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CEE MACRO OUTLOOK REALITY CHECKS-IN

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10 June 2025

Note: Past performance is not necessarily indicative of future results.
CEE8: Croatia, Czechia, Hungary, Poland, Romania, Slovenia, Slovakia, Serbia
Prices as of June 9, 2024.

Key changes in CEE outlook

- The first quarter of 2025 proved to be quite disappointing in several CEE countries. We thus revise our 2025 GDP forecasts accordingly. The biggest revision of growth took place in Hungary, where we slashed our expectations for economic growth to 0.8% this year. GDP in Romania, Slovakia, Serbia and Slovenia was also revised down.
- Only Croatia, Czechia and Poland experienced solid expansion in the first quarter. Croatia and Poland track GDP growth dynamics close to 3% this year, while Czechia’s GDP should increase by almost 2%.
- The uncertainty around tariffs weigh on the growth prospects, however. Slovakia currently faces one of the highest effective tariff rates not only in the region, but in Europe. Further tariff increases, especially for the pharmaceutical sector, would hit other CEE countries to a great extent.

Key changes in CEE outlook

- Regarding inflation, we have not made major changes. This year, the average inflation will be higher in most of the CEE countries. Only in Romania and Serbia will average inflation in 2025 be lowered compared to 2024. In the coming months, price developments will be influenced by the response to higher tariffs imposed by the US administration.
- As far as external factors are concerned, food prices are likely to push inflation up, while a decline in oil prices should guarantee a negative contribution to headline figures.
- As far as monetary easing is concerned, Czechia is close to its terminal rate, while in other CEE countries, we still expect interest rate cuts in the second half of the year. While in Poland, we have become less confident about the size of monetary easing, in Romania, the fiscal consolidation plan will determine the monetary easing path. In Serbia, we downsized expectations for monetary easing compared to the beginning of the year (from a total 100 basis point cuts in 2025 to 75 basis points).

Key changes in CEE outlook

- The growth was driven by domestic demand in all CEE countries. Private consumption remained solid, though growth lost some of the dynamics in most of the countries. Investment activity shows more mixed pictures. In Czechia and Poland, growth of investment has been recovering, while in Hungary and Slovenia, it remained deeply in red.
- The net export contribution remained negative in several CEE countries.
- On the fiscal front, Hungary, Poland, Romania and Slovakia are under scrutiny by the European Commission. These countries do not meet the deficit criterion (budget deficit in 2024 and planned deficit in 2025 below 3% of GDP) and Hungary, additionally, does not meet a debt criterion (public debt-to-GDP ratio below 60% of GDP). Currently, Romania and Slovakia are committed to consolidation. Ahead of parliamentary elections scheduled for 2026, Hungary is not likely to tighten fiscal conditions, while in Poland, the appetite for fiscal easing is likely to stay after Nawrocki's victory in the presidential election.

Global trends affecting our forecasts

OUTLOOK FOR EUROZONE

- GDP growth in the Eurozone is expected at 1.0% this year. We assume that the US tariffs will have a dampening effect on the Eurozone economy in 2025 and 2026. However, the likely dampening effects of the tariff conflict will be offset by measures to strengthen the economy, such as the German special fund of EUR 500bn and the "Readiness 2030" package at the EU level. The Eurozone economy is also benefiting from the fact that the restrictive effect of monetary policy has eased noticeably following the ECB's significant interest rate cuts. All in all, the improving external environment, fiscal space and spillover effects from the German impulse (though limited, as the stimulus has a domestic character) should support the outlook in the region as well.

Global trends affecting our forecasts

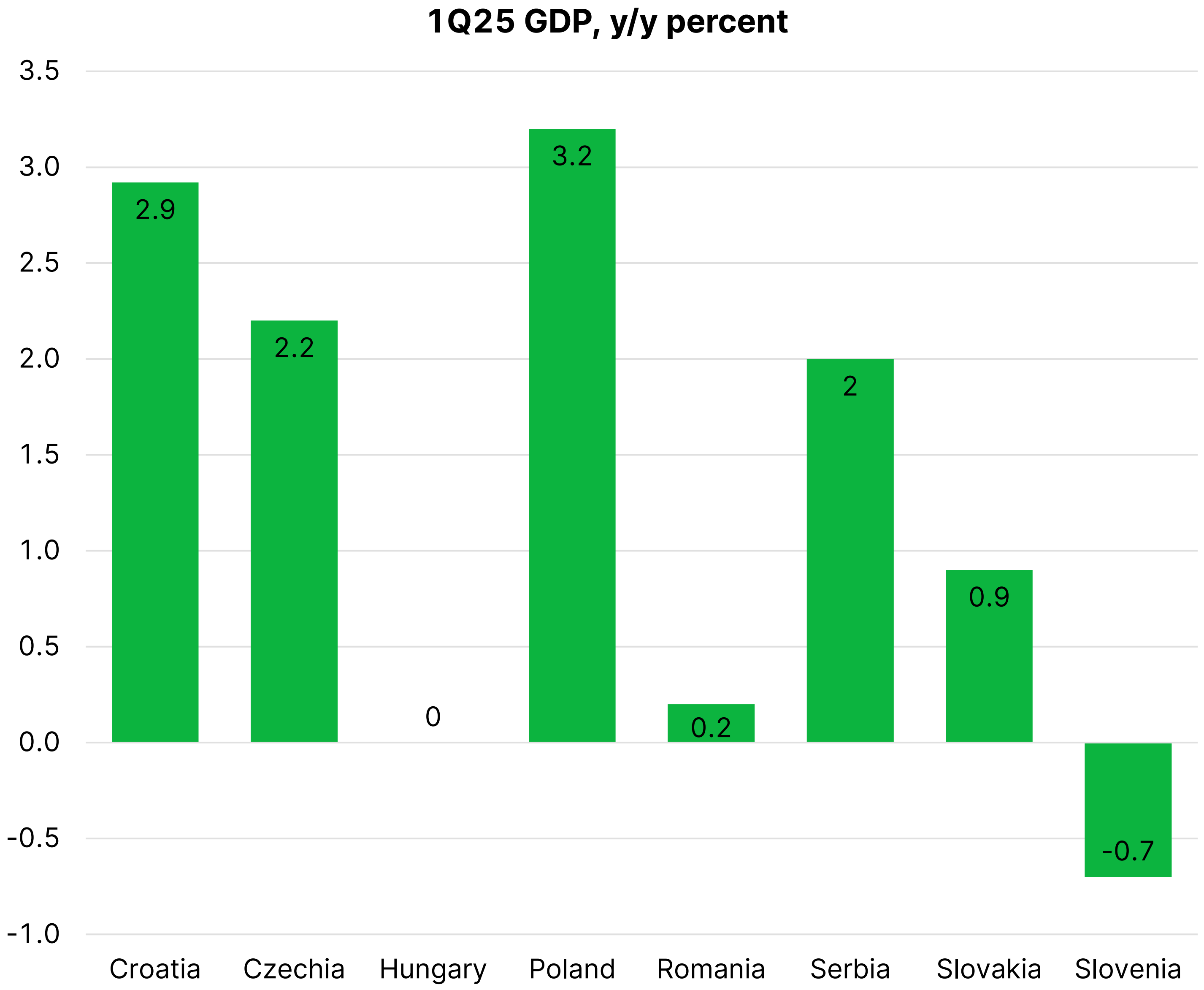
MONETARY EASING IN CORE MARKETS

- The ECB has reached the temporary end of the current cycle of interest rate cuts with June's decision to lower the deposit rate to 2%. As long as the ECB does not see clear signs of a sustained economic slowdown, it is unlikely to lower its key interest rates further. Significantly lower energy prices are leading to lower inflation forecasts for 2025 (2.0%) and 2026 (1.6%) by the ECB. Supported by strong growth in the first quarter, the growth forecast for 2025 remained unchanged at 0.9%, while the forecast for 2026 was lowered from 1.2% to 1.1%, due to the uncertain environment.
- Market participants expect further interest rate cuts in the US this year. We expect two interest rate cuts of 0.25% each by the US Federal Reserve. In the US, the still strong labor market weakened somewhat over the course of last year and GDP growth in 1Q25 was negative at -0.3% q/q annualized, due to massively front-loaded imports before the introduction of the US tariff regime.

2025 starts weaker than expected

"GDP growth in the first quarter proved to be weaker than expected everywhere but in Czechia and Poland. Private consumption grew, albeit at a slower pace, as real wage growth has been easing lately. Investment activity remains a mixed bag. High uncertainty regarding tariffs keep weighing on the growth prospects."

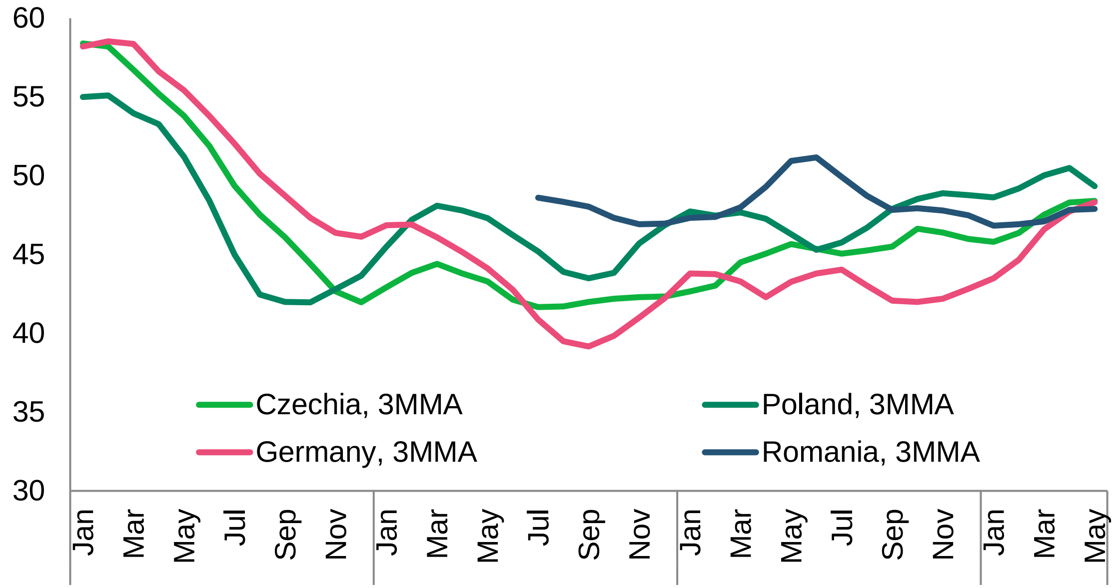
1Q25 GDP growth



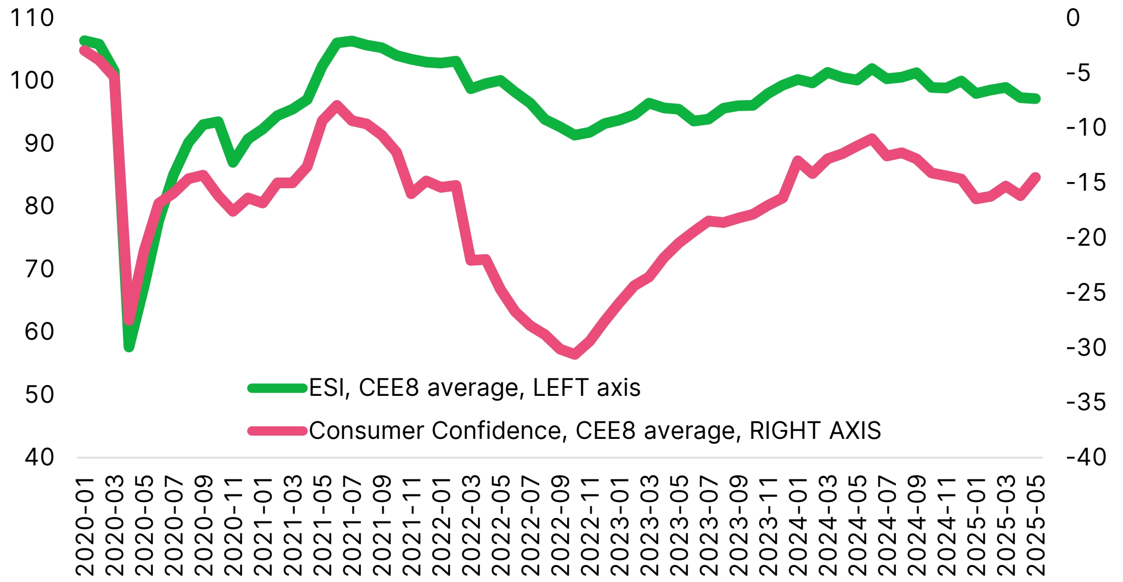
Czechia, Croatia and Poland expanded in line with expectations and with solid growth dynamics (2.2% y/y, 2.9% y/y and 3.2% y/y, respectively). The rest of the region grew at a much slower pace or not at all. In q/q terms, the Hungarian economy contracted, while the Romanian economy stagnated. That translated into no growth in annual terms in Hungary and meager 0.2% y/y expansion in Romania (revised to 0.3% y/y later). Slovenia's GDP declined by -0.7% y/y - the first negative growth rate since 4Q20. Serbia and Slovakia grew in annual terms, but the growth dynamics fell short of expectations.

Source: National Statistical Office, Erste Group Research

Deteriorating market sentiment in second quarter



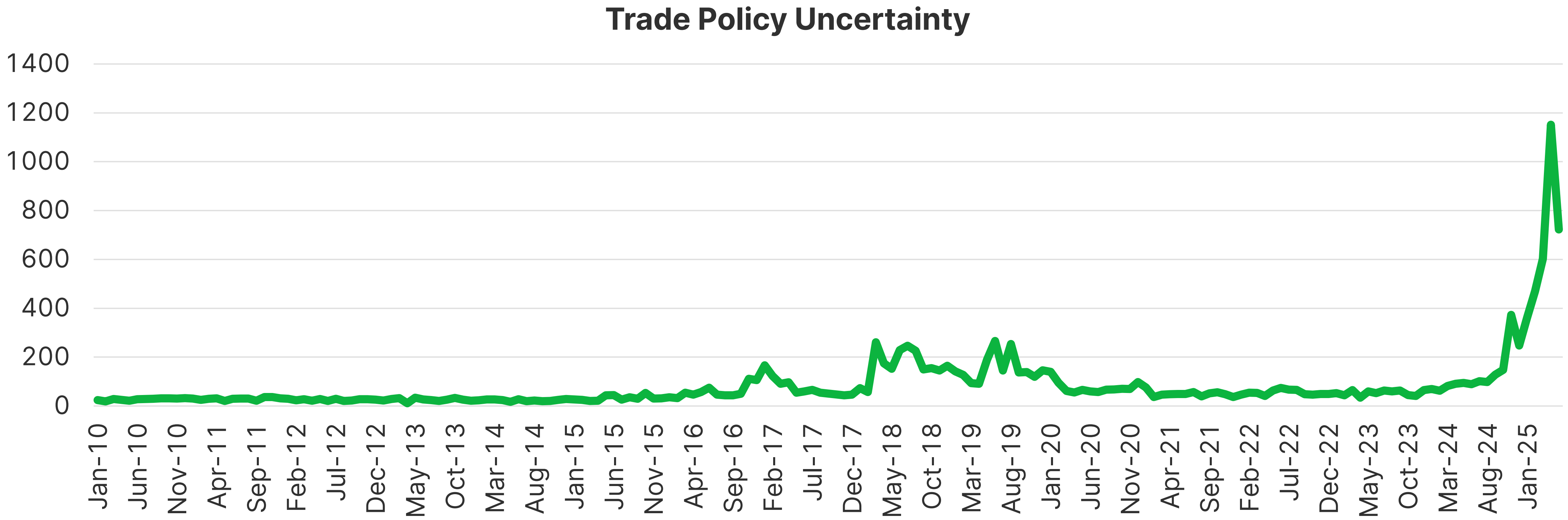
Manufacturing PMI indices dropped in Czechia, Hungary and Poland in May. The index was disappointingly low in the case of Czechia and Poland, while in Hungary, the change was rather marginal. Only in Romania did market sentiment improve marginally in May.



While the overall Economic Sentiment Indicator (ESI) deteriorated further in April (the CEE8 average dropped marginally to 97.2 in May, from 97.35 in April), consumer confidence shows signs of recovery.

Trade uncertainty remains unprecedently high

The Trade Policy Uncertainty index has skyrocketed. An increase, albeit to a lesser extent, in Trade Policy Uncertainty was observed in 2018 and 2019, when the US introduced tariffs and retaliation followed. Increases in TPU reduce investment and activity using both firm-level and aggregate data. Although the index eased most recently, it remains unprecedently high.

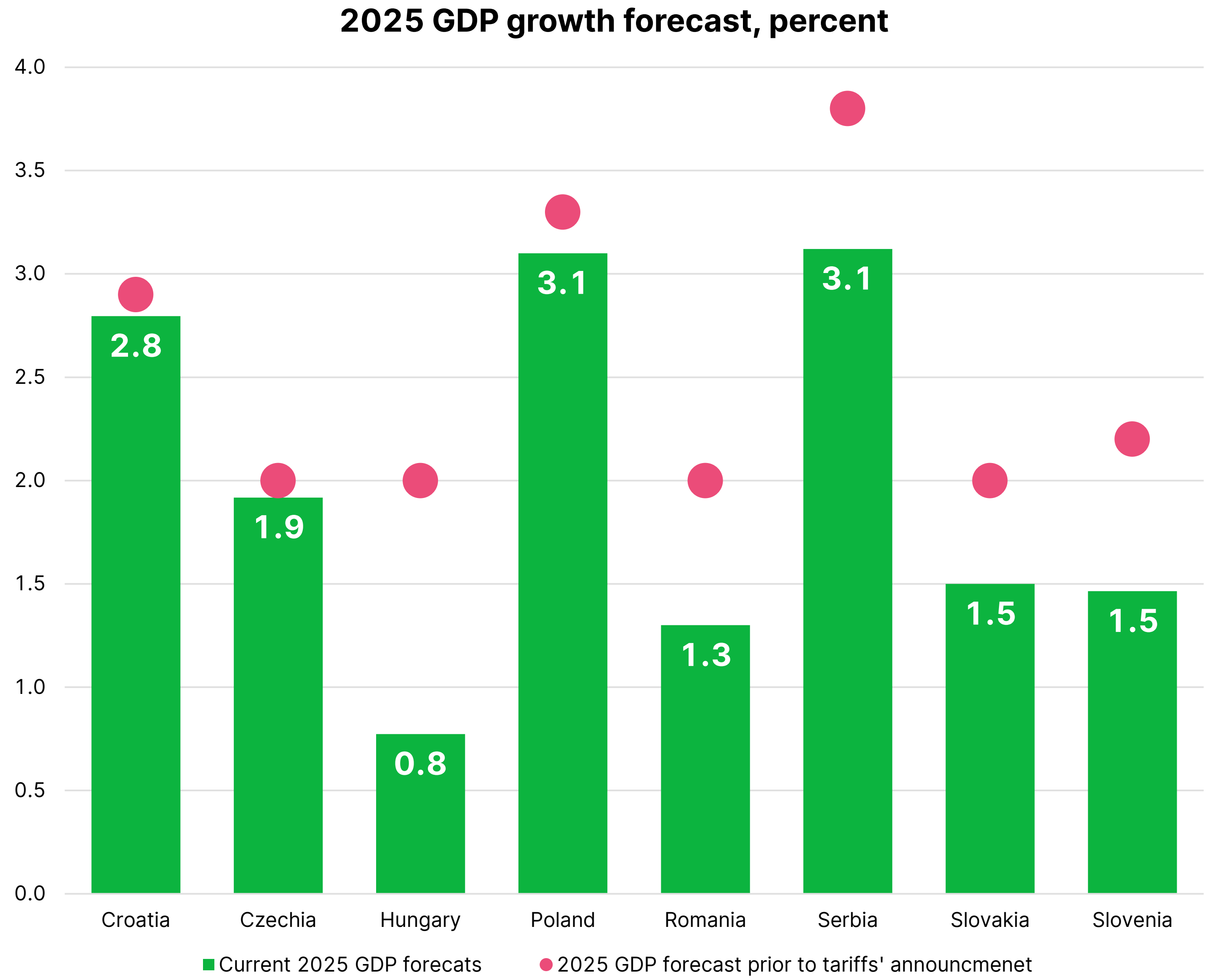


Source: Policy Uncertainty, Erste Group Research

2025 GDP revised downward in several CEE countries

"The uncertainty remains high, affecting growth prospects. We revised our 2025 GDP growth forecast down in several CEE countries. Hungary faced the biggest downward revision, and it seems 2025 will be another year with a mostly stagnating economy."

2025 economic performance



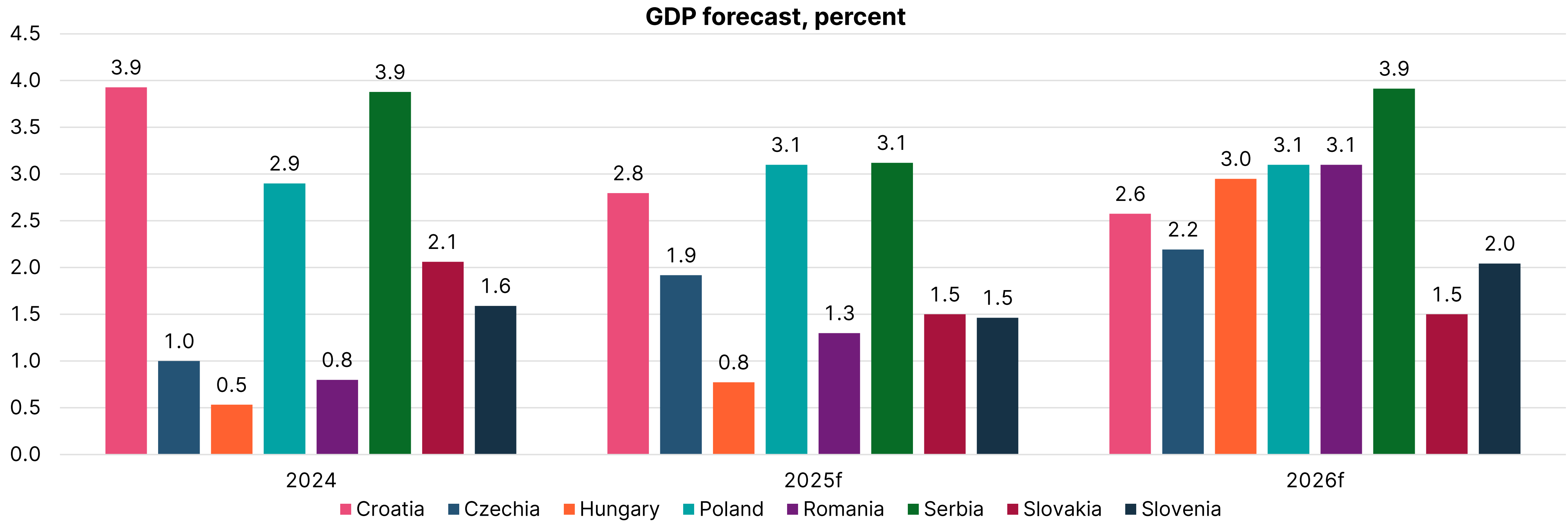
At the beginning of April, we adjusted the growth forecasts in response to the tariff announcement. At that point, the downward revision was rather marginal - see our reasoning in CEE Special | Will tariffs knock out the growth?

After 1Q25 GDP data, we further slashed the growth forecasts in Hungary (to 0.8% in 2025), Serbia (to 3.1% this year),Slovakia and Slovenia (to 1.5% in 2025), as well as in Romania (to 1.3%).

Source: Local Statistical Offices, Erste Group Research
June 10, 2025

Reality checks in, forcing more visible, downward revision of GDP growth

1Q25 disappointed in most of the CEE countries. We revised our 2025 GDP growth forecast in Hungary, Romania, Slovakia, Serbia and Slovenia. Revision was relatively substantial in Hungary, as the economy clearly underperformed in the first quarter. The outlook remains uncertain, especially in Slovakia, which faces the highest effective tariff rate, mostly driven by 25% tariffs on the automotive sector.



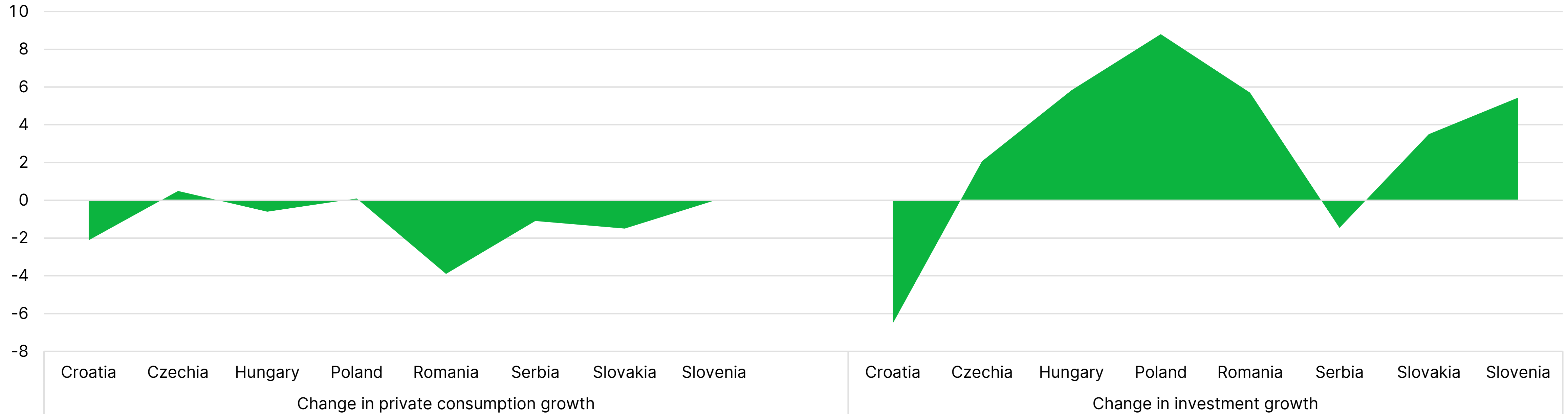
Source: Erste Group Research

10 June 2025

Private consumption to lose some strength; acceleration of investment to push GDP slightly higher in 2025

Households' purchasing power has recovered and we expect spending to keep growing, albeit at a slightly slower pace in several CEE countries. Private consumption will continue to positively contribute to the 2025 growth. The recent rebound of consumer confidence supports a higher level of spending. The slight acceleration in economic development should come from higher investment activity next year. This acceleration should be driven by the restart of projects financed from the new budgeting period (MFF 2012-27). In Poland, investment growth accelerated already in 1Q25, and we hope to see a recovery of investment activity in Hungary. Currently, the growth of investment remains deeply negative in Hungary.

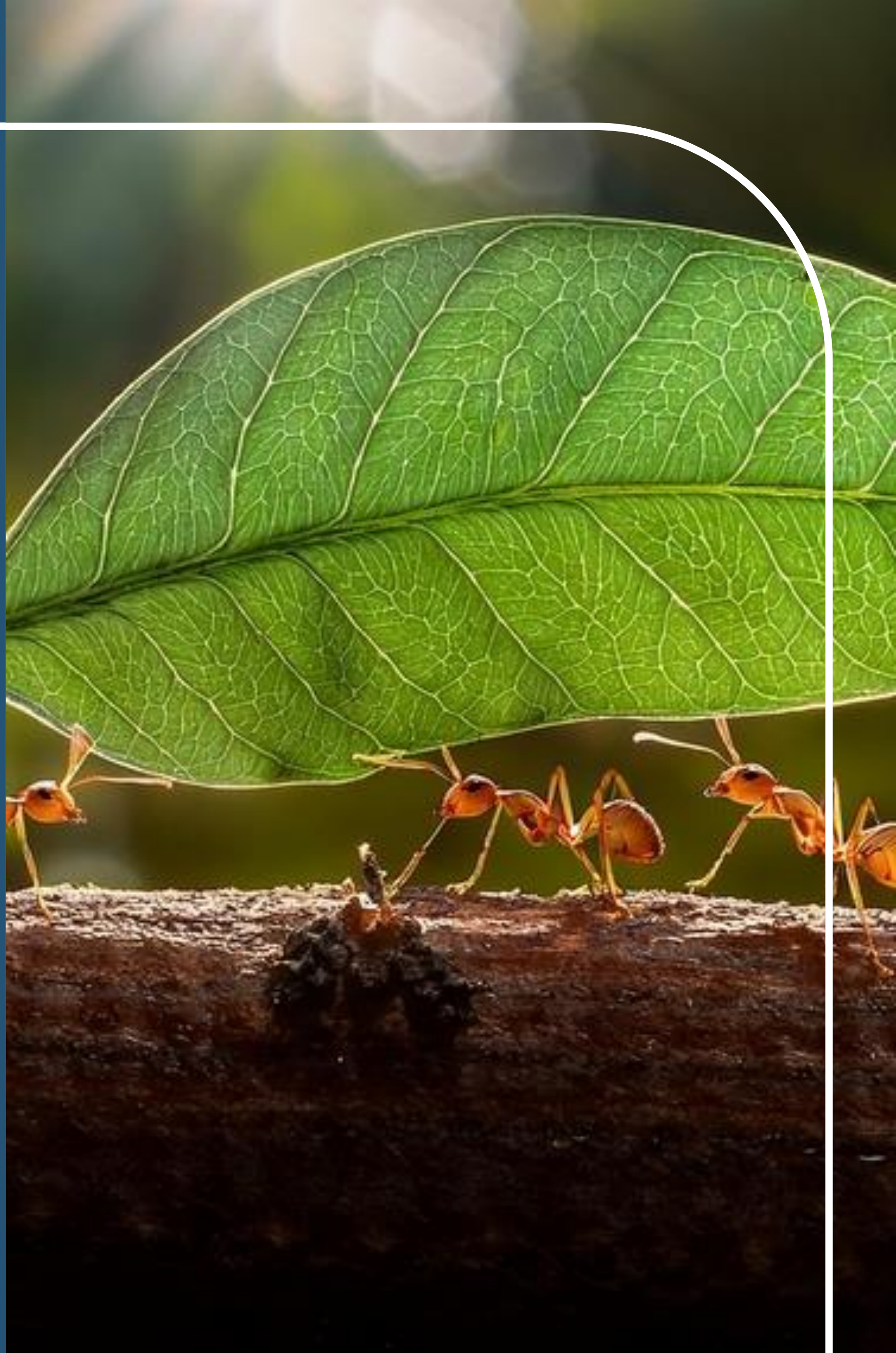
Change in private consumption and investment growth between 2024 and 2025, percentage point



Source: Erste Group Research

Labor market conditions

"The labor market has been tight, and we do not expect it to change anytime soon. Real wage growth has been easing lately, however. As inflation eased visibly in 2024, there will be less room for more substantial wage increases."



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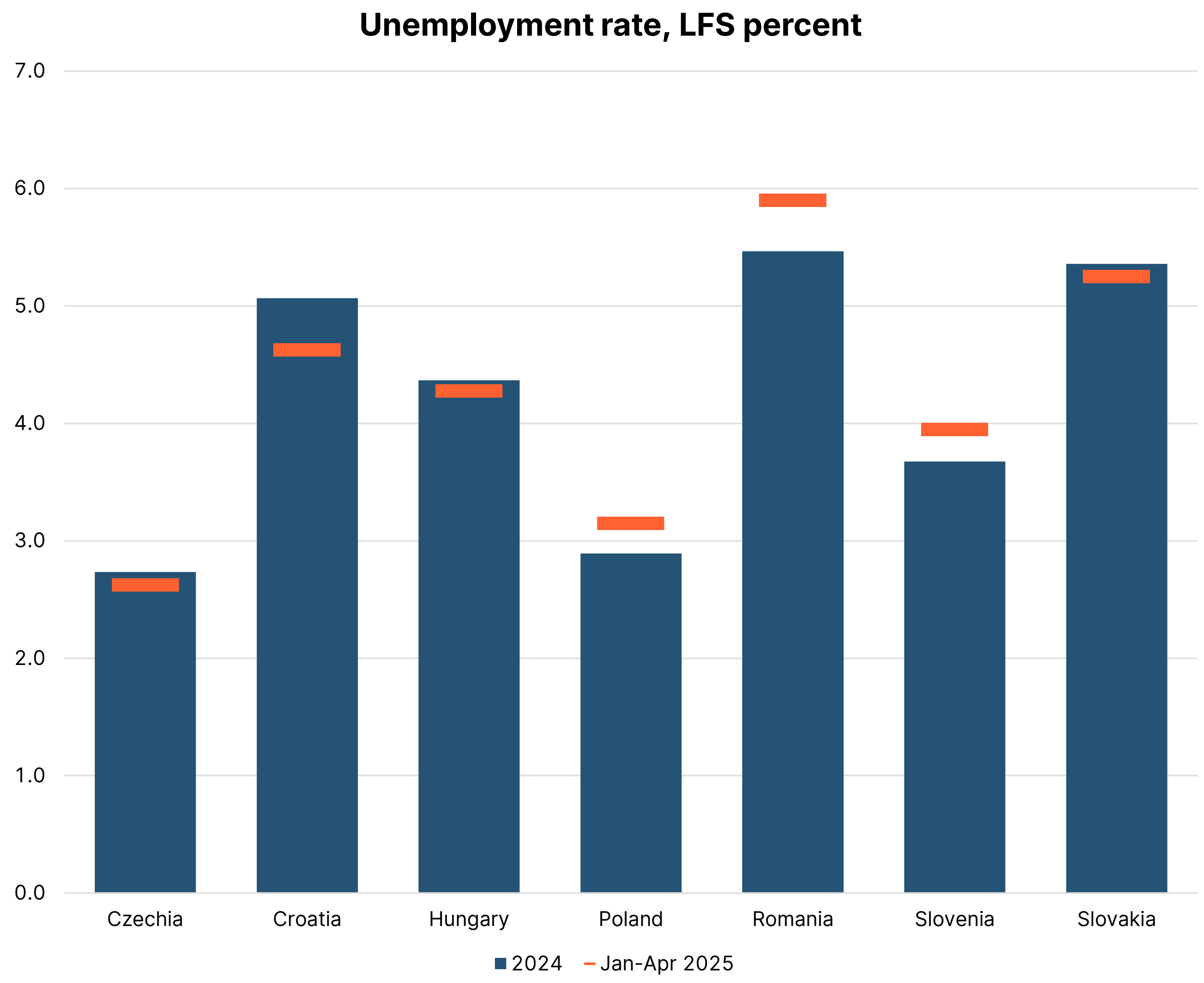
Unemployment remains low



The labor market has been tight and unemployment rates remain low according to Labor Force Survey data. Some uptick of unemployment rates could be seen in Poland, Romania and Slovenia at the beginning of 2025. The increases are rather marginal, however. The structural aspects play also a role (demographic situation) in keeping unemployment rates low across the region.

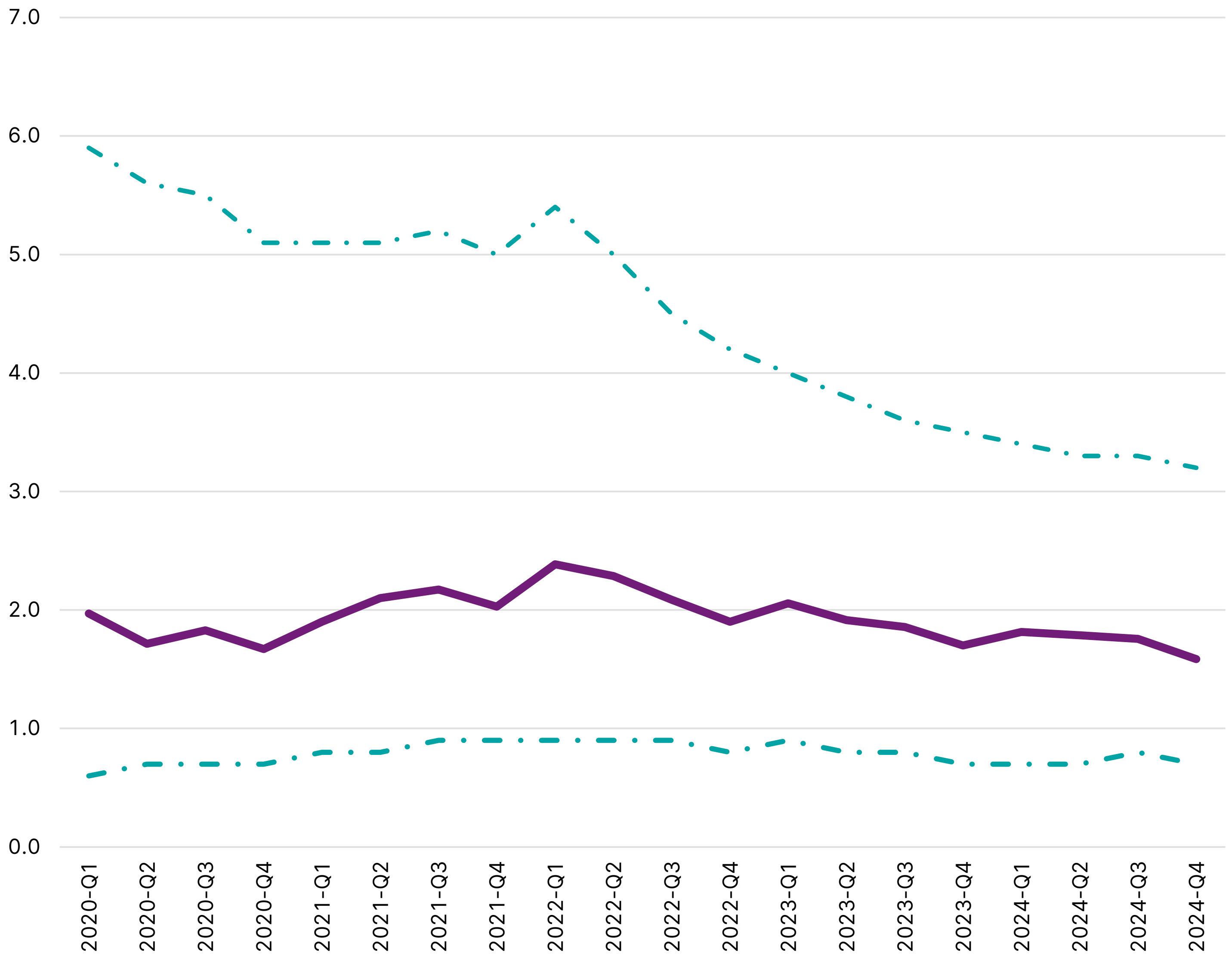
Source: Eurostat, Erste Group Research

Job vacancy rate declined

Czechia experienced the most significant decline in the job vacancy rate over the last couple of years (according to Eurostat data). At the beginning of 2020, it was close to 6%, and it declined toward 3%. It remains the highest in the region, however. In Czechia, in absolute terms, the number of job vacancies has halved since the pandemic.

In other CEE countries, the job vacancy rate has decreased as well, though to a lesser extent.

Job vacancy rate, percent



Source: Eurostat, Erste Group Research

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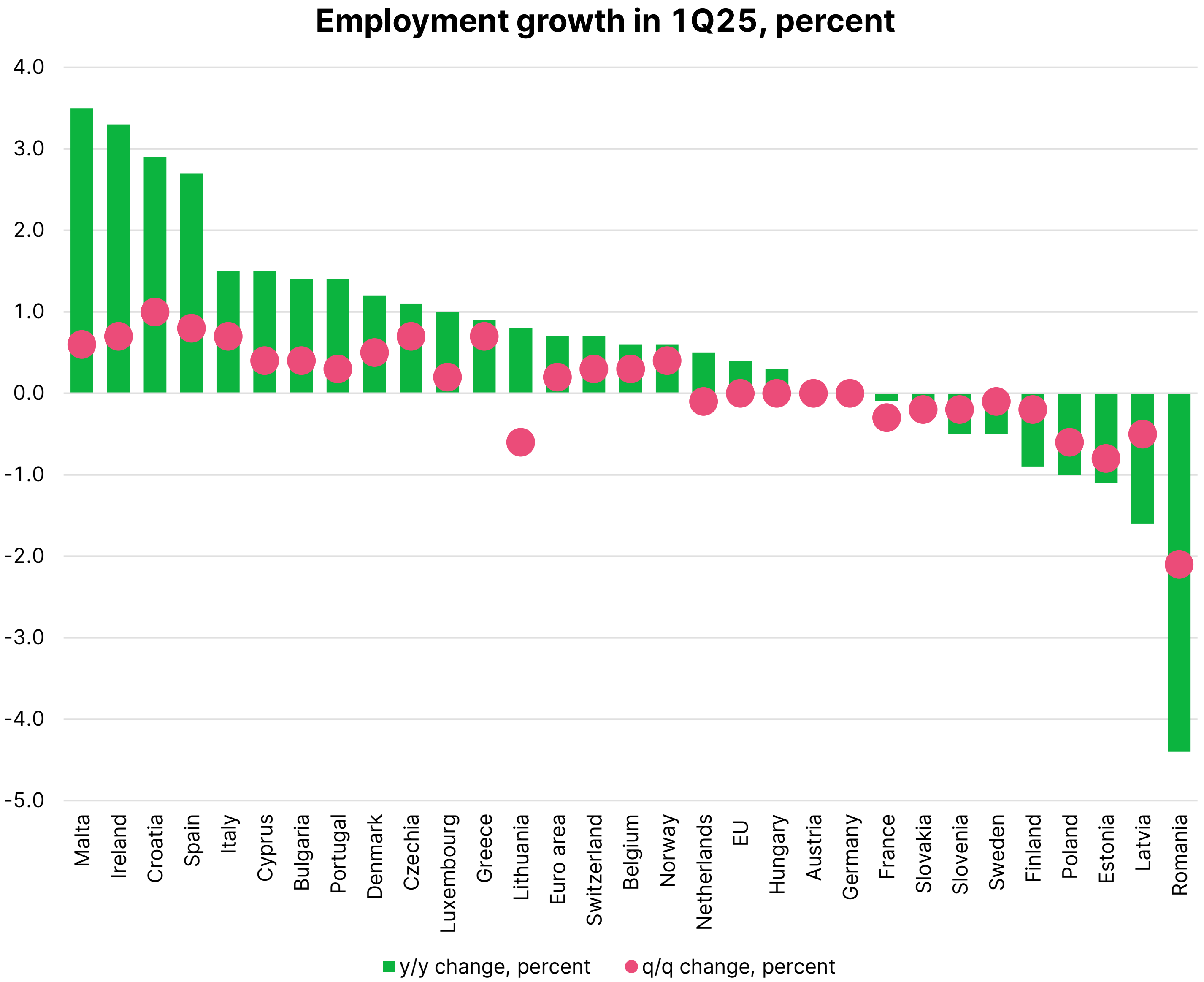
Employment growth is mixed bag in CEE

Croatia experienced one of the highest employment growth rates in the entire EU (2.9% y/y and 1% q/q). Czechia and Hungary were the other two CEE countries that saw employment growth in the first quarter of 2025 in annual terms (1.1% y/y and 0.3% y/y, respectively). However, in Hungary, employment stagnated compared to the fourth quarter of 2024. In the rest of the region, employment growth declined - most notably in Romania and Poland. In Romania, employment dropped by 4.4% y/y and 2.1% q/q.



Source: Eurostat, Erste Group Research
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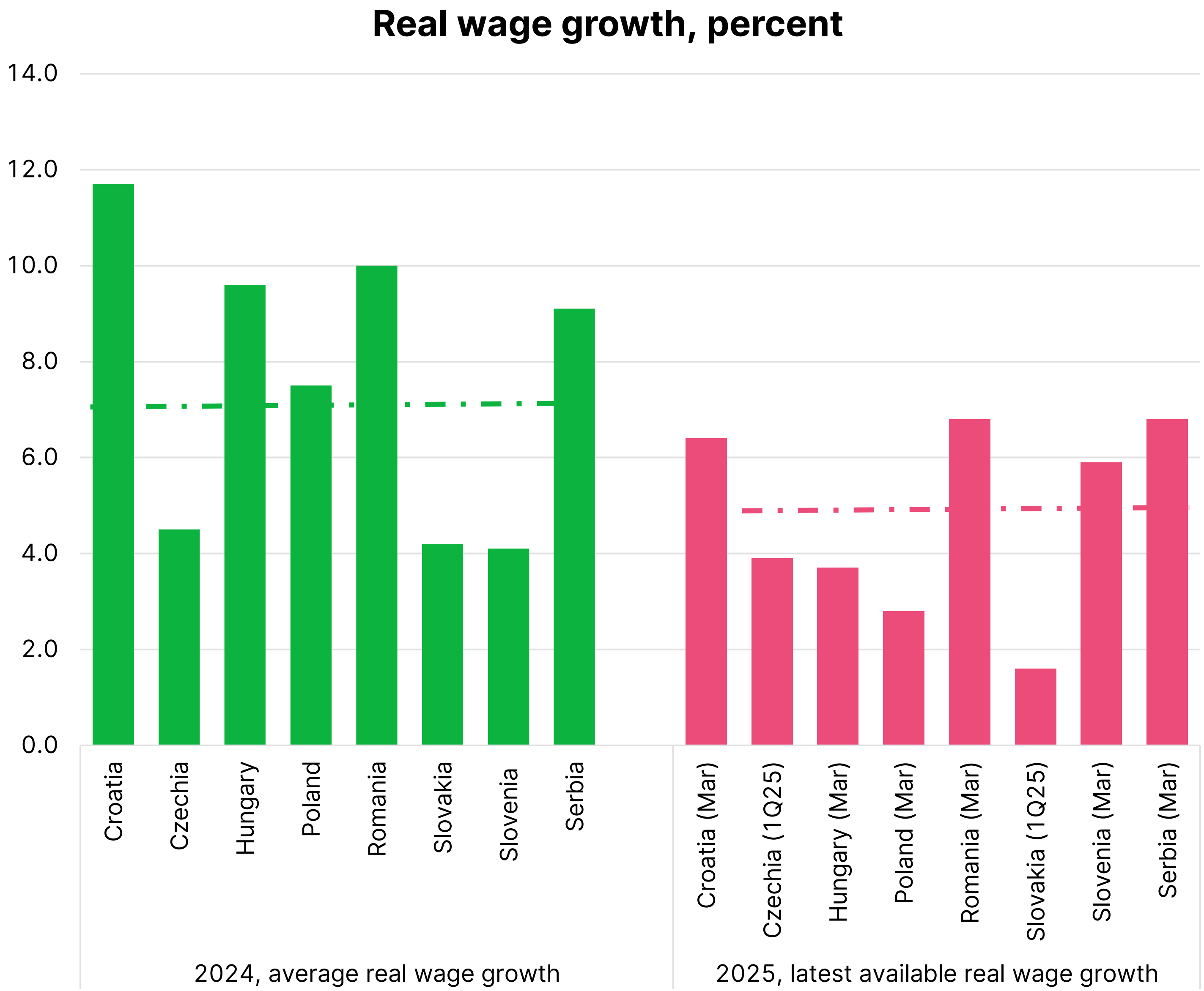
Easing real wage growth



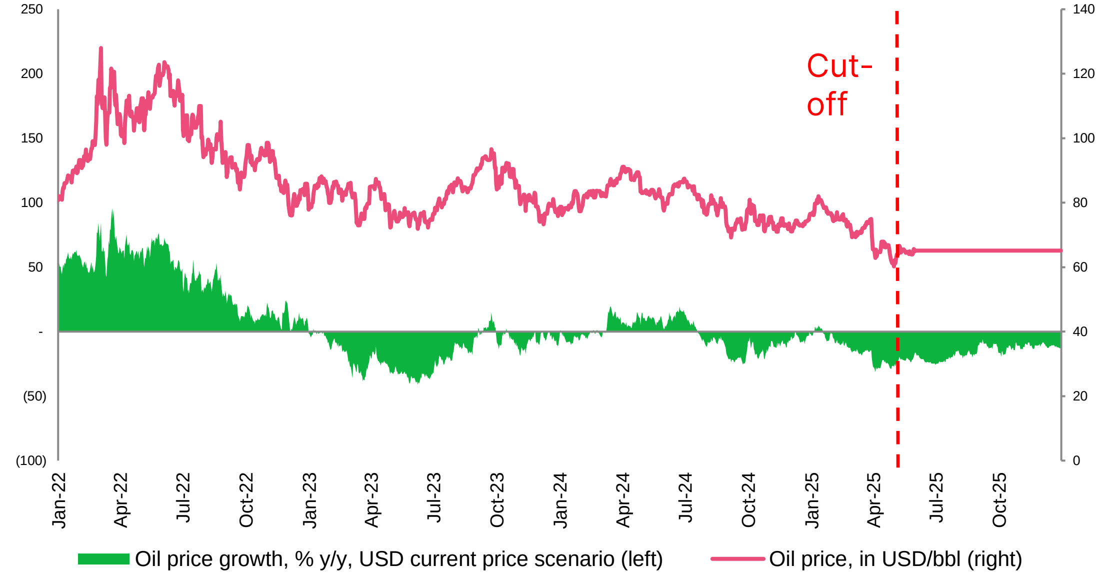
In all CEE countries except Czechia, real wage growth dynamics have slowed compared to 2024. In Czechia, real wage growth in 1Q25 reached 3.9% y/y, maintaining the momentum from the end of 2024. However, throughout the year, nominal wage growth is expected to decelerate further, as inflation visibly eased in 2024 and is projected to decline further over the course of the year. This development limits the room for employees to demand wage increases. On the other hand, the labor market remains tight. Real wage growth should remain positive this year - albeit lower compared to 2024 - and to continue supporting private consumption.

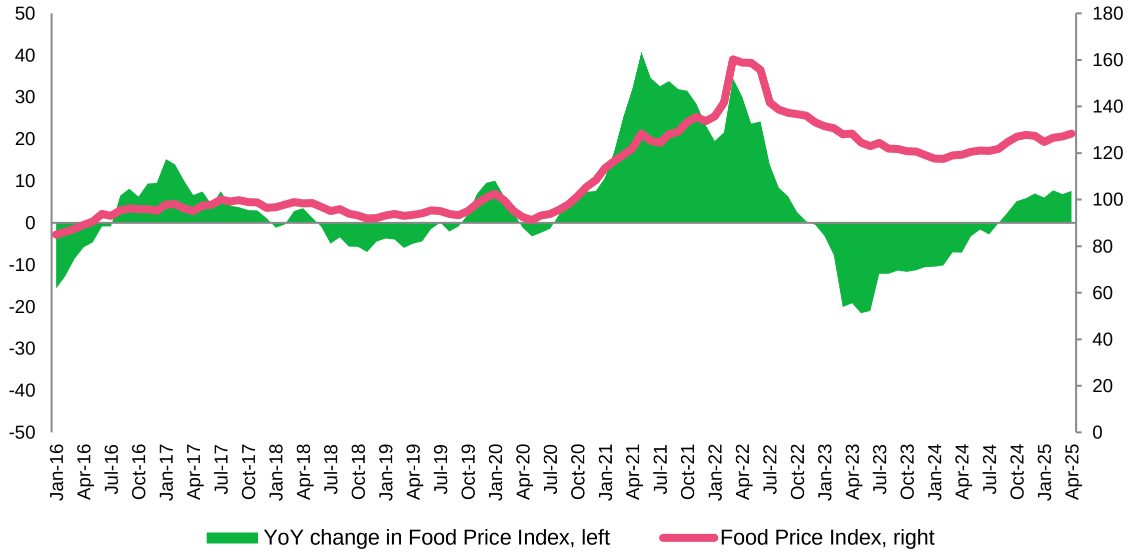
Source: Eurostat, Erste Group Research

Inflation and monetary policy

“Inflation of goods and services has been easing lately. We expect deflationary trends to prevail - decline of oil prices, slower global growth and weaker demand as well as excess supply of goods from China.”

Food and oil: external factors work in opposite directions





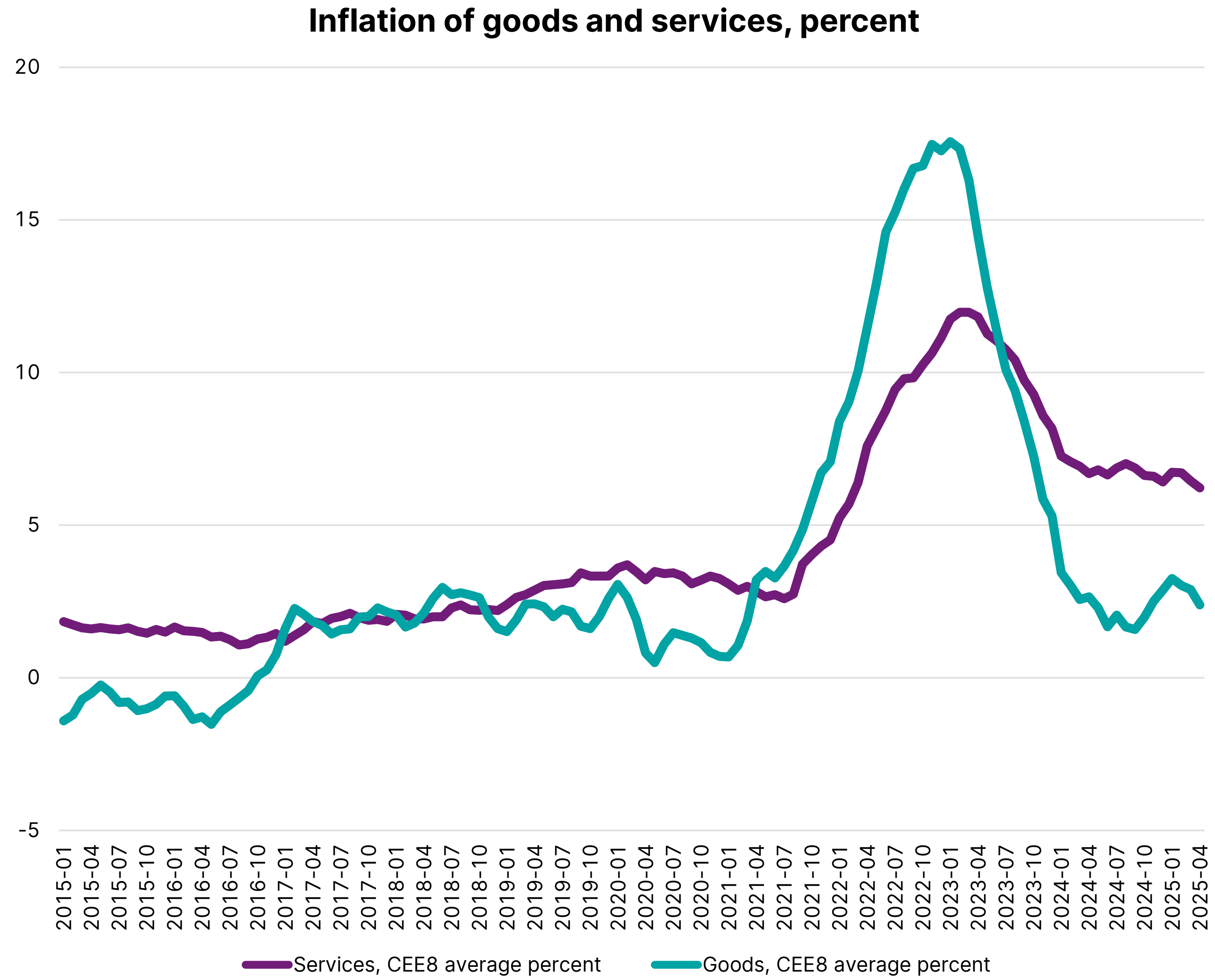
Oil price development

The price of oil has declined by roughly 15% since the beginning of the year. A similar development has been observed on the natural gas market. The decline of oil prices should translate into a negative contribution of energy prices to inflation.

Food Price Index

The Food Price Index has been gradually rising, translating into inflationary pressure for the remainder of the year, stemming from the food prices.

Inflation of services shows signs of easing



Inflation of services has been elevated, but it has begun to show signs of easing lately. Since the beginning of the year, it has been continuously declining.

Inflation of goods picked up at the end of 2024, but the trend changed and, throughout 2025, inflation of goods has eased.

Source: Eurostat, Erste Group Research

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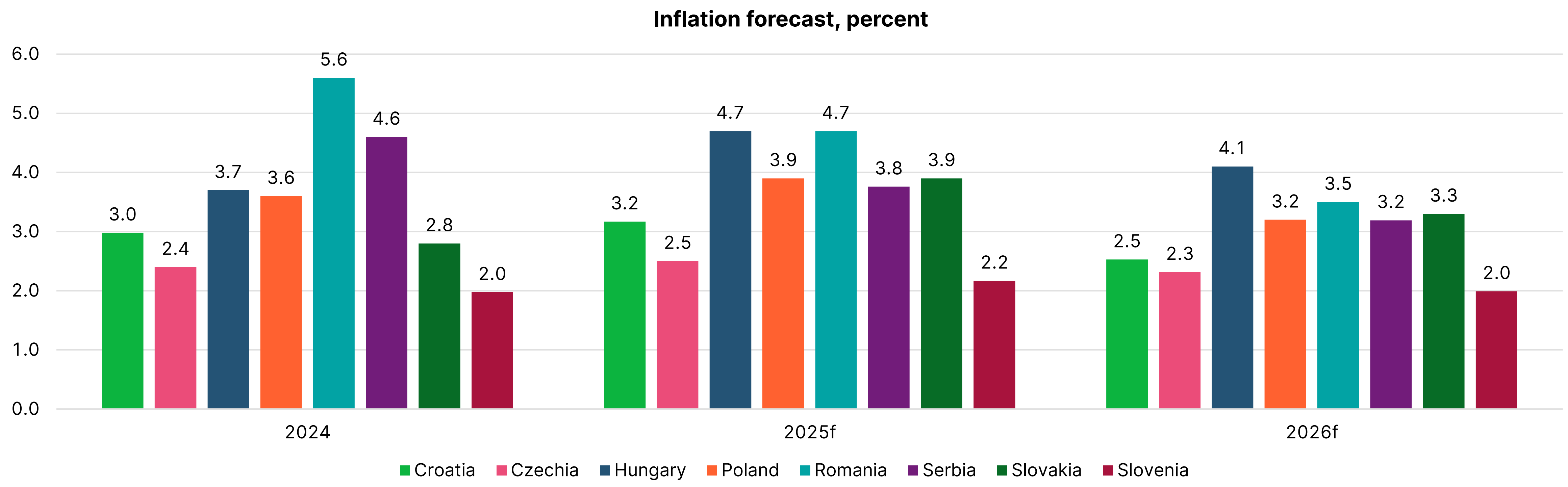
Inflation

This year, only in Romania and Serbia is average inflation expected to be lower compared to 2024. At this point, we expect deflationary trends to arise. The decline of oil prices is one of them. The prospects of the global economy slowing down should weaken demand and ease inflationary pressure. The ongoing trade war is likely to result in excess supply of goods from China. Inflation of goods has already been easing lately.

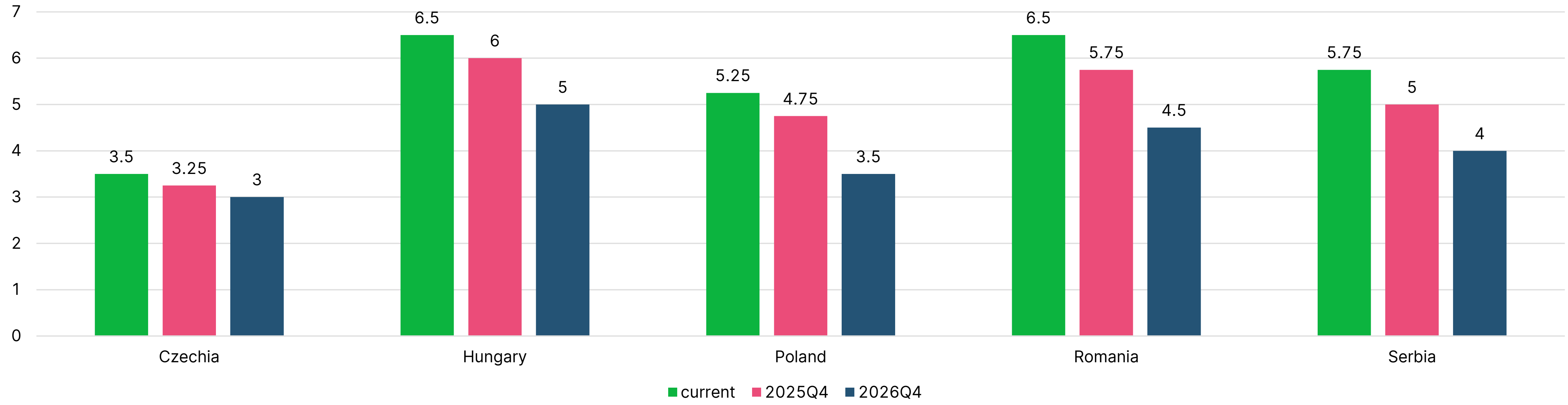


Source: Erste Group Research
10 June 2025

Monetary easing still in cards in second half of year

In Czechia, monetary easing is slowly coming to an end. We pencil in one more 25-basis point rate cut toward the end of the year. In other CEE countries, we also expect monetary easing in the second half of the year. In Romania, the interest rate path will depend on the fiscal consolidation plan. In Serbia, we expect an overall 75-basis point cut and in Hungary 50 basis points in cuts, as we believe that easing inflation will create some room for the central bank to move. In Poland, the outlook became blurrier after the presidential election. We maintain our forecast of 50 basis points overall, but see considerable risks that less may be delivered. Recent comments from policy-makers suggest cautiousness regarding monetary easing in Poland.

Inetrest rate, current and year-end forecast percent

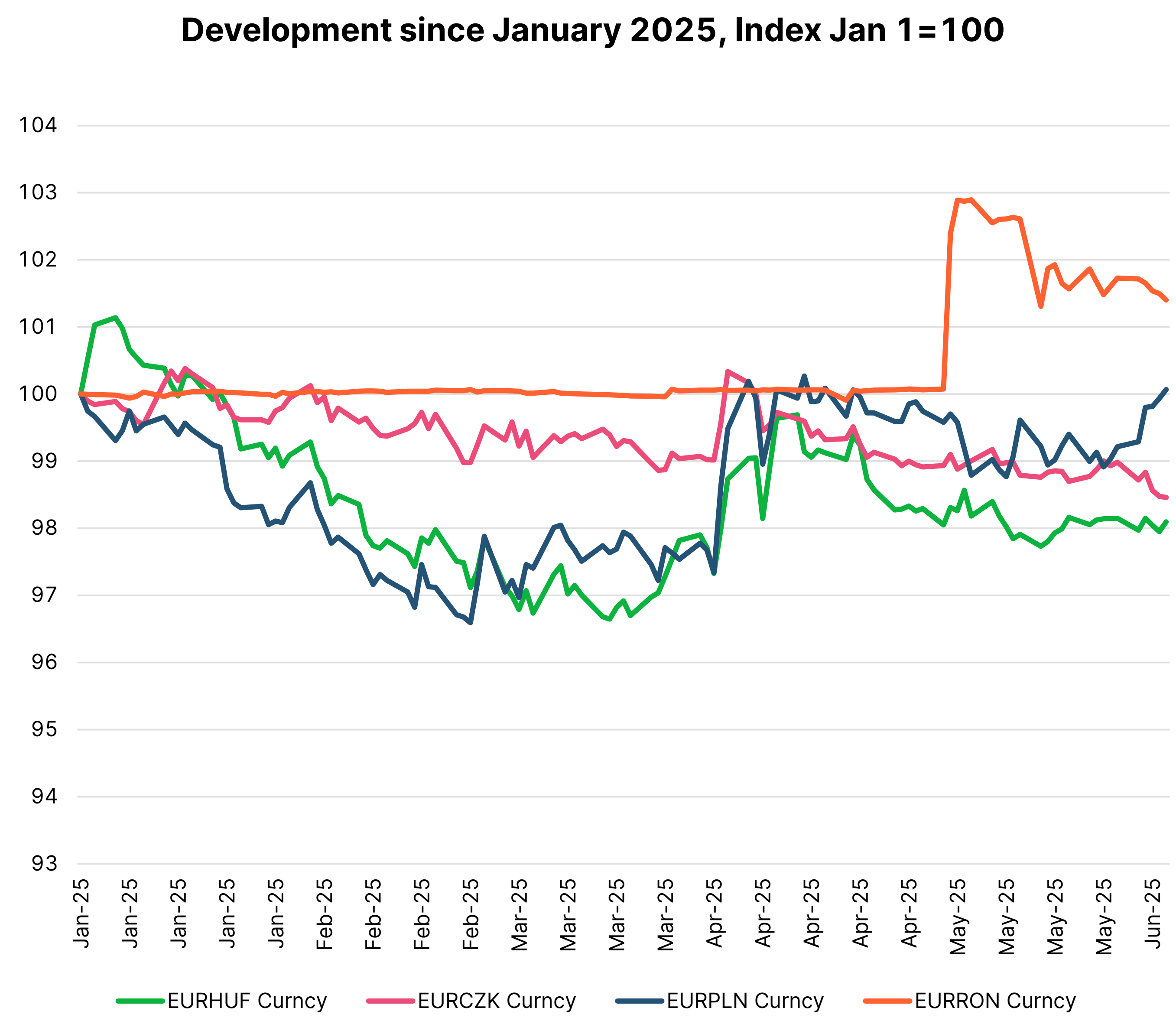


Source: Local central banks, Erste Group Research
10 June 2025

Fiscal policy and market development

“Czechia is determined to bring the budget deficit down further, although in 2024 it already dropped below the 3% of GDP threshold. Romania and Slovakia face the biggest fiscal consolidation. Poland, on the other hand, does not plan to curb fiscal spending, as defense expenditures grow substantially. Market development is affected strongly by politics.”

Romanian leu depreciation, weakening of Polish zloty

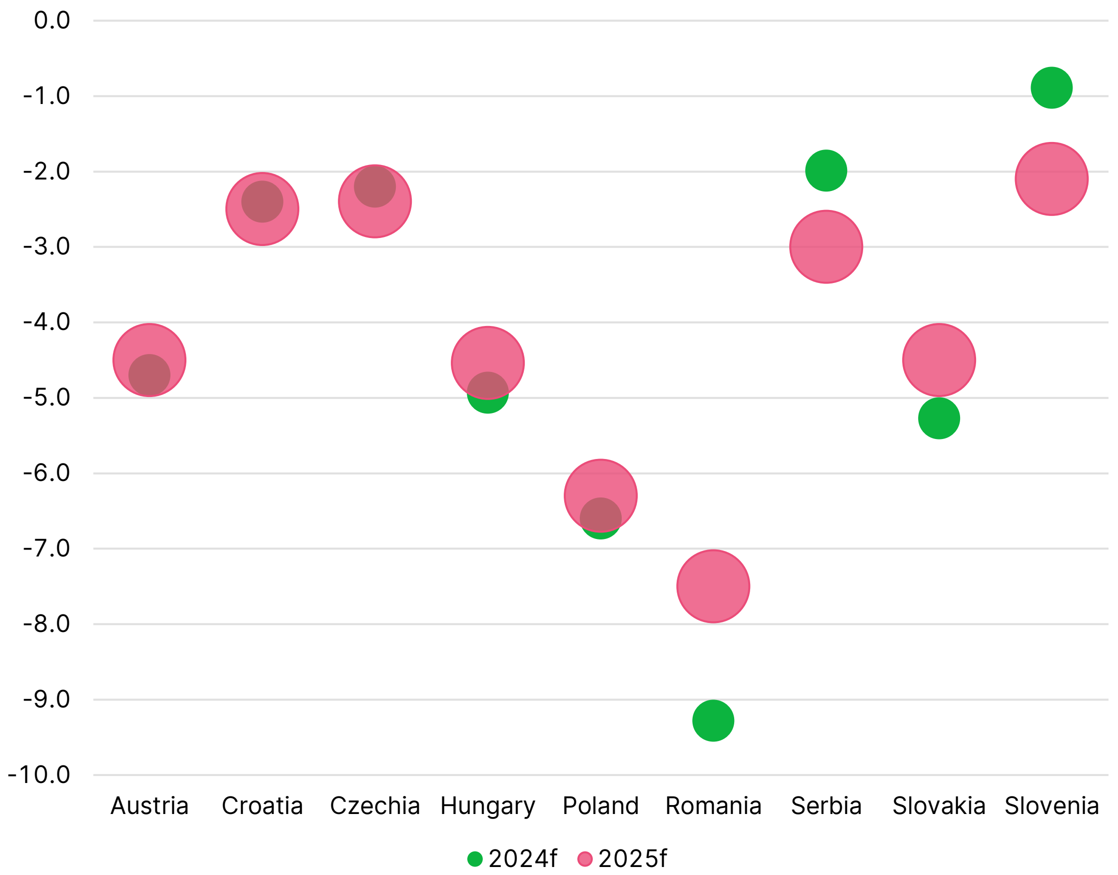


Romania was in the spotlight following the victory of hard-right presidential candidate George Simion in the first-round vote, which led to the collapse of the government. In response, the Romanian leu breached the central bank's target level of 5 leu per euro. The victory of centrist candidate Dan stabilized both FX and bond markets in Romania. It seems that the EURRON is anchored around 5.05. In Poland, the EURPLN moved higher amid rising political risks.

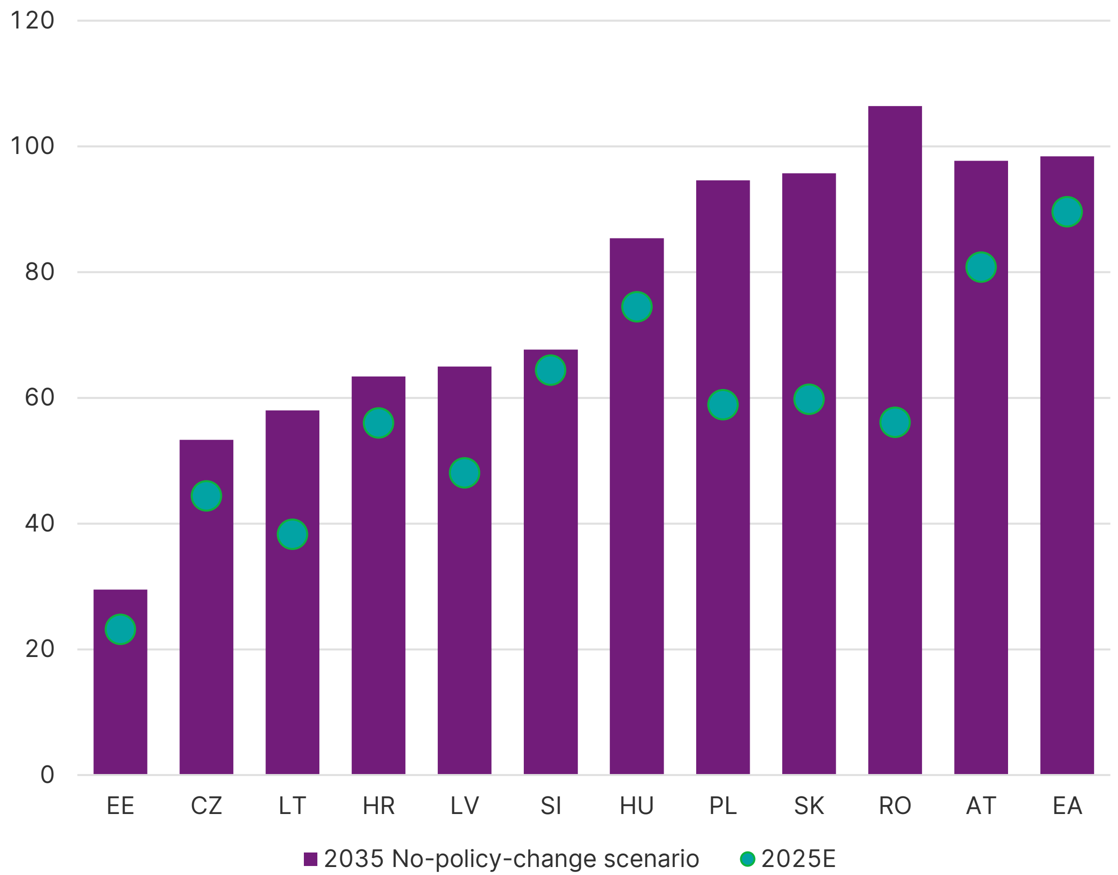
Source: Refinitiv, Erste Group Research

Romania, Slovakia and Poland face greatest urgency to curb their deficits and stabilize debt trajectory

General government budget balance, percent of GDP

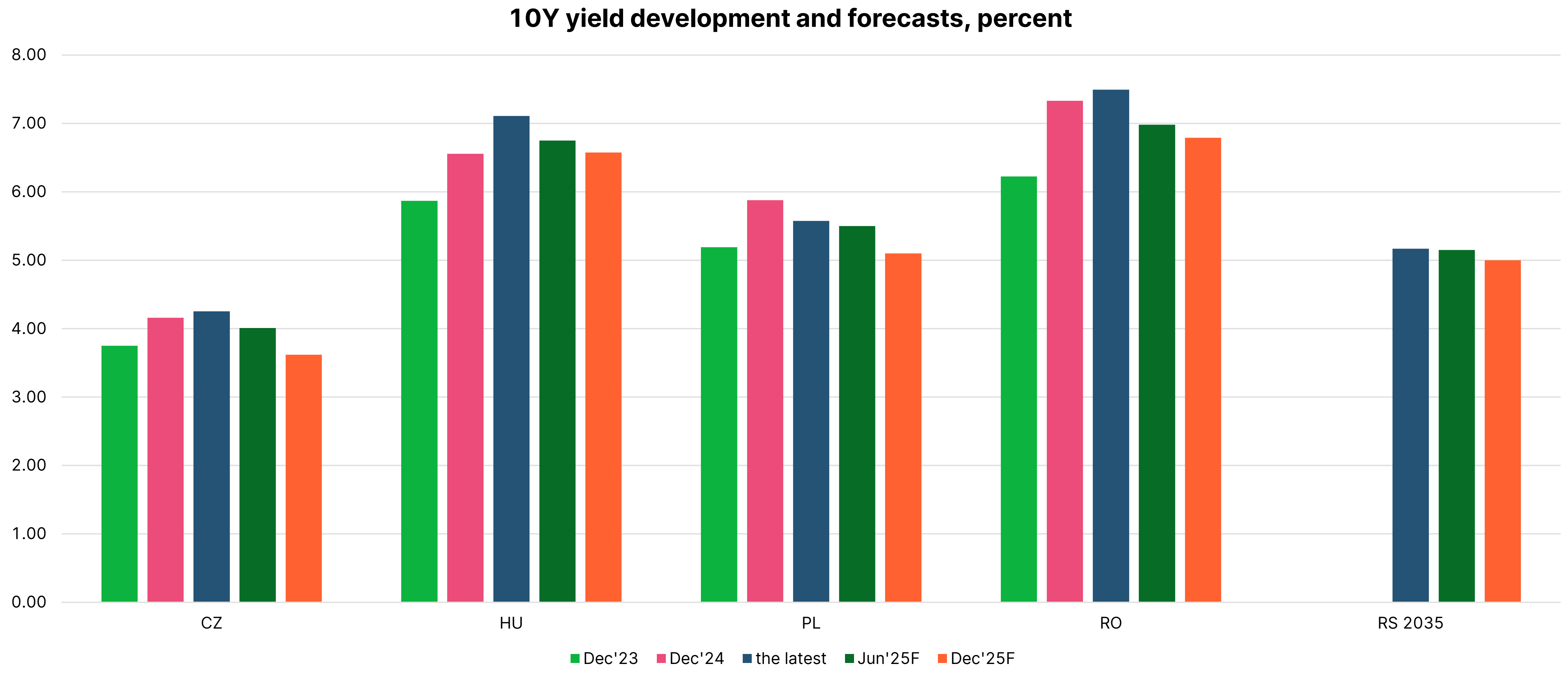


EC's debt to GDP projection under no-policy change scenario



Source: European Commission, Erste Group Research

Long end should decline, though space remains limited



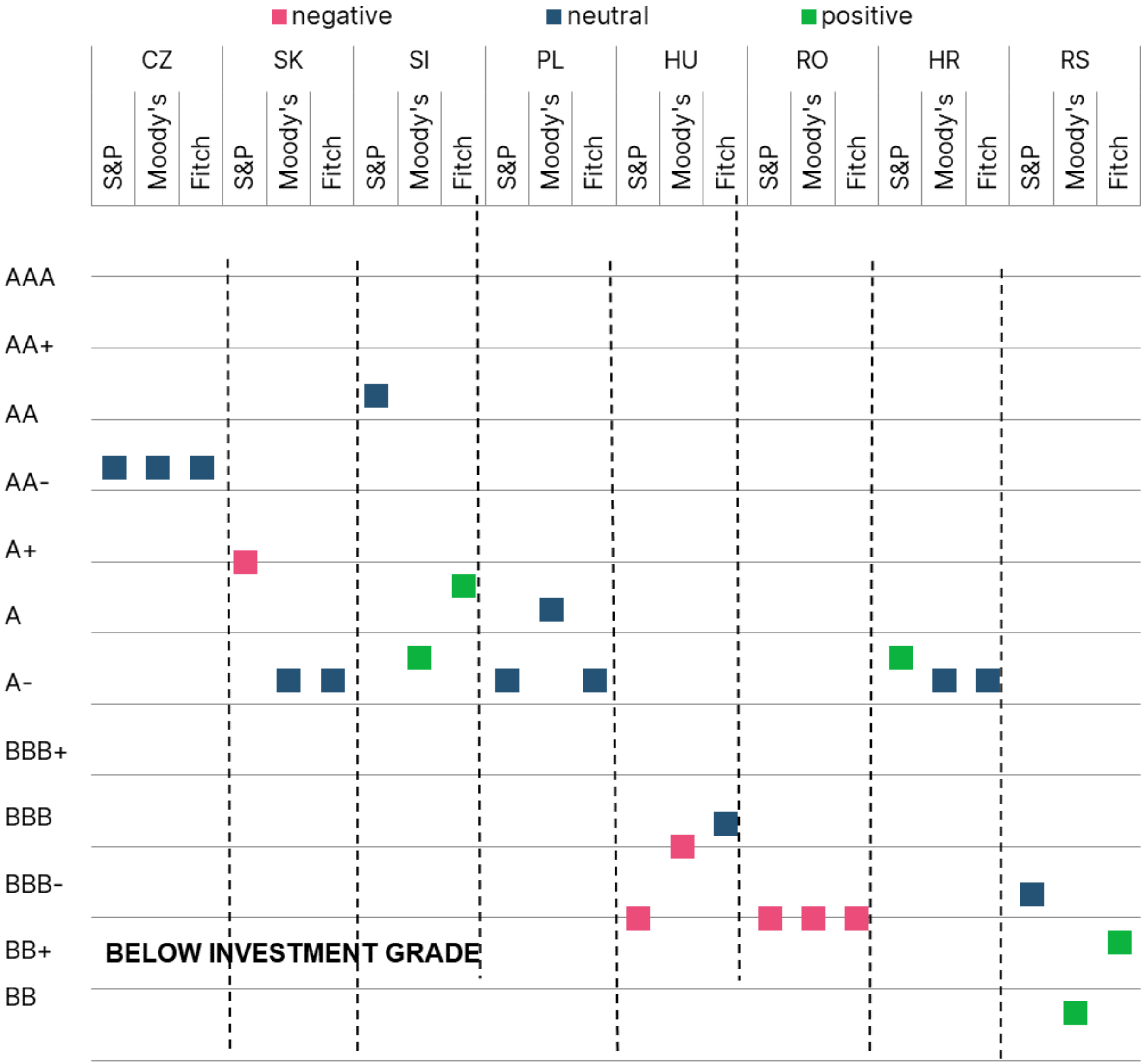
Source: Erste Group Research
10 June 2025

Ratings

Politics put Romania's Investment Grade rating at risk. Dan's victory in the presidential election and expectations for the delivery of a fiscal consolidation plan reduce the risks of a downgrade, however.

Hungary and Slovakia have a negative outlook.

In the case of Slovenia and Serbia, we keep seeing upgrade potential.



Source: Erste Group Research

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Point of interest:
Politics – turn to the right

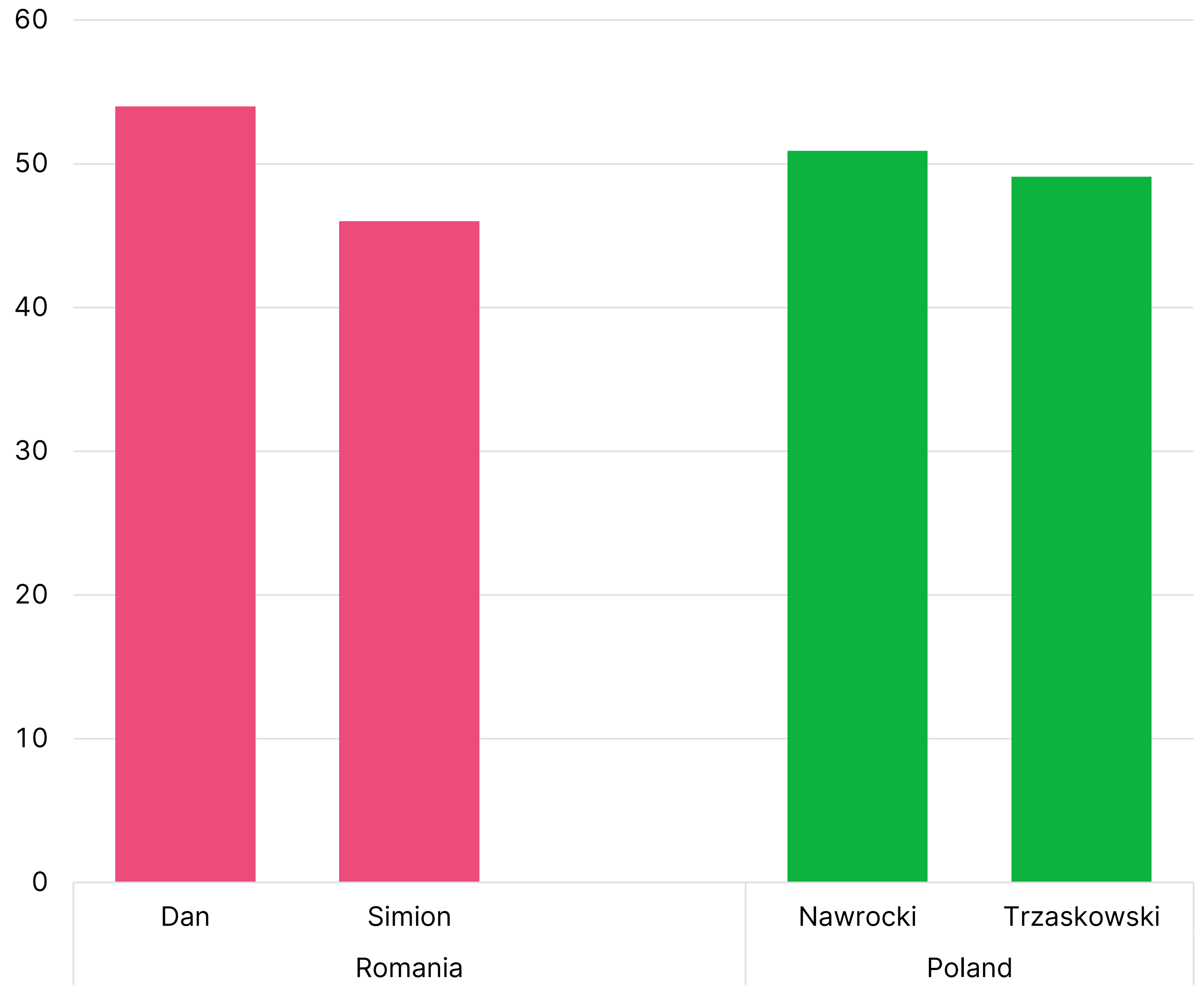
"Romania did not choose far-right candidate Simion for president, while Poland voted for Nawrocki (the candidate of the current opposition) to become the next President. In general, right-wing parties have gained a lot of support across the region."

Politics – turn to the right

- In Poland, an early election scenario would be negative for the markets. In that case, we would definitely re-evaluate our current EURPLN forecast, which we currently see close to 4.25 at the end of 2025. Otherwise, the economic fundamentals and the growth outlook in Poland support a relatively strong zloty. On the fiscal front, we may see less consolidation than we would have expected in the event of a Trzaskowski victory. However, both the government and the new president will be interested in sustaining solid economic development. Inflation trends should allow some room for monetary easing later this year. Nevertheless, the overall scale of monetary easing delivered this year may be lower than we currently expect.
- In Romania, there are ongoing negotiations regarding forming a new government, which will likely unite all pro-EU parties. A fiscal consolidation package to deal with the large budget deficit is the main topic of negotiation currently. A decision will be made in the coming days.

Politics – turn to the right

- In Czechia, parliamentary elections will be held this autumn. ANO is leading in the polls and is likely to win the elections. Such a development (under the condition that collation is formed by anti-system parties) would mean another country aligning with policies currently represented by Hungary under Orban and Slovakia under Fico.
- Hungary, on the other hand, may be taking a turn in 2026 parliamentary elections. The Tisza party is on the rise and has overtaken Fidesz lately in the polls. Fidesz' popularity has been declining for quite some time already. The economic situation (inflation shock and stagnating economy) support the opposition of the current government.



Poland did not follow Romania's choice

Romanian centrist President Dan expects that the new government can be formed sometime soon and fiscal consolidation should follow.

It seems that Romania will avoid a rating downgrade, as political stability is on the rise.

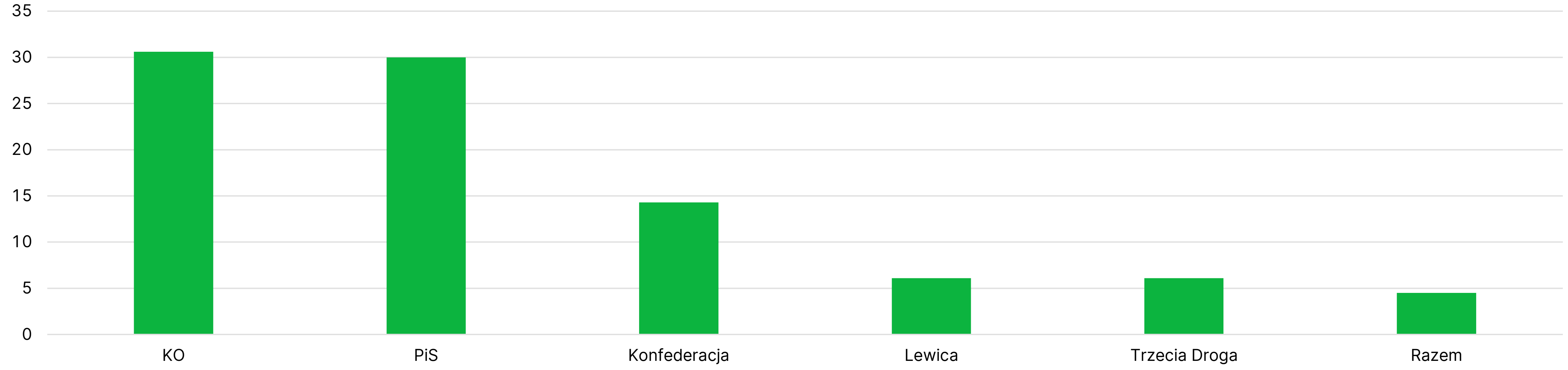
Opposite scenario in Poland - Nawrocki's victory increases the political risks in Poland. Prime Minister Tusk's call for a confidence vote is a risky decision.

Source: Erste Group Research

Political risks have increased in Poland

Political uncertainty is expected to remain elevated in Poland in the near future, amid rising speculation about the future of the ruling coalition. Although early parliamentary elections are not our baseline scenario, we view Tusk's decision to call a confidence vote as a risky decision. It is likely that the result will be a continuation of the existing governing coalition, although a personnel reshuffle cannot be ruled out. If the current government fails to win the confidence vote, the early election scenario presents a considerable likelihood that the next government could be a coalition between Law and Justice (PiS) and Konfederacja, reflecting a shift to the right.

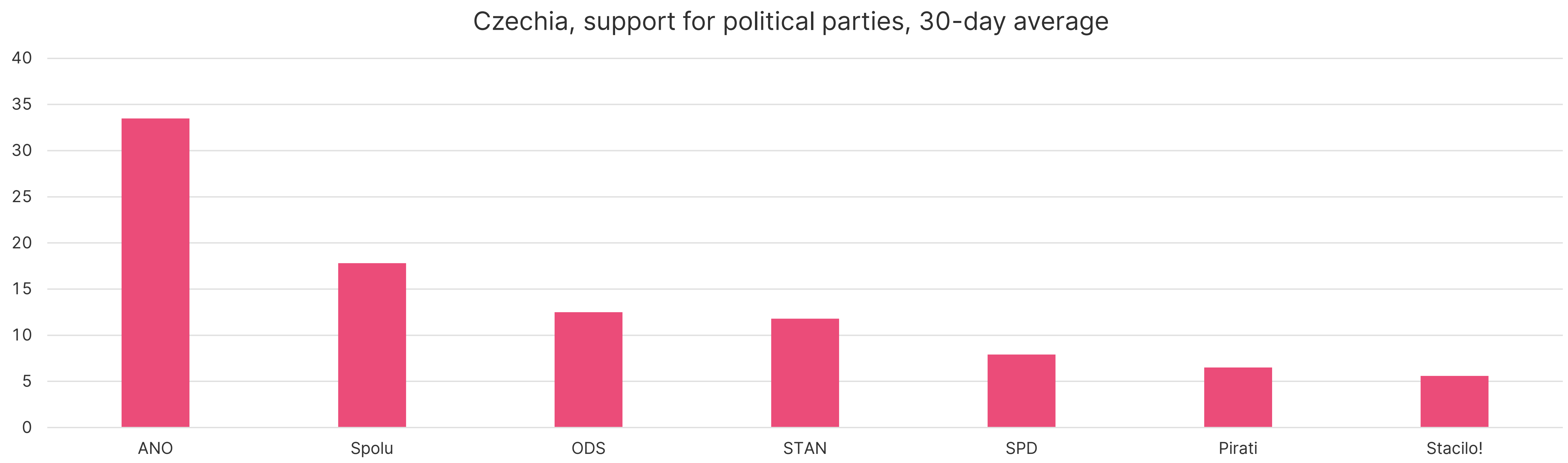
Poland, support for political parties, 30-day average



Source: ewybory.eu, Erste Group Research

Czechia holds parliamentary election this autumn

ANO, a populist party, is leading in the polls in Czechia and seems to be the clear winner in the upcoming elections. If the ruling coalition is formed by anti-system parties, Czechia would be likely to face increasingly nationalist and Eurosceptic tendencies, aligning Czechia more closely with Hungary under PM Orbán and Slovakia under PM Fico.

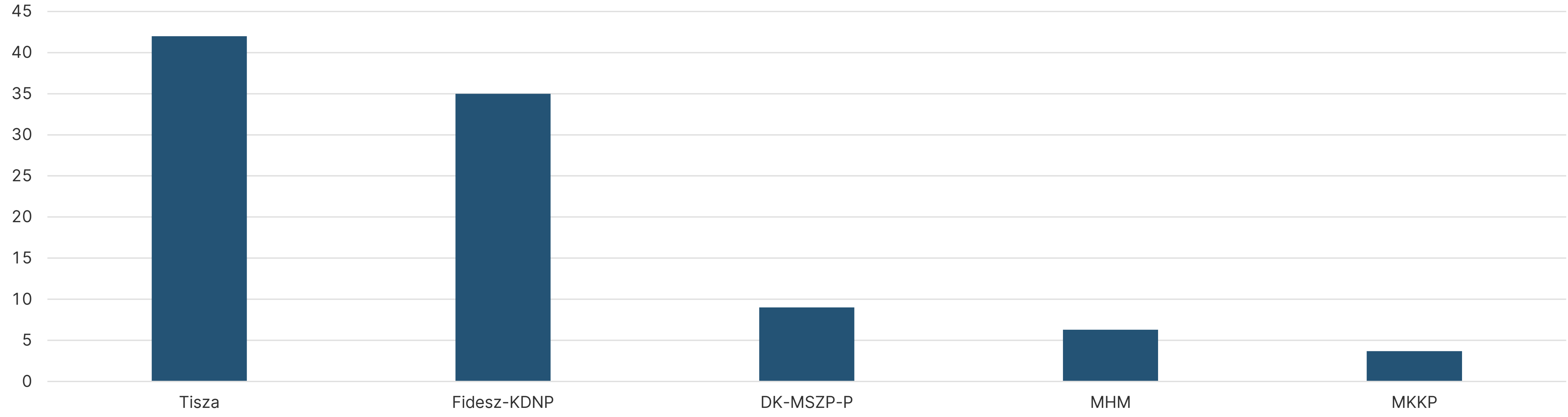


Source: ewybory.eu, Erste Group Research

Hungary has parliamentary elections scheduled for 2026

The support for Prime Minister Orban has been declining. The strong rise of Peter Magyar’s Tisza party suggests that Hungary may see a change of the government. In 2024, Magyar emerged as a notable figure. He has succeeded in winning over the supporters and voters of most opposition parties for his newly established party. Furthermore, the economic situation (inflation shock and stagnating economy) support the opposition of the current government.

Hungary, support for political parties, 30-day average



Source: ewybory.eu Erste Group Research
10 June 2025

Macro Forecasts

Real GDP growth (%)	2023	2024f	2025f	2026f
Croatia	3.3	3.9	2.8	2.6
Czechia	0.1	1.0	1.9	2.2
Hungary	-0.9	0.5	0.8	3.0
Poland	0.2	2.9	3.1	3.1
Romania	2.4	0.8	1.3	3.1
Serbia	3.8	3.9	3.1	3.9
Slovakia	2.2	2.1	1.5	1.5
Slovenia	2.1	1.6	1.5	2.0
CEE8 avg	0.9	2.0	2.2	2.8

Average inflation (%)	2023	2024f	2025f	2026f
Croatia	8.1	3.0	3.2	2.5
Czechia	10.7	2.4	2.5	2.3
Hungary	17.6	3.7	4.7	4.1
Poland	11.4	3.6	3.9	3.2
Romania	10.5	5.6	4.7	3.5
Serbia	12.5	4.6	3.8	3.2
Slovakia	10.5	2.8	3.9	3.3
Slovenia	7.4	2.0	2.2	2.0
CEE8 avg	11.5	3.7	3.8	3.1

Unemployment (%)	2023	2024f	2025f	2026f
Croatia	6.1	5.0	4.8	4.6
Czechia	2.6	2.7	2.9	3.5
Hungary	4.1	4.4	4.2	4.0
Poland	5.1	5.1	5.2	5.1
Romania	5.6	5.5	5.6	5.5
Serbia	9.5	8.6	8.7	8.4
Slovakia	5.8	5.3	5.3	5.2
Slovenia	3.7	3.7	3.6	3.6
CEE8 avg	4.9	4.8	4.9	4.9

Public debt (% of GDP)	2023	2024f	2025f	2026f
Croatia	61.8	57.6	57.0	56.4
Czechia	42.5	43.6	44.2	44.8
Hungary	73.0	73.5	74.2	73.8
Poland	49.5	55.3	58.5	60.5
Romania	48.9	54.8	57.8	60.0
Serbia	48.4	47.5	47.4	47.0
Slovakia	55.6	59.3	60.2	60.9
Slovenia	68.4	67.0	66.8	66.4
CEE8 avg	52.0	55.6	57.6	58.8

C/A (%GDP)	2023	2024f	2025f	2026f
Croatia	0.4	-1.2	-1.9	-2.3
Czechia	0.3	1.8	1.9	1.4
Hungary	0.3	2.2	2.2	1.7
Poland	1.8	0.2	-1.0	-1.0
Romania	-6.6	-8.3	-7.8	-6.8
Serbia	-2.4	-6.3	-6.9	-6.5
Slovakia	-1.6	-2.2	-0.8	0.3
Slovenia	4.5	4.4	3.9	3.6
CEE8 avg	-0.3	-1.1	-1.5	-1.4

Budget Balance (%GDP)	2023	2024f	2025f	2026f
Croatia	-0.8	-2.4	-2.5	-2.2
Czechia	-3.8	-2.2	-2.4	-2.5
Hungary	-6.7	-4.9	-4.5	-4.4
Poland	-5.3	-6.6	-6.3	-5.0
Romania	-6.6	-9.3	-7.5	-6.4
Serbia	-2.1	-2.0	-3.0	-3.0
Slovakia	-5.2	-5.3	-4.5	-3.8
Slovenia	-2.6	-0.9	-2.1	-1.8
CEE8 avg	-5.0	-5.5	-5.2	-4.4

Market Forecasts

LCY Government bond yields	Latest	2025Q3	2025Q4	2026Q1	2026Q2
Czechia 10Y	4.28	3.77	3.62	3.54	3.53
Hungary 10Y	7.06	6.64	6.57	6.51	6.45
Poland 10Y	5.60	5.40	5.10	5.10	5.00
Romania10Y	7.51	6.93	6.79	6.63	6.48
Serbia 10Y	5.18	5.10	5.00	4.80	4.60
Spreads vs. German Bunds (bps)					
Croatia 10Y	55.00	65.00	65.00	65.00	65.00
Slovakia 10Y	88.00	100.00	100.00	100.00	125.00
Slovenia 10Y	53.00	60.00	60.00	60.00	60.00
DE10Y yields	2.56	2.50	2.50	2.50	FALSE

FX	Latest	2025Q3	2025Q4	2026Q1	2026Q2
EURCZK	24.77	24.90	24.80	24.74	24.66
EURHUF	401.3	410.0	415.0	415.0	415.0
EURPLN	4.27	4.25	4.25	4.30	4.30
EURRON	5.04	5.09	5.10	5.12	5.15
EURRSD	117.0	117.2	117.3	117.3	117.2
EURUSD	1.14	1.15	1.16	1.17	1.17

3M Money Market Rate	Latest	2025Q3	2025Q4	2026Q1	2026Q2
Czechia	3.52	3.51	3.31	3.25	3.07
Hungary	6.50	6.35	6.10	5.85	5.60
Poland	5.21	4.90	4.90	4.65	4.40
Romania	7.15	5.50	5.05	4.90	4.80
Serbia	4.68	4.20	3.99	3.57	3.36
Eurozone	1.96	1.98	1.99	2.01	2.02

Key Interest Rate (deposit facility in Eurozone)	Latest	2025Q3	2025Q4	2026Q1	2026Q2
Czechia	3.50	3.50	3.25	3.25	3.00
Hungary	6.50	6.25	6.00	5.75	5.50
Poland	5.75	4.75	4.75	4.50	4.25
Romania	6.50	6.25	5.75	5.25	5.00
Serbia	5.75	5.25	5.00	4.50	4.25
Eurozone	2.00	2.00	2.00	2.00	2.00

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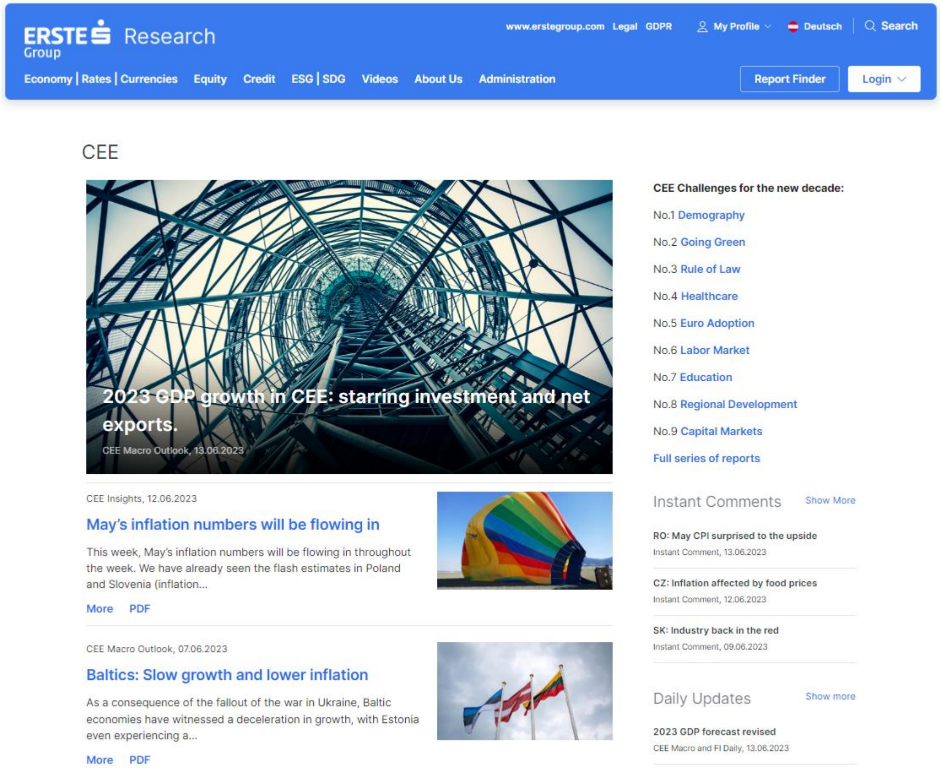

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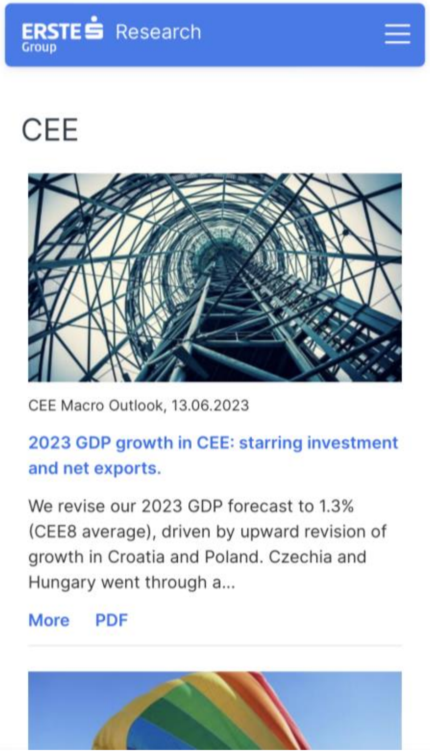

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