Economic & Financial Analysis

EM Economics & Strategy

2 April 2025

Directional Economics CEEMEA
Trade instability: A test of strength

- Armenia
- Azerbaijan
- Bulgaria
- Croatia
- Czech Republic
- Hungary
- Kazakhstan
- Poland
- Romania
- Serbia
- Turkey
- Ukraine
- Uzbekistan

CEEMEA Economics and Strategy Team

Contents

Summary 3

Country summaries: CEE4 4

Country summaries: Other Central & Eastern Europe 4

Country summaries: CIS 5

ING main macroeconomic and financial forecasts 6

Trade instability: A test of strength 7

In theory, the CEE bloc is very exposed 7
Identifying the relative exposures 8
Diving into the sectors 11
Mitigating factors 12

CEE FX, rates and debt strategy 17

FX: Bullish short term, cautious long term 20
Rates: Inflation battles and diverging paths 21
Local currency debt: Navigating fiscal policies and market sentiment amid foreign investor exit 23

Hard currency sovereign debt: Squeezed by global cross currents 25

Countries 30

Armenia 31
Azerbaijan 33
Bulgaria 35
Croatia 37
Czech Republic 39
Hungary 43
Kazakhstan 47
Poland 49
Romania 53
Serbia 57
Turkey 59
Ukraine 63
Uzbekistan 65

Disclaimer 68

Chris Turner
Global Head of Markets and Regional Head of Research, UK & CEE
chris.turner@ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Dmitry Dolgin
Chief Economist, Russia and CIS
dmitry.dolgin@ing.de

David Havrlant
Chief Economist, Czech Republic
david.havrlant@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ing.com.tr

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

Péter Virovácz
Senior Economist, Hungary
peter.virovacz@ing.com

James Wilson
Emerging Markets Sovereign Debt Strategist
james.wilson@ing,com

Cover photograph courtesy of shutterstock
Publication date 2 April 2025

Summary

The lesson we've learned as analysts from the first few months of 2025 is that we need to be agile. The multi-generational shifts in European security and trade arrangements mean that conviction calls and baseline views need to be seen in the context of tremendous uncertainty. This is particularly relevant as the world gets to grips with Washington's reciprocal trade tariffs. What our experienced Central and Eastern Europe (CEE) macro team can offer, however, is a unique assessment of what this all means for local economies.

Those insights come through in our key article: 'Trade Instability: A Test of Strength'. Given the CEE region is historically associated with an export-driven growth model, our article drills down into which countries are more exposed to the US tariff story through their openness, their participation in global value chains, and ultimately their contribution to the valued added in US final demand.

Slovakia, Hungary and the Czech Republic tend to be seen as the more exposed to trade shocks, although the numbers do not seem to be too alarming in the first instance – unless that is, we see a prolonged trade war. When it comes to sector exposure, electronics and transportation stand out in Hungary – EV battery plants could be a focus here, too. We also highlight the metals production and pharma sectors across the region – the latter sector being especially important for Croatia.

But rather than detailing our potential point forecast GDP adjustments based on constantly moving tariff assumptions, our key message in this article is that the region may be more resilient than most think.

And here's why: the region can tap into new EU-led trade agreements and attract US investment focused on strengthening the military capabilities of NATO's Eastern flank. It also has opportunities to negotiate lower tariffs, particularly through agreements in the defence and potentially nuclear sectors. Some nations—most notably Hungary—continue to benefit from Asian, especially Chinese, foreign direct investment. And the region is strongly supported by a recovery in domestic demand as well as by EU grants and loans.

We conclude that now is an exceptional opportunity to make productivity-enhancing changes for the region, especially if those investments improve innovation, boost competitiveness through decarbonisation, and reduce security dependencies. Taken together – and even with these trade headwinds – we look for improvements in CEE regional growth both through 2025 and 2026.

Even as domestic demand supports local growth rates, our team expects easing cycles to extend. Most opportunity is seen in Poland, where we look for 100bp of cuts. In the Czech Republic and Romania, 50bp of rate cuts should be coming through. But the vulnerable domestic situation probably means that the room to cut rates in Hungary is very limited.

As we move towards the end of easing cycles, investor appetite for CEE local bonds is starting to wane. In terms of local currencies, we forecast that the Czech koruna is most likely to hold onto multi-quarter gains. Never far from investors' minds, however, will be the political cycle. Important elections are seen in Poland, Romania, the Czech Republic , and Serbia this year, and in Hungary next year. The outcome of those will be market-moving – as we've seen recently in Romania.

As always, please take a look at our country macro and market forecasts - including FX, local and hard currency bond views. These views extend across the broader CEE region and include Turkey and the CIS. Let us know what you think.

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

Country summaries: CEE4

Czech Republic: More growth while easing ends

Economic expansion is expected to accelerate over this year and next, further driven by robust household spending and newly by the reviving construction sector. Czech industry has likely left the worst in the past and is about to join the growth chorus. With an expectation of higher defence spending domestically and Europe-wide, the subdued fixed investments and muted exports are in the correct position to rise from the ashes. Robust growth performance could foster labour market tightness, support solid wage gains, and ultimately result in upbeat price pressure. The renewed convergence requires a relatively tight monetary policy so that inflation does not escalate. The bank board seems to be in a position to finish the easing job, proclaiming an agreed terminal rate as an equilibrium and looking ahead to what comes next. The Koruna should benefit from Czech growth outperforming the eurozone.

Hungary: Hopes for a better year

After two years of negative surprises, we were hoping for a better 2025. However, we have already had to make downward revisions and, more recently, have seen mixed high-frequency data for this year. The silver lining remains the labour market, but the expected strong real wage growth is at risk. The main risk is rising inflation, which undermines consumer confidence, weakens the business outlook and calls for lower wage increases. The government has introduced temporary price controls, but their impact is questionable. Against this backdrop, we see no scope for interest rate cuts this year. On the fiscal side, there is also no room for manoeuvre to boost growth. In general, economic risks are balanced (EU and German spending, peace in Ukraine versus tariff wars), but market risks (mainly fiscal and political) keep us on the bearish side of the outlook for the Hungarian forint.

Poland: GDP outperformance, dovish NBP pivot

In 2024 Poland delivered expected GDP growth set against the large downside surprises, of as much as two-thirds even, of region peers. In 2025, a second engine of domestic demand should start, with public investments complementing consumption, allowing Poland to continue outperforming. By late-2025/early-2026, the Eurozone fiscal impulse should boost external demand and potentially attract FDI to the manufacturing sector. Polish assets (equity and POLGBs) still carry a significant premium, while the PLN is overvalued but not at the extreme levels seen in the past. Our below-consensus CPI forecast, predicting a return to the 2.5% +/- 1% target range a year earlier than the last NBP projection, should prompt Governor Glapinski's dovish pivot. Already, 7 out of 10 MPC members are discussing 2025 rate cuts. We prefer to play the easing cycle via POLGBs and asset swaps rather than IRS.

Romania: Slow growth means harder fiscal choices

Romania's economy will gain momentum in 2025, but growth will stay well below potential, in our view. Without the rapid economic growth of the past to balance out negative metrics, the choice becomes clearer: implement a comprehensive fiscal reform aimed at structurally tackling the persistent budget deficit or risk losing the investment grade and possibly sizeable EU funds. We believe that this negative scenario will be avoided but given also the volatility of the external context, the room for error is quite limited. The next few months are key to see whether Romania will implement responsible policies or succumb to short-term populism. On the macro front, infrastructure upgrades and the benefits of Schengen membership offer some positives, though there is still some way to go before these start to translate into productivity improvements.

Country summaries: Other Central & Eastern Europe

Bulgaria: Euro adoption is within sight

In 2024, Bulgaria's economy experienced a robust acceleration, with GDP growth reaching 2.8%, up from 1.9% in 2023. The improvement was primarily driven by robust private consumption, fuelled by significant wage increases in both private and public sectors. Investment contracted after two years of expansion, and imports outpaced exports, exacerbating the trade deficit by 28%. Industrial output remained below pre-pandemic levels, though manufacturing did show some growth. Inflationary pressures have intensified due to changes in VAT and sustained wage growth, with inflation rising from 2.2% at the end of 2024 to 4.1% in February. The 2025 budget projects a deficit of 3.0% of GDP, a target deemed credible. Bulgaria aims to adopt the euro by 1 January 2026, which is our estimation as well, though this still hinges on managing inflation effectively.

Croatia: Staying on track

Economic growth continued on a strong footing throughout 2024 and the prospects for this year remain solid as well. RRF funds absorption is in good shape – with a strong focus on the grants component where €3.7bn out of €5.8bn has been disbursed. On the loans front, absorption is smaller, at only €0.8bn out of €4.2bn. Overall, the country managed to increase its public investments share in GDP to 5.7% in 2024 (2010: 3.8%), a visibly higher ratio compared to the EU peers (averaging around 3.0-3.5% of GDP). What's more, Croatia continues to benefit from its recent 'A-' rating from both S&P and Fitch, to the benefit of FDIs ahead. A key factor to watch is the extent to which the tourism sector continues to remain competitive given the country's shift towards a more premium destination.

Serbia: Keeping the positives on autopilot

While currently in the midst of a delicate political situation, we think that economic growth in Serbia should remain largely on track in the coming quarters. Real wages grew significantly in 2024, to the benefit of private consumption, while already-agreed investments have the prospect of remaining largely decoupled from the political arena. At the time of writing, snap elections are due in the summer unless a new government is formed by around mid-April. If policy continuity is maintained, the country is expected to benefit from ambitious medium-term investment goals, supported by the EXPO 2027 event, the EC's New Growth Plan for the Western Balkans, and the IMF-agreed reforms. Key factors to watch remain Serbia's relations with Kosovo and the evolution of the Jadar lithium mining project given the EU's ambitions on the critical raw materials front.

Turkey: Inflation outlook remains challenging

The political volatility in Turkey has somewhat dented the confidence of investors, while authorities prioritise market stability. Accordingly, signals from policymakers point to no significant change in policy stance, with Finance Minister Şimşek reaffirming the commitment to the economic programme, and the central bank (CBT) acting quickly to raise its overnight lending rate and signalling a further tightening of the policy stance at an unscheduled meeting. This also implies that the bank is not tied and is ready to act. We expect FX stability to continue considering the disinflation strategy. A tight stance is supported by macroprudential measures. Use of the policy rate and credit caps at the same time affects both the price and quantity of credit. The government targets a decline in budget deficit, implying a negative fiscal impulse, though cash spending remains high in the early months of the year.

Country summaries: CIS

Armenia: Mindful of external risks

External drivers of Armenia's activity, including high skilled immigration, remittances and regional trade flows, are all moderating. This makes the local growth story increasingly dependent on domestic credit and budget support, putting the fiscal story back into the spotlight. The elevated CPI risks limit the scope for monetary easing. The dram remains overvalued in our view, and this may be extended for some time, depending on the prospects of a peace deal with Azerbaijan and the geopolitical situation related to Russia.

Azerbaijan: Watch out for current account erosion

Azerbaijan's economic activity is expected to moderate in 2025 after a strong spike in the non-fuel sectors last year, while pressures in oil production continue. Household consumption could lose some of the credit support, but the persistently generous fiscal policy should keep favouring investment-driven industries. Meanwhile, the government's monetary policy stance should remain cautious given the growing CPI risks. Azerbaijan's more limited ties with Russia compared to other CIS countries in our coverage should limit the potential trade and financial flow impact of geopolitical shifts in the region. In the meantime, we see the continued shrinking of the current account surplus as a watch factor for the manat's stability on a 2-3 year horizon.

Kazakhstan: Spotlight on the fiscal side

Kazakhstan's macro case remains heavily dependent on the fiscal policy. A higher-than-expected budget deficit contributed to strong GDP growth and inflation, requiring the central bank to raise the CPI outlook and tighten its stance. This year, economic activity and the tenge should remain supported by generous FX outlays from the sovereign wealth fund, but the looming fiscal consolidation of 2026, which will involve a VAT hike, is likely to translate into weaker GDP, a prolonged period of higher CPI and reduced state support to the local FX market. Geopolitics remain a factor of uncertainty given that Russia accounts for a third of Kazakhstan's imports and 12% of exports. Since 2022, KZT has moved mostly in the same direction as RUB, with around 50% sensitivity at times of shocks. Meanwhile, as a commodity supplier, Kazakhstan could be better positioned in the context of higher global defence spending and trade wars.

Ukraine: Ceasefire being orchestrated by the US

The hryvnia exchange rate against the dollar remains broadly stable, supported by high FX reserves and decisive NBU interest rate hikes (by 50bp in December and by 100bp in January and March). The NBU signalled further action to ensure the attractiveness of hryvnia assets and curb inflation expectations. External aid should be sufficient this year, as G7 countries started to disburse funds from the G7-led Extraordinary Revenue Acceleration (ERA) loans, which may reach up to US$30bn. The NBU is likely to allow for a slight weakening of the hryvnia, while using the UAH exchange rate as an inflation anchor to bring inflation expectations down.

The economy remains burdened by the ongoing full-scale war, but due to the US administration's pressure, there are prospects of a ceasefire this Spring and peace agreement later this year.

Uzbekistan: Walking in fields of gold

After showing strong 6.0-6.5% GDP growth over the past three years, Uzbekistan could be heading for a slowdown in activity due to a shift to fiscal consolidation, limited room for monetary easing amid elevated inflationary risks, and slowing credit growth. Meanwhile, the changing global trade environment and geopolitics could create additional growth opportunities for Uzbekistan as an exporter of commodities, especially gold. The CBRU, the central bank, increased its reserves by 400,000oz of gold in 2024 and may consider 2025 as a good opportunity to sell.

ING main macroeconomic and financial forecasts

Real GDP (% YoY)

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Armenia	3.7	4.5	5.7	4.3	5.5	5.0	4.5
Azerbaijan	3.0	2.0	3.0	2.5	4.5	3.0	2.5
Bulgaria	4.1	3.0	2.8	2.6	2.2	2.6	2.3
Croatia	3.7	4.1	3.4	3.4	2.4	3.3	2.1
Czech Republic	1.8	2.1	2.4	2.5	2.5	2.4	2.7
Hungary	0.4	0.3	0.5	2.6	4.1	1.9	4.3
Kazakhstan	6.0	5.4	4.5	4.5	3.5	4.5	3.5
Poland	3.2	3.2	3.0	3.8	3.9	3.5	3.4
Romania	0.7	1.4	1.6	1.9	1.6	1.6	2.5
Serbia	3.3	3.0	3.1	3.5	3.4	3.3	4.2
Turkey	3.0	2.2	3.3	3.4	3.6	3.2	4.0
Ukraine	2.0	2.2	3.0	4.0	4.5	3.3	4.3
Uzbekistan	6.5	4.0	5.5	6.5	6.7	5.7	5.5
Eurozone*	0.2	0.5	0.8	1.0	1.1	0.7	1.4
US*	2.3	1.5	2.4	1.6	1.4	2.1	1.6

*% QoQ annualised
Source: National sources, Bloomberg, ING estimates

Exchange rate (quarterly is eop, annual is avg)

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
USD/AMD	395	390	401	411	416	403	427
USD/AZN	1.70	1.70	1.70	1.70	1.70	1.70	1.80
EUR/BGN	1.96	1.96	1.96	1.96	1.96	1.96	1.96
EUR/HRK	-	-	-	-	-	-	-
EUR/CZK	25.10	25.00	25.00	24.90	24.80	25.00	24.70
EUR/HUF	410.10	403.00	408.00	415.00	420.00	411.20	422.00
USD/KZT	525	500	495	520	530	514	549
EUR/PLN	4.27	4.18	4.20	4.25	4.25	4.22	4.24
EUR/RON	4.98	4.98	4.98	5.04	5.05	5.05	5.09
EUR/RSD	117.10	117.10	117.10	117.10	117.00	117.00	116.90
USD/TRY	35.34	38.00	39.47	41.10	43.00	39.64	47.15
USD/UAH	42.00	41.60	41.50	41.70	42.00	42.00	42.50
USD/UZS	12,895	13,024	13,153	13,282	13,411	13,153	13,612
EUR/USD	1.04	1.07	1.05	1.07	1.08	1.07	1.10

*Quarterly data is eop, annual is average
Source: National sources, Bloomberg, ING estimates

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

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Armenia	1.5	3.1	2.8	2.1	3.0	2.4	3.8
Azerbaijan	4.9	4.4	5.7	4.7	4.4	5.2	4.9
Bulgaria	2.2	3.8	4.8	5.5	5.0	4.6	2.9
Croatia	3.4	3.7	3.8	4.2	2.7	3.6	3.3
Czech Republic	3.0	2.7	3.1	2.5	3.0	2.7	2.4
Hungary	4.6	5.2	5.6	5.6	5.3	5.4	3.8
Kazakhstan	8.6	9.5	10.3	10.3	11.0	10.0	12.1
Poland	4.8	4.9	4.1	2.8	2.8	3.7	2.6
Romania	5.1	5.0	5.7	5.2	5.0	5.2	4.3
Serbia	4.2	4.6	4.5	3.9	3.4	4.2	3.5
Turkey	44.4	38.0	35.6	29.9	28.4	33.7	21.2
Ukraine	12.0	13.6	14.0	12.0	8.4	12.0	6.6
Uzbekistan	9.9	10.1	9.1	8.5	9.2	9.5	7.4
Eurozone	2.3	2.5	2.4	2.3	2.3	2.4	2.2
US	2.7	2.8	2.8	2.9	3.4	3.0	2.7

Source: National sources, Bloomberg, ING estimates

Central Bank rate (%, eop)

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Armenia	7.00	6.75	6.50	6.50	6.50	6.50	6.50
Azerbaijan	7.25	7.25	7.50	7.50	7.50	7.50	8.00
Bulgaria	3.04	2.59	2.42	2.39	2.30	2.30	2.20
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	4.00	3.80	3.50	3.30	3.30	3.30	3.30
Hungary	6.50	6.50	6.50	6.50	6.50	6.50	5.50
Kazakhstan	15.25	16.50	16.50	16.50	16.50	16.50	15.00
Poland	5.75	5.75	5.75	5.25	4.75	4.75	4.25
Romania	6.50	6.50	6.50	6.25	6.00	6.00	5.25
Serbia	5.75	5.75	5.75	5.50	5.25	5.25	4.75
Turkey	47.50	42.50	40.00	36.00	32.00	32.00	20.00
Ukraine	13.50	15.50	15.50	15.00	14.50	14.50	12.00
Uzbekistan	13.50	14.00	13.50	13.50	13.50	13.50	12.00
Eurozone	3.00	2.50	2.25	2.25	2.25	2.25	2.25
US	4.50	4.50	4.50	4.25	4.00	4.00	3.75

*Upper level of 25bp range; [1] Refi Rate
Source: Bloomberg, ING estimates

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

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Armenia	9.8	n/a	n/a	n/a	n/a	n/a	n/a
Azerbaijan	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Bulgaria	3.30	3.60	3.50	3.50	3.40	3.50	3.30
Croatia	3.00	3.40	3.30	3.20	3.10	3.30	2.90
Czech Republic	4.20	4.20	4.10	4.00	4.00	4.00	4.10
Hungary	6.56	7.20	7.00	6.85	7.00	6.92	7.09
Kazakhstan	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Poland	5.89	5.72	5.65	5.60	5.60	5.65	5.55
Romania	7.35	7.50	7.45	7.35	7.20	7.20	6.50
Serbia	5.06	5.20	5.25	5.15	5.10	5.18	5.05
Turkey	29.31	34.02	27.49	25.11	23.56	27.16	20.00
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Uzbekistan	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Eurozone	2.37	2.80	2.80	2.90	3.00	3.00	3.25
US	4.57	4.50	4.75	5.00	5.00	5.00	5.00

Source: National sources, Bloomberg, ING estimates

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

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Armenia	8.2	n/a	n/a	n/a	n/a	n/a	n/a
Azerbaijan	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Bulgaria	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Croatia	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Czech Republic	3.9	3.7	3.5	3.4	3.4	3.5	3.4
Hungary	6.50	6.50	6.50	6.50	6.50	6.50	5.88
Kazakhstan	14.70	16.20	16.20	16.20	16.20	14.70	15.20
Poland	5.84	5.85	5.72	5.25	4.80	4.80	4.38
Romania	5.92	5.90	5.85	5.60	5.35	5.35	4.60
Serbia	4.80	4.80	4.80	4.45	4.30	4.60	3.90
Turkey	46.19	41.24	39.33	35.06	32.08	37.99	21.09
Ukraine	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Uzbekistan	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Eurozone	2.71	2.40	2.30	2.30	2.30	2.30	2.40
US	4.13	4.50	4.30	4.00	4.00	4.00	3.75

Source: National sources, Bloomberg, ING estimates

Trade instability: A test of strength

Péter Virovácz
Senior Economist, Hungary
peter.virovacz@ing.com

David Havrlant
Chief Economist, Czech Republic
david.havrlant@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

US-EU tariff tensions are a threat to the export-driven economies of Central and Eastern Europe, with key sectors, such as cars, electronics, pharma and metals, at risk. But growing Chinese investment and the waning of US exceptionalism present opportunities, in our view, while EU trade deals and cash transfers should also help to mitigate some of the worst impacts. Handled effectively, the trade war could ultimately lead to long-term benefits for the region.

In theory, the CEE bloc is very exposed

The global trade landscape has shifted dramatically, driven by President Trump's tariff threats and other trade measures since his inauguration in January. While Central and Eastern Europe has limited direct trade with the US, the region appears vulnerable due to its export-led growth model, its deep manufacturing base, and its close integration with Germany and the EU.

As we concluded in our previous Directional Economics CEEMEA, *Why beating the middle income trap isn't enough*, the region can no longer rely mainly on exports and cheap labour, and must find new engines of growth. The rhetoric from President Trump in recent weeks again highlights the need for such a shift.

Despite recovering from recent economic challenges, CEE countries are still grappling with long-term issues, such as competitiveness, demographics, and the energy transition, which complicate the response. This article sheds light on the complexities of managing these external shocks in today's volatile global economy.

Fig 1 Intensity of goods and services exports as a percentage of GDP in the CEE

Lowest intensity Turkey (32%)->Highest, Slovakia (91%)
Source: World bank

We explore the region's vulnerabilities both at the country and sector level. And we analyse mitigation strategies both in the short and long run – strategies such as piggy-backing on EU trade deals, effectively attracting FDI (especially from China) and productively using the large swathe of EU funds on offer from Brussels.

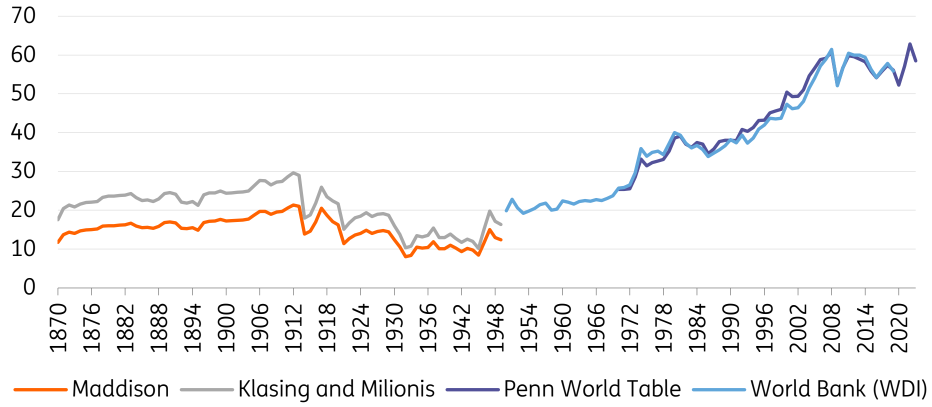
While we don't have a crystal ball, we think the region could be more resilient to trade hostilities than many expect.

Identifying the relative exposures

Most articles on the region's vulnerability in the tariff war assert that CEE countries are highly open and deeply integrated into global value chains. They emphasise that the region's GDP growth recovery heavily relies on trade activity.

On the one hand, we can clearly show that the region is an outlier in terms of global trade openness (share of exports and imports as a percentage of GDP). But what is also clear from the most recent data is that this kind of globalisation has come to a halt since the global financial crisis.

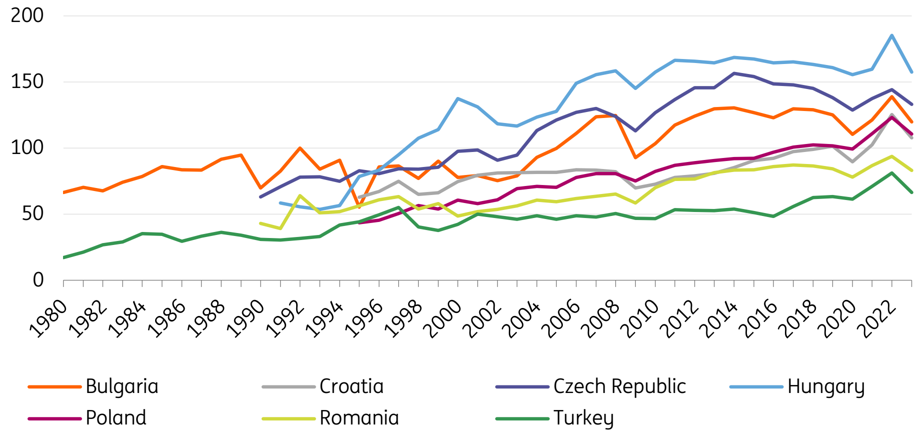
Fig 2 World trade openness (% of GDP)



Source: Our World in Data

The same can be said for the CEE as a whole. While the openness of the region (with the exception of Turkey and Romania) has recently been in the 100-200% range, only Poland and Croatia have shown an upward trend since 2008. So, from a regional perspective, openness hasn't increased much over the past two decades.

Fig 3 CEE trade openness (% of GDP)

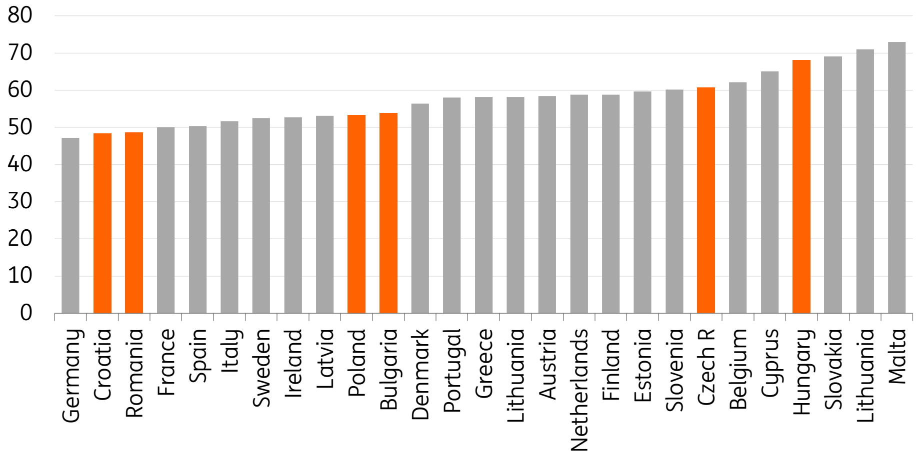


Source: Our World in Data

In terms of trade openness alone, Central and Eastern Europe could be considered vulnerable to external shocks. But a more precise measure of vulnerability can be found by examining the degree of integration in the global value chain. Using the Eurostat's FIGARO database, we can identify the countries that might be exposed[1].

[1] Global value chain participation is defined as the sum of backward and forward participation. Backward participation is calculated as the share of foreign (EU and non-EU) value added in an EU country's exports. Forward participation is calculated as the domestic value added generated in an EU country by exports from other countries and is also measured as a share of the EU country's total exports.

Fig 4 Europe: **Global value chain participation (% of total gross exports, 2022)**



Source: Eurostat/FIGARO

Not surprisingly, a country's openness to trade seems to be linked to its participation in the global value chain. But what is really surprising is that the German economy is the least integrated. Therefore, headlines claiming that CEE countries are highly vulnerable to tariff wars due to their exposure to the EU and Germany should be viewed with scepticism.

Now let's look at each country's direct trade exposure to the US. The easiest way to do this is to look at the share of exports and imports in trade statistics, and the data supports our general sense that the CEE region mostly uses the EU as a direct trading partner. Direct exposure to the US is generally low, ranging from 2.3% to 5.8% for exports and from 1.1% to 4.5% for imports.

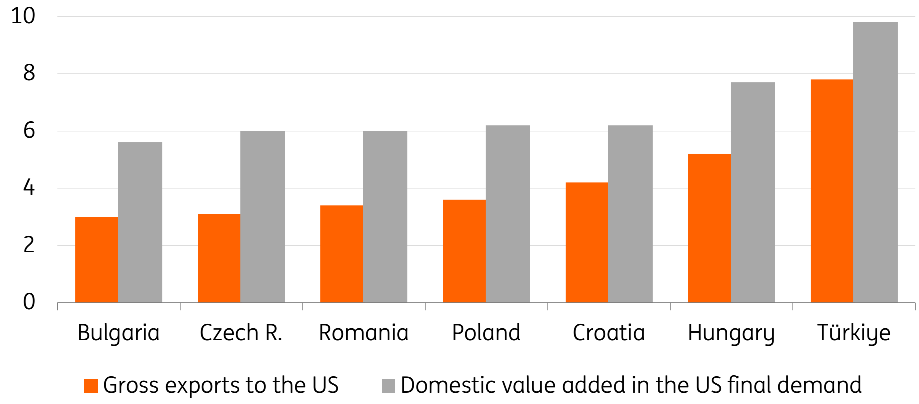
Fig 5 CEE: **Exports and imports to the United States (% share of total, 2023)**

Source: WITS/UN Comtrade

While this approach doesn't provide insights into sector-specific vulnerabilities, it does allow us to conclude that the direct impact of the new tariffs is relatively limited from a macroeconomic perspective.

Some might argue that the region's exposure through the euro area is actually much higher because of the re-export and upstream contributions to the global value chain. Indeed, the prevailing sentiment suggests that the CEE region could be heavily impacted by trade policies targeting the EU, particularly Germany, as these policies could disrupt the closely intertwined economies of the region.

Fig 6 CEE: Exports of value added to the US (% of total export, 2020)



Source: OECD TiVA

But our analysis tells a somewhat different story, painting a more nuanced picture of the situation. The OECD's Trade in Value Added database shows that the value added of the respective CEE countries in gross exports to the US is lower than in US final demand, although still represents between 6% and 10%[2].

Some countries could face minimal disruption. Turkey, for example, experienced significant tariff increases during Trump's first term. In 2018, iron and steel imports from Turkey faced a 25% tariff that later doubled to 50%, causing the US share in Turkey's exports to decline from 5.6% in 2017 to 5% in 2019. Turkey responded by imposing retaliatory tariffs on a variety of US goods, leading to a decrease in the share of imports from the US from 5.6% to 4.2% between 2018 and 2022. As a result, Turkey's trade relationship with the US is currently relatively balanced, and Turkey might escape primary scrutiny in the current round of tariff increases – a pattern that contrasts with some other CEE economies facing sector-specific exposures.

In Romania, the picture is more nuanced. Measurements, such as exports-to-GDP, show that the country is not among the most open economies in the region. But trade openness is still crucial for its integration into global markets and for attracting FDI. The 2008-09 global financial crisis revealed significant vulnerabilities in Romania's economic structure, as it took four to five years for growth to return to normal.

Hungary also suffered greatly from the crisis, but more because of a lack of domestic demand due to the lengthy deleveraging process. Export activity (in real volumes) was restored within one to two years. However, the current situation is different. Hungary has been facing a double whammy of weak domestic demand due to low confidence and inflation issues, and a cyclical downturn in export demand. This has kept Hungary in a no-growth zone for more than two years now, suggesting it may be more susceptible to the negative impact of tariffs.

The bottom line here is that the CEE region's vulnerability is not clear-cut, even considering all the indirect connections to US final demand. And even where there is higher exposure, there are several layers to that story. That said, we'd be foolish to completely dismiss the tariff threat.

It is hard to say how big the hit to growth could be. Our meta-analysis concludes that the macroeconomic impact of the tariff war is not negligible. European Central Bank President Christine Lagarde said the Bank estimates that unilateral US tariffs would hit eurozone growth by 0.3ppt in the first year, and by as much as 0.5ppt if the EU retaliates in kind.

[2] The final demand measure reflects how domestic industries (upstream in a value-chain) are connected to consumers in other countries, even where no direct trade relationship exists. The indicator therefore illustrates the full upstream impact of final demand in foreign markets on domestic production. It can be interpreted as exports of value added.

Our own calculation shows roughly the same result. If we consider the short-term (one to two-year) impact, the expected 25% tariff on Europe could reduce the EU's GDP by 0.33%, considering the direct impact on exports. But of course, it all depends on the level of exposure.

An EY study paints an even bleaker picture, arguing that the trade dispute already underway between the US, Mexico, Canada and China will have a significant global impact. In the EU, GDP is expected to fall by 0.5%. In terms of CEE, the study finds that the Czech Republic and Hungary will be the most exposed, with a peak impact of around 1.6-1.8% of GDP compared to a no-tariff scenario.

Calculations by the Confederation of Danish Industry, based on Oxford Economics' global model, show even greater losses for the region, with a potential loss of 2.5-3.5% of real GDP by 2027 following a full-blown EU-US and China-US trade war.

We're not saying everything will be fine. But in a worst-case scenario, real GDP could be reduced by 3% by 2027 than the baseline with no tariff war. This means the annual growth rate would drop from 3% to 2% for the next three years. While this matters, it's not catastrophic, especially as countries find ways to adapt. Following shocks, such as Covid and the Ukraine war, economies have shown growing resilience and adaptability.

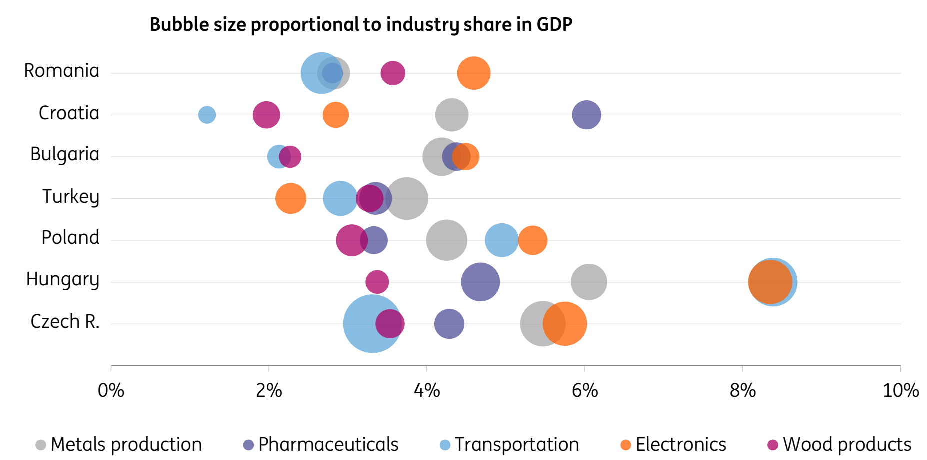
Diving into the sectors

According to the OECD's TiVA database, we can go one step further and identify the CEE country sectors that are most exposed to the US via global value chains, and what that means for key industries, such as metals, transportation, electronics, pharmaceuticals and wood products. The best way to do this is to look at the share of US final demand in the size of the industry, both measured by value-added data. Overall, we can say that the region is not particularly vulnerable from a sectoral perspective, as there is sufficient diversification with the US, apart from a few outliers.

In general, Hungary and the Czech Republic seem to be the most exposed to direct and indirect external demand from the US. The real outlier is Hungary, where both the transport and electronics sectors have relatively high exposure within industry.

This fits well with the headlines suggesting that Hungary could be the most sensitive to the auto tariffs. We can also highlight the pharmaceutical industry in Croatia, which looks more concentrated from an external demand perspective. However, if we add the macro perspective, Croatian pharma seems to have less impact on GDP than the analysed sectors in Hungary and the Czech Republic, as these sectors are responsible for a higher share of GDP generation within the economy.

Fig 7 Domestic value added in US final demand (% of industry value added)



Source: OECD TiVA

What might also be important here is that some of these sectors are sensitive to real business cycles. If we look at recent trends in these sectors, we've already seen some cyclical issues, particularly in the automotive and electronics industries, with workforce rationalisation, not only in Western Europe but also in CEE.

While we do not think this is related to the tariff story (no foreclosures yet), the adjustments reflecting current demand issues make these sectors even less shock-proof.

We have to take a small detour here, as some might wonder why we are not talking about the electrical equipment sector (eg, EV batteries). Well, this final demand data comes from input-output tables, and the latest data is from 2020. There has been a significant increase in demand and production in this emerging sector over the past five years that isn't yet reflected in the data.

According to our qualitative assessment, Hungary could be the most exposed to the impact of tariffs, with the electrical equipment sector becoming the first/second most important industrial producer in terms of volume in the past five years. What could be even more worrying is that the primary investors in this sector have come from Asia, mainly China and South Korea. With another round of tariff wars looming between the US and China and the EU and China, this sector could be at high risk. However, without hard data, it will be difficult to measure the exposure of these FDI investments and production to the trade wars. If anything, the EU-China relationship will be decisive.

Based on the above data, we can say that the US-EU trade war alone won't bring down the entire CEE economy via the export channel. However, we would have to consider other channels. The most obvious one could be through imported inflation. Perceived inflation could still move higher. And perceived inflation is a silent threat: by reducing consumer confidence, it will increase savings and kill any momentum in consumption growth. With the region just emerging from a cost-of-living problem (or crisis in some cases, like Hungary), the spillover of perceived inflation into weaker consumption via the confidence channel is something we need to monitor.

Another important layer of the tariff war is investment activity. If European companies have to expand or relocate production capacity to the US, this will have a negative impact on Western European FDI inflows (either greenfield investments or mergers and acquisitions) into the region. However, this void could quickly be filled by Chinese investors, which could provide some positive stimulus but also create further headaches for the European Commission and expose recipient countries to EU-China trade tensions. This is a nice bridge to our next topic.

Mitigating factors

It is obvious that countries in the region will feel the heat. And while we don't think that the tariff war will be an existential threat, it will stretch decision-makers at every level (supranational and sovereign). We now look at mitigating factors, some of which are unique to the region.

New trade agreements

The biggest risk to the economic outlook is uncertainty because it is toxic to businesses and their investment decisions. Our base-case assumption for trade and tariffs is this: higher tariffs, but no full-blown trade escalation. See our article on global trade.

Despite the tariff threats, there are some positive developments. The EU has been actively pursuing new trade agreements or renewing old ones in recent months. While some of them are already in force (EU-Chile and EU-Mexico) or face minor obstacles (EU-Switzerland), others face many obstacles (EU-Mercosur, EU-Malaysia). In addition, the European Commission has launched several partnerships on critical raw materials to support the green and digital transitions. Only time will tell how this might spill over to the CEE region, but it would be a way to mitigate risks from the US and/or China.

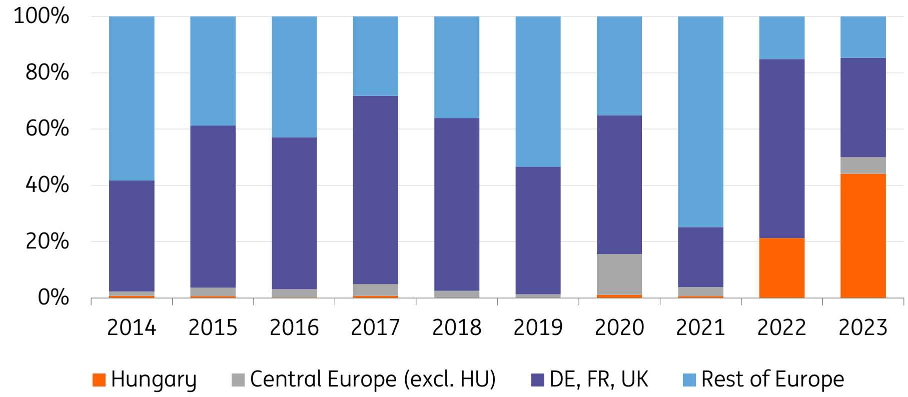
The Chinese FDI story

Central and Eastern Europe is becoming increasingly attractive to Chinese investors. China is successfully rediscovering the region through the 16+1 framework and the Belt and Road Initiative (BRI). On the one hand, the CEE region is a gateway to the rest of the European market, especially to the EU, and on the other hand, it is a very promising market in its own right.

Chinese FDI in the CEE countries is still low compared to the rest of Europe, which indicates potential for growth. Chinese investors still lag behind investors from Germany, Japan, South Korea and the United States in many CEE countries. The biggest gains have been made in Hungary and Slovakia. Unsurprisingly, these countries are the most integrated in the region's global value chain, with a significant share of automotive and electric vehicle production.

In this respect, this creates a perfect landing spot for these FDI initiatives from China. As a result, Central Europe has become the top destination for Chinese investment. Hungary alone has received 44% of all Chinese FDI in Europe over the past four years, more than the 'big three' – France, Germany and the UK – combined. Poland, the Czech Republic and Slovakia also received some investment in 2023.

Fig 8 Chinese investment by country or country groups (%)



Source: Rhodium Group

As for the future of Chinese FDI in CEE, it is highly likely this market will remain of strategic interest to China, as Tier 1 and 2 suppliers follow upstream companies into the same market.

But it could be more than just the Asian FDI. The direction of capital between the US and Europe should become clearer in the coming months. And while we fear some capital outflow to the US, the opposite move is also possible, ie, a return of capital back to Europe due to waning US exceptionalism and more European investment opportunities driven by fiscal stimulus and rearming initiatives undertaken by many governments.

Side hustles

CEE countries will also try to make some one-on-one deals with the US. Turkey illustrates how strategic negotiation might mitigate the impact of tariffs. For instance, Turkey could leverage its position as a significant US LNG customer (with the US supplying 49% of Turkey's spot LNG imports in 2023) or incorporate defence deals, like its application to purchase 40 new F-16 fighter jets, into trade negotiations. Such sector-specific bargaining strategies may provide templates for other CEE economies facing similar pressures.

Romania has also been offering some generous contracts to US companies. The latest example is building a nuclear power plant using SMR (small modular reactor) technology and a pack of 32 F35 planes. Romania also has some rare earth minerals that can be offered in a negotiating strategy. With respect to Hungary, we don't have much clarity. One possible area of cooperation could be in nuclear energy, as it is for Romania.

The Czech Republic has close ties with the US in the defence and military equipment area. The Czech Air Force is to acquire 24 F-35 fighter jets, with the purchase confirmed at the beginning of last year. In addition, the Czech energy company CEZ operates nuclear power plants, so closer cooperation in this area is possible, for instance, in developing modular nuclear reactors. Some US microchip producers are already active in the Czech Republic, providing an opportunity to build bridges.

Poland is a significant buyer of US defence equipment, with orders totalling c.US$40bn in recent years. The government is also working to attract US defence investments to offset its spending on US weapons. In addition, the country is purchasing 4 billion cubic metres of LNG from the US, which accounts for one-quarter of its gas consumption. Moreover, Poland plans to strengthen business ties with the US by acquiring a nuclear reactor for a power plant currently under construction and is interested in several SMR reactors still under development in the US. Top US technology giants have research and development centres located in Poland due to the high talent pool of IT developers.

The EU fund story

One area that has been a key strength of the CEE region and helped it to remain resilient against a backdrop of recent crises such as Covid-19 and the 2022 energy shock, is the use of EU funds. CEE countries have, in general, seen around 1-3% of GDP annually in inflows of EU funds over the past decade from the structural and cohesion funds of the bloc's multiannual budget framework. More recently, the introduction of the Recovery and Resilience Facility (RRF) after Covid-19 and REPowerEU in 2022 has increased the potential funds on offer in this 'cycle' of financing.

Fig 9 EU Funds: CEE cheatsheet (data as of end 2024)

	Cohesion funds (2021-27)			RRF grants (2021-26)			RRF loans (2021-26)			Total EU funds		
	Expected	Expected % of GDP	Disbursed	Expected	Expected % of GDP	Disbursed	Expected	Expected% of GDP	Disbursed	Expected	Expected % of GDP	Disbursed
Czech Rep	€21.1bn	8.9%	€2.7bn	€8.4bn	3.5%	€4.2bn	€0.8bn	0.3%	€0.2bn	€30.3bn	12.7%	€7.1bn
Hungary	€21.7bn	14.1%	€1.8bn	€6.5bn	4.2%	€0.1bn	€3.9bn	2.5%	€0.8bn	€32.2bn	20.9%	€2.7bn
Poland	€75.5bn	13.1%	€4.9bn	€25.3bn	4.4%	€7.3bn	€34.5bn	6.0%	€13.5bn	€135.3bn	23.5%	€25.7bn
Romania	€31.0bn	12.8%	€1.9bn	€13.5bn	5.6%	€5.8bn	€14.9bn	6.2%	€3.7bn	€59.5bn	24.6%	€11.3bn
Bulgaria	€10.9bn	15.4%	€0.9bn	€6.2bn	8.7%	€1.4bn	€0.0bn	0.0%	€0.0bn	€17.1bn	24.1%	€2.3bn
Croatia	€8.7bn	14.8%	€0.2bn	€5.8bn	9.8%	€3.7bn	€4.4bn	7.5%	€0.8bn	€18.9bn	32.1%	€4.7bn
Slovakia	€12.6bn	12.6%	€0.6bn	€6.4bn	6.4%	€3.5bn	€0.0bn	0.0%	€0.0bn	€19.0bn	18.9%	€4.1bn

Grants include REPowerEU; RRF has August 2026 deadline for requests, disbursed amount includes pre-financing; % of GDP uses 2021 EUR GDP value
Source: EC, Eurostat, Macrobond, ING

The total funding allocated across Cohesion funds, RRF loans, and grants from 2021-27 ranges from 13% of 2021 GDP in the Czech Republic to 32% in Croatia among the core CEE countries we cover. These funds could help mitigate the impact of tariff-driven uncertainty by supporting investment spending and providing consistent foreign inflows to the Balance of Payments, offsetting potential export losses.

At the same time, discussions over the ReArm Europe plan have suggested the potential for new funding sources for defence spending, along with the possibility of tapping some of the unused RRF funds for the same purpose. On this point, a word of caution remains – so far, less than 50% of planned RRF funds have been disbursed for the CEE-4 countries ahead of the 2026 deadline (August 2026 deadline for payment requests).

Hungary is the clear laggard in this respect, with RRF funding frozen, but Romania has also seen lengthy delays on its expected third tranche, while Poland is catching up with EU peers after a slow start. The Czech Republic has made better progress, nearer to the

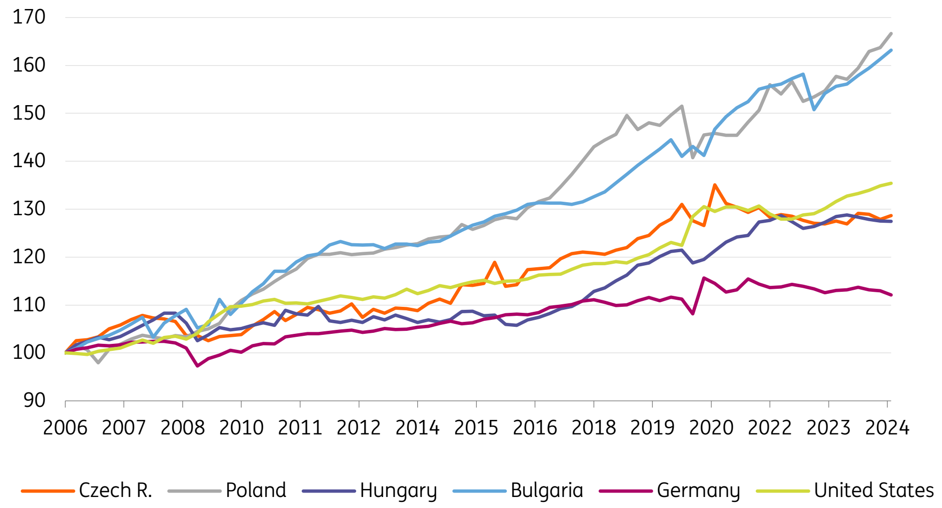
EU average with just under a 50% absorption rate. Elsewhere in CEE, Slovakia is a clear leader with an absorption rate over 50%, putting it near the top of the EU charts, while Croatia has also made strong progress in particular on the RRF grant front with an over 60% absorption rate there. In Bulgaria, progress on unlocking RRF payments has been slow, with just one tranche paid so far.

An opportunity for structural changes

While EU funds represent an important short-term mitigation strategy for CEE countries facing potential trade disruptions, addressing these immediate challenges is only part of the equation. The longer-term resilience of CEE economies depends on fundamental improvements in Europe's competitiveness, productivity and the green transition. While trade tensions highlight the region's vulnerabilities, they also underscore the need for structural reforms that go beyond the short- to medium-term solutions mentioned above to address the core productivity and innovation gaps.

The labour productivity dilemma remains an open wound for Europe. Taking a broad view and simplifying a little, we see that CEE hasn't done too badly over the longer term, with Poland and Bulgaria the clear outperformers. The Czech Republic has kept pace with the US, while Hungary has been gradually catching up since 2016. The clear laggard is Germany, Europe's largest economy and the main trading partner of the CEE countries, where all productivity gains came to an end around 2019.

Fig 10 Labour productivity of selected countries: (2006=100, CASA)



Source: Eurostat

Just as the global security re-alignment triggered generational changes in German fiscal policy, new investments in Europe should be used to improve things that will make the region as a whole more productive in the future. But that's not all: just throwing money at a problem is only part of the story. Will it be spent in ways that will make things better? For now, higher debt is inevitable, but we still need to see if the efficiency gains actually work.

To make the money work, we believe that affordable energy is a major opportunity for European manufacturing competitiveness that can be exploited through strategic investments in energy independence and diversification. China's industrial policies, while challenging, also highlight areas where European industry can differentiate itself through quality, innovation and sustainability. Security investments, already visible in planned increases in defence spending across Europe, are laying the foundations for long-term green shoots and resilience.

There is now an opportunity to break out of secular stagnation and build on this momentum by streamlining energy policy, reducing administrative burdens and creating an innovation-friendly regulatory framework. These improvements would unlock Europe's considerable potential in strategic sectors such as energy technology, pharmaceuticals, artificial intelligence and semiconductor manufacturing. While challenges remain, Europe has significant advantages in research institutions, skilled labour and an established industrial base that can be mobilised more effectively.

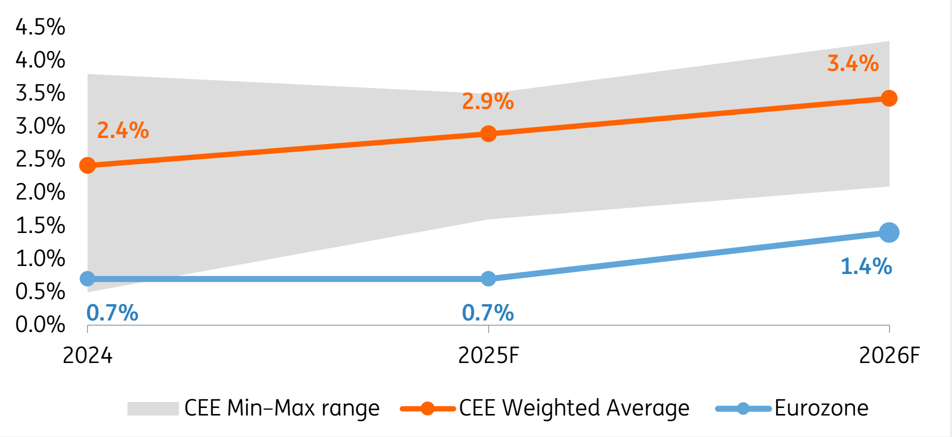
Urgency is key. While the US may have more room for manoeuvre, Europe can accelerate progress on several fronts by building on its existing strengths and making targeted improvements to its innovation ecosystem. This view has already been expressed in the renowned Draghi report of 2024 addressing the future of European competitiveness, which focuses on three broad areas for action: (1) closing the innovation gap with the US and China; (2) boosting competitiveness while supporting decarbonisation technologies; and (3) increasing security while reducing dependencies.

To conclude on an optimistic note, this tariff war could serve as a long overdue wake-up call for Europe, potentially leading to positive spillover effects and overall benefits for the EU and the CEE region in the long term.

The growth outlook

The CEE region remains on a strong growth path in the coming years, driven by robust private consumption, supported by healthy wage growth and rising public investment in several countries. Many countries are benefiting from substantial funding from the EU's Recovery and Resilience Facility (RRF), which is enabling significant infrastructure upgrades, higher public investment as a share of GDP and green transition projects.

GDP growth outlook in the CEE region (% YoY)



Source: National sources, ING estimates

Wage growth in both the private and public sectors has boosted household spending, providing a reliable growth driver, as seen in countries such as Bulgaria and the Czech Republic. Integration milestones, such as the Schengen accession of Bulgaria and Romania, mark a positive shift for trade and long-term growth prospects. Meanwhile, we believe countries in the region are poised to benefit from stronger euro area demand, which we see as an export renaissance in 2026. Several CEE economies continue to attract FDI due to competitive labour costs, credit rating upgrades or early recovery in key industries, such as manufacturing and construction. In this respect, we believe that the CEE region is in a good position to face the main risk of a trade war between the US and the EU.

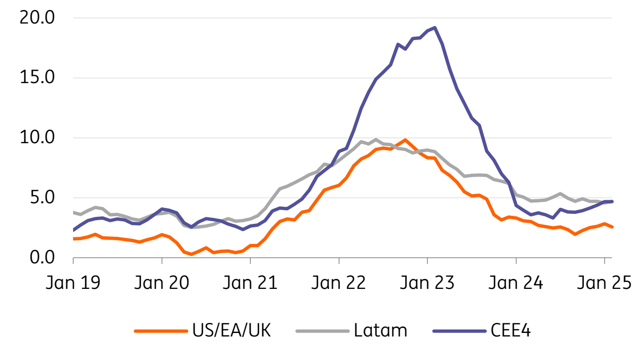
CEE FX, rates and debt strategy

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Fiscal policy and the political cycle is increasingly gaining attention while the monetary policy cutting cycle is coming to an end. We see some rate cuts in the region, but this will be more of a fine-tuning exercise in the face of a rebound in inflation and the economy. Elections will be held this year in the majority of CEE countries, which will set the future direction. At the global level, the CEE region faces several themes pointing mainly to inflation risks. While a potential peace deal between Ukraine and Russia will have a mixed impact on the region, US tariffs, German fiscal expansion and rising military spending are clearly inflationary.

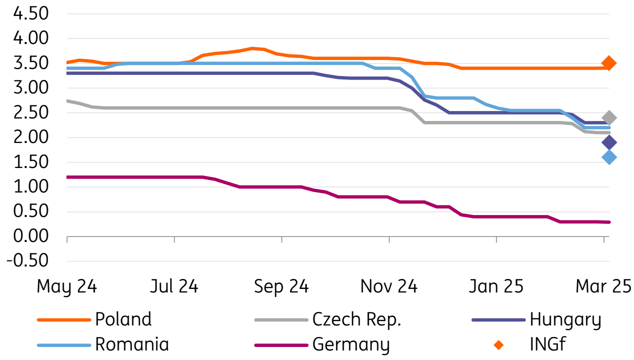
In this opening, we focus on topics that will be key for the coming months in the CEE region. In the October issue of Directional Economics, we mention that the political cycle and fiscal policy will receive increasingly more attention given the election calendar in the region. At the same time, monetary policy discussions will be pushed to the background since most of the cutting cycle is behind us. We still believe this to be the case and that it is a multi-quarter trend that will continue. As a reminder, Poland's presidential elections will have a first round on 18 May with a second round on 1 June. The Czech Republic's general elections are due in September/October while in Hungary, the general election will not be held until April next year, although the political campaign is already underway. Following their cancellation in 2024, Romania is set to rerun its presidential elections on 4 and 18 May (two rounds). However, elections are not the only driver of fiscal policy, the global context is also important. The push for higher defence spending has become mainstream in recent months, and the EU's RRF is coming to an end with a deadline of August 2026, a key source of funding especially for the CEE region countries. Overall, it is clear to us that fiscal policy will receive increasing attention and high bond issuance will continue to resonate in CEE markets across the board.

Fig 11 Inflation rebound most visible in CEE region



Source: Macrobond, ING

Fig 12 Consensus forecasts for 2025 GDP growth (%)

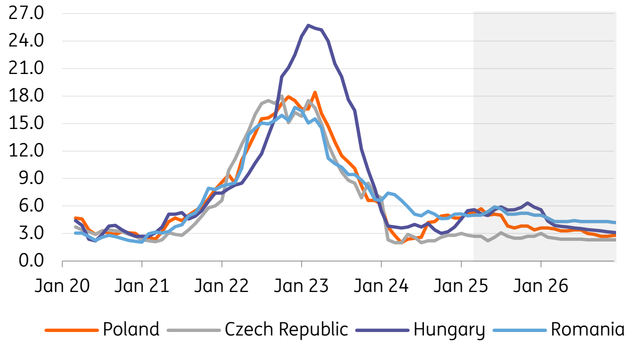


Source: Macrobond, ING

At the same time, monetary policy is fading into the background and we expect the focus to be more on fine-tuning in most places. The exception is Poland, which after a brief episode of rate cuts in 2023, left rates unchanged throughout 2024, but 2025 could see a return of rate cuts and we could potentially see the biggest moves in rates here, though the overall picture for Poland is somewhat cloudy. As a baseline, our economists see room for 100bp rate cuts from the NBP this year. The Czech Republic's cutting cycle is the furthest along within the CEE peer group and the debate is on the terminal rate, whether we will see one or two further rate cuts of 25bp from CNB. Our baseline is for two but risks are clearly rising in the direction of fewer cuts. In Hungary, following the upside surprise in inflation over the past two months, we see rates unchanged this year but cannot completely rule out cuts if inflation surprises to the downside again in the second half of the year. In Romania, we expect a return to the rate cutting cycle with two 25bp rate cuts from the NBR in 2H25 if inflation allows.

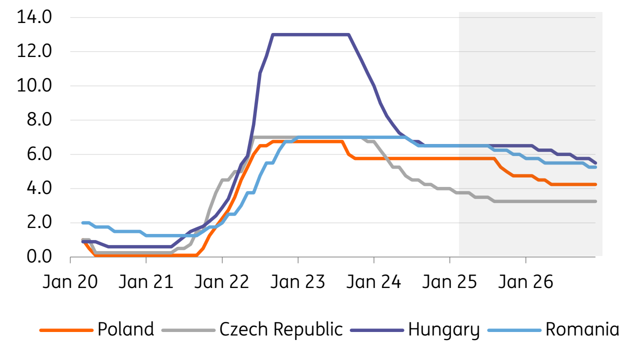
In our October report, we also mentioned the problematic further decline in inflation and, in essence, the end of disinflation. Globally, we are currently seeing some recovery in inflation, however, the CEE region is showing the biggest rebound. At the same time, we are seeing much more divergence within the region than in previous years when the sources of inflation were more aligned. Service prices remain a problem with current levels above the median since 2018 across the region with the exception of the Czech Republic. At the same time, food prices are being pushed up and agricultural producer prices do not show any easing in the near term. Energy prices are unlikely to show downside unless something major changes in the geopolitical story. The economy is recovering across the region and we are seeing some improvement in consumer demand. In nutshell, inflation is becoming tricky and the detail will be important in the months ahead. In our forecasts, no central bank will be on target at the end of this year and the achievement will be to at least touch the upper end of the tolerance band of the inflation target. However, on the GDP side, we see good confirmation of a recovery in growth in the region this year but we prefer to remain below consensus in Hungary and Romania on the GDP forecast. And despite economic recovery, we may see some market disappointments.

Fig 13 Headline inflation forecast (%YoY)



Source: Macrobond, ING

Fig 14 Key policy rate forecast (%YoY)



Source: Macrobond, ING

At the global level, the CEE region continues to be a clash of several geopolitical storylines. Several themes have become apparent since we last published our Outlook in October, and we identify the key ones as follows:

1) Negotiations between Ukraine and Russia on a peace agreement
2) US tariffs especially on automotive
3) German fiscal expansion
4) Defence spending

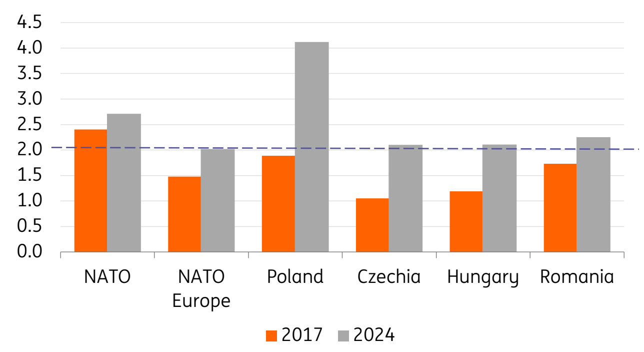
1

At first glance, we view these topics are pro-inflationary for the CEE region. The peace agreement between Ukraine and Russia is probably the most mixed in terms of its impact on CEE countries. On the one hand, we expect lower prices for energy and food, on the other hand, better prospects for GDP growth. However, as our commodities team discusses, gas prices are unlikely to have much further room to fall in the most likely scenarios, leaving us with more pro-growth factors (migration, reconstruction of Ukraine, positive sentiment) on the table, ultimately resulting in higher inflation again. Still, from a market perspective, the announcement of a peace deal or ceasefire itself has the potential to trigger a rally in CEE markets, but this is more about sentiment than the actual impact on the economy, which is more likely to be seen later rather than sooner and the market may be overshooting optimism at the moment.

2 The US tariffs narrative changes every day and is a story in development. However, the channels here seem fairly clear to us. Although direct exports to the US are not significant, they have increased in recent years, especially in the case of Poland. Moreover, the linkages through Germany are substantial (see our main article) and the concentration of the automotive industry in the CEE region will be key to the impact of trade wars on inflation and GDP growth. From this perspective, we believe the market has accepted the consensus view that the Czech Republic and Hungary are the most exposed and that these markets would react the most in the event of further escalation.

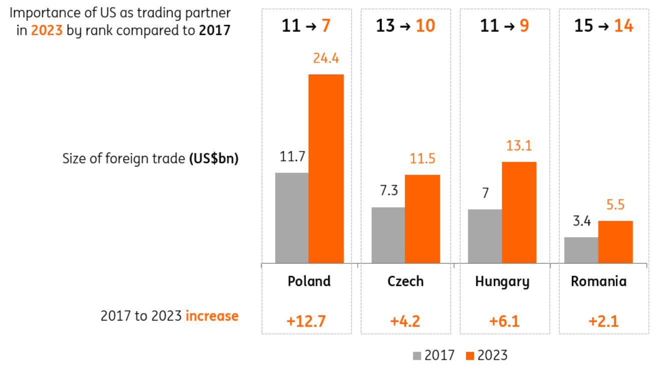
3 The German fiscal expansion was approved a few days ago and seems like a done deal. In our view, the Czech Republic should benefit the most from this, given its links to the German economy due to its geographical proximity, exports and relatively strong local military industry. This results in the Czech Republic having the highest GDP beta relative to Germany within region, but the German fiscal expansion is positive news for all of CEE leading to higher GDP growth and again likely higher inflation if anything. However, the lag between approval and the actual effect visible in the numbers could be problematic, especially in the case of infrastructure and military spending. Hence, we may see some exaggerated expectations of growth already this year and next leading to some market disappointment at the end of the day. On the other hand, it is clear that central banks will take this into account potentially pushing against further rate cuts.

Fig 15 Military expenditure (% of GDP)



Source: Macrobond, ING

Fig 16 Increasing trade of CEE countries with the US



Source: Macrobond, ING

4 The last topic we view as key for the region over the coming months is military spending, either from a global perspective and its impact on the CEE region, or the increase in spending in the CEE region. From a global perspective, we think this trend will be interesting for the industry in Poland and the Czech Republic as the largest producers within the region, potentially improving GDP outlook. From a local perspective, we see a lot of divergence in the region in terms of the approach to military spending. Poland has been a long-term leader not only within the region but also within NATO. However, the government is talking about a further increase in spending, which could be covered by EU sources whereas fiscal policy does not have much room for further widening in our view. On the other hand, in recent days, the Czech Republic has found the political consensus to increase military spending to 3% of GDP by 2030, regardless of the outcome of the autumn general elections. At the same time, the Czech Republic is the only country in the region with fiscal space. Hungary and Romania are not much involved in the discussion yet. While Hungary is focusing on other spending ahead of its elections, Romania has the least fiscal space within the region for any spending increases.

FX: Bullish short term, cautious long term

Despite geopolitical complexities, CEE FX outperforms within the EM universe, particularly in USD-crosses. The region benefits from widening rate differentials and economic recovery, with central banks adopting hawkish stances. The EUR/USD reversal and potential peace between Ukraine and Russia, alongside German fiscal expansion, bolster CEE FX. Short-term bullish sentiment prevails, though medium- and long-term outlooks are bearish. PLN faces monetary policy shifts due to inflation surprises, while CZK shows bullish momentum amid low volatility. HUF's mixed performance hinges on global sentiment, and RON remains under NBR control with devaluation concerns. Overall, short-term optimism contrasts with longer-term caution.

Despite the complicated geopolitical environment, CEE FX is doing well in the global comparison within the EM universe. In particular, in USD-crosses, the region's currencies are leading the way despite lingering risks. CEE countries are ahead of the cutting cycle, which is currently reflected in widening interest rate differentials vs core markets. At the same time, the economy is recovering and central banks are moving to the hawkish side. On the global side, the reversal in EUR/USD is generally positive for the region and the prospect of peace between Ukraine and Russia as well as German fiscal expansion are generally positive for CEE FX. Thus, the main downside risk is mainly optimistic sentiment, which may experience a wake-up call in respect to some of these themes. Overall, though, from an FX strategy perspective, we are bullish short term on the CEE region although our economists are more bearish in the medium- and long term.

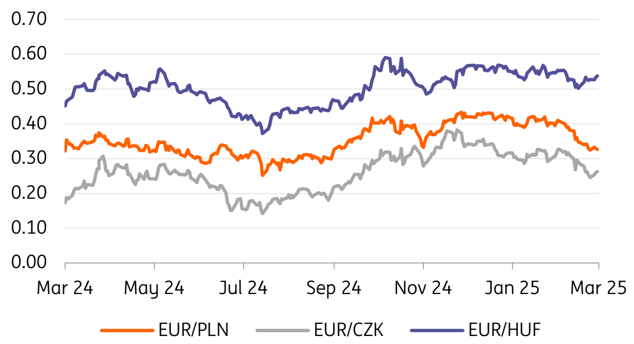
The PLN sees a fresh turn in monetary policy views given that February inflation surprised to the downside and the change in CPI weights shows a faster-than-expected decline in inflation. At the same time, despite the strong outlook, the latest economic numbers are more on the weaker side. Rate cuts are back in the discussion, weakening PLN. EUR/PLN is close to its highest level in two months. We believe the NBP is the hardest central bank in the region to read at the moment, which makes it difficult to have a strong view on PLN. However, the market is already pricing in significant rate cuts and further progress on the Ukrainian side may provide a boost. Moreover, we believe the risk is now back on the hawkish side for rates repricing. EUR/PLN should thus head lower again in the short term. Looking ahead, our economists see more range trading between 4.200-250 this year.

The CZK, has not seen major movements and remains the lowest realised volatility currency (EUR-crosses) within the EM group this year. However, momentum is starting to build on the bullish side, in our view. The CNB is nearing the end of its cutting cycle and the market appears to be pricing in maximum possible rate cuts and repricing risk is clearly on the hawkish side. At the same time, the economy is reviving at a brisk pace with the Czech Republic one of the few showing positive surprises. On the global side, as already mentioned, the Czech Republic will be the main beneficiary of Germany's fiscal expansion and partly of the Ukraine story. However, the risk is the US tariffs, especially on automotive, key to the Czech Republic and market sentiment. Overall, we are bullish on the CZK short and long term, where we see EUR/CZK persistently below 25.000.

The HUF is probably the most mixed currency in the region at the moment, living constantly on the edge, driving the fixed income market in Hungary. EUR/HUF is currently anchored below 400 and, in the short term, we believe the balance of risk is towards a stronger HUF further out to 390 at best. However, further gains will be mainly driven by global sentiment. In our view, Hungary is the main beneficiary of the Ukraine story due to its dependence on gas imports and currently higher inflation. But as discussed earlier, sentiment is what the market is playing and the real impact on the economy may be disappointing in the CEE region. Therefore, further headlines from the negotiations may be a boost for HUF in the short term and, at the same time, a hawkish NBH may help. Medium and long term, we believe local factors will play a role again. Economic recovery is still a question mark in Hungary and the market is sensitive to fiscal policy and possible moves in the election campaign. Therefore, our economists are bearish in the longer term, forecasting EUR/HUF back above 400 in 1H25 and above 410 in 2H25.

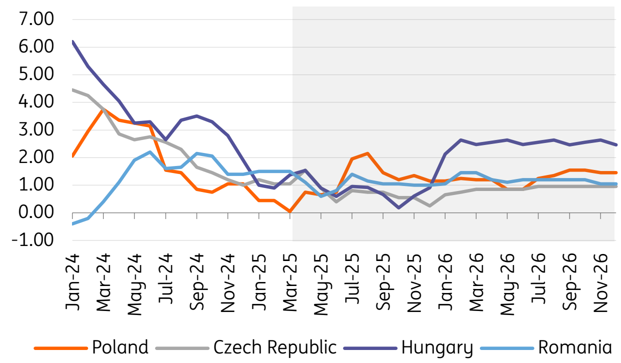
The RON remains firmly under NBR control below the EUR/RON level of 4.978. The market has been focused on the topic of devaluation timing since the start of the election cycle last year. In our view, the market usually sees this as a bigger issue than the central bank itself, which is considering a much smaller move than the market. Still, Romania has several issues on the table - the political situation, inflation and fiscal policy. That's why we believe that if there is any central bank action it will be later in the second half of the year and in the 2-3% range in EUR/RON. However, this is being played out in the forward space already. Although at the beginning of the year the devaluation trade resonated through the market, recent weeks have shown a drop in fwd points, implying a roughly 1.8% move in the 6M horizon. With the election off the table, upward pressure on the forward curve could come back. Although we believe the EUR/RON move will be on a smaller scale in the second half of the year, the market has a tendency to overshoot, which may make paying the forward curve an attractive trade once we see momentum picking up.

Fig 17 Rate differential/3M ATM implied vol



Source: Macrobond, ING

Fig 18 Projected real policy rate (%)



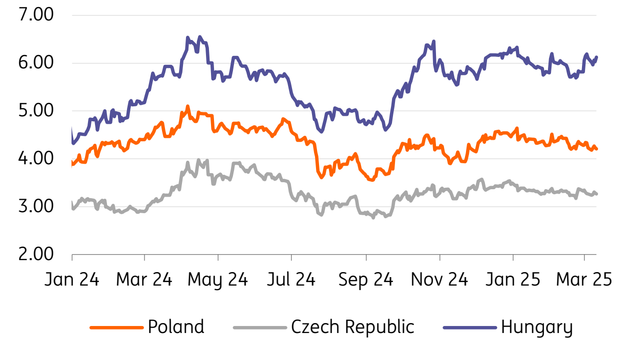
Source: Macrobond, ING

Rates: Inflation battles and diverging paths

We expect most central banks in the CEE region to remain hawkish amid rebounding inflation and geopolitical risks. Poland is poised to restart rate cuts, with the market pricing in 100bp this year, aligning with our forecasts. Still, the PLN curve should steepen further with a restart of the cycle and an outlook of higher core rates. In the Czech Republic, the cutting cycle is at its end. Even though the market is trying to be cautious, we believe it is pricing in the maximum number of possible rate cuts. Risk-reward favours paying at the front of the curve, but we see it complicated in the cutting cycle and it may be easier to play FX as hawkish expression of the CNB stance. The HUF market has priced out all rate cuts and, in our opinion, rate hikes are not on the table despite the upward inflation surprise. Valuations are therefore the juiciest in the CEE region, in our view.

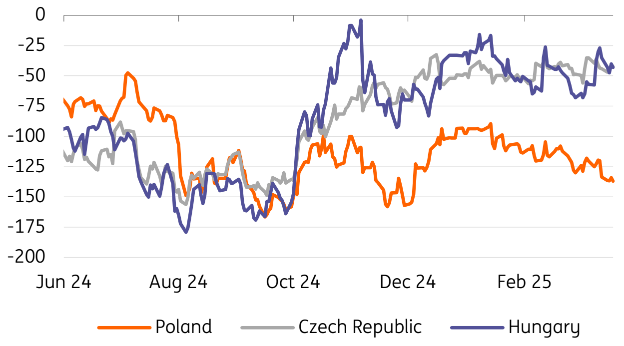
Central banks in the CEE region took a hawkish stance last year that has persisted into this year. Moreover, rebounding inflation and a number of geopolitical risks will bring a complicated environment for further rate cuts. However, we may see greater divergence within the central banks' approaches. Poland is approaching a restart of the rate cut cycle and objectively has the most room for rate cuts within the region although the economic picture is a mix with the strongest GDP growth in the region. For this year, the market is pricing in roughly 100bp, which is in line with our forecast, and the terminal rate is priced at 4.00-4.25%. This does not appear to be significantly mispriced but is close to stretched levels. As previously mentioned, we consider the NBP as the hardest central bank to gauge at the moment and therefore it is hard to hold a strong view. Still, the PLN curve is the least steep in the CEE region and we should see more steepening as the cycle restart approaches, which should support higher core rates later this year.

Fig 19 Market implied terminal policy rate



Source: Eikon, ING

Fig 20 Rate cuts priced in 1y horizon



Source: Eikon, ING

In the Czech Republic, the cutting cycle is coming to an end and it looks like it will be the first central bank to complete the job within the CEE region. Markets are already more cautious on pricing in rate cuts, whereas last year the CZK was the most popular receiver in the region. While the market is pricing in two rate cuts this year with the terminal rate at 3.25% or lower, we think this is the most the central bank can deliver. Moreover, recent developments point to the risk of fewer rate cuts, with only one in May, while no cut might not be a surprise either. January inflation showed that a return to the 2% target will not be as easy as last year and we may see inflation in the 2.5-3.0% range for the rest of the year. At the same time, the economy has been recovering at a rapid pace in recent months and the risks are more on the upside due to the Ukraine story and German fiscal expansion. However, it is still hard to pay front-end rates in a cutting cycle and FX may be the easier route. On the other hand, the long end remains elevated after the sell-off in the Bund and the 5y5y segment has some potential to go lower, in our view, resulting in some flattening of the curve late in the cycle.

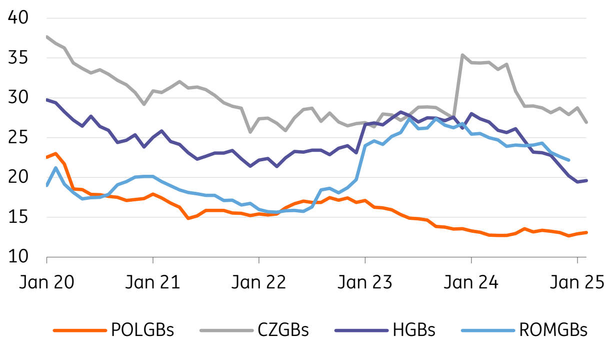
In Hungary, after the upside surprise in inflation in January and February, we do not expect any rate cuts from the NBH. Still, there may be a possibility of cuts in the second half of the year if inflation surprises to the downside again, similar to last year, but in general we believe that the central bank is more cautious now and is not in a hurry to make rate cuts despite the change in central bank leadership. Indeed, the inflation picture is not favourable and, moreover, as the election campaign gets underway, markets become highly sensitive to potential fiscal costs. However, the market has priced in all rate cuts and, other than the two cuts at the front of the curve, the entire IRS is above or near 3M BUBOR. At the same time, we don't think rate hikes are in play. FX is still the main driver and EUR/HUF is at significantly lower levels than in December and January and rate hikes were not the case then. Thus, in our view, valuations make the HUF market the most juicy in the region.

Local currency debt: Navigating fiscal policies and market sentiment amid foreign investor exit

The CEE bond issuance is expected to remain heavy, with foreign investors likely to continue exiting due to completed disinflationary trends and rising political and inflation risks. In Poland, MinFin frontloaded supply in the first quarter, but the NBP rate cuts may widen ASW, keeping us cautious amid expensive valuations. The Czech Republic is seeing high demand for CZGBs due to higher yields and limited supply, with muted fiscal risk despite upcoming elections. Hungary's AKK increased HGB issuance, supported by retail bond redemptions and tax incentives, with favourable valuations and widened ASW and CEE spreads. ROMGBs may face challenges due to high fiscal and political risks, with potential market disappointment and delayed NBR rate cuts. Overall, the CEE bond market will continue to navigate fiscal and inflation risks, with varying impacts across countries.

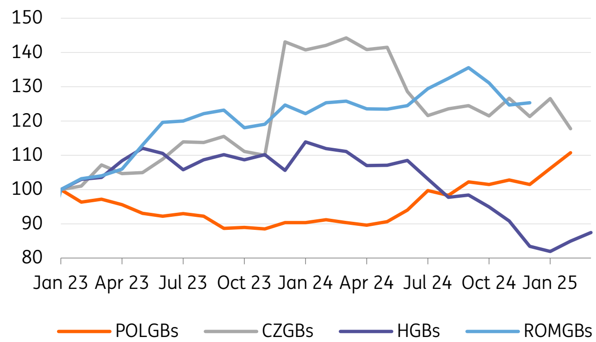
As discussed in previous sections, fiscal policy and elections are the main focus of markets, especially in the bond space. Bond issuance remains heavy and the market appears sufficiently saturated. Foreign investors, in particular, are exiting the CEE market, which is also evident in the weaker performance of primary auctions. Understandably, demand is falling as the end of the cutting cycle approaches and the main disinflationary trend is complete. At the same time, inflation risks are tending to build on the upside and fiscal risks persist. Foreign investor share has been declining since early last year in the CEE region and it is hard to see a case for any significant reversal in the near term with the market chasing opportunities elsewhere in the EM universe.

Fig 21 Foreign bond holders (%)



Source: Eikon, ING

Fig 22 Foreign bond holders stock (Jan-23 = 100)

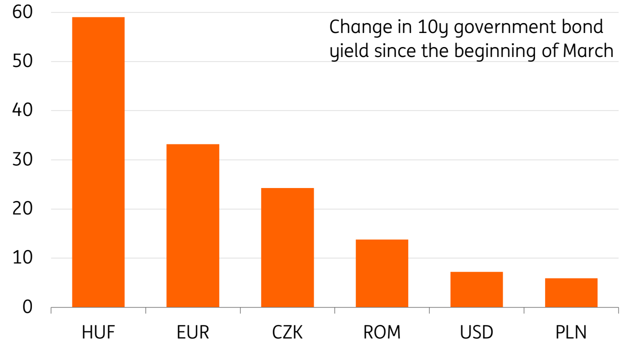


Source: MinFin, ING

In Poland, MinFin is, as usual, trying to pre-finance a large part of the record financing needs. MinFin communicates 56% of covered needs at the end of the first quarter involving high cash buffer utilisation. By our calculations, MinFin covered roughly 38% of all POLGBs in our forecast, the most among CEE peers. Therefore, we believe we could see some relief in monthly supply in 2Q and 3Q, however, MinFin will also focus on prefunding next year with more activity in switches and we cannot expect much relief on the supply side. On the positive side, however, we see an improvement in foreign investor sentiment and POLGBs are the only market in CEE to see some inflows. But to be fair, the share of foreign investors remains by far the lowest within the region. Although POLGBs look cheap in ASW and the prospect of lower supply could attract buyers, the looming NBP rate cuts may keep the IRS market received, leading to further expansion in ASW. Therefore, we remain on the sidelines here. At the same time, POLGBs spreads vs CEE peers tightened significantly in March and we are hardly looking for any opportunity here. Still, structurally we maintain our bias to see the POLGBs curve steepen, especially in the 5s10s segment.

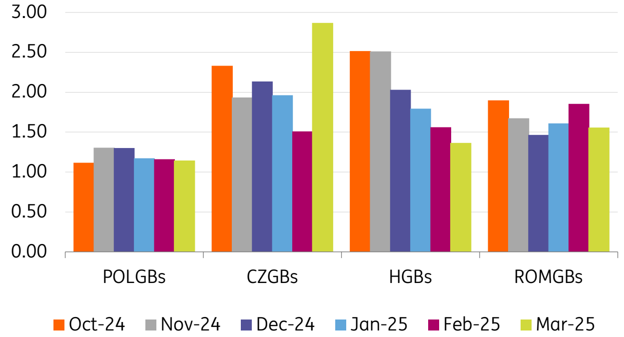
In the Czech Republic, CZGBs are the last in the CEE region to maintain high demand in primary auctions. In particular, higher yields following the sell-off in Bunds and repricing in CZGBs yield attracted domestic demand. At the same time, the Czech MinFin is the only one in the region that can afford to limit supply in case of unfavourable market conditions, see March auctions. According to our calculations, MinFin covered about 26% of the planned issuance, while we see risks of lower issuance due to off-market funding sources. Fiscal risk looks muted despite the general election in September/October and inflation remains under control, in our view. So, the main risk is a hawkish CNB and dovish market pricing. However, this should keep higher the rather short end and the belly of the curve. Long-end, on the other hand, looks cheap to us with 10y around 4.25% and ASW at its widest in recent months. At the same time, the CZGBs curve is the most steep in the CEE region and we may see some flattening and widening of spreads again vs CEE peers again.

Fig 23 Mixed beta to core in March



Source: Eikon, ING

Fig 24 Average bid/cover last six months in CEE



Source: MinFin, ING

In Hungary, the debt agency AKK has significantly increased issuance of HGBs this year, betting on demand coming from high maturity retail bonds and a tax incentive for banks to buy HGBs. At the same time, the government recently tightened the limits on HGB holdings for investment funds again, which should keep the bid strong. Although due to significant increases in monthly supply, bid-to-cover has dropped significantly in primary auctions, we believe funding is going well given market conditions. According to our calculations, the AKK has covered roughly 29% of issuance in our forecast, incorporating a slight slippage in the MinFin plan. Similar to Poland, we could see some relief in supply closer to the summer months, but we cannot expect big changes given the higher borrowing needs and fiscal risk. Still, the main positive, in our view, is current valuations here. HGBs spreads vs POLGBs and CZGBs have widened to their highest levels since the second half of 2023 and ASWs have widened significantly since the start of the year to levels seen last October. Overall, as in the case of the IRS, we like the HGBs here.

In Romania, the ROMGBs market went through a significant sell-off in January, while in February we saw a strong rally, leading to a re-tightening of spreads versus CEE peers. Supply remains strong as MinFin looks to offset the January pause in issuance. MinFin has covered about 32% of projected ROMGBs in our forecast, but the assumption is strong retail issuance, which is a new interest for Romanian MinFin. At the same time, fiscal and political risk remains high. The government has committed to deliver a 7% of GDP deficit this year and to start consolidation after the May presidential elections. However, we believe the market could be overly optimistic and we might see disappointment from the current expensive ROMGBs levels. Also, the NBR rate cuts are being delayed until the second half of the year if lower inflation allows some easing this year. So, overall, we prefer to stay on the sidelines and wait for better levels given the lack of good news here.

Hard currency sovereign debt: Squeezed by global cross currents

James Wilson, CFA
Emerging Markets Sovereign Debt Strategist
james.wilson@ing.com

After touching 5-year lows in February, EM sovereign spreads have finally started to show some signs of pressure amid an environment of global uncertainty. We see the potential for further weakness given the tariff talk and slowing US growth, although the German fiscal story can at least offset some of this negative sentiment for CEE.

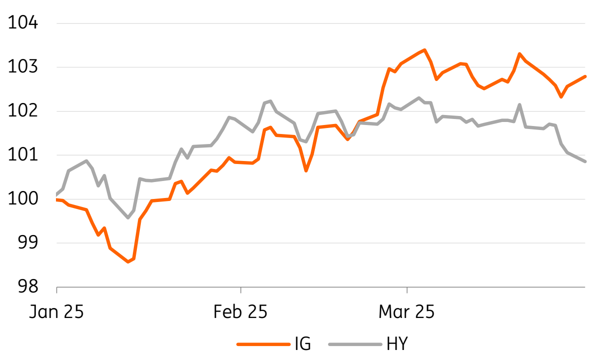
This year has seen a slight reversal of some of the trends from late last year, with EM sovereign spreads edging wider, IG sovereigns outperforming versus HY, and US and EUR yields converging on the back of a spike higher in bund yields. Amid plenty of global macro uncertainty, CEE sovereigns are facing potentially conflicting external pressures from peace talks in Ukraine, fiscal stimulus from Europe, and tariff plans from the US. Despite this backdrop of uncertainty, performance has generally been resilient, with USD EM sovereigns generating around 2% in total returns this year.

On the core rates front, US 10Y yields are around 40bp lower YTD, having surged by some 120bp from September to January to touch 4.8%. This comes amid signs of softening data out of the US, along with the tariff uncertainty hitting sentiment. At the same time, German 10Y bund yields are over 25bp higher YTD, having spiked by over 40bp in early March amid the news of fiscal stimulus. This theme of 're-convergence' in rates should generally be a positive environment for EM credit, but the extreme rates volatility has caused some difficulties, and further sharp moves could put pressure on credit spreads to move wider.

Despite the move wider over the past month or so, spread levels remain near 5-year lows at both the headline level, and within the 'core' index excluding CCC sovereigns. We expect further noise and volatility on the tariff front, along with building concerns around US growth, to push spread levels wider from here. This leaves us fairly cautious on higher beta names in the USD credit space.

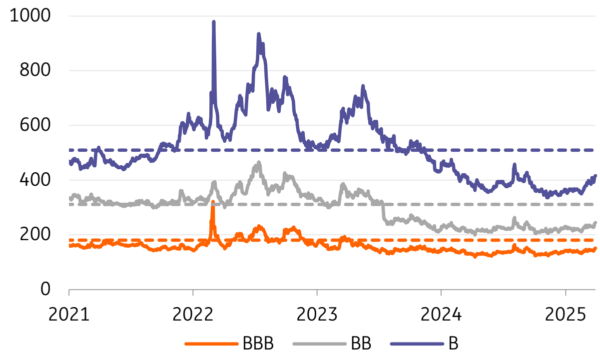
As a positive, all-in yields still look attractive for EM sovereigns, which should keep demand robust, including in the primary market. Progress in meeting Eurobond financing needs has been solid, albeit slightly slower than last year for some CEE names (such as Romania and Poland). Fundamentals have also generally been improving, although the focus remains on fiscal policy, in particular with more defence spending on the agenda for most.

Fig 25 Cumulative total returns YTD (EM USD sovereigns)



Source: Refinitiv, ING

Fig 26 EM sovereign spreads by rating & median (bp)



Source: Refinitiv, ING

Key themes

- **Fiscal stimulus a boost:** The large fiscal stimulus deal agreed in Germany is a clear positive for the CEE region, with a near-term boost to sentiment, and hopefully more medium-term benefits for growth. That being said, these tangible effects will only really become visible in the coming years – for now, the sentiment impact is key to offset other global uncertainties. In the sovereign credit space, this may leave the CEE region better placed than Latin America, for example, to deal with tariff pressures.

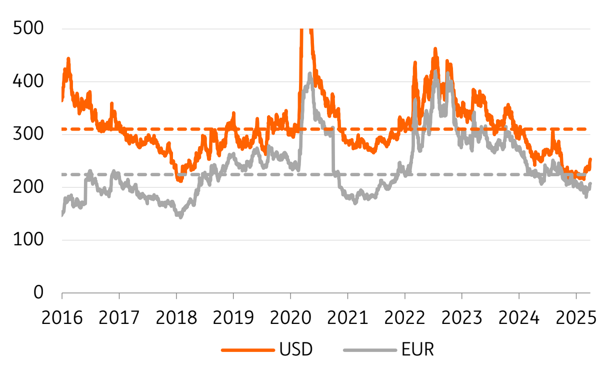
- **Geopolitical uncertainties to continue**: The CEE region has seen a boost in optimism around peace talks over the war in Ukraine in recent months. For the region, the potential impact has focused on the sanctions environment, investment spending for reconstruction, migration flows and the general sentiment impact on markets, given there remains something of a geopolitical risk premium on spreads in CEE. While we have seen some signs of progress in negotiations, a temporary ceasefire is yet to be reached and a long-lasting peace deal still seems a distant prospect for most investors.

- **Tariff risks:** More headline noise on the tariff front for Europe is likely to remain a risk for CEE, with spillover impacts from Germany a key channel outside of direct trade links with the US. Among our coverage, we would highlight the CIS region as an area of diversification, given less direct exposure to trade tensions, along with generally being more focused on commodity exports.

- **Election noise can drive policy**: With presidential elections in May in Romania and Poland, along with the buildup to Hungary's elections next year, the focus has generally been on the impact from politics on fiscal policy. Romania has been top of investors' focus given the need for fiscal consolidation, while there has also been political noise in Serbia (potential for snap elections this summer), Bulgaria and Turkey. As is often the case, political noise is likely to remain a key short-term driver of market pricing.

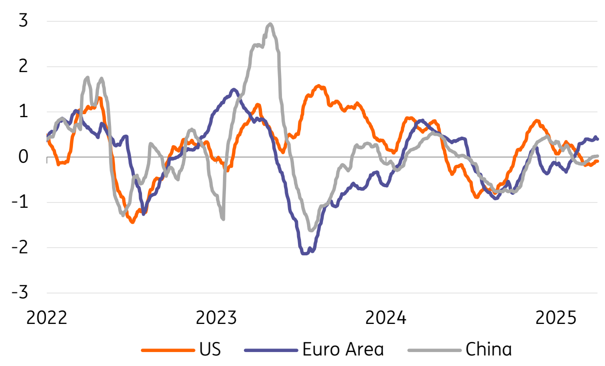
- **EUR markets back in vogue:** Given long-running discussions about potential de-dollarisation, along with the plans for big European fiscal stimulus (and therefore likely more issuance), investors will likely be paying more attention to EUR-denominated EM credit markets. While performance has been soft this year given the jump in core bund yields, we expect issuance and investor activity to increase in EUR, with any sentiment shifts away from USD assets a potential supportive factor.

Fig 27 EM sovereign spreads by currency & median (bp)



Source: Refinitiv, ING; USD spreads versus USTs, EUR spread versus bunds

Fig 28 Economic surprise indices (z-score)



Source: Macrobond, ING

CEE country views

(Moody's/S&P/Fitch rating; ↑=positive, ↓=negative outlook)

- **BGARIA** (Baa1/BBB↑/BBB↑): Spreads in Bulgaria have squeezed tight relative to peers in recent months, amid the gradual progress towards euro accession. While credit fundamentals remain very strong given low government debt and solid external balance sheet, the latest political developments have questioned the degree of policy continuity in the short term at least, clouding the outlook slightly. Some headline noise may continue, but our base case still remains for January 2026 euro adoption. At the same time, there is the potential for new issuance on the horizon. In this context, spreads look fairly tight across the EUR curve in particular.
- **CROATI** (A3/A-↑/A-): For CROATI Eurobonds, there is not too much for investors to be concerned about, but equally valuations don't offer too much to get excited about. Among lower beta and Eurozone names Croatia remains a solid pick – in the current geopolitical environment military spending pressures are more likely to be felt in the Baltics, while spreads in Bulgaria have squeezed tighter and Poland still has plenty more issuance expected this year. Croatia should therefore be a less volatile option that offers good defensive properties amid the ongoing global macro uncertainties.
- **REPHUN** (Baa2↓/BBB-/BBB): For Hungary Eurobonds, the strong technical picture is the clearest positive, with issuance needs already out of the way for the full year and solid commitment from the authorities to avoid additional unexpected USD or EUR deals. This is balanced against the likely modest rise in fiscal pressures and political risk as we head into election season. Valuations that are middle of the pack among BBB-rated sovereigns look about fair.
- **POLAND** (A2/A-/A-): Loose fiscal policy should mean continued issuance needs in the Eurobond space, but other macro fundamentals are strong enough to ensure demand should remain robust, with solid growth momentum and comfortable external balance. Progress on the issuance front has been solid so far, with a EUR3bn and USD$5.5bn deal so far, just over half of our expectations for the full year. The USD curve offers a decent pickup over the EUR curve, especially with our expectations for issuance to be skewed towards EUR this year.
- **ROMANI** (Baa3↓/BBB-↓/BBB-↓): Eurobond spreads have recovered from the worst of the selloff seen in late January but still offer a pickup over BBB and even BB sovereign average. A lot of negative news is already priced into current valuations which could offer scope to rally into elections. Ratings downgrades are unlikely for this year at least, while there has been some stabilisation in the political situation. In terms of Eurobond supply, the government has raised €6.75bn so far this year in EUR and USD. This covers around half of the planned issuance needs for the full year, which will likely see them through to elections in May. Further steady Eurobond issuance in the coming years will likely be a limiting factor on the extent of the rally we can see.
- **SERBIA** (Ba2↑/BBB-/BB+↑): SERBIA bonds have been a clear underperformer recently, with YTD spread widening the worst in CEE in the EUR space. While some volatility is likely to continue on the political front, underlying fundamentals are still strong and for now policy continuity seems likely on the macro front. An eventual upgrade to IG on the composite level still seems likely over the next year or two, even if the political uncertainty may have delayed the progress (Moody's and S&P have positive outlook on Ba2/BB+ ratings). Spreads on the EUR curve have cheapened in particular in relation to other Balkan peers.
- **TURKEY** (B1↑/BB-/BB-): The latest selloff has pushed valuations versus BB-rated peers towards the wide-end of the range seen over the past year (a 70bp pickup over BB average, compared to less than 20bp in December), but over the past three years,

the spike is barely visible (compared to a spread differential that spiked to 400bp in mid-2023). For now, with the economic plan expected to remain on track and much of the fundamental improvement from the past few years intact, there is scope for sovereign credit spreads to recover.

CIS country views

- **ARMEN** (Ba3/BB-/BB-): Recent progress on peace deal negotiations with Azerbaijan is a clear positive for sentiment, while the recent new Eurobond issue also reduces potential supply pressures for the rest of the year. However, with fundamentals generally stabilising from the big improvements seen in 2022 and some moderate fiscal pressures emerging, spreads have squeezed tight, trading some 15-20bp inside Uzbekistan at current levels. We expect stable ratings at the BB- level, and no more hard currency supply for the rest of the year.

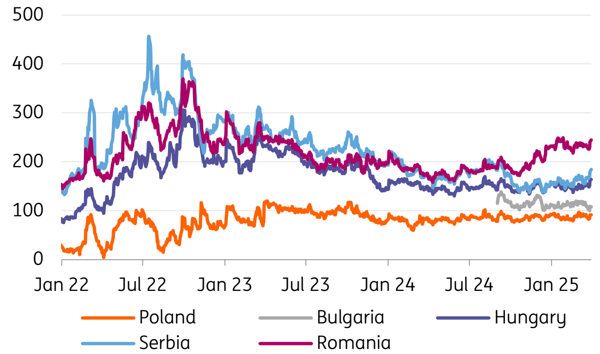
- **AZERBJ** (Ba1↑/BB+/BBB-): Credit fundamentals are strong given the significant FX assets and limited external financing needs, despite expectations for a moderation in the twin surpluses. Ratings are on the path to IG, with Fitch upgrading to BBB- last July and Moody's on positive outlook, which should bring official ratings in line with market perception and pricing. We see the potential for Moody's to upgrade this year, giving Azerbaijan its second IG rating and bringing the composite rating to IG, which could offer a short-term boost. At the same time, progress towards a peace deal with Armenia has provided a slight uplift, leaving spreads with a limited pickup versus the BBB-rated sovereign group. With spreads now tight to Serbia and not offering an impressive pickup over Hungary, we see limited scope for major spread tightening. We expect new Eurobond issuance from the sovereign is unlikely.

- **KAZAKS** (Baa1/BBB-/BBB). Some improvements in the external picture are balanced by modest fiscal weakening, leaving fundamentals overall fairly stable, while some fiscal consolidation is expected towards 2026. Last year saw a rating upgrade by Moody's, with all outlooks now stable and a composite rating of BBB, ranging across this tier (Baa1/BBB/BBB-). We expect no further changes this year, while more new issuance is likely given the US$2.5bn maturity in July. Long-end spreads have tightened recently.

- **UZBEK** (Ba3/BB-/BB-): In terms of fundamentals, Uzbekistan's strong balance sheet (low government debt and strong reserve coverage) is slightly weakened by twin deficits, although the sovereign remains in a comfortable position. Signs of steps towards fiscal consolidation are a positive factor, while new US$500m and €500m deals in February mean further issuance this year is unlikely, improving the technical picture. In this context, Uzbekistan offers a decent pickup over Armenia and spreads towards the wide end of the BB tier.

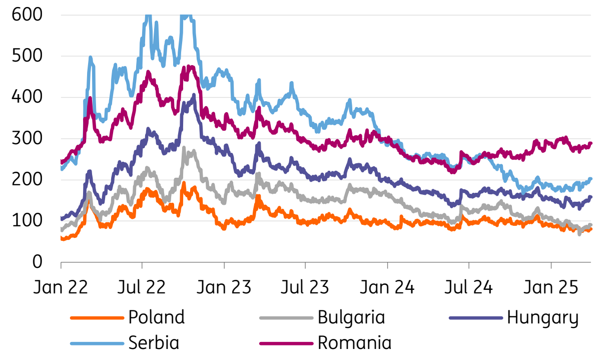
CEE & CIS relative value charts

Fig 29 CEE USD index spreads (bp)



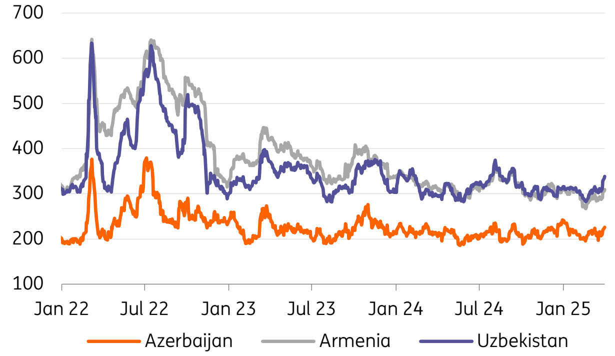
Source: Refinitiv, ING

Fig 30 CEE EUR index spreads (bp)



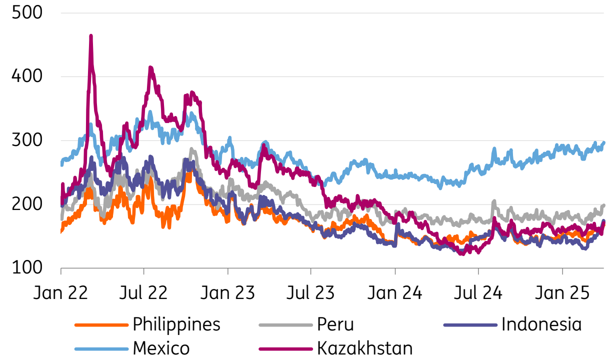
Source: Refinitiv, ING

Fig 31 CIS sovereign 10-year* spreads (bp)



Source: Refinitiv, ING; *AZERBJ 32s, ARMEN 31s, UZBEK 31s

Fig 32 Kazakhstan USD vs BBB sovereign spreads (bp)



Source: Refinitiv, ING; KAZAKS 44s/45s average vs maturity-matched bonds

Countries

Armenia

Dmitry Dolgin, Chief Economist, CIS

Forecast summary

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Real GDP (%YoY)	3.7	4.5	5.7	4.3	5.5	5.0	4.5
CPI (%YoY)*	1.5	3.1	2.8	2.1	3.0	2.4	3.8
Policy interest rate (eop, %)	7.00	6.75	6.50	6.50	6.50	6.50	6.50
3m interest rate (%)*	8.2	n/a	n/a	n/a	n/a	n/a	n/a
10yr yield (%)*	9.8	n/a	n/a	n/a	n/a	n/a	n/a
USD/AMD*	395	390	401	411	416	403	427
EUR/AMD*	409	417	421	440	450	431	469

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-

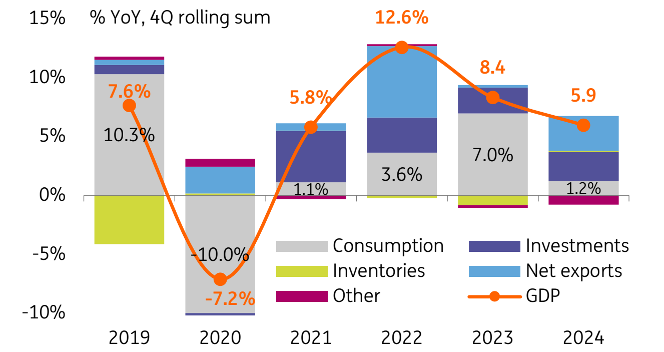
*Quarterly data is eop, annual is average

Source: National sources, ING estimates

Country strategy: Mindful of external risks

External drivers of Armenia's activity, including high skilled immigration, remittances and regional trade flows, are all moderating. This makes the local growth story increasingly dependent on domestic credit and budget support, putting the fiscal story back into the spotlight. The elevated CPI risks limit the scope for monetary easing. The dram remains overvalued in our view, and this may be extended for some time, depending on the prospects of a peace deal with Azerbaijan and the geopolitical situation related to Russia.

GDP growth composition by usage

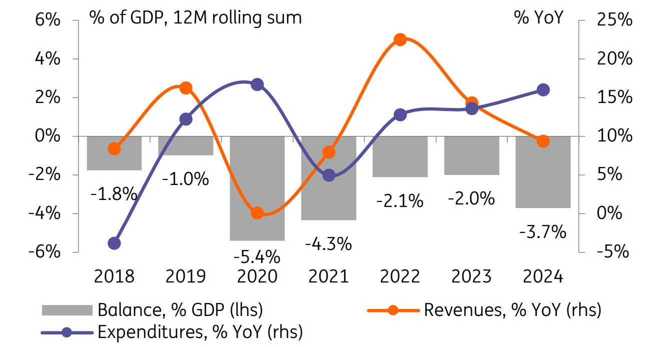


Source: National sources, CEIC, ING

Activity: Consumer strength challenged

Armenian GDP growth slowed from 12.6-8.4% in 2022-23 to 5.9% in 2024, mainly reflecting moderation of the immigration-driven financial inflow that passed through to the country's consumer sectors. In 4Q24, growth slowed to 3.7% YoY on additional pressure from the mining (-8.8% YoY) and manufacturing sectors (-4.5% YoY) due to delays in some investment and production projects. The growth is back to a more diversified structure both in terms of output sectors and usage. The continued strong growth in construction/investments is particularly welcome. In the meantime, nearly a half of 2024 growth was assured by net exports, suggesting increased vulnerability to various externalities including peace negotiations with Azerbaijan, geopolitics related to Russia and domestic developments in the export-driven industries, including gold mining.

Key parameters of the state budget

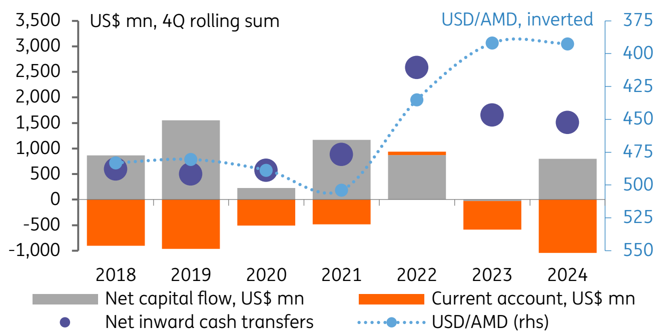


Source: National sources, CEIC, ING

Fiscal policy to remain generous for now

Budget policy has become more generous. Although the revenue side has improved slightly, reflecting the government's attempt to reduce tax avoidance, expenditure growth has vastly outperformed, mainly due to higher social and defence spending, which seems unavoidable given the foreign policy context. The need to maintain high levels of spending is likely to persist given the social and defence initiatives, and we see a budget deficit in the 4.5-5.0% of GDP range in 2025-26 with a possibility of some moderation in 2027. We believe the government will continue to prioritise domestic borrowing to contain risks stemming from the FX portion of its debt, but the capacity of the domestic market will be a watch factor. Armenia placed US$750m in 10Y Eurobonds in March 2025 to refinance the maturing papers and finance the growing deficit.

Current account, remittances and Armenian dram (AMD)



Source: National sources, CEIC, ING

AMD: Still overvalued, but externalities can extend this

Armenia's trade and financial benefits due to the Russia-Ukraine conflict are largely through. The current account has returned to the standard US$1bn in 2024 (4% of GDP) as merchandise trade remained in a large 10% of GDP deficit as higher participation in regional trade boosted both exports and imports (and the volume of transactions started to moderate from mid-2024), while services exports and remittances inflows normalised along with the immigrant inflows. Combined with the fact that AMD is strong relative to its peers and trade partner currencies, we continue to consider 3-5% depreciation vs USD a base-case scenario for the coming years. The period of dram overvaluation could be extended if favourable externalities, principally a sustainable peace deal with Azerbaijan, keep Armenia's risk premium at a reduced level.

Armenia

dmitry.dolgin@ing.de

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity													
Real GDP (%YoY)	3.6	3.2	0.2	7.5	5.2	7.7	-7.2	5.8	12.6	8.3	5.9	5.0	4.5
Private consumption (%YoY)	1.6	-7.6	-2.1	13.7	4.9	11.5	-13.9	2.8	5.6	5.6	6.8	4.5	3.7
Government consumption (%YoY)	-1.2	4.7	-2.4	-2.1	-3.0	12.9	9.2	-6.2	-2.2	28.3	-22.3	7.0	5.0
Fixed investment (%YoY)	-2.2	2.5	-11.4	9.7	4.8	4.4	-1.5	23.6	14.0	10.1	11.1	4.5	5.0
Industrial production (%YoY)	1.5	5.2	6.5	12.3	4.2	9.0	-0.9	3.3	7.9	6.4	4.7	4.0	4.0
Unemployment rate (average, %)	17.6	18.5	18.0	17.8	19.0	18.3	18.2	15.5	13.5	12.4	14.0	13.0	12.5
Nominal GDP (AMDbn)	4,829	5,044	5,067	5,564	6,017	6,543	6,182	6,992	8,501	9,453	10,127	10,891	11,812
Nominal GDP (€bn)	8.7	9.5	9.5	10.2	10.5	12.2	11.1	11.7	18.4	22.3	23.8	25.3	25.2
Nominal GDP (US$bn)	11.6	10.6	10.5	11.5	12.5	13.6	12.6	13.9	19.5	24.1	25.8	27.0	27.7
GDP per capita (US$)	3,853	3,512	3,524	3,869	4,196	4,597	4,269	4,685	6,572	8,053	8,501	9,016	9,226
Gross domestic saving (% of GDP)	2.4	9.0	10.2	7.7	8.7	4.0	9.7	15.1	21.4	20.5	n/a	n/a	n/a
Prices													
CPI (average, %YoY)	3.0	3.7	-1.4	1.0	2.5	1.4	1.2	7.2	8.6	2.0	0.3	2.4	3.8
CPI (year-end, %YoY)	4.6	-0.1	-1.4	2.6	1.8	0.7	3.7	7.7	8.3	-0.6	1.5	3.0	4.0
Wage rates (nominal, %YoY)	8.2	8.0	2.3	3.2	-11.4	5.6	4.0	7.4	15.3	14.7	6.4	5.0	4.0
Fiscal balance (% of GDP)													
Consolidated government balance	-1.9	-4.8	-5.5	-4.8	-1.6	-0.8	-5.1	-4.5	-2.2	-1.9	-3.5	-4.8	-4.4
Consolidated primary balance	-0.6	-3.3	-3.6	-2.6	0.7	1.6	-2.4	-2.0	0.1	0.7	-0.4	-1.5	-0.8
Total public debt	43.7	48.7	56.7	58.8	55.5	53.6	67.4	63.4	49.2	50.7	50.3	52.5	53.7
External balance													
Exports (US$bn)	1.7	1.6	1.9	2.4	2.7	3.4	2.7	3.3	5.7	8.6	13.9	12.0	10.2
Imports (US$bn)	3.8	2.8	2.9	3.8	4.5	5.1	4.1	4.8	7.6	11.2	15.9	14.1	12.0
Trade balance (US$bn)	-2.1	-1.2	-1.0	-1.4	-1.8	-1.7	-1.4	-1.5	-1.9	-2.5	-2.0	-2.1	-1.8
Trade balance (% of GDP)	-17.7	-11.2	-9.3	-12.2	-14.2	-12.6	-10.9	-10.8	-9.6	-10.4	-7.9	-7.7	-6.4
Current account balance (US$bn)	-0.9	-0.3	-0.1	-0.1	-0.9	-1.0	-0.5	-0.5	0.1	-0.6	-1.0	-1.3	-1.3
Current account balance (% of GDP)	-7.7	-2.7	-1.0	-1.3	-7.2	-7.1	-4.0	-3.5	0.3	-2.3	-3.9	-4.6	-4.7
Net FDI (US$bn)	0.4	0.2	0.3	0.2	0.3	0.2	0.1	0.3	0.9	0.5	0.3	0.2	0.3
Net FDI (% of GDP)	3.3	1.5	2.5	1.9	2.1	1.7	0.7	2.5	4.7	2.2	1.3	0.7	1.1
Current account balance plus FDI (% of GDP)	-4.5	-1.2	1.5	0.7	-5.1	-5.3	-3.3	-1.0	5.1	-0.1	-2.6	-3.9	-3.6
Gross international reserves (US$bn)	1.5	1.8	2.2	2.3	2.3	2.8	2.6	3.2	4.1	3.6	3.7	3.8	3.9
Import cover (months of merchandise imports)	4.8	7.6	9.2	7.3	6.0	6.7	7.7	8.1	6.5	3.9	2.8	3.2	3.9
Debt indicators													
Gross external debt (US$bn)	8.5	8.9	10.0	10.5	10.9	12.4	12.9	13.8	15.3	15.5	16.0	17.0	18.0
Gross external debt (% of GDP)	73.5	84.5	94.4	91.3	87.7	90.9	102.1	99.8	78.2	64.2	61.9	62.7	64.9
Gross external debt (% of exports)	503	549	526	441	401	368	475	423	267	179	115	142	176
Lending to corporates/households (% of GDP)	41.6	38.3	40.3	42.7	46.2	49.6	60.4	51.2	44.7	48.9	58.0	59.4	60.6
Interest & exchange rates													
Central bank key rate (year-end, %)	8.50	8.75	6.25	6.00	6.00	5.50	5.25	7.75	10.75	9.25	7.00	6.50	6.50
Broad money supply (average, %YoY)	-3.5	5.2	24.8	28.9	13.2	21.5	14.8	12.8	13.4	22.1	19.0	12.0	10.0
3m interest rate (average, %)	7.50	12.09	8.56	6.11	6.02	5.83	5.44	7.10	10.00	10.75	8.81	n/a	n/a
3m interest rate spread over US$-Libor (ppt)	7.27	11.77	7.82	4.85	3.71	3.50	4.79	6.94	7.60	5.35	3.76	n/a	n/a
2yr yield (average, %)	8.93	13.30	11.15	7.68	7.04	6.80	6.17	8.22	10.62	11.05	9.66	n/a	n/a
10yr yield (average, %)	11.26	14.92	14.00	11.10	9.72	9.48	7.99	9.39	11.24	11.03	9.87	n/a	n/a
USD/AMD exchange rate (year-end)	475	484	484	484	484	480	523	480	394	405	397	416	437
USD/AMD exchange rate (average)	416	478	480	483	483	480	489	504	436	392	393	403	427
EUR/AMD exchange rate (year-end)	577	529	512	580	554	537	641	543	420	448	414	450	481
EUR/AMD exchange rate (average)	552	530	532	545	571	538	558	597	461	425	425	431	469
Brent oil price (annual average, US$/bbl)	99	54	45	55	72	64	43	71	99	82	80	74	70

Grey shading denotes forecast figures
Source: National sources, ING estimates

Quarterly forecasts

	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Real GDP (%YoY)	6.4	7.9	7.3	6.1	3.7	4.5	5.7	4.3	5.5	5.3	4.5	4.0	4.0
CPI (eop, %YoY)	-0.6	-1.2	0.8	0.6	1.5	3.1	2.8	2.1	3.0	3.8	3.9	3.9	4.0
Central bank key rate (eop, %)	9.25	8.50	8.00	7.50	7.00	6.75	6.50	6.50	6.50	6.50	6.50	6.50	6.50
3m interest rate (eop, %)	10.27	8.95	8.77	8.35	8.18	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
10yr yield (eop, %)	10.77	9.65	9.69	9.72	9.84	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USD/AMD exchange rate (eop)	404	393	388	387	395	390	401	411	416	422	427	432	437
EUR/AMD exchange rate (eop)	447	425	415	431	409	417	421	440	450	460	465	475	481

Grey shading denotes forecast figures
Source: National sources, ING estimates

Azerbaijan

Dmitry Dolgin, Chief Economist, CIS

Forecast summary

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Real GDP (%YoY)	3.0	2.0	3.0	2.5	4.5	3.0	2.5
CPI (%YoY)*	4.9	4.4	5.7	4.7	4.4	5.2	4.9
Policy interest rate (eop, %)	7.25	7.25	7.50	7.50	7.50	7.50	8.00
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*	1.76	1.82	1.79	1.82	1.84	1.82	1.98

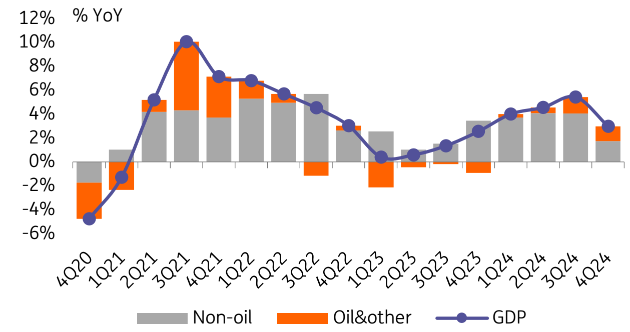
Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: 2031	S&P	BB+	BB+
Fiscal	Easing	Parliamentary: 2029	Moody's	Ba1	Ba1
Monetary	Neutral	Local: n/a	Fitch	BBB-	BBB-

*Quarterly data is eop, annual is average
Source: National sources, ING estimates

Country strategy: Watch out for current account erosion

Azerbaijan's economic activity is expected to moderate in 2025 after a strong spike in the non-fuel sectors last year, while pressures in oil production continue. Household consumption could lose some of the credit support, but the persistently generous fiscal policy should keep favouring investment-driven industries. Meanwhile, the government's monetary policy stance should remain cautious given the growing CPI risks. Azerbaijan's more limited ties with Russia compared to other CIS countries in our coverage should limit the potential trade and financial flow impact of geopolitical shifts in the region. In the meantime, we see the continued shrinking of the current account surplus as a watch factor for the manat's stability on a 2-3 year horizon.

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

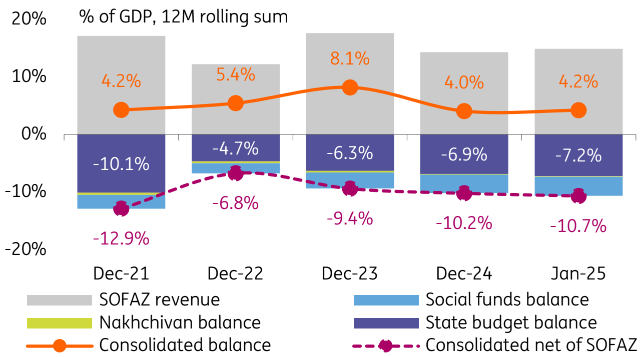


Source: National sources, CEIC, ING

Activity: Set to moderate after positive surprise of 2024

GDP growth is moderating, ending the year at 4.1% YoY after 4.7% YoY in 9M24. This slowdown reflected a deceleration of the non-fuel sectors from 7.0% YoY in 9M24 to 3.9% YoY in 4Q24, due to moderation in construction and transportation activities. The fuel sector managed to make a positive contribution for most of the year, but the overall dynamic remains volatile and generally sluggish, as the increased gas output is not enough to offset maturing oil production. We see GDP growth stabilising in the 2-3% range over the coming years. Consumption growth remains positive thanks to continued growth in real income, employment and rapid retail credit expansion. Meanwhile, as domestic retail loans now represent 14% of GDP vs 8% in 2022, consumption growth is expected to moderate somewhat.

Consolidated budget balance by components (% of GDP)

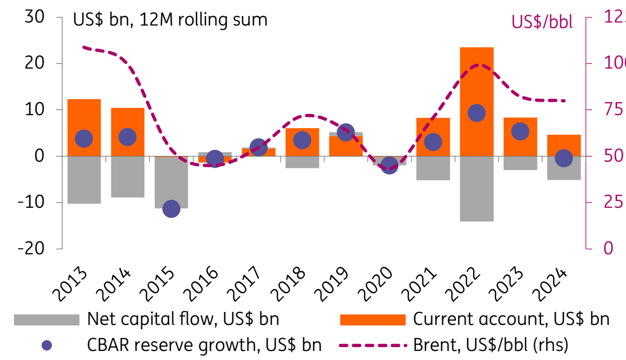


Source: National sources, CEIC, ING

Fiscal policy can remain generous for a while

A looser fiscal stance contributed to GDP growth last year. We saw continuous growth in spending for most of the key items, including social support, human capital, defence and state administration, which was only partially offset by some phasing out of investment spending. The consolidated surplus halved from 8.1% of GDP in 2023 to 4.0% in 2024. Azerbaijan still has fiscal space to continue its generous approach despite a likely reduction in fuel revenues amid declining oil production. The growing appetite for social support, the military and investments is likely to be satisfied in the next couple of years, leading to a decline in the consolidated budget surplus towards zero by 2026. This should be supportive of economic growth, especially in the non-fuel sectors, but will eventually put the issue of fiscal consolidation on the policy agenda.

Balance of payments composition vs Brent oil price



Source: National sources, CEIC, ING

External balance: Current account erosion is a watch factor

Azerbaijan's current account surplus shrank to US$4.7bn in 2024, or 6.3% of GDP, which represents normalisation compared to the exceptionally high surplus of 2022, as exports, predominantly oil & gas, decline while imports continue to grow steadily. The external balance remains solid, with the large state and CBAR savings representing c.100% of GDP. However, further developments on the balance of payments could be an important watch factor for FX stability. If import growth continues, the breakeven Brent price for the current account will continue to increase from the current US$63/bbl level, which is already an 11-year high. For now, we continue to see the USD/AZN peg at 1.70 as secure for the next 1-2 years. However, if the continued weakening of the current account fundamentals coincides with a continuous period of oil price weakness, this might renew market pressure on the manat.

Azerbaijan

dmitry.dolgin@ing.de

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity													
Real GDP (%YoY)	2.8	1.1	-3.1	0.2	1.5	2.5	-4.2	5.6	4.7	1.4	4.1	3.0	2.5
Real oil GDP (%YoY)	-2.9	0.6	0.1	-5.3	0.5	0.4	-6.5	1.4	-2.5	-2.5	0.3	1.5	1.0
Real non-oil GDP (%YoY)	6.9	1.1	-4.4	2.7	2	4	-2.9	7.1	9.0	4.5	6.1	4.5	4.0
Investment (%YoY)	-1.7	-11.1	-21.7	2.8	-4.3	5.5	-7.3	-4.5	3.3	9.8	-0.7	5.5	4.5
Industrial production (%YoY)	-0.7	2.5	-0.5	-3.5	1.5	1.8	-4.0	5.0	-1.1	-0.7	1.1	3.0	2.0
Unemployment rate (average, %)	4.9	5.0	5.0	5.0	4.9	4.9	6.4	6.4	5.8	5.6	5.4	5.5	5.5
Nominal GDP (AZNbn)	59.0	54.4	60.4	70.3	80.1	81.9	72.6	93.2	134.0	123.1	126.3	136.9	147.3
Nominal GDP (€bn)	56.6	47.8	34.2	36.2	39.9	43.0	37.4	46.3	74.7	67.0	68.7	75.9	74.8
Nominal GDP (US$bn)	75.2	53.0	37.9	40.9	47.1	48.2	42.7	54.8	78.8	72.4	74.3	80.6	81.7
GDP per capita (US$)	7991	5562	3929	4199	4798	4851	4269	5458	7806	7133	7284	7728	7765
Gross domestic saving (% of GDP)	44	31	28	31	35	31	23	34	45	33	n/a	n/a	n/a
Prices													
CPI (average, %YoY)	1.4	4.0	12.4	12.9	2.3	2.6	2.8	6.7	13.9	8.9	2.2	5.2	4.9
CPI (year-end, %YoY)	-0.2	7.6	15.7	7.9	1.6	2.3	2.6	12.0	14.4	2.1	4.9	4.4	5.8
Wage rates (nominal, %YoY)	4.6	5.0	7.0	5.7	3.0	16.6	11.4	3.4	14.7	11.2	8.1	6.7	6.4
Fiscal balance (% of GDP)													
Consolidated government balance	2.9	-5.3	0.3	-1.5	5.9	9.1	-6.5	4.2	6.0	8.1	4.0	1.7	0.4
Consolidated primary balance	4.3	-3.8	2.4	0.9	8.7	10.9	-4.4	6.3	6.4	8.9	4.7	2.4	1.1
Total public debt	8.5	18.0	20.6	22.5	18.7	17.7	21.3	26.3	17.3	21.8	20.5	20.9	23.6
External balance													
Exports (US$bn)	28.3	15.6	13.2	15.2	20.8	19.9	12.6	21.7	40.9	29.2	26.0	26.8	26.7
Imports (US$bn)	9.3	9.8	9.0	9.0	11.0	11.3	10.1	10.4	13.5	16.4	17.2	18.9	20.9
Trade balance (US$bn)	18.9	5.8	4.2	6.1	9.8	8.5	2.5	11.3	27.4	12.8	8.8	7.8	5.8
Trade balance (% of GDP)	25.2	11.0	11.1	15.0	20.9	17.7	5.9	20.6	34.7	17.7	11.9	9.7	7.1
Current account balance (US$bn)	10.4	-0.2	-1.4	1.7	6.1	4.4	-0.2	8.3	23.5	8.3	4.7	4.7	2.3
Current account balance (% of GDP)	13.9	-0.4	-3.6	4.1	12.8	9.1	-0.5	15.1	29.8	11.5	6.3	5.8	2.8
Net FDI (US$bn)	2.4	0.8	1.9	0.3	-0.8	-1.4	-0.8	-2.2	-5.1	-2.1	-1.0	-1.0	-1.0
Net FDI (% of GDP)	3.2	1.5	5.1	0.7	-1.7	-2.9	-1.8	-4.1	-6.5	-2.9	-1.3	-1.2	-1.2
Current account balance plus FDI (% of GDP)	17.1	1.1	1.5	4.9	11.1	6.2	-2.3	11.0	23.3	8.6	5.0	4.6	1.6
Gross international reserves (US$bn)	15.3	7.7	7.3	7.0	6.7	7.1	7.8	8.3	10.8	13.7	12.7	11.7	9.7
Import cover (months of merchandise imports)	19.7	9.4	9.7	9.3	7.3	7.5	9.3	9.5	9.5	10.1	8.9	7.4	5.6
Debt indicators													
Gross external debt (US$bn)	12.1	13.3	14.6	15.4	16.6	16.5	16.5	15.6	15.3	14.5	15.0	15.5	16.0
Gross external debt (% of GDP)	16.1	25.2	38.6	37.8	35.2	34.3	38.6	28.5	19.4	20.1	20.2	19.3	19.6
Gross external debt (% of exports)	42.9	85.6	110.6	101.9	79.8	83.2	130.9	72.1	37.4	49.8	55.2	58.0	60.0
Lending to corporates/households (% of GDP)	31.4	40.0	27.2	16.7	16.3	18.7	20.0	18.4	15.1	19.5	23.2	25.2	26.2
Interest & exchange rates													
Central bank key rate (year-end, %)	3.50	3.00	15.00	15.00	9.75	7.50	6.25	7.25	8.25	8.00	7.25	7.50	8.00
Broad money supply (average, %YoY)	11.8	-1.3	-1.9	9.0	5.7	20.0	1.1	18.7	23.6	5.3	3.2	11.2	9.9
3m interest rate (Bakibor, average, %)	10.8	9.2	13.5	20.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
3m interest rate spread over US$-Euribor (ppt)	1057	884	1279	1936	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)	0.78	1.56	1.77	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	2.21
USD/AZN exchange rate (average)	0.78	1.02	1.60	1.72	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.70	1.80
EUR/AZN exchange rate (year-end)	0.96	1.70	1.90	2.04	1.95	1.91	2.08	1.93	1.81	1.88	1.76	1.84	2.43
EUR/AZN exchange rate (average)	1.04	1.14	1.77	1.94	2.01	1.90	1.94	2.01	1.79	1.84	1.84	1.82	1.98
Brent oil price (annual average, US$/bbl)	99	54	45	55	72	64	43	71	99	82	80	74	70

Grey shading denotes forecast data
Source: CEIC, National sources, ING estimates

Quarterly forecasts

	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Real GDP (%YoY)	1.3	4.0	4.6	4.9	3.0	2.0	3.0	2.5	4.5	3.5	3.0	2.5	1.0
CPI (eop, %YoY)	2.1	4.9	1.1	3.5	4.9	4.4	5.7	4.7	4.4	5.8	4.8	5.2	5.8
Central bank key rate (eop, %)	8.00	7.50	7.25	7.25	7.25	7.25	7.50	7.50	7.50	7.50	7.50	7.75	8.00
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	1.70	1.70	2.21
EUR/AZN exchange rate (eop)	1.88	1.83	1.82	1.90	1.76	1.82	1.79	1.82	1.84	1.85	1.85	1.87	2.43

Grey shading denotes forecast data
Source: CEIC, National sources, ING estimates

Bulgaria

Valentin Tataru, Chief Economist | Stefan Posea, Economist

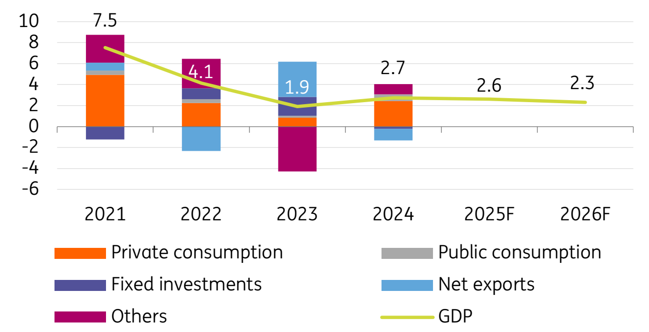
Forecast summary

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Real GDP (%YoY)	4.1	3.0	2.8	2.6	2.2	2.6	2.3
CPI (%YoY)*	2.2	3.8	4.8	5.5	5.0	4.6	2.9
Base rate (eop,%)	3.04	2.59	2.42	2.39	2.30	2.3	2.2
10yr yield (%)*	3.30	3.60	3.50	3.50	3.40	3.50	3.30
USD/BGN	1.89	1.83	1.86	1.83	1.81	1.83	1.78
EUR/BGN	1.96	1.96	1.96	1.96	1.96	1.96	1.96

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

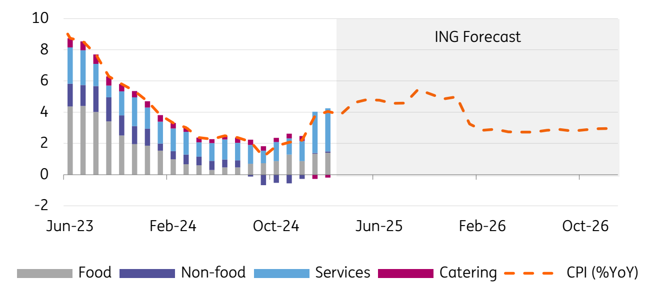
*Quarterly data is eop. annual is average
Source: National sources. ING estimates

Real GDP (%YoY) and contributions (ppt)



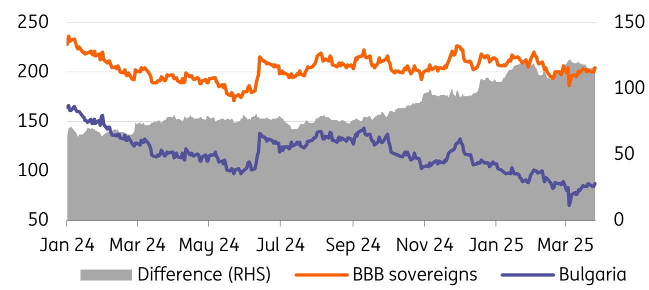
Source: NSI, ING

Inflation (%YoY) and main components (ppt)



Source: NSI, ING

BGARIA credit spreads vs BBB EUR sovereigns (bp)



Source: Refinitiv, ING

Country strategy: Euro adoption is within sight

In 2024, Bulgaria's economy experienced a robust acceleration, with GDP growth reaching 2.8%, up from 1.9% in 2023. The improvement was primarily driven by robust private consumption, fuelled by significant wage increases in both private and public sectors. Investment contracted after two years of expansion, and imports outpaced exports, exacerbating the trade deficit by 28%. Industrial output remained below pre-pandemic levels, though manufacturing did show some growth. Inflationary pressures have intensified due to changes in VAT and sustained wage growth, with inflation rising from 2.2% at the end of 2024 to 4.1% in February. The 2025 budget projects a deficit of 3.0% of GDP, a target deemed credible. Bulgaria aims to adopt the euro by 1 January 2026, which is our estimation as well, though this still hinges on managing inflation effectively.

GDP growth picking up speed, with mixed signals

Bulgaria's GDP growth accelerated to 2.8% in 2024, driven primarily by stronger private spending on the back of robust wage increases. While more cash in pockets boosted consumption, investments took a step backwards after two solid years, while imports rebounded faster than exports, widening the trade gap. Some missed milestones under the EU's Recovery and Resilience Facility prompted Brussels to withhold the second payment request of €653m.

The brighter news comes from the construction, services and public administration sectors, with industrial activity also partially bouncing back. Looking ahead, growth should remain steady at around 2.6% in 2025, fuelled by still decent wage growth, a mildly stimulative fiscal stance, plus fresh momentum from Bulgaria's Schengen accession.

Inflation: moderate upward pressures ahead

Inflation surged at the start of the year, rising by 2.0% month-on-month. Significant price hikes hit housing, utilities, food, restaurants and hotels, driven partly by VAT changes. Still high wage growth and a mildly accommodating fiscal stance are expected to further support demand. On the flip side, a recent uptick in unemployment might ease some of the demand-side pressures. With export growth likely to remain sluggish given the Eurozone weakness, domestic demand pressures should remain manageable overall. The liberalisation of the electricity market is a key factor to watch. We anticipate CPI inflation to average 4.6% this year and 2.9% next year.

Sovereign credit: Tight spreads with some new risks

Spreads in Bulgaria have squeezed tight relative to peers in recent months, amid the gradual progress towards euro accession. While credit fundamentals remain very strong given low government debt and solid external balance sheet, the latest political developments have questioned the degree of policy continuity in the short term at least, clouding the outlook slightly. Some headline noise may continue, but our base case still remains for January 2026 euro adoption. At the same time, there is the potential for new issuance on the horizon. In this context, spreads look fairly tight across the EUR curve in particular.

James Wilson, EM Sovereign Strategist

Bulgaria

valentin.tataru@ing.com | tiberiu-stefan.posea@ing.com

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity													
Real GDP (%YoY)	0.9	3.4	3.0	2.7	2.5	3.8	-3.2	7.8	4.0	1.9	2.8	2.6	2.3
Private consumption (%YoY)	1.5	2.8	2.1	2.5	3.7	6.0	-0.4	8.5	3.9	1.4	4.2	3.8	3.0
Government consumption (%YoY)	-0.1	1.8	2.2	4.3	5.3	2.0	8.3	0.5	8.0	1.1	4.5	3.0	2.1
Investment (%YoY)	3.5	2.7	-6.6	3.2	5.4	4.5	0.6	-8.3	6.5	10.2	-1.1	6.2	4.4
Industrial production (%YoY)	2.0	2.7	2.5	4.0	0.3	0.5	-6.3	10.1	12.8	-8.2	-3.7	1.9	2.5
Unemployment rate (eop, %)	11.4	9.0	7.7	6.7	5.7	5.3	6.3	4.6	4.0	4.3	4.2	4.3	4.4
Nominal GDP (BGNbn)	84.1	89.6	95.3	102.7	109.8	119.9	121.1	139.6	168.8	185.2	198.8	213.1	224.2
Nominal GDP (€bn)	43.0	45.8	48.7	52.5	56.1	61.3	61.9	71.4	86.3	94.7	101.6	109.0	114.6
Nominal GDP (US$bn)	56.1	50.3	53.9	60.3	66.1	68.5	71.5	83.0	90.7	102.6	110.0	116.6	126.1
GDP per capita (US$)	7,800	7,100	7,600	8,600	9,500	9,900	10,400	12,000	13,300	15,100	16,200	17,100	18,500
Gross domestic saving (% of GDP)	20.4	21.8	23.9	24.2	23.8	24.0	22.7	23.2	23.8	23.9	22.7	21.1	20.1
Prices													
CPI (average %YoY)	-1.4	-0.1	-0.8	2.1	2.8	3.1	1.7	3.3	15.3	9.6	2.4	4.6	2.9
CPI (year-end %YoY)	-0.9	-0.4	0.1	2.8	2.7	3.8	0.1	7.8	16.9	4.7	2.2	5.0	3.0
Wage rates (nominal %YoY)	2.4	7.9	7.0	10.5	7.4	12.0	8.6	12.0	13.7	14.5	15.3	10.0	7.0
Fiscal balance (% of GDP)													
Consolidated government balance	-5.4	-1.9	0.3	1.6	1.7	2.2	-3.8	-3.9	-2.9	-2.0	-2.6	-2.9	-2.8
Consolidated primary balance	-4.5	-0.9	1.2	2.4	2.4	2.7	-3.3	-3.4	-2.5	-1.5	-2.0	-2.3	-2.3
Total public debt	27.0	25.9	29.1	25.1	22.1	20.1	24.4	23.8	22.5	22.9	24.5	23.9	24.3
External balance													
Exports (€bn)	22.0	22.9	23.1	26.9	27.7	29.1	27.3	34.4	47.1	43.5	43.5	45.7	48.0
Imports (€bn)	26.1	26.3	24.1	27.7	30.4	32.0	29.2	37.3	52.2	47.4	48.8	50.8	53.8
Trade balance (€bn)	(4.1)	(3.5)	(1.0)	(0.8)	(2.7)	(2.9)	(1.9)	(2.9)	(5.1)	(3.9)	(5.3)	(5.1)	(5.8)
Trade balance (% of GDP)	-9.5	-7.6	-2.0	-1.5	-4.8	-4.7	-3.1	-4.0	-5.9	-4.1	-5.2	-4.7	-5.1
Current account balance (€bn)	0.5	0.0	1.5	1.7	0.5	1.0	0.3	(0.8)	(2.2)	(0.8)	(1.9)	(0.9)	0.5
Current account balance (% of GDP)	1.2	0.0	3.1	3.3	0.9	1.6	0.5	-1.1	-2.5	-0.8	-1.9	-0.8	0.4
Net FDI (€bn)	0.3	2.0	0.9	1.6	1.0	1.6	2.8	1.4	4.1	4.6	2.9	2.0	2.0
Net FDI (% of GDP)	-0.3	-4.1	-0.6	-1.3	-0.8	-1.2	-2.8	-1.3	-2.0	-4.9	-2.8	-1.8	-1.8
Current account balance plus FDI (% of GDP)	0.9	-4.1	2.5	2.0	0.2	0.4	-2.3	-2.4	-4.6	-5.7	-4.7	-2.7	-1.3
Foreign exchange reserves (€bn)	14.5	18.2	21.6	21.4	22.8	22.2	28.0	30.5	34.2	37.5	36.7	37.8	40.3
Import cover (months of merchandise imports)	6.7	8.3	10.8	9.3	9.0	8.3	11.5	9.8	7.9	9.5	9.0	8.9	9.0
Debt indicators													
Gross external debt (€bn)	39.3	36.7	38.1	37.7	37.2	37.7	39.3	41.2	43.6	45.1	49.0	50.0	51.0
Gross external debt (% of GDP)	91	80	78	72	66	61	63	58	51	48	48	46	44
Gross external debt (% of exports)	178	160	165	140	134	129	144	120	93	104	113	109	106
Lending to corporates/households (% of GDP)	59.2	54.8	52.0	49.8	50.4	49.7	51.3	48.1	44.7	45.2	48.0	49.2	50.4
Interest & exchange rates													
Base interest rate (year-end %)	0.02	0.01	0.00	0.00	0.00	0.00	0.00	0.00	1.30	3.80	3.04	2.30	2.20
Broad money supply (average %YoY)	1.1	8.8	7.6	7.7	8.8	9.9	10.9	10.7	13.2	8.7	8.7	9.1	9.6
10yr yield (average %)	3.42	2.83	2.19	1.60	0.94	0.46	0.40	0.30	1.00	4.50	3.60	3.50	3.30
USD/BGN exchange rate (year-end)	1.62	1.80	1.86	1.63	1.71	1.74	1.60	1.72	1.83	1.77	1.89	1.81	1.78
USD/BGN exchange rate (average)	1.50	1.78	1.77	1.70	1.66	1.75	1.69	1.68	1.86	1.80	1.81	1.83	1.78
EUR/BGN exchange rate (year-end)	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
EUR/BGN exchange rate (average)	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96

Source: National sources. ING estimates

Quarterly forecasts

	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Real GDP (%YoY)	1.8	1.9	2.3	2.6	4.1	3.0	2.8	2.6	2.2	2.3	2.4	2.4	2.3
CPI (eop. %YoY)	4.7	3.0	2.5	1.2	2.2	3.8	4.8	5.5	5.0	2.9	2.7	2.8	3.0
Base interest rate (eop. %)	3.80	3.80	3.78	3.54	3.04	2.59	2.42	2.39	2.30	2.30	2.20	2.20	2.20
10yr yield (eop. %)	4.30	4.20	4.10	3.80	3.30	3.60	3.50	3.50	3.40	3.40	3.30	3.30	3.20
USD/BGN exchange rate (eop)	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96	1.96
EUR/BGN exchange rate (eop)	1.77	1.81	1.83	1.76	1.89	1.83	1.86	1.83	1.81	1.79	1.79	1.78	1.78

Source: National sources. ING estimates

Croatia

Valentin Tataru, Chief Economist | Stefan Posea, Economist

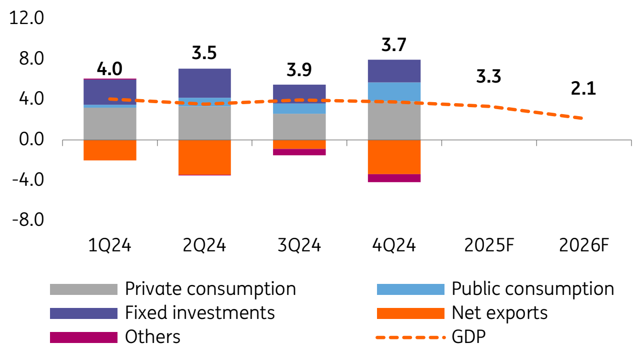
Forecast summary

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Real GDP (%YoY)	3.7	4.1	3.4	3.4	2.4	3.3	2.1
HICP (%YoY)*	4.5	3.3	3.2	3.2	3.4	3.4	3.6
CPI (%YoY)	3.4	3.7	3.8	4.2	2.7	3.6	3.3
Key interest rate (eop,%)**	3.00	2.50	2.25	2.25	2.25	2.25	2.25
10yr yield (%)*	3.0	3.4	3.3	3.2	3.1	3.3	2.9

Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: 2028	S&P	A-	A-
Fiscal	Looser	Parliamentary: 2028	Moody's	A3	A3
Monetary	Looser	Local: 2025	Fitch	A-	A-

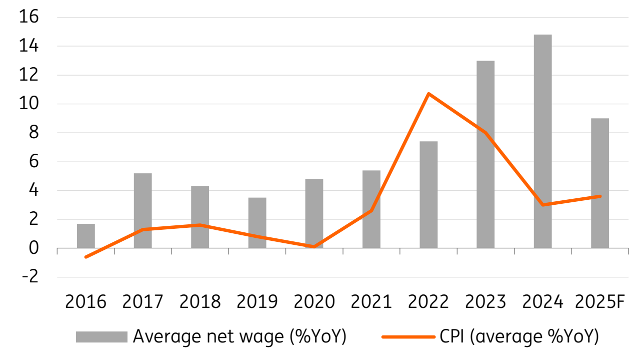
*Quarterly data is eop, annual is average **ECB rate starting 1 January 2023
Source: National sources, ING estimates

Real GDP (YoY%) and contributions (ppt)



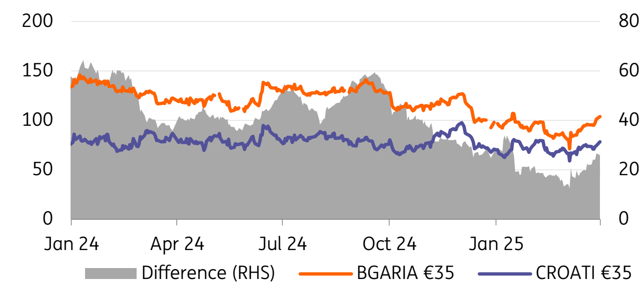
Source: Eurostat, ING estimates

Public debt and fiscal balance (% of GDP)



Source: Eurostat, ING estimates

CROATI EUR credit spreads vs BGARIA (bp)



Source: Refinitiv, ING

Country strategy: Staying on track

Economic growth continued on a strong footing throughout 2024 and the prospects for this year remain solid as well. RRF funds absorption is in good shape – with a strong focus on the grants component where €3.7bn out of €5.8bn has been disbursed. On the loans front, absorption is smaller, at only €0.8bn out of €4.2bn. Overall, the country managed to increase its public investments share in GDP to 5.7% in 2024 (2010: 3.8%), a visibly higher ratio compared to the EU peers (averaging around 3.0-3.5% of GDP). What's more, Croatia continues to benefit from its recent 'A-' rating from both S&P and Fitch, to the benefit of FDIs ahead. A key factor to watch is the extent to which the tourism sector continues to remain competitive given the country's shift towards a more premium destination.

Still good prospects ahead

Economic growth picked up to 3.8% in 2024, on the back of a strong internal demand. Private consumption added the strongest positive contribution to growth, followed by investments and public spending. That said, a negative contribution of net exports still subtracted a significant amount, weighing on output. The strong consumer response was also particularly noticeable in retail sales – where annual growth picked up visibly last year on the back of a strong performance of non-food items. On the outlook, we expect growth to remain at healthy levels in 2025 and pencil in a 3.3% growth. Last year's above-inflation wage growth, which we expect to moderate but remain healthy this year, should continue to stimulate private consumption ahead.

Inflation – a manageable pick up envisioned

The disinflationary trend continued throughout 2024, reaching 1.6% in September, the lowest value since March 2021, before picking up again and ending 2024 at 3.4%. Overall, inflation averaged 3.1% in 2024. In 2025, we envision a slightly stronger average of 3.6%. Food and services prices should remain key drivers. The minimum wage also rose to €970 gross per month as of 1 January 2025, marking a 15% increase. On the fiscal front, we forecast a budget deficit of 2.3% in 2025, with a rising social transfers and defence component. Meanwhile, RRF investments are set to carry on, with a positive impact on the country's productive potential over the medium term. A key factor to watch this year is the evolution of the country's OECD entry.

Sovereign credit: Slow and steady

For CROATI Eurobonds, there is not too much for investors to be concerned about, but equally valuations don't offer too much to get excited about. Among lower beta and Eurozone names Croatia remains a solid pick – in the current geopolitical environment military spending pressures are more likely to be felt in the Baltics, while spreads in Bulgaria have squeezed tighter and Poland still has plenty more issuance expected this year. Croatia should therefore be a less volatile option that offers good defensive properties amid the ongoing global macro uncertainties.

James Wilson, EM Sovereign Strategist

Croatia

valentin.tataru@ing.com | tiberiu-stefan.posea@ing.com

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity													
Real GDP (%YoY)	-0.3	2.5	3.6	3.4	3.0	3.4	-8.5	13.0	7.0	3.1	3.5	3.3	2.1
Private consumption (%YoY)	-2.5	0.4	3.2	3.2	3.4	4.1	-5.2	10.6	6.7	3.0	5.6	3.4	3.0
Government consumption (%YoY)	1.3	-0.4	1.1	2.1	2.2	2.8	3.5	3.1	2.7	6.6	4.4	3.8	2.5
Investment (%YoY)	-2.3	8.2	5.0	1.6	3.9	9.0	-5.0	6.6	0.1	4.2	5.9	4.0	3.0
Industrial production (%YoY)	1.1	2.5	4.8	1.9	-0.7	0.6	3.4	6.3	1.6	-2.0	-2.4	1.8	2.0
Unemployment rate (year-end, %)	17.8	16.0	13.5	10.5	8.1	6.6	9.0	6.7	7.0	6.2	5.1	5.3	5.4
Nominal GDP (€bn)	44.8	46.0	47.6	49.9	52.4	55.3	51.0	58.9	68.4	76.5	84.0	89.6	94.7
Nominal GDP (US$bn)	58	50	53	57	62	62	59	68	72	83	91	96	104
GDP per capita (US$)	13,800	12,000	12,600	13,900	15,100	15,200	14,700	17,600	18,400	21,300	23,400	24,800	27,100
Gross domestic saving (% of GDP)	17.6	19.8	21.2	21.6	21.8	22.0	16.9	19.9	20.6	21.4	20.4	20.6	21.3
Prices													
HICP (average, %YoY)	0.2	-0.3	-0.6	1.3	1.6	0.8	0.0	2.7	10.6	8.5	4.5	3.4	3.7
HICP (year-end, %YoY)	-0.1	-0.3	0.7	1.3	1.0	1.3	-0.3	5.2	12.7	5.4	4.0	3.4	3.6
CPI (average, %YoY)	-0.2	-0.5	-1.1	1.1	1.5	0.8	0.1	2.6	10.8	8.0	3.4	2.7	3.8
CPI (year-end, %YoY)	-0.5	-0.6	0.2	1.2	0.9	1.4	-0.7	5.5	13.1	4.5	3.0	3.6	3.3
Wage rates (net nominal, %YoY)	0.3	-3.4	2.5	5.3	4.3	3.5	4.7	5.4	7.3	13.0	14.8	9.0	6.0
Fiscal balance (% of GDP)													
Consolidated government balance	-5.2	-3.5	-1.0	0.6	-0.1	0.2	-7.2	-2.5	0.1	-0.9	-2.1	-2.3	-2.0
Consolidated primary balance	-1.8	-0.1	2.0	3.3	2.2	2.4	-5.3	-1.0	1.5	1.0	-1.0	-1.0	-1.1
Total public debt	83.4	82.8	79.1	76.0	72.6	70.4	86.1	77.5	67.8	63.0	59.9	58.9	58.3
External balance													
Exports (€bn)	10.4	11.5	12.3	14.0	14.5	15.2	14.9	18.4	24.1	22.9	24.0	25.0	26.0
Imports (€bn)	17.1	18.5	19.7	21.9	23.7	25.0	22.9	28.4	41.9	39.6	41.9	43.7	45.5
Trade balance (€bn)	-6.8	-7.0	-7.4	-7.9	-9.2	-9.8	-8.0	-10.0	-17.8	-16.7	-17.9	-18.7	-19.5
Trade balance (% of GDP)	-15.1	-15.1	-15.5	-15.8	-17.6	-17.7	-15.7	-17.0	-26.0	-21.8	-21.3	-20.9	-20.6
Current account balance (€bn)	0.2	1.6	1.1	1.8	0.9	1.6	-0.5	0.6	-2.0	0.7	0.1	0.2	0.2
Current account balance (% of GDP)	0.4	3.5	2.3	3.6	1.7	2.9	-1.5	1.0	-2.9	0.9	0.1	0.2	0.2
Net FDI (€bn)	-0.7	-0.5	-2.0	-1.1	-1.1	-3.5	-0.9	-3.3	-4.1	-1.8	-1.9	-1.9	-2.0
Net FDI (% of GDP)	-1.5	-1.1	-4.3	-2.2	-2.1	-6.3	-1.8	-5.7	-6.0	-2.4	-2.2	-2.2	-2.1
Current account balance plus FDI (% of GDP)	-1.0	2.4	-2.0	1.4	-0.4	-3.4	-3.3	-4.7	-8.9	-1.5	-2.1	-2.0	-1.9
Foreign exchange reserves ex gold (€bn)	12.7	13.7	13.5	15.7	17.4	18.6	18.9	25.0	27.9	28.8	32.1	33.0	33.5
Import cover (months of merchandise imports)	8.9	8.9	8.2	8.6	8.8	8.9	9.9	10.6	8.0	8.7	9.2	9.1	8.8
Debt indicators													
Gross external debt (€bn)	49.5	48.6	45.1	43.9	42.8	40.6	41.3	47.2	49.8	60.8	65.0	67.4	71.2
Gross external debt (% of GDP)	110.6	105.8	94.6	88.0	81.7	73.4	81.0	80.2	72.8	79.5	77.4	75.1	75.1
Gross external debt (% of exports)	478	422	366	313	294	267	277	257	206	265	271	270	274
Lending to corporates/households (% of GDP)	69.2	65.2	60.3	56.5	54.7	53.3	61.0	53.8	51.0	49.1	50.8	50.5	50.6
Interest & exchange rates													
Central bank key rate (year-end, %)*	-0.20	-0.30	-0.40	-0.40	-0.40	-0.50	-0.50	-0.50	2.00	4.00	3.00	2.25	2.25
3yr yield (average, %)	3.15	2.60	1.70	1.20	0.70	0.15	0.15	0.10	3.00	3.15	2.40	2.35	2.30
10yr yield (average, %)	4.00	3.90	3.00	2.50	2.40	0.60	0.65	0.85	4.00	3.00	3.10	3.30	2.90
EUR/USD (average)	1.30	1.10	1.11	1.15	1.18	1.12	1.16	1.16	1.05	1.08	1.08	1.07	1.10
EUR/USD (end-period)	1.21	1.09	1.05	1.20	1.15	1.12	1.22	1.14	1.07	1.10	1.04	1.08	1.10

*ECB key rate as of 1 January 2023
Source: National sources, ING estimates

Quarterly forecasts

	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Real GDP (%YoY)	5.3	4.0	3.5	3.9	3.7	4.1	3.4	3.4	2.4	2.2	2.1	2.1	1.8
HICP (eop, %)	5.4	4.9	3.5	3.1	4.5	3.3	3.2	3.2	3.4	3.5	3.6	3.6	3.7
CPI (eop, %YoY)	4.5	4.1	2.4	1.6	3.4	3.7	3.8	4.2	2.7	2.9	3.4	3.5	3.8
Central bank key rate (eop, %)*	4.0	4.0	3.75	3.50	3.00	2.50	2.25	2.25	2.25	2.25	2.25	2.25	2.25
10yr yield (eop, %)	3.1	3.4	3.5	3.0	3.0	3.4	3.3	3.2	3.1	3.3	2.9	2.9	2.9

*ECB key rate as of 1 January 2023
Source: National sources, ING estimates

Czech Republic

David Havrlant, Chief Economist, Czech Republic

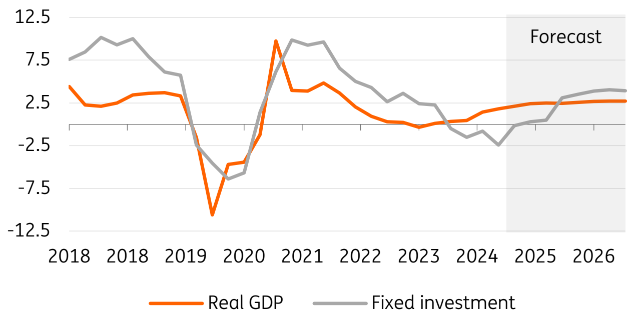
Forecast summary

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Real GDP (%YoY)	1.8	2.1	2.4	2.5	2.5	2.4	2.7
CPI (%YoY)*	3.0	2.7	3.1	2.5	3.0	2.7	2.4
Policy interest rate (%)	4.0	3.8	3.5	3.3	3.3	3.3	3.3
3m interest rate (%)*	3.9	3.7	3.5	3.4	3.4	3.5	3.4
10yr yield (%)*	4.2	4.2	4.1	4.0	4.0	4.0	4.1
USD/CZK*	24.0	23.2	22.9	22.9	22.9	23.1	22.9
EUR/CZK*	25.1	25.0	25.0	24.9	24.8	25.0	24.7

Macro trend		Political cycle	Ratings	FC	LC
Activity	++	Presidential: 2028	S&P	AA-	AA
Fiscal	Looser	Parliamentary: 2025	Moody's	Aa3	Aa3
Monetary	Looser	Local: 2026	Fitch	AA-	AA-

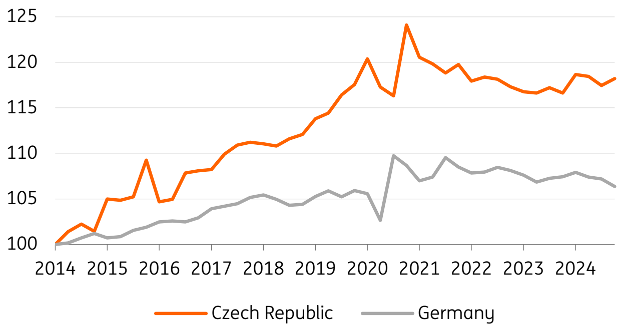
*Quarterly data is eop, annual is avg.
Source: National sources, ING estimates

Real performance and investment to lift off (% YoY)



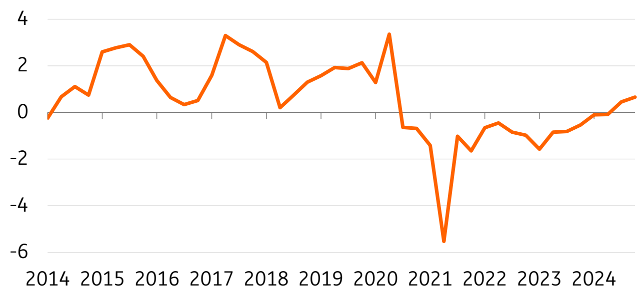
Source: CZSO, ING, Macrobond

The productivity dynamics lies in a coma (2014 = 100)



Source: Macrobond

Real growth differential versus the eurozone (ppt)



Source: Macrobond

Country strategy: More growth while easing ends

Economic expansion is expected to accelerate over this year and next, further driven by robust household spending and newly by the reviving construction sector. Czech industry has likely left the worst in the past and is about to join the growth chorus. With an expectation of higher defence spending domestically and Europe-wide, the subdued fixed investments and muted exports are in the correct position to rise from the ashes. Robust growth performance could foster labour market tightness, support solid wage gains, and ultimately result in upbeat price pressure. The renewed convergence requires a relatively tight monetary policy so that inflation does not escalate. The bank board seems to be in a position to finish the easing job, proclaiming an agreed terminal rate as an equilibrium and looking ahead to what comes next. The Koruna should benefit from Czech growth outperforming the eurozone.

Productivity and fixed investment are open wounds

Economic performance is about to gain traction, as we expect real GDP growth to rise to 2.4% this year and 2.7% next. Two pistons are currently firing at full blast: household consumption and a reviving construction sector. We see a setup in which a bottoming out of industry and investment complemented by a resurgence of export performance could be a viable base-case scenario. Both household spending and retail sales still have a gap towards pre-pandemic levels to be filled, which is enabled by the continued solid real wage gains. That said, the labour market has eased recently due to layoffs in the so far suffocated manufacturing sector, while the reviving construction sector has partially absorbed the free labour force. However, if industry gradually revives, as we forecast, labour could once again become a scarce resource and a bottleneck to further expansion.

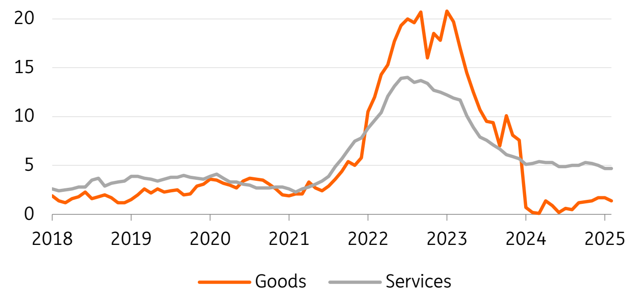
Meanwhile, investment and productivity remained a drag on economic performance. Fixed investment stagnated over two consecutive years and shed more than 1% in 2024. We don't see this as the onset of a vicious cycle in which an economy ends underinvested, as is the case with Germany. Stagnant labour productivity is the flip side of the neglected investment appetite and incentives. Productivity gains stalled in Germany around 2019 and were wiped out for the Czech economy only two years later. A sense of urgency is present across Europe in terms of its efficiency. Prioritisation and tight deadlines would contribute to a viable roadmap to kickstart productivity gains with a new sense of success and economic prosperity. Solving the productivity conundrum in practice is key to the sustainable success of the Czech economy, with our assumption of fixed investment rebounding in the foreseeable future.

The Czech economy is once again outperforming the eurozone, and the recently renewed convergence process towards the more advanced economies is going to continue for some time. Convergence, which has carried on in the price domain, has returned to the nominal and real wage growth, and it is tangible in real growth performance as from mid-last year. Such a setup requires a relatively tight monetary policy so that inflation does not get out of hand, so the rate differential with the ECB rate is likely to become more potent over the coming quarters. Growth outperformance versus the eurozone will also support the domestic currency against the euro over the foreseeable future, though in a gradual manner. Overall, we believe the Czech economy is on an upward path, positioned to gradually regain its full potential.

Czech Republic

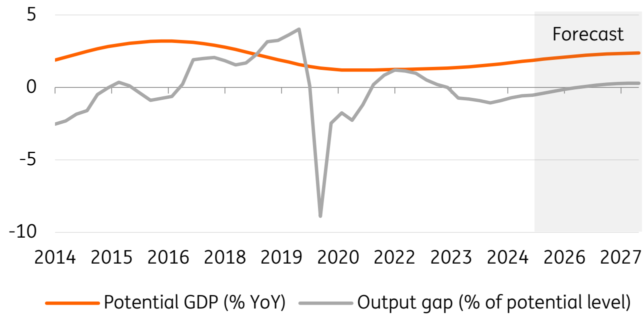
david.havrlant@ing.com

Services price growth shows resistance (% YoY)



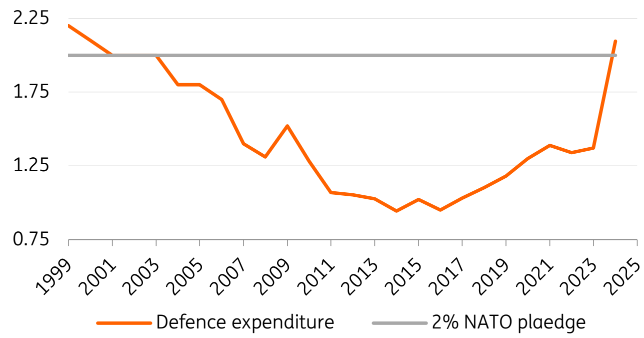
Source: CZSO, Macrobond

Output gap closes and potential gains (%)



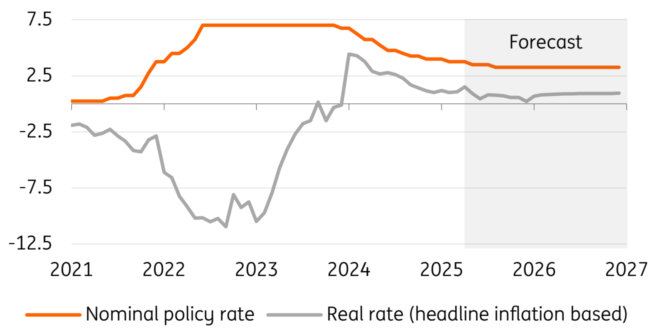
Source: ING

Defence spending set to foster growth (% of GDP)



Source: Macrobond

The easing cycle comes to an end (%)



Source: CNB, ING, Macrobond

Solid spending keeps inflation above the target

Given the continued solid nominal and real wage dynamic, the Czech consumer has sufficient resources to prolong the spending spree, filling the gap to pre-pandemic levels. That has meant the price growth inertia in services has remained stubborn. We assume some saturation in the segment, with lofty price gains observed over an extended period. Nevertheless, the counterpart of relaxed household budgets is price increases, also given the continued labour market tightness. Regarding restaurant prices, consumers have become used to nonnegligible price hikes every quarter or so, which could be deemed a selective violation of anchored inflation expectations. We see inflation remaining above the target this year at 2.7%, with services and food prices being the main drivers.

The economy is starting to breathe

We rely on our output gap estimate when assessing the general propensity to broad-based inflationary pressures. When negative, as is currently the case, the economy operates below its potential, and the overall price pressures are subdued. We assume that the output gap will come into a neutral position early next year, along with a gradual recovery of the potential growth. Once the output gap enters positive territory, the economy should start to see general shortages in production inputs for the given output level, resulting in more potent price pressures across economic segments than observed before. We see a parallel with 2017, when the economy decisively entered a phase of overheating, inflation drifted towards 3% and interest rate hikes followed suit in August.

Government spending priorities tilt toward defence

There is agreement across the Czech political spectrum that defence spending must be increased by as much as 3% of GDP, given the third year of the Russia-Ukraine war coupled with the latest transatlantic shakeup. This year's general election is unlikely to dramatically impact the tendency to only moderate deficits, which is favoured by the domestic audiences. Hence, setting the spending priorities in the coming years will be a key question, as too many hot topics currently require resources, be it social expenditure given an ageing population, sustainability and decarbonisation, viable energy strategy, or defence and security. Still, we expect the government deficits to remain nuanced, not crossing the 3% threshold.

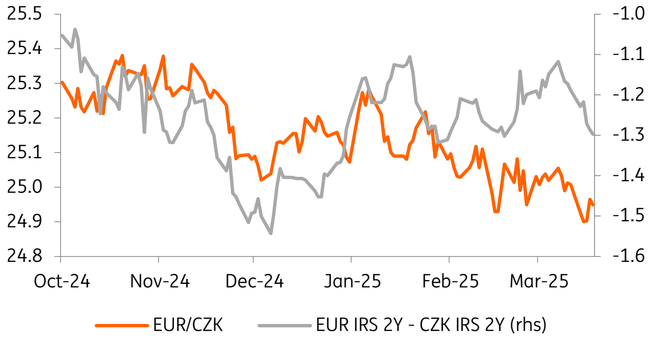
Determining the landing runway for the base rate

With the economic rebound gaining pace, the theme of monetary policy easing should soon reach its limits. The bank board seems positioned to finish the easing job and announce an agreed rate as terminal. The policymakers perceive overall risks as inflationary, stemming from robust household spending, a tight labour market implying solid wage gains, the persistent services price growth and, more recently, the potential for a more relaxed fiscal strategy due to the foreseen defence boost. We see some space for further rate reduction to help the economy reach its potential, as it can take time for extra spending to trickle through the system. Structural growth barriers remain in Europe, while Czech industry is not out of the woods yet. So, 3.25% remains our preferred landing zone.

Czech Republic

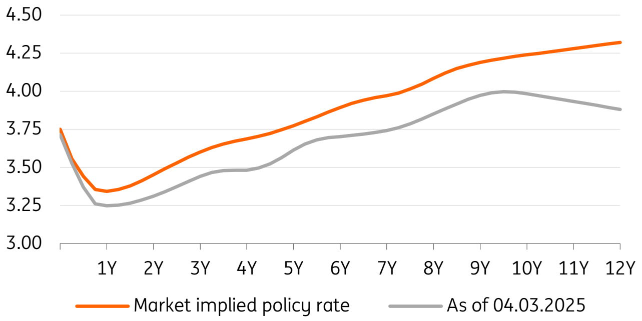
Strategy

Wider rate differential keeps CZK supported



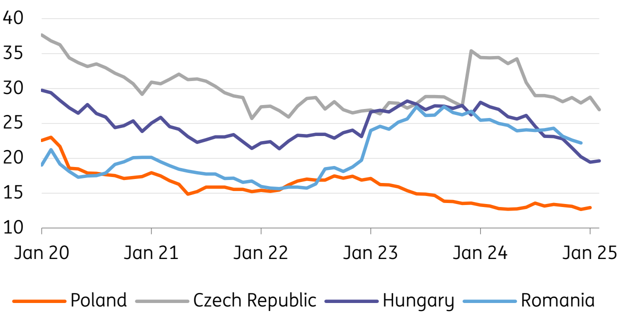
Source: Eikon, ING

Foreign holders of CZGB (%)



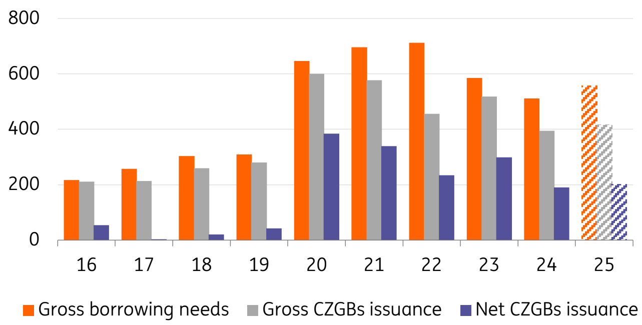
Source: Macrobond, ING

Foreign holders of CZGBs (%)



Source: MinFin, ING

CZGBs issuance forecast (CZKbn)



Source: MinFin, ING

FX strategy *(Frantisek Taborsky, EMEA FX & FI Strategist)*

EUR/CZK is in a narrow range of 24.900-25.200 this year with volatility significantly underperforming CEE peers. Although markets until recently were viewing the Long CZK as the best proxy in the CEE region for an expansionary German fiscal, auto tariffs from the US administration are now pointing in the opposite direction. However, despite all the noise the global story is providing, EUR/CZK is not moving much.

Looking ahead, we believe this will continue to be the case and that the hawkish CNB will keep EUR/CZK at current levels or trend slightly lower. The interest rate differential vs EUR has widened in recent weeks to the highest levels since early last year. Moreover, inflation risks point to a hawkish side of the CNB reaction function with risk of fewer cuts than in our forecast or market pricing. In our view, EUR/CZK thus has downside or stable levels looking ahead.

The risk is a further escalation of trade wars, which would hit the Czech economy hard; it is just recovering and this risk could dramatically change the outlook. However, we can see from the pattern in recent months that the CZK is the currency least affected by global developments within the CEE region and the local story, ie, interest rates and economic recovery, is the main factor driving FX. On the local side, the general election in September/October may be a risk, but the CZK has a strong history of ignoring local politics and therefore we see little risk here. Overall, we see EUR/CZK trending slowly lower in our forecast with 24.850 at the end of the year and lower next year.

Fixed Income strategy *(Frantisek Taborsky, EMEA FX & FI Strategist)*

Similar to FX, the rates market has shown strong stability this year despite the prevailing global environment. After a hawkish CNB meeting in March, the market sees the likelihood of a May rate cut as roughly 50:50 but still a terminal rate at 3.25% or slightly lower. The market is pushing rate cuts to later rather than repricing the whole trajectory of the CNB cutting cycle with 1y1y trending near lows this year resulting in a steepening curve. Looking ahead, we see inflation risks building on the hawkish side and, although we expect two more rate cuts, the risks are clearly on the fewer cuts side. While a scenario of only one rate cut in May is on the table, a scenario of no rate cut this year or a longer pause in the cycle waiting for more data cannot be ruled out. Inflation has shown more persistence, indicating higher level in 2H25 as well. We prefer to play the CZK market from the pay side now at the short end of the curve, while the long end remains too high, in our view.

In the bond space, CZGBs enjoy the highest demand in primary auctions within the CEE region and we expect the relatively low supply to persist this year despite the election risk. According to our calculations, MinFin has covered about 26% of this year's issuance and the risk is more on the downside compared to our forecast due to out-of-market sources of funding. At the same time, MinFin has shown that it does not need to issue if market conditions do not suit, unlike its CEE peers. After the recent sell-off following Bund repricing, we believe CZGBs are cheap outright and in ASW.

Czech Republic

david.havrlant@ing.com

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity	2.2	5.0	2.5	5.3	2.8	3.5	-5.3	4.0	2.9	0.1	1.0	2.4	2.7
Real GDP (%YoY)	1.3	3.7	3.5	4.5	3.4	3.0	-6.6	4.1	0.4	-2.8	2.0	2.8	2.5
Private consumption (%YoY)	1.2	1.8	2.4	1.7	3.5	2.6	4.1	1.5	0.4	3.4	3.8	2.3	2.2
Government consumption (%YoY)	2.8	8.9	-2.1	3.1	8.9	7.4	-4.8	6.7	6.3	2.7	-1.3	0.9	3.8
Investment (%YoY)	5.1	4.5	2.5	6.6	3.0	-0.5	-6.8	6.1	2.3	-0.8	-1.4	0.4	2.7
Industrial production (%YoY)	6.1	5.0	4.0	2.9	2.1	2.1	3.2	2.3	2.3	2.7	2.8	2.8	2.7
Unemployment rate (year-end, %)	4377	4654	4841	5185	5481	5891	5830	6306	7048	7627	8008	8399	8833
Nominal GDP (CZKbn)	159	171	179	197	214	230	220	246	287	318	319	336	358
Nominal GDP (€bn)	211	189	198	222	252	257	251	291	302	344	345	363	386
Nominal GDP (US$bn)	20079	18000	18842	21059	23915	24340	23901	27709	28061	31552	31665	33373	35475
GDP per capita (US$)	26.2	27.3	26.6	27.5	26.9	27.3	26.9	28.8	28.2	31.3	31.6	31.5	31.2
Gross domestic saving (% of GDP)													
Prices													
CPI (average, %YoY)	0.3	0.3	0.7	2.5	2.1	2.8	3.2	3.8	15.1	10.7	2.4	2.7	2.4
CPI (year-end, %YoY)	0.1	0.0	2.0	2.4	2.0	3.2	2.3	6.6	15.8	6.9	3.0	3.0	2.3
Wage rates (nominal, %YoY)	2.9	3.2	4.4	6.7	8.2	7.9	4.6	5.8	4.3	8.0	7.1	6.0	5.5
Fiscal balance (% of GDP)													
Consolidated government balance	-2.1	-0.7	0.7	1.5	0.9	0.3	-5.6	-5.0	-3.1	-3.8	-2.5	-2.0	-1.5
Consolidated primary balance	-0.8	0.4	1.6	2.2	1.6	1.0	-4.9	-4.2	-2.0	-2.5	-1.3	-0.8	-0.2
Total public debt	41.5	39.5	36.2	33.8	31.7	29.6	36.9	40.7	42.5	42.4	43.7	45.7	45.8
External balance													
Exports (€bn)	126	135	142	157	167	168	149	166	183	193	187	194	204
Imports (€bn)	114	123	127	138	150	151	134	158	174	177	169	176	185
Trade balance (€bn)	5.3	4.8	6.1	6.2	3.8	5.7	6.8	-0.4	-8.3	5.1	8.9	4.6	4.8
Trade balance (% of GDP)	3.3	2.8	3.4	3.2	1.8	2.5	3.1	-0.1	-2.9	1.6	2.8	1.4	1.5
Current account balance (€bn)	0.3	0.8	3.2	3.0	0.8	0.8	3.9	-5.1	-13.5	1.0	5.6	2.6	2.9
Current account balance (% of GDP)	0.2	0.4	1.8	1.5	0.4	0.3	1.8	-2.1	-4.7	0.3	1.8	0.8	0.9
Net FDI (€bn)	-2.9	1.8	-6.9	-1.7	-2.0	-5.3	-5.6	-1.1	-3.4	-0.7	-0.4	-0.8	0.4
Net FDI (% of GDP)	-1.8	1.1	-3.9	-0.9	-0.9	-2.3	-2.6	-0.5	-1.2	-0.2	-0.1	-0.2	-0.1
Current account balance plus FDI (% of GDP)	-2.6	1.5	-2.1	0.7	-0.5	-2.0	-0.8	-2.5	-5.9	0.1	1.6	0.6	0.8
Foreign exchange reserves ex gold (€bn)	45	59	81	120	125	132	134	149	129	138	140	142	144
Import cover (months of merchandise imports)	4.5	5.5	7.6	10.3	10.0	10.3	11.8	10.7	7.4	8.0	8.6	8.8	9.4
Debt indicators													
Gross external debt (€bn)	104	113	123	168	170	172	164	173	194	194	203	206	209
Gross external debt (% of GDP)	65.6	66.1	68.7	85.5	79.5	74.9	74.2	70.5	67.6	61.2	63.6	61.2	58.5
Gross external debt (% of exports)	82.5	83.3	86.6	107.4	102.0	102.2	109.5	104.1	106.2	100.8	108.4	106.5	102.7
Lending to corporates/households (% of GDP)	47.2	47.0	48.3	48.2	48.4	47.7	50.6	49.3	47.5	46.0	46.4	46.6	46.9
Interest & exchange rates													
Central bank key rate (year-end, %)	0.05	0.05	0.05	0.50	1.75	2.00	0.25	3.75	7.00	6.75	4.00	3.25	3.25
Broad money supply (average, %YoY)	5.4	7.9	8.6	9.5	5.3	6.9	10.0	9.5	5.3	7.4	7.1	4.8	6.4
3m interest rate (Pribor, average, %)	0.36	0.31	0.29	0.42	1.32	2.12	0.77	1.25	6.39	7.10	4.87	3.53	3.42
3m interest rate spread over Euribor (ppt)	0.15	0.33	0.55	0.75	1.64	2.48	1.20	1.79	6.04	3.67	1.30	1.13	1.08
2yr yield (average, %)	0.28	-0.07	-0.29	-0.22	0.97	1.44	0.43	1.42	5.26	5.13	3.78	3.53	3.60
10yr yield (average, %)	1.51	0.70	0.46	1.03	1.99	1.54	1.10	1.97	4.42	4.46	4.02	4.05	4.07
USD/CZK exchange rate (year-end)	22.46	24.82	25.65	21.69	22.70	22.94	21.62	22.32	22.91	22.44	24.01	22.88	22.84
USD/CZK exchange rate (average)	20.76	24.59	24.45	23.38	21.74	22.93	23.22	21.68	23.35	22.20	23.23	23.14	22.86
EUR/CZK exchange rate (year-end)	27.65	27.02	27.03	25.66	25.83	25.49	26.30	25.22	24.26	24.49	25.13	24.85	24.59
EUR/CZK exchange rate (average)	27.54	27.29	27.03	26.33	25.65	25.67	26.46	25.64	24.56	24.00	25.12	24.97	24.71

Source: National sources, ING estimates

Quarterly forecasts

	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Real GDP (%YoY)	0.1	0.3	0.5	1.4	1.8	2.1	2.4	2.5	2.5	2.6	2.7	2.7	2.7
CPI (eop, %YoY)	6.9	2.0	2.0	2.6	3.0	2.7	3.1	2.5	3.0	2.4	2.4	2.3	2.3
Central bank key rate (eop, %)	6.75	5.75	4.75	4.25	4.00	3.75	3.50	3.25	3.25	3.25	3.25	3.25	3.25
3m interest rate (eop, %)	6.77	5.61	4.71	4.20	3.92	3.71	3.48	3.42	3.42	3.42	3.42	3.42	3.42
10yr yield (eop, %)	3.75	4.00	4.18	3.74	4.20	4.16	4.06	4.01	4.01	4.01	4.06	4.11	4.11
USD/CZK exchange rate (eop)	22.44	23.27	23.03	22.61	24.01	23.19	22.91	22.89	22.88	22.87	22.86	22.85	22.84
EUR/CZK exchange rate (eop)	24.49	25.29	24.78	25.10	25.13	25.01	24.97	24.91	24.85	24.78	24.72	24.65	24.59

Source: National sources, ING estimates

Hungary

Péter Virovácz, Senior Economist, Hungary

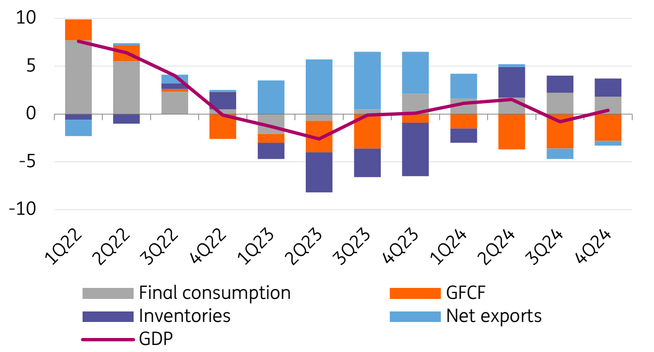
Forecast summary

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Real GDP (%YoY)	0.4	0.3	0.5	2.6	4.1	1.9	4.3
CPI (%YoY)*	4.6	5.2	5.6	5.6	5.3	5.4	3.8
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	5.88
10yr yield (%)*	6.56	7.20	7.00	6.85	7.00	6.92	7.09
USD/HUF*	396.1	376.6	388.6	387.9	388.9	384.3	383.6
EUR/HUF*	410.1	403.0	408.0	415.0	420.0	411.2	422.0

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

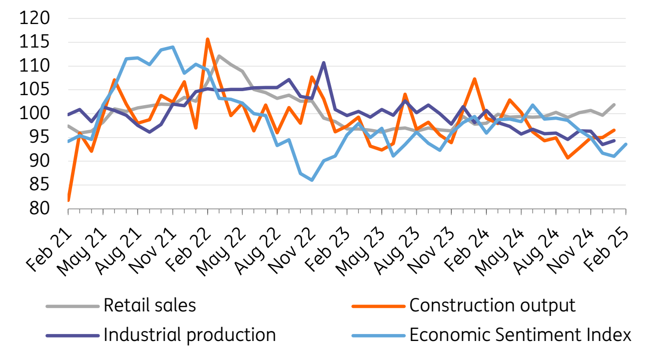
*Quarterly data is eop, annual is avg.
Source: National sources, ING estimates

Contribution to YoY GDP growth (ppt)



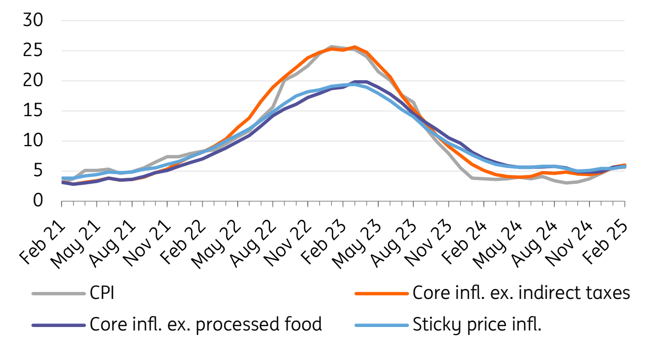
Source: Hungarian Central Statistical Office

Key activity indicators (swda; 2021 = 100%)



Source: Eurostat, Hungarian Central Statistical Office

Headline and underlying measures of inflation (%YoY)



Source: National Bank of Hungary

Country strategy: Hopes for a better year

After two years of negative surprises, we were hoping for a better 2025. However, we have already had to make downward revisions and, more recently, have seen mixed high-frequency data for this year. The silver lining remains the labour market, but the expected strong real wage growth is at risk. The main risk is rising inflation, which undermines consumer confidence, weakens the business outlook and calls for lower wage increases. The government has introduced temporary price controls, but their impact is questionable. Against this backdrop, we see no scope for interest rate cuts this year. On the fiscal side, there is also no room for manoeuvre to boost growth. In general, economic risks are balanced (EU and German spending, peace in Ukraine versus tariff wars), but market risks (mainly fiscal and political) keep us on the bearish side of the outlook for the Hungarian forint.

Macro digest

The Hungarian economy has faced two technical recessions in the past three years, and although it emerged from the latest one after two quarters in 2024, the recovery is far from strong. The volume of value added in agriculture (-10.4%), industry (-3%) and construction (-0.6%) all fell on an annual basis in 2024. For the latter two, this was a second consecutive year of decline. The positive story came from services last year, with a growth rate of 2.1%. On the expenditure side, consumption rose by more than 4%, with government consumption a drag on growth. Once again, the main culprit was investment. Limited access to EU funds, budgetary problems and a lack of business confidence culminated in an 11.3% fall in the volume of investment, the second consecutive year of negative growth. And while net exports helped the economy, this was due to weak domestic demand.

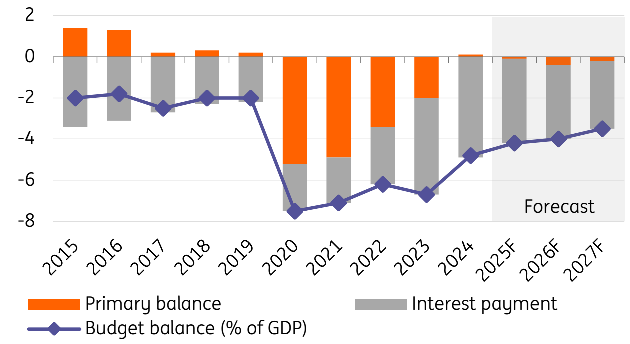
Looking ahead, we see a way out of two years of no growth. But this year will be a slow start. Our GDP growth forecast for 2025 is 1.9%. We expect strong consumption with some downside risks on the real wage growth side. We see another down year for investment, as none of the limiting factors are expected to ease much this year. We forecast a negative contribution from net exports, as domestic demand will look a bit better, but we don't think export activity will get the necessary boost from abroad. The planned new capacities (BMW, BYD, CATL, etc) should have a positive effect, but these are increasingly being postponed and are less likely to materialise until 2026. When they do materialise, however, they should have a positive impact on the economy, most likely in 2026, and trigger the long-awaited strong turnaround. All in all, we expect a more balanced economic structure in 2026, with GDP growth of 4.3%.

Inflation has surprised to the upside this year, reaching 5.6% YoY in February. The main reason for the acceleration in inflation is the continued sharp rise in food prices, which is similar to the trends seen during the cost-of-living crisis. On the other hand, services inflation has not only proved to be sticky but is also accelerating. Unfortunately, these are the items that really affect households' perceived inflation. The rise in inflation expectations has started to undermine consumer confidence again. Unsurprisingly, the government has been quick to announce price controls on food, while also targeting financial and telecommunications services. The impact is difficult to measure but, if successful, it represents a downside risk to our 5.6% average inflation forecast for 2025. As for now, we see inflation peaking at 6.0% YoY in the fourth quarter.

Hungary

peter.virovacz@ing.com

Budget and primary balance of general government (%)

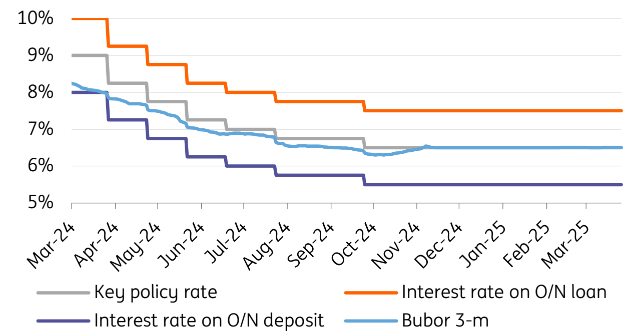


Source: AMECO, ING estimates

Small budget slippage this year, bigger next year

When the dust settled, the accrual-based deficit was slightly higher than targeted in 2024. For 2025, the target is 3.7% of GDP, and this could still be within reach, although the first two months brought the year-to-date deficit to 41% of the full-year plan. But this frontloading is in line with the trend since 2020. We don't think the 2025 budget plan is impossible to achieve, but as we expect weaker economic activity than the government, we forecast a deficit of 4.0-4.2%, with the primary balance still close to zero but deteriorating slightly. With a general election in Spring 2026, the government may find ways to stimulate the economy with more targeted measures if needed, as the financing side of the budget looks rock solid based on the year-to-date performance.

Benchmark policy rate and interest rate corridor

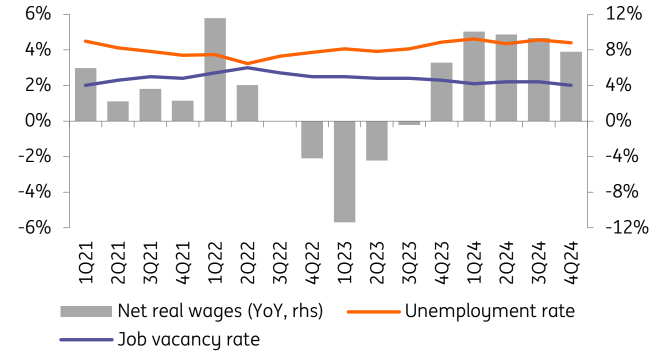


Source: National Bank of Hungary

The big picture of inflation keeps the base rate unchanged

The National Bank of Hungary has kept interest rates on hold since the end of September 2024. The main reason is the deteriorating inflation picture. The constant mantra is the need for a stability-oriented, patient and prudent monetary policy, with tight monetary conditions being essential for price stability. Even under the new leadership, the central bank's stance has remained the same. We expect the policy rate to remain at 6.50% for the rest of the year. However, as 30% of the recent excess liquidity will be removed by the end of 2025 via maturing balance sheet items, this could lead to an overly tight policy stance. We can therefore envisage some balance sheet-related easing in the form of old-new lending and/or corporate and government bond purchase programmes in 2H25.

Unemployment, job vacancy rate and wage growth

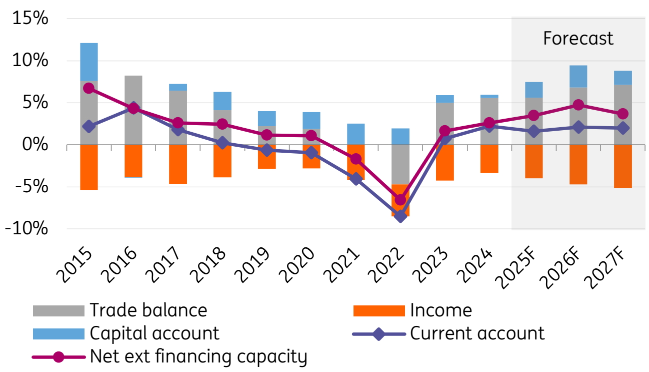


Source: Hungarian Central Statistical Office

The labour market remains a stronghold for now

The three-month moving average of the unemployment rate fell to 4.3% in January 2025. In the absence of the usual seasonal rise in unemployment, people may be returning to the labour market because of rising inflation. The trends now are similar to those in the cost-of-living crisis. The potential labour reserve remains low, keeping the market tight, and this could be maintained by the new production capacity coming on stream. However, as confidence indicators suggest, companies have been thinking about workforce rationalisation. We expect the unemployment rate to average 4.5% in 2025. In addition, there is a risk that real wage growth this year will be lower than our current forecast of 2.0-2.5% due to lower corporate wage growth caused by a lack of business confidence.

Structure of the current account (% of GDP)



Source: National Bank of Hungary, ING estimates

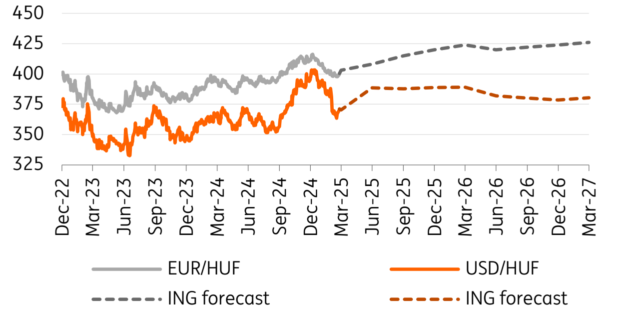
Even with some deterioration, external balance will be fine

Due to dropping investment, a moderate increase in consumption and weak industrial performance, imports faltered in 2024. On the other hand, exports also shrank, but not by much. In 2025, we see a slight deterioration in the trade balance with import activity rising on better domestic demand. However, improving economic performance and a higher share of imported workforce could push the income account deeper into shortfall. The expected new production capacity in car and electric equipment manufacturing may fail to boost exports this year with further delays in production due to external demand issues. But what comes around goes around and these will boost exports in 2026, balancing the rising import needs of the strong growth in domestic demand.

Hungary

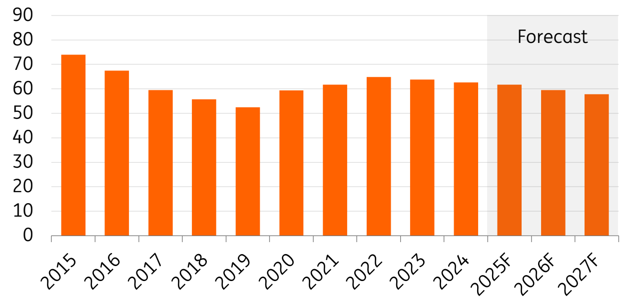
Strategy

FX – spot and INGF



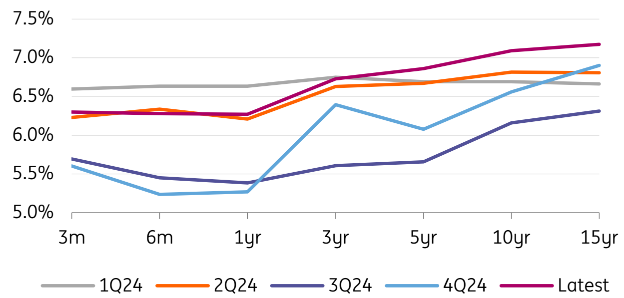
Source: National Bank of Hungary, ING estimates

Evolution of gross external debt (% of GDP)



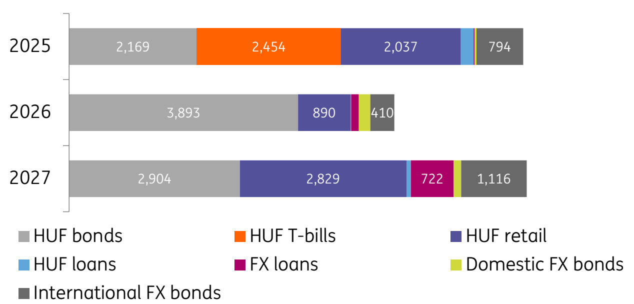
Source: National Bank of Hungary, ING estimates

Local curve (%)



Source: Government Debt Management Agency

Public debt redemption profile (end-2024, HUFbn)



Source: Government Debt Management Agency

FX strategy *(with Frantisek Taborsky, EMEA FX & FI Strategist)*

The Hungarian forint remains a playground for geopolitical events at the moment, particularly the aftermath of German fiscal expansion and negotiations between Ukraine and Russia, but also potential US tariffs. In recent months, the HUF has been heading towards stronger levels (starting in early January), but the pace of appreciation has slowed significantly in March, turning more into a narrow range trading around 400 against the EUR, which now appears to be a strong anchor.

We have seen similar patterns before and this suggests that in the very short term there may be some room to test the lower end of the range (around 395). However, in our view, Hungary lacks the country-specific positive story that could help break through this floor. On the other hand, in the past, this kind of range-trading in EUR/HUF has ended in a level shift to the upside sooner or later.

We don't think this time will be any different as the medium-term picture for Hungary remains largely unchanged. Weak economic performance (two years of zero growth), inflation (the highest in the European Union), fiscal policy (still no breakthrough in the rule of law debate) and political risk (the most challenging general election for the ruling Fidesz-KDNP) should all push the HUF to the weaker side as we look for a breakout from the recent range. Overall, we may see some support from global events in the short term, but we see EUR/HUF around - and possibly even in - the 410-420 range in the second half of the year.

Fixed income strategy *(with Frantisek Taborsky, EMEA FX & FI Strategist and James Wilson, EM Sovereign Strategist)*

Since the beginning of the year, the rates and HGB market has been going through phases of selling off after inflation numbers surprised to the upside in the past two months, with a rally driven by cheap valuations and the global story in between. Repricing after the February inflation number, lifted the curve to near-yearly highs and well above 3M BUBOR. At this point, it seems increasingly likely that we will not see any conventional monetary easing this year in Hungary, but we cannot assume that the market has priced out all probabilities. We therefore believe that the short end of the IRS and bond curve will remain anchored by NBH policy. However, the belly and long end should head lower given that we see NBH rate hikes as unlikely in the current environment and that current valuations are not justified in the context of our inflation forecast and global story.

For REPHUN Eurobonds, the strong technical picture is the clearest positive, with issuance needs already out of the way for the full year and solid commitment from the authorities to avoid additional unexpected USD or EUR deals. This is balanced against the likely modest rise in fiscal pressures and political risk as we head into election season. Valuations that are middle of the pack among 'BBB'-rated sovereigns look about fair.

Hungary

peter.virovacz@ing.com

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity													
Real GDP (%YoY)	4.3	3.7	2.4	4.1	5.6	5.1	-4.3	7.1	4.3	-0.9	0.5	1.9	4.3
Private consumption (%YoY)	2.3	3.7	4.2	4.9	4.1	4.7	-1.5	4.1	6.4	-0.7	4.3	4.9	4.8
Government consumption (%YoY)	8.9	1.3	0.5	3.8	4.3	9.6	4.2	2.8	0.7	3.9	-5.8	1.8	1.5
Investment (%YoY)	12.4	4.8	-10.4	19.7	16.4	12.7	-7.3	5.7	0.9	-7.8	-11.3	-1.3	6.1
Industrial production (%YoY)	7.7	7.4	0.9	4.6	3.5	5.6	-6.0	9.5	6.1	-5.5	-4.0	-0.9	7.9
Unemployment rate (year-end, %)	7.0	6.0	4.3	3.7	3.5	3.1	4.1	3.7	3.9	4.4	4.4	4.4	4.1
Nominal GDP (HUFbn)	32,827	34,985	36,312	39,336	43,554	47,940	48,808	55,557	66,166	75,087	81,148	87,858	95,810
Nominal GDP (€bn)	106	113	117	127	137	147	139	155	169	197	205	214	227
Nominal GDP (US$bn)	139	124	129	146	161	165	161	180	178	213	222	229	250
GDP per capita (US$)	14,358	12,777	13,220	14,745	16,603	17,013	16,390	19,020	18,462	22,160	23,179	23,894	26,155
Gross domestic saving (% of GDP)	25.2	25.9	26.0	25.1	27.0	27.6	26.1	26.4	25.6	25.5	25.7	26.0	26.2
Prices													
CPI (average, %YoY)	-0.2	-0.1	0.4	2.4	2.8	3.4	3.3	5.1	14.5	17.6	3.7	5.4	3.8
CPI (year-end, %YoY)	-0.9	0.9	1.8	2.1	2.7	4.0	2.7	7.4	24.5	5.5	4.6	5.3	3.7
Wage rates (nominal, %YoY)	3.0	4.3	6.2	12.9	11.3	11.3	9.8	8.9	17.4	14.2	13.2	8.0	10.5
Fiscal balance (% of GDP)													
Consolidated government balance	-2.8	-2.0	-1.8	-2.5	-2.0	-2.0	-7.5	-7.1	-6.2	-6.7	-5.4	-4.2	-4.0
Consolidated primary balance	1.2	1.4	1.3	0.2	0.3	0.2	-5.2	-4.9	-3.4	-2.0	0.1	-0.1	-0.4
Total public debt	76.5	75.7	74.6	72.0	68.8	65.0	78.7	76.2	73.8	73.4	73.8	73.7	73.5
External balance													
Exports (€bn)	84.5	90.5	93.0	100.7	104.9	109.1	105.0	119.2	142.5	149.6	144.2	144.8	156.0
Imports (€bn)	78.2	81.9	83.3	92.6	99.3	104.8	99.4	117.6	151.7	140.6	132.5	135.5	148.0
Trade balance (€bn)	6.3	8.6	9.7	8.1	5.5	4.3	5.6	1.6	-9.1	9.0	11.6	9.3	8.0
Trade balance (% of GDP)	5.9	7.6	8.3	6.3	4.0	2.9	4.0	1.0	-5.4	4.6	5.7	4.3	3.5
Current account balance (€bn)	0.9	2.4	5.1	2.3	0.3	-0.9	-1.3	-6.3	-14.4	1.4	4.6	3.4	4.8
Current account balance (% of GDP)	0.8	2.2	4.4	1.8	0.2	-0.6	-0.9	-4.1	-8.5	0.7	2.2	1.6	2.1
Net FDI (€bn)	5.0	2.1	3.7	4.9	5.4	3.0	4.5	6.6	8.4	5.1	4.4	6.9	5.9
Net FDI (% of GDP)	4.7	1.9	3.2	3.9	3.9	2.0	3.3	4.2	5.0	2.6	2.1	3.2	2.6
Current account balance plus FDI (% of GDP)	5.6	4.1	7.5	5.7	4.2	1.4	2.3	0.2	-3.5	3.4	4.4	4.8	4.7
Foreign exchange reserves ex gold (€bn)	33.7	30.0	24.0	22.6	25.8	26.5	31.8	30.8	30.8	30.1	32.6	34.0	35.0
Import cover (months of merchandise imports)	5.2	4.4	3.5	2.9	3.1	3.0	3.8	3.1	2.4	2.6	3.0	3.0	2.8
Debt indicators													
Gross external debt (€bn)	89.4	83.4	78.6	75.8	76.2	77.4	82.5	95.7	109.6	125.3	128.6	132.1	135.1
Gross external debt (% of GDP)	84	74	67	60	56	53	59	62	65	64	63	62	60
Gross external debt (% of exports)	106	92	84	75	73	71	79	80	77	84	89	91	87
Lending to corporates/households (% of GDP)	41.1	33.8	32.1	31.3	31.2	32.1	35.8	35.5	33.2	30.2	29.9	29.8	29.3
Interest & exchange rates													
Central bank key rate (year-end, %)	2.10	1.35	0.90	0.90	0.90	0.90	0.60	2.40	13.00	10.75	6.50	6.50	5.50
Broad money supply (average, %YoY)	4.1	4.7	4.6	9.6	13.9	7.5	14.5	17.4	16.3	1.1	6.9	9.3	9.1
3m interest rate (Bubor, average, %)	2.41	1.61	0.99	0.15	0.12	0.19	0.69	1.45	9.96	14.30	7.31	6.50	5.88
3m interest rate spread over Euribor(ppt)	220	163	125	48	44	55	112	200	961	1087	374	410	354
3yr yield (average, %)	3.5	2.1	1.5	0.9	1.3	0.8	1.0	2.0	8.5	9.0	6.3	6.8	6.4
10yr yield (average, %)	4.8	3.4	3.1	3.0	3.0	2.5	2.2	3.1	7.6	7.5	6.5	6.9	7.1
USD/HUF exchange rate (year-end)	260.3	288.3	295.7	258.3	280.4	294.8	298.9	324.5	373.9	346.8	396.1	388.9	385.5
USD/HUF exchange rate (average)	236.6	282.3	281.6	269.5	270.9	291.1	304.0	308.2	372.2	352.4	365.3	384.3	383.6
EUR/HUF exchange rate (year-end)	314.9	313.1	311.0	310.1	321.5	330.5	365.1	369.0	400.3	382.8	410.1	420.0	424.0
EUR/HUF exchange rate (average)	308.7	309.9	311.5	309.2	318.9	325.4	351.2	358.5	391.3	382.0	395.2	411.2	422.0

Source: National sources, ING estimates

Quarterly forecasts

	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Real GDP (%YoY)	0.1	1.1	1.5	-0.8	0.4	0.3	0.5	2.6	4.1	4.7	5.0	4.2	3.2
CPI (eop, %YoY)	5.5	3.6	3.7	3.0	4.6	5.2	5.6	5.6	5.3	3.5	3.8	3.8	3.7
Central bank key rate (eop, %)	10.75	8.25	7.00	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.00	5.75	5.50
3m interest rate (eop, %)	9.96	7.83	6.89	6.32	6.50	6.50	6.50	6.50	6.50	6.10	5.85	5.60	5.35
10yr yield (eop, %)	5.87	6.69	6.82	6.16	6.56	7.20	7.00	6.85	7.00	7.20	7.10	7.05	7.00
USD/HUF exchange rate (eop)	346.8	366.8	368.9	357.0	396.1	376.6	388.6	387.9	388.9	389.0	385.3	383.6	385.5
EUR/HUF exchange rate (eop)	382.8	395.8	395.2	397.6	410.1	403.0	408.0	415.0	420.0	424.0	420.0	422.0	424.0

Source: National sources, ING estimates

Kazakhstan

Dmitry Dolgin, Chief Economist, CIS

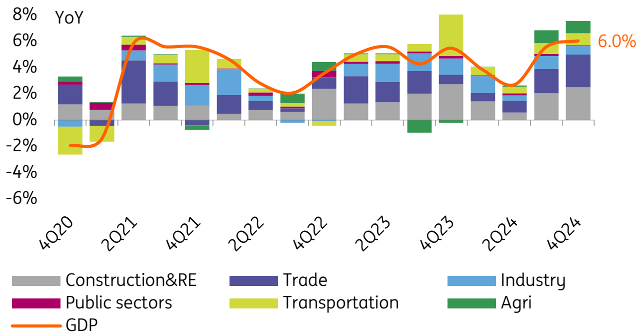
Forecast summary

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Real GDP (%YoY)	6.0	5.4	4.5	4.5	3.5	4.5	3.5
CPI (%YoY)*	8.6	9.5	10.3	10.3	11.0	10.0	12.1
Policy interest rate (%)	15.25	16.50	16.50	16.50	16.50	16.50	15.00
3m interest rate (%)*	14.7	16.2	16.2	16.2	16.2	14.7	15.2
10yr yield (%)*	n/a	n/a	n/a	n/a	n/a	n/a	n/a
USD/KZT*	525	500	495	520	530	514	549
EUR/KZT*	543	535	520	556	572	550	604

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

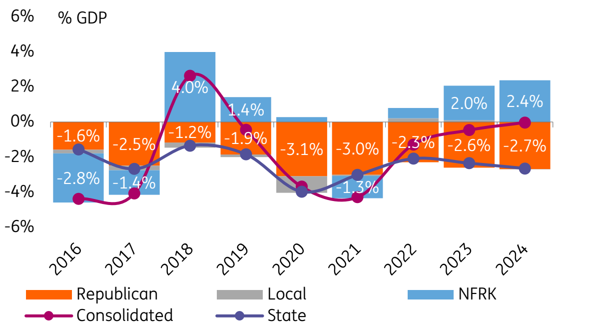
*Quarterly data is eop, annual is avg.
Source: National sources, ING estimates

GDP growth and major contributors (%YoY)



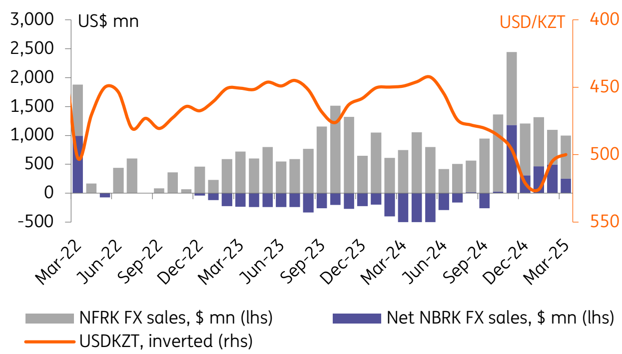
Source: National sources, CEIC, ING

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: Spotlight on the fiscal side

Kazakhstan's macro case remains heavily dependent on the fiscal policy. A higher-than-expected budget deficit contributed to strong GDP growth and inflation, requiring the central bank to raise the CPI outlook and tighten its stance. This year, economic activity and the tenge should remain supported by generous FX outlays from the sovereign wealth fund, but the looming fiscal consolidation of 2026, which will involve a VAT hike, is likely to translate into weaker GDP, a prolonged period of higher CPI and reduced state support to the local FX market. Geopolitics remain a factor of uncertainty given that Russia accounts for a third of Kazakhstan's imports and 12% of exports. Since 2022, KZT has moved mostly in the same direction as RUB, with around 50% sensitivity at times of shocks. Meanwhile, as a commodity supplier, Kazakhstan could be better positioned in the context of higher global defence spending and trade wars.

Activity: Looking for higher oil production in 2H25

Kazakhstan posted an impressive recovery from 3.2% YoY in 1H24 to 4.8% for the full year. Non-fuel sectors led the recovery after a temporary flood-related hiatus, while oil-related activity remained under pressure. The near-term signals on the fuel sector are mixed, with oil production and export targets still suggesting growth thanks to Tengiz as from 2H25 but somewhat more modest than earlier expected due to the need to comply with OPEC+ commitments. Household consumption enjoyed a rapid increase throughout 1H24, but in 2H24 household income and lending somewhat softened, and CPI and monetary policy prospects suggest that the momentum for consumption may slow down in 2025. This is the primary reason we expect overall GDP growth to moderate to 4.0-4.5% this year.

Fiscal policy: Consolidation ahead in 2026

A key reason for the positive surprise in GDP for 2024 was the looser-than-expected fiscal stance. Due to weakening in the tax revenue amid sticky expenditures, the deficit of the state budget continued to widen to 2.7% of GDP in 2024. Net of non-tax revenues, including privatisation and investment income of the sovereign fund NFRK, the budget was in deficit of 5.3% of GDP at end-2024, corresponding to US$185/bbl breakeven Brent. The government has proposed a VAT rate hike from 12% to 16% starting 2026, expecting additional revenues of 2.5-3.0% of GDP and an impact on CPI of 2.5-3.0ppt. Meanwhile, this year's fiscal framework is expected to remain growth-supportive and we see the republican budget ending 2025 at a 2-3% of GDP deficit despite a 3-4% of GDP transfer from NFRK.

FX market: Constructive on KZT in the near term

Continued transfers from the NFRK on a scale similar to 2023-24 should correspond to around US$10bn annual FX sales conducted for fiscal purposes this year. In addition, in 2025 the central bank aims to sell an additional US$5.5-6.0bn to sterilise its KZT-denominated purchases of gold from domestic producers. These sales will be partially offset by the FX purchases for the state pension fund (due to a requirement to maintain a 40% FX share) but, on a net basis, NBRK should be a net seller of FX in 2025. Higher state support to the FX market amid stable trade flows keep us constructive on KZT in the near term. Meanwhile, the expected reduction in FX sales from the sovereign fund in 2026 should allow the tenge to move closer to its fair value, which we estimate to be in a 550-570 range next year.

Kazakhstan

dmitry.dolgin@ing.de

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity													
Real GDP (%YoY)	4.2	1.2	1.1	4.1	4.1	4.5	-2.5	4.3	3.2	5.1	4.8	4.5	3.5
Private consumption (%YoY)	1.1	1.8	1.2	1.5	6.1	6.1	-3.7	6.3	4.0	7.6	6.0	4.5	2.5
Government consumption (%YoY)	9.8	2.4	2.3	2.1	-14.1	15.5	12.8	-2.4	4.3	7.4	4.5	5.0	4.0
Investment (%YoY)	4.4	4.2	3.0	4.5	5.4	13.8	-0.2	2.6	3.8	17.1	4.5	5.0	4.0
Industrial production (%YoY)	0.3	-1.6	-1.1	7.3	4.4	-4.1	-0.5	3.6	1.1	4.3	2.8	4.0	3.0
Unemployment rate (average, %)	5.0	5.0	5.0	4.9	4.9	4.8	4.8	4.0	4.9	4.7	4.7	4.6	4.6
Nominal GDP (KZTbn)	39,676	40,884	46,971	54,379	61,820	69,533	70,649	83,952	103,766	119,442	135,252	155,488	180,357
Nominal GDP (€bn)	167	166	124	148	152	162	150	167	214	242	267	324	361
Nominal GDP (US$bn)	221	184	137	167	179	182	171	197	225	262	288	303	329
GDP per capita (US$)	12,807	10,511	7,715	9,248	9,813	9,813	9,122	10,371	11,477	13,153	14,291	14769	15805
Gross domestic saving (% of GDP)	41	35	34	37	40	39	34	37	40	38	n/a	n/a	n/a
Prices													
CPI (average, %YoY)	6.7	6.6	14.7	7.4	6.0	5.2	6.8	8.0	14.9	14.8	8.7	10.0	12.1
CPI (year-end, %YoY)	7.4	13.6	8.5	7.1	5.3	5.4	7.5	8.4	20.3	9.8	8.6	11.0	10.5
Wage rates (nominal, %YoY)	10.9	4.1	13.4	5.5	7.9	14.8	14.0	17.5	23.1	24.1	11.6	13.9	14.9
Fiscal balance (% of GDP)													
Consolidated government balance	6.1	9.6	-4.4	-4.1	2.6	-0.4	-3.7	-4.3	-1.3	-0.5	0.0	-1.8	-0.2
Consolidated primary balance	6.7	10.3	-3.3	-3.2	3.6	0.5	-2.6	-3.1	0.0	1.1	1.6	0.0	1.7
Total public debt	14.3	22.1	24.3	24.8	24.9	23.7	29.2	26.2	24.4	22.7	23.5	23.0	22.0
External balance													
Exports (US$bn)	70.1	41.6	37.0	49.5	59.0	59.5	44.1	65.8	85.6	80.3	79.8	82.6	82.5
Imports (US$bn)	42.5	33.9	26.6	31.0	35.0	41.1	38.1	41.6	50.6	60.4	60.4	62.2	64.1
Trade balance (US$bn)	27.7	7.7	10.5	18.5	24.0	18.4	6.0	24.2	35.0	19.9	19.4	20.3	18.4
Trade balance (% of GDP)	12.5	4.2	7.6	11.1	13.4	10.1	3.5	12.3	15.5	7.6	6.7	6.7	5.6
Current account balance (US$bn)	-2.9	-10.0	-7.0	-3.4	-1.8	-7.0	-11.1	-2.7	6.4	-9.0	-4.4	-5.7	-6.9
Current account balance (% of GDP)	-1.3	-5.4	-5.1	-2.1	-1.0	-3.9	-6.5	-1.4	2.9	-3.4	-1.5	-1.9	-2.1
Net FDI (US$bn)	4.7	3.3	13.7	3.8	5.0	5.9	5.9	1.9	8.0	2.4	4.0	3.0	2.0
Net FDI (% of GDP)	2.1	1.8	10.0	2.3	2.8	3.3	3.4	1.0	3.5	0.9	1.4	1.0	0.6
Current account balance plus FDI (% of GDP)	0.8	-3.6	4.9	0.2	1.8	-0.6	-3.0	-0.4	6.4	-2.5	-0.1	-0.9	-1.5
Gross international reserves (US$bn)	29.2	27.9	29.7	31.0	30.9	29.0	35.6	34.4	35.1	35.9	45.8	46.8	47.8
Import cover (months of merchandise imports)	8.3	9.9	13.4	12.0	10.6	8.5	11.2	9.9	8.3	7.1	9.1	9.0	9.0
Debt indicators													
Gross external debt (US$bn)	157	153	164	167	160	160	164	164	161	164	166	171	176
Gross external debt (% of GDP)	71	83	119	100	89	88	96	83	71	62	57	56	53
Gross external debt (% of exports)	224	367	442	339	272	268	372	249	188	204	72	68	65
Lending to corporates/households (% of GDP)	31.4	31.0	27.1	23.4	21.2	19.9	20.7	22.0	23.9	25.0	26.0	27.0	28.0
Interest & exchange rates													
Central bank key rate (year-end, %)	5.50	16.00	12.00	10.25	9.25	9.25	9.00	9.75	16.75	15.75	15.25	16.50	15.00
Broad money supply (average, %YoY)	-8.2	8.0	46.2	7.5	7.1	11.0	19.2	24.1	18.0	16.8	19.9	11.0	10.0
3m interest rate (TONIA, average, %)	15.4	32.6	14.2	8.6	9.3	9.6	11.4	8.1	18.1	15.8	12.7	14.7	15.2
3m interest rate spread over US$-Euribor (ppt)	15.20	32.29	13.46	7.30	7.01	7.24	10.70	7.92	15.72	10.42	7.63	10.5	11.6
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)	182	339	333	332	384	381	421	432	463	455	524	530	565
USD/KZT exchange rate (average)	179	222	342	326	345	383	413	426	460	456	469	514	549
EUR/KZT exchange rate (year-end)	222	371	352	398	439	427	516	488	493	502	546	572	622
EUR/KZT exchange rate (average)	238	246	379	368	407	429	471	504	485	493	507	550	604
Brent oil price (annual average, US$/bbl)	99	54	45	55	72	64	43	71	99	82	80	74	70

Grey shading denotes ING forecast data
Source: CEIC, National sources, ING estimates

Quarterly forecasts

	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Real GDP (%YoY)	5.4	3.8	2.7	5.6	6.0	5.4	4.5	4.5	3.5	2.0	3.0	4.0	5.0
CPI (eop, %YoY)	9.8	9.1	8.4	8.3	8.6	9.5	10.3	10.3	11.0	13.0	12.5	11.8	10.5
Central bank key rate (eop, %)	15.75	14.75	14.50	14.25	15.25	16.50	16.50	16.50	16.50	16.50	16.50	16.00	15.00
3m interest rate (eop, %)	14.68	13.70	12.16	10.39	14.65	16.20	16.20	16.20	16.20	16.20	16.20	15.70	14.70
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)	456	447	473	481	525	500	495	520	530	540	550	560	565
EUR/KZT exchange rate (eop)	503	483	507	536	543	535	520	556	572	589	600	616	622

Grey shading denotes ING forecast data
Source: CEIC, National sources, ING estimates

Poland

Rafał Benecki, Chief Economist, Poland

Forecast summary

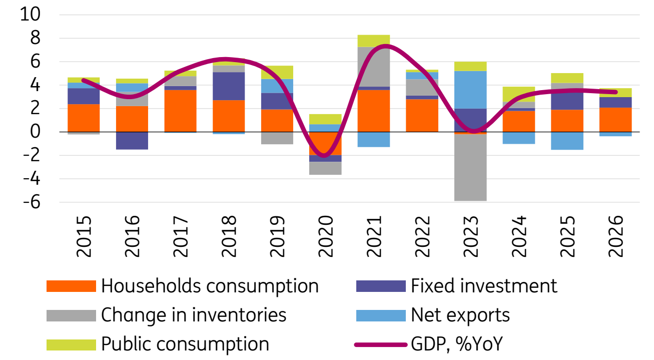
	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Real GDP (%YoY)	3.2	3.2	3.0	3.8	3.9	3.5	3.4
CPI (%YoY)*	4.8	4.9	4.1	2.8	2.8	3.7	2.6
Policy interest rate (eop, %)	5.75	5.75	5.75	5.25	4.75	4.75	4.25
3m interest rate (%)*	5.84	5.85	5.72	5.25	4.80	4.80	4.38
10yr yield (%)*	5.89	5.72	5.65	5.60	5.60	5.65	5.55
USD/PLN*	4.10	3.87	4.00	3.97	3.94	3.98	3.88
EUR/PLN*	4.27	4.18	4.20	4.25	4.25	4.22	4.24

Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: 2025	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

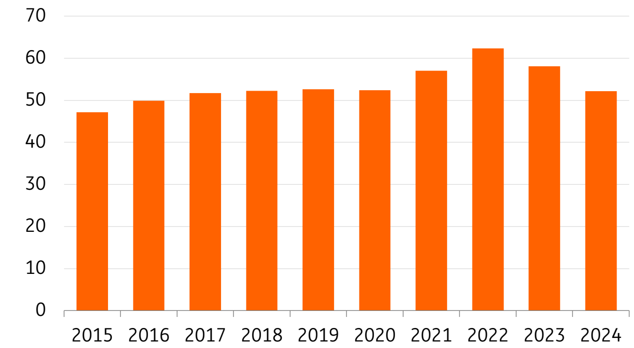
Source: National sources, ING estimates

GDP composition (%YoY)



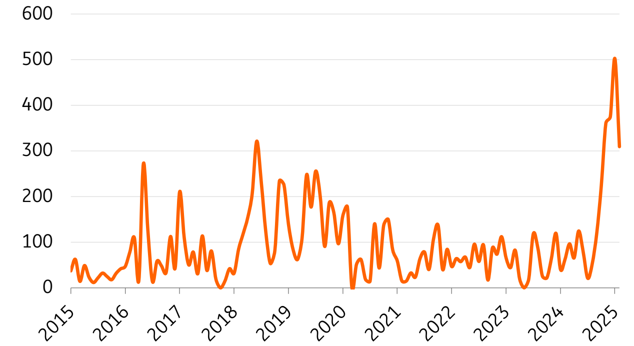
Source: Polish Statistical Office, ING forecast

Exports of goods and services (% of GDP)



Source: Polish Statistical Office

US Trade Policy Uncertainty (TPU) Index



Source: Matteo Iacoviello

Country strategy: GDP outperformance, dovish NBP pivot

In 2024 Poland delivered expected GDP growth set against the large downside surprises, of as much as two-thirds even, of region peers. In 2025, a second engine of domestic demand should start, with public investments complementing consumption, allowing Poland to continue outperforming. By late-2025/early-2026, the Eurozone fiscal impulse should boost external demand and potentially attract FDI to the manufacturing sector. Polish assets (equity and POLGBs) still carry a significant premium, while the PLN is overvalued but not at the extreme levels seen in the past. Our below-consensus CPI forecast, predicting a return to the 2.5% +/- 1% target range a year earlier than the last NBP projection, should prompt Governor Glapinski's dovish pivot. Already, 7 out of 10 MPC members are discussing 2025 rate cuts. We prefer to play the easing cycle via POLGBs and asset swaps rather than IRS.

Domestic growth in 2025, renaissance of exports in 2026

Poland is expected to stay the most rapidly growing country in the CEE and EU in the coming years. We see growth in 2025 driven by domestic demand with private consumption growth projected to maintain a similar pace as in 2024. Despite slowing wages growth, households should continue spending with the aid of savings generated last year. In 2025, economic expansion will be boosted by disbursements of RRF funds while, from 2026 onwards, defence spending and infrastructure investment in Germany should aid Polish exports.

We forecast that in 2025 Poland may spend around PLN50bn from RRF grants and about PLN40bn from loans. On the top of that, we see cohesion funds absorption at PLN45bn. In such a scenario, fixed investment could increase by 9.5% this year.

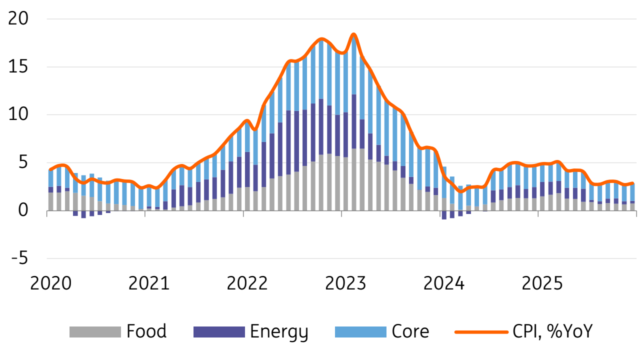
The key risk is the outbreak of trade wars between the US and the EU that could curb exports. Although the direct exposure of Poland's economy to exports is small (the US accounts for about 3% of total exports), the indirect exposure via global supply adds a further 3ppt. In 2026 and beyond, the Polish economy may benefit from the German fiscal impulse. Poland offers spare capacity in steel, but also the manufacturing sector may count on new FDI from the Eurozone and some from the US given record-high orders of American weapons.

The inflation profile is more favourable than envisaged in the March NBP projection. First, the annual update of the CPI basket led to a substantial downward revision of January inflation and set a lower starting point. Second, the central bank is sticking to the assumption that the expiry of maximum price for electricity (PLN500/MWh) will lead to a spike in bills to households as prices increase the current Energy Regulatory Office tariff (PLN623/MWh) in the fourth quarter of this year. The latter is unlikely as energy distributors are obliged to apply for new tariffs until end-April and newly approved motions will reflect current trends in the market. Wholesale forwards for 4Q25 electricity prices (BASE) currently trade at around PLN440/MWh, so the new tariff is expected to be lower than the current one and should be close to the current maximum price. That means that electricity prices for households are unlikely to increase in 4Q25 and, at the end of this year, CPI inflation may be close to the upper bound of acceptable deviations from the NBP target (2.5%, +/- 1ppt) instead of the nearly 5% projected by the central bank. That opens up room for rate cuts even in 3Q25. We see space for 100bp of cuts in the NBP rates in 2025. We see the terminal rate at 4.25% in 2026.

Poland

rafal.benecki@ing.pl

CPI inflation and its composition (%, percentage points)

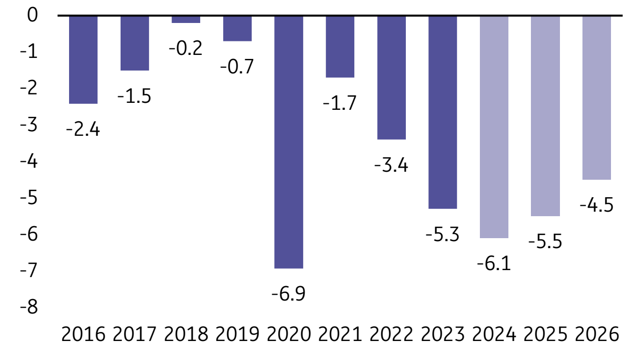


Source: Polish Statistical Office, ING forecast

CPI and core inflation lower than expected in 2025

The CPI outlook improved as a result of multiple factors. The annual CPI basket update brought a downward revision of 2025 CPI and the core path by c.0.4ppt. We also incorporate slowing wages, a firm PLN, and a longstanding assumption of flat electricity prices in 4Q25. The authorities declared that the electricity price cap will be maintained in 4Q25 if the drop of the new Energy Regulatory Office (URE) tariffs proves insufficient to keep electricity bills unchanged. On our forecasts, CPI inflation is below the upper bound of the NBP's target (2.5% +/- 1%) by mid-2025. 7 out of 10 MPC members are already calling for 2025 cuts, with 6 votes required to overvote the governor. On our forecast of 100bp cuts in 2025, ex-ante real rates in December 2025 return to the December 2024 level, or slightly above neutral rate. We see the terminal rate at 4.25% in 1H26.

General government balance (% of GDP)

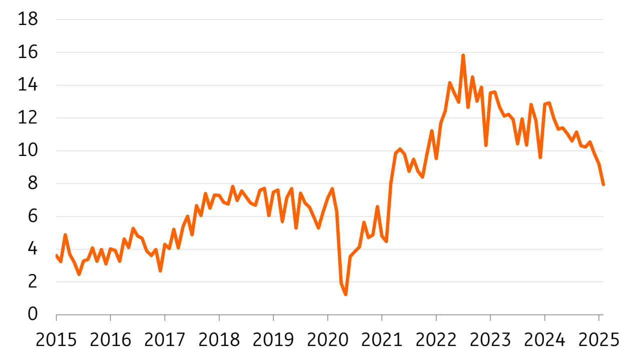


Source: Eurostat, ING forecast

Fiscal policy remains expansionary

Poland is under an excessive deficit procedure and presented a backloaded consolidation plan as authorities are pursuing an ambitious defence spending agenda while maintaining social benefits to the public. In 2024 the general government deficit most likely exceeded 6% of GDP and we forecast it to narrow to about 5.5% of GDP this year. On a cash basis the 2025 budget deficit is at an all-time high, but so far authorities face no issues with record-high borrowing needs (PLN550bn). More than 50% of this is already financed with the aid of FX bonds, the re-introduction of T-bills and a higher supply of POLGBs. The domestic market will remain the main source of financing and demand for T-bonds remains solid amid subdued credit expansion in the Polish banking sector amid high level of interest rates.

Average wage and salary in enterprises (%YoY)

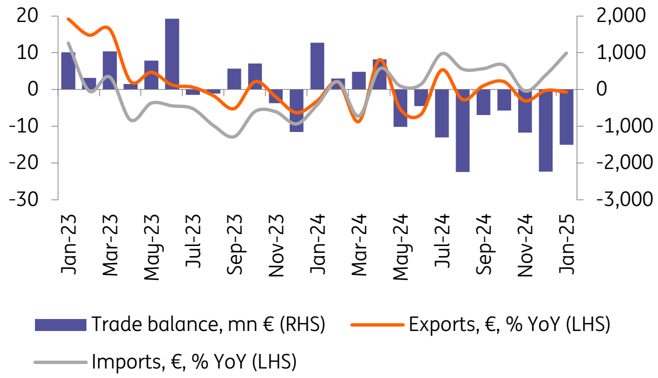


Source: Polish Statistical Office, ING forecast.

Wages growth is slowing but labour market still tight

Having growth at double-digit pace over the previous three consecutive years, wages growth started slowing at the beginning of 2025 aided by a less generous hike in minimum wage this year, lower raises in the public sector, lower indexation for past inflation and narrower profit margins that made businesses less eager to hike wages. The wages growth slowdown should facilitate disinflation in the coming quarters. Still, the labour market is tight with a decline in the working age population that reduces the supply of labour. Poland has the lowest unemployment in the EU along with the Czech Republic (2.6% in January). Immigration is likely to be an important source of labour ahead, scope for higher participation is limited and the labour intensity (hours worked per worker) is in decline.

Exports and imports of goods (€m, %YoY)



Source: NBP.

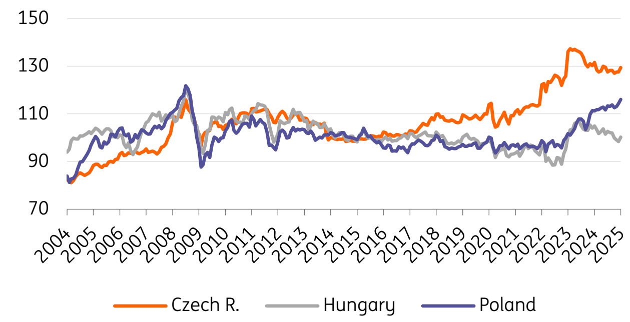
Foreign trade imbalance to widen further this year

Robust expansion of domestic demand, driven by household consumption, led to the deterioration in foreign trade balance in 2024. This was because of buoyant domestic demand compared to stagnant external demand. As a result, the 2023 surplus in foreign trade in goods of 0.6% of GDP moved to a 0.8% of GDP deficit in 2024. The rebound in fixed investment this year, including imported military equipment, along with still lacklustre economic growth in Germany (fiscal stimulus to be more visible in 2026) will result in a further deterioration in the trade balance. We see a negative contribution from net exports to GDP in 2025 at -1.5ppt vs -1.0ppt in 2024. Nevertheless, the external position remains solid. The current account surplus moderated to 0.1% of GDP in 2024 from 1.8% of GDP in 2023. In 2025, we expect it to turn into a 1.3% of GDP deficit.

Poland

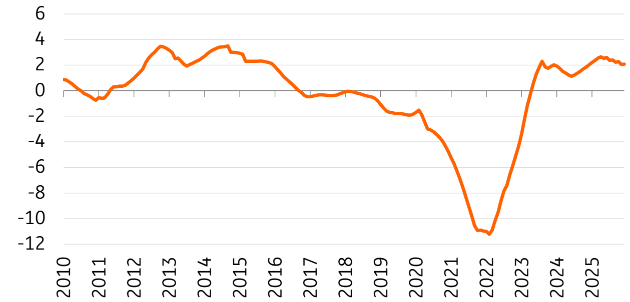
Strategy

CEE real effective exchange rate (%)



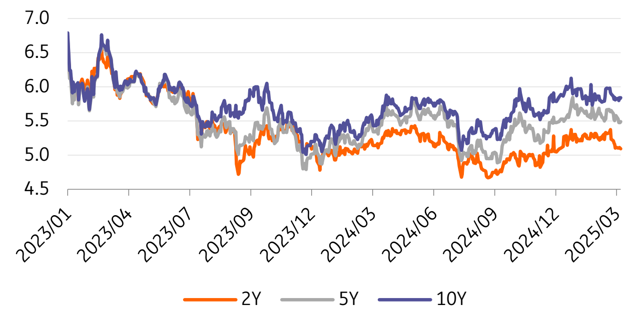
Source: Eurostat

Real rate ex-ante



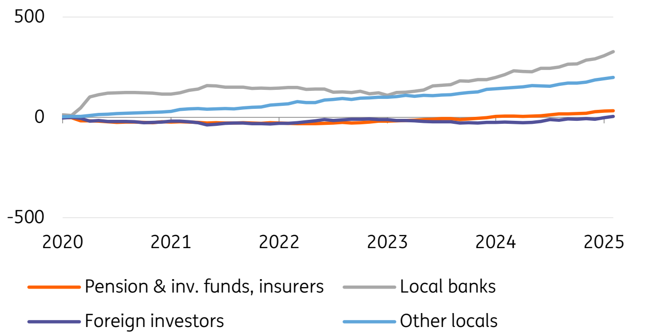
Source: GUS, ING

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



Source: Reuters Infinitive

Structure of POLGBs holders; change since December 2019



Source: MinFin

FX Strategy

Since pre-US elections, the PLN has gained 3-4% against the euro. Along with the last 1.5 years of appreciation, the PLN is flirting with its strongest levels since the 2009 peak in real terms. Over the past six months, the PLN's performance was almost disconnected from €/US$, pointing to country-specific drivers. The currency was supported by the Polish economy's outperformance vs the region and the Eurozone, a hawkish NBP, and outpricing risk premiums given the possibility of a ceasefire in Ukraine. An upgrade of Eurozone growth prospects would also drive last mile PLN gains.

The Polish currency is already in the overpricing zone when measured by fundamental models. Exporters' break-even €/PLN rates have decreased by 5%, but the current spot rate is still the closest to it in a decade. We see a high bar for further PLN progress given the approaching easing cycle, our below-consensus CPI expectations, and the dovish pivot of 7 out of 10 MPC members. The NBP may lose its position of most hawkish bank in the region against the ending easing cycle in the region and the shallower easing in the Eurozone. We also see signals from the options market that further PLN progress against the euro will be hard to achieve.

However, PLN prospects after the peak of the easing cycle in mid-2025 seem more optimistic. More extreme overvaluation of the PLN is possible with the Eurozone fiscal impulse causing a new wave of FDIs to CEE and fading US exceptionalism reversing capital back to Europe. The downside risk is the fragile peace in Ukraine undermining investment in Poland and region.

Fixed income strategy

The PLN curve is already pricing 100bp of cuts in 2025 and a further 50bp in 2026, bringing terminal rates to 4.25%. Our below-consensus CPI forecast, with CPI returning to the range around the NBP target in July - a year earlier than the last NBP projection - should prompt Governor Glapinski's pivot, given that 7 out of 10 MPC members are already discussing 2025 cuts. The sharp start to the easing cycle with a 50bp cut is possible in 3Q25.

We prefer to play the approaching easing cycle via POLGBs and asset swaps tightening rather than IRS. A downside surprise with CPI in 2025, coupled with the NBP pivot, may force the curve to price even deeper cuts than the 4.25% terminal rate we expect, though this would likely be overshooting. We are cautious about predicting a terminal rate below 4%, which we consider neutral for Poland, given that the lagged easing cycle should materialise during advanced recovery. The current cycle should bear limited CPI risk, given close-to-potential GDP growth, but aids budget revenues and MinFin's strategy to grow out of the deficit. MinFin has smoothly covered over 50% of record-high 2025 borrowing needs by the end of 1Q25. This calls for compression of the record-high risk premium POLGBs offer vs IRS and CEE peers (Czechia) or core markets (Bund).

Poland is also quite advanced in ramping up defence spending, and recent shifts in RFF funds, along with the ReArm EU initiative, should lower public sector borrowing needs, mainly BGK issuance for the defence fund, but to a lesser extent also the central budget.

Poland

rafal.benecki@ing.pl

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity													
Real GDP (%YoY)	3.9	4.4	3.0	5.2	6.2	4.6	-2.0	6.9	5.3	0.1	2.9	3.5	3.4
Private consumption (%YoY)	3.3	4.0	3.7	6.1	4.6	3.3	-3.4	6.2	5.4	-0.3	3.1	3.3	3.6
Government consumption (%YoY)	4.0	2.4	2.0	2.7	3.5	6.5	4.8	5.0	0.6	4.0	6.7	4.0	3.7
Investment (%YoY)	12.0	6.8	-7.4	1.8	13.7	7.5	-3.0	1.5	1.7	12.6	1.5	9.5	5.0
Industrial production (%YoY)	4.1	6.0	3.6	6.2	5.4	5.1	-1.9	14.7	9.1	0.3	1.1	2.0	5.0
Unemployment rate (year-end, %)	11.4	9.7	8.2	6.6	5.8	5.2	6.8	5.8	5.2	5.1	5.1	5.1	5.2
Nominal GDP (PLNbn)	1 710	1 810	1 866	1 997	2 148	2 314	2 363	2 662	3 101	3 402	3 617	3 916	4 168
Nominal GDP (€bn)	409	433	428	469	504	538	532	583	658	749	840	928	983
Nominal GDP (US$bn)	542	480	473	529	594	603	606	689	683	810	909	984	1074
GDP per capita (US$)	14 262	12 637	12 467	13 924	15 659	15 881	16 305	18 635	18 077	21 512	24 512	26 347	28 883
Gross domestic saving (% of GDP)	21.2	22.9	23.0	22.7	23.5	24.4	24.4	25.0	23.7	23.3	21.7	22.0	21.8
Prices													
CPI (average, %YoY)	0.0	-0.9	-0.6	2.0	1.6	2.3	3.4	5.1	14.4	11.4	3.6	3.7	2.6
CPI (year-end, %YoY)	-1.0	-0.5	0.8	2.1	1.1	3.4	2.4	8.6	16.6	6.2	4.7	2.8	2.4
Wage rates (nominal, %YoY)	3.8	3.5	4.1	5.6	7.1	6.6	4.8	8.6	12.9	12.7	11.2	7.5	6.5
Fiscal balance (% of GDP)													
Consolidated government balance	-3.7	-2.6	-2.4	-1.5	-0.2	-0.7	-6.9	-1.7	-3.4	-5.3	-6.1	-5.5	-4.5
Consolidated primary balance	-1.7	-0.8	-0.7	0.1	1.2	0.7	-5.6	-0.6	-1.9	-3.2	-3.9	-3.0	-2.4
Total public debt	51.1	51.1	54.1	50.4	48.2	45.2	56.6	53.0	48.8	49.7	55.6	59.0	60.5
External balance													
Exports (€bn)	152.8	164.0	169.2	191.2	205.2	220.3	220.5	263.6	324.3	335.6	331.6	347.6	359.8
Imports (€bn)	160.7	166.2	170.6	196.0	216.4	224.7	213.6	271.3	346.3	330.8	338.4	367.4	382.9
Trade balance (€bn)	-7.9	-2.1	-1.3	-4.8	-11.3	-4.4	7.0	-7.7	-22.0	4.7	-6.8	-19.8	-23.2
Trade balance (% of GDP)	-1.9	-0.5	-0.3	-1.0	-2.3	-0.8	1.3	-1.3	-3.4	0.6	-0.8	-2.1	-2.4
Current account balance (€bn)	-11.9	-5.7	-4.5	-5.5	-9.9	-1.4	12.6	-7.8	-14.9	13.5	1.2	-12.2	-21.8
Current account balance (% of GDP)	-2.9	-1.3	-1.1	-1.2	-2.0	-0.3	2.4	-1.4	-2.3	1.8	0.1	-1.3	-2.2
Net FDI (€bn)	10.6	9.7	3.5	7.5	14.7	12.1	13.3	23.1	27.2	18.1	11.0	15.0	18.5
Net FDI (% of GDP)	2.6	2.3	0.8	1.6	2.9	2.3	2.5	4.0	4.2	2.4	1.3	1.6	1.9
Current account balance plus FDI (% of GDP)	-0.3	0.9	-0.2	0.4	1.0	2.0	4.9	2.7	1.9	4.2	1.5	0.3	-0.3
Foreign exchange reserves (€bn)	82.6	86.9	108.1	94.6	102.3	114.5	125.6	146.6	156.5	175.4	214.2	228.9	242.6
Import cover (months of merchandise imports)	6.2	6.3	7.6	5.8	5.7	6.1	7.1	6.5	5.4	6.4	7.6	7.5	7.6
Debt indicators													
Gross external debt (€bn)	294.1	304.2	321.8	320.3	317.9	317.3	307.9	324.0	352.1	387.9	425.4	452.3	477.7
Gross external debt (% of GDP)	72.5	70.7	75.7	68.8	63.7	59.6	58.5	56.3	53.7	51.5	50.6	48.7	48.6
Gross external debt (% of exports)	192.4	185.5	190.1	167.5	154.9	144.0	139.6	122.9	108.6	115.6	128.3	130.1	132.8
Lending to corporates & households (% of GDP)	56.7	57.2	58.1	56.2	56.3	54.4	53.4	49.9	43.4	39.6	39.0	38.0	38.5
Interest & exchange rates													
Central bank key rate (year-end, %)	2.00	1.50	1.50	1.50	1.50	1.50	0.10	1.75	6.75	5.75	5.75	4.75	4.25
Broad money supply (average, %YoY)	6.5	8.4	10.2	6.1	7.0	9.5	14.9	10.6	7.1	7.5	7.8	9.1	7.8
3m interest rate (WIBOR, average, %)	2.51	1.75	1.70	1.73	1.71	1.72	0.66	0.55	6.04	6.53	5.86	5.40	4.44
3m interest rate spread over EURIBOR (ppt)	230	177	196	206	203	208	109	110	569	310	229	300	210
2yr yield (average, %)	2.48	1.73	1.66	1.89	1.59	1.57	0.53	0.83	6.33	5.67	5.01	5.02	4.65
10yr yield (average, %)	3.52	2.71	3.05	3.44	3.22	2.38	1.52	1.95	6.11	5.83	5.53	5.65	5.55
USD/PLN exchange rate (year-end)	3.51	3.90	4.18	3.48	3.76	3.80	3.76	4.06	4.40	3.94	4.10	3.94	3.86
USD/PLN exchange rate (average)	3.16	3.77	3.94	3.78	3.61	3.84	3.90	3.86	4.46	4.20	3.98	3.98	3.88
EUR/PLN exchange rate (year-end)	4.26	4.26	4.42	4.17	4.30	4.26	4.61	4.60	4.69	4.35	4.27	4.25	4.25
EUR/PLN exchange rate (average)	4.19	4.18	4.36	4.26	4.26	4.30	4.44	4.57	4.69	4.54	4.31	4.22	4.24

Source: National sources, ING estimates

Quarterly forecasts

	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Real GDP (%YoY)	1.0	2.1	3.2	2.7	3.2	3.2	3.0	3.8	3.9	4.1	3.4	2.8	3.2
CPI (eop, %YoY)	6.2	2.0	2.6	4.9	4.7	4.9	4.0	3.0	2.8	2.9	2.9	2.3	2.4
Central bank key rate (eop, %)	5.75	5.75	5.75	5.75	5.75	5,75	5,75	5,25	4,75	4.50	4.25	4.25	4.25
3m interest rate (eop, %)	5.88	5.88	5.85	5.85	5.84	5.85	5.72	5.25	4.80	4.59	4.37	4.38	4.38
10yr yield (eop, %)	5.20	5.34	5.75	5.26	5.89	5.72	5.65	5.60	5.60	5.57	5.50	5.50	5.55
USD/PLN exchange rate (eop)	3.94	3.99	4.03	3.82	4.10	3.87	4.00	3.97	3.94	3.85	3.90	3.86	3.86
EUR/PLN exchange rate (eop)	4.35	4.30	4.31	4.28	4.27	4.18	4.20	4.25	4.25	4.20	4.25	4.25	4.25

Source: National sources, ING estimates

Romania

Valentin Tataru, Chief Economist | Stefan Posea, Economist

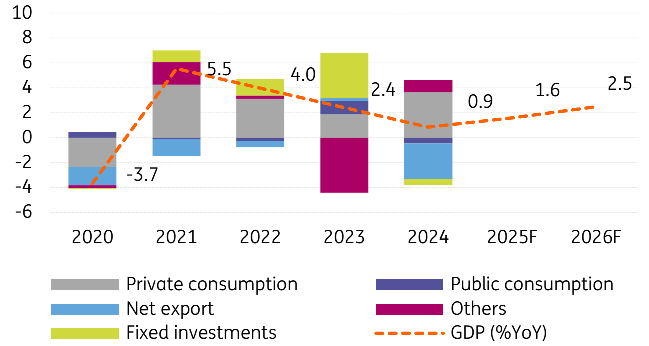
Forecast summary

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Real GDP (%YoY)	0.7	1.4	1.6	1.9	1.6	1.6	2.5
CPI (%YoY)*	5.1	5.0	5.7	5.2	5.0	5.2	4.3
Policy interest rate (eop, %)	6.50	6.50	6.50	6.25	6.00	6.00	5.25
3m interest rate (%)*	5.92	5.90	5.85	5.60	5.35	5.35	4.60
10yr yield (%)*	7.35	7.50	7.45	7.35	7.20	7.20	6.50
USD/RON*	4.81	4.65	4.74	4.71	4.68	4.68	4.63
EUR/RON*	4.98	4.98	4.98	5.04	5.05	5.05	5.09

Macro trend		Political cycle	Ratings	FC	LC
Activity	-	Presidential: May 2025	S&P	BBB-	BBB-
Fiscal	Tighter	Parliamentary: Nov 2028	Moody's	Baa3	Baa3
Monetary	Neutral	Local: 2028	Fitch	BBB-	BBB-

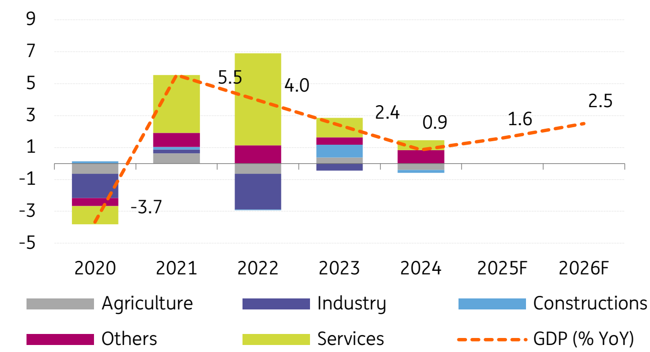
*Quarterly data is eop, annual is average
Source: National sources, ING estimates

GDP (YoY%) and components (ppt)



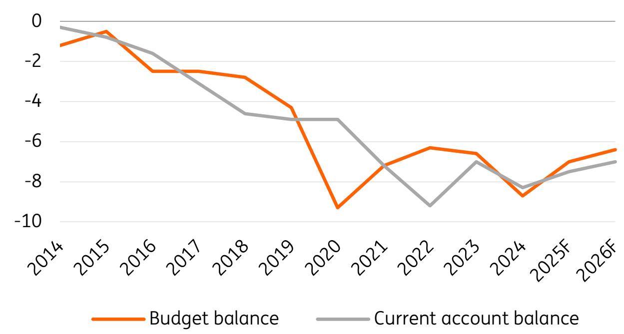
Source: NSI, ING

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



Source: NSI, ING

Twin deficits remain persistent challenge (% of GDP)



Source: NIS, ING

Country strategy: Slow growth means harder fiscal choices

Romania's economy will gain momentum in 2025, but growth will stay well below potential, in our view. Without the rapid economic growth of the past to balance out negative metrics, the choice becomes clearer: implement a comprehensive fiscal reform aimed at structurally tackling the persistent budget deficit or risk losing the investment grade and possibly sizeable EU funds. We believe that this negative scenario will be avoided but given also the volatility of the external context, the room for error is quite limited. The next few months are key to see whether Romania will implement responsible policies or succumb to short-term populism. On the macro front, infrastructure upgrades and the benefits of Schengen membership offer some positives, though there is still some way to go before these start to translate into productivity improvements.

A modest growth despite strong consumption

Romania's economy underperformed in 2024, expanding by just 0.9%, well below its potential. This was not due to weak internal demand – on the contrary, private consumption had a solid year, advancing by almost 6% and contributing 3.6ppt to the 0.9% growth. Investments, however, contracted sharply in the last quarter, dragging the annual average growth to a 1.7% contraction and thus contributing a negative 0.4ppt to 2024 GDP growth. Despite the fourth quarter blip though, the investment activity remained robust overall. The major infrastructure projects underway are expected to enhance productivity and increase the potential GDP in the coming years, supported by the Schengen accession which will augment these developments.

Meanwhile, the supply side of the economy struggled to keep up with demand, resulting in higher imports that boosted Romania's trading partners' exports but weighed on Romania's GDP growth. Again and again, the limits of Romania's consumption-driven economic model are being exposed. Essentially, only the service sector contributed positively to growth, adding 0.6ppt, with industry being neutral, while agriculture and construction subtracted 0.4ppt and 0.2ppt, respectively, from overall GDP growth.

Strong consumer demand, coupled with fiscal stimulus, has exacerbated Romania's twin deficit problem in 2024. In 2025, we expect GDP growth to accelerate to 1.6%, supported by several factors: investments are likely to strengthen, net exports should contribute less negatively to growth as private consumption moderates and external demand remains stable, and base effects should provide a favourable effect as well especially due to the strong fourth quarter growth.

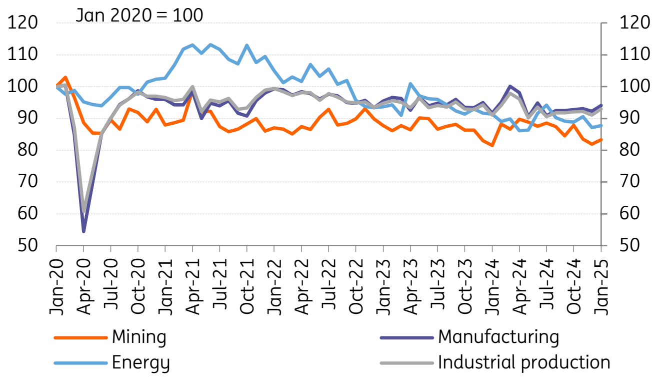
Externally, there are obvious risks stemming from potential tariffs on the EU, which could impact exports. On the other hand, the European Defence Fund and increased spending in sectors such as defence and technology may provide short-term economic support, albeit at the cost of additional fiscal pressure.

Domestically, we expect a tax reform to be enacted relatively quickly after the May elections. Policymakers will again need to find an appropriate balance between the need to put the public finances on track and the short-term macroeconomic impact of such measures. To the extent that the fiscal measures will not meaningfully alter the inflation profile, the NBR should still have some room to deliver 50bp of rate cuts in the second part of the year. At the moment risks are seemingly tilted towards doing less than that.

Romania

valentin.tataru@ing.com | tiberiu-stefan.posea@ing.com

Industry still below pre-pandemic levels

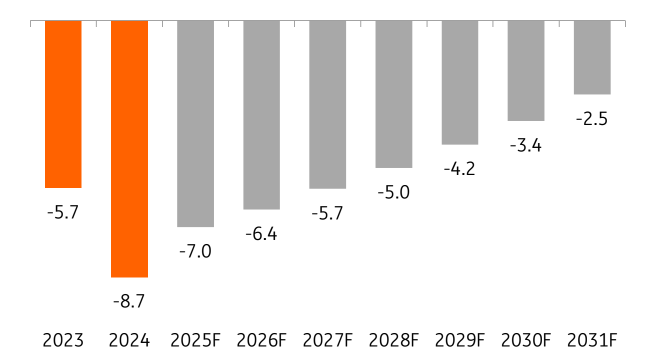


Source: NSI, ING

No green shoots yet

Industrial production continued to decline in 2024, shrinking by 1.7% after a 2.5% contraction in 2023. Excluding the pandemic years, which had strong statistical effects, Romanian industrial production has essentially reverted to levels last seen around 2014. All major sub-sectors saw declines in 2024: manufacturing fell by 1.3%, mining by 1.7% and energy by 5.1%. To make matters worse, confidence plummeted at the end of 2024, with businesses reporting lower order books and sharply lower employment expectations, on the back of weak demand as a key factor limiting their production. Production capacity is now reported to be at its highest level since 2016.

A 7-year plan to reduce the budget deficit (% of GDP)

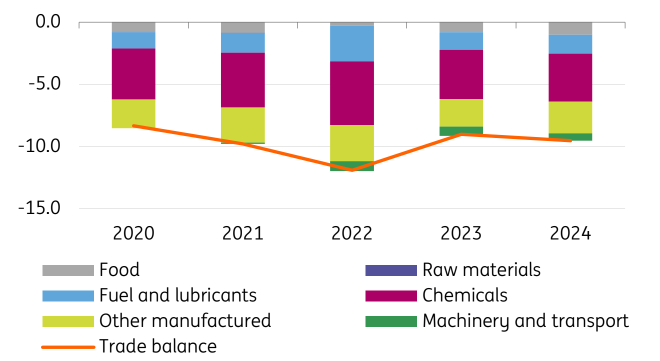


Source: Ministry of Finance, ING

More decisive actions are needed this year

The fiscal picture deteriorated further in 2024, leading to an 8.7% of GDP deficit. Rolled-over spending drove the January 2025 deficit to 0.6%. 2025 should be a year of restoring market confidence, through a mix of better tax collection, higher taxes and spending control. Authorities target a 7.0% deficit which assumes somewhat ambitious revenues and strict control on expenses. 2025 will also test the results of digitalisation reforms made in previous years and hopes for improved tax collections are running high. A key issue will be the degree of NRRP funds absorption, as Romania is running very late against the August 2026 deadline and seems on track to lose part of the loan component of NRRP. All in all, we expect a broader fiscal reform adopted in the second part of the year and maintain a mildly optimistic stance that the 7.0% deficit target will be met.

Romanian trade balance (% of GDP)

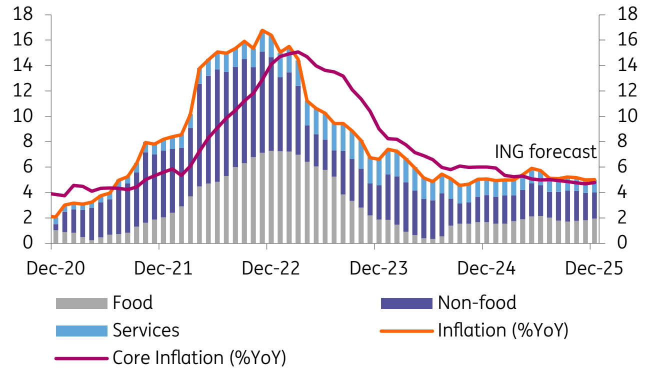


Source: NSI, ING

Strong consumption fuelling imports

Romania's trade deficit widened by 15.3% in 2024 to over €33bn, or 9.4% of GDP. This increase stemmed from a 3.3% rise in imports to €126bn while exports declined by 0.4% to €92.7bn. The chemical sector recorded the largest deficit at €13.5bn. The trade gap widened further in January 2025, by €2.7bn, 38% more than in January 2024. Looking ahead, we think that the 2025 trade deficit will largely follow similar dynamics as last year and only marginally improve due to a moderating but still healthy private consumption growth. Should the ambitious investment plans laid out in the 2025 budget materialise, trade balance gains could even be non-existent.

Inflation (YoY%) and main components (ppt)



Source: NSI, ING

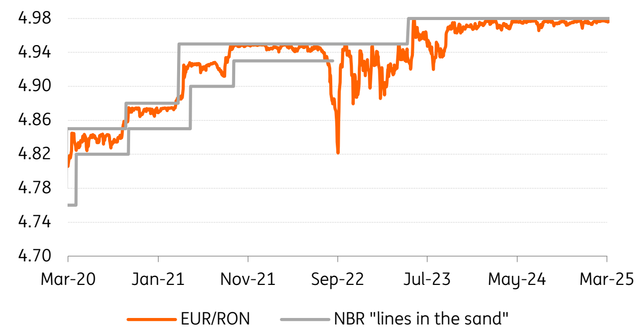
Disinflation on pause

Romanian inflation remained relatively elevated, printing at or close to 5.0% for four months in a row now, with March inflation also likely to come very close to this figure. Core inflation eased marginally more than we expected, also to 5.0% in February, reflecting somewhat subsiding pressures from the services side. Given the volatile energy prices and potential fiscal changes alongside external factors, we marginally revise upwards our year-end estimate from 4.8% to 5.0% and the annual average from 5.0% to 5.2%. The NBR is expected to remain cautious, potentially allowing for a total of 50bp rate cuts in the second half of the year, but limited disinflation progress and other internal risks could delay easing. Overall, the 2025 inflation picture remains fragile, exposed to fiscal, energy and geopolitical developments.

Romania

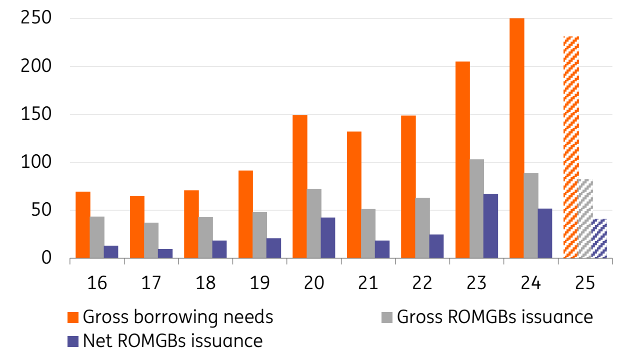
Strategy

Managed floating at its best



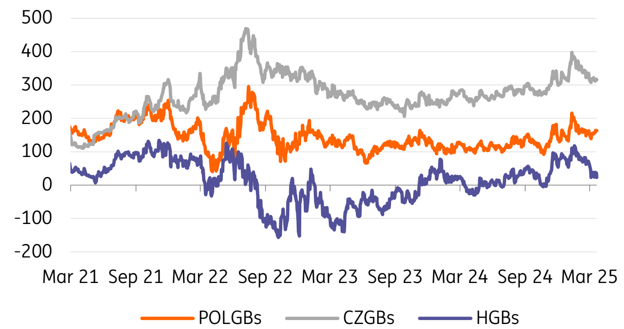
Source: NBR, ING estimates

ROMGBs issuance (RONbn)



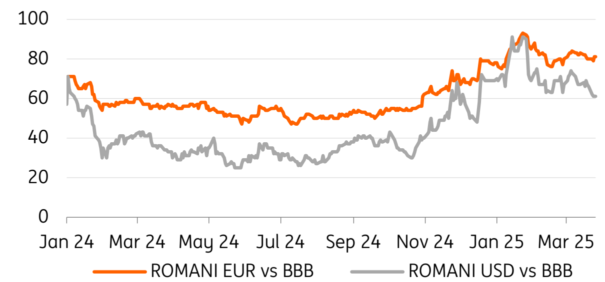
Source: MinFin, ING estimates

10y ROMGBs spreads vs CEE3 (bp)



Source: Refinitiv, ING

ROMANI spread differentials vs BBB sovereigns (bp)



Source: Refinitiv, ING

FX strategy

The EUR/RON exchange rate has remained tightly managed, hovering just below the 5.00 threshold throughout 2024 and to-date in 2025. We believe that a similar type of stability should continue to prevail in the short term, with the pair anchored around current levels through to mid-2025. This reflects the NBR's preference for a stable currency in the context of persistent twin deficits and relatively elevated inflation, together with other important external and domestic uncertainties.

In our view, Romania's fiscal gap, slower economic growth and the need for a gradual realignment of macroeconomic imbalances suggest the leu will eventually need to adjust. While the NBR is likely to continue to manage the exchange rate tightly through much of 2025, the case for a break above the symbolic 5.00 is growing stronger. In our view, the most probable timing for such a move is towards the fourth quarter of 2025 and we maintain our 5.05 estimate for the year-end. Key to remember is that the necessary conditions for further rate cuts and a return to the previous trend of controlled FX depreciation seem pretty much aligned, namely growing confidence in the inflation outlook stemming from both the fiscal impulse and private consumption behaviour, as well as from lower external uncertainties.

In any case, the credibility of the tightly managed FX regime, as long as is still supported by access to EU funds, stable country ratings and - dare we say - fiscal consolidation, remains intact in our view.

Fixed income strategy *(with Frantisek Taborsky, EMEA FX & FI Strategist and James Wilson, EM Sovereign Strategist)*

The wider fiscal despite efforts to consolidate, the involuntary pause in issuance in January, and efforts to prefinance have kept the supply of ROMGBs higher than usual in last two months, but we can't expect much change here in the near term. We estimate that MinFin has covered roughly one-third of the supply we forecast since the beginning of the year. That's not bad even in a CEE comparison. However, demand is slowly weakening and we think current valuations do not compensate for fiscal and political risks. Spreads vs CEE peers have tightened significantly in recent weeks to early December levels. Therefore, we see difficulty for ROMGBs to outperform CEE peers in the current environment and lack of good news.

Eurobond spreads have recovered from the worst of the selloff seen in late January but still offer a pickup over BBB and even BB sovereign average. A lot of negative news is already priced into current valuations which could offer scope to rally into elections. Ratings downgrades are unlikely for this year at least, while there has been some stabilisation in the political situation. In terms of Eurobond supply, the government has raised €6.75bn so far this year in EUR and USD. This covers around half of the planned issuance needs for the full year, which will likely see them through to elections in May. Further steady Eurobond issuance in the coming years will likely be a limiting factor on the extent of the rally we can see.

Romania

valentin.tataru@ing.com

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity													
Real GDP (%YoY)	4.1	3.2	2.9	8.2	6.0	3.9	-3.7	5.7	4.1	2.1	0.9	1.6	2.5
Private consumption (%YoY)	3.5	5.8	6.4	11.7	10.3	3.0	-3.8	7.3	5.2	2.8	5.9	2.9	3.0
Government consumption (%YoY)	0.0	1.3	-9.5	11.5	-0.8	9.8	-0.5	1.3	3.6	-0.5	-3.0	0.5	0.4
Investment (%YoY)	5.7	6.5	-2.4	5.7	-1.8	14.9	-0.5	4.0	5.4	14.5	-1.7	3.3	4.2
Industrial production (%YoY)	6.2	2.7	3.1	8.6	5.0	-2.6	-9.2	6.5	0.9	-2.5	-1.7	1.9	2.8
Unemployment rate (year-end, %)	6.8	6.8	5.9	5.7	4.2	3.9	5.0	5.6	5.6	5.6	5.4	5.6	5.5
Nominal GDP (RONbn)	669	713	752	852	960	1,067	1,070	1,192	1,389	1,605	1,766	1,886	2,014
Nominal GDP (€bn)	150	160	167	186	206	225	221	242	281	323	355	377	397
Nominal GDP (US$bn)	196	176	185	214	243	252	252	281	295	351	384	404	437
GDP per capita (US$)	9,900	8,900	9,400	10,900	12,400	13,000	13,100	14,700	15,500	18,500	20,300	21,300	23,200
Gross domestic saving (% of GDP)	24.8	24.7	22.6	21.5	19.4	20.0	19.8	20.6	20.1	21.0	19.2	19.5	19.6
Prices													
CPI (average, %YoY)	1.1	-0.6	-1.6	1.3	4.6	3.8	2.6	5.1	13.8	10.5	5.6	5.2	4.3
CPI (year-end, %YoY)	0.8	-0.9	-0.5	3.3	3.3	4.0	2.1	8.2	16.4	6.6	5.1	5.0	4.2
Wage rates (nominal, %YoY)	5.2	8.3	13.0	14.2	13.1	14.9	6.7	7.1	12.2	15.4	13.7	7.0	6.0
Fiscal balance (% of GDP)													
Consolidated government balance	-1.2	-0.5	-2.5	-2.5	-2.8	-4.3	-9.2	-7.1	-6.4	-6.5	-8.6	-7.0	-6.4
Consolidated primary balance	0.4	0.9	-1.2	-1.4	-1.8	-3.3	-8.0	-5.8	-5.0	-4.6	-6.6	-5.4	-4.4
Total public debt	39.1	37.7	37.8	35.3	34.4	35.0	46.6	48.3	47.9	48.9	52.2	55.2	57.5
External balance													
Exports (€bn)	52.5	54.6	57.4	62.6	67.7	69.0	62.2	74.7	91.9	93.1	92.7	93.6	98.3
Imports (€bn)	58.5	63.0	67.4	75.6	82.8	86.3	80.6	98.4	126.0	122.0	126.1	131.1	139.0
Trade balance (€bn)	-6.1	-8.4	-10.0	-13.0	-15.1	-17.3	-18.4	-23.7	-34.1	-28.9	-33.4	-37.5	-40.7
Trade balance (% of GDP)	-4.0	-5.2	-6.0	-7.0	-7.3	-7.7	-8.3	-9.8	-12.1	-8.9	-9.4	-9.9	-10.2
Current account balance (€bn)	-0.4	-1.0	-3.5	-5.9	-9.5	-10.9	-11.2	-17.4	-26.8	-21.5	-29.4	-29.0	-30.0
Current account balance (% of GDP)	-0.3	-0.6	-2.1	-3.2	-4.6	-4.9	-5.1	-7.2	-9.6	-6.6	-8.3	-7.7	-7.6
Net FDI (€bn)	2.7	2.9	4.5	4.9	4.9	4.8	3.0	8.8	9.4	6.4	5.7	6.1	6.5
Net FDI (% of GDP)	1.8	1.8	2.7	2.6	2.4	2.2	1.3	3.7	3.3	2.0	1.6	1.6	1.6
Current account balance plus FDI (% of GDP)	1.5	1.2	0.6	-0.6	-2.2	-2.7	-3.7	-3.5	-6.2	-4.7	-6.7	-6.1	-5.9
Foreign exchange reserves ex gold (€bn)	32.2	32.2	33.0	32.3	31.8	31.7	36.2	37.1	43.2	56.4	58.7	63.2	65.0
Import cover (months of merchandise imports)	6.6	6.1	5.9	5.1	4.6	4.4	5.4	4.5	4.1	5.5	5.6	5.8	5.6
Debt indicators													
Gross external debt (€bn)	97.2	94.7	98.3	102.9	105.4	114.2	131.9	142.5	153.7	183.2	203.5	217.3	232.1
Gross external debt (% of GDP)	65	59	59	55	51	51	60	59	55	57	57	58	58
Gross external debt (% of exports)	185	173	171	164	156	166	212	191	167	197	220	232	236
Lending to corporates/households (% of GDP)	31.0	29.9	28.5	26.5	25.4	24.5	25.6	26.2	25.0	23.0	22.6	23.1	23.7
Interest & exchange rates													
Central bank key rate (year-end, %)	4.00	2.75	1.75	1.75	1.75	2.50	1.50	1.75	6.75	7.00	6.50	6.00	5.25
Broad money supply (average, %YoY)	4.1	6.8	7.8	11.4	8.8	10.9	15.3	15.8	6.8	10.5	11.3	10.2	8.0
3m interest rate (Robor average, %)	2.54	1.40	0.89	1.15	2.80	3.15	2.38	1.82	6.19	6.62	5.88	5.75	5.17
3m interest rate spread over Euribor (ppt)	2.3	1.4	1.2	1.5	3.1	3.5	2.8	2.4	5.8	3.2	2.3	3.4	2.8
3yr yield (average, %)	3.3	1.9	1.5	1.9	3.7	3.7	3.3	2.9	7.2	6.5	7.0	6.8	6.0
10yr yield (average, %)	4.6	3.5	3.3	3.9	4.7	4.5	3.9	4.0	7.6	6.9	7.4	7.2	6.5
USD/RON exchange rate (year-end)	3.70	4.17	4.32	3.88	4.07	4.26	3.97	4.35	4.61	4.51	4.81	4.68	4.63
USD/RON exchange rate (average)	3.41	4.05	4.06	3.98	3.95	4.24	4.24	4.24	4.71	4.58	4.59	4.67	4.61
EUR/RON exchange rate (year-end)	4.48	4.52	4.54	4.66	4.66	4.78	4.87	4.95	4.94	4.98	4.98	5.05	5.09
EUR/RON exchange rate (average)	4.44	4.45	4.49	4.57	4.65	4.75	4.84	4.93	4.95	4.96	4.97	5.00	5.07

Source: National sources, ING estimates

Quarterly forecasts

	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Real GDP (%YoY)	3.3	0.5	0.9	1.2	0.7	1.4	1.6	1.9	1.6	2.0	2.3	2.6	2.8
CPI (eop, %YoY)	6.6	6.6	4.8	4.6	5.1	5.0	5.7	5.2	5.0	4.3	4.3	4.3	4.2
Central bank key rate (eop, %)	7.00	7.00	7.00	6.50	6.50	6.50	6.50	6.25	6.00	5.75	5.50	5.25	5.25
3m interest rate (eop, %)	6.22	6.05	6.01	5.55	5.92	5.90	5.85	5.60	5.35	5.10	4.85	4.60	4.60
10yr yield (eop, %)	6.40	6.55	6.90	6.50	7.35	7.50	7.45	7.35	7.20	7.10	6.80	6.60	6.50
USD/RON exchange rate (eop)	4.50	4.62	4.65	4.47	4.81	4.65	4.74	4.71	4.68	4.63	4.64	4.62	4.63
EUR/RON exchange rate (eop)	4.97	4.98	4.98	4.98	4.98	4.98	4.98	5.04	5.05	5.05	5.06	5.08	5.09

Source: National sources, ING estimates

Serbia

Valentin Tataru, Chief Economist | Stefan Posea, Economist

Forecast summary

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Real GDP (%YoY)	3.3	3.0	3.1	3.5	3.4	3.3	4.2
CPI (%YoY)*	4.2	4.6	4.5	3.9	3.4	4.2	3.5
Policy interest rate (eop, %)	5.75	5.75	5.75	5.50	5.25	5.25	4.75
3m interest rate (%)*	4.80	4.80	4.80	4.45	4.30	4.60	3.90
10yr yield (%)*	5.06	5.20	5.25	5.15	5.10	5.18	5.05
USD/RSD*	113.1	109.4	111.5	109.4	108.3	109.6	106.3
EUR/RSD*	117.1	117.1	117.1	117.1	117.0	117.0	116.9

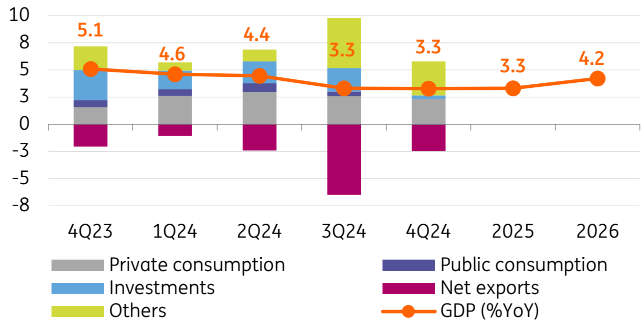
Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: 2027	S&P	BBB-	BBB-
Fiscal	Stimulative	Parliamentary: 2027	Moody's	Ba2	Ba2
Monetary	Restrictive	Local: 2028	Fitch	BB+	BB+

*Quarterly data is eop, annual is average
Source: National sources, ING estimates

Country strategy: Keeping the positives on autopilot

While currently in the midst of a delicate political situation, we think that economic growth in Serbia should remain largely on track in the coming quarters. Real wages grew significantly in 2024, to the benefit of private consumption, while already-agreed investments have the prospect of remaining largely decoupled from the political arena. At the time of writing, snap elections are due in the summer unless a new government is formed by around mid-April. If policy continuity is maintained, the country is expected to benefit from ambitious medium-term investment goals, supported by the EXPO 2027 event, the EC's New Growth Plan for the Western Balkans, and the IMF-agreed reforms. Key factors to watch remain Serbia's relations with Kosovo and the evolution of the Jadar lithium mining project given the EU's ambitions on the critical raw materials front.

Real GDP (%YoY) and contributions (ppt)

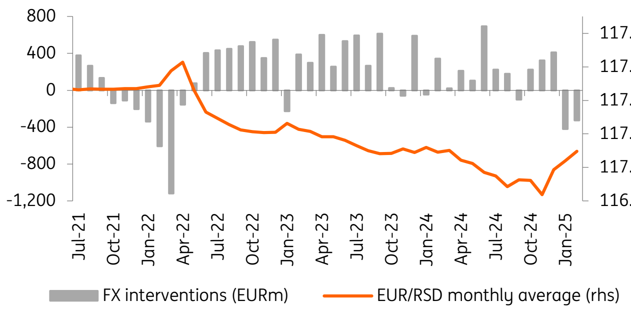


Source: Eurostat, ING

Good prospects for growth ahead

Economic activity continued to advance firmly throughout 2024. Private consumption and investments were both key growth drivers. On the other hand, the strong consumer response to the sharp real wage advances fuelled imports visibly, weighing on growth as it led to a negative contribution of net exports. For 2025, we expect growth to remain firm, pencilling in a 3.3% advance. We think that the consumer and investment momentum is set to carry on, remaining mostly disconnected from the broader situation in politics but not without some downside risks. Over the medium term, the EXPO 2027 project should remain a key growth and productive potential driver. In numbers, the project is valued at around €17.8bn (20% of the estimated 2025 GDP).

FX stability remains the main policy tool

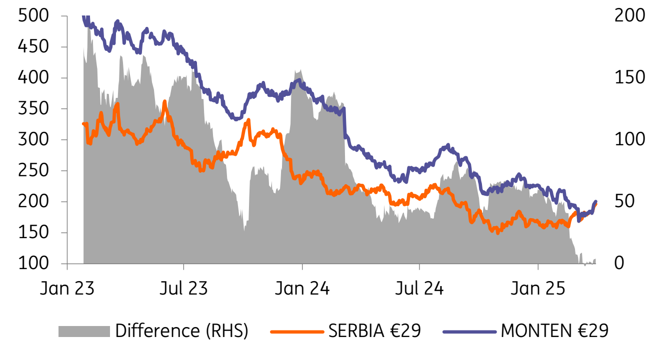


Source: NBS, ING

FX stability to persist and rates to fall slightly

Inflation stood at 4.5% in February, at the upper end of the central bank's 3 ± 1.5% target range. Policymakers have kept the key rate at 5.75% since September 2024. Our view is that inflation will begin to decelerate towards the midpoint of the target starting from the second half of 2025 and that the NBS will cut the key rate by 50bp until the end of the year. We expect price pressures to stabilise at around 3.5% over the medium term. On FX, we think that the NBS will continue to retain its tight grip on currency stability. The NBS sold €745bn in January-February to maintain stability in the pair, a noticeable change compared to the previous month which required the NBS to stay more on the bid-side.

SERBIA EUR credit spreads vs MONTEN (bp)



Source: Refinitiv, ING

Political noise drives credit weakness

SERBIA bonds have been a clear underperformer recently, with YTD spread widening the worst in CEE in the EUR space. While some volatility is likely to continue on the political front, underlying fundamentals are still strong and for now policy continuity seems likely on the macro front. An eventual upgrade to IG on the composite level still seems likely over the next year or two, even if the political uncertainty may have delayed the progress (Moody's and S&P have positive outlook on Ba2/BB+ ratings). Spreads on the EUR curve have cheapened in particular in relation to other Balkan peers.

James Wilson, EM Sovereign Strategist

Serbia

valentin.tataru@ing.com | tiberiu-stefan.posea@ing.com

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity													
Real GDP (%YoY)	-1.8	1.3	3.0	2.4	4.6	4.8	-1.0	7.9	2.6	3.8	3.9	3.3	4.2
Private consumption (%YoY)	-0.3	-0.3	1.9	2.1	2.8	3.7	-1.9	7.7	3.6	0.5	4.2	3.6	4.5
Government consumption (%YoY)	-0.9	-4.2	-1.8	2.3	3.8	3.8	3.4	4.2	1.5	-2.5	2.6	0.9	1.5
Investment (%YoY)	-3.5	5.3	5.5	7.3	17.6	16.1	-0.6	15.1	2.4	9.6	6.8	4.8	4.4
Industrial production (%YoY)	-7.3	7.6	4.5	4.5	1.1	0.3	-0.7	6.7	2.1	2.8	2.7	3.2	3.0
Unemployment rate (average, %)	20.6	18.9	16.4	14.5	13.7	11.2	9.7	11.1	9.5	9.4	8.6	8.6	8.5
Nominal GDP (RSDbn)	4,342	4,494	4,699	4,954	5,288	5,669	5,764	6,576	7,459	8,818	9,579	10,400	11,302
Nominal GDP (€bn)	35.9	36.9	38.1	41.8	44.7	48.2	49.0	55.9	63.6	75.3	81.8	88.9	96.7
Nominal GDP (US$bn)	49.3	52.9	52.7	45.3	47.3	53.8	56.6	65.1	66.8	81.5	88.5	95.1	106.3
GDP per capita (US$)	7,000	7,500	7,500	6,500	6,800	7,800	8,200	9,600	10,000	12,200	13,400	14,600	16,400
Gross domestic saving (% of GDP)	8.4	11.6	13.3	13.0	14.3	15.2	15.9	17.2	16.0	20.3	19.5	18.2	16.6
Prices													
CPI (average, %YoY)	2.1	1.4	1.1	3.1	2.0	1.9	1.6	4.1	11.9	12.5	4.7	3.9	3.4
CPI (year-end, %YoY)	1.8	1.6	1.5	3.0	2.0	1.9	1.3	7.9	15.1	7.6	4.3	3.4	3.5
Wage rates (nominal, %YoY)	1.4	-0.2	3.7	4.0	3.7	10.6	9.4	9.6	13.8	14.8	14.0	12.0	11.0
Fiscal balance (% of GDP)													
Consolidated government balance	-5.9	-3.3	-1.1	1.1	0.6	-0.2	-7.7	-3.9	-3.0	-2.1	-2.0	-2.3	-2.0
Consolidated primary balance	-3.4	-0.5	1.6	3.5	2.6	1.7	-5.8	-2.3	-1.6	-0.5	-0.2	-0.6	-0.4
Total public debt	63.4	67.2	65.2	55.5	51.4	49.7	54.4	54.5	52.4	48.0	47.2	46.4	44.4
External balance													
Exports (€bn)	11.2	12.0	13.5	15.1	16.4	17.7	17.1	21.9	27.6	28.6	29.1	29.6	30.1
Imports (€bn)	15.2	16.1	17.1	19.5	22.1	24.1	23.1	28.9	39.0	36.9	39.0	41.3	43.7
Trade balance (€bn)	-4.0	-4.0	-3.6	-4.4	-5.7	-6.4	-5.9	-7.1	-11.4	-8.2	-9.9	-11.7	-13.6
Trade balance (% of GDP)	-11.2	-11.0	-9.5	-10.6	-12.7	-13.3	-12.1	-12.7	-17.9	-10.9	-12.1	-13.2	-14.1
Current account balance (€bn)	-2.0	-1.2	-1.1	-2.1	-2.1	-3.2	-1.9	-2.3	-4.2	-1.8	-5.2	-2.7	-2.7
Current account balance (% of GDP)	-5.5	-3.3	-2.8	-4.9	-4.6	-6.6	-3.9	-4.1	-6.5	-2.4	-6.4	-3.0	-2.8
Net FDI (€bn)	1.2	1.8	1.9	2.4	3.2	3.6	2.9	3.7	4.3	4.2	4.4	4.8	5.0
Net FDI (% of GDP)	3.4	4.9	5.0	5.8	7.1	7.4	6.0	6.5	6.8	5.6	5.3	5.3	4.9
Current account balance plus FDI (% of GDP)	-2.1	1.5	2.2	0.9	2.4	0.8	2.1	2.5	0.3	3.2	-1.0	2.1	2.1
Foreign exchange reserves ex gold (€bn)	9.9	10.4	10.2	10.0	11.3	13.4	13.5	16.5	19.4	24.9	29.3	29.0	30.0
Import cover (months of merchandise imports)	7.8	7.7	7.2	6.1	6.1	6.7	7.0	6.8	6.0	8.1	9.0	8.4	8.2
Debt indicators													
Gross external debt (€bn)	25.7	26.2	26.5	25.5	26.7	28.3	30.8	36.5	41.9	45.4	48.5	49.7	51.0
Gross external debt (% of GDP)	71.5	71.0	69.6	61.0	59.6	58.6	62.8	65.2	65.9	60.3	59.3	55.9	52.7
Gross external debt (% of exports)	230	218	197	169	163	160	180	167	152	159	167	168	170
Lending to corporates/households (% of GDP)	40.8	40.6	40.9	40.3	41.4	42.0	45.5	43.4	40.3	35.8	30.5	31.8	33.1
Interest & exchange rates													
Central bank key rate (year-end, %)	8.00	4.50	4.00	3.50	3.00	2.25	1.00	1.00	5.00	6.50	5.75	5.25	4.75
Broad money supply (average, %YoY)	7.6	6.6	11.6	3.6	14.5	8.4	18.1	13.3	6.9	12.7	13.5	8.0	10.0
3m interest rate (Belibor, year-end, %)	9.85	3.83	3.47	3.12	3.03	1.64	0.90	0.94	4.95	5.70	4.80	4.30	3.80
3m interest rate spread over Euribor (ppt)	9.6	3.8	3.7	3.4	3.4	2.0	1.3	1.5	4.6	2.3	1.2	1.9	1.5
3yr yield (year-end, %)	n/a	n/a	n/a	n/a	n/a	3.2	2.1	2.4	6.0	5.8	4.3	4.10	4.00
10yr yield (year-end, %)	n/a	n/a	n/a	n/a	4.8	4.0	3.1	3.6	7.0	6.3	5.1	5.20	5.20
USD/RSD exchange rate (year-end)	86.2	83.1	99.5	111.2	117.1	104.9	96.3	103.4	109.6	106.1	113.0	108.3	106.3
USD/RSD exchange rate (average)	88.0	84.9	89.1	109.4	111.8	105.4	101.8	101.1	111.7	108.2	108.2	109.4	106.3
EUR/RSD exchange rate (year-end)	121.0	121.6	123.5	118.5	118.2	117.6	117.6	117.6	117.3	117.2	117.1	117.00	116.90
EUR/RSD exchange rate (average)	117.4	120.8	123.2	121.3	118.3	117.8	117.6	117.6	117.5	117.3	117.1	117.03	116.95

Source: National sources, ING estimates

Quarterly forecasts

	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Real GDP (%YoY)	5.1	4.6	4.4	3.3	3.3	3.0	3.1	3.5	3.4	4.5	4.4	4.1	3.8
CPI (eop, %YoY)	7.6	5.0	3.8	4.2	4.3	4.6	4.5	3.9	3.4	3.4	3.5	3.5	3.6
Central bank key rate (eop, %)	6.50	6.50	6.25	6.00	5.75	5.75	5.75	5.50	5.25	5.00	4.75	4.75	4.75
3m interest rate (eop, %)	5.70	5.70	5.45	4.94	4.70	4.70	4.70	4.35	4.20	3.95	3.70	3.70	3.70
USD/RSD exchange rate (eop)	117.17	117.19	117.1	117.1	117.1	117.1	117.1	117.1	117.0	117.0	117.0	117.0	116.9
EUR/RSD exchange rate (eop)	106.1	108.6	109.3	105.2	113.1	109.4	111.5	109.4	108.3	107.3	107.3	106.4	106.3

Source: National sources, ING estimates

Turkey

Muhammet Mercan, Chief Economist, Turkey

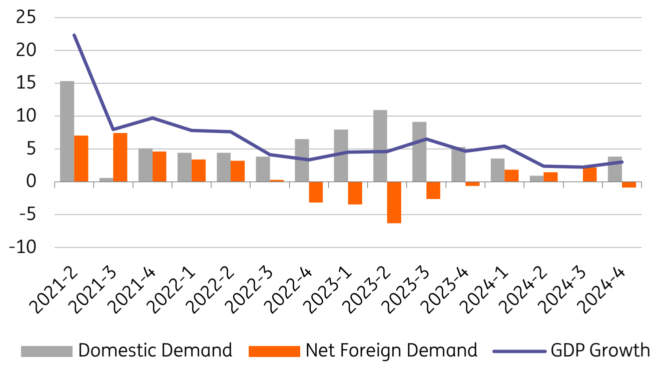
Forecast summary

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Real GDP (% YoY)	3.0	2.2	3.3	3.4	3.6	3.2	4.0
CPI (% YoY)*	44.4	38.0	35.6	29.9	28.4	33.7	21.2
Policy interest rate (eop, %)	47.50	42.50	40.00	36.00	32.00	32.00	20.00
3m interest rate (%)*	46.19	41.24	39.33	35.06	32.08	37.99	21.09
10yr yield (%)*	29.31	34.02	27.49	25.11	23.56	27.16	20.00
USD/TRY*	35.34	38.00	39.47	41.10	43.00	39.64	47.15
EUR/TRY*	36.59	40.66	41.44	43.98	46.44	42.10	51.51

Macro trend		Political cycle	Ratings	FC	LC
Activity	↑	Presidential: May 2028	S&P	BB-	BB-
Fiscal	Loose	Parliamentary: May 2028	Moody's	B1	B1
Monetary	Tight	Local: Mar-29	Fitch	BB-	BB-

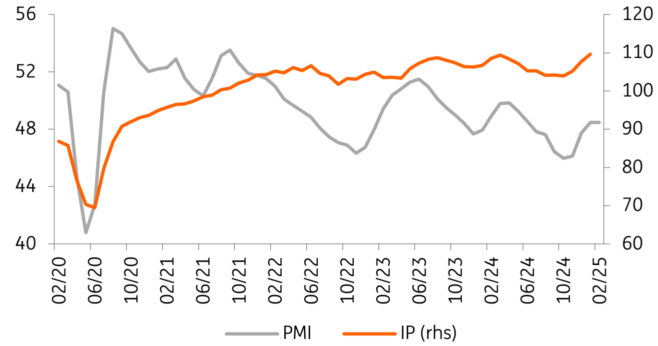
*Quarterly data is eop, annual is average
Source: National sources, ING estimates

GDP growth (% YoY)



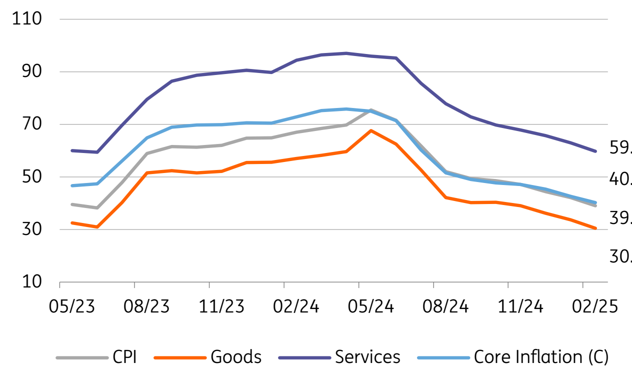
Source: TurkStat, ING Bank

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



Source: ICI, TurkStat, ING Bank

Inflation (% YoY)



Source: TurkStat, ING Bank

Country strategy: Inflation outlook remains challenging

The political volatility in Turkey has somewhat dented the confidence of investors, while authorities prioritise market stability. Accordingly, signals from policymakers point to no significant change in policy stance, with Finance Minister Şimşek reaffirming the commitment to the economic programme, and the central bank (CBT) acting quickly to raise its overnight lending rate and signalling a further tightening of the policy stance at an unscheduled meeting. This also implies that the bank is not tied and is ready to act. We expect FX stability to continue considering the disinflation strategy. A tight stance is supported by macroprudential measures. Use of the policy rate and credit caps at the same time affects both the price and quantity of credit. The government targets a decline in budget deficit, implying a negative fiscal impulse, though cash spending remains high in the early months of the year.

Macro digest

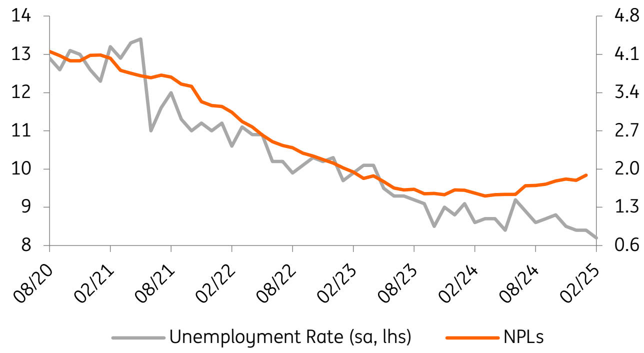
In 4Q24, GDP growth was higher than expected at 3.0% YoY. It was driven by a rebound in private consumption and robust investments. For year-end 2024, GDP growth was 3.2% YoY, decelerating to its lowest level since 2020 due to weak performances in 2Q and 3Q. 4Q GDP translates into a 1.7% QoQ increase after seasonal adjustments, showing a strong momentum gain and marking the highest quarterly reading since 2Q23. The accelerating sequential performance is attributed to the turnaround in household consumption, which turned positive after a negative reading in the previous quarter and accelerating investments despite negative contributions from inventory build-up and net exports. The data implies that Turkey, which was in a technical recession as at 3Q24 with two sequential contractions, returned to positive quarterly GDP growth in 4Q24. The demand indicators suggest a further pick-up with relative easing in financial conditions and acceleration in credit growth, particularly in overdraft accounts and CC expenditures. The leading activity indicators, on the other hand, show a continuation in recovery for 1Q25 as production in services and construction grew over the previous quarter as of January. On the flip side, some indicators in industry, such as manufacturing capacity utilisation and PMI, demonstrate slight worsening. We expect 3.2% for this year vs the official projection at 4%, while recent developments have a potential to adversely affect the growth outlook.

In February, both food and non-food groups contributed to inflation being lower than expected, following an upward surprise in January. Despite this fluctuation, the downward trend in annual inflation has continued. In a move signalling alignment with disinflation efforts, the Ministry of Treasury and Finance reversed the increase in hospital copayments, which was one of the factors contributing to the favourable inflation figure. The monthly inflation trend has inched down to 2.6%, underlying inflationary pressures remain a concern due to rigid pricing dynamics in services. Such stickier components often take longer to moderate, potentially posing challenges to achieving sustained disinflation in the coming months. In its first inflation report of the year, the CBT raised its inflation forecast for 2025 by 3ppt to 24% YoY. The bank cited factors beyond the influence of monetary policy. On the other hand, recent political developments could impact on the exchange rate leading to a higher FX path in the near term and potential implications on inflation expectations and are likely to weigh on the inflation outlook. The CBT policy actions, on the other hand, will help contain adverse effects. Given this backdrop, we expect disinflation to persist, though the pace is likely to be higher than initially predicted.

Turkey

muhammet.mercan@ing.com.tr

Unemployment vs NPLs (%)

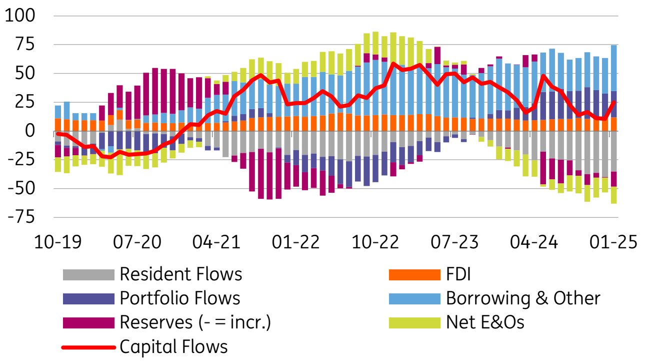


Source: TurkStat, BRSA, ING Bank

Unemployment rate remains below historical average

In February, seasonally adjusted (sa) employment experienced a decline, accompanied by a drop in the labour force participation rate. As a result, the headline unemployment rate fell slightly to 8.2%. Historically, the lowest recorded unemployment rate was 8.0% in July 2012, while the highest was 14.1% in September 2019. Meanwhile, average weekly actual working hours (sa), which rose by 0.8 hours to reach 43.4 hours in January, remained flat in February. A broader unemployment measure, the labour underutilisation rate, which includes time-related underemployment, the potential labour force and the unemployed, saw an increase of 0.2ppt over January, to reach 28.4%. This indicator hit an historical peak of 29.4% in May 2020, fluctuating within the 20–25% range in subsequent years. However, it has recently shown signs of an upward trend.

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

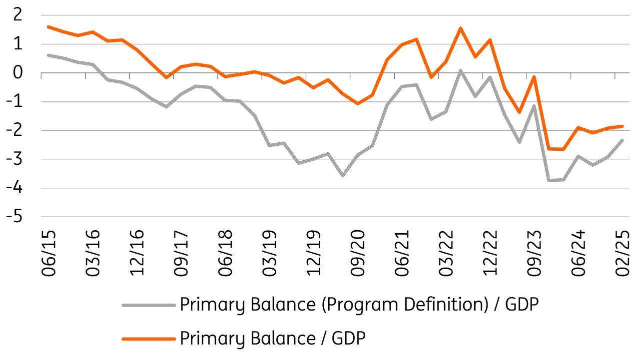


Source: CBT, ING Bank

Current account on a narrowing course

In January, the current account (c/a) showed signs of deterioration, primarily due to a foreign trade deficit. Consequently, the 12M rolling c/a deficit, which began widening in November of the previous year, further expanded to US$11.5bn (c.0.9% of GDP), compared to US$10.0bn at the end of 2024. The external deficit has been shaped by several factors, including energy prices, economic growth in the EU, the pace of domestic economic activity, tourism revenues and gold imports. For this year, we project it to widen further to 1.3% of GDP. Capital inflows were strong in January, largely driven by record monthly borrowing by banks, while unidentified outflows also remained significant. Assuming current levels of roll-over rates continue, the external financing needs for this year appear manageable and should be met without difficulty.

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

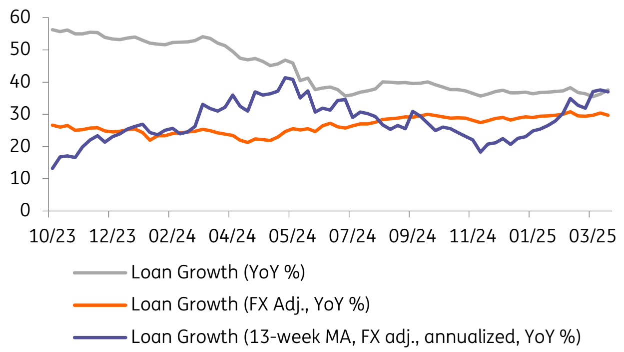


Source: Ministry of Treasury and Finance, ING Bank

Fiscal policy stays expansionary

The February budget revealed a deterioration, due to an increase in primary expenditures and slower tax collection. While corporate tax collection from direct taxes declined, an acceleration was observed in VAT and SCT collections. Non-interest expenditures were driven higher by an increase in capital expenditures and capital transfers. As a result, the 12-month cumulative budget deficit rose to c.4.8% of GDP vs the Medium-Term Program (MTP) projection at 3.1% of GDP. According to the MTP, the government plans to narrow budget deficit in 2025 via: (1) reducing the contribution of personnel and social security spending by keeping wage increases below actual inflation; and (2) raising tax revenues, which largely depends on the deflator. However, cash spending evolution keeps the risks on expected public spending cuts to the downside.

Banking sector volume expansion



Source: BRSA, ING Bank

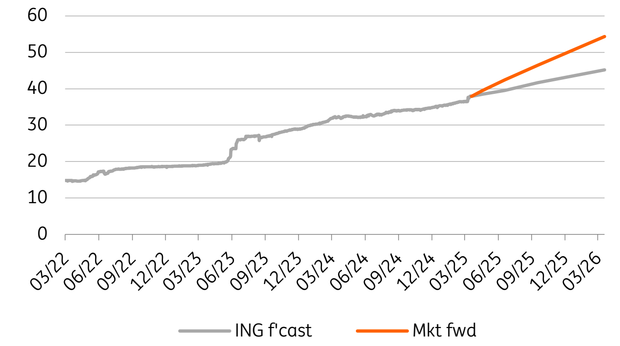
Reliance on monthly growth caps

The simultaneous use of the policy rate and credit caps influences both the cost and availability of credit. In January, tightening adjustments were introduced, aiming to align loan growth and its composition with the projected disinflation path. To provide relief to SMEs, the CBT increased limits for these businesses. Despite this tightening move, credit growth accelerated, while the momentum has been particularly noticeable in FX lending. In response, the CBT further reduced the cap on these loans and restricted the scope of exemptions from the growth limit. On the retail side, banks have experienced a higher growth. The sustained spending power of households has contributed to an acceleration in consumption. Policymakers, however, have chosen not to impose additional restrictions as part of a broader social policy approach.

Turkey

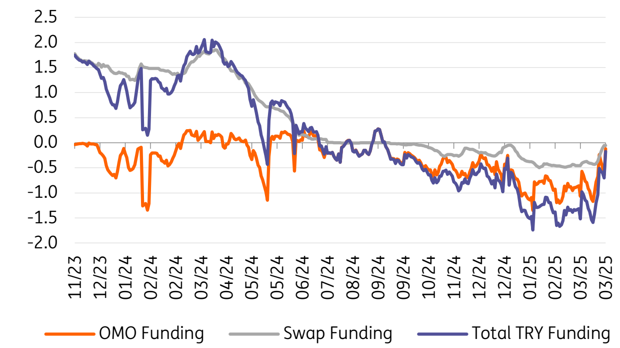
Strategy

FX – spot vs forward and INGF



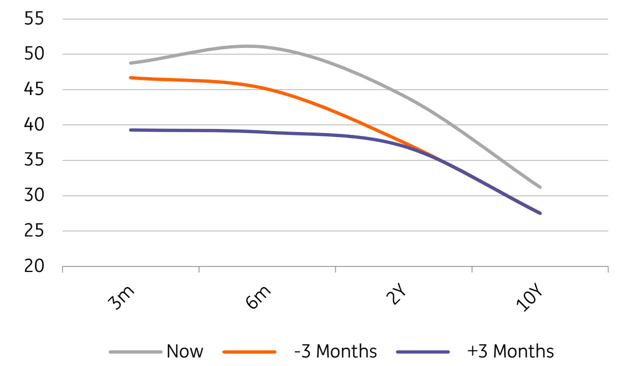
Source: Bloomberg, ING estimates

CBT funding (TRYtr)



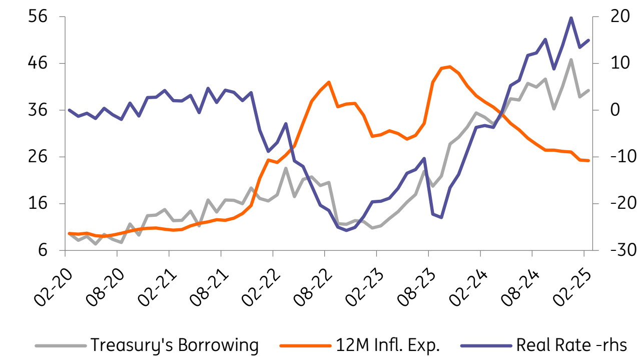
Source: CBT, ING Bank

Yield curve (%)



Source: Bloomberg, ING estimates

Real interest rate (%)



Source: Treasury, CBT, ING Bank

FX strategy *(Frantisek Taborsky, EMEA FX & FI Strategist)*

While acknowledging the strengthening of domestic demand in 4Q24 and acceleration in loan growth, the CBT implemented a third consecutive 250bp rate cut in early March. This decision was backed by a decline in the underlying inflation trend. Prior to these recent developments, consensus expectations had been for a fourth 250bp rate cut in April. However, in response to rapid market events, the CBT took significant policy measures. These included: (1) initiating TRY-settled FX forward sales to address demand; (2) raising the ON lending rate to 46%; (3) temporarily suspending 1-W repo auctions; and (4) issuing liquidity bills with maturities of up to 91D. These steps aim to manage FX and inflation expectations, restore market confidence and address financial volatility. Alongside these measures to adjust the supply and demand of the TRY, the CBT has actively utilised its FX reserves. As of 26 March, the bank's balance sheet reflects more than US$27bn reduction in its FX position. In recent months, the TRY has been the most attractive carry trade opportunity in emerging markets, leading to significant long positions by foreign investors. These positions, being particularly vulnerable to volatility, are now being unwound. Nonetheless, gross reserves amounting to US$163bn as of 21 March remain sufficiently robust to meet potential outflows. Overall, we continue to hold the view that the CBT possesses the tools necessary to stabilise the situation and maintain FX stability. After the latest sell-off, we believe the CBT will do everything possible to restore market confidence in TRY and will offset the lost carry.

Fixed income strategy *(with Frantisek Taborsky, EMEA FX & FI Strategist and James Wilson, EM Sovereign Strategist)*

Prior to the latest market volatility, the share of foreign holdings in domestic debt had recovered to above 10%, following a decline in December. Foreign demand is predominantly focused on the short end of the yield curve, reflecting a belief in the likelihood of imminent rate cuts. However, the market outlook has shifted dramatically in recent days as investors appear to be scaling back risks. As a result, 2y yields have risen sharply, climbing above 40%. Meanwhile, yields at the long end of the curve have reached historic highs. The postponement of rate cuts, as suggested by the interim MPC meeting, combined with a higher rate profile influenced by both an increased risk premium and the goal of ensuring FX stability, is expected to reduce demand for TurkGBs in the short term, in our view. Although on the issuance side, where MinFin seems to be erring on the side of safety with 26% issuance covered and valuations of TurkGBs looking tempting after the recent sell-off, we think it makes sense to focus on the front-end curves only tactically with inflation prints triggering some correction of the previous move, but overall we prefer the FX market as an exposure in Turkey.

In the Eurobond space, the latest selloff has pushed valuations versus BB-rated peers towards the wide-end of the range seen over the past year (a 70bp pickup over BB average, compared to less than 20bp in December), but over the past three years, the spike is barely visible (compared to a spread differential that spiked to 400bp in mid-2023). For now, with the economic plan expected to remain on track and much of the fundamental improvement from the past few years intact, there is scope for sovereign credit spreads to recover.

Turkey

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity													
Real GDP (% YoY)	4.9	6.1	3.3	7.5	3.0	0.8	1.9	11.4	5.5	5.1	3.2	3.2	4.0
Private consumption (% YoY)	3.1	5.3	3.8	5.9	0.7	1.5	3.2	15.4	18.9	13.6	3.7	4.1	4.2
Government consumption (% YoY)	3.1	3.9	9.5	5.0	5.9	3.9	2.2	3.0	4.2	2.4	1.2	-0.3	-0.6
Investment (% YoY)	4.9	9.3	2.2	8.3	0.1	-12.5	7.3	7.2	1.3	8.4	3.9	4.0	3.3
Industrial production (% YoY)	5.7	5.8	3.4	9.0	1.3	-0.5	1.6	17.5	4.4	1.6	-0.1	2.1	2.6
Unemployment rate (year-end, %)	9.9	10.3	10.9	10.9	10.9	13.7	13.1	12.0	10.5	9.4	8.7	9.6	9.4
Nominal GDP (TRYbn)	2,055	2,351	2,627	3,134	3,761	4,318	5,049	7,256	15,012	26,546	43,411	61,822	77,087
Nominal GDP (€bn)	681	707	779	763	664	677	623	671	849	1014	1211	1469	1497
Nominal GDP (US$bn)	937	856	867	861	775	761	712	788	900	1096	1313	1560	1635
GDP per capita (US$)	12,178	11,085	10,964	10,696	9,792	9,213	8,536	9,369	10,589	12,843	15,475	18,455	22,899
Gross domestic saving (% of GDP)	24.9	25.2	26.0	26.0	26.8	26.8	27.0	30.6	30.3	28.0	26.6	30.0	28.7
Prices													
CPI (average, % YoY)	8.9	7.7	7.8	11.1	16.3	15.2	12.3	19.6	72.3	53.9	58.5	33.7	21.2
CPI (year-end, % YoY)	8.2	8.8	8.5	11.9	20.3	11.8	14.6	36.1	64.3	64.8	44.4	28.4	18.8
Wage rates (nominal, % YoY)	15.5	18.1	20.5	13.3	15.8	18.4	6.9	39.5	88.1	113.5	91.2	37.8	23.8
Fiscal balance (% of GDP)													
Consolidated government balance	-1.1	-1.0	-1.1	-1.5	-1.9	-2.8	-3.4	-2.6	-0.9	-5.2	-4.9	-3.6	-3.1
Consolidated primary balance	1.3	1.3	0.8	0.3	0.0	-0.5	-0.8	-0.2	1.1	-2.6	-1.9	-0.3	-0.1
Total public debt	28.3	27.2	27.7	27.8	29.9	32.4	39.4	40.4	30.8	37.8	24.6	25.9	28.0
External balance													
Exports (US$bn)	173.3	154.9	152.6	169.2	178.9	182.2	168.4	224.7	253.4	251.0	257.5	271.0	283.3
Imports (US$bn)	239.9	203.9	192.6	227.8	219.7	199.0	206.3	254.0	342.9	337.3	313.8	347.0	364.4
Trade balance (US$bn)	-66.6	-49.0	-39.9	-58.6	-40.8	-16.8	-37.9	-29.3	-89.6	-86.3	-56.4	-76.0	-81.2
Trade balance (% of GDP)	-7.1	-5.7	-4.6	-6.8	-5.3	-2.2	-5.3	-3.7	-10.0	-7.9	-4.3	-4.9	-5.0
Current account balance (US$bn)	-38.8	-27.3	-26.8	-40.6	-20.7	15.0	-31.0	-6.2	-46.3	-39.9	-10.0	-23.5	-26.5
Current account balance (% of GDP)	-4.1	-3.2	-3.1	-4.7	-2.7	2.0	-4.4	-0.8	-5.1	-3.6	-0.8	-1.5	-1.6
Net FDI (US$bn)	13.3	19.3	13.9	11.1	13.0	9.5	7.5	12.7	13.8	10.7	11.3	13.4	15.2
Net FDI (% of GDP)	1.4	2.3	1.6	1.3	1.7	1.2	1.1	1.6	1.5	1.0	0.9	0.9	0.9
Current account balance plus FDI (% of GDP)	-2.7	-0.9	-1.5	-3.4	-1.0	3.2	-3.3	0.8	-3.6	-2.7	0.1	-0.6	-0.7
Foreign exchange reserves ex gold (US$bn)	106.3	95.7	92.1	84.1	72.0	81.2	50.0	72.6	82.9	92.8	90.7	109.1	115.3
Import cover (months of merchandise imports)	5.3	5.6	5.7	4.4	3.9	4.9	2.9	3.4	2.9	3.3	3.5		3.8
Debt indicators													
Gross external debt (US$bn)	415.5	401.6	405.9	450.3	425.4	413.2	427.2	433.9	455.3	525.8	533.9	553.8	569.2
Gross external debt (% of GDP)	44	47	47	52	55	54	60	55	51	48	41	36	35
Gross external debt (% of exports)	240	259	266	266	238	227	254	193	180	209	207	204	201
Lending to corporates/households (% of GDP)	60.2	63.1	0.0	55.2	55.7	55.4	52.5	49.2	32.6	28.5	26.8	25.7	27.4
Interest & exchange rates													
Central bank key rate (year-end, %)	8.25	7.50	8.00	8.00	24.00	12.00	17.00	14.00	9.00	42.50	47.50	32.00	20.00
Broad money supply (average, % YoY)	11.9	17.1	18.3	15.7	19.1	26.1	36.0	53.6	60.7	66.5	28.7	43.4	25.7
3m interest rate (TRLibor, average, %)	8.6	9.9	8.9	11.6	19.1	18.8	11.0	18.0	15.7	20.5	47.5	38.0	21.1
3m interest rate spread over US$-Libor(ppt)	837	960	812	1029	1671	1684	1071	1794	1225	1512	4239	3379	1715
2yr yield (average, %)	9.2	9.8	9.7	11.8	18.9	17.2	11.9	18.5	19.2	21.1	42.6	36.6	25.0
10yr yield (average, %)	9.3	9.4	10.1	11.0	15.8	15.5	12.7	18.2	17.6	18.4	28.2	27.2	20.0
USD/TRY exchange rate (year-end)	2.32	2.92	3.53	3.79	5.29	5.95	7.43	13.32	18.69	29.48	35.34	43.00	50.00
USD/TRY exchange rate (average)	2.19	2.75	3.03	3.64	4.85	5.67	7.09	9.20	16.68	24.22	33.07	39.64	47.15
EUR/TRY exchange rate (year-end)	2.81	3.17	3.70	4.55	6.05	6.67	9.08	15.14	20.00	32.54	36.59	46.44	55.00
EUR/TRY exchange rate (average)	3.02	3.33	3.37	4.11	5.66	6.37	8.11	10.81	17.68	26.17	35.84	42.10	51.51
Brent oil price (annual average, US$/bbl)	99.35	52.08	43.31	54.13	71.17	64.72	41.80	71.25	99.25	82.25	80.00	74.00	69.75

Source: National sources, ING estimates

Quarterly forecasts

	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Real GDP (% YoY)	4.6	5.4	2.4	2.2	3.0	2.2	3.3	3.4	3.6	4.2	4.4	3.5	3.9
CPI (eop, % YoY)	64.8	68.5	71.6	49.4	44.4	38.0	35.6	29.9	28.4	24.1	20.6	19.8	18.8
Central bank key rate (eop, %)	42.50	50.00	50.00	50.00	47.50	42.50	40.00	36.00	32.00	28.50	25.50	22.50	20.00
3m interest rate (eop, %)	38.61	50.58	49.79	48.88	46.19	41.24	39.33	35.06	32.08	28.85	26.59	23.47	21.09
10yr yield (eop, %)	25.06	26.82	28.28	28.40	29.31	34.02	27.49	25.11	23.56	22.16	20.11	19.34	18.09
USD/TRY exchange rate (eop)	29.48	32.35	32.65	34.16	35.34	38.00	39.47	41.10	43.00	45.17	47.03	48.63	50.00
EUR/TRY exchange rate (eop)	32.54	34.92	35.05	38.00	36.59	40.66	41.44	43.98	46.44	49.24	51.27	53.49	55.00

Source: National sources, ING estimates

Ukraine

Leszek Kąsek, Senior Economist, Poland

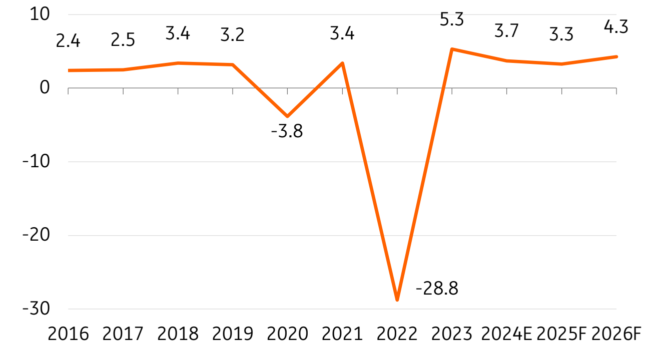
Forecast summary

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Real GDP (%YoY)	2.0	2.2	3.0	4.0	4.5	3.3	4.3
CPI (%YoY)*	12.0	13.6	14.0	12.0	8.4	12.0	6.6
Policy interest rate (eop, %)	13.5	15.5	15.5	15.0	14.5	14.5	12.0
USD/UAH*	42.0	41.6	41.5	41.7	42.0	42.0	42.5
EUR/UAH*	43.5	44.5	43.6	44.6	45.4	45.4	46.8

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

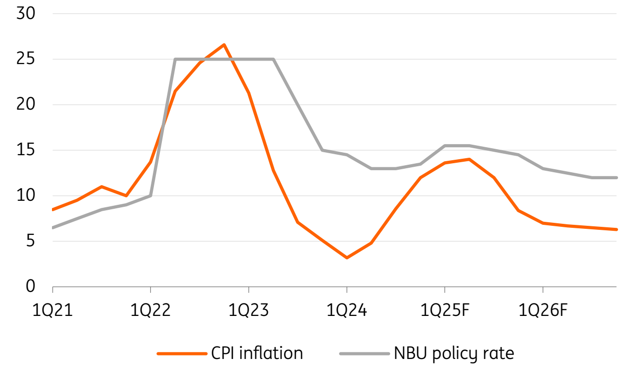
*Quarterly data is eop, annual is average
Source: National sources, ING estimates

GDP growth (%)



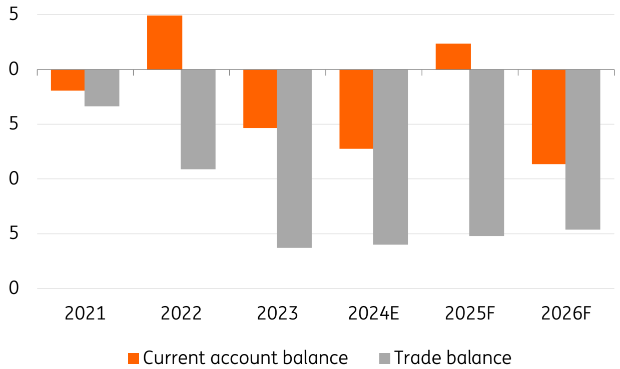
Source: NSI, ING

Inflation and NBU policy rate (%)



Source: NBU, ING

Foreign trade and current account balance (% of GDP)



Source: NBU, ING

Country strategy: Ceasefire being orchestrated by the US

The hryvnia exchange rate against the dollar remains broadly stable, supported by high FX reserves and decisive NBU interest rate hikes (by 50bp in December and by 100bp in January and March). The NBU signalled further action to ensure the attractiveness of hryvnia assets and curb inflation expectations. External aid should be sufficient this year, as G7 countries started to disburse funds from the G7-led Extraordinary Revenue Acceleration (ERA) loans, which may reach up to US$30bn. The NBU is likely to allow for a slight weakening of the hryvnia, while using the UAH exchange rate as an inflation anchor to bring inflation expectations down.

The economy remains burdened by the ongoing full-scale war, but due to the US administration's pressure, there are prospects of a ceasefire this Spring and peace agreement later this year.

Economic prospects dependent on peace negotiations

After three years of full-scale war with Russia, around 20% of Ukraine's territory is occupied, and around 7 million Ukrainians remain refugees abroad. Russia has made some military advances in Donbas, while Ukraine controls a part of the Russian Kursk region. The economy has shown resilience, but growth slowed in 2024 due to severe damage to the energy infrastructure, labour constraints and real incomes erosion as a result of accelerating inflation. 2025 started with exceptionally high geopolitical uncertainty associated with the Trump administration's approach to further military and financial support to Ukraine and pressure to reach a ceasefire deal before Easter. Ukraine is searching for security guarantees and remains open to deeper economic relations with the US.

Accelerating inflation has required sharp NBU rate hikes

Inflation accelerated strongly into double digits in late-2024 and reached 13.4% YoY in February 2025. This surge was driven mainly by supply-side or regulatory factors, such as hikes in regulatory tariffs and increases in indirect taxes, higher electricity prices due to power deficits or a jump in food prices due to weak harvest. But core inflation also increased, fuelled by labour constraints and earlier monetary policy relaxation. The NBU had to step in with decisive action and a 50bp interest rate hike in December, and further hikes of 100bp in January and March, raising the key policy rate to 15.50%. The bank may need to keep rates higher for longer and then adjust interest rates gradually in order to bring inflation expectations under control even if inflation decelerates in 2H25.

ERA aid revenues amid rising geopolitical uncertainty

Throughout the war, Ukraine has been dependent on foreign aid, both grants and loans, which have helped to finance huge external current account and fiscal deficits. In 2025, the country is to have access to substantial aid from a G7-led US$50bn ERA loans initiative, based on profits from the frozen Russian assets. According to the NBU, the country may receive around US$30bn of non-repayable ERA funds in 2025. The US Treasury already disbursed US$20bn to a dedicated World Bank fund in December 2024. The ERA funds do not add to Ukraine's external debt and, as secondary income, will temporarily improve the external current account balance and push it into a surplus in 2025, as in 2022. However, the trade gap is to remain large at around 15% of GDP this year.

Ukraine

leszek.kasek@ing.pl

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity													
Real GDP (%YoY)	-6.6	-9.8	2.4	2.5	3.4	3.2	-3.8	3.4	-28.8	5.3	3.7	3.3	4.3
Private consumption (%YoY)	-8.3	-20.7	2.1	7.7	8.8	10.9	1.7	4.7	-16.8	5.5	3.3	3.2	4.0
Government consumption (%YoY)	1.1	1.7	-0.5	2.4	0.2	-13.6	-0.7	0.1	12.5	2.6	1.0	0.5	0.0
Investment (%YoY)	-24.0	-9.2	20.4	18.8	14.3	11.7	-21.3	8.1	-18.6	5.8	3.3	3.0	3.2
Industrial production (%YoY)	-10.1	-13.0	2.8	0.4	3.0	-0.5	-4.0	3.5	-42.8	5.0	3.5	3.0	3.0
Unemployment rate (year-end, %)	10.6	9.5	9.7	9.4	8.9	8.4	10.1	10.6	23.2	16.3	12.0	10.5	10.5
Nominal GDP (UAHbn)	1,587	1,989	2,385	2,983	3,561	3,975	4,090	5,451	5,239	6,538	7,629	8,823	9,810
Nominal GDP (€bn)	101	82	84	99	111	137	133	169	154	165	175	198	212
Nominal GDP (US$bn)	133	91	93	112	131	154	152	200	162	179	190	212	232
GDP per capita (US$)	3,100	2,100	2,200	2,600	3,050	3,600	3,400	4,200	n/a	n/a	n/a	n/a	n/a
Gross national saving (% of GDP)	9.9	13.3	14.8	12.3	15.3	12.2	12.2	12.5	17.0	9.8	8.5	9.0	9.0
Prices													
CPI (average, %YoY)	12.1	48.5	14.9	14.5	11.0	7.9	2.7	9.3	20.1	13.4	7.2	12.0	6.6
CPI (year-end, %YoY)	24.9	43.3	12.4	13.7	9.8	4.1	5.0	10.0	26.6	5.1	12.0	8.4	6.3
Wage rates (nominal, %YoY)	6.1	21.1	23.3	37.0	24.8	18.4	10.4	20.9	6.0	17.4	22.0	16.0	11.0
Fiscal balance (% of GDP)													
Consolidated government balance	-4.5	-1.6	-2.3	-1.4	-2.0	-2.2	-5.9	-4.0	-15.6	-19.6	-18.9	-18.9	-13.0
Consolidated primary balance	-1.5	2.8	1.9	2.4	1.2	1.0	-3.0	-1.1	-12.5	-15.7	-13.2	-12.5	-8.0
Total public debt	69.4	79.0	80.9	71.8	60.9	50.2	60.4	48.9	78.5	82.3	92.2	104.7	108.6
External balance													
Exports (US$bn)	50.6	35.4	33.6	39.7	43.3	46.1	45.1	63.1	40.9	34.7	38.9	43.0	48.5
Imports ((US$bn)	57.7	38.9	40.5	49.4	56.1	60.4	52.0	69.8	55.6	63.8	69.3	75.2	82.4
Trade balance (US$bn)	-7.1	-3.5	-6.9	-9.7	-12.7	-14.3	-6.9	-6.7	-14.7	-29.1	-30.4	-32.2	-33.9
Trade balance (% of GDP)	-5.4	-3.8	-7.4	-8.6	-9.7	-9.3	-4.5	-3.4	-9.1	-16.3	-16.0	-15.2	-14.6
Current account balance (US$bn)	-4.6	5.0	-1.9	-3.5	-6.4	-4.1	5.3	-3.9	8.0	-9.6	-13.7	5.0	-20.0
Current account balance (% of GDP)	-3.5	5.5	-2.0	-3.1	-4.9	-2.7	3.5	-1.9	4.9	-5.3	-7.2	2.4	-8.6
Net FDI (US$bn)	0.3	-0.2	4.0	3.4	4.9	5.2	-0.1	7.5	0.2	4.4	3.5	5.0	8.0
Net FDI (% of GDP)	0.2	-0.3	4.2	3.1	3.7	3.4	0.0	3.8	0.1	2.5	1.8	2.4	3.5
Current account balance plus FDI (% of GDP)	-3.2	5.3	2.2	0.0	-1.2	0.7	3.4	1.8	5.1	-2.9	-5.4	4.7	-5.2
Foreign exchange reserves (US$bn)	10.0	13.2	15.3	18.9	17.7	25.3	29.1	30.9	28.5	40.5	40.0	40.5	39.0
Import cover (months of merchandise imports)	2.1	4.1	4.5	4.6	3.8	5.0	6.7	5.3	6.2	7.6	6.9	6.5	5.7
Debt indicators													
Gross external debt (US$bn)	125.3	117.7	112.5	115.5	114.7	121.7	125.7	129.7	131.0	161.5	169.5	174.5	190.5
Gross external debt (% of GDP)	94.1	129.5	120.6	103.0	87.7	79.1	82.9	64.9	81.1	90.4	89.3	82.5	82.3
Gross external debt (% of exports)	247.9	332.3	335.2	290.9	264.6	264.1	278.4	205.6	320.2	465.5	436.0	405.9	392.9
Lending to corporates/households (% of GDP)	62.4	48.4	41.3	33.7	29.8	24.5	23.1	21.6	23.6	18.2	17.5	17.4	18.3
Interest & exchange rates													
Central bank key rate (year-end, %)	14.0	22.0	14.0	14.5	18.0	13.5	6.0	9.0	25.0	15.0	13.5	14.5	12.0
Broad money supply (average, %YoY)	5.3	3.9	10.9	9.6	5.7	12.6	28.6	12.0	20.8	23.0	16.7	14.4	12.1
2yr yield (average, %)	17.9	18.9	19.4	15.7	17.8	17.2	13.0	12.5	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)	15.8	24.0	27.2	28.1	27.7	23.7	28.3	27.3	36.6	38.0	42.0	42.0	42.5
USD/UAH exchange rate (average)	11.9	21.9	25.6	26.6	27.2	25.8	27.0	27.3	32.4	36.6	40.2	41.7	42.4
EUR/UAH exchange rate (year-end)	19.2	26.2	28.4	33.5	31.7	26.4	34.7	30.9	39.0	42.2	43.5	45.4	46.8
EUR/UAH exchange rate (average)	15.7	24.3	28.3	30.0	32.1	28.9	30.8	32.3	34.1	39.5	43.5	44.5	46.4

Source: National sources, IMF, ING estimates

Quarterly forecasts

	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Real GDP (%YoY)	5.2	6.6	3.9	2.0	2.0	2.2	3.0	4.0	4.5	4.6	4.3	4.0	4.0
CPI (eop, %YoY)	5.1	3.2	4.8	8.6	12.0	13.6	14.0	12.0	8.4	7.0	6.7	6.5	6.3
Central bank key rate (eop, %)	15.0	14.5	13.0	13.0	13.5	15.5	15.5	15.0	14.5	13.0	12.5	12.0	12.0
USD/UAH exchange rate (eop)	38.0	39.2	40.5	41.2	42.0	41.6	41.5	41.7	42.0	42.1	42.3	42.5	42.5
EUR/UAH exchange rate (eop)	41.9	42.4	43.4	45.8	43.5	44.5	43.6	44.6	45.4	45.9	46.1	46.8	46.8

Source: NBU, Ukrstat, Macrobond, ING estimates

Uzbekistan

Dmitry Dolgin, Chief Economist, CIS

Forecast summary

	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	2025F	2026F
Real GDP (%YoY)	6.5	4.0	5.5	6.5	6.7	5.7	5.5
CPI (%YoY)*	9.9	10.1	9.1	8.5	9.2	9.5	7.4
Policy interest rate (eop, %)	13.50	14.00	13.50	13.50	13.50	13.50	12.00
USD/UZS*	12,895	13,024	13,153	13,282	13,411	13,153	13,612
EUR/UZS*	13,355	13,936	13,811	14,212	14,484	14,074	14,973

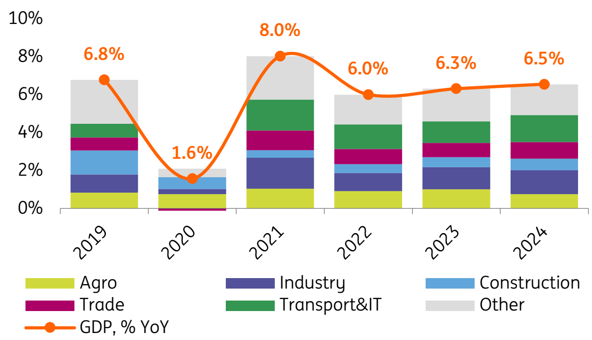
Macro trend		Political cycle	Ratings	FC	LC
Activity	+	Presidential: 2030	S&P	BB-	BB-
Fiscal	Consolidation	Parliamentary: 2029	Moody's	Ba3	Ba3
Monetary	Neutral	Local: n/a	Fitch	BB-	BB-

*Quarterly data is eop, annual is average
Source: National sources, ING estimates

Country strategy: Walking in fields of gold

After showing strong 6.0-6.5% GDP growth over the past three years, Uzbekistan could be heading for a slowdown in activity due to a shift to fiscal consolidation, limited room for monetary easing amid elevated inflationary risks, and slowing credit growth. Meanwhile, the changing global trade environment and geopolitics could create additional growth opportunities for Uzbekistan as an exporter of commodities, especially gold. The CBRU, the central bank, increased its reserves by 400,000oz of gold in 2024 and may consider 2025 as a good opportunity to sell.

GDP growth by sectors

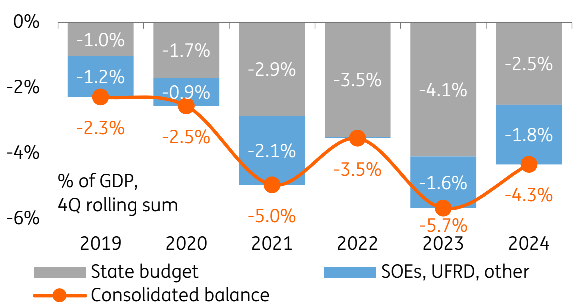


Source: National sources, CEIC, ING

Activity to rely more heavily on external drivers

GDP picked up to 6.5% in 2024 thanks to stronger transportation, construction and industrial sectors, reflecting continued capex-driven growth and participation in regional trade and financial flows. Consumption-focused sectors showed a more moderate contribution to growth, as households faced higher domestic tariffs, while retail lending growth slowed from 47% in 2023 to just 19% in 2024. Further growth prospects appear mixed. On the one hand, Uzbekistan's position as a commodities exporter should add some resilience in the face of global trade wars and higher defence spending. On the other hand, the new hike in domestic tariffs in April should put additional pressure on households, while corporates may face some headwinds from fiscal consolidation. We see GDP growth moderating to 5.5-6.0% in the next couple of years.

Consolidated budget balance by components (% GDP)

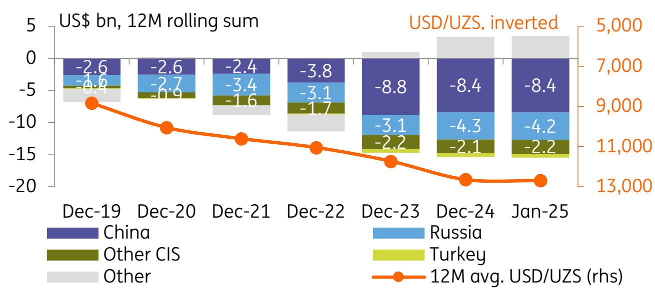


Source: National sources, CEIC, ING

Fiscal policy: Long awaited consolidation ongoing

The government is taking steps to address the accumulated fiscal imbalance. In 2024, consolidated spending was reduced by 1.5ppt to 30.9% of GDP through restraint on investment and social spending, mainly at the central government level. The consolidated budget deficit narrowed by 1.3ppt to 4.3% of GDP. The budget law for 2025 is guiding for a further 1.3ppt reduction in the consolidated deficit to 3% of GDP, including a 0.5ppt reduction at the central government level to 2.0% of GDP. The scale of consolidation could be challenged by optimistic official forecasts on CPI. We see the consolidated budget deficit narrowing modestly to 3.5-4.0% of GDP this year, which is tighter than our previous forecasts.

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



Source: National sources, CEIC, ING

External balance and UZS: Gold exports may increase

The external trade trends are largely benign. While gold exports are somewhat restrained as CBRU is waiting for peak prices, non-gold exports remain supported. Imports contracted by 1% in 2024, possibly reflecting a moderation in capex, which is also suggested by a decline in the trade deficit with China (Uzbekistan's main trade partner) for the first time in several years. We still see 3-5% UZS depreciation for the next couple of years, which will be necessary to adjust the country's external balance to elevated domestic inflation and the twin deficit. A potential increase in gold exports and other commodities represent an upside risk, while a negative consequence of global trade wars for China should be seen as a downside scenario for Uzbekistan.

Uzbekistan

dmitry.dolgin@ing.de

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity													
Real GDP (%YoY)	6.9	7.2	5.9	4.4	5.6	6.8	1.6	8.0	6.0	6.3	6.5	5.7	5.5
Private consumption (%YoY)	8.7	11.9	8.3	4.2	6.1	6.0	-2.3	11.9	11.5	7.0	5.0	4.7	4.0
Government consumption (%YoY)	8.4	6.7	2.7	1.5	4.8	5.7	1.4	3.1	3.5	1.1	5.0	4.0	3.0
Gross capital formation (%YoY)	9.8	9.4	4.1	19.4	29.1	37.6	-5.0	3.1	-0.3	23.4	27.6	8.0	7.0
Industrial production (%YoY)	4.5	5.3	5.4	5.2	10.8	5.0	0.9	8.8	5.2	6.0	6.8	5.5	5.0
Unemployment rate (year-end, %)	5.2	5.2	5.2	5.4	9.3	9.1	11.1	9.8	8.9	8.4	8.0	7.5	7.0
Nominal GDP (UZStr)	187	221	255	356	474	595	668	821	996	1,204	1,455	1,683	1,905
Nominal GDP (€bn)	60.9	77.6	77.9	60.7	49.5	60.1	58.1	65.4	85.6	94.9	106.3	119.6	127.2
Nominal GDP (US$bn)	80.9	86.2	86.2	69.5	58.2	67.1	66.4	77.3	90.1	102.7	115.0	127.9	139.9
GDP per capita (US$)	2,628	2,754	2,705	2,152	1,781	2,004	1,941	2,215	2,527	2,790	3,050	3,323	3,561
Gross domestic saving (% of GDP)	23.4	21.5	19.6	18.6	20.7	20.1	21.0	19.2	16.6	17.4	n/a	n/a	n/a
Prices													
CPI (average, %YoY)	9.3	8.8	8.1	13.9	17.5	14.5	12.9	10.8	11.4	10.0	9.7	9.5	7.4
CPI (year-end, %YoY)	10.4	7.6	9.8	18.8	14.3	15.2	11.2	10.0	12.3	8.7	9.9	9.2	6.3
Wage rates (nominal, %YoY)	n/a	n/a	n/a	n/a	25.0	27.5	15.0	20.3	20.8	17.5	17.4	15.5	12.4
Fiscal balance (% of GDP)													
Consolidated government balance	1.9	-0.3	0.7	1.0	1.2	-2.3	-2.5	-5.0	-3.5	-5.7	-4.3	-3.8	-3.2
Consolidated primary balance	1.9	-0.3	0.7	1.1	1.3	-2.1	-2.2	-4.7	-3.1	-5.0	-3.3	-2.7	-2.0
Total public debt	6.1	10.0	8.2	17.3	17.5	26.5	35.2	34.0	32.4	34.4	35.0	35.8	36.4
External balance													
Exports (US$bn)	10.6	9.5	8.6	10.2	11.4	13.9	12.8	14.1	16.6	19.6	20.1	21.4	22.4
Imports (US$bn)	13.5	11.6	11.0	12.4	18.3	21.2	19.0	22.9	28.3	34.5	34.2	35.9	37.7
Trade balance (US$bn)	(3.0)	(2.1)	(2.4)	(2.2)	(6.9)	(7.3)	(6.2)	(8.8)	(11.7)	(14.9)	(14.1)	(14.6)	(15.3)
Trade balance (% of GDP)	-3.7	-2.4	-2.8	-3.2	-11.7	-10.8	-9.4	-11.3	-12.9	-14.5	-12.3	-11.4	-11.0
Current account balance (US$bn)	2.1	0.9	0.2	1.5	(3.6)	(3.4)	(3.0)	(4.9)	(2.8)	(7.8)	(6.1)	(6.6)	(6.3)
Current account balance (% of GDP)	2.6	1.0	0.2	2.1	-6.1	-5.0	-4.6	-6.3	-3.2	-7.6	-5.3	-5.2	-4.5
Net FDI (US$bn)	0.8	1.0	1.7	1.8	0.6	2.3	1.7	2.3	2.7	2.1	2.5	3.0	3.6
Net FDI (% of GDP)	1.0	1.2	1.9	2.6	1.1	3.4	2.6	2.9	2.9	2.1	2.2	2.3	2.6
Current account balance plus FDI (% of GDP)	3.6	2.2	2.2	4.7	-5.1	-1.6	-2.0	-3.4	-0.2	-5.5	-3.1	-2.8	-2.0
Gross international reserves (US$bn)	24.1	24.3	26.4	28.1	27.1	29.2	34.9	35.1	35.8	34.6	41.2	40.7	40.2
Import cover (months of merchandise imports)	21.4	25.2	28.7	27.2	17.8	16.5	22.0	18.4	15.2	12.0	14.4	13.6	12.8
Debt indicators													
Gross external debt (US$bn)	11.6	13.4	14.6	15.6	17.1	24.3	33.3	43.2	51.9	60.8	69.8	74.8	79.8
Gross external debt (% of GDP)	14.3	15.6	17.0	22.4	29.1	36.1	50.2	55.9	57.5	59.2	60.7	58.5	57.0
Gross external debt (% of exports)	109.9	141.3	169.2	153.3	150.0	174.6	259.7	305.4	311.5	309.9	346.5	350.3	355.9
Lending to corporates/households (% of GDP)	n/a	n/a	20.6	31.0	35.3	34.9	40.9	39.3	38.7	37.9	37.0	37.7	38.4
Interest & exchange rates													
Central bank key rate (year-end, %)	10.00	9.00	9.00	14.00	16.00	16.00	14.00	14.00	15.00	14.00	13.50	13.50	12.00
Broad money supply (average, %YoY)	15.7	24.3	23.5	40.2	14.1	13.9	17.7	29.7	30.2	12.2	30.6	16.9	13.8
3m interest rate (average, %)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
3m interest rate spread over US$-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)	2,422	2,791	3,225	8,120	8,404	9,506	10,466	10,818	11,229	12,346	12,895	13,411	13,813
USD/UZS exchange rate (average)	2,310	2,569	2,965	5,126	8,133	8,861	10,055	10,614	11,046	11,733	12,649	13,153	13,612
EUR/UZS exchange rate (year-end)	2,931	3,030	3,393	9,745	9,563	10,657	12,787	12,303	12,022	13,648	13,355	14,484	15,195
EUR/UZS exchange rate (average)	3,066	2,851	3,280	5,869	9,573	9,895	11,493	12,548	11,627	12,693	13,686	14,074	14,973
Brent oil price (annual average, US$/bbl)	99	54	45	55	72	64	43	71	99	82	80	74	70

Grey shading denotes ING forecast data
Source: National sources, ING estimates

Quarterly forecasts

	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25F	2Q25F	3Q25F	4Q25F	1Q26F	2Q26F	3Q26F	4Q26F
Real GDP (%YoY)	5.7	6.2	6.8	6.5	6.5	4.0	5.5	6.5	6.7	6.5	6.0	5.0	4.3
CPI (eop, %YoY)	8.8	8.0	10.6	10.5	9.9	10.1	9.1	8.5	9.2	9.1	6.9	6.6	6.3
Central bank key rate (eop, %)	14.00	14.00	14.00	13.50	13.50	14.00	13.50	13.50	13.50	13.50	13.00	12.50	12.00
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)	12,346	12,615	12,565	12,737	12,895	13,024	13,153	13,282	13,411	13,512	13,612	13,713	13,813
EUR/UZS exchange rate (eop)	13,648	13,611	13,467	14,198	13,355	13,936	13,811	14,212	14,484	14,728	14,837	15,084	15,195

Grey shading denotes ING forecast data
Source: National sources, ING estimates

Disclaimer