

CEE SPECIAL REPORT

Despite ceasefire relief, damage that was done leads to forecast update

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

We update economic outlook as damage was done

There is no doubt that the halting of military actions and the reopening of the Strait of Hormuz were good news. Oil and gas prices plummeted after the ceasefire announcement. Despite the significant decline in reaction to the news, oil prices close to USD 90–100 per barrel remain highly inflationary. The ceasefire proved fragile, however, and the Strait of Hormuz was closed again shortly thereafter. Furthermore, the failure of the US and Iran to reach a peace deal over the weekend is set to weigh on market developments. Given the fragility of the situation, we believe the return to normal energy supply flows will not be immediate. It will take time before commodity prices revert to pre-war levels.

Therefore, we proceed with an update of economic forecasts for the region, as some damage has already been done. Most recently, the ECB and OECD revised 2026 GDP projections for the Eurozone downward. Lower growth in the Eurozone—by about 0.3 to 0.4 percentage points versus pre-war expectations—is a negative development for the region.

Regarding the growth outlook, the downward revision of the CEE8 average growth rate is relatively marginal (from 2.7% in 2026 to 2.4%). In most CEE countries, adjustments range between 0.2 and 0.3 percentage points. Similar revisions are occurring for 2027 growth expectations. Only in Romania is the downward revision for 2026 more substantial, from 1% to 0.3% at present. Romania has been the most exposed to the cyclical downturn (regardless of the war), as the fiscal consolidation package is weighing on economic activity.

We update economic outlook as damage was done

Inflation forecasts are being revised upward. Compared to the end of February, average CEE8 inflation is now expected to be 0.6 percentage points higher. This means that the average CEE8 inflation forecast stands at 3.8%, up from 3.2% previously. The announcement of the ceasefire brought visible relief to markets, and oil prices recorded their largest one-day drop since April 2020, with Brent crude falling toward USD 95 per barrel. However, such a level remains inflationary.

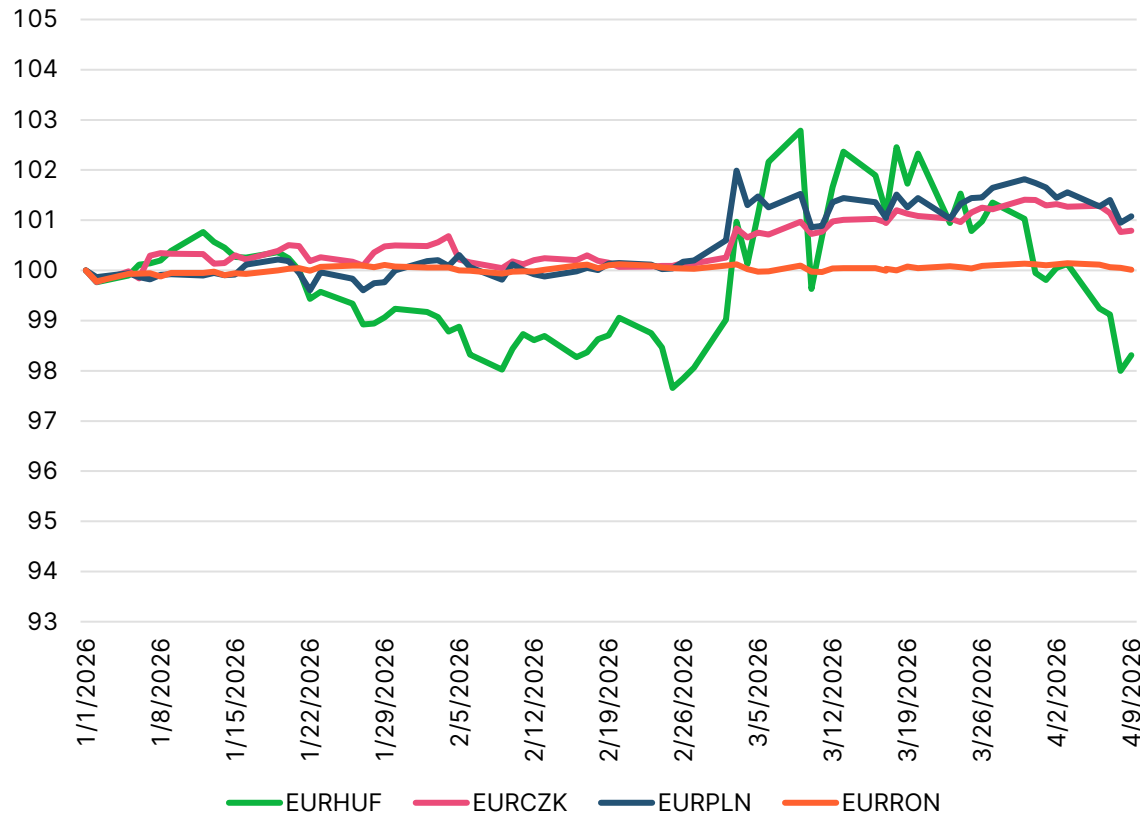
We scale back our expectations for interest-rate cuts and expect rate stability in most CEE countries. Only in Romania do we still foresee one 25-basis-point cut, which, however, should not be expected before November. Central banks' communication has turned notably more hawkish, highlighting the risks stemming from the Middle East conflict. Even if the situation stabilizes, inflation will be higher this year, in our view, preventing monetary easing. At this stage, any debate regarding interest-rate hikes appears premature.

Finally, we include projections for a severe scenario reflecting the assumptions of the ECB's severe case. This approach aligns with the principle of hoping for the best while preparing for the worst. With the ceasefire announcement and continued negotiations between the US and Iran, the severe scenario has become an increasingly remote possibility. Nevertheless, we include our assessment based on assumptions that appear rather harsh from today's perspective.

Relief on the markets after ceasefire – CEE currencies appreciated, long-term yields declined

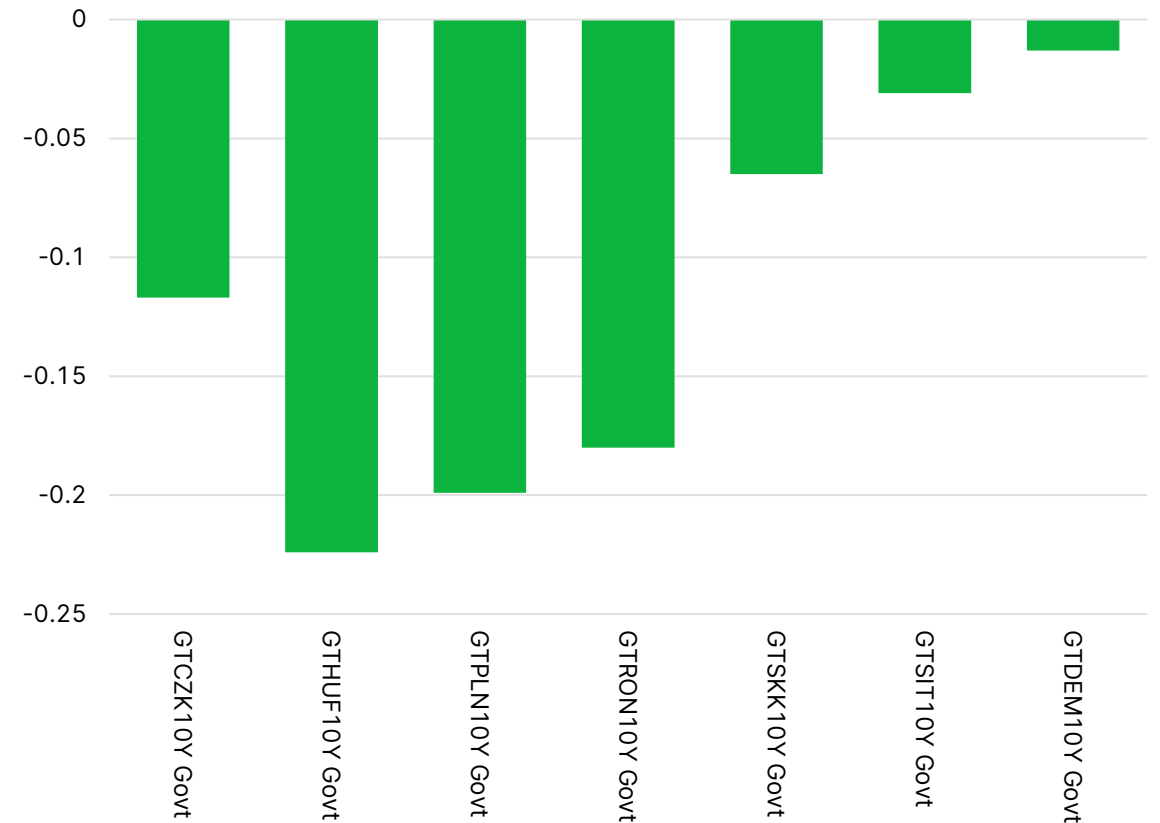
CEE currencies strengthened

FX market development since January 2026



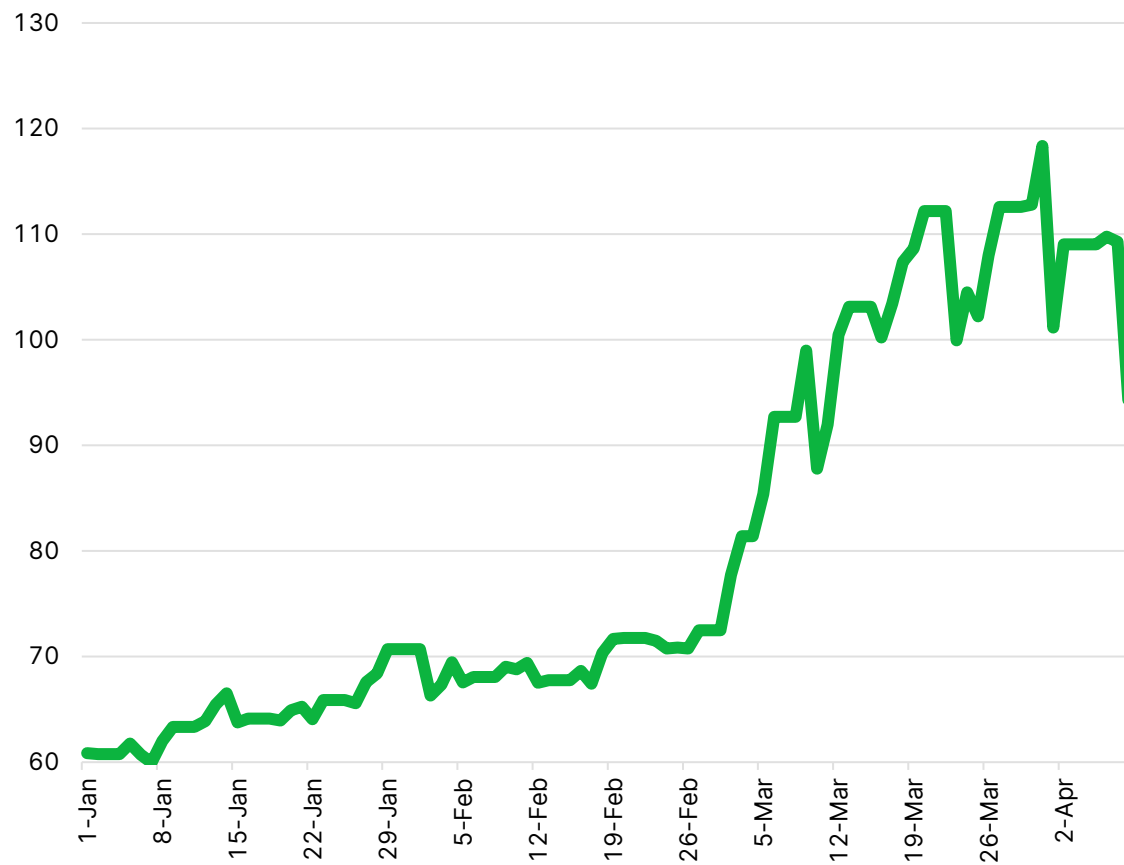
Change in 10Y yields

Change between April 9 and April 1

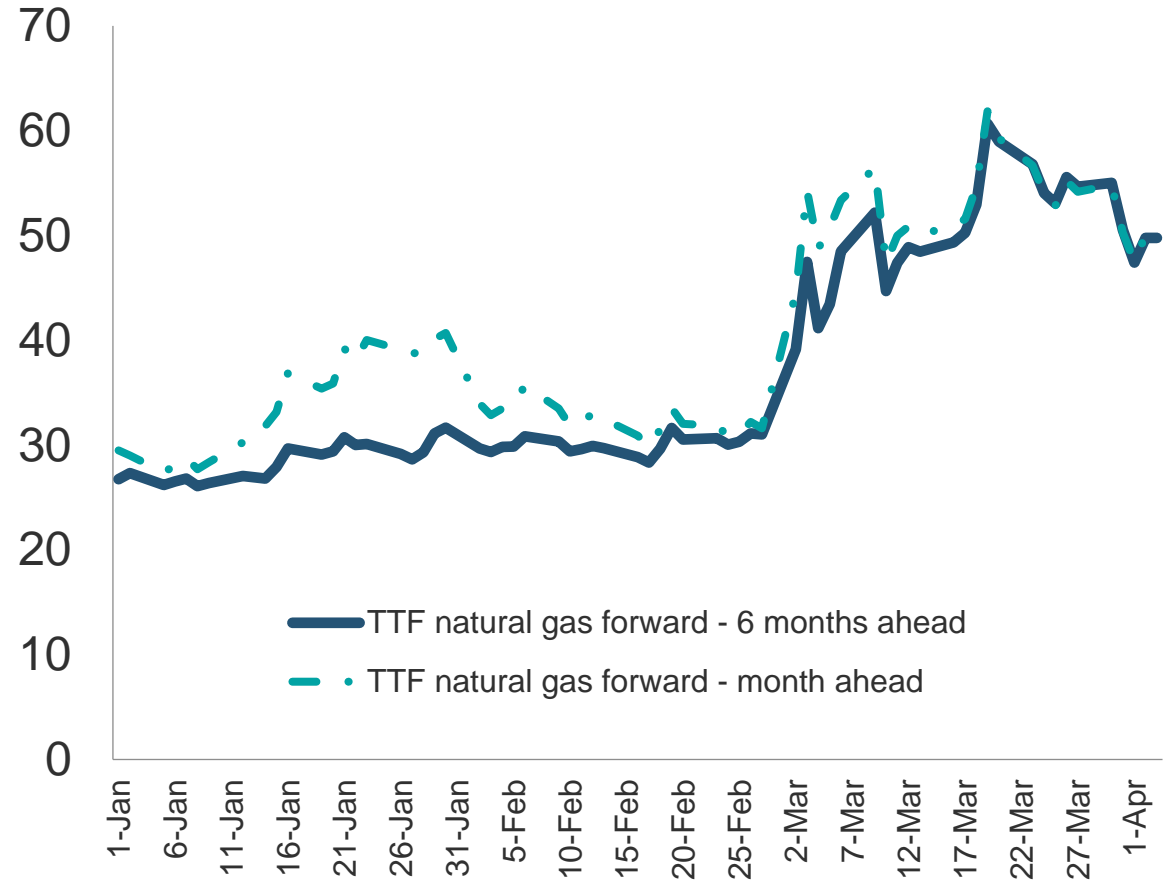


Relief on the markets after ceasefire – oil and gas prices dropped visibly

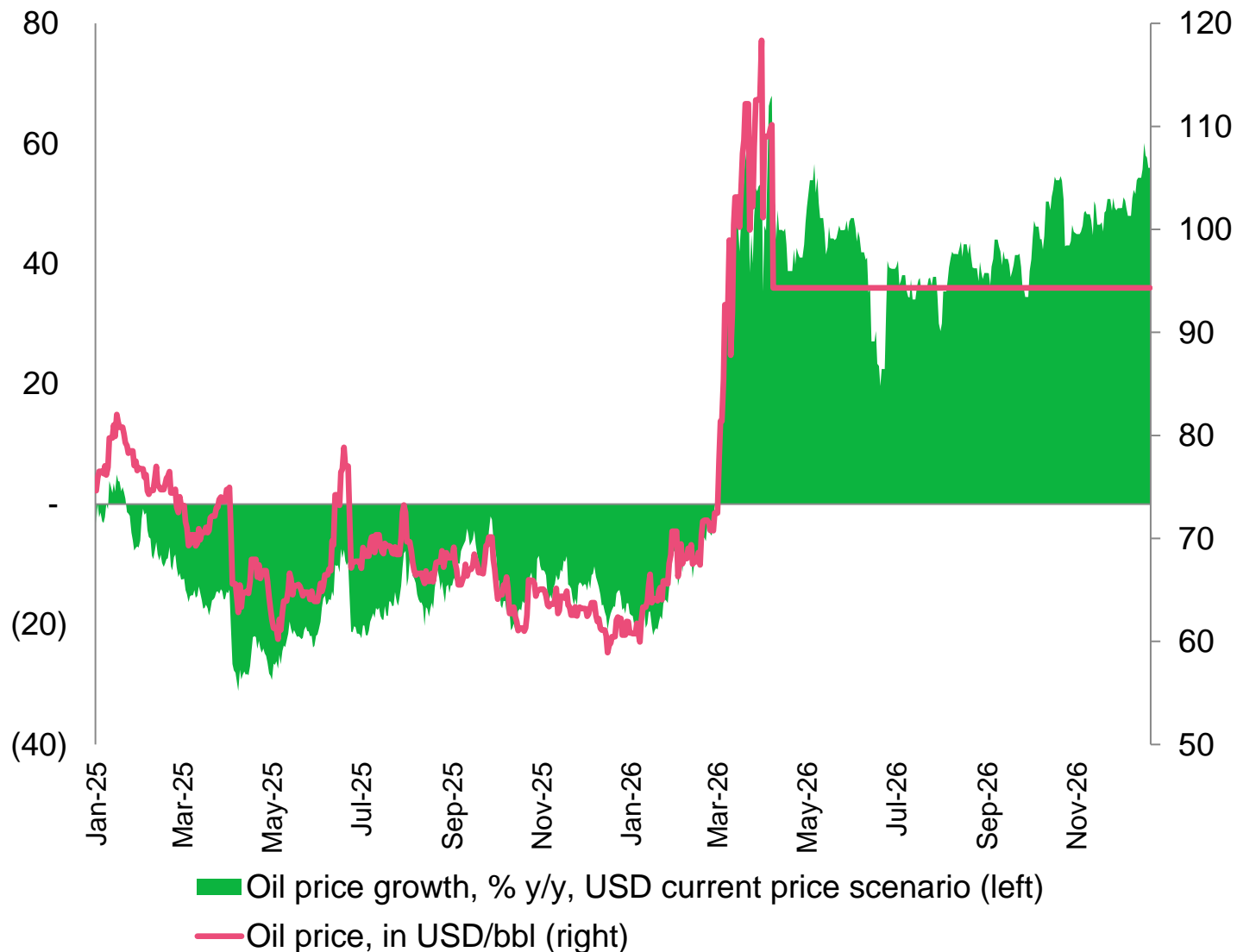
Oil price development, Brent USD per barrel



Natural gas price development, EUR



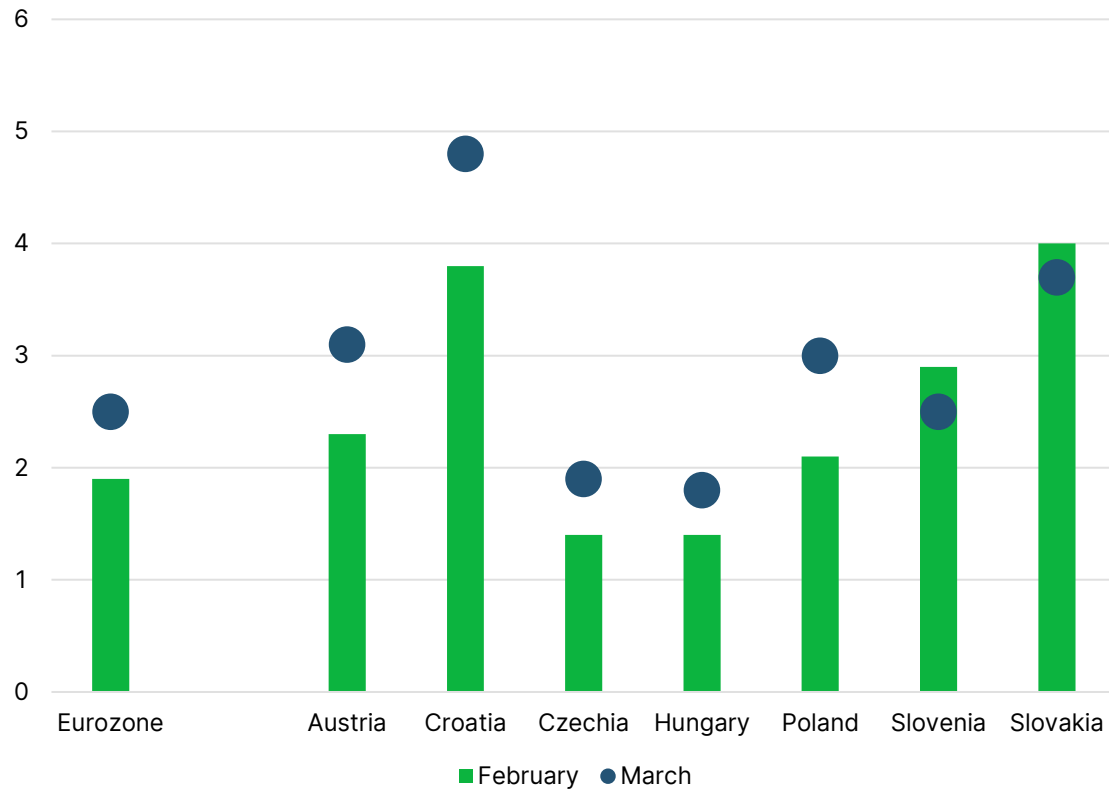
Oil price development as of April 8



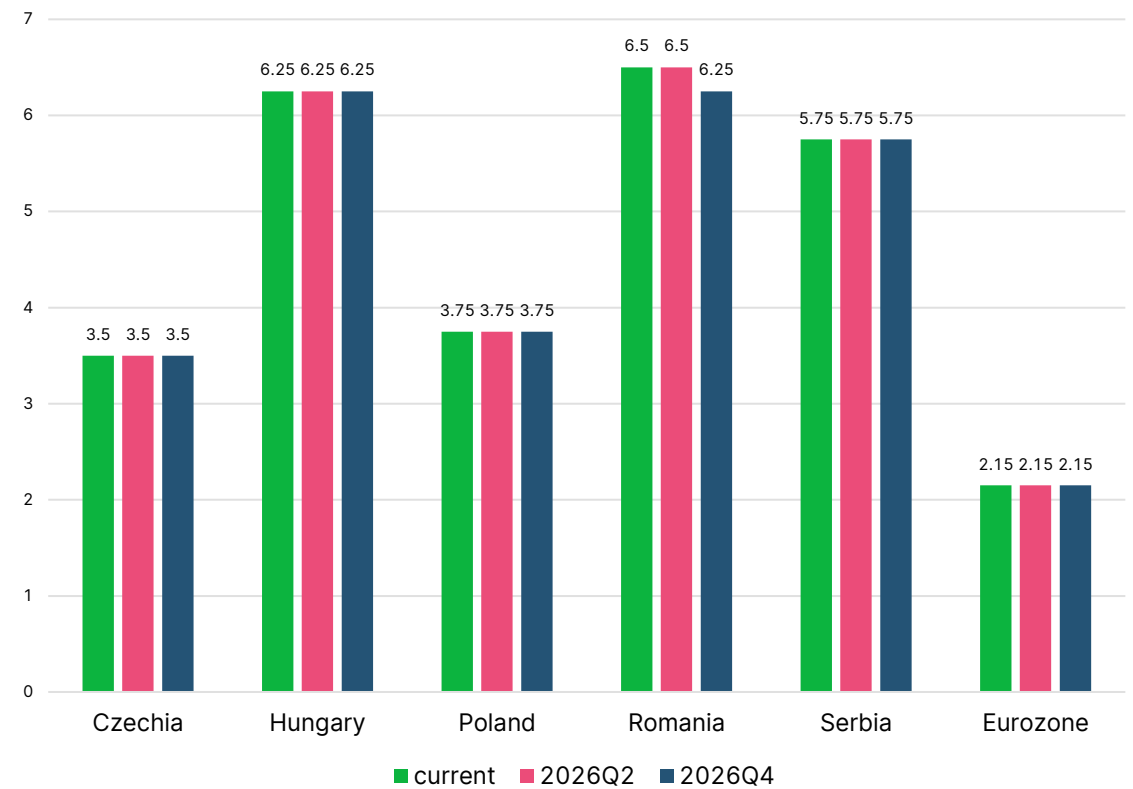
Oil price close to USD 90 per barrel remains inflationary

- Even before the war in Iran, oil prices began to be slightly inflationary.
- The announcement of ceasefire caused oil prices to drop toward USD 95 per barrel (Brent) on April 8.
- An oil price close to USD 90 to USD 100 per barrel bears inflationary pressures.
- Gasoline prices have risen.
- Luckily, increase of natural gas prices has been less extensive than expected.

The inflation rate rose in March. Monetary easing is off the table.

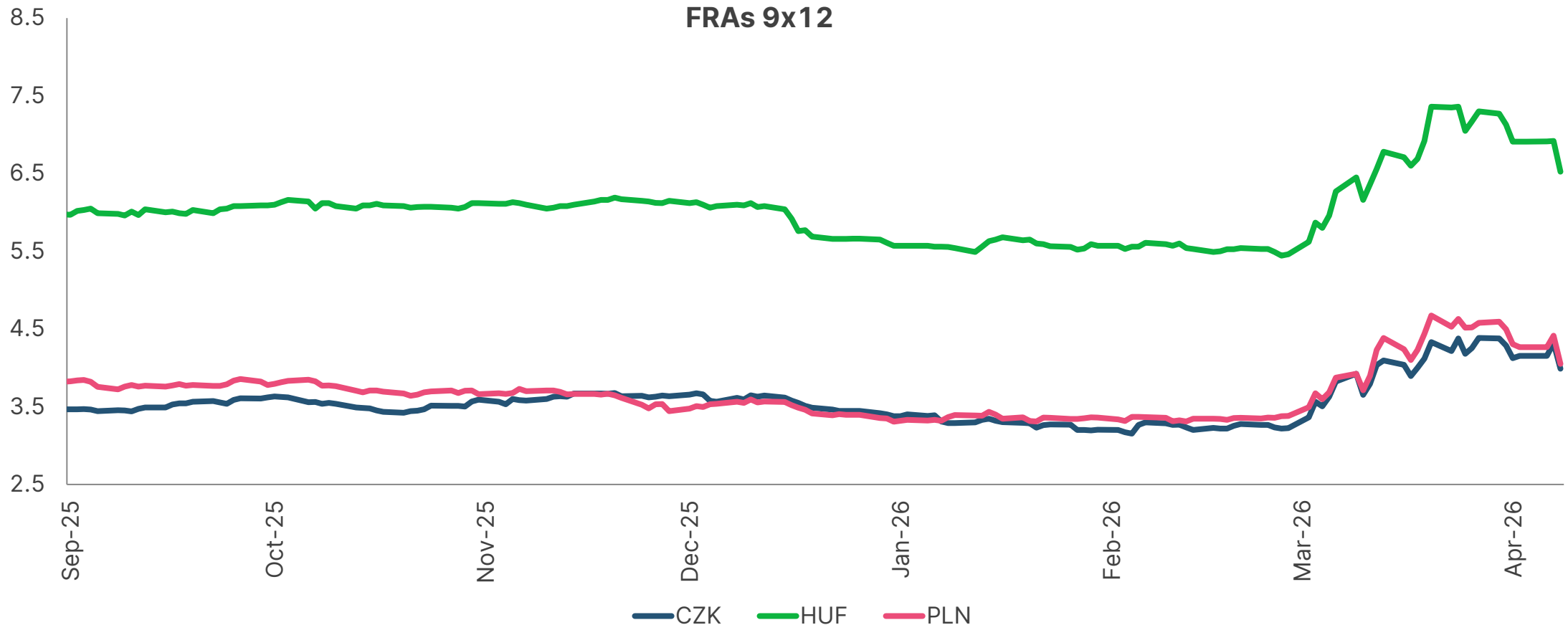


Inflation increased in March but by less than was expected in most of the CEE countries. Governments in several CEE countries stepped in providing price caps.



We scale back interest rate cuts and expect stability of rates mostly. Only in Romania we have one 25 basis points cut that should not be expected sooner than November, however.

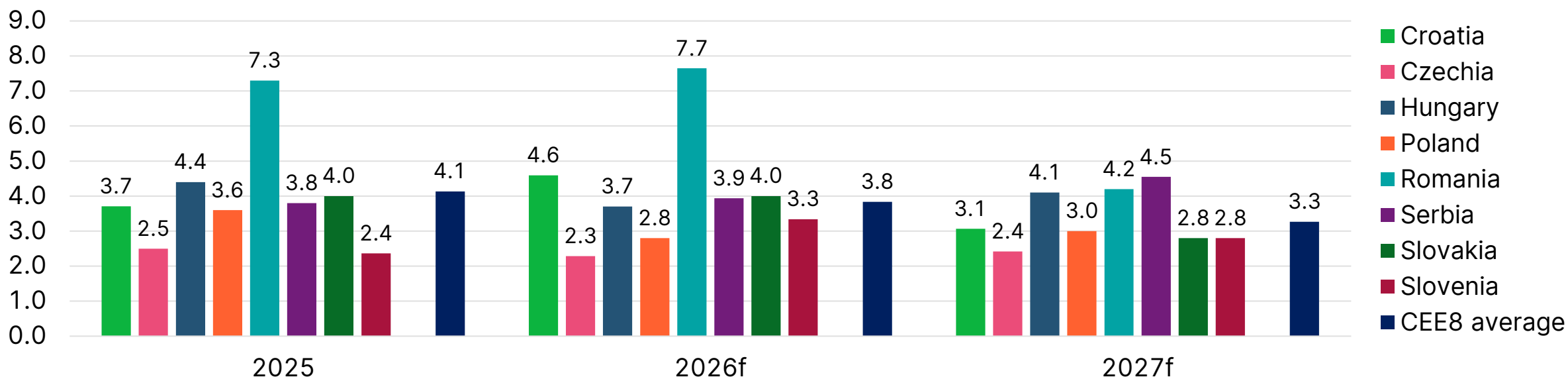
FRAs has eased lately. Opening of Strait of Hormuz translated into lower commodity prices reducing probability of monetary tightening. Fragile ceasefire sustains risks.



All in all, we revise CEE inflation forecast up and scale back interest rate cuts. Stability of rates becomes most likely scenario in 2026.

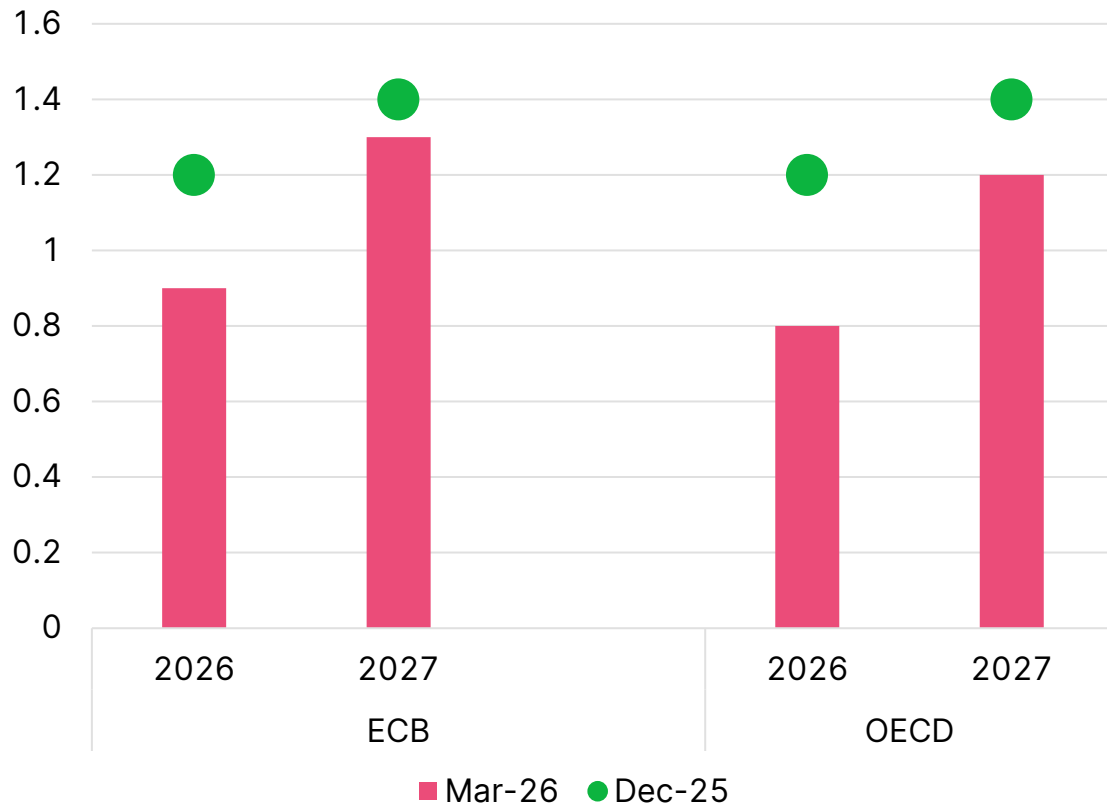
Although commodity prices eased significantly in response to the ceasefire news, the temporary spike in March has already pushed inflation higher. Furthermore, it will take some time for commodity prices to return to pre-war levels. This development will leave a mark on inflation dynamics this year. Prior to the war, the CEE8 average inflation was expected at 3.2%, whereas we now see it at 3.8%. The increased inflationary pressure supports central banks in remaining on hold.

Current inflation forecast, percent

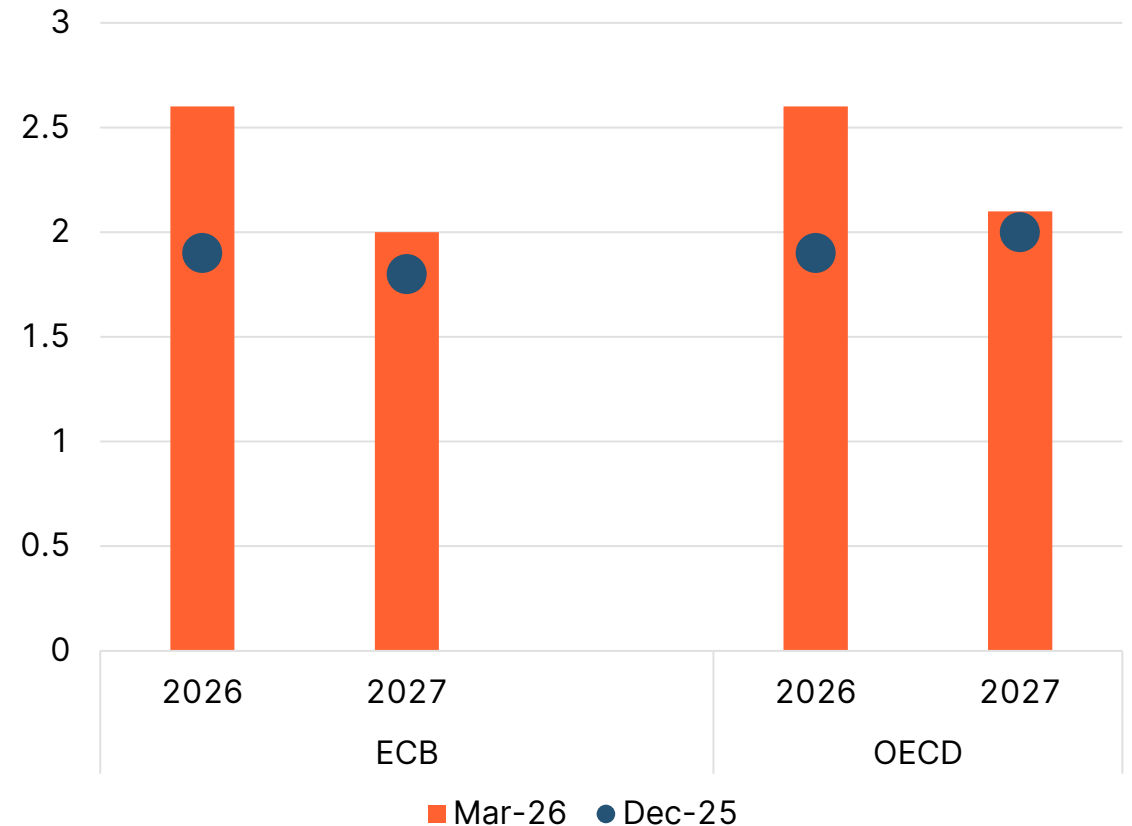


Downward revisions of growth in Eurozone is a growth-negative development for the region. Inflation is to rise.

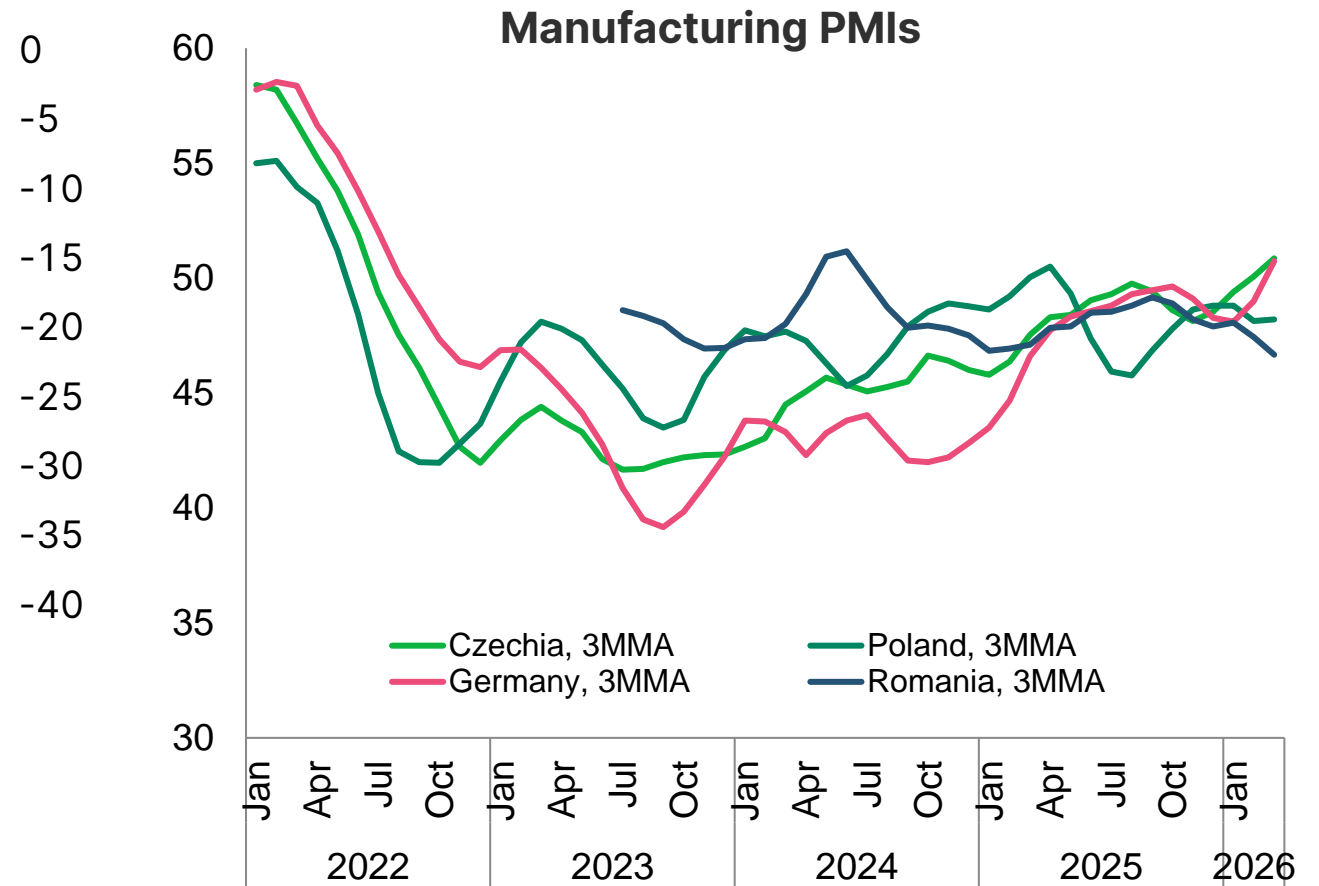
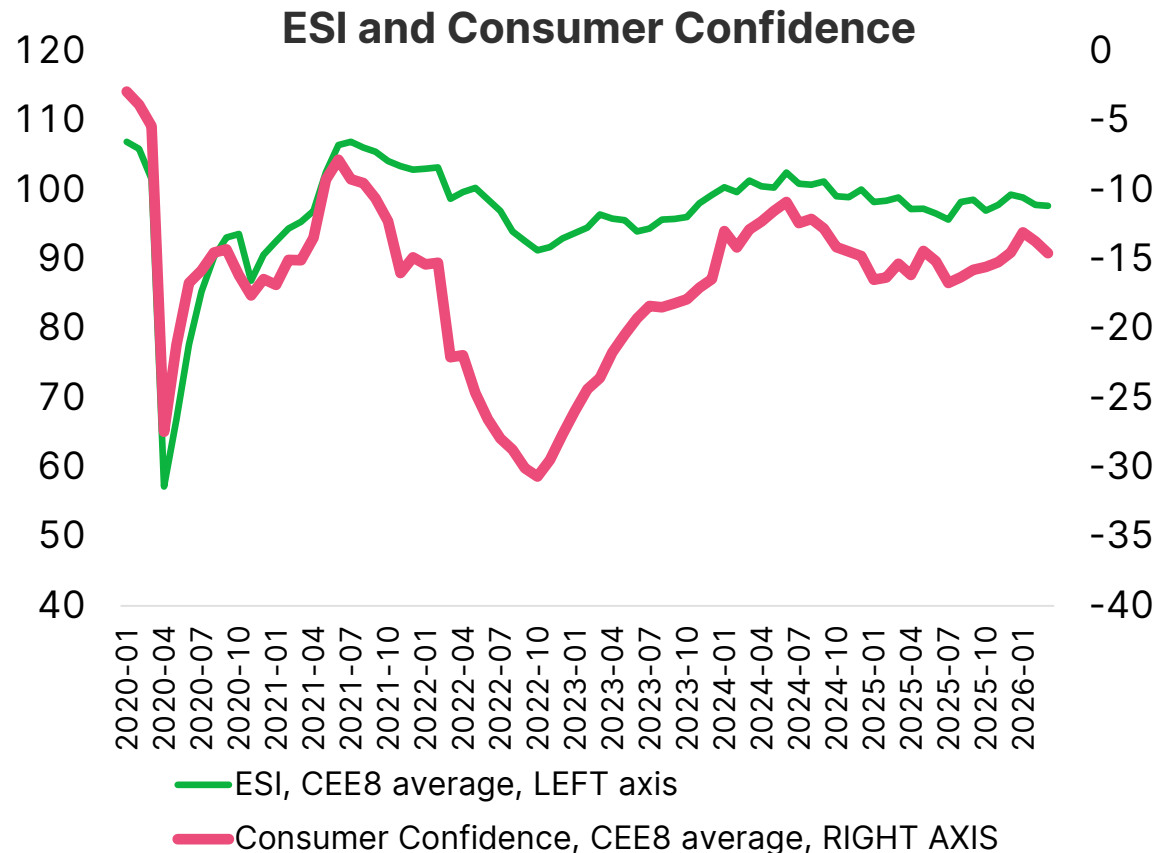
GROWTH - ECB and OECD revisions down



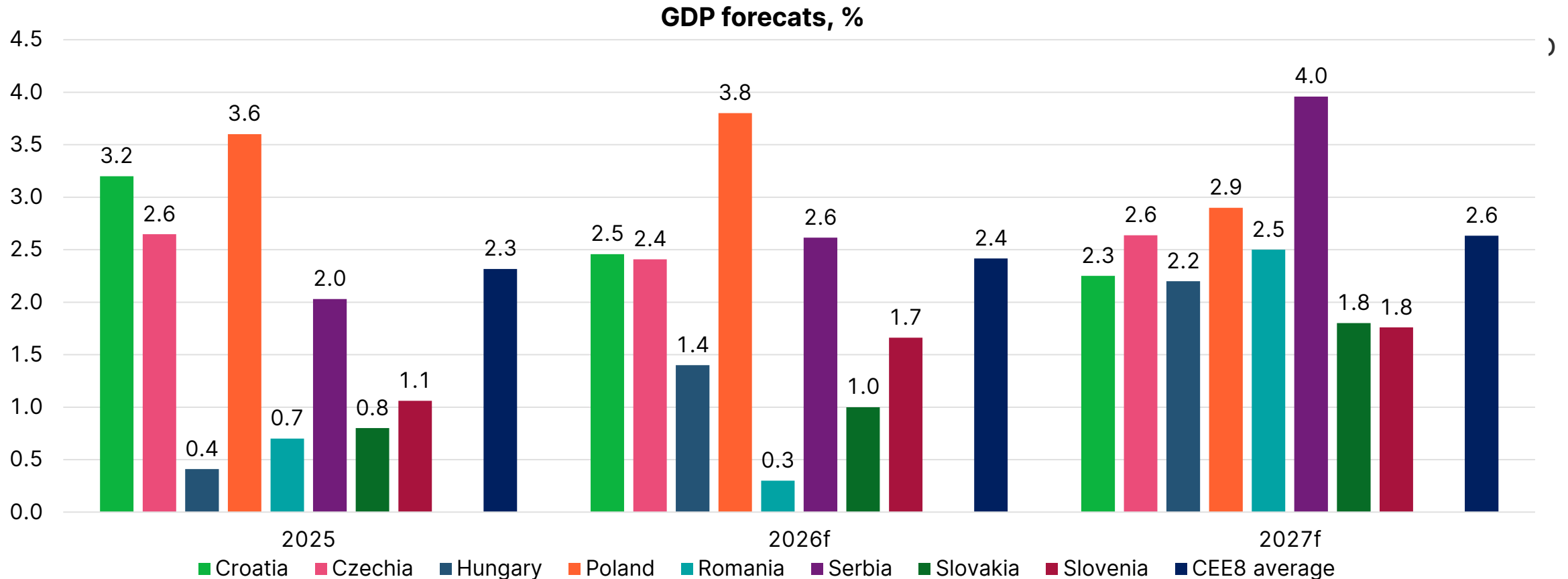
INFLATION - ECB and OECD revisions up



Consumer confidence has weakened at the beginning of the year. The manufacturing sector remains afloat, with Germany and Czechia actually gaining momentum.

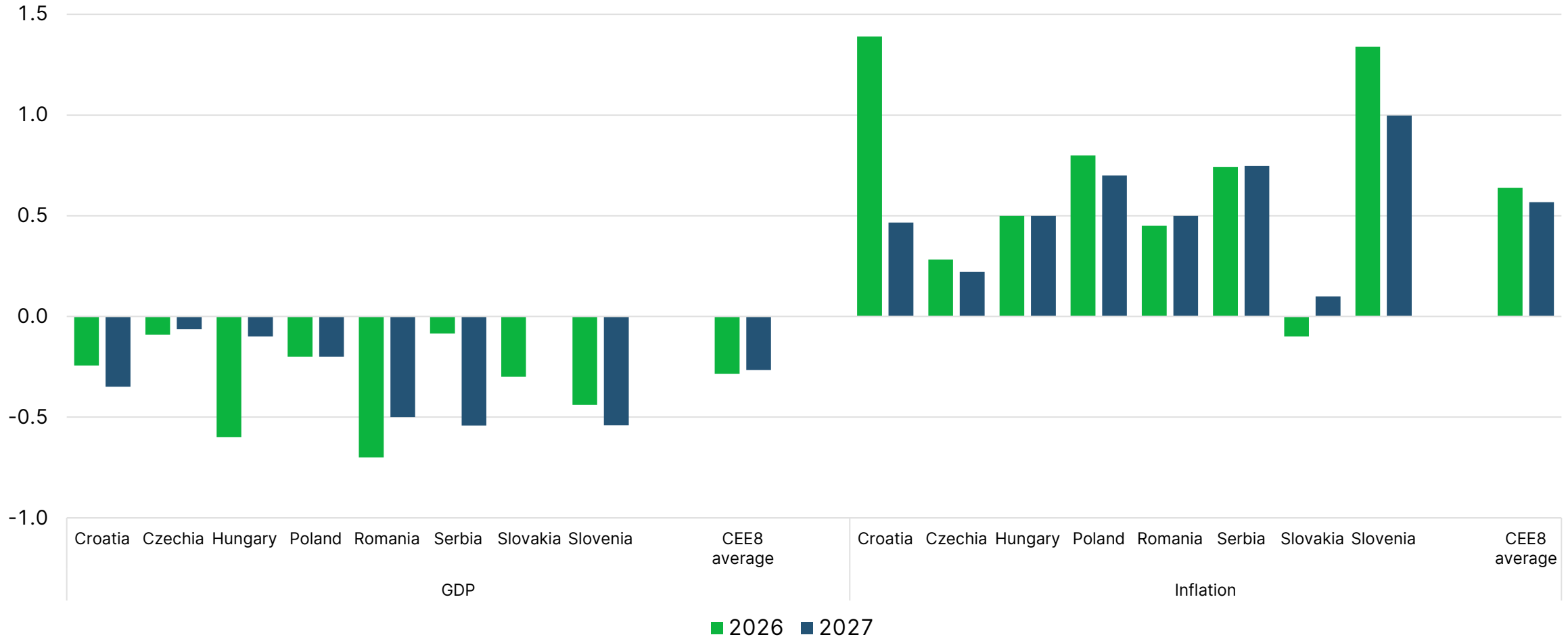


As external outlook weakened, we revise GDP growth forecast slightly down. CEE8 average growth now expected at 2.4% (previously 2.7%).



Summary of forecasts adjustments: GDP down, inflation up

Change in GDP and inflation forecasts in 2026 and 2027, percentage point



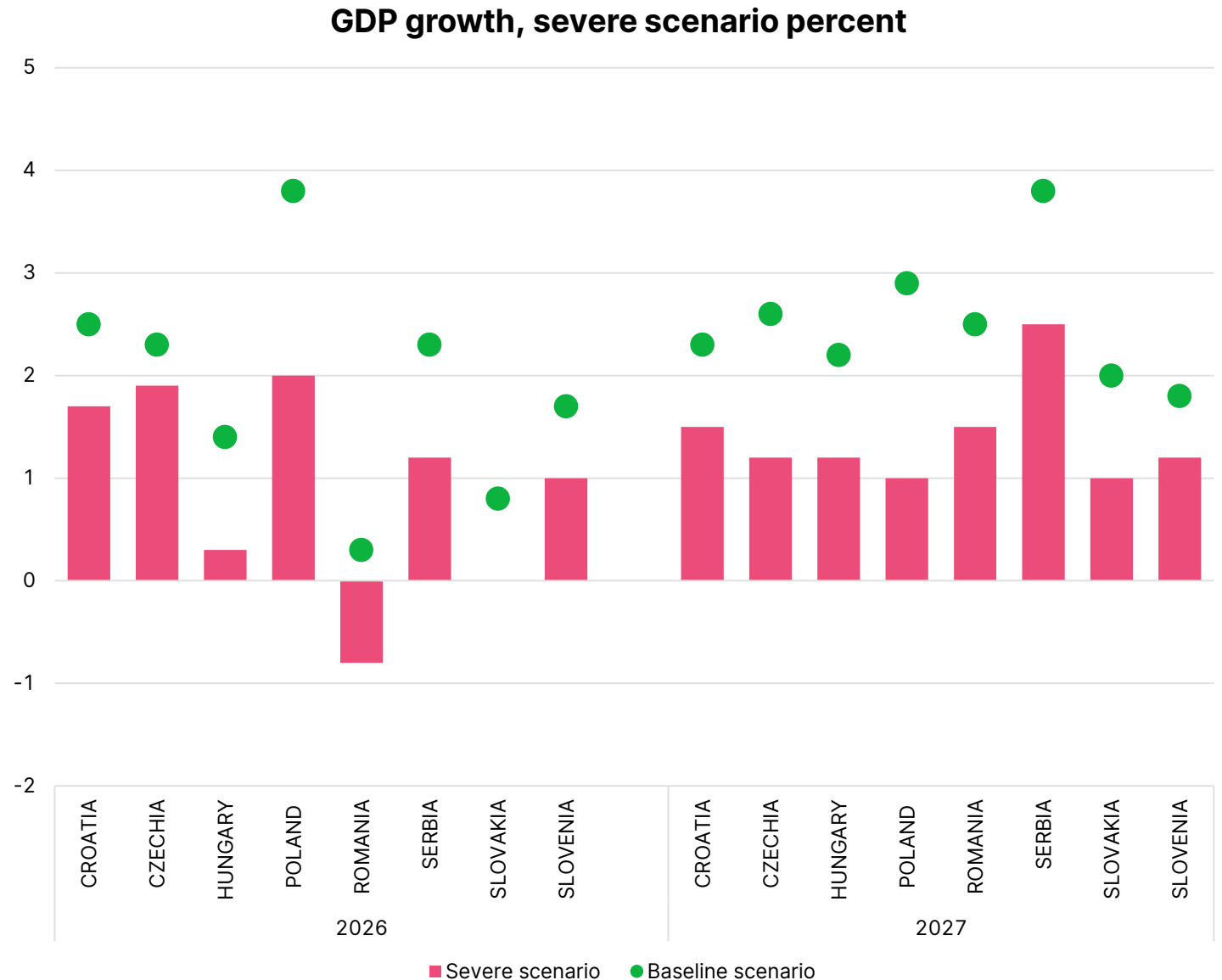
Hope for the best but be ready for the worst

Severe scenario means lower growth, higher inflation and monetary tightening.

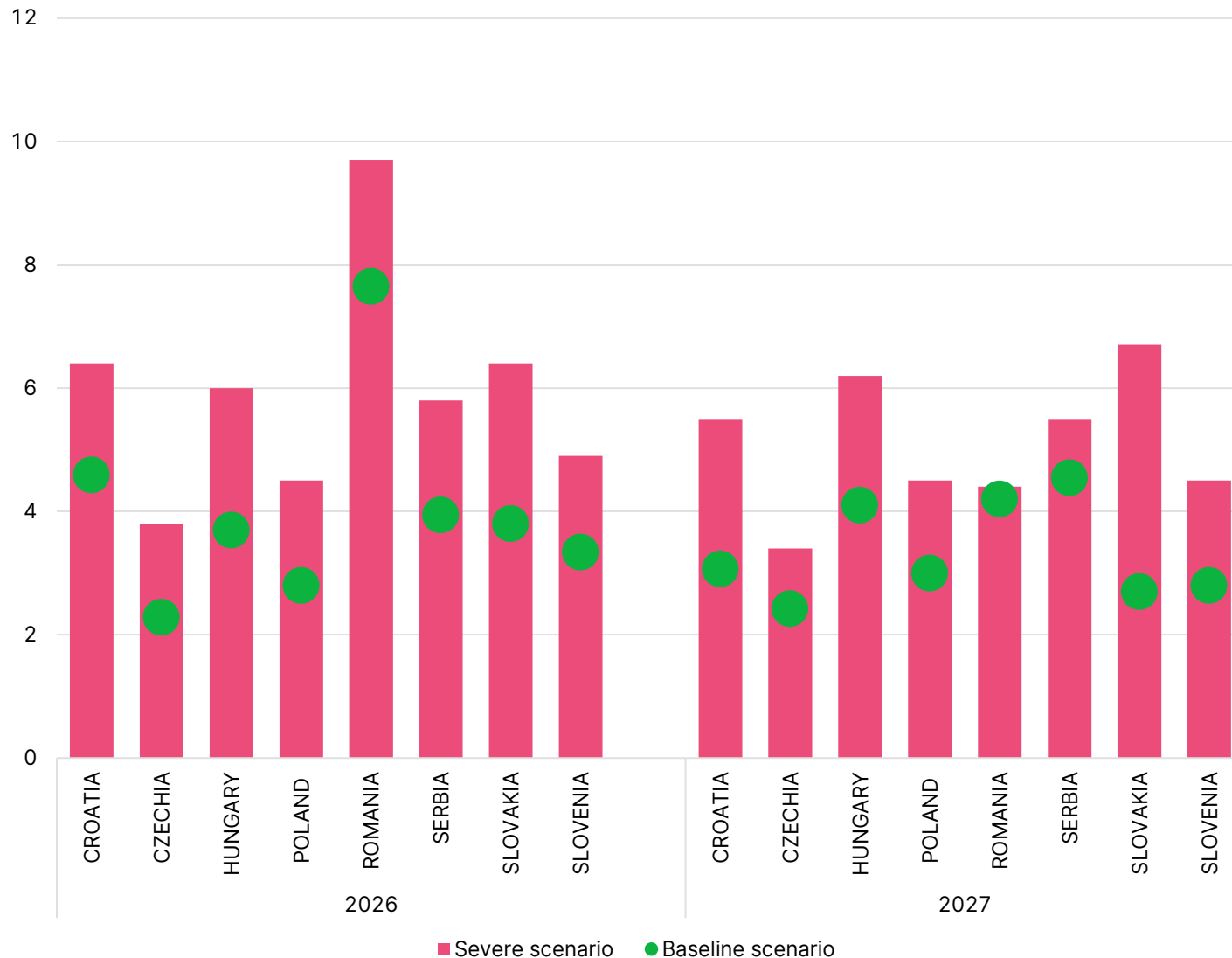


Romania would fall in recession in severe scenario, Slovakia would stagnate

In case of escalation of the conflict or prolonged period of elevated commodity prices due ongoing transportation obstacles on Strait of Hormuz would result in much weaker economic growth in the region. We use ECB severe scenario that assumes a more intense and prolonged disruption as an entry point for our forecast.



Inflation, severe scenario percent



Second round effects would push inflation up and likely trigger rate hikes

According to the ECB, the adverse scenario incorporates stronger indirect and second-round effects with a view to capturing possible non-linearities in the propagation of the initial energy price shock to other prices across the economy. In this case inflation would be much higher leading to possible monetary tightening in the region.

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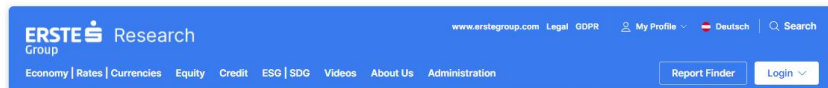
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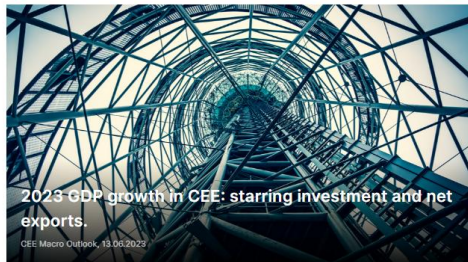
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