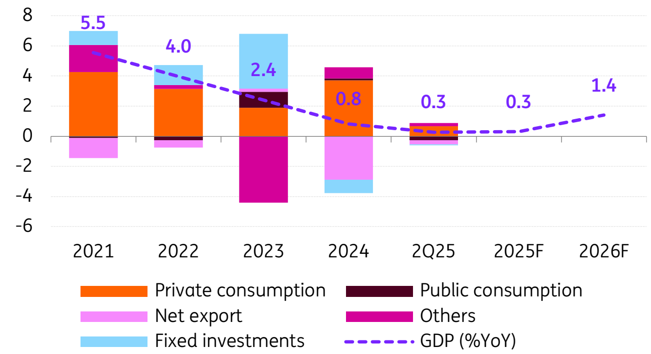
Forecast summary

	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	2025F	2026F
Real GDP (%YoY)	0.3	0.7	-0.1	0.6	0.0	0.3	1.4
CPI (%YoY)*	5.7	10.0	9.6	9.1	9.1	7.3	7.0
Policy interest rate (eop, %)	6.50	6.50	6.50	6.50	6.25	6.50	5.50
3m interest rate (%)*	7.09	6.50	6.30	6.20	5.75	6.43	5.71
10yr yield (%)*	7.35	7.50	7.50	7.10	7.00	7.30	6.90
USD/RON*	4.30	4.33	4.24	4.24	4.24	4.35	4.24
EUR/RON*	5.08	5.07	5.09	5.09	5.09	5.04	5.12

Macro trend		Political cycle	Ratings	FC	LC
Activity	-	Presidential: 2028	S&P	BBB-	BBB-
Fiscal	Tighter	Parliamentary: 2028	Moody's	Baa3	Baa3
Monetary	Loose	Local: 2028	Fitch	BBB-	BBB-

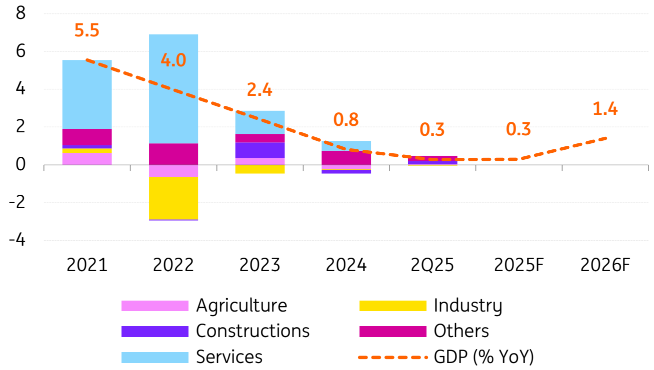
*Quarterly data is eop, annual is average. Shading denotes ING forecast data
Source: National sources, ING estimates

GDP (YoY%) and components (ppt)



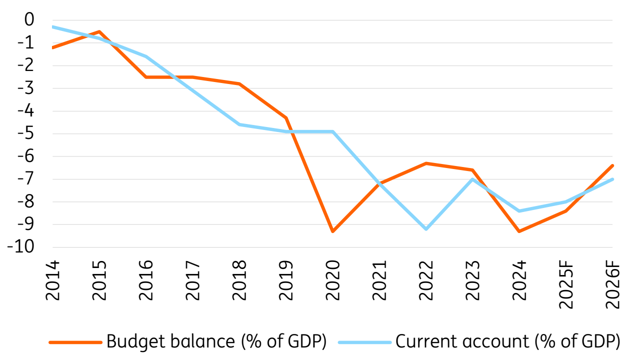
Source: NIS, ING

Supply side GDP (YoY%) and components (ppt)



Source: NIS, ING

Better fiscal should lead to lower current account deficit



Source: NIS, ING

Country strategy: Fiscal slippage is finally being addressed

Romania is seeking to maintain a delicate equilibrium between restoring fiscal discipline and supporting economic growth. Facing the EU's largest budget deficit in 2024, the government introduced a major fiscal consolidation package in July 2025 to stabilise public finances and protect the country's investment-grade credit rating. This plan, exceptional in scale by European standards, leans heavily on tax increases and, to a lesser extent, on spending cuts.

Growth, however, has been virtually flat so far in 2025, weighed down by persistent inflation and weaker consumer demand. Authorities are counting on fiscal discipline to rebuild investor confidence and unlock EU funds, which could help soften the adjustment through EU-financed investment projects.

Growth resilience will be tested to the limit

Romania's economy is stagnating. GDP grew by just 0.3% year-on-year in the first half of 2025, signalling that activity has essentially flatlined. Private consumption - the main growth driver - has slowed sharply and is likely to continue doing so as high inflation erodes household purchasing power and confidence. With weak domestic demand, overall growth is near zero.

In July 2025, the government introduced a large fiscal consolidation package worth nearly 5% of GDP by some estimates, to tackle a budget deficit exceeding 9% of GDP - the EU's highest. The plan - rather unusual in size by European standards - focuses mainly on higher taxes (VAT, excise duties) and, to a lesser extent, on spending restraint, including a public sector wage freeze. Its impact in 2025 will be more modest (below 1.0% of GDP) given the limited application period, but the adjustment should intensify significantly in 2026. Therefore, the budget deficit, still projected above 8.0% of GDP in 2025, is expected to fall in 2026, likely towards the 6.0% area, putting public finances on a firmer footing.

That said, the fiscal consolidation will weigh on short-term growth as higher taxes and spending cuts dampen demand in late 2025 and 2026. However, EU funds - especially those related to the Recovery and Resilience Facility (RRF) - will provide an important offset. By complying with EU fiscal rules and RRF milestones, Romania should unlock substantial disbursements in 2026 (likely to be above €10bn), boosting investment and cushioning, to some extent, the impact of the local austerity measures.

Also as a result of the fiscal measures (namely VAT and excise duties hikes), inflation is surging again, with headline CPI likely to briefly exceed 10% in autumn 2025. This spike reflects one-off factors: the removal of electricity price caps in July and VAT/excise hikes in August. These measures caused a sharp but temporary price jump; as base effects will kick-in in 2026, inflation should quite swiftly return to lower single digits in the second part of the year. Still, this inflationary hump poses a challenge for the National Bank of Romania (NBR). While this is likely to be seen by policymakers as a classic supply side shock, and hence look-though it instead of reacting, the risk of de-anchoring inflation expectations (especially after so many years with inflation above target) is likely to be looming rather strongly.

Therefore, the NBR has little scope to ease policy while inflation is so high. Despite the stagnant economy, it is likely to hold the policy rate at 6.50% for another couple of quarters, to avoid de-anchoring inflation expectations. We see the first rate cut in May 2026.

Romania

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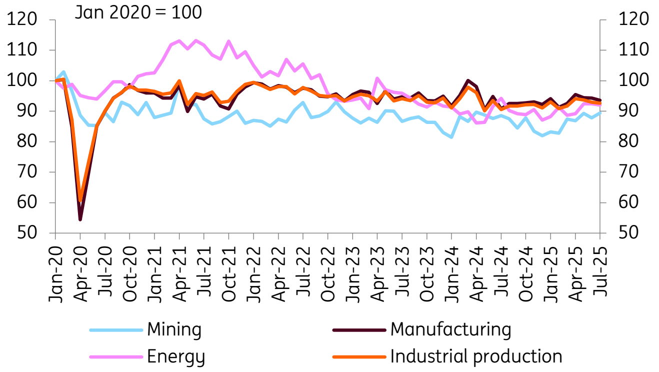
Industrial production remains a weak link

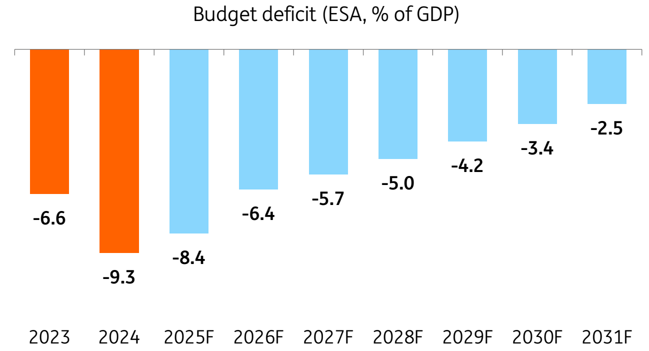


Source: NIS, ING

Another weak year

Romania's industrial production remains stuck in a prolonged soft patch and looks set to register another year of contraction in 2025. Weakness in external demand continues to weigh, as Germany has not yet returned to a convincing recovery path. While some tentative signs may point to a timid recovery in European industry in 2026, this is unlikely to bring an immediate turnaround. On the domestic side, however, better absorption of EU funds could provide some cushion for selected industrial subsectors, particularly in construction-related supply chains. Against this backdrop, we expect a very modest improvement in industrial production next year – enough to halt the decline but far from a broad-based recovery.

Fiscal picture should improve markedly in 2026

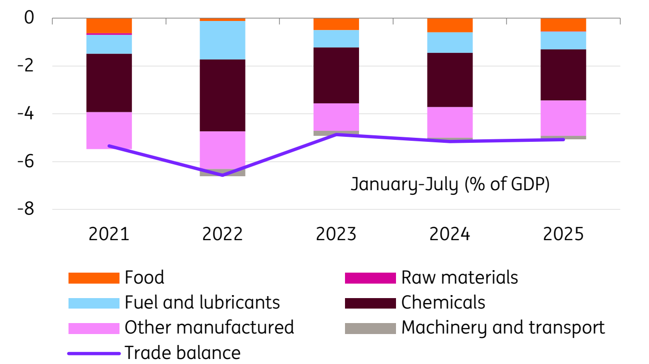


Source: Eurostat, ING

Consolidation measures delivered

Romania's public finances are finally showing some promising signs after years of persistent slippages. The sweeping fiscal package adopted in mid-2025 has set the stage for a marked narrowing of the deficit, though most of the impact will be felt in 2026. We forecast a budget gap of 6.4% for 2026, with the real possibility of an even smaller gap if the spending restraint is effectively enforced. That said, given Romania's track record and the scale of the adjustment, we prefer to be mildly cautious. The credibility of the fiscal effort is vital for preserving the country's investment grade status and keeping financing costs in check. If delivered, the adjustment will stand out as one of the boldest fiscal consolidations undertaken in Europe in recent years.

Trade balance deficit stabilising albeit at worrisome levels

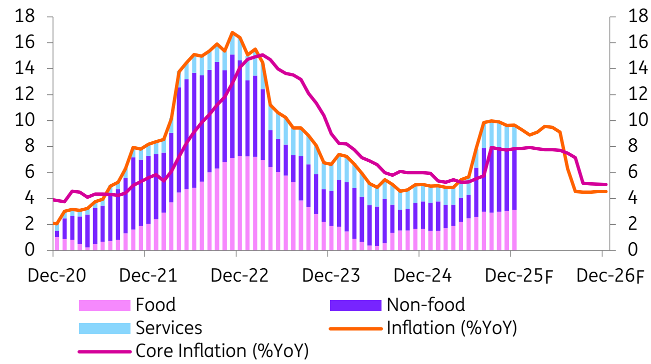


Source: NIS, ING

Modest improvements starting to appear

Romania's external accounts remain under pressure, though recent data suggests that at least the deterioration trend has flatlined. Exports continue to struggle against weak demand in Europe, while imports, especially of energy and intermediate goods, remain elevated. The persistence of a goods trade deficit is compounded by the still-high import content of investment projects. Nonetheless, as industrial output stabilises and export capacity from EU-backed investment projects kicks in, we expect the exports dynamic to be superior to that for imports in 2025 and for the foreseeable future. This should help narrow the trade gap, though a full closure is almost impossible to imagine in a reasonable time horizon given Romania's structural import dependence.

Inflation (YoY%) and main components (ppt)



Source: NIS, ING

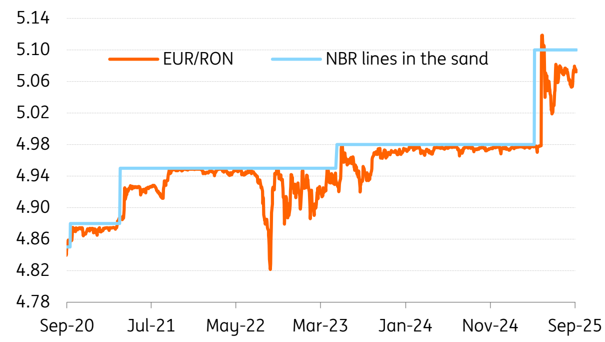
Stubbornly high but set to ease in 2026

Consumer prices remain elevated, with annual inflation expected to hover in double digits for a few months this autumn, briefly surpassing 10.0% as the VAT hike, excise duty increases and removal of the electricity price caps feed through. These one-off shocks have determined a renewed price spike despite softer domestic demand. Looking into 2026, the picture should improve markedly and rather abruptly in the second part of the year as base effects kick in, EU funded investments support supply capacity and weaker household demand helps cool price pressures. We see inflation falling towards the 4.0-4.5% area by the end of 2026, which is nevertheless notably higher than NBR's estimate of around 3.0% by the year end.

Romania

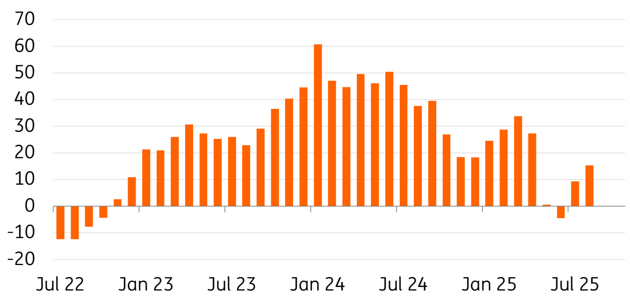
Strategy

New equilibrium level



Source: NBR, ING estimates

Liquidity position (RONbn)



Source: NBR, Bloomberg, ING estimates

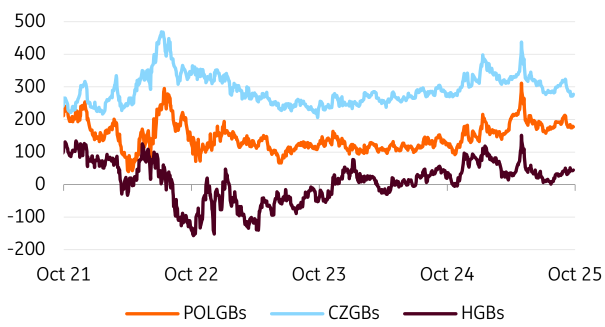
FX strategy

The EUR/RON has held steady mainly in the 5.06-5.08 band over the past couple of months, finding a new equilibrium as markets digest Romania's fiscal adjustment and inflation resurgence. The adoption of the fiscal package has eased part of the policy uncertainty, though questions remain on delivery of these measures. On top, the striking external imbalances keep risks alive. Given the limited scope for rate cuts and persistent inflation challenges, the leu looks unlikely to find a strengthening path anytime soon, though these exact arguments could be made against a significant depreciation of the leu as well.

However, a closer look indicates that the wide current account deficit and some speculative flows are pushing EUR/RON above the usual edge of the current range of 5.080. The central bank obviously cannot afford additional inflationary pressures, and we can expect more activity from the NBR on the market. The banking market has returned to a slight liquidity surplus in the system, which gives the central bank some room to manoeuvre and tighten conditions if necessary.

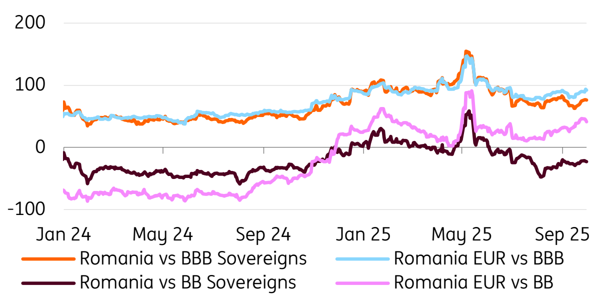
Although the market situation has stabilised since the Spring turmoil, we still see some risk in politics, fiscal policy and inflation, which is still waiting to peak. The market has shown high sensitivity to negative headlines on these topics in recent weeks, immediately renewing pressure on FX. Although the central bank has enough ammunition to keep EUR/RON stable, we believe that FX implied yields have room to rise if any of these risks begin to materialise.

10y ROMGBs spreads vs CEE3 (bp)



Source: Refinitiv, ING

ROMANI EUR and USD bond spreads vs peers (bp)



Source: Refinitiv, ING

Fixed income strategy *(with James Wilson, EM Sovereign Strategist)*

There are reasons for optimism on a medium-term basis, with fiscal consolidation set to come more meaningfully into play from next year. For now, it seems the ratings agencies are comfortable enough with this outlook, along with the EU, reducing some potential negative catalysts. Expectations of improved EU fund inflows next year is the other clear supportive factor that should benefit the technical picture for FX issuance needs. However, we would prefer to remain somewhat cautious at current valuations for Eurobonds, waiting for more evidence of the implementation of the current fiscal plan given the frequent fiscal revisions in recent years. Relative spread levels versus the peer group are back to end-2024 levels, although the more recent divergence in EUR vs USD paper makes the EUR curve now look more attractive, especially with the recent EUR issuance out of the way.

ROMGBs saw a decent rally in September following August's sell-off, with optimism regarding fiscal consolidation. At the same time, we saw spreads tighten again versus CEE peers in most cases. From our perspective, we believe ROMGBs will lack the trigger for another rally. After the positive wave of sentiment in September, we currently see the balance of risk on the negative side, as in the case of FX. On the supply side, we expect monthly ROMGBs supply for the rest of the year to remain around RON6-7bn per month, assuming an 8.4% public finance deficit, similar to recent months, indicating a net negative supply in November.

Romania

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Activity													
Real GDP (%YoY)	3.2	2.9	8.2	6.0	3.9	-3.7	5.7	4.1	2.1	0.8	0.3	1.4	2.8
Private consumption (%YoY)	5.8	6.4	11.7	10.3	3.0	-3.8	7.3	5.2	2.8	6.0	1.4	0.9	2.1
Government consumption (%YoY)	1.3	-9.5	11.5	-0.8	9.8	-0.5	1.3	3.6	-0.5	2.0	-1.9	0.1	0.6
Investment (%YoY)	6.5	-2.4	5.7	-1.8	14.9	-0.5	4.0	5.4	14.5	-3.3	2.5	3.7	2.8
Industrial production (%YoY)	2.7	3.1	8.6	5.0	-2.6	-9.2	6.5	0.9	-2.5	-1.7	-0.5	1.1	1.3
Unemployment rate (year-end, %)	6.8	5.9	5.7	4.2	3.9	5.0	5.6	5.6	5.6	5.4	6.2	6.0	5.5
Nominal GDP (RONbn)	713	752	852	960	1,067	1,070	1,192	1,389	1,605	1,760	1,894	2,053	2,192
Nominal GDP (€bn)	160	167	186	206	225	221	242	281	323	354	376	401	424
Nominal GDP (US$bn)	176	185	214	243	252	252	281	295	351	383	435	484	517
GDP per capita (US$)	8,900	9,400	10,900	12,400	13,000	13,100	14,700	15,500	18,500	20,200	23,000	25,700	27,500
Gross domestic saving (% of GDP)	24.7	22.6	21.5	19.4	20.0	19.8	20.6	20.1	21.0	19.2	19.4	19.3	19.2
Prices													
CPI (average, %YoY)	-0.6	-1.6	1.3	4.6	3.8	2.6	5.1	13.8	10.5	5.6	7.3	7.0	4.0
CPI (year-end, %YoY)	-0.9	-0.5	3.3	3.3	4.0	2.1	8.2	16.4	6.6	5.1	9.6	4.5	3.5
Wage rates (nominal, %YoY)	8.3	13.0	14.2	13.1	14.9	6.7	7.1	12.2	15.4	13.7	6.0	4.0	6.0
Fiscal balance (% of GDP)													
Consolidated government balance	-0.5	-2.5	-2.5	-2.8	-4.3	-9.2	-7.1	-6.4	-6.6	-9.3	-8.4	-6.4	-5.7
Consolidated primary balance	0.9	-1.2	-1.4	-1.8	-3.3	-8.0	-5.8	-5.1	-4.7	-7.0	-6.0	-4.2	-3.3
Total public debt	37.7	37.8	35.3	34.4	35.0	46.6	48.3	47.9	48.9	52.2	58.9	62.2	63.1
External balance													
Exports (€bn)	54.6	57.4	62.6	67.7	69.0	62.2	74.7	91.9	93.1	92.7	96.4	101.2	106.3
Imports (€bn)	63.0	67.4	75.6	82.8	86.3	80.6	98.4	126.0	122.0	126.1	132.4	137.7	141.8
Trade balance (€bn)	-8.4	-10.0	-13.0	-15.1	-17.3	-18.4	-23.7	-34.1	-28.9	-33.4	-36.0	-36.5	-35.5
Trade balance (% of GDP)	-5.2	-6.0	-7.0	-7.3	-7.7	-8.3	-9.8	-12.1	-8.9	-9.4	-9.6	-9.1	-8.4
Current account balance (€bn)	-1.0	-3.5	-5.9	-9.5	-10.9	-11.2	-17.4	-26.8	-21.5	-29.4	-30.0	-29.5	-29.0
Current account balance (% of GDP)	-0.6	-2.1	-3.2	-4.6	-4.9	-5.1	-7.2	-9.6	-6.6	-8.3	-8.0	-7.4	-6.8
Net FDI (€bn)	2.9	4.5	4.9	4.9	4.8	3.0	8.8	9.4	6.4	5.7	6.1	6.6	7.1
Net FDI (% of GDP)	1.8	2.7	2.6	2.4	2.2	1.3	3.7	3.3	2.0	1.6	1.6	1.7	1.7
Current account balance plus FDI (% of GDP)	1.2	0.6	-0.6	-2.2	-2.7	-3.7	-3.5	-6.2	-4.7	-6.7	-6.4	-5.7	-5.2
Foreign exchange reserves ex gold (€bn)	32.2	33.0	32.3	31.8	31.7	36.2	37.1	43.2	56.4	58.7	63.2	67.0	69.0
Import cover (months of merchandise imports)	6.1	5.9	5.1	4.6	4.4	5.4	4.5	4.1	5.5	5.6	5.7	5.8	5.8
Debt indicators													
Gross external debt (€bn)	94.7	98.3	102.9	105.4	114.2	131.9	142.5	153.7	183.2	203.5	219.0	237.4	253.5
Gross external debt (% of GDP)	59	59	55	51	51	60	59	55	57	57	58	59	60
Gross external debt (% of exports)	173	171	164	156	166	212	191	167	197	220	227	234	238
Lending to corporates/households (% of GDP)	29.9	28.5	26.5	25.4	24.5	25.6	26.2	25.0	23.0	22.6	23.3	24.3	24.9
Interest & exchange rates													
Central bank key rate (year-end, %)	2.75	1.75	1.75	1.75	2.50	1.50	1.75	6.75	7.00	6.50	6.50	5.50	4.50
Broad money supply (average, %YoY)	7.8	11.4	11.1	11.1	9.3	13.7	16.0	10.4	9.0	10.5	9.0	10.0	11.0
3m interest rate (Robor average, %)	1.40	0.89	1.15	2.80	3.15	2.38	1.82	6.19	6.62	5.88	6.43	5.71	4.75
3m interest rate spread over Euribor (ppt)	1.4	1.2	1.5	3.1	3.5	2.8	2.4	5.8	3.2	2.3	4.4	3.6	2.4
3yr yield (average, %)	1.9	1.5	1.9	3.7	3.7	3.3	2.9	7.2	6.5	7.0	7.2	6.7	6.0
10yr yield (average, %)	3.5	3.3	3.9	4.7	4.5	3.9	4.0	7.6	6.9	7.4	7.3	6.9	6.4
USD/RON exchange rate (year-end)	4.17	4.32	3.88	4.07	4.26	3.97	4.35	4.61	4.51	4.81	4.24	4.22	4.25
USD/RON exchange rate (average)	4.05	4.06	3.98	3.95	4.24	4.24	4.24	4.71	4.58	4.59	4.35	4.24	4.24
EUR/RON exchange rate (year-end)	4.52	4.54	4.66	4.66	4.78	4.87	4.95	4.94	4.98	4.98	5.09	5.15	5.18
EUR/RON exchange rate (average)	4.45	4.49	4.57	4.65	4.75	4.84	4.93	4.95	4.96	4.97	5.04	5.12	5.17

Shading denotes ING forecast data
Source: National sources, ING estimates

Quarterly forecasts

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F
Real GDP (%YoY)	0.9	1.5	0.5	0.3	0.3	0.7	-0.1	0.6	0.0	1.7	2.8	2.7	2.8
CPI (eop, %YoY)	4.8	4.6	5.1	4.9	5.7	10.0	9.6	9.1	9.1	4.5	4.5	4.0	3.5
Central bank key rate (eop, %)	7.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.00	5.50	5.25	5.00
3m interest rate (eop, %)	6.01	5.55	5.92	5.90	7.09	6.50	6.30	6.20	5.75	5.25	5.00	4.75	4.50
10yr yield (eop, %)	6.90	6.50	7.35	7.40	7.35	7.50	7.50	7.10	7.00	6.80	6.70	6.50	6.50
USD/RON exchange rate (eop)	4.65	4.47	4.80	4.61	4.30	4.33	4.24	4.24	4.24	4.26	4.22	4.22	4.22
EUR/RON exchange rate (eop)	4.98	4.98	4.97	4.98	5.08	5.07	5.09	5.09	5.09	5.15	5.15	5.15	5.15

Shading denotes ING forecast data
Source: National sources, ING estimates

Serbia

Valentin Tataru, Chief Economist | Stefan Posea, Economist

Forecast summary

	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	2025F	2026F
Real GDP (%YoY)	2.1	2.5	2.3	4.0	3.9	2.3	3.8
CPI (%YoY)*	4.6	4.7	4.2	4.5	4.2	4.4	4.0
Policy interest rate (eop, %)	5.75	5.75	5.25	5.0	4.5	5.3	4.5
3m interest rate (%)*	4.68	4.50	4.30	4.20	3.90	4.3	3.7
10yr yield (%)*	5.25	5.20	5.10	5.10	5.10	5.2	5.1
USD/RSD*	99.3	100.1	97.5	97.5	97.4	101.4	96.8
EUR/RSD*	117.2	117.1	117.0	117.0	116.9	117.1	116.9

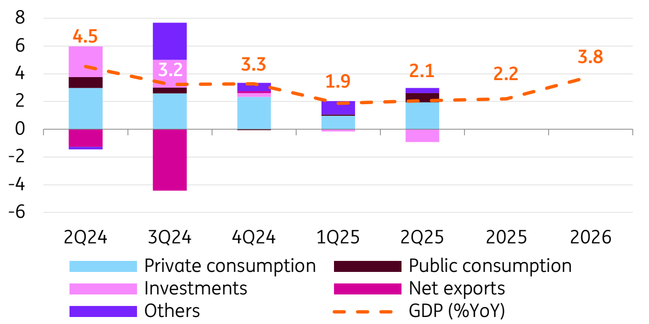
Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: 2027	S&P	BBB-	BBB-
Fiscal	Stimulative	Parliamentary: 2027	Moody's	Ba2	Ba2
Monetary	Stimulative	Local: 2028	Fitch	BB+	BB+

*Quarterly data is eop, annual is average. Shading denotes ING forecast data
Source: National sources, ING estimates

Country strategy: Managing a delicate situation

Serbia's political situation remains in a tough spot on the back of the persistent anti-corruption student protests seen this year, which have weighed on an otherwise strong momentum in the economy. While an end to the situation is still uncertain, the economy has so far proved relatively resilient, especially on day-to-day spending and the planned investments ahead of the EXPO 2027 event. The unemployment rate has even continued its downwards trend. That said, other investments, including FDIs, took a hit this year, while consumer behaviour as a whole moderated overall. Geopolitics-wise, the Serbian oil firm NIS's refinery case shows that the prospect of finding the right balance between the West and the East is narrowing. The risks of full US sanctions targeting NIS remain a risk further down the line, should Serbia get another waiver extension on 8 October.

Real GDP (%YoY) and contributions (ppt)

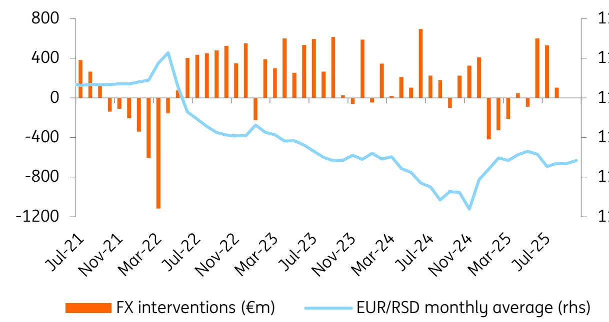


Source: Eurostat, ING

Growth moderates a little this year

Economic activity lost some steam this year, especially on the domestic demand front. The growth in both private and public consumption moderated through the first half of 2025, while facing headwinds from the difficult domestic context. Still-high wage growth is likely to have acted as a cushion and prevented stronger financial fears from households at this stage. Overall, at least a positive sign on the investment front is that the progress towards the EXPO 2027 event looks to have remained largely on track. What's more, the investment contractions seen in 1H25 also have strong base effects at play after last year's strong outturns. All in all, despite some near-term hiccups, the productive potential should continue to grow ahead and in the long run.

FX stability remains the main policy tool

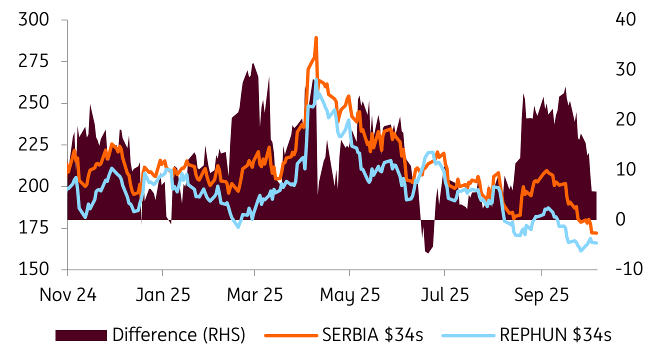


Source: NBS, ING

Rates to adjust lower; FX to remain in place

Inflation stood at 4.7% in August, still above the upper range of the central bank's 3% ± 1.5% target. Our view is that it will decelerate and end 2025 within target at 4.2%. In 2026, we forecast an average inflation of 4.0%, ending the year at 3.7%. The central bank has kept the key rate at 5.75% since September 2024 and our current base case is now for two rate cuts summing up to 50bp by the end of 2025, followed by 75bp of cuts next year. FX-wise, we expect the central bank to preserve currency stability. After initially selling EUR early in the year, the NBS ultimately turned into a net year-to-date EUR buyer (€235m) to keep the EUR/RSD pair stable.

SERBIA USD credit spreads vs REPHUN (bp)



Source:Refinitiv, ING

Sovereign credit: Maintaining caution

Within the environment of protests seeing no clear resolution any time soon, the improvement in Serbia's credit fundamentals has also slowed, lowering expectations of further rating upgrades to IG. Given the weaking of external metrics from a widening current account deficit and slowing FDI, along with some signs of fiscal pressure, we would maintain some caution on Serbia's Eurobonds, with headline risks also remaining on the political front. After some softness earlier in the year and over the summer, spread levels have squeezed back to nearer the BBB level, looking relatively expensive in the USD space in particular. In the EUR space valuations look more reasonable.

James Wilson, EM Sovereign Strategist

Serbia

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Activity													
Real GDP (%YoY)	1.3	3.0	2.4	4.6	4.8	-1.0	7.9	2.6	3.8	3.9	2.3	3.8	3.8
Private consumption (%YoY)	-0.3	1.9	2.1	2.8	3.7	-1.9	7.7	3.6	0.5	4.2	2.5	4.1	4.1
Government consumption (%YoY)	-4.2	-1.8	2.3	3.8	3.8	3.4	4.2	1.5	-2.5	2.6	2.4	1.5	2.0
Investment (%YoY)	5.3	5.5	7.3	17.6	16.1	-0.6	15.1	2.4	9.6	6.9	-1.0	4.4	3.0
Industrial production (%YoY)	7.6	4.5	4.5	1.1	0.3	-0.7	6.7	2.1	2.8	2.9	3.4	3.0	3.0
Unemployment rate (average, %)	18.9	16.4	14.5	13.7	11.2	9.7	11.1	9.5	9.4	8.6	8.6	8.5	8.3
Nominal GDP (RSDbn)	4,342	4,494	4,699	4,954	5,288	5,669	5,764	6,576	7,459	8,818	9,639	10,285	11,087
Nominal GDP (€bn)	36.9	38.1	41.8	44.7	48.2	49.0	55.9	63.6	75.3	82.3	87.9	94.8	101.4
Nominal GDP (US$bn)	52.9	52.7	45.3	47.3	53.8	56.6	65.1	66.8	81.5	89.1	101.7	114.5	124.7
GDP per capita (US$)	7,500	7,500	6,500	6,800	7,800	8,200	9,600	10,000	12,200	13,500	15,700	17,600	16,600
Gross domestic saving (% of GDP)	11.6	13.3	13.0	14.3	15.2	15.9	17.2	16.0	20.3	19.5	18.6	17.1	15.8
Prices													
CPI (average, %YoY)	1.4	1.1	3.1	2.0	1.9	1.6	4.1	11.9	12.5	4.7	4.4	4.0	4.0
CPI (year-end, %YoY)	1.6	1.5	3.0	2.0	1.9	1.3	7.9	15.1	7.6	4.3	4.2	3.7	4.0
Wage rates (nominal, %YoY)	-0.2	3.7	4.0	3.7	10.6	9.4	9.6	13.8	14.8	14.2	11.9	10.9	9.7
Fiscal balance (% of GDP)													
Consolidated government balance	-6.2	-3.5	-1.2	1.1	0.6	-0.2	-7.7	-3.9	-3.0	-2.1	-2.9	-2.9	-2.5
Consolidated primary balance	-3.5	-0.5	1.6	3.5	2.6	1.7	-5.8	-2.3	-1.6	-0.5	-1.0	-1.5	0.9
Total public debt	63.4	67.2	65.2	55.5	51.4	49.7	54.4	53.9	52.4	48.0	50.1	52.2	53.1
External balance													
Exports (€bn)	12.0	13.5	15.1	16.4	17.7	17.1	21.9	27.6	28.6	30.5	32.5	34.6	36.9
Imports (€bn)	16.1	17.1	19.5	22.1	24.1	23.1	28.9	39.0	36.9	39.0	41.3	43.7	46.2
Trade balance (€bn)	-4.0	-3.6	-4.4	-5.7	-6.4	-5.9	-7.1	-11.4	-8.2	-8.5	-8.8	-9.1	-9.3
Trade balance (% of GDP)	-11.0	-9.5	-10.6	-12.7	-13.3	-12.1	-12.7	-17.9	-10.9	-10.3	-10.0	-9.5	-9.2
Current account balance (€bn)	-1.2	-1.1	-2.1	-2.1	-3.2	-1.9	-2.3	-4.2	-1.8	-3.8	-2.7	-3.2	-2.5
Current account balance (% of GDP)	-3.3	-2.8	-4.9	-4.6	-6.6	-3.9	-4.1	-6.5	-2.4	-4.6	-3.1	-3.4	-2.5
Net FDI (€bn)	1.8	1.9	2.4	3.2	3.6	2.9	3.7	4.3	4.2	4.4	2.5	4.6	4.7
Net FDI (% of GDP)	4.9	5.0	5.8	7.1	7.4	6.0	6.5	6.8	5.6	5.3	2.8	4.8	4.7
Current account balance plus FDI (% of GDP)	1.5	2.2	0.9	2.4	0.8	2.1	2.5	0.3	3.2	0.7	-0.3	1.4	2.2
Foreign exchange reserves ex gold (€bn)	10.4	10.2	10.0	11.3	13.4	13.5	16.5	19.4	24.9	29.3	29.0	30.0	31.0
Import cover (months of merchandise imports)	7.7	7.2	6.1	6.1	6.7	7.0	6.8	6.0	8.1	9.0	8.4	8.2	8.1
Debt indicators													
Gross external debt (€bn)	26.2	26.5	25.5	26.7	28.3	30.8	36.5	41.6	44.2	48.7	49.9	51.2	52.4
Gross external debt (% of GDP)	71.0	69.6	61.0	59.6	58.6	62.8	65.2	65.4	58.7	59.1	56.8	53.9	51.7
Gross external debt (% of exports)	218	197	169	163	160	180	167	151	154	160	154	148	142
Lending to corporates/households (% of GDP)	40.6	40.9	40.3	41.4	42.0	45.5	43.4	40.3	35.8	31.3	32.0	33.2	34.5
Interest & exchange rates													
Central bank key rate (year-end, %)	4.50	4.00	3.50	3.00	2.25	1.00	1.00	5.00	6.50	5.75	5.25	4.50	4.50
Broad money supply (average, %YoY)	6.6	11.6	3.6	14.5	8.4	18.1	13.3	6.9	12.7	13.5	8.0	10.0	11.0
3m interest rate (Belibor, year-end, %)	3.83	3.47	3.12	3.03	1.64	0.90	0.94	4.95	5.70	4.80	4.30	3.70	3.70
3m interest rate spread over Euribor (ppt)	3.8	3.7	3.4	3.4	2.0	1.3	1.5	4.6	2.3	1.2	2.2	1.6	1.4
3yr yield (year-end, %)	n/a	n/a	n/a	n/a	3.2	2.1	2.4	6.0	5.8	4.3	4.10	3.80	3.70
10yr yield (year-end, %)	n/a	n/a	n/a	4.8	4.0	3.1	3.6	7.0	6.3	5.1	5.10	5.05	5.00
USD/RSD exchange rate (year-end)	83.1	99.5	111.2	117.1	104.9	96.3	103.4	109.6	106.1	113.0	97.5	95.8	95.8
USD/RSD exchange rate (average)	84.9	89.1	109.4	111.8	105.4	101.8	101.1	111.7	108.2	108.2	101.1	96.9	95.8
EUR/RSD exchange rate (year-end)	121.6	123.5	118.5	118.2	117.6	117.6	117.6	117.3	117.2	117.1	117.0	116.9	116.9
EUR/RSD exchange rate (average)	120.8	123.2	121.3	118.3	117.8	117.6	117.6	117.5	117.3	117.1	117.0	117.0	116.9

Shading denotes ING forecast data
Source: National sources, ING estimates

Quarterly forecasts

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F
Real GDP (%YoY)	4.5	3.2	3.3	1.9	2.1	2.5	2.3	4.0	3.9	3.7	3.5	3.6	3.7
CPI (eop, %YoY)	3.8	4.2	4.3	4.4	4.6	4.7	4.2	4.5	4.2	3.5	3.7	3.6	3.8
Central bank key rate (eop, %)	6.25	5.75	5.75	5.75	5.75	5.75	5.25	5.0	4.5	4.5	4.5	4.5	4.5
3m interest rate (eop, %)	5.45	4.94	4.70	4.68	4.68	4.50	4.30	4.20	3.90	3.70	3.70	3.70	3.70
10yr yield (eop, %)	5.85	5.28	5.07	5.18	5.25	5.20	5.10	5.10	5.10	5.05	5.05	5.00	5.00
USD/RSD exchange rate (eop)	109.3	105.2	113.1	108.5	99.3	100.1	97.5	97.5	97.4	96.6	95.8	95.8	95.8
EUR/RSD exchange rate (eop)	117.1	117.1	117.1	117.2	117.2	117.1	117.0	117.0	116.9	116.9	116.9	116.9	116.9

Shading denotes ING forecast data
Source: National sources, Bloomberg, ING estimates

Turkey

Muhammet Mercan, Chief Economist, Turkey

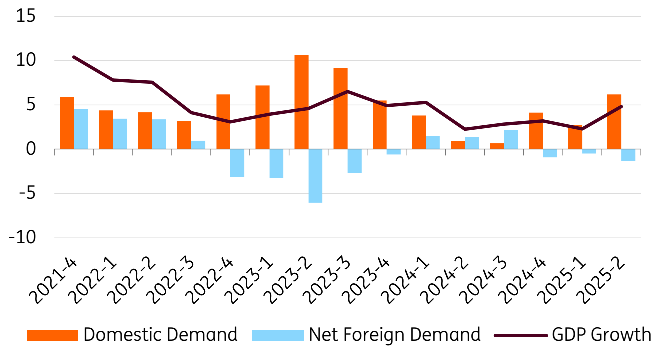
Forecast summary

	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	2025F	2026F
Real GDP (% YoY)	4.8	3.0	3.2	3.2	3.6	3.3	4.0
CPI (% YoY)*	35.0	32.2	30.5	26.6	23.7	34.8	23.5
Policy interest rate (eop, %)	46.00	40.50	37.50	34.50	31.50	37.50	27.00
3m interest rate (%)*	45.99	42.58	37.13	34.29	31.52	43.38	26.08
10yr yield (%)*	30.93	31.54	28.94	26.18	24.31	30.67	24.20
USD/TRY*	39.78	41.57	45.00	47.48	49.61	40.19	49.74
EUR/TRY*	46.86	48.80	54.00	56.98	59.53	45.72	59.94

Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: May 2028	S&P	BB-	BB-
Fiscal	Loose	Parliamentary: May 2028	Moody's	Ba3	Ba3
Monetary	Tight	Local: March 2029	Fitch	BB-	BB-

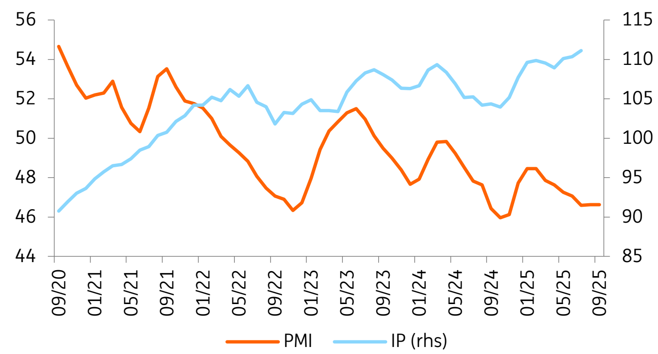
*Quarterly data is eop, annual is average. Shading denotes ING forecast data
Source: National sources, ING estimates

GDP growth (% YoY)



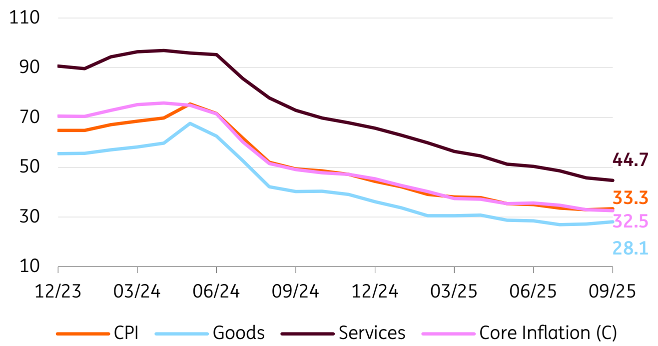
Source: TurkStat, ING Bank

PMI & IP (seas. adj., 3m-ma, % YoY)



Source: ICI, TurkStat, ING Bank

Inflation (% YoY)



Source: TurkStat, ING Bank

Country strategy: Resilience to domestic politics

Domestic political uncertainty resurfaced, briefly shaking investor confidence during March and April. However, clear signals from policymakers indicating no shift in policy direction, combined with swift and decisive actions by the Central Bank (CBT), helped restore stability. Since May, gross reserves have been climbing, reaching record highs. This increase has been driven not only by renewed inflows from abroad but also by a resurgence in local interest in Turkish lira-denominated assets. Investor response to another bout of political news in September has remained calm, supported by continued confidence in policy continuity and stronger macro fundamentals in a more favourable global risk environment. Domestic politics is likely to remain under focus in the near term, while the Medium-Term Program (MTP) signals macroeconomic policies remain on track, providing relief for the outlook.

Macro digest

In the second quarter of 2025, Turkey's GDP grew by 4.8% YoY, surpassing market consensus. This marks a notable acceleration compared to previous quarters driven by private consumption, inventory build-up and capital formation. After seasonal adjustments, 2Q25 GDP corresponds to a QoQ growth rate of 1.6% – the highest quarterly increase in the past two years. This unexpected momentum, despite tighter financial conditions following political developments in March, is attributed to a positive shift in investment contributions, but more importantly inventory accumulation, which exceeds drags from private consumption, government spending and net exports. The data reflecting significant contribution from inventories leads us to remain cautious about the sustainability of the growth performance, while the noticeable weakness in manufacturing PMI in 3Q and signals of strains in the labour market hint at momentum loss in economic activity in the second half of this year. Given this backdrop, we expect a full-year GDP growth forecast for 2025 of 3.3%, and an acceleration in 2006 to 4% amid ongoing monetary easing. As an additional note, the government has unveiled its new MTP for the next three years, which outlines a gradual adjustment in the external balance and raises the projected budget deficit. However, the most significant shift is the downward revision of GDP growth forecasts, signalling that price stability has been the policy priority.

Recent figures have underscored the challenges for the disinflation process, driven by pricing pressures in food with adverse weather conditions and a slower decline in service sector inflation. Assuming no major shocks occur in the remainder of the year, such as abrupt shifts in exchange rates, changes in regulated prices or volatility in commodity markets, we see the downtrend in annual inflation rate persisting and closing this year slightly above 30%, compared to the MTP target of 28.5%. Inflation forecasts for 2026 and 2027 have been revised upwards from previous projections in the MTP and are aligned with the CBT's interim targets, announced in the latest inflation report. Nonetheless, the market participants envisage a slower pace of disinflation. While the MTP pledges that spending growth and wage increases will be consistent with disinflation efforts, higher consensus is due to several persistent challenges: inflation expectations remain unanchored despite recent improvements, pricing behaviour continues to be backward-looking, fiscal policy support has been limited so far, and uncertainties around energy and food prices persist. For 2026, we project annual inflation to reach 20.4%, with risks tilted to the upside. In our view, the scale of interest rate cuts and the extent of fiscal consolidation will be critical in supporting the disinflation process.

Turkey

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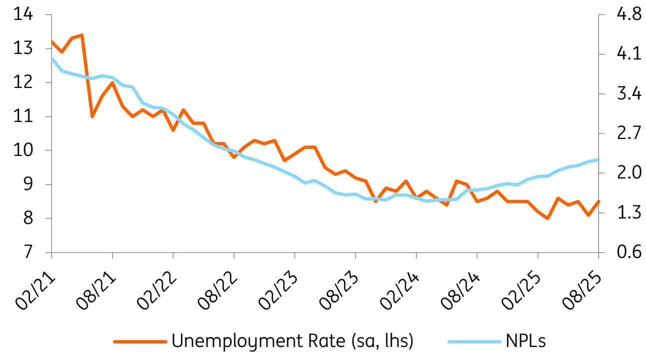
Unemployment vs NPLs (%)

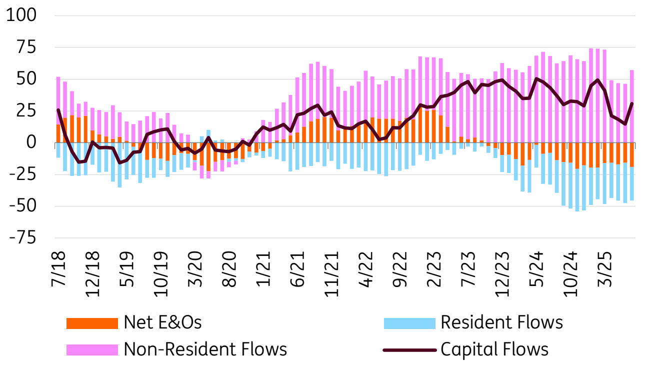


Source: TurkStat, BRSA, ING Bank

Challenges in employment generation

The labour force participation rate rose to 54%, the highest level in 2025 to date. However, in a tight range since early 2024, the August employment (sa) figure of 32.8 million continues to suggest that job creation has stalled. Meanwhile, the unemployment rate, which has ranged between 8.0% and 8.6% over the past ten months, is now close to the upper end of this range at 8.5%, close to its lowest point since labour market statistics began in 2005. However, broader indicators paint a more complex picture. The labour underutilisation rate, which includes time-related underemployment, the potential labour force and the unemployed, continued its upward trend, peaking at an historical high of 32.7% in June. Although it eased to 29.7% in August, the persistently high level, coupled with challenges in generating new employment, points to stress in the labour market.

Breakdown of C/A financing (12m-rolling, US$bn)

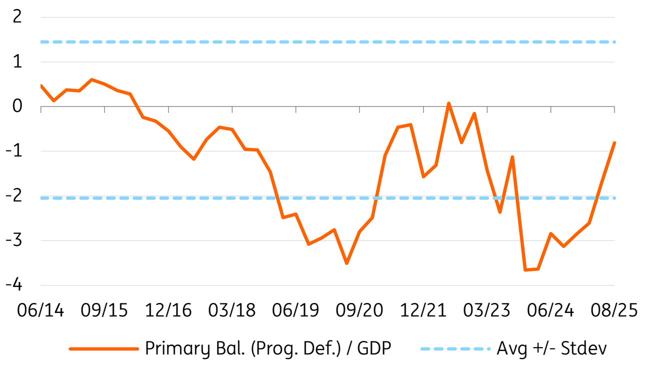


Source: CBT, ING Bank

Current account outlook stable, but external risks persist

The current account (c/a) deficit for 2025 is likely to remain relatively contained, largely due to subdued oil prices. In the MTP, the government anticipates a deficit of 1.4% of GDP this year, gradually narrowing to 1.0% by 2028. However, the growth trajectory outlined in the MTP raises questions about the feasibility of achieving this external adjustment. In our view, key factors influencing the c/a will include the pace of monetary policy easing, particularly its impact on imports, the fiscal stance amid ongoing spending pressures, and external uncertainties stemming from global trade dynamics and geopolitical developments. On the capital account side, long-term debt rollover rates have remained strong, suggesting that near-term external financing needs, supported by a c/a deficit below historical averages, are likely to be met without difficulty.

Primary balance (12m-rolling, % of GDP)

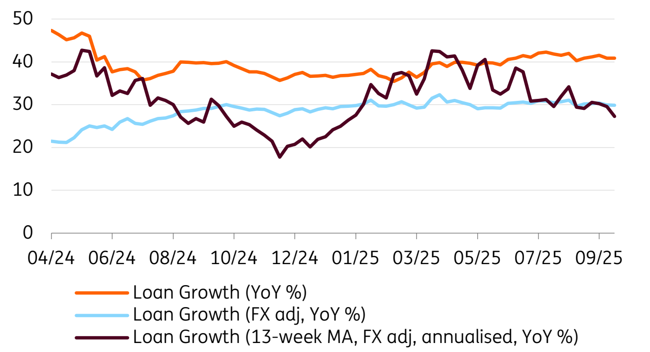


Source: Ministry of Treasury and Finance, ING Bank

Gradual fiscal adjustment from 2Q25

The headline budget deficit as a share of GDP has steadily declined, falling from 4.8% in March to 3.7% in August. This improvement is largely due to stronger tax revenues, driven by intensified tax audits and higher withholding taxes, and a relatively restrained approach to primary spending, despite a sharp rise in interest expenditures. The MTP projects a budget deficit of 3.6% of GDP for 2025, with a gradual reduction to 2.8% by 2028. The government continues to signal its commitment to fiscal discipline, aiming to keep the deficit, excluding earthquake-related expenditures, close to the Maastricht threshold of 3.0%. Policymakers have stressed that fiscal policy will play a supportive role in disinflation efforts, indicating a reduced reliance on inflationary tools such as administered price hikes and tax increases.

Banking sector volume expansion



Source: BRSA, ING Bank

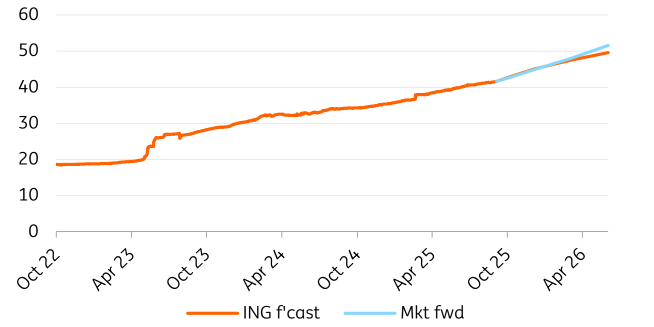
Continuing reliance on macroprudential instruments

The macroprudential framework has largely remained intact, helping to contain risks associated with dollarisation and rapid credit expansion. Both corporate and retail investors have maintained interest in lira-denominated assets, while the recent rise in FX deposits partly reflects fluctuations in the EUR/USD exchange rate and movements in gold prices. Lending activity has remained stable constrained by high borrowing costs and regulatory growth limits, but the composition shifted in favour of TL. However, the rate cutting cycle has been driving deposit and lending rates lower lately, with mortgage and general-purpose loan rates falling to their lowest levels of the past two years. Retail lending continues to grow at a pace above inflation, fuelled by strong demand for consumer credit cards, which has been a key driver of credit expansion.

Turkey

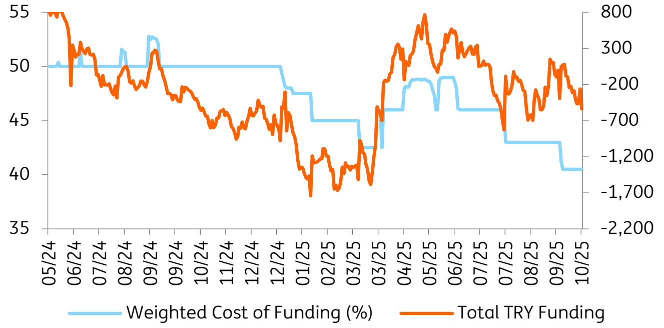
Strategy

FX – spot vs forward and INGF



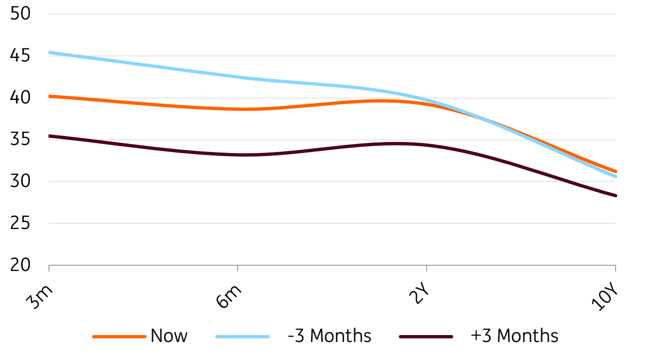
Source: Bloomberg, ING estimates

CBT funding



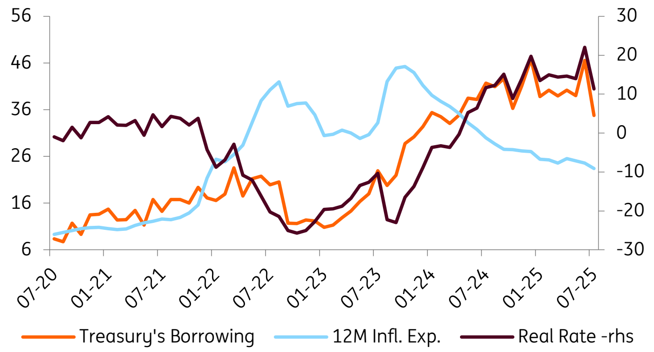
Source: CBT, ING Bank

Yield curve (%)



Source: Bloomberg, ING estimates

Real interest rate (%)



Source: Treasury, CBT, ING Bank

FX strategy *(with Chris Turner, Global Head of Markets and Regional Head of Research, UK & CEE)*

The CBT resumed its rate-cutting cycle with more aggressive easing than anticipated in July and September. Although the CBT removed its explicit reference to real appreciation of the Turkish lira in its latest MPC statement, we believe the near-term foreign exchange policy remains unchanged. The bank views real appreciation of the lira as a natural consequence of its tight monetary stance, which boosts demand for the currency.

While consistent appreciation may not be visible on a monthly or quarterly basis, the CBT expects cumulative real gains in the lira over a longer horizon. Reserve indicators have shown a marked recovery since the sharp decline in March. As of 26 September, gross international reserves reached US$183.0bn, an historically high level, following a strong rebound that began in May. Net reserves, excluding swap arrangements, stood at US$57.2bn. Despite political noise in September, the impact on reserves was contained.

The CBT balance sheet suggests over US$12bn in foreign exchange sales in the days following the news. However, this was largely offset by mandatory FX surrender requirements for exporters and a surge in gold prices, which boosted the US dollar value of gold reserves.

Taken together, these developments indicate that the CBT retains sufficient policy space to manage pressures on both the currency and reserve levels.

Fixed income strategy *(with James Wilson, EM Sovereign Strategist)*

Forward guidance from the bank points to continued rate cuts, while the scale of any further cuts will be shaped by residents' portfolio preferences and inflation trends in addition to economic activity levels and the trajectory of reserves. In a shift in its communication strategy, the CBT has introduced interim targets that are distinct from its broader forecasts. This new framework reflects a firmer commitment to policy goals and underscores that the size of future rate adjustments may vary. We think that the lack of a significant improvement in the underlying inflation trend (in three-month moving average terms) shows upside risks to the CBT's inflation projections and will lead the bank to reconsider the pace of rate cuts as the bank has already emphasised that the size of cuts will depend on the inflation outlook. On the supply side, according to our calculations, the MinFin covered approximately 87% of TurkGBs issuance this year, and the situation appears to be fully under control. On the other hand, slower-than-expected rate cuts are pushing bond yields up, which may persist for some time before we return to the trend of lower inflation. In the medium-term, however, further disinflation, fiscal consolidation and a decline in political noise could lead to a more bullish trend in TurkGBs. Foreign portfolio flows into the bond market have shown considerable volatility in recent weeks and remain negative on a year-to-date basis.

In the Eurobond space, we would maintain some caution given the risk remains from potential political noise, while valuations do not offer as much upside when compared to the local market. The spread pickup over BB peers is around the middle of its 1-year range, while large supply coming from Turkish corporates and financials in particular presents a further technical headwind.

Turkey

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Activity													
Real GDP (% YoY)	5.8	3.3	7.8	3.5	1.3	1.8	11.8	5.4	5.0	3.3	3.3	4.0	4.5
Private consumption (% YoY)	6.0	3.8	6.0	0.8	1.4	3.6	15.6	16.2	10.5	4.3	3.5	4.0	4.7
Government consumption (% YoY)	-2.6	10.2	4.8	8.1	4.6	2.8	4.2	4.5	2.3	-0.8	-0.7	1.1	1.3
Investment (% YoY)	8.7	3.1	7.5	0.8	-12.1	6.9	7.2	4.4	7.3	2.7	4.9	4.5	4.6
Industrial production (% YoY)	5.8	3.4	9.0	1.3	-0.5	1.6	17.5	4.4	1.6	-0.7	2.0	2.4	2.5
Unemployment rate (year-end, %)	10.3	10.9	10.9	10.9	13.7	13.1	12.0	10.5	9.4	8.7	8.9	9.5	9.0
Nominal GDP (TRYbn)	2,354	2,630	3,152	3,806	4,402	5,142	7,434	15,326	27,091	44,587	61,238	76,302	92,032
Nominal GDP (€bn)	708	780	767	672	691	634	688	867	1035	1244	1339	1273	1328
Nominal GDP (US$bn)	857	868	866	784	776	725	808	919	1118	1348	1524	1534	1621
GDP per capita (US$)	11,085	10,964	10,696	9,792	9,213	8,693	9,598	10,810	13,107	15,768	17,734	21,989	26,398
Gross domestic saving (% of GDP)	25.2	27.0	28.1	28.8	29.4	29.9	33.6	34.0	32.8	32.2	32.3	31.0	29.7
Prices													
CPI (average, % YoY)	7.7	7.8	11.1	16.3	15.2	12.3	19.6	72.3	53.9	58.5	34.8	23.5	17.6
CPI (year-end, % YoY)	8.8	8.5	11.9	20.3	11.8	14.6	36.1	64.3	64.8	44.4	30.5	20.4	16.4
Wage rates (nominal, % YoY)	18.1	20.5	13.3	15.8	18.4	6.9	39.5	88.1	113.5	91.2	38.9	26.3	19.7
Fiscal balance (% of GDP)													
Consolidated government balance	-1.0	-1.1	-1.5	-1.9	-2.8	-3.4	-2.6	-0.9	-5.1	-4.7	-3.6	-3.5	-3.1
Consolidated primary balance	1.3	0.8	0.3	0.0	-0.5	-0.8	-0.2	1.1	-2.6	-1.9	0.0	-0.2	0.0
Total public debt	27.1	27.7	27.6	29.5	31.8	38.7	39.4	30.2	37.0	24.0	24.5	27.4	29.2
External balance													
Exports (US$bn)	154.9	152.6	169.2	178.9	182.2	168.4	224.7	253.4	251.0	257.4	270.8	283.2	297.6
Imports (US$bn)	203.9	192.6	227.8	219.7	199.0	206.3	254.0	342.9	337.3	313.4	339.2	356.6	374.8
Trade balance (US$bn)	-49.0	-39.9	-58.6	-40.8	-16.8	-37.9	-29.3	-89.6	-86.3	-56.0	-68.4	-73.4	-77.1
Trade balance (% of GDP)	-5.7	-4.6	-6.8	-5.2	-2.2	-5.2	-3.6	-9.8	-7.7	-4.2	-4.5	-4.8	-4.8
Current account balance (US$bn)	-27.3	-26.8	-40.6	-20.7	15.0	-31.0	-6.2	-46.3	-41.5	-10.5	-20.3	-22.4	-26.9
Current account balance (% of GDP)	-3.2	-3.1	-4.7	-2.6	1.9	-4.3	-0.8	-5.0	-3.7	-0.8	-1.3	-1.5	-1.7
Net FDI (US$bn)	19.3	13.9	11.1	13.0	9.5	7.5	12.7	13.8	10.7	11.7	14.6	15.5	18.0
Net FDI (% of GDP)	2.2	1.6	1.3	1.7	1.2	1.0	1.6	1.5	1.0	0.9	1.0	1.0	1.1
Current account balance plus FDI (% of GDP)	-0.9	-1.5	-3.4	-1.0	3.2	-3.2	0.8	-3.5	-2.8	0.1	-0.4	-0.4	-0.5
Foreign exchange reserves ex gold (US$bn)	95.7	92.1	84.1	72.0	81.2	50.0	72.6	82.9	92.8	90.7	94.1	103.8	109.2
Import cover (months of merchandise imports)	5.6	5.7	4.4	3.9	4.9	2.9	3.4	2.9	3.3	3.5	3.3	3.5	3.5
Debt indicators													
Gross external debt (US$bn)	399.5	403.6	447.3	422.2	409.4	422.8	427.4	448.8	490.7	516.0	539.9	551.3	556.9
Gross external debt (% of GDP)	47	46	52	54	53	58	53	49	44	38	35	36	34
Gross external debt (% of exports)	258	264	264	236	225	251	190	177	196	200	199	195	187
Lending to corporates/households (% of GDP)	63.1	65.8	66.4	62.8	60.2	69.5	65.8	49.3	42.9	35.6	36.7	37.5	38.1
Interest & exchange rates													
Central bank key rate (year-end, %)	7.50	8.00	8.00	24.00	12.00	17.00	14.00	9.00	42.50	47.50	37.50	27.00	21.00
Broad money supply (average, % YoY)	17.1	18.3	15.7	19.1	26.1	36.0	53.6	60.7	66.5	28.7	38.3	25.6	21.6
3m interest rate (TRLibor, average, %)	9.9	8.9	11.6	19.1	18.8	11.0	18.0	15.7	20.5	47.5	43.4	26.1	21.1
3m interest rate spread over US$-Libor (ppt)	960	812	1029	1671	1684	1071	1794	1225	1512	4239	3918	2273	1784
2yr yield (average, %)	9.8	9.7	11.8	18.9	17.2	11.9	18.5	19.2	21.1	42.6	40.7	28.1	20.8
10yr yield (average, %)	9.4	10.1	11.0	15.8	15.5	12.7	18.2	17.6	18.4	28.2	30.7	24.2	19.2
USD/TRY exchange rate (year-end)	2.92	3.53	3.79	5.29	5.95	7.43	13.32	18.69	29.48	35.34	45.00	53.00	60.00
USD/TRY exchange rate (average)	2.75	3.03	3.64	4.85	5.67	7.09	9.20	16.68	24.22	33.07	40.19	49.74	56.79
EUR/TRY exchange rate (year-end)	3.17	3.70	4.55	6.05	6.67	9.08	15.14	20.00	32.54	36.59	54.00	64.66	73.20
EUR/TRY exchange rate (average)	3.33	3.37	4.11	5.66	6.37	8.11	10.81	17.68	26.17	35.84	45.72	59.94	69.29
Brent oil price (annual average, US$/bbl)	52.08	43.31	54.13	71.17	64.72	41.80	71.25	99.25	82.25	80.00	67.75	56.50	61.75

Shading denotes ING forecast data
Source: National sources, ING estimates

Quarterly forecasts

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F
Real GDP (% YoY)	2.3	2.8	3.2	2.3	4.8	3.0	3.2	3.2	3.6	4.3	4.5	5.1	4.9
CPI (eop, % YoY)	71.6	49.4	44.4	38.1	35.0	32.2	30.5	26.6	23.7	21.4	20.4	19.0	17.9
Central bank key rate (eop, %)	50.00	50.00	47.50	42.50	46.00	40.50	37.50	34.50	31.50	29.00	27.00	25.50	24.00
3m interest rate (eop, %)	49.79	48.88	46.19	47.98	45.99	42.58	37.13	34.29	31.52	28.81	26.08	24.80	24.06
10yr yield (eop, %)	28.28	28.40	29.31	32.80	30.93	31.54	28.94	26.18	24.31	23.02	21.78	19.96	19.24
USD/TRY exchange rate (eop)	32.65	34.16	35.34	37.94	39.78	41.57	45.00	47.48	49.61	51.44	53.00	54.75	56.50
EUR/TRY exchange rate (eop)	35.05	38.00	36.59	41.04	46.86	48.80	54.00	56.98	59.53	62.24	64.66	66.80	68.93

Shading denotes ING forecast data
Source: National sources, ING estimates

Ukraine

Leszek Kąsek, Senior Economist, Poland

Forecast summary

	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	2025F	2026F
Real GDP (%YoY)	0.8	2.3	3.9	2.1	2.6	1.8	2.5
CPI (%YoY)*	14.3	13.5	10.5	9.2	8.5	13.2	8.1
Policy interest rate (eop, %)	15.5	15.5	15.0	14.5	14.0	15.0	13.0
USD/UAH*	41.8	41.1	41.5	41.5	41.9	41.4	41.8
EUR/UAH*	49.3	48.1	49.8	49.8	50.3	48.0	50.5

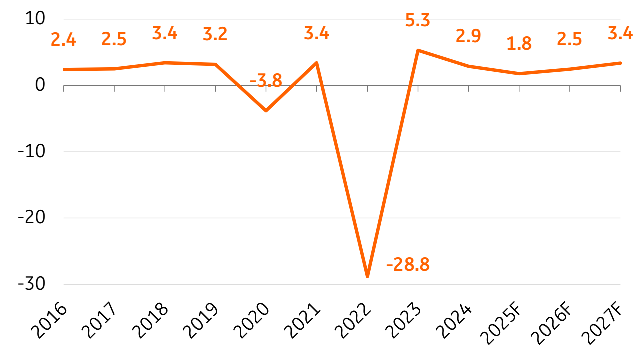
Macro trend		Political cycle	Ratings	FC	LC
Activity	–	General elections	S&P	SD	CCC+
Fiscal	Loose	postponed until the end	Moody's	Ca	Ca
Monetary	Restrictive	of martial law	Fitch	RD	CCC+

*Quarterly data is eop, annual is average. Shading denotes forecast data.
Source: National sources, ING estimates

Country strategy: Uncertainty about war and peace

The hryvnia exchange rate against the dollar remains broadly stable, supported by high FX reserves and a restrictive monetary policy stance (main rate at 15.50% since March). External aid, mainly in the form of bilateral and multilateral loans, supported a smooth financing of large fiscal and external deficits and a rise of international FX reserves. The National Bank of Ukraine (NBU) is likely to allow for a slight weakening of the hryvnia, especially against the euro, while using the exchange rate as an inflation anchor. The economy continues to suffer from the ongoing war with air strikes that have intensified in 2025. Despite the pressure from the US administration, prospects for a ceasefire or a peace agreement remain highly uncertain and rather distant.

GDP growth (%)

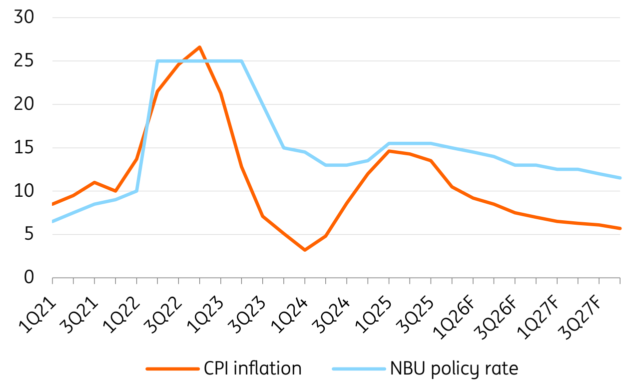


Source: NSI, NBU, ING

Modest GDP growth amid geopolitical uncertainty

After three and half years of full-scale war with Russia, around 20% of Ukraine's territory is occupied, and around 6 million Ukrainian migrants are currently residing abroad. The economy has shown resilience, but growth slowed in 2024 as a result of severe damage to energy infrastructure, supply-side disruptions, labour constraints and real incomes erosion as inflation accelerated. 2025 has seen slow growth of around 1% YoY for the first half of the year also due to exceptionally high geopolitical uncertainty. We expect growth to reach 1.8% in 2025 as a whole and accelerate in the coming years but real GDP will still be almost 20% lower than before the war. According to NBU, in a positive scenario, economic growth could be around 1ppt faster in the medium-term than in the baseline.

Inflation and NBU policy rate (%)

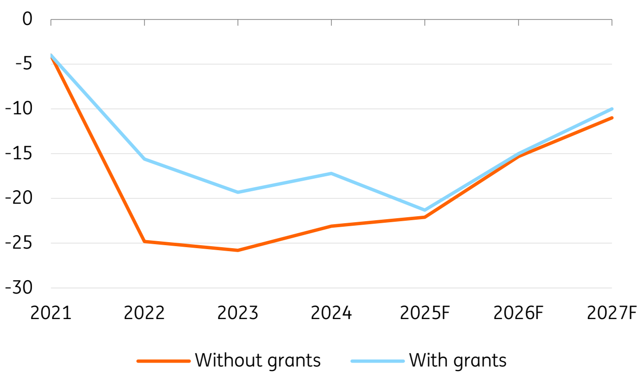


Source: NBU, ING

Sustainable disinflation will enable some monetary easing

Inflation accelerated strongly into double digits in late-2024 and early-2025 and reached a peak of 15.9% YoY in May 2025. It was boosted by both demand pressure (double-digit growth of core inflation driven by nominal wages growing at above 20% YoY) and supply-side (weak harvest) or regulatory factors (hikes in regulatory tariffs and indirect taxes). The NBU stepped in with significant monetary tightening in late-2024 and early-2025, raising the key policy rate to 15.5%. To anchor inflation expectations, the bank has opted to keep rates unchanged since then despite the recent faster-than-expected disinflation (CPI slowed to 13.2% YoY in August, partly driven by falling food prices in July and August in MoM terms). Inflation should slow further later this year and in 2026, which would enable a gradual downward adjustment in policy rates.

Fiscal balance (% of GDP)



Source: Ministry of Finance, NBU, ING

Securing continued war financing

To finance the ongoing war, Ukraine has had to mobilise its internal resources as well as rely heavily on foreign aid. Recently, the country has had to draw from foreign loans rather than grants. This translated into fast rising public and external debt levels, which reached 90% and 95% of GDP, respectively, and are set to rise further in the coming years but should stabilise above 100% of GDP levels in the medium term. This will require significant fiscal consolidation efforts in 2026-27 and higher demand from the private sector, but this is linked to further war developments.

The external trade gap is expected to widen significantly in 2025 leading to a negative net exports contribution to GDP growth, but Ukrainian exports should perform better on grain and metal markets in 2026-27.

Ukraine

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Activity													
Real GDP (%YoY)	-9.8	2.4	2.5	3.4	3.2	-3.8	3.4	-28.8	5.3	2.9	1.8	2.5	3.4
Private consumption (%YoY)	-20.7	2.1	7.7	8.8	10.9	1.7	4.5	-19.0	3.0	4.6	2.2	3.0	3.2
Government consumption (%YoY)	1.7	-0.5	2.4	0.2	-13.6	-0.7	0.1	5.6	3.0	4.6	2.0	1.5	1.5
Investment (%YoY)	-9.2	20.4	18.8	14.3	11.7	-21.3	8.1	-5.5	5.8	0.6	2.1	2.5	3.5
Industrial production (%YoY)	-13.0	2.8	0.4	3.0	-0.5	-4.0	3.5	-36.9	5.7	3.5	2.0	2.5	1.1
Unemployment rate (year-end, %)	9.5	9.7	9.4	8.9	8.4	10.1	10.6	23.2	16.3	12.0	11	10	9.5
Nominal GDP (UAHbn)	1,989	2,385	2,983	3,561	3,975	4,090	5,451	5,239	6,538	7,629	8,792	9,734	10,681
Nominal GDP (€bn)	82	84	99	111	137	133	169	154	165	175	183	193	206
Nominal GDP (US$bn)	91	93	112	131	154	152	200	162	179	190	212	233	252
GDP per capita (US$)	2,100	2,200	2,600	3,050	3,600	3,400	4,200	n/a	n/a	n/a	n/a	n/a	n/a
Gross national saving (% of GDP)	13.3	14.8	12.3	15.3	12.2	12.2	12.5	17.0	12.8	11.4	9.0	9.0	9.0
Prices													
CPI (average, %YoY)	48.5	14.9	14.5	11.0	7.9	2.7	9.3	20.2	12.9	6.5	13.2	8.1	6.2
CPI (year-end, %YoY)	43.3	12.4	13.7	9.8	4.1	5.0	10.0	26.6	5.1	12.0	10.5	7.0	5.7
Wage rates (nominal, %YoY)	21.1	23.3	37.0	24.8	18.4	10.4	20.8	6.1	17.6	23.1	20.0	14.0	11.0
Fiscal balance (% of GDP)													
Consolidated government balance	-1.6	-2.3	-1.4	-2.0	-2.2	-5.9	-4.0	-15.6	-19.3	-17.2	-21.3	-15.0	-10.0
Consolidated primary balance	2.8	1.9	2.4	1.2	1.0	-3.0	-1.1	-12.5	-15.7	-11.5	-14.9	-10.0	-5.0
Total public debt	79.0	80.9	71.8	60.9	50.2	60.4	48.9	77.7	81.2	89.7	108.6	111.1	112.3
External balance													
Exports (US$bn)	35.4	33.6	39.7	43.3	46.1	45.1	63.1	40.9	34.7	38.9	40.5	47.5	52.0
Imports ((US$bn)	38.9	40.5	49.4	56.1	60.4	52.0	69.8	55.6	63.8	69.3	77.0	82.0	88.0
Trade balance (US$bn)	-3.5	-6.9	-9.7	-12.7	-14.3	-6.9	-6.7	-14.7	-29.1	-30.4	-36.5	-34.5	-36.0
Trade balance (% of GDP)	-3.8	-7.4	-8.6	-9.7	-9.3	-4.5	-3.4	-9.1	-16.3	-16.0	-17.2	-14.8	-14.3
Current account balance (US$bn)	5.0	-1.9	-3.5	-6.4	-4.1	5.3	-3.9	8.0	-9.6	-13.7	-32.0	-35.0	-36.0
Current account balance (% of GDP)	5.5	-2.0	-3.1	-4.9	-2.7	3.5	-1.9	4.9	-5.3	-7.2	-15.1	-15.0	-14.3
Net FDI (US$bn)	-0.2	4.0	3.4	4.9	5.2	-0.1	7.5	0.2	4.4	3.5	5.0	8.0	11.0
Net FDI (% of GDP)	-0.3	4.2	3.1	3.7	3.4	0.0	3.8	0.1	2.5	1.8	2.4	3.4	4.4
Current account balance plus FDI (% of GDP)	5.3	2.2	0.0	-1.2	0.7	3.4	1.8	5.1	-2.9	-5.4	-12.7	-11.6	-9.9
Foreign exchange reserves (US$bn)	13.2	15.3	18.9	17.7	25.3	29.1	30.9	28.5	40.5	43.8	52.0	45.0	45.5
Import cover (months of merchandise imports)	4.1	4.5	4.6	3.8	5.0	6.7	5.3	6.2	7.6	7.6	8.1	6.6	6.2
Debt indicators													
Gross external debt (€bn)	107.7	107.6	96.7	100.1	109.1	102.3	114.4	122.9	145.4	172.9	192.5	206.6	221.3
Gross external debt (% of GDP)	131.3	127.7	97.4	90.4	79.4	77.1	67.8	79.9	87.9	98.5	105.0	107.2	107.2
Gross external debt (% of exports)	332.3	335.2	290.9	264.6	264.1	278.4	205.6	328.6	460.2	463.6	570.4	530.5	519.2
Lending to corporates/households (% of GDP)	48.4	41.3	33.7	29.8	24.5	23.1	18.8	18.9	14.9	14.6	14.4	14.8	15.3
Interest & exchange rates													
Central bank key rate (year-end, %)	22.0	14.0	14.5	18.0	13.5	6.0	9.0	25.0	15.0	13.5	15.0	13.0	11.5
Broad money supply (average, %YoY)	3.9	10.9	9.6	5.7	12.6	28.6	12.0	20.8	23.0	16.7	14.4	12.1	10.5
2yr yield (average, %)	18.9	19.4	15.7	17.8	17.2	13.0	12.5	n/a	n/a	n/a	n/a	n/a	n/a
10yr yield (average, %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USD/UAH exchange rate (year-end)	24.0	27.2	28.1	27.7	23.7	28.3	27.3	36.6	38.0	42.0	41.5	42.0	42.5
USD/UAH exchange rate (average)	21.9	25.6	26.6	27.2	25.8	27.0	27.3	32.4	36.6	40.2	41.4	41.8	42.4
EUR/UAH exchange rate (year-end)	26.2	28.4	33.5	31.7	26.4	34.7	30.9	39.0	42.2	43.5	49.8	51.2	51.9
EUR/UAH exchange rate (average)	24.3	28.3	30.0	32.1	28.9	30.8	32.3	34.1	39.5	43.5	48.0	50.5	51.7

Shading denotes forecast data

Source: National sources, IMF, ING estimates

Quarterly forecasts

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F
Real GDP (%YoY)	3.9	2.0	-0.1	0.9	0.8	2.3	3.9	2.1	2.6	2.5	2.8	3.2	3.4
CPI (eop, %YoY)	4.8	8.6	12.0	14.6	14.3	13.5	10.5	9.2	8.5	7.5	7.0	6.5	6.3
Central bank key rate (eop, %)	13.0	13.0	13.5	15.5	15.5	15.5	15.0	14.5	14.0	13.0	13.0	12.5	12.5
USD/UAH exchange rate (eop)	40.5	41.2	42.0	41.4	41.8	41.1	41.5	41.5	41.9	41.9	42.0	42.3	42.3
EUR/UAH exchange rate (eop)	43.4	45.8	43.5	44.7	49.3	48.1	49.8	49.8	50.3	50.7	51.2	51.6	51.6

Shading denotes forecast data

Source: NBU, Ukrstat, Macrobond, ING estimates

Uzbekistan

Dmitry Dolgin, Chief Economist, CIS

Forecast summary

	2Q25	3Q25	4Q25F	1Q26F	2Q26F	2025F	2026F
Real GDP (%YoY)	7.5	7.0	6.5	6.5	6.3	7.0	6.0
CPI (%YoY)*	8.7	8.0	8.7	8.6	7.1	9.1	7.5
Policy interest rate (eop, %)	14.00	14.00	13.50	13.00	12.50	13.50	12.00
USD/UZS*	12,688	12,095	12,122	12,182	12,243	12,508	12,243
EUR/UZS*	14,955	14,193	14,546	14,619	14,691	14,478	14,783

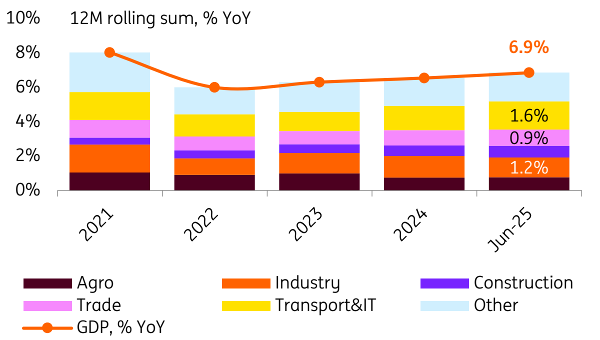
Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: 2030	S&P	BB-	BB-
Fiscal	Consolidation	Parliamentary: 2029	Moody's	Ba3	Ba3
Monetary	Neutral	Local: n/a	Fitch	BB	BB

*Quarterly data is eop, annual is average. Shading denotes ING forecast data
Source: National sources, ING estimates

Country strategy: Lifted by bullish gold market

Uzbekistan continues to stand out as the main CIS beneficiary in the current environment, thanks to elevated global gold prices and resilient domestic demand. The outlook for GDP growth, fiscal balance, current account and the Uzbek soum has improved further in recent months. The government's commitment to gradual fiscal consolidation and prudent macroeconomic management has been recognised by international observers. The recent slowdown in CPI amid USZ strength creates room for a moderate cut in the policy rate, but the medium-term stance should remain cautious. The Central Bank of Uzbekistan (CBRU) has reiterated its cautious stance, emphasising the need to anchor inflation expectations before considering any easing cycle.

GDP growth by sectors

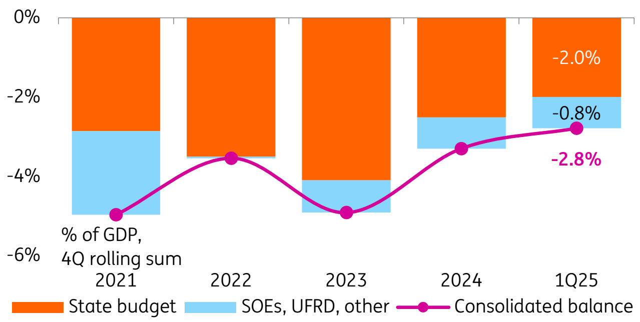


Source: National sources, CEIC, ING

Activity growth momentum has strengthened

Uzbekistan maintains high growth rates, with real GDP growth picking up to 7.5% YoY in 2Q25, supported by faster expansion in the construction, transport, IT and telecom sectors. The services sector continues to benefit from regional trade integration. Household income fundamentals remain supportive, with real wages rising 7.3% YoY and aggregate real income up 9.5% YoY as of June 2025. On the industrial side, output remains robust, with the recent YoY decline in electricity production largely reflecting base effects from last year's surge. The manufacturing sector has shown resilience, buoyed by strong demand for construction materials and consumer goods. We upgrade our GDP outlook to 7.0% for this year and 6.0% for next year, reflecting both the strength of domestic demand and the positive external environment.

Consolidated budget balance by components (% GDP)

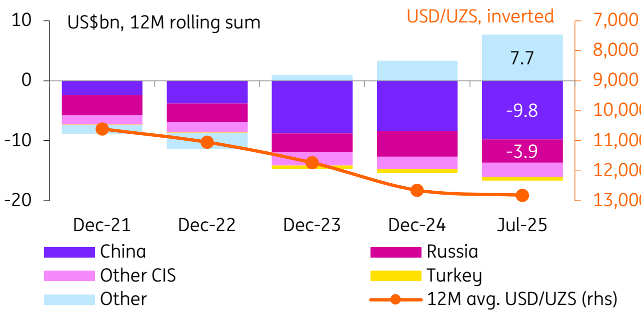


Source: National sources, CEIC, ING

Budget policy: Consolidation amid shrinking buffers

The government is proceeding with budget consolidation, as higher revenues – supported by stronger economic activity – are accompanied by continued cost control, primarily in social spending and state capital expenditures. The consolidated budget deficit continues to shrink, narrowing by 0.5 percentage points to 2.8% at the consolidated level. The full-year consolidated deficit is likely to remain within the 2.5–3.0% range, which is smaller than previously expected. Meanwhile, liquid state savings in the Uzbekistan Fund for Reconstruction and Development (UFRD) have continued to decline, reaching US$5.9bn, or 5.2% of GDP, as of 2024. This trend suggests a potentially higher reliance on market borrowing to finance the deficit, though debt sustainability metrics remain favourable by regional standards.

Balance of goods and services trade by geography (US$bn)



Source: National sources, CEIC, ING

External balance and UZS: Strong gold exports

Uzbekistan increased gold exports from 90 metric tons in 2024 to 103 metric tons annualised as of July 2025. Combined with higher gold prices, this has led to a material narrowing of Uzbekistan's trade deficit by around US$2.5bn year-to-date and contributed to improved sentiment in the local FX market. While the trade deficit with China has widened, emerging surpluses with smaller regional partners may point to increased participation in regional re-exports. Overall, the future performance of the soum will largely depend on the gold price trend. We project the USD/UZS to depreciate by 2% next year after appreciating by 6% this year, with the balance of risks tilted toward renewed FX volatility if external conditions deteriorate.

Uzbekistan

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F
Activity													
Real GDP (%YoY)	7.2	5.9	4.4	5.6	6.8	1.6	8.0	6.0	6.3	6.5	7.0	6.0	5.5
Private consumption (%YoY)	11.9	8.3	4.2	6.1	6.0	-2.3	11.9	11.5	7.0	7.5	6.5	5.0	4.5
Government consumption (%YoY)	6.7	2.7	1.5	4.8	5.7	1.4	3.1	3.5	1.1	1.1	4.0	3.0	2.5
Gross capital formation (%YoY)	9.4	4.1	19.4	29.1	37.6	-5.0	3.1	-0.3	23.4	27.6	10.0	7.0	5.0
Industrial production (%YoY)	5.3	5.4	5.2	10.8	5.0	0.9	8.8	5.3	6.3	6.5	6.5	5.0	4.5
Unemployment rate (year-end, %)	5.2	5.2	5.4	9.3	9.1	11.1	9.8	8.9	7.7	5.9	5.7	5.6	5.5
Nominal GDP (UZStr)	221	255	356	474	595	668	821	996	1,204	1,455	1,697	1,934	2,173
Nominal GDP (€bn)	77.6	77.9	60.7	49.5	60.1	58.1	65.4	85.6	94.9	106.3	117.2	130.8	140.6
Nominal GDP (US$bn)	86.2	86.2	69.5	58.2	67.1	66.4	77.3	90.1	102.7	115.0	135.7	158.0	171.5
GDP per capita (US$)	2,754	2,705	2,152	1,781	2,004	1,941	2,215	2,527	2,819	3,050	3,524	4,020	4,277
Gross domestic saving (% of GDP)	21.5	19.6	18.6	20.7	20.1	21.0	19.2	16.6	17.1	18.1	n/a	n/a	n/a
Prices													
CPI (average, %YoY)	8.8	8.1	13.9	17.5	14.5	12.9	10.8	11.4	10.0	9.7	9.1	7.5	6.5
CPI (year-end, %YoY)	7.6	9.8	18.8	14.3	15.2	11.2	10.0	12.3	8.7	9.9	8.7	6.9	6.2
Wage rates (nominal, %YoY)	n/a	n/a	n/a	25.0	27.5	15.0	20.3	20.8	17.5	17.5	15.1	12.5	10.5
Fiscal balance (% of GDP)													
Consolidated government balance	-0.3	0.7	1.0	1.2	-2.3	-2.5	-5.0	-3.5	-4.9	-3.3	-2.8	-2.2	-1.7
Consolidated primary balance	-0.3	0.7	1.1	1.3	-2.1	-2.2	-4.7	-3.1	-4.2	-2.3	-1.7	-1.0	-0.4
Total public debt	6.7	8.2	17.3	17.5	26.5	35.2	34.0	32.4	34.4	35.0	35.6	36.0	36.3
External balance													
Exports (US$bn)	9.5	8.6	10.2	11.4	13.9	12.8	14.1	16.6	19.6	19.6	24.5	25.3	26.5
Imports (US$bn)	11.6	11.0	12.4	18.3	21.2	19.0	22.9	28.3	34.5	33.2	36.5	39.4	41.4
Trade balance (US$bn)	-2.1	-2.4	-2.2	-6.9	-7.3	-6.2	-8.8	-11.7	-14.9	-13.5	-11.9	-14.1	-14.8
Trade balance (% of GDP)	-2.4	-2.8	-3.2	-11.7	-10.8	-9.4	-11.3	-12.9	-14.5	-11.8	-8.8	-8.9	-8.6
Current account balance (US$bn)	0.9	0.2	1.5	-3.6	-3.4	-3.0	-4.9	-2.8	-7.8	-5.7	-3.9	-6.1	-5.8
Current account balance (% of GDP)	1.0	0.2	2.1	-6.1	-5.0	-4.6	-6.3	-3.2	-7.6	-5.0	-2.9	-3.9	-3.4
Net FDI (US$bn)	1.0	1.7	1.8	0.6	2.3	1.7	2.3	2.7	2.1	2.8	3.4	4.1	4.9
Net FDI (% of GDP)	1.2	1.9	2.6	1.1	3.4	2.6	2.9	2.9	2.1	2.4	2.5	2.6	2.8
Current account balance plus FDI (% of GDP)	2.2	2.2	4.7	-5.1	-1.6	-2.0	-3.4	-0.2	-5.5	-2.5	-0.4	-1.3	-0.6
Gross international reserves (US$bn)	24.3	26.4	28.1	27.1	29.2	34.9	35.1	35.8	34.6	41.2	51.2	53.2	54.2
Import cover (months of merchandise imports)	25.2	28.7	27.2	17.8	16.5	22.0	18.4	15.2	12.0	14.9	16.8	16.2	15.7
Debt indicators													
Gross external debt (US$bn)	13.4	14.6	15.6	17.1	24.3	33.3	43.2	51.9	60.8	61.2	66.2	71.2	76.2
Gross external debt (% of GDP)	15.6	17.0	22.4	29.1	36.1	50.2	55.9	57.5	59.2	53.2	48.8	45.1	44.4
Gross external debt (% of exports)	141.3	169.2	153.3	150.0	174.6	259.7	305.4	311.5	309.9	311.8	269.8	281.7	287.2
Lending to corporates/households (% of GDP)	n/a	20.6	31.0	35.3	34.9	40.9	39.3	38.7	38.6	35.6	36.2	36.9	37.6
Interest & exchange rates													
Central bank key rate (year-end, %)	9.00	9.00	14.00	16.00	16.00	14.00	14.00	15.00	14.00	13.50	13.50	12.00	11.00
Broad money supply (average, %YoY)	24.3	23.5	40.2	14.1	13.9	17.7	29.7	30.2	12.2	30.6	27.6	21.9	18.7
3m interest rate (average, %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
3m interest rate spread over US$-Euribor (ppt)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2yr yield (average, %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
10yr yield (average, %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USD/UZS exchange rate (year-end)	2,791	3,225	8,120	8,404	9,506	10,466	10,818	11,229	12,346	12,895	12,122	12,364	12,982
USD/UZS exchange rate (average)	2,569	2,965	5,126	8,133	8,861	10,055	10,614	11,046	11,733	12,649	12,508	12,243	12,673
EUR/UZS exchange rate (year-end)	3,030	3,393	9,745	9,563	10,657	12,787	12,303	12,022	13,648	13,355	14,546	15,084	15,838
EUR/UZS exchange rate (average)	2,851	3,280	5,869	9,573	9,895	11,493	12,548	11,627	12,693	13,686	14,479	14,783	15,461
Brent oil price (annual average, US$/bbl)	54	45	55	72	64	43	71	99	82	80	68	57	65

Shading denotes ING forecast data
Source: National sources, ING estimates

Quarterly forecasts

	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F	1Q27F	2Q27F
Real GDP (%YoY)	6.7	6.5	6.5	6.8	7.5	7.0	6.5	6.5	6.3	5.7	5.5	6.0	5.0
CPI (eop, %YoY)	10.6	10.5	9.9	10.3	8.7	8.0	8.7	8.6	7.1	7.0	6.9	6.7	6.5
Central bank key rate (eop, %)	14.00	13.50	13.50	14.00	14.00	14.00	13.50	13.00	12.50	12.00	12.00	11.75	11.50
3m interest rate (eop, %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
10yr yield (eop, %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USD/UZS exchange rate (eop)	12,565	12,737	12,895	12,933	12,688	12,095	12,122	12,182	12,243	12,303	12,364	12,519	12,673
EUR/UZS exchange rate (eop)	13,467	14,198	13,355	13,965	14,955	14,193	14,546	14,619	14,691	14,887	15,084	15,273	15,461

Shading denotes ING forecast data
Source: National sources, ING estimates

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