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CZECH REPUBLIC HUNGARY

# CEE: Resilient growth meets diverging policy risks

CEE economies remain resilient to the global supply shock, but policy paths are diverging. The CNB is turning more hawkish as inflation risks rise, while the NBP eyes 1Q27 rate hikes. Hungary awaits a credibility boost from fiscal consolidation, while Romania's improving fiscal position remains overshadowed by political uncertainty and reform risks



Central Europe is navigating resilient growth, persistent inflation risks and increasingly divergent monetary policy paths

## Poland: NBP holds its nerve, but 1Q27 tightening still on the cards

The National Bank of Poland (NBP) remains patient on monetary tightening and continues to postpone rate hikes, even as major central banks have already begun raising interest rates. Although CPI inflation accelerated to 4.0% year-on-year in September, moving not only above the central bank's target but also beyond the upper limit of its tolerance band (2.5%; +/- 1 percentage point), price growth remains largely driven by higher fuel costs.

Core inflation excluding food and energy has changed little since the beginning of the year, and the recent rise in inflation is primarily the result of an external supply-side shock that is

beyond the reach of domestic monetary policy. There are still no clear signs of broader inflationary pressures or second-round effects. Wage growth also continues to moderate. By the end of 2026, fuel price pressures should be contained by fiscal measures, including lower excise duties on petrol and diesel and a reduction in VAT on fuels from 23% to 8%. These measures could even be extended until the end of February 2027, while a high base effect from fuel prices will begin to weigh on annual inflation from March next year.

Nevertheless, the prolonged energy crisis increases the risk of higher inflation over the medium term. Regulated natural gas and electricity prices are likely to rise from the beginning of 2027, while favourable developments in food markets appear to be reversing. We therefore expect two 25bp rate hikes by the Monetary Policy Council (MPC) in 1Q27, which would lift the main policy rate to 4.25%.

The November NBP staff macroeconomic projection may mark the start of the rate-hike debate among Polish policymakers, particularly if it points to persistently elevated inflation around the turn of 2026-27 or evidence of second-round effects. Meanwhile, Poland faces a paradox: robust economic growth alongside fragile public finances.

## Czech Republic: Accelerating prices amid decelerating growth

Headline inflation has just started to climb and is expected to hit around 4% in February, as renewed price growth in the regulated and food segment combines with persistently elevated fuel prices and core inflation. Part of the surge may be attributed to the low comparison base from early 2026, but we believe that the second-round effects from the Hormuz conflict are starting to materialise as the turmoil becomes more persistent.

In a textbook response to a major global supply shock, the economy is facing a period of elevated inflation, including spillovers beyond energy into other price categories, alongside a deceleration in economic activity. We expect economic growth to slow to around 1.8% this year before only gradually picking up thereafter.

Real wage growth will be dampened by the surge in inflation, while rising mandatory expenses for food and energy will put a strain on household budgets. Furthermore, pressure on profitability will likely prevent excessive nominal wage gains over the upcoming year, as input costs continue to rise amid intense competition. The weaker koruna contributes to galloping import prices, and the CNB is starting to monitor the extent to which the exchange rate loosens overall monetary conditions.

Combine the outlook for forceful imported inflation with the still-robust domestic price pressures, and you end up with a recipe for a higher policy rate needed to prevent inflation from getting out of hand for longer. As FX comes into the spotlight, the steps of the Fed and the ECB may shape the CNB reaction to a greater extent than before. The more hesitant the ECB becomes due to the fragile French fiscal situation, the more it may work in favour of the

koruna.

## Hungary: Credibility is the next catalyst

The Hungarian economy continues to move away from its prolonged stagnation, although the recovery is still far from spectacular. GDP has now expanded for five consecutive quarters, and we expect growth of 1.9% this year, driven mainly by consumption. Investment remains the missing piece, while net exports are still a drag, although new industrial capacities are increasingly supporting exports. Inflation, meanwhile, continues to surprise on the downside. Despite higher fuel prices, a weaker forint and elevated wage costs, headline inflation reached just 1.6% in September, while core inflation fell to 1.9%. We now expect average inflation of only 1.8% this year and around 3% in 2027. The new 2.5% inflation target from 2028 could provide an additional anchor for price-setting decisions.

This benign inflation backdrop leaves room for further monetary easing, but the external environment remains the key constraint. After pausing at 5.50% in September, we expect the National Bank of Hungary to deliver another 25bp interest rate cut in December, followed by a further 100bp of easing in 2027. Before that, however, fiscal policy could provide the next major catalyst for Hungarian assets. We expect a credible, front-loaded medium-term consolidation plan, accompanied by the first official steps towards ERM II. If policymakers deliver, the resulting decline in Hungary's risk premium could push EUR/HUF towards 350-355 in the short term and trigger another leg of the bond rally. Thereafter, renewed monetary easing should put the forint on a mild depreciation path, but with credibility improving, external balances strengthening and the euro adoption narrative increasingly acting as a policy anchor, we see Hungary entering a new phase of convergence.

## Romania: Politics remains on the front page

Stagflationary pressures and political uncertainties continue to dominate the Romanian macro story. Detailed GDP figures for the second quarter confirmed that private consumption was the main culprit, while investments provided one of the strongest positive contributions to growth on record, on the back of accelerating Recovery and Resilience Facility-related investments. Concerning price pressures, we expect inflation to end the year at 6.5% and average 8.5% throughout 2026, with potential upside risks.

While an investment-driven third quarter is on the cards as well, a continuation of public investment activity through other EU programmes like SAFE and Cohesion funds means that new capital formation should moderate but not fall off a cliff after RRF ends. On the fiscal front, the deficit remains the key positive element supporting Romania's credit story. As of August, the fiscal balance stood at 2.89% of GDP (vs 4.50% in August 2025). A year-end value of 6.0% or less is within reach.

Meanwhile, governance continues to be in "interim" mode, with agreements for a government

formation still proving difficult to reach. Escaping the downgrade threat in early October remains a key short-term win, although many must-do reforms continue to be on borrowed time. A fully empowered government and a credible medium-term fiscal framework remain necessary to reduce the risk of a downgrade.

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