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CEE: Resilient growth meets fiscal and geopolitical headwinds

Poland remains resilient despite energy and fiscal risks; Czech growth is firm and inflation contained, but the Czech National Bank remains vigilant; Hungary's recovery may revive assets, while Romania still faces stagflation and political uncertainty

Poland: The economy weathered the Middle East turmoil well in 2Q26, but headwinds remain

Despite a spike in energy prices, Poland's GDP growth reached 3.9% year-on-year in the second quarter. Fixed investment finally gained momentum, rising by 8.4% YoY, while net exports made a surprisingly positive contribution to growth despite a surge in import prices for energy commodities, triggered by the conflict in the Middle East. As expected, households were hit by higher fuel prices amid a continued slowdown in wage growth, pushing private consumption growth below 3% YoY. Although economic activity remained robust in 2Q26 and the outlook for fixed investment in 2H26 is favourable given the final stage of Recovery and Resilience Facility implementation, risks stemming from tensions in the Persian Gulf may weigh on private consumption and business confidence in the second half of the year. We therefore maintain our relatively conservative GDP growth forecast of 3.4% for 2026.

Fuel prices continue to exert upward pressure on headline inflation, even as the government seeks to cushion the impact of higher oil prices on retail fuel prices through temporary cuts in excise duty and VAT. Headline inflation is close to the upper bound of the National Bank of Poland's tolerance band around the inflation target (2.5% +/-1ppt), leaving no room for rate cuts this year. Price pressures appear largely confined to fuels and closely related CPI categories. With no signs of broader inflationary pressures and food price deflation, there is no immediate case for monetary tightening either.

The 2027 draft budget confirmed a continuation of expansionary fiscal policy, although the authorities refrained from introducing sizeable tax cuts or additional social spending ahead of the 2027 elections, reflecting limited fiscal space for voter-friendly measures. The general government deficit is projected to remain close to 7% of GDP in both 2026 and 2027, keeping public debt on an upward trajectory and maintaining pressure on asset swap spreads (ASW).

Czech Republic: Modest inflation amid a still sub-potential output

Given the rather disappointing real GDP figures over the first half of the year, we marginally lower our economic performance outlook for this year to just below 2%. The protracted tensions around the Strait of Hormuz, along with energy prices not meaningfully falling, imply a more gradual pickup to stronger growth dynamics over the next year. The expansion will be mostly driven by the improving performance of the Czech industrial base, which is entering solid ground. Meanwhile, the rising cost of living will dampen consumers' ability to spend on discretionary items, as the expected ample nominal wage growth will be partially offset by a sharper increase in general price levels. Continuously elevated fuel prices, along with renewed price growth in the regulated and foodstuffs segment, will simply bite into the real purchasing power of households, mostly via mandatory expenses.

The Czech National Bank will closely follow wage dynamics, which will also be affected by planned generous government spending. Price developments in the housing market and construction sector will play a central role, as these will continue to be the decisive drivers of core inflation. The forces of potentially stronger-than-expected wage and rent growth on the one hand, and the possibly disappointing overall economic performance on the other, will shape the appetite for another rate hike or for leaving the policy rate unchanged. For now, we take the position that none of these opposing drivers are likely to take the upper hand soon and opt for policy rate stability as our base case scenario.

However, with still-elevated oil prices and their potential to propel headline inflation, we see the odds of a tighter monetary policy as potent. The Czech National Bank's traditional resentment of expansionary fiscal policy could only add to such an outcome, while the budget draft will be shaped over the coming weeks. There is still a chance the threshold of a

3% deficit-to-GDP ratio would not be crossed substantially.

Hungary: Local stories to reignite interest in Hungarian assets

Although it may not sound like a Cinderella story at first, the 1.7% year-on-year GDP growth during the first half of 2026 is still a success. The economy is recovering after more than three years of stagnation, and this recovery is not accompanied by high inflation. In fact, headline inflation hit a 10-year low of 1.2% in August. We expect some acceleration due to the recent weakening of the forint, as well as the spillover effects of geopolitical issues and adverse weather conditions. However, our full-year forecast predicts an average price increase of 1.7% in 2026. Coincidentally, this matches our latest GDP forecast for this year, which was revised downwards due to the energy crisis, resulting in a drastic reduction in the country's sole nuclear power plant's energy output, voluntary production reductions among manufacturers, and increased energy imports.

Nevertheless, both consumer and business confidence remain high, and surveys indicate anchored inflation expectations. Against this backdrop, the National Bank of Hungary cut the base rate to 5.50% in August. While the Monetary Council has remained non-committal on further cuts, we believe that all the data point to the possibility of three more rate cuts before the end of the year. The most interesting developments will be the presentation of the mid-term budget plan by the Ministry of Finance and the central bank’s findings on its inflation-target revision. Both are expected in the autumn and will present the country's path to the eurozone. If the plans are credible and transparent, as we expect, and EU funds start to flow in, rating agencies could improve the sovereign rating outlook. In this scenario, we would expect to see a resurgence in the rally of Hungarian assets, which have mostly been dragged down by global geopolitical events.

Romania: The macro story is yet to improve

Romania’s growth picture still remains shaped by stagflationary pressures. After a flash release showing that the economy is down 0.8% in annual terms over the first half of the year, detailed GDP figures for the second quarter should reaffirm that private consumption was the main culprit while investments provided a much-needed, partly offsetting, cushion. Looking at inflation, we expect price pressures to end the year at 6.5% and average 8.5% throughout 2026.

With the Recovery and Resilience Facility in the rear-view mirror now, in the near term, public investments should nevertheless continue as part of other EU programmes like Security Action for Europe (SAFE) and Cohesion funds, albeit at a likely smaller pace. On the fiscal front, the deficit has shrunk visibly compared to last year, remaining the key positive factor supporting Romania’s credit story. As of July, the fiscal balance stood at 2.34% of GDP (vs 3.99% in July 2025). We still expect it to end the year at 6.0%, although risks are tilted to the downside.

Meanwhile, the protracted political uncertainty continues to make headlines and remains a key flashing red signal for both rating agencies and markets. After narrowly escaping a downgrade through the summer, our base case is that we will continue to do so this autumn, provided that a government with full powers and proof of reform continuity are in place relatively soon.

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