

Inflation below target does not always imply rate cuts

TOP MACRO THEME(S):

- **Interest rate cut much sooner in Poland than in Czechia (p.3)** – In Poland, a rate cut is on the horizon as early as March; in Czechia, it appears only very faintly, at the earliest in 2h26.

WHAT ELSE CAUGHT OUR EYE:

- **ROM:** Prime minister I.Bolyan announced that budget deficit for 2026 will be set at 6.2% of GDP. Meanwhile, administration reform package which includes restructuring and improving the efficiency of public spending will be approved through the fast track procedure next week.
- **CZE:** IMF concluded its economic assessment under Article IV consultations and its staff expects a similar pace of growth in 2026 as in 2025 (2.5%) leading to a closure of the output gap. In the medium-term GDP growth will slow down to the estimated potential of 1.8%. In terms of the fiscal policy the IMF assessed that the 2026 budget implies a moderately expansionary fiscal stance. General government deficit may widen to 2.3% of GDP from 2% of GDP estimated for 2025. The need for fiscal consolidation was emphasized in the context of growing spending pressures related to the ageing of the population and sizable investment needs. Staff recommended annual fiscal adjustment of 0.5 percentage points during 2027-2030 in order to converge toward a sustained structural deficit of 1% of GDP. Current monetary policy stance was assessed as appropriate and further stabilisation of interest rates was recommended. In monetary policy context, the need to normalize the CNB balance sheet was emphasized, including a reduction of FX reserve holdings, which are a legacy of the 2013-2017 exchange rate floor that was intended to support the fight against excessively low inflation. A range of IMF reserve indicators shows that their relative level in Czechia is among the highest in the world and the highest in the region (see the chart on the right).
- **POL:** Under the Article IV consultation, the IMF assessed that Poland has maintained a rapid pace of economic growth, albeit partly at the cost of a sharp increase in fiscal imbalances. In the near term, economic growth is expected to remain solid, supported by significant disbursements of EU funds and the recent easing of monetary policy. Policy priorities should include reducing the fiscal deficit in order to stabilize public debt and fostering innovation to sustain strong productivity growth. The IMF noted that in 2025 the fiscal deficit and public debt most likely increased to around 7% and 59% of GDP, respectively. According to the IMF, under current policies public debt will rise significantly above the EU threshold of 60% of GDP, reaching 78% of GDP by 2031. The Fund recommends a cumulative fiscal adjustment totalling 4% of GDP to reverse this trend.

THE WEEK AHEAD:

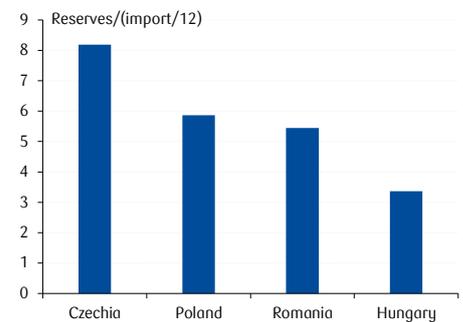
- **The most interesting data releases will be concentrated in the second half of the week.** On Thursday, we will receive Hungary's January CPI reading, which may have edged slightly below the upper bound of the tolerance band around the target (PKOe: 2.9% y/y). On Friday, full January inflation data will be published for both Czechia and Poland, where - as always at the beginning of the year - no flash estimate was released. We assume that Polish inflation may have declined to 1.7% y/y. In addition, detailed figures for 4q25 will complement the data on Poland's full-year GDP growth (3.6%). We estimate that growth in the final quarter came in within the 3.9-4.2% y/y range.

Macro Research Team

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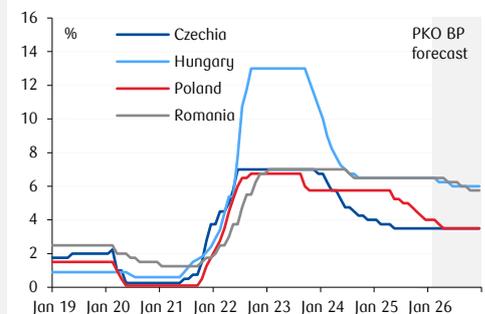
Charts of the week:

Official reserves in the numbers of months of imports



Source: IMF, PKO Bank Polski

Interest rates in CEE

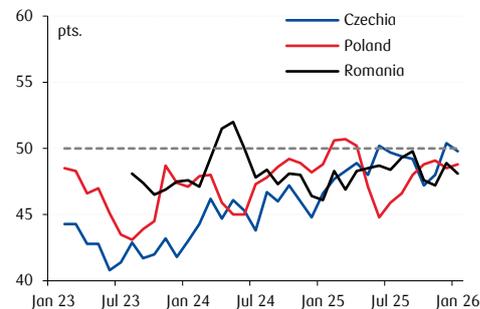


Source: Macrobond, PKO Bank Polski

CEE macro review

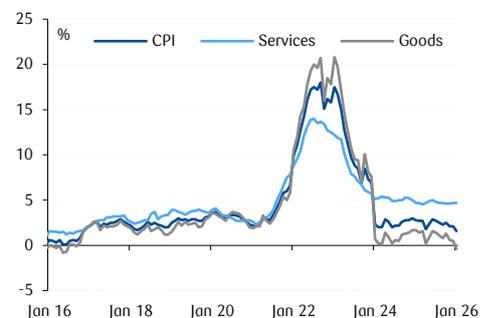
- CEE:** At the start of the year, the PMI indicated a continuation or a return of downturn conditions in manufacturing, amid declining orders. In January, the PMI fell in Czechia and Romania, dropping to 49.8 points from 50.4 points and to 48.1 points from 48.9 points, respectively. In Poland, the manufacturing PMI rose in January to 48.8 points from 48.5 points in December. The production sub-index had a relatively positive impact on overall PMI readings across the region, but it was not sufficient to offset the negative effects from new orders and employment. Price pressures intensified. In Czechia, input price inflation accelerated, translating into higher selling prices. In Romania, cost and charge inflation reached three-month highs, with higher tax burdens cited among the key drivers of rising operating costs. In Poland, the pace of average input price growth was marginal. Sentiment improved or remained positive. In Czechia, business confidence was historically elevated and the strongest since June 2025. In Romania, the assessment of the future outlook fell to a new survey low, although it remained above 50. In Poland, the measure of optimism for the next 12 months was the highest since June 2021.
- CZE:** According to the flash estimate, inflation in January fell below the target to 1.6% y/y, down from 2.1% y/y in December, and came in slightly below our expectations. The main driver of disinflation was energy prices, as the annual decline deepened to 7.9% y/y from 4.2% y/y in December. On a m/m basis, prices fell by 3.7%, largely reflecting the abolition of the renewable energy surcharge. The slowdown in inflation also extended to food prices, but this was offset by an acceleration in price growth in the alcoholic beverages & tobacco category due to a 5% increase in excise tax rates at the start of the year. Overall, this resulted in a 0.4% y/y decline in the prices of goods, with an annual price decrease recorded for the first time since 2016. Services inflation, however, remains persistent, with price growth in this category holding at 4.7% y/y. Under these conditions, core inflation (excluding energy, food, alcohol, and tobacco prices) edged up slightly to 3.2% y/y from 3.1% y/y.
- CEE:** Retail sales data at the end of the year were not particularly encouraging. The biggest disappointment came from Czechia, where sales rose by 1.8% y/y (wda), well below expectations of roughly twice that pace. The source of the negative surprise appears to have been online sales, whose growth slowed from a double-digit pace in November to 4.1% y/y in December, suggesting that the scale of pre-Christmas promotions was disappointing or that a significant share of gift purchases had already been made in November. **In Romania the decline in retail sales eased to 2.1% y/y at the end of the year, from 3.9% y/y in November.** The negative annual growth rate has persisted since August 2025, when the VAT rate increase triggered a sharp rise in inflation. At the same time, on a m/m basis, sales increased for the second consecutive month, suggesting that consumers have already absorbed the bulk of the shock. **In Hungary, retail sales growth in December accelerated to 3.5% y/y from 2.5% y/y in November.** In 2025 on average retail volume increased by 2.9%, slower than in 2024 (2.6%). Although the end of the year appears solid, the pace of sales growth in most major categories was slower than the annual average, with the exception of fuels. In December, sales of non-food products grew at the fastest pace, rising by 4.3% y/y, particularly in the pharmaceuticals and cosmetics category. Sales of durable goods such as furniture, electrical goods, and hardware also performed relatively well with 3.3% y/y growth reflecting the strong financial position of households and, partly, a possibly rising propensity to borrow.

PMI index



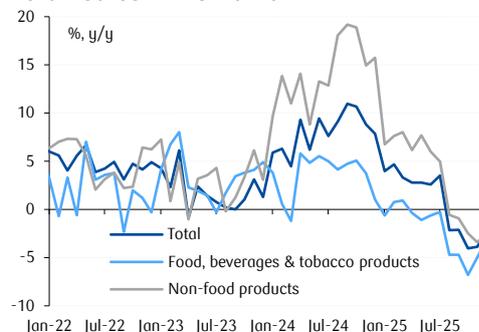
Source: Macrobond, PKO Bank Polski.

CPI inflation in Czechia



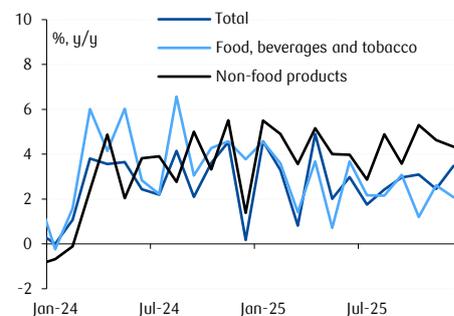
Source: Macrobond, PKO Bank Polski.

Retail sales in Romania



Source: Macrobond, PKO Bank Polski.

Retail sales in Hungary



Source: Macrobond, PKO Bank Polski.

Interest rate cut much sooner in Poland than in Czechia

- Both the CNB and the NBP kept interest rates unchanged at their February meetings, although the latter decision came as a mild surprise to us.
- According to governor Glapinski if the next projection shows nothing alarming, March would be a good month for a rate cut in Poland.
- The CNB's decision was accompanied by a new projection, which indicates that the drop in inflation below the target in 2026 will be temporary and related to changes in the financing of renewable energy sources. Inflation is expected to return to target in 2027, which justifies keeping interest rates stable at least in 1h26.

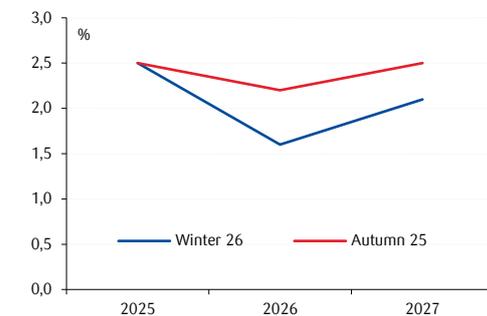
Economists' forecasts for February NBP meeting outcome were evenly split (50/50). On the one hand, arguments in favour of a cut included the expected decline in inflation in the coming months and the clearly dovish tone of the press conference following the previous meeting. On the other hand, no new inflation data has been released since the January meeting (with the next release due in mid-February), while wage growth in December exceeded expectations. Comments by some MPC members also suggested that both scenarios were equally plausible, which is why we did not rule out the possibility of a rate cut in February. Explaining the decision at the press conference, the NBP governor said that MPC members concluded they had not received any new material data that could change their outlook. **According to the governor, if the projection shows nothing alarming - which currently seems to be the case - March would be a good month for a rate cut, which we also take as our baseline.**

The CNB's decision to keep interest rates unchanged was taken unanimously. In our view, the wording of the statement did not change materially, except for the sections referring to the new projection. According to the updated forecast, inflation will remain below 2% throughout 2026 (averaging 1.6%) and very close to the inflation target in 2027 (2.1%), with the entire inflation path revised downward compared with the previous projection. The temporary decline in inflation this year mainly reflects the transfer of the renewable energy sources fee to the state budget. Czech GDP is expected to grow by 2.9% both this and next year, with a sizable upward revision of +0.5pp for 2026. The document notes that, given current and expected developments, a relatively tight monetary policy compared with the past is still needed.

During the press conference, Governor A.Michl emphasised that the drop in inflation below the target is largely the result of the government's decision to eliminate the renewable energy surcharge, which constitutes a one-off factor, while strong domestic price pressures still persist, including sticky services inflation. **He added that a discussion on rate cuts did take place during the meeting, but no one proposed such a move. According to the Board, rate cuts could be considered only if core inflation were to start slowing on a sustained basis.**

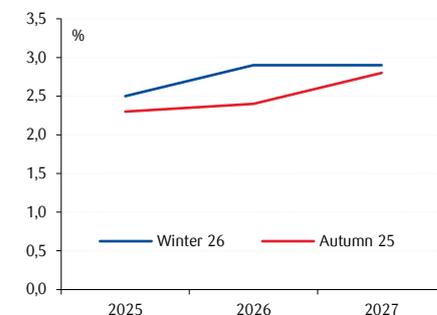
In our view, given the materialisation of the strong GDP growth forecast, this may prove difficult. For now, we maintain that in our baseline scenario the scope for rate cuts this year remains limited, and if any easing were to be considered, it would most likely take place in 2h26.

CNB inflation forecast



Source: CNB, PKO Bank Polski.

CNB GDP forecast



Source: CNB, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 9 February						
ROM: Trade balance (Dec)	7:00	EUR bn	-2.2609	--	--	--
CZE: Unemployment Rate (Jan)	9:00	%	4.8	--	--	--
EUR: Sentix Index (Feb)	9:30	pts.	-1.8	--	--	--
Tuesday, 10 February						
USA: Retail sales (Dec)	13:30	% m/m	0.6	0.5	--	--
USA: Retail sales excl. autos (Dec)	13:30	% m/m	0.5	0.4	--	--
Wednesday, 11 February						
CHN: PPI inflation (Jan)	1:30	% y/y	-1.9	-1.6	--	--
CHN: CPI inflation (Jan)	1:30	% y/y	0.8	0.3	--	--
USA: Non-Farm Payrolls (Jan)	13:30	thous.	50	71	66	--
USA: Average Earnings (Jan)	13:30	% y/y	3.8	3.7	--	--
USA: Unemployment Rate (Jan)	13:30	%	4.4	4.4	--	--
Thursday, 12 February						
ROM: Wages (Dec)	7:00	% y/y	4.2	--	--	--
HUN: CPI inflation (Jan)	7:30	% y/y	3.3	2.2	2.1	--
POL: GDP growth (4q)	9:00	% y/y	3.8	4.0	3.9	The full-year estimate points to a 4q25 outcome in the range of 3.9-4.2%.
USA: Initial Jobless Claims ()	13:30	thous.	--	--	--	--
USA: Existing home sales (Jan)	15:00	m	4.35	4.24	--	--
Friday, 13 February						
ROM: Industrial Output (Dec)	7:00	% y/y	-0.5	--	--	--
ROM: GDP growth (4q)	7:00	% y/y	1.7	1.4	0.8	--
CZE: CPI inflation (Jan. final)	8:00	% y/y	2.1	1.6	1.6	--
CZE: C/A balance (Dec)	9:00	CZK bn	8.16	--	--	--
POL: CPI inflation (Jan)	9:00	% y/y	2.4	1.9	1.7	The dispersion of market forecasts is relatively high, while our comparatively low projection is supported by the nowcast for fuel prices
EUR: GDP growth (4q)	10:00	% y/y	1.4	1.3	--	--
EUR: Trade balance (Dec)	10:00	EUR bn	10.7	--	--	--
EUR: Employment (4q)	10:00	% y/y	0.6	--	--	--
POL: Current account balance (Dec)	13:00	EUR m	-460	-1251.5	-342	We assume a continuation of pressure on the current account balance amid the high import intensity of accelerating investment.
POL: Exports (Dec)	13:00	% y/y	2.7	8.1	10.3	
POL: Imports (Dec)	13:00	% y/y	3.1	6.8	8.6	
USA: CPI inflation (Jan)	13:30	% y/y	2.7	2.5	2.5	--
USA: Core inflation (Jan)	13:30	% y/y	2.6	2.5	--	--

Source: GUS, NBP, Parkiet, PAP, Bloomberg, Reuters, PKO Bank Polski. Parkiet for Poland, Bloomberg, Reuters for others.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
J. Tyrowicz	4.9	"We have a favourable inflation release, which we should welcome, but it is a weighted average of prices that are still very far from what we would call stability. In my assessment, monetary policy should nonetheless remain somewhat restrictive given the very large scale of fiscal stimulus and the acceleration of economic growth." (19.01.2026, TOK FM, PKO translation)
I. Dabrowski	3.2	"There is a 50-50 chance of an interest-rate cut in Poland next week after inflation slowed more than forecast. (...) It may not be clear until the very end what the decision will be." (8.01.2026, Bloomberg)
I. Duda	3.2	"Currently, the situation is so favorable in terms of inflation that both scenarios – a rate cut in February or March – seem likely to me. Low inflation is a fact, and everything indicates that the slowdown in price growth that we're seeing will be long-lasting." (23.01.2026, Bloomberg)
G. Maslowska	2.9	"Further interest rate cuts are possible, but I cannot say when." (15.10.2025, Bloomberg via PAP)
H. Wnorowski	2.7	"We will make decisions from meeting to meeting based on incoming data and information, and this level, the 3.5% figure (for main interest rate – PKO BP), may turn out to be slightly different." (06.02.2026, Reuters)
W. Janczyk	2.6	"If the economic environment remains stable, one can assume a slight adjustment on the central bank's interest rates and a reduction in their value in the near future." (17.11.2025, PAP BIZNES)
A. Glapinski	2.6	"In my view (...) if our projection shows nothing concerning—which at this stage seems unlikely (...); if no unexpected external events occur (...), then, in my conviction, the answer is yes." answer to a question on the possibility of a rate cut in March (5.02.2026, PAP Biznes, PKO translation)
P. Litwiniuk	2.5	"If the economic environment and its parameters do not deviate significantly, there is minimal room for a downward adjustment. (...) But I would be very cautious, because the inflation rate may deviate upwards," he added." (10.12.2025, PAP Biznes)
L. Kotecki	1.9	"Safely, prudently, and responsibly, we can start thinking about ending interest rate cuts at the 3.50%-3.75% level. So, in my opinion, we can still think about at least one cut, maybe even two." (06.02.2026, Reuters)
M. Zarzecki	New MPC member	"A return to interest rate cuts should only take place if the new projection clearly confirms that the disinflationary process is sustainable. (...) It would be premature and risky to conclude at this stage that the pause may end in February." (21.01.2026, Bloomberg)

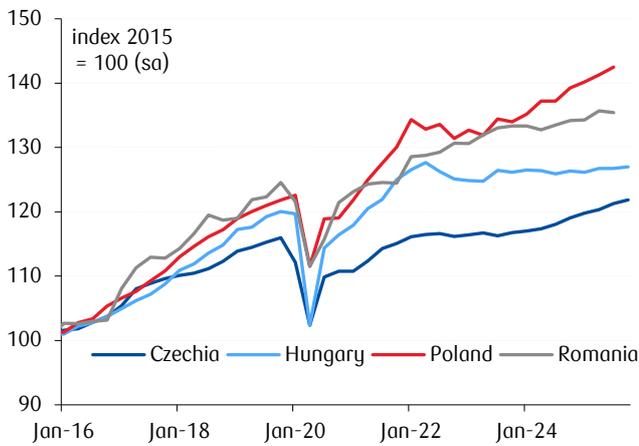
*The higher the indicator the more hawkish views. The positioning has been made based positively on PAP survey conducted among economists at banks in Poland (scale 1-5). ^Quotes in bold have been modified in this issue of Poland Macro Weekly.

Selected comments from central bankers in other CEEs

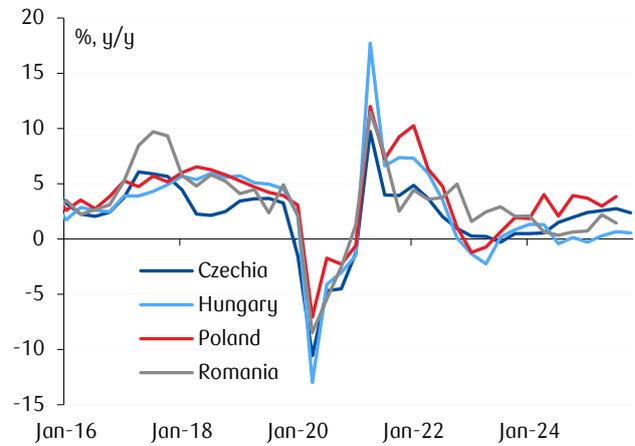
CNB	"We didn't discuss a significant decrease in rates. We only talked about a slight fine-tuning of the rate-cutting cycle." Governor A.Michl (2.05.2026, Bloomberg)
MNB	"Early-year repricing will be closely monitored as it has a major impact on inflation outlook." Governor M.Varga (27.01.2026, Intellinews)
NBR	"So cutting rates now would help no one; even discussing it doesn't help. We will not make that mistake. Perhaps by spring or summer next year, we can revisit this more optimistically" Governor M.Isarescu (14.11.2025, Think ING)

CEE macro chartbook

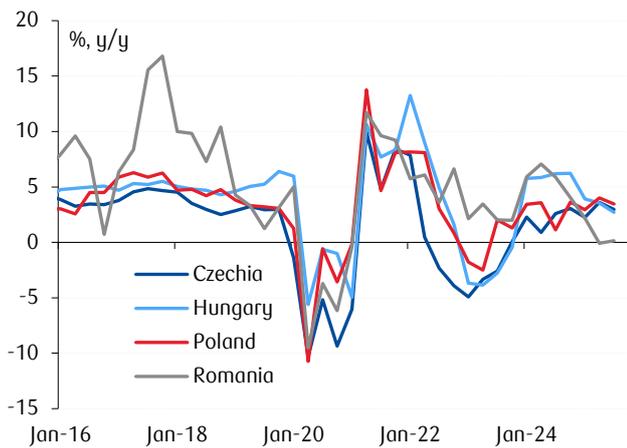
GDP level



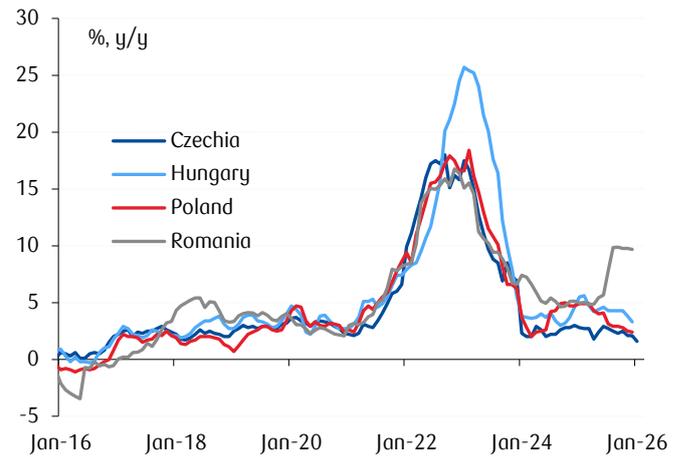
GDP growth



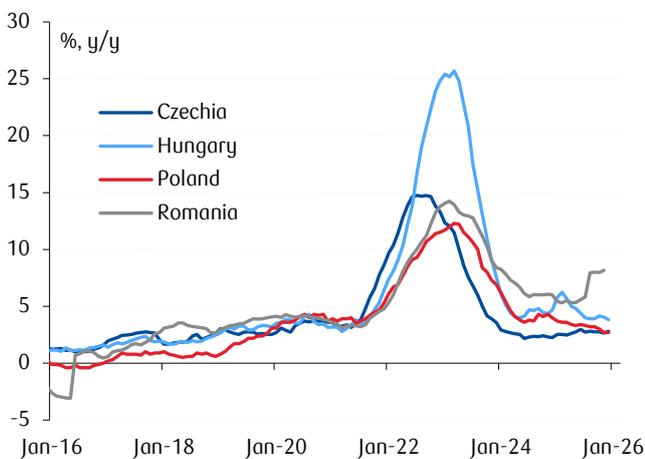
Private consumption growth



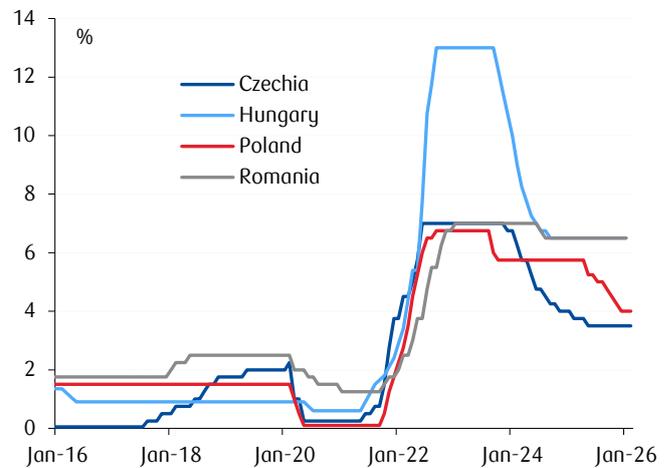
CPI inflation



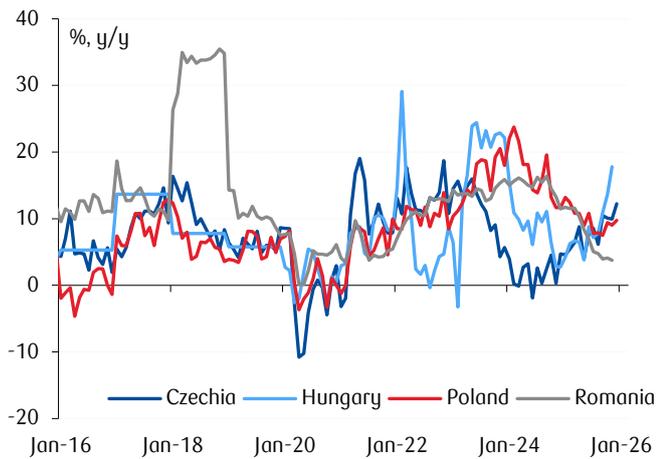
Core CPI inflation



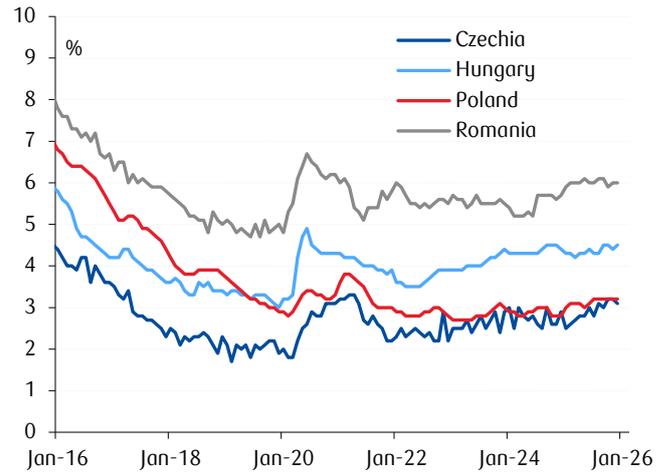
Interest rates (policy rates)



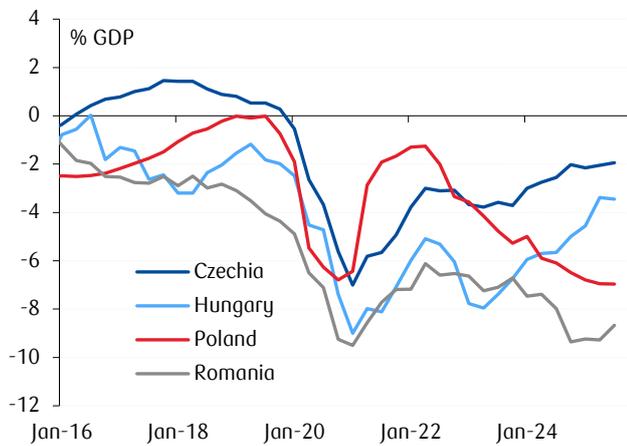
Wages*



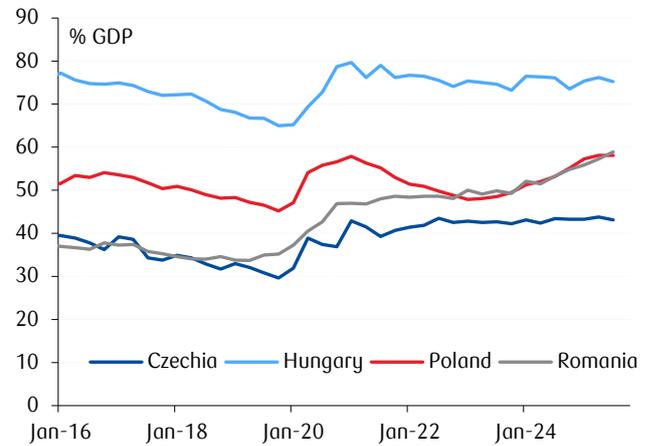
Harmonised unemployment rate



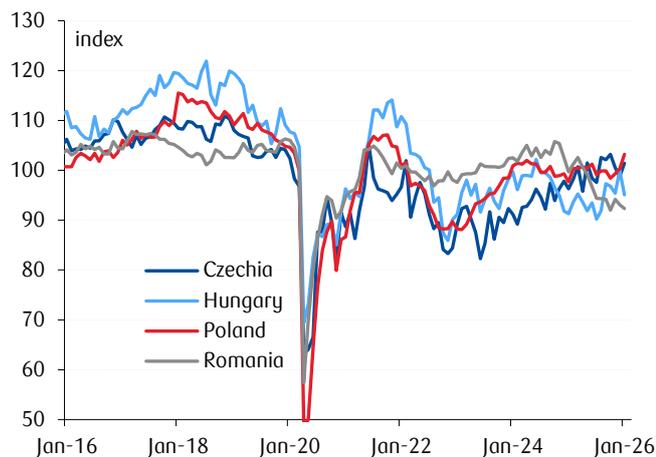
Fiscal deficit (ESA)



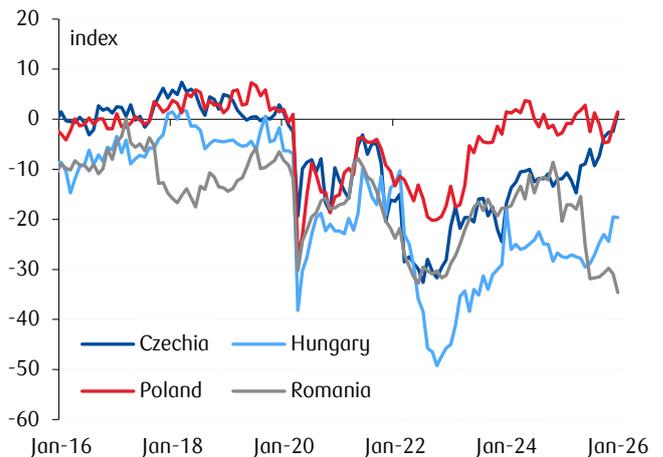
Public debt



ESI



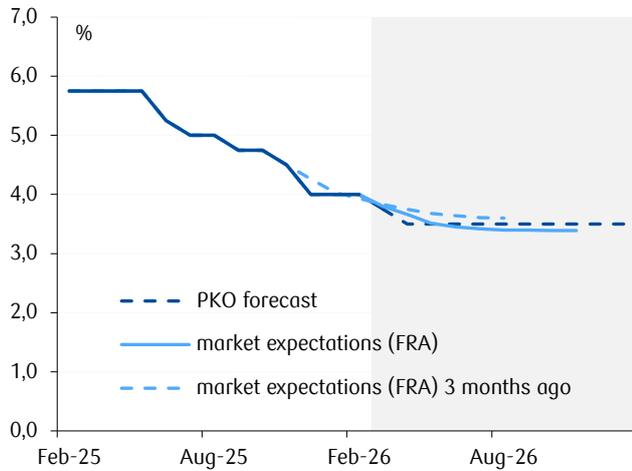
Consumer confidence ESI



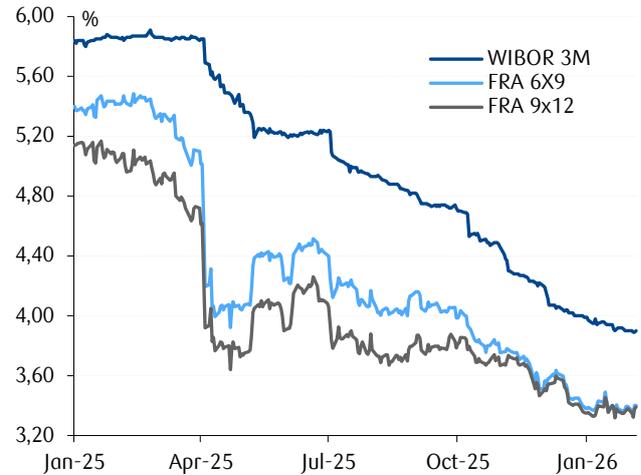
Source: Macrobond, GUS, INSSE, CZSO, KSH, PKO Bank Polski. *for Czechia wages in industry, for Hungary - national economy, Poland and Romania - enterprise sector.

Poland macro chartbook

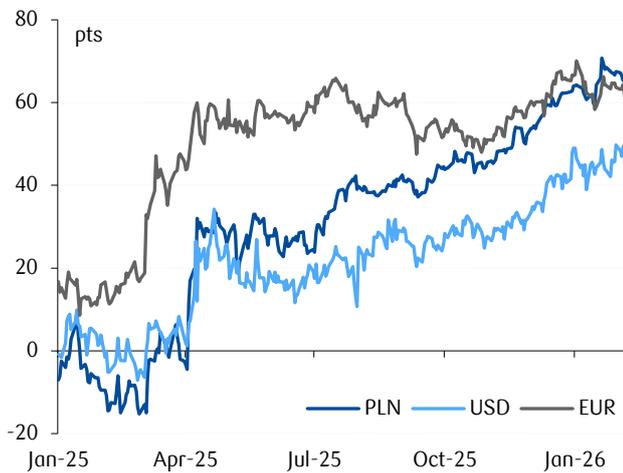
NBP policy rate: PKO BP forecast vs. market expectations



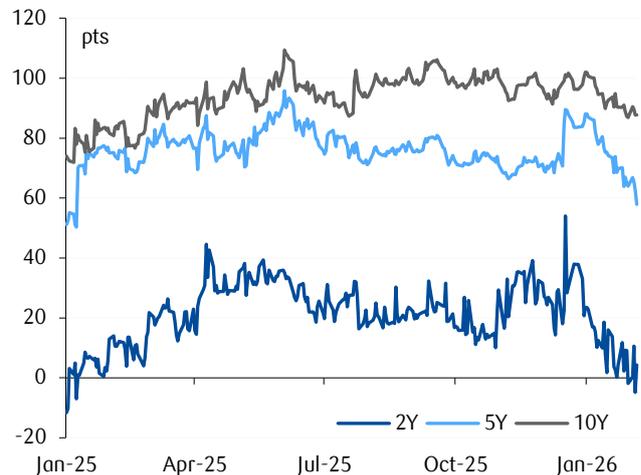
Short-term PLN interest rates



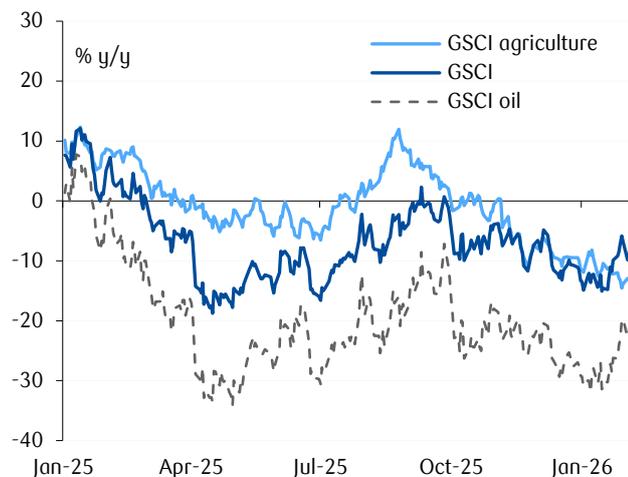
Slope of the swap curve (spread 10Y-2Y)*



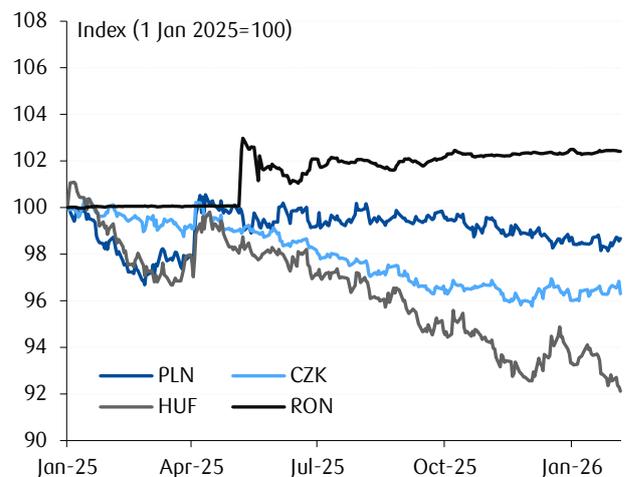
PLN asset swap spread



Global commodity prices (in PLN)

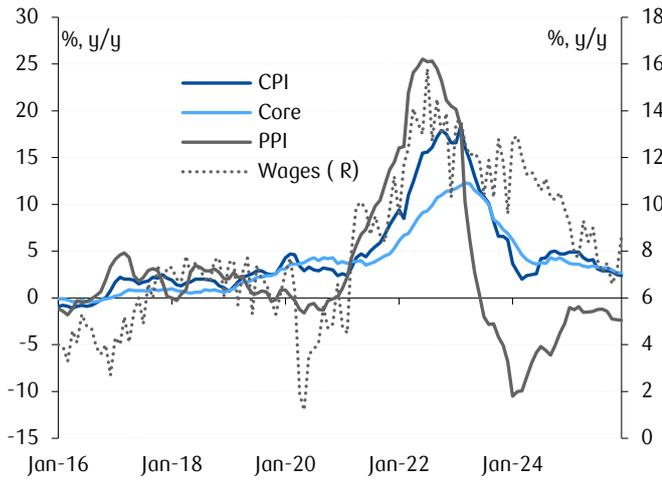


Selected CEE exchange rates against the EUR

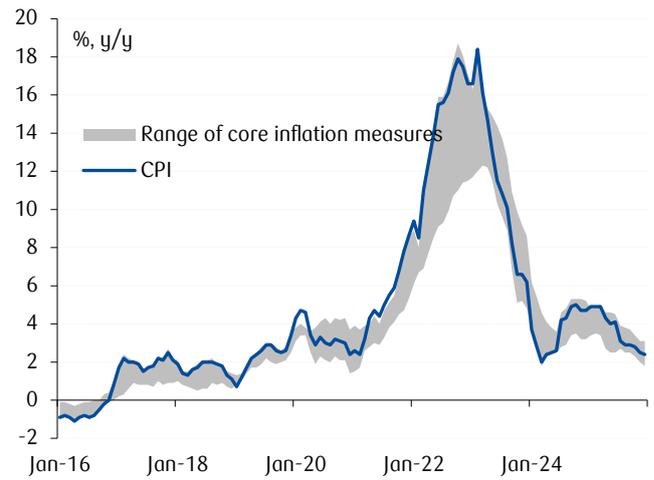


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

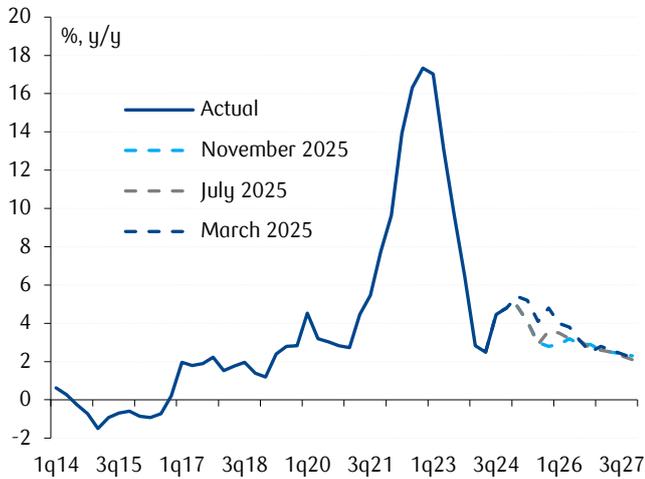
Broad inflation measures



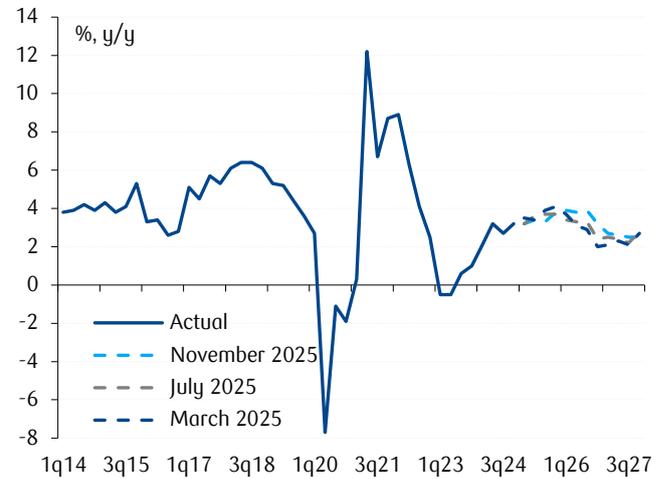
CPI and core inflation measures



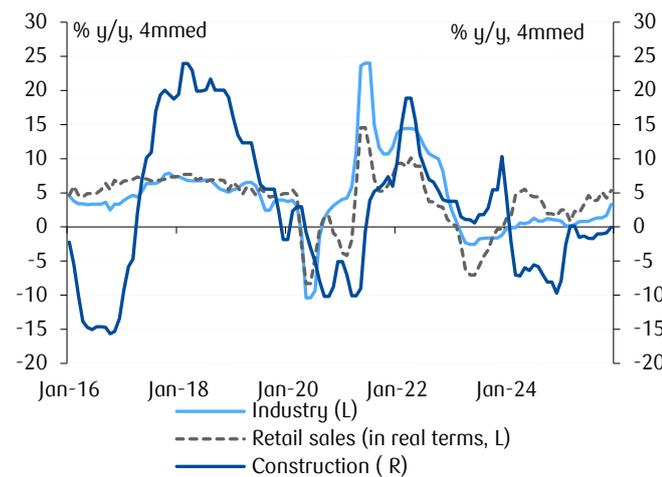
CPI inflation – NBP projections vs. actual



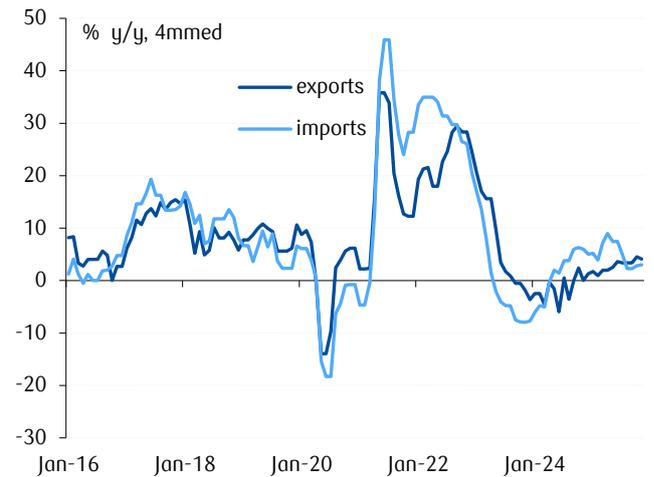
Real GDP growth – NBP projections vs. actual



Economic activity indicators

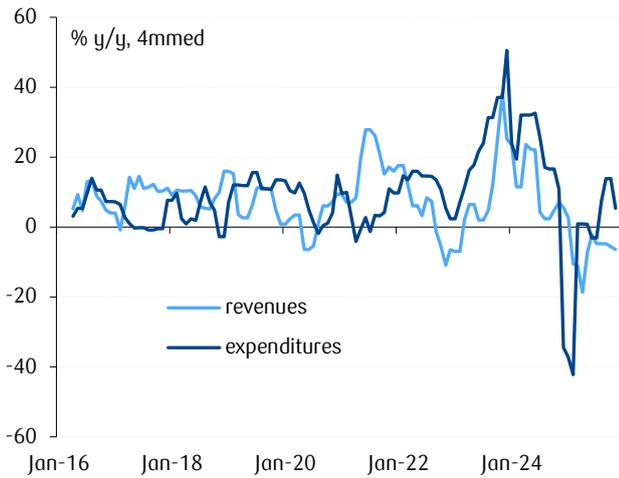


Merchandise trade (in EUR terms)

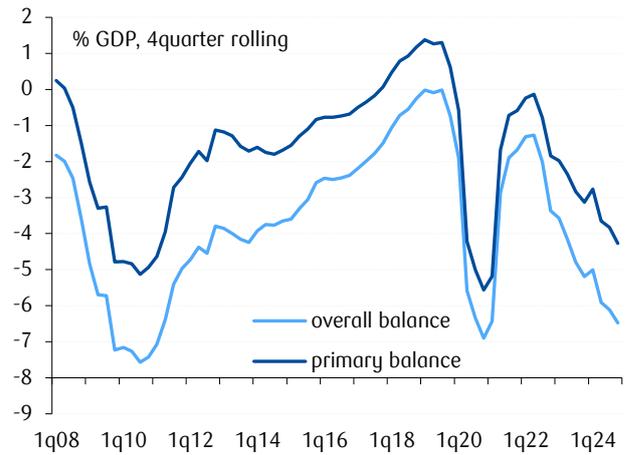


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

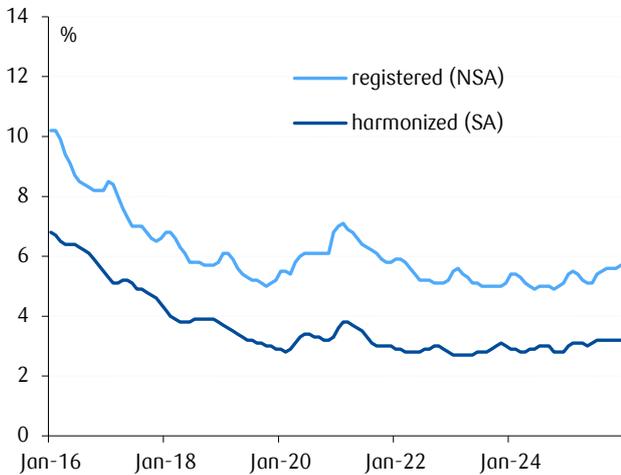
Central government revenues and expenditures*



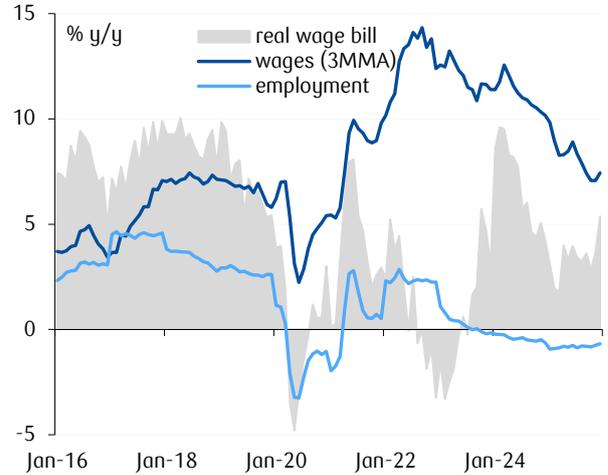
General government balance (ESA2010)



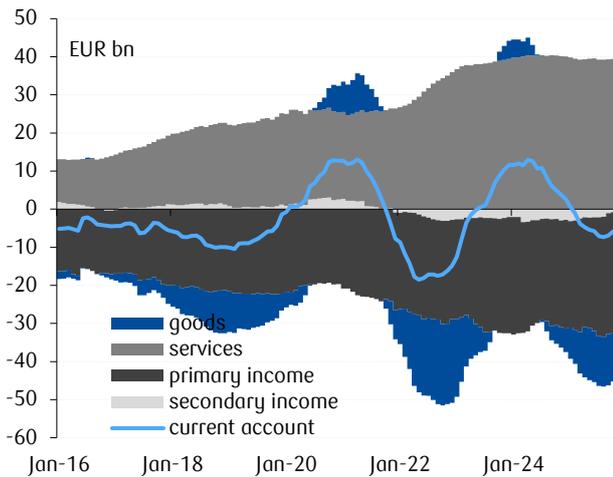
Unemployment rate



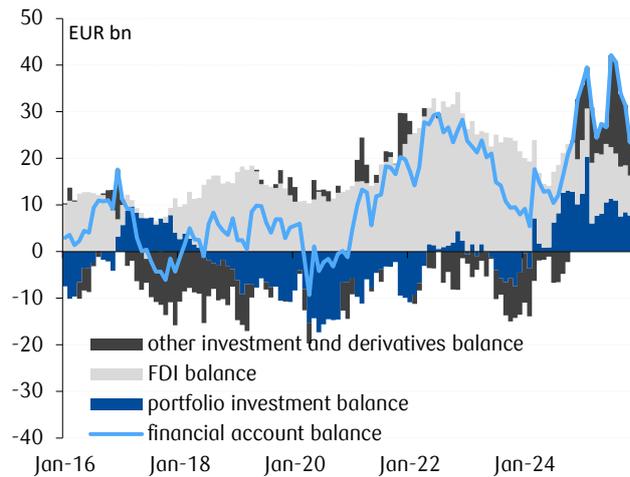
Employment and wages in the enterprise sector



Current account balance



Financial account balance



Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

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