Central Europe

Outlook 2026

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Executive summary

As crucial elections approach in several Central European countries, much of the region enters 2026 politically polarised. Social tension, geopolitics and the legacy of inflation and cost of living pressures are reshaping electoral dynamics. At the same time, economic performance is diverging sharply, with the export-dependent Visegrád states struggling to regain momentum while the Baltics show modest recoveries.

In Hungary, the emergence of Péter Magyar’s Tisza party is breaking the dominance of Prime Minister Viktor Orbán’s Fidesz and creating what increasingly resembles a de facto two-party system. Tisza’s pro-EU, anti-corruption platform and credible nationwide organisation are set to turn the April 2026 election into the most competitive contest in Hungary in more than a decade. For the first time, Orbán faces a challenger capable of mobilising disaffected urban voters while also appealing to parts of Fidesz’s conservative base.

The campaign is already characterised by aggressive rhetoric, disinformation and the use of state resources. Orbán’s renewed focus on Ukraine — portraying EU support for Kyiv and fast-tracked accession as existential threats — signals that geopolitical fear-mongering will be central to Fidesz’s strategy. At the same time, the government is rolling out an exceptionally large pre-election fiscal package. While politically effective, these measures embed long-term budgetary costs into an already fragile fiscal position, raising the risk of post-election consolidation shocks.

Slovakia’s political trajectory is less dramatic but still has the potential to lead to instability. Prime Minister Robert Fico’s left-right populist coalition continues to alienate large segments of society with its Kremlin-friendly rhetoric. With Fico’s Smer party sliding in the polls and Progressive Slovakia leading, there is a prospect of early elections, yet should this happen, no configuration promises a stable majority.

Czechia moved to the right with the inauguration of Andrej Babiš’s ANO-led government in December 2025. ANO’s coalition with far-right Freedom and Direct Democracy (SPD) and the anti-green, Eurosceptic Motorists for Themselves represents the most right-leaning government in Prague since World War II. Although President Petr Pavel has acted as a partial institutional brake, the coalition’s parliamentary majority gives Babiš scope to reshape policy. His likely alignment with Budapest and Bratislava raises the prospect of a new Central European eurosceptic bloc, even as Babiš attempts to soften those fears diplomatically.

In the Baltics, Latvia’s October 2026 parliamentary election will test the resilience of its fragmented coalition system, while Estonia’s presidential election will provide an early indicator ahead of the 2027 parliamentary race. Lithuania is experiencing heightened tension following the inclusion of the radical right Dawn of the River Neman in government, with disputes over media governance triggering warnings about creeping “Orbanisation”.

Economically, Central Europe is struggling to regain momentum after a prolonged period of stagnation. Hungary illustrates the region’s vulnerability to external demand. After repeatedly revising down its 2025 growth forecasts, GDP is now expected to expand by just 0.3-0.4%, implying three years of near-zero growth. The export-oriented industrial sector remains in contraction, reflecting weak automotive demand in Germany and other core markets. Household consumption remains the main driver of growth, and that is being propped up by tax cuts rather than by genuine income confidence.

Czechia’s performance has been more resilient. GDP growth of 2.8% year-on-year in the third quarter of 2025 indicated a less severe blow from US tariffs than originally expected. Rising wages and revived household consumption have offset weaker external demand, making domestic spending the key growth engine. However, this also leaves the economy vulnerable to any reversal in consumer sentiment, particularly if inflation or fiscal tightening returns.

In export-oriented Slovakia, growth slowed in 2025, weighed down by weak household consumption and the country’s heavy dependence on car exports — one of the sectors most vulnerable to US President Donald Trump’s trade policy. Although manufacturing and investment showed some improvement in 2025, the need for fiscal consolidation threatens to further suppress domestic demand in 2026.

The Baltics present a more balanced, if unspectacular, picture. Lithuania is expected to lead with growth around 3%, followed by Estonia at just over 2% and Latvia below 2%. Weak demand from Nordic countries and Germany will constrain exports, but EU-funded investment and defence spending will provide a stabilising buffer. Inflation should ease to around 2.5-3%, supporting a gradual recovery in real incomes, while European Central Bank (ECB) easing will provide limited monetary relief.

In a number of countries across the region, fiscal positions are deteriorating as defence spending rises toward 5% of GDP and populist governments expand social transfers. Hungary’s pre-election giveaways and Slovakia’s delayed consolidation raise the risk of sharp post-election austerity. In the Baltics, which have ramped up defence spending, deficits are likely to remain close to 3-4% of GDP, gradually pushing debt higher. Structurally, Central Europe remains trapped between weak productivity growth, labour shortages and over-reliance on external demand.

1.0 Political outlook

1.1 Politics - Czechia

The new rightwing government led by Andrej Babiš and his ANO party was inaugurated in December 2025 after ANO won the October election to the country's parliament with 34.59% of the vote, capitalising on the unpopularity of the previous centre-right government led by Petr Fiala.

ANO quickly formed the new ruling coalition with the far-right Freedom and Direct Democracy (SPD) and anti-green and Eurosceptic Motorists for Themselves parties. Babiš' plans for the new government, seen as the most rightwing government in Prague since World War II, were cooled down a little by the liberal President Petr Pavel who refused to sign in Filip Turek of the Motorists in response to a scandal over Turek's past racist, sexist and homophobic online comments. Pavel also insisted Babiš resolved his conflict of interests in connection to the ANO leader's ownership links to food and agrochemical conglomerate Agrofert, which have been criticised by anti-corruption watchdogs.

ANO also signaled major shifts in the country's policies after it called for review of financing aid to Ukraine from national resources, though it reiterated that ANO supports Ukraine in its fight against the Russian invasion.

The handing of the environmental portfolio to the Motorists, led by Petr Macinka, who has cast doubt on human involvement in climate change, was met with countrywide protests. Macinka nominated another climate change denier and hoaxer, chemist Jaromír Wasserbauer as his first deputy, in a deepening rift with the scientific and expert community.

In its first sessions, the Babiš-led cabinet also rejected the EU's migration pact and the bloc's new emission units trading system ETS2. Babiš has also maintained close links with the national conservative governments in Bratislava and Budapest, while in his first trip to Brussels he tried to diffuse liberal worries about emerging eurosceptic Central European alliance inside the EU. The new ruling coalition also said it would review the budget for 2026 approved by Fiala's cabinet, sending to the country provisional budget spending rules in January.

Media watchdogs have been observing the government's moves closely in fear it would try to curtail the financing of public media, or even pursue structural and staff changes at Czech Television and Czech Radio, which could weaken their editorial independence and impact the quality of their broadcasting.

1.2 Politics - Estonia

In Estonia, the key political event in 2026 will be the presidential election scheduled for late August. The presidency, while largely ceremonial, carries symbolic importance in Estonia's constitutional framework. The indirect election process, conducted initially by the country's parliament, the Riigikogu, and, if required, by an expanded electoral college, may provide an indication of political alignment within the governing elite ahead of the parliamentary elections due in 2027. In the absence of a general election in 2026, policy continuity is expected to prevail, although the current ruling majority comprising Reform and Estonia 200 is fragile. Moreover, the support for Reform has sunk – in early November 2025, a Norstat poll showed the Reform Party at around 10.6 % support, representing a historic low for the party in that polling series.

1.3 Politics - Hungary

Hungary's political landscape became increasingly polarised in 2025, which will likely escalate in the campaign ahead of the 2026 general election, and reflect the patterns of a de facto two-party system.

The "old opposition" lost ground amid the emergence of the Tisza Party, which consolidated its lead in most independent polls and prediction markets ahead of ruling Fidesz. Tisza leader Peter Magyar is now seen as a credible challenger who could end Prime Minister Viktor Orban's authoritarian rule in the April elections.

The 45-year-old former Fidesz insider has created a stable political force with a pro-European and anti-corruption platform, with a successful primary to select candidates at each district. The party pledges to unlock frozen EU funds, join the European Public Prosecutor's Office, and introduce a wealth tax on the richest to finance major healthcare reform, a large-scale rental and home construction programme, and investments in household energy efficiency and education. Tisza was forced onto the defensive after the party's database was hacked and a leaked memo about alleged tax hikes circulated, which the party later denied, saying Fidesz was using an AI-generated document to accuse Tisza of planning austerity after the election.

Orban sought to regain the narrative with a scathing anti-Ukraine campaign in the spring, criticising the EU for promoting fast-tracked Ukrainian membership and accusing the opposition of serving foreign interests. Ukraine is expected to remain central in the election campaign, while Orban will use his connections with US President Donald Trump and Russian President Vladimir Putin as leverage. Fidesz appears set to mobilise state resources and its extensive propaganda machinery ahead of the vote, with Orbán taking a more hands-on role than in 2022.

The campaign is expected to mix aggressive rhetoric, disinformation targeting the opposition and pre-election giveaway, estimated atHUF2.3 trillion (€5.9bn) on households through tax cuts and welfare measures, exceeding the HUF1.6 trillion dished out before the 2022 vote, but unlike the previous handout, the package includes lifelong income tax exemptions for mothers, a higher child benefit, with a long-term fiscal impact.

The political landscape also shows a widening generational divide. Tisza leads overwhelmingly among voters under 40, while Fidesz retains strong support among those over 65 and the less educated. Despite Tisza's popularity with younger voters, 45% of respondents expect Fidesz to remain in government, compared with 38% for Tisza. Fidesz has denied reports, which have popped up from time to time, that Orban is toying with the idea of becoming president, which would require legislative overhaul and expanding the mostly ceremonial office's powers. The governing party refuted these reports. Analysts, however, do not rule out the possibility that Fidesz could tamper with the election laws even before the vote.

1.4 Politics - Latvia

Parliamentary elections for the 100-seat parliament Saeima are scheduled for October 2026 and will constitute the most significant domestic political event of the year. The electoral process is likely to test the resilience of Latvia’s multi-party system and coalition-based governance model. Considering that Latvia’s national pro-Trump ‘Latvia first’ performed well in the country’s municipal council elections in 2025 (it won 13 of the 60 seats on the Riga City Council, making it the single largest party in that body by seat count), the party is expected to be in the focus of the other parties, media and societal groups. Campaign dynamics are expected to centre on defence expenditure, the changing geopolitical landscape, wear in Ukraine and social welfare

1.5 Politics - Lithuania

In 2026, Lithuania will have neither presidential nor parliamentary elections. The country’s parties will instead gear up for mayoral and municipal council elections in early 2027. However, the inclusion of the radical right party Dawn of the River Neman in the ruling coalition, alongside the Social Democratic Party as the senior partner, has destabilised the country’s political establishment. The party has called for changes to the governance of the national public broadcaster *LRT*, prompting analysts to warn of potential “Orbanisation” of the country. As a result, 2026 is likely to remain a year of elevated political tension and periodic instability, keeping Lithuania in the international media spotlight. Nevertheless, the two-party coalition is expected to remain intact throughout the year.

1.6 Politics - Slovakia

Slovak society and politics remained deeply polarised in 2025 as the left-right cabinet of populist Prime Minister Robert Fico continued to push ahead with structural and staff changes at public institutions and intensified its Kremlin-pleasing stances, which were met with countrywide protests.

In September 2025, the parliament unexpectedly passed changes to the country's constitution enshrining only two genders, male and female, forbidding surrogate motherhood, and introducing new rules for adopting, raising and educating children.

The changes also "exempt the constitution from the European law" after more than 21 years of Slovakia's EU membership, and sparked a challenge from EU courts. In December, Fico's ruling coalition relied on its narrow majority in the Slovak parliament to pass a government-backed bill aimed at dismantling the Whistleblowers Protection Office (ÚOO), possibly sending the country onto a collision course with the European Union's directive on the protection of whistle-blowers, but the bill was suspended by the Constitutional Court while its compatibility with the constitution is reviewed.

Fico's ruling Smer party continued to fall in polls, which were firmly topped by the largest opposition party, centrist Progressive Slovakia (PS). However, neither of the two parties appears to be in a position to form a stable cabinet should Fico's fragile ruling coalition not survive the 2026 political turmoils, or stay together until the 2027 regular election, amid continued speculation that early elections are a constant possibility in the Slovak fragmented political landscape. Fico's coalition is also under pressure to implement more unpopular consolidation measures to narrow down the public finance deficit, and if implemented these could contribute to discontent with Fico's rule, not just among the urban population, but also among vulnerable parts of society in poorer regions.

If Fico holds his coalition together, the autumn regional and municipal elections will be another testing ground for the opposition strength led by PS, which eyes to inflict another defeat to Fico's Smer after it won the 2024 elections to the European Parliament.

2.0 Macroeconomic Outlook

2.1 Macroeconomy - Czechia

Czechia key economic figures and forecasts	2018	2019	2020	2021	2022	2023	2024
Nominal GDP (EUR bn)	216	220	214	249	257	294	295?
Real GDP (% yoy)	2.8	3.6	-5.3	4	2.8	-0.1	1.3
Industrial output (% yoy)	3	-0.3	-7.2	6.6	2.5	-0.4	-1.4
Unemployment rate (avg, %)	2.2	2	2.6	2.8	2.4	2.6	2.6
Consumer prices (avg, % yoy)	2.1	2.8	3.2	3.8	15.1	10.7	2.4
General budget balance (% of GDP)	0.9	0.3	-5.7	-5.1	-3.1	-3.7	-2
Public debt (% of GDP)	32.1	30	37.7	42	44.1	44	43.3
Current account balance (% of GDP)	0.4	0.3	2	-2.8	-6.1	-3.8	-2.2
Official FX reserves (EUR bn)	124.5	133.4	135.4	153.3	132.1	134.3	140.8
Gross foreign debt (% of GDP)	81.5	75.7	75.7	74	65.5	62.8	65.4
EUR/LC (avg)	25.66	25.67	26.46	25.64	24.56	24	25.11
USD/LC (avg)	21.74	22.93	23.21	21.69	23.37	22.2	23.22

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH , Czech Statistical Office, Czech National Bank, IMF, Eurostat, Czech Radio, Statista, World Bank

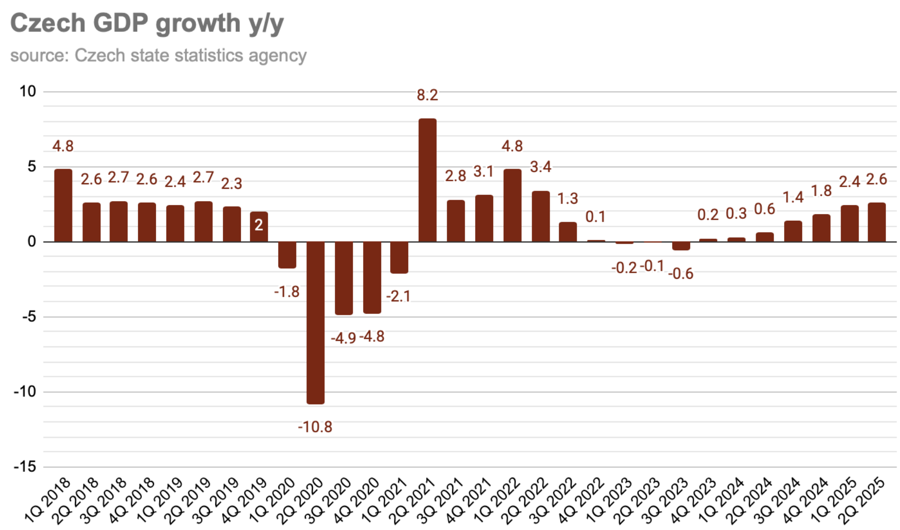
2.1.1 GDP growth

Czech gross domestic product (GDP) surprised the local market with a convincing 2.8% y/y growth in the third quarter. Early in 2025 domestic as well as international analysts expected the country's export-oriented economy to take a more substantial hit from the tariffs the administration of the US President Donald Trump imposed on EU imported goods. However, the revived household consumption backed by continued wage growth was able to offset the weakened international demand, and despite the signs of household saturation, the domestic consumption is expected to remain an important driver of gdp growth in the coming months as well. Government expenditure, investment, inventories and foreign trade contributed to the growth as well.

The Czech Banking Association (CBA) improved its overall GDP projection for 2025 to 2.5% in its autumn forecast, which is up by 0.4 percentage point on the previous projection, and also improved the 2026 projection 2.2% as the full impact of US tariffs is expected to bite in. In 2027, CBA projected a growth of 2.6% and noted that the formation of the incoming cabinet led by the populist ANO party of Andrej Babiš and expected looser fiscal policies played a role in the improvements.

The European Commission's November prognosis expects the Czech GDP growth of 2.4% in 2025, and 1.9% in 2026 before bouncing back to 2.4% growth in 2027, while IMF improved its October prognosis to 2.3% in 2025 and 2% in 2026 after it downgraded the forecast to 1.6% and 1.8% respectively in its spring prognosis amid international trade uncertainties.

The country's economy remains closely integrated with the EU's key market led by Germany and as seen in Czech industry, Germany developments reverberate on the Czech market, and conversely, political stability of the EU bloc, including income from EU's structural fund are a prerequisite of any Czech growth.



2.1.2 External environment

The Czech trade balance of goods ended in surplus of CZK26bn (€1.1bn) in October, an increase in surplus by CZK15bn y/y, which statisticians from the Czech Statistical Office (CZSO) attributed to the value of imports "falling more than exports." The main positive influence came from lower trade deficit in crude petroleum and natural gas by CZK4.9bn. The positive balance in motor vehicles rose by CZK1.7bn. From January to October, the trade balance ended in a surplus of CZK195.6bn, which was an increase by CZK4.1bn y/y, with exports up by 2.9% and imports by 3%.

The international trade will remain closely watched for signs of impact on the car exports following the imposition of US tariffs on the EU-imported goods.

The country's current account surplus widened to CZK16.8bn in October from CZK11.7bn registered in October of the previous year after the goods account surplus expanded to CZK42.6bn from CZK31.4bn in previous October. From January-October, the current account reached CZK41.8bn, compared with CZK116.9bn a year earlier.

2.1.3 Inflation and monetary policy

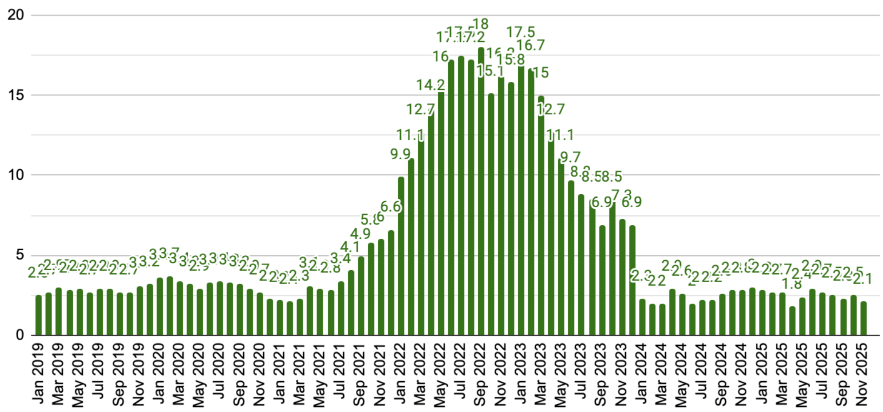
Czech inflation eased to 2.1% y/y in November amid easing growth of food prices (2.8%) and beat the market expectations, which expected the inflation to oscillate around the October growth of 2.5%. The Czech Banking Association projected the annual inflation of 2.5% in 2025 in its November forecast, and to slow down to 2.2% in 2026 before accelerating to 2.6% in 2027.

In line with the incoming cabinet declarations CBA expects the new Czech government to carry out looser fiscal policies, which could have pro-inflationary effects in the midterm horizon. The European Commission projects inflation to average at 2.3% in 2025, slow down to 2.1% in 2026 and accelerate to 2.4% in 2027, and expects services inflation to be the main contributor backed by strong wage growth, which should "decelerate over the forecast horizon." EC also projects food inflation at 3% this year and 2.7% next year, before dropping to 2.2% in 2027.

Despite the November easing this year's inflation remains slightly above the 2% target level of the Czech National Bank (CNB), fueling market expectations of the main interest rate to remain at 3.5% in the upcoming months. CNB has kept the rate unchanged since May when CNB made the last lowering (by 0.25 basis points). CNB Governor Aleš Michl made several statements signalling that the rate will remain higher than under his predecessor's watch before the energy crisis. In November, Michl argued that in order to stabilize inflation near the 2% it is needed that "the growth of money in the economy does not accelerate too much." Local analysts point to high price growth in services for keeping CNB cautious. Some international observers even argued that CNB could resort to a hike under Michl, and Michl himself reiterated all options "are open" ahead of 2026.

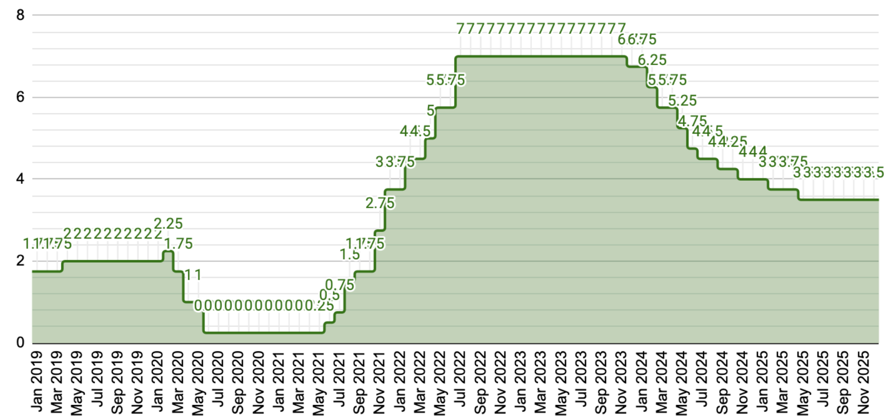
Czech inflation y/y

source: Central bank of Czech



Czech monetary policy rate

source: Central bank of Czech



2.1.4 Industrial production

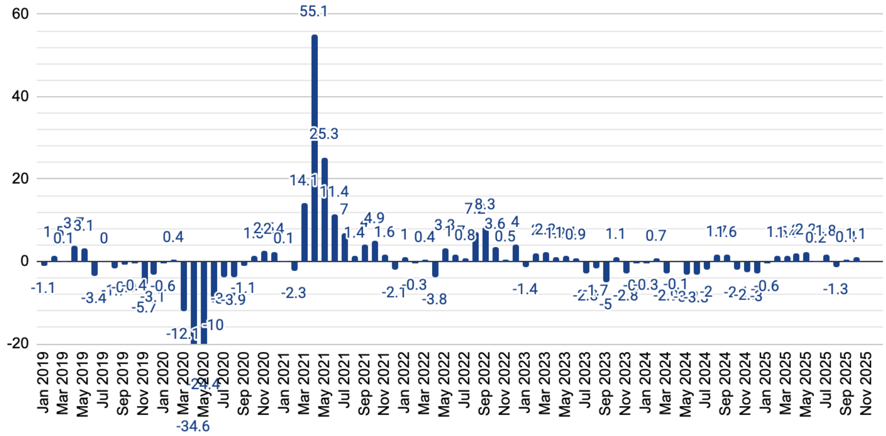
Czech industry maintained an unconvincing performance during 2025, hovering above stagnation levels and registering 1.1% y/y growth in October and 0.8% growth in September. The industrial output is not expected to go through a more significant revival in light of the subdued performance of its key partner market in Germany. While some local analysts remain upbeat about the German government's plans for a major stimulus package, others point out that Czech industry's hovering around stagnation levels persists already since 2017, raising concerns over the sustainability of the country's reliance on energy-intensive industrial sectors and the robust car industry.

Czech industrial producer prices have remained in decline for ten months running, easing the decrease to 1.3% y/y in November, and PPI continued to fall by 2.5% or more in motor vehicles, electricity and gas, and chemicals and chemical products.

The manufacturing PMI index, compiled monthly by the market intelligence company S&P Global, clinched the 50-point mark in June for the first time in more than three years, but returned to decline since then despite an uptick to 48 in November driven by the renewed rise in export orders.

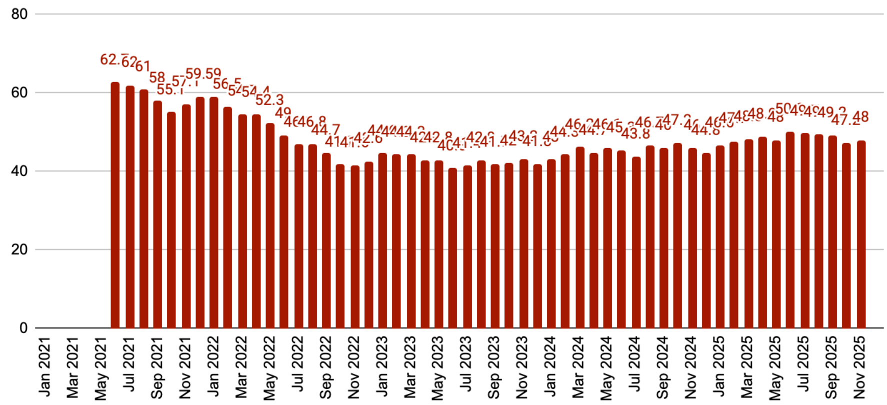
Czech industrial production y/y

source: Czech state statistics agency



Czech manufacturing PMI

source: IHS Markit



2.2 Macroeconomy - Estonia

Estonia key economic figures and forecasts	2019	2020	2021	2022	2023	2024	2025
Nominal GDP (EUR bn)	30.2	29.8	30.2	29..8	29.0	40.0	
Real GDP (% yoy)	3.7	-2.9	8.3	-1.2	-2.7	-0.3	0.9 (est)
Unemployment rate (avg, %)	4.4	6.8	6.3	5.6	6.4	7.6	7.6 (est)
Nominal industrial wages (% yoy)	7.8	4.0	7.0	9.0	11.0	8.1	6.0 (est)
Consumer prices (avg, % yoy)	2.3	0.6	4.5	19.4	9.1	3.5	4.5 (est)
Consumer prices (eop, % yoy)	2.3	0.4	4.7	19.4	9.2	3.5	4.7 (est)
General budget balance (% of GDP)	-0.3	-4.8	-2.4	-0.1	-3.4	-0.7	-1.3 (est)
Public debt (% of GDP)	9	19	18	19.2	20.2	23.5	24 (est)
Current account balance (% of GDP)		-2.5	-3.7	-3.1	-1.2	-1.4	
Official FX reserves (EUR bn)	1.85	1.90	1.95	2.00	2.02	1.50	2.10 (est)
Gross foreign debt (% of GDP)	82	85	83	83	86	98	99 (est)
USD/LC (avg)	0.89	0.88	0.85	0.95	0.92	0.92	0.89 (est)

Source: Statistics Estonia, Eurostat, European Central Bank, World Bank

2.2.1 GDP growth

Estonia’s economy is forecast to grow at a more moderate pace in 2026, with the European Commission projecting real GDP growth of approximately 2.1% in 2026. While the economy is expected to emerge gradually from a prolonged slowdown, growth prospects remain constrained by weak external demand, particularly from Nordic trading partners, and by fiscal consolidation measures. Local authorities anticipate a gradual recovery but acknowledge downside risks related to competitiveness and investment.

2.2.2 External environment

The current account positions of the Baltic states – and Estonia – in 2026 are expected to remain broadly stable but continue to diverge, reflecting differences in export structures, investment dynamics and income flows. While external imbalances are projected to remain manageable across the region, none of the three economies is likely to see a decisive improvement in external balances.

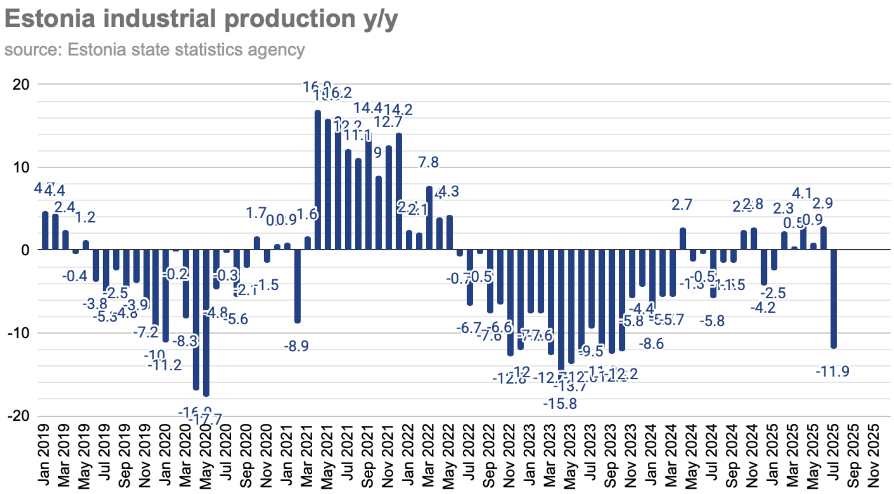
Estonia is expected to continue running a moderate current account deficit of around 2-3% of GDP in 2026. The deficit reflects weak goods export performance, strong import demand linked to investment and defence spending, and persistent primary income outflows due to the high share of foreign-owned enterprises. Although the deficit is narrower than during the energy shock years, it remains structural and highlights Estonia's sensitivity to external demand conditions, particularly in Nordic markets.

2.2.3 Inflation and monetary policy

Inflation in Estonia is expected to moderate further in 2026, though it will remain above pre-pandemic norms. Estonia's inflation is expected to ease to around 2.5-3%, but remain elevated due to tax increases, high labour costs and limited competition in some service sectors.

2.2.4 Industrial production

Estonia is expected to see a slow recovery in industrial output in 2026, with annual growth likely in the low single digits. Manufacturing remains highly exposed to Nordic demand, particularly from Finland and Sweden, suggesting a cautious rebound rather than a sharp upswing. Estonia's manufacturing PMI is forecast to hover around the 50 threshold, moving between marginal contraction and marginal expansion over the year.



2.3 Macroeconomy - Hungary

Hungary key economic figures and forecasts							
	2019	2020	2021	2022	2023	2024	2025F
Nominal GDP (EUR bn)	146.1	137.8	153.8	168.5	197.1	206.1	
Real GDP (% yoy)	4.6	5.0	7.1	4.6	-0.9	0.6	0.3
Industrial output (% yoy)	5.6	-6.0	9.5	5.8	-5.5	-4.0	3.3?
Unemployment rate (avg, %)	3.4	4.3	4.0	3.6	4.1	4.5	4.1
Producer prices (avg, % yoy)	2.1	4.2	13.5	33.7	7.8	1.0	5.5
Consumer prices (avg, % yoy)	3.4	3.3	5.1	14.5	17.6	3.7	3.8
General budget balance (% of GDP)	-2.0	-8.1	-7.5	-6.2	-6.7	-4.9	-5.5
Public debt (% of GDP)	66.3	80.4	76.8	73.9	73.5	73.5	76.2
Current account balance (% of GDP)	-0.4	0.1	-3.0	-8.1	0.2	1.5	1.7
Official FX reserves (EUR bn)	28.4	33.7	37	38.7	41.4	46.5	48.4
Gross foreign debt (% of GDP)	96.9	160	157.7	159.8	129.1	142.9	
EUR/LC (avg)	325.4	351.2	358.5	391.3	382.0	395.2	397.5
USD/LC (avg)	290.7	307.9	303.3	373.1	353.3	365.2	351.5

Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

2.3.1 GDP growth

The government had anticipated a rebound in GDP in 2025, supported by rising consumption, a recovery in external markets, robust net FDI inflows, new automotive and battery capacities, and the end of the war under Donald Trump. However, it had to revise its growth forecast downward twice due to weak external demand. The economy is now expected to grow just 0.3–0.4%, far below the original 3.7% target, implying stagnation over a three-year period.

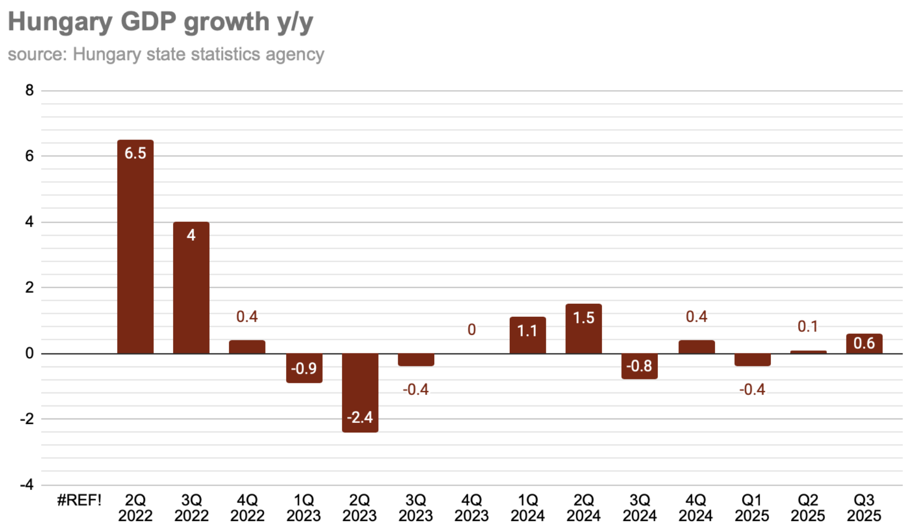
Hungary's export-oriented industry is also set for a third consecutive year of contraction, weighed down by weak automotive demand in key markets like Germany. New capacities from BMW, CATL, and BYD are expected to add 0.6pp to growth in 2026. Household consumption, accounting for two-thirds of GDP, remained the main growth engine, helping Hungary slip into recession, adding 1.8–2pp to growth. Tax cuts and government programmes stabilised incomes but failed to trigger a strong rebound as households remained cautious.

Investments remained the weakest component of GDP, 20% below 2021 levels due to soft demand, while public investment was scaled back amid fiscal tightening and lower EU inflows. From 2026, growth is expected to strengthen, supported by consumption and the gradual start-up of new industrial capacities, with capital expenditures stabilising.

Household spending will remain the main driver, underpinned by rising real wages and pre-election government spending. The government extended lifelong PIT exemptions to mothers with two children (from families with three children), doubled family allowances, and announced a string of other populist measures timed for the April vote.

In view of the weaker growth IN 2025, the government slashed the 2026 growth target from 4.1% to 3%, which remains above the 2% median forecast. The EBRD cut its 2026 forecast to 2%, the OECD projects 1.9%, and the IMF lowered its estimate to 2.0%, which are below the central bank's 2.8% projection.

Risks remain tilted to the downside, tied to weak external demand, trade disruptions, and strained EU relations, and the political uncertainties. Due to its proximity to Ukraine, Hungary's economy could benefit from the end of the conflict.



2.3.2 External environment

The slowdown in European economies and the slower EV transition hit Hungary's export-oriented automotive industry, which accounts for around 28-30% of manufacturing activity and 10–12% of GDP. Export growth remains constrained, while imports have fallen even more sharply amid a continued decline in investment, despite resilient household consumption.

The transfer balance remained low due to limited EU inflows after the suspension of €22bn from cohesion funds in 2022, while access to the RRF remains blocked due to unmet "super-milestones."
The government has threatened to block approval of the EU's next budget until the frozen funds are released, a move that could further deepen already strained ties with Brussels.

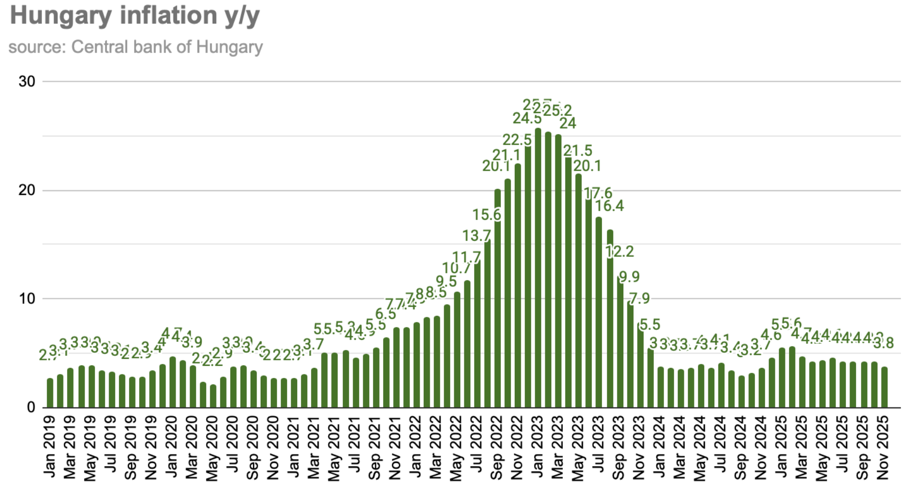
A recovery in the European economy and the ramp-up of new industrial capacities are expected to support faster export growth in 2026 and increase Hungary's export market share. The goods trade balance posted an €8.5bn surplus in the first ten months of the year, while the services surplus reached €9.3bn by the end of September. The current account surplus is projected at around 1.3% in the next two years.

2.3.3 Inflation and monetary policy

Hungary's National Bank (MNB) kept the base rate unchanged at 6.5% in 2025, one of the highest levels in the region, as inflation remained above its 4% tolerance band for most of the year, but profit-margin caps shaved about 1.5p off the headline data, further supporting the case of a hawkish stance. Administrative price controls continue to conceal underlying inflationary pressures, and the uncertainty surrounding their eventual removal complicates the central bank's planning. Disinflation in 2025 was supported by a moderate rise in food prices, lower energy prices, while service price inflation remained sticky.

The stronger forint also supported disinflation through cheaper imports and lower factory-gate prices, while high yields drew carry-trade inflows, backing up the forint. The forint reversed from a weakening pattern seen in the last ten years under Gyorgy Matolcsy's term, supported high-yielding assets, and was driven by a massive current account surplus. The outgoing governor is under investigation as MNB foundations suffered billions of euros of losses.

Fears that new central governor Mihaly Varga would bow to political pressure to cut rates did not materialise; instead, he maintained strict policy and helped restore confidence in the central bank. Inflation may temporarily fall below 3% in early 2026 due to base effects and government measures such as profit margin caps, the voluntary freezing of bank and telecom fees, and the postponement of inflation-adjusted excise tax hikes from January, but it is set to accelerate in H2. Inflation may average 3.6% in 2026, down from 3.6% in 2026, while the MNB projects a 3.8% rate, which is close to the median forecast of analysts. Strong wage growth, the fallout from pre-election fiscal easing, and persistent core inflation leave little room for the MNB to cut rates in the near term, which could be near 6% at the end of 2026.



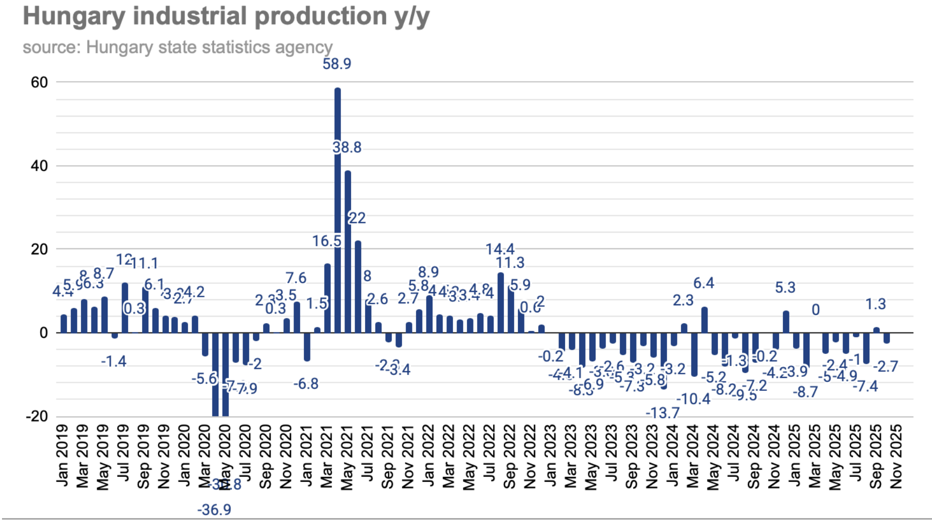
2.3.4 Industrial production

Hungary's industrial sector has remained in the bottom third among EU countries and looks set to register its third consecutive annual decline in 2025, the first since the regime change. Hungary's industry began diverging from regional peers in 2023, showing a sharper drop than other Central European economies, after rebounding quickly from the pandemic in 2021 due to structural weakness, including low efficiency and productivity, especially in the SME sector.

The government blamed the weak external markets and Germany's stagnant economy and blasted EU leaders for striking an unfavourable deal with Washington after the tariff dispute. Higher US tariffs impact predominantly premium carmakers such as BMW, Audi, and Mercedes. Output in the automotive sector, which accounts for around one-quarter of total manufacturing, has fluctuated in 2025, while battery production declined sharply, reflecting the broader slowdown in the EV transition.

The government acknowledged the country's heavy reliance on Germany in the automotive sector, while defending its strategy to attract Asian battery makers to the country. At the same time, it has signalled a shift toward broader sectoral diversification.

Serial production at BYD's €5bn plant in Szeged is expected to start in Q2, after some delay. The government rolled out development programmes to scale up SMEs, improve their productivity and reduce the gap with larger companies through grants and subsidised credits.



2.4 Macroeconomy - Latvia

Latvia key economic figures and forecasts							
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Nominal GDP (EUR bn)	30.6	29.5	32.9	36.1	39.6	40.2	
Real GDP (% yoy)	2.0	3.5	6.9	2.8	1.7	0.4	
Industrial output (% yoy)		5.6	28.0	8.5	6.4	2.2	4.4 (est)
Unemployment rate (avg, %)	6.3	8.1	7.8	6.9	6.5	6.3	6.1 (est)
Consumer prices (avg, % yoy)	2.3	1.6	2.0	17.3	8.9	1.3	3.8 (est)
Consumer prices (eop, % yoy)		0.5	7.9	20.7	0.9	3.2	3.8 (est)
General budget balance (% of GDP)	-0.2	-4.1	-7.2	-4.98	-2.4	-1.8	-0.3 (est)
Public debt (% of GDP)	37.9	44.0	45.9	44.0	44.0	46.0	48.0 (est)
Current account balance (% of GDP)		3.0	-4.1	-5.5	-3.8	-1.6	-3.7 (est)
Official FX reserves (EUR bn)	4.0	4.2	4.3	4.5	4.8	5.1	5.2 (est)
Gross foreign debt (% of GDP)		126	114	109	101	98	105 (est)
USD/LC (avg)	0.89	0.88	0.85	0.95	0.92	0.92	0.89

Source: Latvia's Statistical Office, Eurostat, European Central Bank, World Bank

2.4.1 GDP growth

Latvia is projected to be the slowest-growing Baltic economy in 2026, with real GDP growth estimated at around 1.7%. The outlook reflects weaker productivity growth, demographic pressures and a more subdued investment profile. Domestic institutions broadly share this cautious assessment, noting that growth will depend heavily on EU-fund absorption and improvements in the external environment.

Manufacturing PMI indicators across the Baltic states – and Latvia – are expected to improve modestly in 2026, signalling stabilisation after several weak years rather than a strong expansion.

Latvia is projected to lag, with PMI readings remaining slightly below 50, indicating fragile conditions. Overall, PMI trends point to a cautious and uneven industrial recovery across the region.

2.4.2 External environment

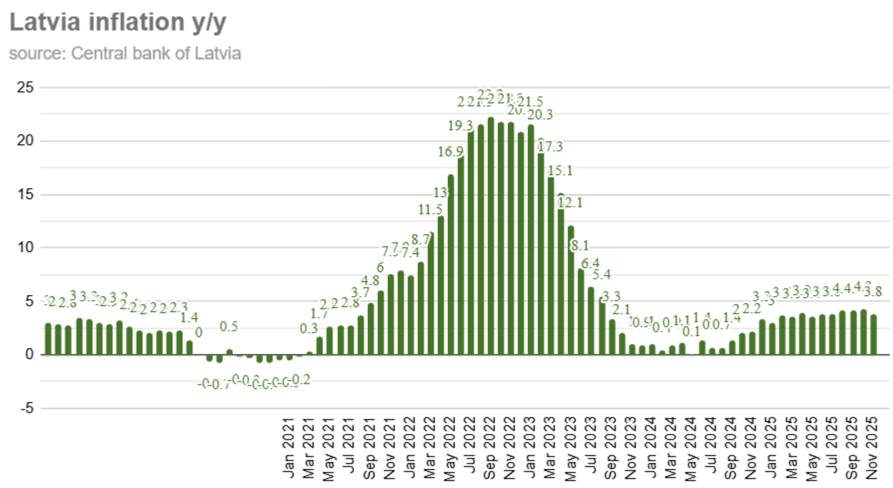
The external environment for Latvia in 2026 is expected to remain challenging but gradually improving. Economic conditions in key trading partners, particularly the Nordic countries and Germany, are forecast to recover only slowly, limiting export growth. Geopolitical risks related to Russia's war against Ukraine will continue to weigh on confidence, trade routes and security spending. At the same time, EU funding, defence-related investment and deeper integration into European supply chains will provide partial support. Overall, external conditions are likely to act as a constraint rather than a catalyst for growth, with limited upside and persistent downside risks.

Latvia's current account is forecast to remain broadly balanced, fluctuating between a small deficit and a small surplus. Services exports, including transport, logistics and business services, are expected to provide support, while goods exports recover only gradually. Import growth driven by consumption and EU-funded investment is likely to offset export gains, limiting any sustained surplus.

2.4.3 Inflation and monetary policy

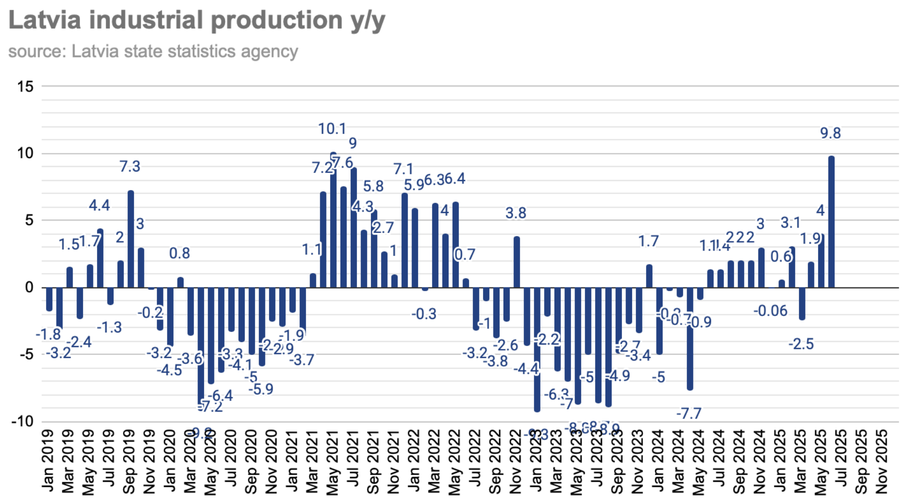
Inflation in Latvia is expected to moderate further in 2026, though it will remain above pre-pandemic norms.

Latvia is projected to see inflation of roughly 2.5%, supported by easing energy prices but constrained by wage pressures and food-price sensitivity. Inflation dynamics will be shaped by wage growth, fiscal measures and the gradual normalisation of energy costs.



2.4.4 Industrial production

Latvia is projected to experience a modest improvement in industrial activity in 2026, though growth is likely to remain subdued. Industrial production is expected to expand slowly, constrained by labour shortages and weaker productivity growth. PMI readings are forecast to remain close to but slightly below 50, indicating fragile conditions and limited momentum.



2.5 Macroeconomy - Lithuania

Lithuania key economic figures and forecasts							
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Nominal GDP (EUR bn)	48.96	49.87	56.48	67.40	74.30	79.00	82.60 (est)
Real GDP (% yoy)	4.7	0.0	6.4	2.5	0.7	3.0	2.7 (est)
Industrial output (% yoy)		0.3	20.4	6.3	5.1	4.1	
Unemployment rate (avg, %)	6.3	8.5	7.1	6.0	6.9	7.1	6.8-7.2
Nominal industrial wages (% yoy)	39.5	10.1	10.5	13.4	12.2	10.8	8.7 (est)
Producer prices (avg, % yoy)	1.1	2.1	12.0	34.2	10.1	3.5	1.5 (est)
Consumer prices (avg, % yoy)	2.8	0.2	3.1	18.1	17.5	5.0	3.5 (est)
Consumer prices (eop, % yoy)	2.2	0.2	6.5	23.5	17.4	5.2	3.8 (est)
General budget balance (% of GDP)	0.7	-6.4	-1.1	-0.7	-1.3	-1.9	
Public debt (% of GDP)	35.6	45.9	43.3	38.3	37.1	38.0	39.0 (est)
Current account balance (% of GDP)	4.3	8.3	1.4	-6.1	1.9	2.3	2.0
Official FX reserves (EUR bn)	4.5	5.0	5.6	6.0	6.2	7.4	6.1 (est)
USD/LC (avg)	0.89	0.88	0.85	0.95	0.92	0.92	0.86 (est)

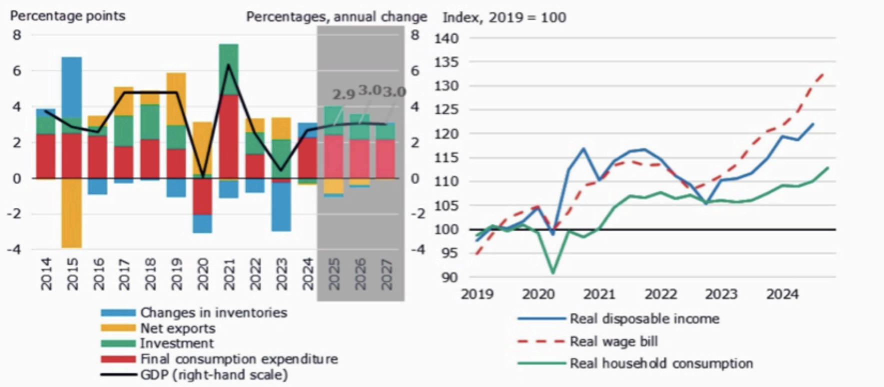
Source: Statistics Lithuania, European Central Bank, World Bank, Eurostat

2.5.1 GDP growth

According to the European Commission's latest medium-term projections, in 2026, Lithuania is expected to record the strongest growth among the three Baltic States, with real GDP expanding by around 3.0% in 2026. Growth is projected to be supported by private consumption, improving external demand, and continued investment linked to EU funds and defence-related spending. National authorities broadly align with this assessment, viewing Lithuania as having relatively resilient growth dynamics within the region.

Overall, growth prospects remain positive but vulnerable to external and geopolitical risks.

Chart 6. Actual and projected GDP developments (expenditure approach, left-hand panel), real household consumption and income developments (right-hand panel)



Sources: State Data Agency and Lietuvos bankas calculations.

2.5.2 External environment

The external environment for Lithuania in 2026 is expected to remain challenging but gradually improving. Economic conditions in key trading partners, particularly the Nordic countries and Germany, are forecast to recover only slowly, limiting export growth. Geopolitical risks related to Russia's war against Ukraine will continue to weigh on confidence, trade routes and security spending. At the same time, EU funding, defence-related investment and deeper integration into European supply chains will provide partial support. Overall, external conditions are likely to act as a constraint rather than a catalyst for growth, with limited upside and persistent downside risks.

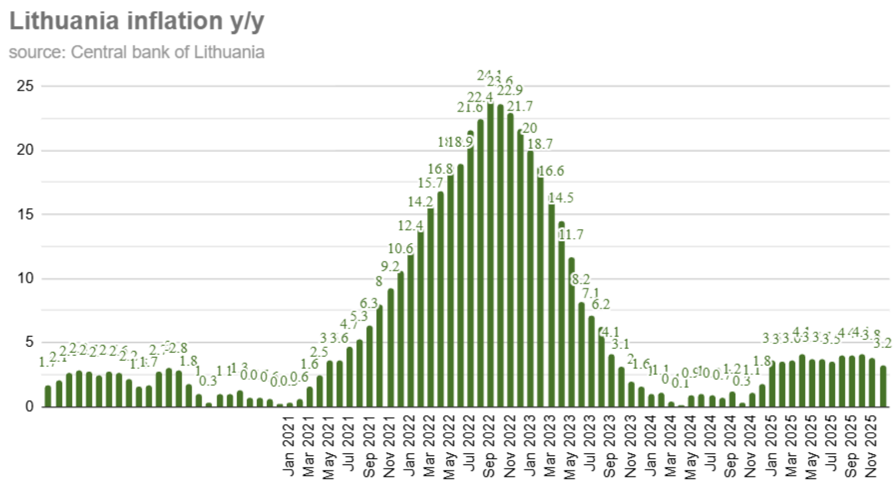
Lithuania's more diversified export structure should provide relatively stronger resilience than for the other two Baltic countries, Latvia and Estonia. Imports are expected to grow in line with recovering domestic demand and investment, keeping trade balances under pressure. Overall, trade is expected to contribute modestly to growth but remain vulnerable to external shocks.

Lithuania is projected to maintain a small current account surplus of around 0.5–1.5% of GDP. A more diversified export base, resilient export services and improving terms of trade are expected to support external balances, even as imports rise alongside stronger domestic demand and investment activity.

Across all three Baltic states, current account dynamics in 2026 will be shaped by subdued external demand, elevated defence-related imports.

2.5.3 Inflation and monetary policy

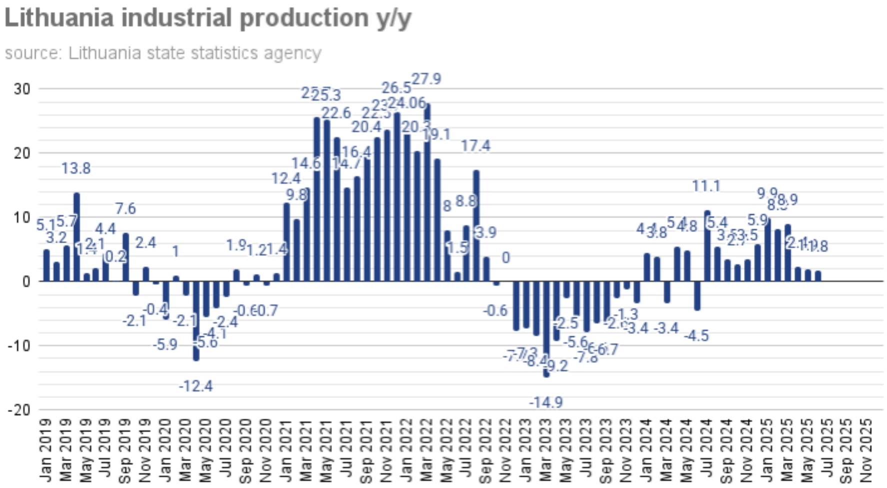
Inflation in Lithuania is expected to moderate further in 2026, though it will remain above pre-pandemic norms. Lithuania's inflation is forecast at around 3%, driven by strong wage growth, services inflation and administered price adjustments.



2.5.4 Industrial production

Industrial production in Lithuania is expected to return to modest growth in 2026, following several years of contraction or stagnation driven by weak external demand, high energy costs and tight financial conditions. The recovery is likely to be gradual and uneven, reflecting structural differences and varying exposure to export markets.

Lithuania is expected to outperform its Baltic neighbours, Latvia and Estonia. Industrial production is forecast to grow at a moderate pace, supported by a more diversified manufacturing base, stronger domestic demand and EU-funded investment. Lithuania's PMI is likely to remain above or close to 50 for much of 2026, signalling stabilisation and intermittent expansion.



2.6 Macroeconomy - Slovakia

Slovakia key economic figures and forecasts	2018	2019	2020	2021	2022	2023	2024
Nominal GDP (EUR bn)	89.9	94.4	93.4	100.3	109.7	118.7	126.5
Real GDP (% yoy)	4	2.5	-3.3	4.8	1.7	1	1.6
Industrial output (% yoy)	6	0.8	-8.5	10.3	-4	-0.6	-0.7
Unemployment rate (avg, %)	6.5	5.8	6.7	6.9	6.1	6.3	6.3
Consumer prices (avg, % yoy)	2.5	2.7	2	2.8	12.1	11.6	5.2
General budget balance (% of GDP)	-1	-1.2	-5.4	-5.4	-2	-5.8	-4.2
Public debt (% of GDP)	49.4	48	58.9	61.1	57.8	55.1	55.4
Current account balance (% of GDP)	-2.2	-3.3	0.6	0.1	-0.4	0.9	1.3
Official FX reserves (NBS reserves in EUR mn)	4.57	6.38	7.62	8.49	9.65	10.22	13.9
USD/LC (avg)			0.88	0.85	0.95	0.92	0.92

Source: Thomson Reuters, Statistical Office of the Slovak Republic, RBI/Raiffeisen Research, Macrobond, IRS.gov

2.6.1 GDP growth

Slovak gross domestic product (GDP) growth remained below 1%, down on 1.9% overall growth in 2024, in the first three quarters of 2025 even though it improved to 0.9% in Q3, the best quarterly result in 2025 after registering 0.8% and 0.5% in Q1 and Q2. The improvement was driven by stronger performance in manufacturing and trade as well as higher investment and a slight increase in foreign trade, and GDP amounted to €35.7bn. The slow down in household consumption growth contributed to a drop of domestic demand just below zero.

From January to September GDP rose by 0.7%, according to the Slovak Statistical Office and amounted to €100.9bn. Domestic demand increased by 0.7% y/y, up by 0.9% for households and by 1.5% for public administration, and foreign trade also made a positive contribution. Slovakia, with its robust car industry, is one of the most exposed countries worldwide to Donald Trump's tariffs on US-bound goods, while at the same time the country's government is under pressure to consolidate the public deficit.

The National Bank of Slovakia (NBS) lowered its GDP growth forecast in September to 0.8% in 2025 and 0.5% in 2026. This is down from 1.2% in 2025 and 1.6% in 2026, respectively, as projected in June. NBS governor Peter Kažimír singled out the external pressures and the necessary consolidation of public finances as the key reasons for the worsened outlook, telling the press in September that "if you recall our previous predictions, then for this year we calculated with three times higher growth."

Later in the autumn, the European Commission (EC) projected dampened growth of the Slovak gross domestic product (GDP) by 0.8% in 2025 and slight improvement to 1% in 2026. "Real GDP growth is expected to slow to 0.8% in 2025 due to trade tensions, global uncertainty and fiscal consolidation efforts," EC stated in its autumn macroeconomic forecast, adding that next year trade uncertainty is expected to persist and as "fiscal consolidation weighs on domestic demand." In 2027, GDP is "expected to pick up to 1.4% as exports regain momentum" and "supported by the launch of a new automotive production factory" in the country, which is particularly exposed to the uncertain international trade environment with its export-oriented economy and robust car industry. "A weaker economic performance of the country's major trading partners poses another downside risk through the forecast horizon," EC stated, projecting also an increase in private consumption growth in 2027.

2.6.2 External environment

Foreign trade development contributed positively to maintaining Slovak GDP growth. Exports of goods and services (foreign demand) as well as imports of goods and services both rose y/y in the Q1-Q3 by 4.1%, according to the Statistical Office of the Slovak Republic. The foreign trade balance remained positive, with its value for the first three quarters reaching just under €197.3mn. In October, the foreign trade balance ended in surplus of €560.2mn in October, which is up by €240.5mn y/y, and also marks the sixth consecutive month of surplus.

At the same time, export goods in the machinery and transport equipment, which includes the key segment of motor vehicles, fell by 4% y/y, and the sector remains closely watched for impact of US tariffs on EU imported goods. Machinery and transport equipment still remained by far the most traded section in the Slovak foreign trade, representing more than 61% of total exports and over 48% of total imports. From January to October, exports increased by 3% to €92bn y/y, while imports were up by 4.1% to €89.7bn. The balance ended in surplus of €2.3bn, down on €3.1bn registered in the corresponding period in 2024.

The Slovak current account deficit narrowed to €197.3mn in October, from €580.5mn registered in the previous October.

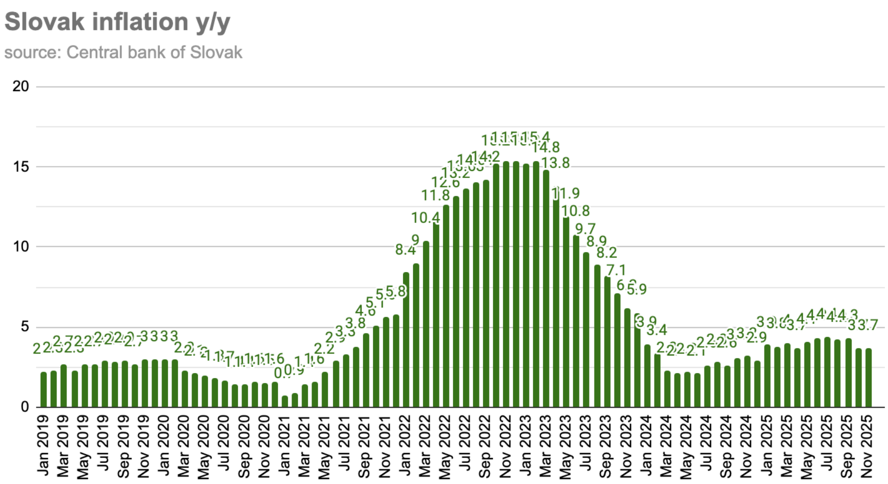
2.6.3 Inflation and monetary policy

Slovak inflation remained at 3.7% in November same as in October where it eased to from 4.3% registered in September. The 3.7% is this year’s lowest level and also the same as in April, and comes as growth in food prices eased. From January to November, inflation grew by 4%.

UniCredit Bank as well as the local Erste branch project average annual inflation of 3.5% for next year, easing from the expected 4% this year.

According to the NBS autumn prognosis, Slovak inflation should average 4.2% in 2025 and ease to 3.6% in 2026. The easing should come after an inflation spike this year, following tax hikes implemented as part of the previous rounds of consolidation. But NBS expects high energy prices will counter further easing. NBS governor Kažimír, who represents Slovakia at the European Central Bank, is an advocate of keeping the Eurozone rates unchanged, and was wary of some upside inflation risks in his December statements for *Reuters*. "I see no reason to move in the coming months," Kažimír said in an interview, adding "definitely not in December, then we'll see."

The EC's autumn forecasts inflation to average at 4.2% in 2025 and 4.1% in 2026 as "a result of accelerating energy prices due to a more limited use of price ceilings," before easing to 3.1% in 2027.

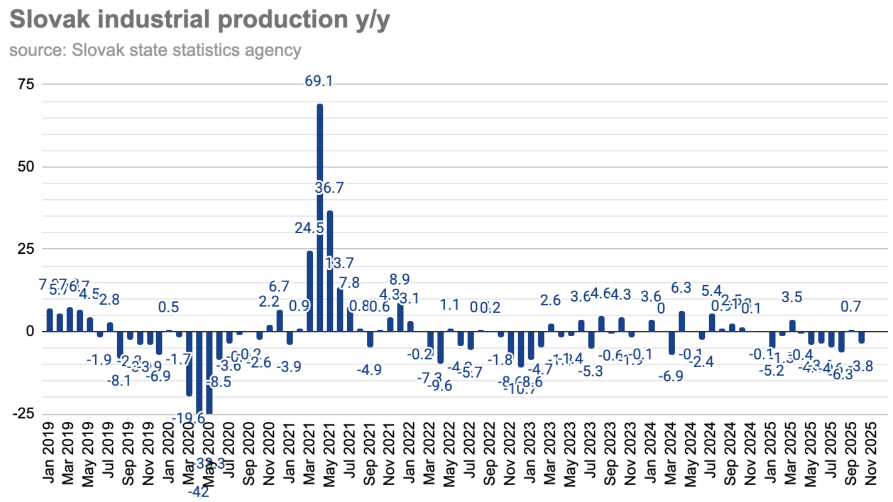


2.6.4 Industrial production

Slovak industrial output fell by 3.8% y/y and by 2.5% m/m in October, returning to decline amid a double digit drop of production in the country's key automotive sector. It marked the eighth monthly decline in 2025. In September, the industry registered an unconvincing growth of 0.7% y/y, returning to mild growth after it deepened its decline to 6.3% y/y in August. Car manufacturing fell by 11% y/y in October, marking the worst result since March 2024, although the Statistical Office of the Slovak Republic noted that "it may have been influenced by the high comparison base" from previous October.

From January to October, Slovak industry fell by 2.4% y/y, with lower y/y performance in seven of the fifteen monitored sectors. Car production weathered a steeper decline during the period with an overall 3% growth. Electricity and gas supply fell by 14%.

Despite the still weakening industrial output, local market analysts expect mild signs of improvement before the end of the year as the situation in international markets may improve too. High hopes are also placed towards the incoming major German fiscal stimulus, but market analysts remain aware that the full recovery of Slovak industry, dependent on its key export markets led by Germany, is not in sight.



3.0 Real economy outlook

3.1 Real economy - Czech Republic

3.1.1 Retail

Czech retail sales grew by 2.8% y/y in October, slightly up from 2.6% in September when sales declared from August's 3.5%. Despite the slowdown in the latter part of 2025, the market remains hopeful that household consumption boosted by firm wage growth will remain the economy's key driver though there are some signs of correction in the revived domestic sales. Household consumption, in combination with lesser than expected hits from the US imposed tariffs on EU imported goods, also pushed domestic and international forecasts to improve the country's outlook.

3.1.2 Banks

The six largest banks on the Czech market reported a rise in profits by 9% to CZK63.3bn (€2.6bn) in the first three quarters of 2025, prompting praise from the market analyst for the sector's performance. The banks' profits rose as did their loan portfolios, signalling positive consumer sentiment and revived mortgage activity. Despite the m/m 4% drop in the volume of offered mortgages in November the overall volume of new mortgages is projected to rise by more than 40% y/y up to CZK322bn in 2025, and the trend is expected to continue beyond 2025.

The net profit KCB’s ČSOB rose by 10% y/y in Q1-Q3 to CZK14.9bn, while Sociéte Générale’s Komerční banka profits were up by 8.3% to CZK13.6bn. Moneta Money Bank profit rose by 15.7% to CZK4.9bn. Czech and Slovak UniCredit Bank were up by 2.2% to CZK8.62bn, and Raiffeisenbank profits were up by 57% to CZK7.84bn. Erste’s Česká spořitelna profits dropped by 2% y/y to CZK19bn in the first three quarters of this year.

3.1.3 Industry

Czech industry, which besides the robust automotive sector includes significant chemical, weaponry, machinery, mining and food sectors, did not put up a convincing performance in 2025. Although the car industry appears to have so far weathered the impact of US-imposed tariffs on EU imported goods, expectations of a more significant and long term revival remain low.

The country’s weaponry and defence companies, many of which have roots stretching back to the Habsburg empire 18th and 19th centuries industrialization era, are experiencing an unprecedented boom driven largely by the military conflicts in Ukraine, Gaza, and other parts of the world. The largest of the Czech defence and weaponry companies, Czechoslovak Group (CSG), registered the steepest percentage increase in arms sales revenues on the list of 100 largest arms-producing companies worldwide compiled by the Stockholm International Peace Research Institute (SIPRI). CSG also rose in the Česká elita (Czech elite) list of most valuable Czech-owned companies where it sits fifth. Other defence companies ranked as the country’s most valuable businesses include the Prague-listed Colt CZ, Omnipol, STV Group and the Synthesia explosives plant.

The Australian and UK listed mineral exploration and development company European Metals Holding (ASX & AIM: EMH, OTCQX: EMHXY, ERPNF and EMHLF) announced that its joint venture with majority-state-owned Czech energy utility ČEZ, Geomet was awarded a milestone Czech Ministry of Industry and Trade grant of up to €360mn, moving closure towards launching mining activity at the Cínovec site in northwest Bohemia. Cínovec is one of the largest hard rock lithium deposits in Europe and the largest hard rock lithium deposit in the EU.

3.1.4 Energy & power

Czechia ended its decades long dependency on Russian oil imports in April 2025 after the CZK1.6bn (€64mn) Tal Plus intensification project was declared fully operational and the first shipments arrived via the enhanced TAL-IKL southern pipeline route connecting the country with the Italian port of Trieste via Germany and Austria. The TAL-Plus was started following the Russian full-scale invasion of Ukraine in February 2022 and increases the existing TAL pipeline transporting capacity by

4mn tonnes per year of oil, bringing its overall transporting capacity up to 8mn tpy, enough to completely replace the oil amounts imported from eastern Druzhba and cover the country’s needs. Druzhba [Friendship] pipeline accounted for 42% of all oil imports to the country in 2024, keeping Russia at the top of oil importers to Czechia ahead of Azerbaijan (41%), as Czechia and other Central European countries had a valid exemption from EU sanctions on Russian oil imports. After the Tal-Plus enhancement, some Russian crude may still arrive in Czechia from Slovakia, where oil products of its key refiner, Hungarian MOL-owned Slovnaft in Bratislava, remain dependent on Russian crude.

The country also nearly eradicated Russian gas imports, replacing it largely with LNG imports although occasional sharp spikes in Russian gas imports have continued to appear, and Czechia has been criticised for these by energy security watchdogs.

In June 2025, EDU II, the joint venture of the Czech state and the country’s majority-state-owned nuclear utility ČEZ signed a contract with South Korea Hydro & Nuclear Power (KHNP) for the major €16bn Dukovany nuclear power plant enhancement. This came after the Czech Supreme Administrative Court removed the blocking of the contract following a lawsuit filed by one of the unsuccessful bidders, French Électricité de France (EDF). Despite the delay, the then cabinet of Petr Fiala, expected the nuclear enhancement of the Dukovany NPP, set to become the largest investment in Czech history, to be completed by 2036.

Moreover, the project includes an option for another two units at the younger Temelín NPP to be built later. ČEZ has already spent CZK3.6bn (€141mn) on preparatory works on the nuclear projects. ČEZ also signed a strategic agreement with UK’s Rolls Royce to begin preparatory works to build the first small modular reactor as part of the country’s major nuclear push, which the new radical right wing government of populist billionaire Andrej Babiš vowed to uphold.

The new Czech government waged a war on green policies within hours of being inaugurated in December 2025, rejecting the EU’s ETS2 emissions trading system in what could signal more difficult relations with Brussels under Babiš, and revisiting the country's plans to phase out coal. Babiš’s cabinet could also re-open the issue of the ČEZ transformation, which Fiala’s cabinet shelved.

3.1.5 Construction

Czech construction output maintained growth for most of 2025 and registered multiple months of double digit growth, including the 2025 high of 15.3% in June. In October, construction maintained a strong growth of 7.1% y/y, which was down on 13.1% registered in September, and The construction of buildings drove the October y/y growth Czech Statistical Office highlighted, noting the approximate value of issued building permits rose by 7.3% y/y to CZK46.6bn, and construction of 3 457 dwellings started and the number increased by 34%, year-on-year, thanks to multi-dwelling buildings, especially in the Středočeský [Central Bohemian] Region, in Prague, and in the Jihomoravský [South Moravian] Region. There were 2,914 completed dwellings, or an increase by 58% y/y, which came as a result of low comparison basis of last October, “when the number of completed dwellings was one of the lowest, historically,” CZSO noted.

Czech housing prices continued to grow by double digits in the third quarter of 2025. Average price per square meter in an older Czech apartment rose by 27% y/y to CZK118,279 (€4,877) in Q3. Average price per m2 in a family house rose by 18% to CZK65,822, according to the analysis of the real estate platform Bezrealitky.

In December, the largest residential developer, Central Group (CG), announced it is suspending all the new construction works next year, fearing that the construction market is getting “overheated” with spiralling of construction work prices.In December, the largest residential developer, Central Group (CG), announced it is suspending all the new construction works next year, fearing that the construction market is getting “overheated” with spiralling of construction work prices. Central Group made the decision as it has registered record sales this year as well as record 3,200 apartments under construction in the capital Prague. It made a similar move in 2022 when it suspended two of its large projects, and other developers later followed suit.

Prague has the least affordable housing among the European capitals, according to the CG Index, which shows that to purchase a new apartment of 70m2 requires 14.8 average annual salaries. This is by 0.7 annual salary less year-on-year, and by approximately five annual salaries more than ten years ago. According to the index, 14.1 annual salaries are needed to purchase a new apartment in the Slovak capital Bratislava, while 11.2 salaries are needed in Germany’s Bavarian metropolis Munich, 9.6 salaries in Polish Warsaw, and 7.7 salaries in Austrian Vienna.

Prague is the third least affordable large city to buy a new apartment in Europe, sitting behind just Amsterdam and Athens. Prague residents need 15 annual salaries before tax to purchase housing, which is 1.7 salaries more than last year, according to the Czech office of the Deloitte consultancy. The fourteenth edition of the Deloitte Property Index 2025 included 75 cities, where Prague was followed by Slovakia’s second-largest city, Košice, and Czechia’s second-largest city, Brno.

3.1.6 Major Sectors

Czech housing prices continued to grow by double digits in Q3 of 2025. Average price per square meter in an older Czech apartment rose by 27% year-on-year (y/y) to CZK118,279 (€4,877) in the third quarter of this year. Average price per m2 in a family house rose by 18% to CZK65,822, according to the analysis of the real estate platform Bezrealitky. Prices of rents were up by 16% y/y to CZK371 per m2 amid the high demand on the tight market.

Fastest growth of housing prices was registered in the regional cities and their surroundings. In the Hradec Králové region apartment prices increased by 37% y/y to CZK85,780 per m2, followed by the Olomouc region (+34% to CZ78,878 per m2), and the Karlovy Vary region with (+33% to CZK60,885). In the capital Prague apartment prices rose by

21% y/y to CZK154,382, and the similar development was registered in the surrounding Central Bohemian region (+25% to CZK97,019), popular destination with Praguers seeking more affordable housing prices.

The country’s robust automotive industry registered a 2% drop y/y in car production in January-October 2025, when it produced 1.214mn vehicles. CEO of the Czech Automotive Industry Association, Zdeněk Petzl described the figures as “good results” given the complicated external environment. Petzl also highlighted the growing demand on the European markets after hybrid vehicles. There were 183,205 electricity-powered vehicles produced in the country in the first ten months of this year, and another 52,002 popular plug-in hybrids, or almost one fifth of the whole production.

3.2 Real economy - Estonia

3.2.1 Retail

Estonia’s retail sector will remain sensitive to economic cycles, with consumers highly responsive to price changes.

Economic activity in Estonia in 2026 is expected to strengthen modestly in 2026. Estonia’s real economy is expected to recover more gradually after a prolonged downturn, constrained by weak external demand, high business costs and slow industrial activity.

Across the region, real wage growth is expected to support consumption as inflation eases, while investment will be driven primarily by defence, infrastructure and EU-funded projects. However, structural challenges – including labour shortages, demographic pressures and weak productivity growth – will continue to limit potential output.

3.2.2 Banks

In 2026, the banking sector of Estonia is expected to remain stable, well capitalised and increasingly conservative as the effects of tighter monetary conditions and stricter regulation become structural.

Banking assets amount to roughly 120-140% of GDP in Estonia, with highly concentrated systems where the top three to five banks control up to 85% of assets. Profitability is set to normalise after exceptional years, with return on equity easing to around 9-13% in Estonia, while strong CET1 capital ratios of 18-22% provide resilience. Credit growth is likely to remain selective, averaging 3-5%, focused on corporate lending, infrastructure and defence-related projects, while mortgage growth stays modest at 1-3%. Loan-to-deposit ratios of 75-85% and non-performing loans of just 2-3% underline sector stability, though risks are rising in commercial real estate.

Digitalisation dominates, with over 90% of retail transactions online, while compliance, cybersecurity and fintech competition continue to pressure costs and margins.

3.2.3 Industry

In 2026, manufacturing in Estonia is expected to stabilise and gradually recover, supported by improving external demand, nearshoring trends and EU-funded industrial investment. The sector accounts for approximately 14-16% in Estonia, with exports representing 65-75% of total output.

Estonia’s more technology-intensive sector, where high- and medium-tech products exceed 50% of output, remains sensitive to Nordic economic cycles. Across the region, energy costs still account for up to 20% of production expenses, labour gaps remain at 8-12%, and automation investment is 30-40% above 2019 levels, favouring higher value-added, export-oriented producers.

3.2.4 Energy & power

In 2026, the total installed capacity across the Baltics is expected to exceed 18-20 GW, up from around 15-16 GW in 2024, driven mainly by rapid additions of wind and solar.

Renewables are projected to account for 55-65% of total electricity generation, compared with roughly 45-50% two years earlier.
In 2026, Estonia will further reduce oil shale-based electricity, with its share expected to fall below 20%, though it will remain an important backup for system stability.

Despite rising capacity, electricity imports will still cover 20-30% of demand during periods of low renewable output. As a result, investment priorities are shifting toward battery storage, flexible gas-fired units, demand-response solutions and grid reinforcement, particularly ahead of full synchronisation with the continental European power system.

3.2.5 Construction

In 2026, the Baltic construction and real estate sectors are expected to grow insignificantly, supported by easing interest rates, public infrastructure spending and defence-related projects. Construction accounts for around 5-7% of GDP across the region, with public and defence investments generating up to 25% in Estonia. Residential construction remains below pre-2022 levels, with housing completions still 20-30% lower, though mortgage rates easing toward 3-4% should modestly support demand. Energy-efficient homes now represent more than 70% of new builds. In commercial real estate, office vacancy rates range from 8-10% in Tallinn, while logistics and industrial assets offer yields of 6.5-8%.

3.2.6 Major Sectors

In 2026, the automotive sector in Lithuania, Latvia and Estonia will remain small in car-part manufacturing terms but increasingly important in trade, services and electrification. The sector contributes roughly 3-4% of GDP in Lithuania, 2-3% in Latvia and 2-3% in Estonia, with employment concentrated in vehicle trade, repair, logistics and component assembly rather than full-scale production.

Direct mining contributes less than 1% of GDP in all three countries, as the Baltics lack significant metallic ore deposits. Activity is concentrated in construction aggregates, limestone, dolomite, sand and gravel, supporting infrastructure and real estate. Lithuania leads in metal processing and fabricated metal products, which account for 8-10% of manufacturing output, while Latvia and Estonia each stand at 6-8%. Scrap metal recycling plays a growing role, with recycled metals covering 30-40% of domestic metal demand. Demand in 2026 will be driven by construction, defence-related manufacturing and infrastructure upgrades, while energy costs and ESG requirements remain key constraints.

In 2026, oil production in the Baltic states will remain marginal, while oil transport and logistics will continue to play a more meaningful role. Lithuania is the only Baltic country with limited domestic oil extraction, mainly from small onshore fields, contributing well below 1% of GDP and continuing its long-term decline. Latvia and Estonia have no commercial oil production. The strategic importance of the sector therefore lies in transport, storage and refining-related logistics, particularly in Lithuania, which hosts the Mazeikiai oil refinery, the largest energy asset in the Baltics. Oil transport volumes through Baltic ports are expected to remain subdued due to reduced Russian transit, structural shifts in regional trade flows and EU sanctions. Pipeline and terminal utilisation will stay below historical levels, though diversification toward alternative crude sources and fuel imports supports operational continuity.

None of the Baltic countries have meaningful domestic gas production; supply is fully import-based. Lithuania remains the regional anchor through the Klaipeda LNG terminal, which provides diversification and security of supply for all three states. Gas demand is expected to stabilise or decline slightly, as renewables expand and energy efficiency improves, though gas will remain an important balancing fuel for power generation and industry. Latvia's Incukalns underground gas storage will retain strategic importance for seasonal balancing and regional flexibility. Cross-border interconnections with Finland and Poland will continue to support market integration. Key challenges include declining volumes, cost competitiveness versus renewables and long-term asset utilisation, while opportunities lie in system flexibility, security services and potential hydrogen-ready infrastructure.

3.3 Real economy - Hungary

3.3.1 Retail

Hungary's household consumption remained the main engine of growth, contributing 1.8–2pp to GDP, helping Hungary avoid a recession. This consumption-driven growth should be maintained until other engines of the economy, industry, construction, or net exports pick up the slack, government officials said, while calling for a shift toward an investment-led model with more added value.

The government hoped that the liquidity boost from billions of euros in coupon payments on government bonds in early 2025 would translate into massive retail sales growth, but this did not materialise, and retail spending lagged the increase in real wages. Cross-border shopping and foreign e-commerce platforms continued to gain market share in Hungary, putting further pressure on foreign-owned multinationals already under the radar.

To rein in inflation, the government introduced a 10% cap on food product markups and a 15% cap on non-food item markups. The measure was extended through February and will most likely remain in place until the election. The EU launched an infringement procedure over the issue, and Hungary risks referral to the European Court of Justice. Real wages in the first eight months of 2025 were 4.2% higher year-on-year and are set to rise further in 2026, providing stable support for the retail sector.

3.3.2 Banks

Hungary's banking sector remains robust, with a capital adequacy ratio of 20.7% and liquidity coverage of 168% at H1 2025. Banks posted HUF643bn in underlying net profit in H1, down from HUF724bn a year ago, despite heavy government burdens, including the windfall taxes, mandatory interest caps, and the freezing of account fees. Consolidated profit, including subsidiaries, rose 17% to HUF850bn, with OTP accounting for the bulk of the increase.

State interest subsidies grew 4.5% to HUF562bn, surpassing central bank interest income. Institutions with RoE above 20% reached nearly 45%. Lending trends were mixed: corporate loans +2%, household loans gained double digits, supported by state-subsidized mortgage schemes, projected to reach HUF1.9 trillion by end-2026. NPL ratios remained low: corporate 3%, retail 1.8%.

To finance the widening budget gap before the election, the cabinet will double the windfall tax to HUF380bn in 2026, despite warnings by the Banking Association that this could slow lending and favour foreign-owned fintechs. Banks increased their holdings of government bonds above HUF14 trillion to lower their windfall tax levies.

3.3.3 Industry

The Orban government has positioned Hungary as a bridge between East and West, connecting Asian battery makers with Western car manufacturers. Despite sanctions, tariffs and trade tensions, Hungary remained a key destination for Asian investment, attracting 31% of all Chinese FDI entering Europe last year and 44% the year before. With planned projects, Chinese FDI in Hungary is set to exceed €30bn, making Chinese companies the country's second-largest foreign investor group after German firms. Industrial output contracted by 3.9% in the first ten months, with sub-sectors facing declines accounting for 8.3% of corporate loans. Weak external demand and Germany's sluggish recovery continue to constrain production. Despite an 8.1% rise in new orders in October, total order stocks were 20% below last year's levels.

The automotive sector crisis continues to depress vehicle and battery manufacturing. H2 2025 may see modest rebounds, supported by Germany's recovery and the start of BMW, CATL, and BYD projects, expected to add 0.6pp to GDP.

The government wants to reduce dependence on Germany and diversify into defence, food processing, and pharmaceuticals.

3.3.4 Energy & power

While all other EU members, except Slovakia, reduced their dependence on Russian fossil fuels, Hungary's gas and oil imports reached new highs in 2025. Budapest vowed to sue the EC for moving ahead with the phase-out of Russian oil and gas from 2027, which it claims would jeopardise the country's energy security and lead to surging energy bills, claims repeatedly refuted by experts. Viktor Orban, bracing for a close election race, believes that Russian energy is the guarantee of low household energy prices, essential to his re-election.

President Donald Trump granted Hungary an exemption from American sanctions on Russian oil and gas, and Budapest also secured full exemptions from sanctions on nuclear energy.

Hungary has boosted oil supplies to Serbia, facing a fuel supply crunch, and even MOL faces capacity constraints after a fire at its Danube refinery. The Hungarian oil giant is among the potential buyers of Russian stakes in regional energy companies following the US sanctions coming into force. Hungary signed ten-year gas agreements with Western companies ENGIE and Shell for the delivery of LNG and natural gas, which represent less than 10% of the country's annual gas demand. Hungary also committed to buy $600mn worth of LNG from the US.

Solar capacity expanded by 1 GW for the fourth consecutive year in 2025, exceeding 9 GW, and accounted for close to 30% of electricity generation, ranking Hungary as a global leader. The government is now shifting its focus to boosting battery storage capacity, which currently covers only 1% of solar output. The government is speeding up construction of Paks II, despite the EU's top court ruling in November, as the first concrete will be poured in early 2026. State-owned energy provider MVM and Westinghouse agreed on a fuel supply deal, and Budapest will also acquire SMR technology from the US for $20bn.

3.3.5 Construction

The construction sector is expected to post a 2.5-3% gain in 2025, ending two years of contraction. While financing costs eased, the suspension of EU funds and delays in state-backed projects weigh on the sector, though public investments tend to rise ahead of elections. Construction association EVOSZ highlighted the positive impact of the Home Start subsidised credit scheme for first-time home buyers and energy programmes, yet 60% of companies expect to close 2025 with falling revenue.

Residential home completions remained at a historic low, further aggravating the housing crisis and driving up prices further. The government is seeking to mitigate these impacts by increasing supply through state-backed programmes and simplified administrative procedures.

Developers have announced more than 25,000 new units that meet the criteria for the state-funded mortgage schemes - HUF100mn for flats, HUF150mn for houses and HUF1.5mn per sqm cap - offering a 3% fixed-rate loan to borrowers. The decline in industrial production has slowed and restrained activity in the industrial-logistics segment on both the demand and supply sides. The construction of new warehouse capacities is increasingly concentrated in the country's eastern regions, where major industrial projects are underway.

3.3.6 Major Sectors

The tourism sector is on track for another record year as visitor numbers surpassed 2024’s 18.2mn already in November 2025. Foreign guests drove growth, but rising real wages are also helping spur domestic demand. The government announced new developments at

Budapest Airport (BA), including a direct rail link and the construction of Terminal 3, which would boost traffic by 40 million by 2035, a two-fold increase from present levels. In the medium-term strategy, the government assumes that tourism could account for 16% of GDP by 2030 from 12%.

Output of the agriculture sector, accounting for 10% of the economy, is set to contract by 8% to HUF4 trillion in 2024, after a rebound a year earlier from the devastating drought in 2022. Production volume and prices fell 4.4% and 3.8% respectively. Output of Hungary's agricultural sector, accounting for 3-5% of GDP, rose 6% in value in 2025, reaching HUF4.4 trillion, but this increase was mainly driven by 10–15% higher prices, while production volumes declined. The sector faced multiple challenges, including severe spring frosts and summer droughts, outbreaks of foot-and-mouth disease and bird flu, and the rapid spread of flavescence dorée, all of which affected the grape yards. Wheat output grew 10%, but corn production fell 30%, and oilseeds declined 5-8%, making the weak corn harvest and the sharp drop in fruit production the main drags on the sector.

3.4 Real economy - Latvia

3.4.1 Retail

The latest data from the Central Statistical Bureau shows total retail trade turnover increased by 3.3% year on year in November 2025. This included a modest 0.8% increase for food products, and stronger increases of 4.4% for non-food products and 4.6% for automotive fuel.

Economic activity in Latvia in 2026 is expected to strengthen modestly in 2026, with positive implications for the retail sector. Latvia is likely to experience moderate growth, with domestic demand improving but productivity and investment remaining subdued.

Across the region, real wage growth is expected to support consumption as inflation eases, while investment will be driven primarily by defence, infrastructure and EU-funded projects. However, structural challenges – including labour shortages, demographic pressures and weak productivity growth – will continue to limit potential output.

3.4.2 Banks

In 2026, the banking sector of Latvia is expected to remain stable, well capitalised and increasingly conservative as the effects of tighter monetary conditions and stricter regulation become structural. Banking assets amount to roughly 85-95% of GDP in Latvia.

Profitability is set to normalise after exceptional years, with return on equity easing to around 8-12%, while strong CET1 capital ratios of 18-22% provide resilience. Credit growth is likely to remain selective, averaging 3-5%, focused on corporate lending, infrastructure and defence-related projects, while mortgage growth stays modest at 1-3%. Loan-to-deposit ratios of 75-85% and non-performing loans of just 2-3% underline sector stability, though risks are rising in commercial real estate.

3.4.3 Industry

Industrial production in Latvia is expected to see modest growth in 2026, following several years of contraction or stagnation driven by weak external demand, high energy costs and tight financial conditions. The recovery is likely to be gradual and uneven, reflecting structural differences and varying exposure to export markets.

Industrial production will be constrained by labour shortages and weaker productivity growth. PMI readings are forecast to remain close to but slightly below 50, indicating fragile conditions and limited momentum.

3.4.4 Energy & power

In 2026, the energy and power sector across the Baltics – including Latvia – will be marked with the continued expansion of renewables. Electricity generation capacity from wind and solar is expected to grow steadily, with renewables accounting for 55-65% of total electricity generation across the Baltics, up from around 45-50% in 2024. Latvia will rely more on hydropower and gradual wind expansion.

Key risks include weather volatility, permitting delays and rising grid-balancing costs, while opportunities lie in energy storage, flexibility services and regional market integration.

3.4.5 Construction

In 2026, the Baltic construction and real estate sectors are expected to grow insignificantly gradually, supported by easing interest rates, public infrastructure spending and defence-related projects.

Construction accounts for around 5-7% of GDP across the region, with public and defence investments generating up to 30% in Latvia. Residential construction remains below pre-2022 levels, with housing completions still 20-30% lower, though mortgage rates easing toward 3-4% should modestly support demand.

Energy-efficient homes now represent more than 70% of new builds. In commercial real estate, office vacancy rates range from 10-12% in Riga, which is higher than in Vilnius or Tallinn.

Across the Baltics, labour shortages of 10-15% and stricter ESG standards will favour financially strong, experienced developers.

3.4.6 Major Sectors

Latvia's Incukalns underground gas storage will retain strategic importance for seasonal balancing and regional flexibility. Cross-border interconnections with Finland and Poland will continue to support market integration. Key challenges include declining volumes, cost competitiveness versus renewables and long-term asset utilisation, while opportunities lie in system flexibility, security services and potential hydrogen-ready infrastructure.

In 2026, the automotive sector in Latvia will remain small in car-part manufacturing terms but increasingly important in trade, services and electrification. Electric vehicles are expected to represent 18-22% of new car registrations across the Baltics in 2026, up from around 12-15% in 2024, driven mainly by corporate fleets and public transport. Charging infrastructure is expanding but uneven, with 35-45 public chargers per 100,000 inhabitants. Key constraints remain affordability, limited domestic demand and dependence on broader EU automotive cycles, while opportunities lie in EV components, mobility software and fleet services.

3.5 Real economy - Lithuania

3.5.1 Retail

According to the latest statistics office data, retail sales grew by 3.3% year on year in November 2025, down from 3.85 the previous month.

Economic activity in Lithuania is expected to strengthen modestly in 2026, following several years of insignificant growth, with positive implications for retail sales. Lithuania is projected to lead the Baltic economy, supported by resilient household consumption, EU-funded investment and a more diversified industrial base.

Across the region, real wage growth is expected to support consumption as inflation eases, while investment will be driven primarily by defence, infrastructure and EU-funded projects. However, structural challenges – including labour shortages, demographic pressures and weak productivity growth – will continue to limit potential output.

3.5.2 Banks

In 2026, the banking sector of Lithuania is expected to remain stable, well capitalised and increasingly conservative as the effects of tighter monetary conditions and stricter regulation become structural. Profitability is set to normalise after exceptional years, with return on equity easing to around 10–14% in Lithuania.

Credit growth is likely to remain selective, averaging 3-5%, focused on corporate lending, infrastructure and defence-related projects, while mortgage growth stays modest at 1-3%. Loan-to-deposit ratios of 75-85% and non-performing loans of just 2-3% underline sector stability, though risks are rising in commercial real estate.

3.5.3 Industry

Industrial production in Lithuania in 2026 is expected to see modest growth in 2026, following several years of contraction or stagnation driven by weak external demand, high energy costs and tight financial conditions. The recovery is likely to be gradual and uneven, reflecting structural differences and varying exposure to export markets.

Lithuania is expected to outperform its Baltic neighbours, Latvia and Estonia. Industrial production is forecast to grow at a moderate pace, supported by a more diversified manufacturing base, stronger domestic demand and EU-funded investment. Lithuania's PMI is likely to remain above or close to 50 for much of 2026, signalling stabilisation and intermittent expansion.

3.5.4 Energy & power

In 2026, Lithuania's energy and power sector will remain a strategic priority, shaped by energy security concerns, grid synchronisation with continental Europe and the continued expansion of renewables. Electricity generation capacity from wind and solar is expected to grow steadily, with renewables accounting for 55-65% of total electricity generation across the Baltics, up from around 45-50% in 2024. Lithuania will continue to lead in onshore wind development and grid-scale solar, with onshore wind capacity expected to exceed 3.5 GW and solar power surpass 2.5 GW. This will allow domestic renewable generation to cover a substantial share of annual consumption, though seasonal variability will persist.

Key risks include weather volatility, permitting delays and rising grid-balancing costs, while opportunities lie in energy storage, flexibility services and regional market integration.

In 2026, oil production in Lithuania will remain marginal, while oil transport and logistics will continue to play a more meaningful role. Lithuania is the only Baltic country with limited domestic oil extraction, mainly from small onshore fields, contributing well below 1% of GDP and continuing its long-term decline. Latvia and Estonia have no commercial oil production. The strategic importance of the sector therefore lies in transport, storage and refining-related logistics, particularly in Lithuania, which hosts the Mazeikiai oil refinery, the largest energy asset in the Baltics. Oil transport volumes through Baltic ports are expected to remain subdued due to reduced Russian transit, structural shifts in regional trade flows and EU sanctions.

Lithuania does not have meaningful domestic gas production; supply is fully import-based. Lithuania remains the regional anchor through the Klaipeda LNG terminal, which provides diversification and security of supply for all three states.

3.5.5 Construction

In 2026, Lithuania's construction and real estate sectors are expected to grow insignificantly, supported by easing interest rates, public infrastructure spending and defence-related projects. Construction accounts for around 5-7% of GDP across the region, with public and defence investments generating up to 40% of demand in Lithuania, 30% in Latvia and 25% in Estonia. Residential construction remains below pre-2022 levels, with housing completions still 20-30% lower, though mortgage rates easing toward 3-4% should modestly support demand. Energy-efficient homes now represent more than 70% of new builds. In commercial real estate, office vacancy rates range from 6-8% in Vilnius. Across the Baltics, labour shortages of 10–15% and stricter ESG standards will favour financially strong, experienced developers.

3.5.6 Major Sectors

In 2026, the automotive sector in Lithuania, Latvia and Estonia will remain small in car-part manufacturing terms but increasingly important in trade, services and electrification. The sector contributes roughly 3-4% of GDP in Lithuania, 2-3% in Latvia and 2-3% in Estonia, with employment concentrated in vehicle trade, repair, logistics and component assembly rather than full-scale production. Lithuania leads the region in automotive-related exports, particularly wiring systems, plastics and metal components, with automotive exports accounting for 5–7% of total goods exports.

Direct mining contributes less than 1% of GDP in all three Baltic countries, as the Baltics lack significant metallic ore deposits. Activity is concentrated in construction aggregates, limestone, dolomite, sand and gravel, supporting infrastructure and real estate. Lithuania leads in metal processing and fabricated metal products, which account for 8-10% of manufacturing output, while Latvia and Estonia each stand at 6-8%. Scrap metal recycling plays a growing role, with recycled metals covering 30-40% of domestic metal demand. Demand in 2026 will be driven by construction, defence-related manufacturing and infrastructure upgrades, while energy costs and ESG requirements remain key constraints.

In 2026, agriculture across the Baltic states will face a shared set of challenges shaped by climate change, EU regulation and global market volatility, alongside country-specific dynamics. Lithuania's sector will remain heavily exposed to weather extremes, particularly in grain and oilseed production, while stricter environmental rules under the EU's Common Agricultural Policy will increase compliance costs for both crop and livestock farmers. Latvia will see continued consolidation, with smaller farms under pressure from rising costs, labour shortages and limited processing capacity, accelerating mechanisation and a shift toward higher-value and niche products. Estonia will further strengthen its focus on efficiency and digital agriculture, led by larger, technology-driven farms, but profitability will remain sensitive to energy prices and export demand.

3.6 Real economy - Slovakia

3.6.1 Retail

From January to October, Slovak retail turnover fell by 0.5% y/y at constant prices as six out of nine retail components were in decline. The retail turnover increased by 0.6% y/y and dropped by 0.7% m/m in October 2025. It was down on the 1.4% y/y growth registered in September, and only the fourth month in 2025 when the retail sales rose y/y. A stronger revival is not expected until spring of 2026. Retail sales cope with a slow down in wage growth accompanied by slow down in household consumption amid elevated price growth aided by additional levies on consumer goods, including sweetened soft drinks, introduced by the government in 2025 as part of its consolidation measures.

3.6.2 Banks

Profits before tax of the 22 banks on the market dropped slightly by 1.6% y/y in the first half of 2025, according to the Slovak Banking Association (SBA), as banks incurred higher costs. After tax the profits rose by 4.9% and amounted to €574mn as banks paid €311mn in taxes. The profitability of the banking sector stays below the EU average and one of the lowest in Central and Eastern Europe, SBA highlighted in its comment on the H1 2025 results. A positive influence came from the stronger activity on the mortgage market, where the offered mortgages rose by 76% y/y in H1, and the average interest rate eased from the 11-year high of 4.23% in 2024 to 3.64%. Banks also reported an increase in demand after business loans, and where the volume of offered loans in H1 rose by nearly 45%.

Average mortgage rates on the Slovak market decreased by 0.4 percentage points to 3.6% in the first three quarters of this year, according to the November financial stability report by the National Bank of Slovakia (NBS). “The development of mortgage rates is relatively closely linked to the development of earning of state bonds, that is on economic-fiscal development in Slovakia,” director of the NBS department of financial stability Marek Ličák highlighted.

3.6.3 Industry

Slovak industry struggled in 2025 and the country’s robust car manufacturing prevented the sector from falling into deeper decline. From January to October, the industry dropped by 2.4% y/y, with lower y/y performance in seven of the fifteen monitored sectors. Car production weathered a steeper decline during the period with an overall 3% growth. Electricity and gas supply fell by 14%. In October car manufacturing fell by 11% y/y, however, marking the worst result since March 2024, although statisticians noted that “it may have been influenced by the high comparison base” from previous October. The double digit drop pulled the industry into decline by 3.8% y/y and by 2.5% m/m in October.

Despite the still weakening industrial output, local market analysts expect mild signs of improvement at the end of 2025 and early 2026 as the situation in international markets may improve too. Slovakia is dependent on the developments of its key trading partners in the EU led by Germany, where the expected government stimulus could drive improvements in 2026 and positively influence its smaller trading partners as well though it remains questionable whether Slovak industry could experience a full recovery in 2026.

3.6.4 Energy & power

The sitting left-right government of populist Prime Minister Robert Fico pursues further nuclear development plans after in November 2024 Fico announced plans to launch a new nuclear tender in 2027. The new nuclear reactor would be located at the existing Jaslovské Bohunice nuclear power plant (NPP) site, which already has two reactors, and should cost between €13-15bn, according to media reports. In the summer of 2025, the EU greenlighted the intergovernmental agreement (IGA) on nuclear development between Slovakia and USA, and in December Fico announced he is invited by Donald Trump to sign the IGA at the White House in July 2026 during the 250th US independence celebrations. Fico also said earlier in 2025 he hopes US Westinghouse will cooperate with Russia on further development of nuclear sources in Slovakia. The IGA should provide a framework of cooperation between USA and Slovakia also on nuclear technology development on the planned site.

US Westinghouse is also in talks with the Slovak government to develop a new type of electricity storage site near the Gabčíkovo hydroelectric power plant (HPP) on the Danube river. The Gabčíkovo-Nagymaros HPP is also subject to a long-standing dispute between Hungary and Slovakia, which the national conservative governments in Bratislava and Budapest are supposed to be working on to bring to an end.

Fico’s and Hungarian Orbán’s governments also continue to oppose the EU plans to phase out Russian fossil fuel imports by 2027. Hungarian Minister of Foreign Affairs Peter Szijjártó stated in December that Slovakia joined Hungary in challenging the EU phase out of Russian fossil fuel imports in court. Slovak Minister of Economy Denisa Saková claimed in December 2025 that her government negotiated an extension of Russian gas imports and noted that Russian gas still amounts to 33% of the overall supplies. Both governments have been reluctant to reduce their dependency on Russian oil and gas despite the available alternative routes as both governments adopted Kremlin-pleasing rhetoric.

Slovakia nearly eradicated its dependency on Russian gas in the winter of 2022-23 but the imports have spiked after Fico's return to power in autumn of 2023. Fico also claimed earlier in 2025 Slovakia would face a lawsuit "for €16bn" if it reneged on the valid Gazprom contract and also argued that it would incur "more expensive transit fees" and that the Slovak gas transmission utility Eustream would lose income from gas transit fees. Eustream, where EPH of Czech energy and media oligarch Daniel Křetínský has a 49% stake and managerial control in Eustream, while Slovakia retains 51%. Slovak Regulatory Office for Network Industries (URSO) and Eustream were also criticized by Slovak businesses grouped in the Slovak employers association Klub 500 (Club 500) and by the opposition for introducing a new rise of 70% in gas tariffs for 2026.

3.6.5 Construction

Slovak construction output picked up pace in 2025 although housing construction has not been able to return to long term average output. From January to October, the construction output amounted to €6.6bn, which was an increase by 7.1% y/y. Domestic new construction was up by 5.3% and repairs and maintenance by 3.6%. The construction work abroad was up by a quarter compared to the same period in 2024 although the output of Slovak companies abroad accounts for only about 10% of the overall output.

The construction boomed with 12.1% y/y growth in August and 19% in September, but slowed down towards the end of 2025 to 3.7% in October when it also fell by 3.6% m/m, as output in civil engineering, including motorway construction works dropped. Despite the slowdown, construction output exceeded €800mn for the second consecutive month in October, and its volume continued increasing y/y for the sixth consecutive month.

Despite the strong construction output, the housing construction remains below long term average, contributing to the spiraling prices on the housing market.

Housing construction in Slovakia registered 4,188 completed dwellings in the third quarter of 2025, and remained below the long term average despite a mild year-on-year (y/y) increase of 1.5%. The number of completed dwellings was the lowest in all Q3s since 2018, statisticians also noted, while compared with the long-term average, which takes into account Q3s in the past ten years, it was lower by 6%. Family houses remained the strongest component in the dwelling construction. There were 4,270 dwellings started in Q3 of this year, which is a one-third increase y/y, but 17% below the long-term standard.

From January to September 2025, a total of 10,015 new dwellings were completed, which is a drop by more than 13.5% y/y, and by 13.1% compared to the long-term average. In the time span, construction of 11,511 dwellings was started in a y/y drop of 1.6%, and a fall of 22.1% on long-term comparison.

3.6.6 Major Sectors

Slovakia, with its robust car industry accounting for about 11% of its GDP, has one of the most exposed economies to the impact of the US tariffs imposed on EU imported goods by the administration of Donald Trump. The country dubbed the "Detroit of Europe" for its reliance on car making also faces further challenges posed by Chinese competition and the development of electromobility.

The country's analysts have repeatedly called for structural changes to divest the country's economy from over-reliance on automotive and machinery. In 2024, Slovakia exported 8% less of new personal automobiles than the year before, the Statistical Office of the Slovak Republic highlighted in its report, adding that "cars remained the most dominant export article.

The position of the key trade partner was still maintained by Germany with a 21% share of Slovak exports and almost 15% of imports, statisticians also noted. The overall export of goods in 2024 amounted to €106.8bn, or a drop by 1.5% y/y, and only the second drop registered in the last fifteen years. Local 365.bank projected the share of cars in overall export figures would drop below 15% in the next decade.

Slovak capital Bratislava has one of the least affordable housing among European capitals. In Bratislava, 14.1 annual salaries are needed to purchase a new apartment, while 11.2 salaries are needed in Germany's Bavarian metropolis Munich, 9.6 salaries in Polish Warsaw, and 7.7 salaries in Austrian Vienna, according to the CG Index analysis by the largest residential developer on the Czech market, Central Group.

Slovak cities were also listed as one of the least affordable housing locations in the fourteenth edition of the Deloitte Property Index 2025, which included 75 cities, where Czech capital Prague sits third, highest of all central European countries, followed by Slovakia's second-largest city, Košice, and Czechia's second-largest city, Brno. Czech and Slovak cities were also further down in the top ten least affordable cities in Europe, including Banská Bystrica in central Slovakia (6^{th}), and the Slovak capital Bratislava (7^{th}).

Average mortgage rates on the Slovak market decreased by 0.4 percentage points to 3.6% in the first three quarters of this year, according to the November financial stability report by the National Bank of Slovakia (NBS). Director of the NBS department of financial stability Marek Ličák in his comments when unveiling the report, observing that the mortgage growth "culminated around July," and that since August and September, "we see … drops in the number of mortgages, new mortgages, and the average size of mortgages has also decreased."

4.0 Budget and debt outlook

4.1 Budget and debt - Czech Republic

The country is to enter 2026 on provisional budget rules, capping the spending at one twelfth of the 2025 budget costs a month after the new radical right wing cabinet led by populist billionaire Andrej Babiš decided to overhaul the budget prepared by the previous centre-right cabinet of Petr Fiala. The Babiš-led ruling coalition, which besides far right SPD includes his ANO party advocating more loosening of strict fiscal measures and anti-green Motorists for Themselves Party advocating austerity, is set to discuss budget changes in the new parliament in mid-January. Local market analysts do not expect the provisional budget rules to have a significant impact on the government investments and the large infrastructure projects are planned to proceed as expected.

Former Prime Minister Petr Fiala's cabinet approved a 2026 budget with a deficit of CZK286bn (€11.8bn), deepening from this year's CZK241bn shortfall. The wider deficit reflects higher defence spending and a loan to expand the Dukovany nuclear power plant, both exempt from budget responsibility rules. The 2025 budget was under pressure at the end of November with only CZK9bn away from the planned cap. The budget deficit deepened by CZK49.2bn (€2mn) to CZK232.4bn at the end of November. It was the sixth deepest deficit since 1993, and also the lowest one in the past six years.

4.2 Budget and debt - Estonia

Estonia's 2026 budget sets total state revenue at €18.6bn and expenditure at €19.5bn. The government projects a budget deficit of 4.5% of GDP in 2026. The national defence budget for 2026 is projected to be around €2.4bn.

The wider deficits will significantly increase public borrowing in all the three Baltic states.

Estonia's public debt in 2026 is projected to rise to around 26% of GDP, marking a further departure from its historically very low debt levels.

Despite rising debt ratios, overall fiscal sustainability remains manageable by EU standards.

As a member of the euro area, Estonia does not depend on foreign exchange reserves for currency management. Reserve holdings, maintained through national central bank and the Eurosystem, primarily serve as a liquidity and confidence buffer rather than a policy tool.

In 2026, reserve levels are expected to remain broadly unchanged and sufficient to meet external obligations.

4.3 Budget and debt - Hungary

The government missed most of the economic forecasts for 2025, including the budget deficit forecast, which looks set to rise to 5% from 4.6% a year earlier, compared with the initial 3.7% in the budget law, which was revised to 4.3% in the spring. Economic policy must tolerate a higher budget deficit to maintain growth amid war-related shocks, Germany's downturn, and tight monetary policy, Economy Minister Marton Nagy argued.

The government has opened the taps for the 2026 election, with a string of programmes from the 14th-month pension. Bonus payments to public service workers, a generous home subsidy system, and PIT allowances for families. Unlike the 2022 elections, these will burden the budget in the long term. The suspension of EU funds meant that Hungary became a net contributor to the EU budget in 2025 for the first time, as EU transfers in the first ten months reached HUF589bn, compared to HUF 609bn in membership contributions due to the suspension of certain cohesion funds over rule-of-law and corruption concerns. Hungary's GDP growth between 2004 and 2023 would have averaged 0.7%, instead of the actual 2.1% without EU funds, economic researcher GKI said.

To meet the next year's deficit target of 5%, revised from 4.1% in November, the government doubled the windfall tax on banks and froze reserves and is also counting on tapping more than €2bn in cheap loans from the (Security Action for Europe) programme in 2026, or 15% of the €16.2bn requested. The funds, priced 200 bp below current market rates, could be used to relieve pressure on the budget by refinancing existing loans and/or easing FX bond issuance. Hungary plans to issue €9.6 bn in FX bonds this year, an unprecedented level, of which a third would go toward repaying maturing FX bonds, while the remaining €6.5 bn would cover the deficit. Hungary's debt service costs remain above 4%, one of the highest in the EU. The primary deficit could widen to 0.4% of GDP in 2025 and 1.4% in 2026, placing debt on an upward trajectory from 73.5% of GDP. Hungary remained in the investment-grade category at all three major rating agencies (two notches above junk at Fitch and Moody's, and just one notch at S&P), but all assigned a negative outlook. Rating agencies expect the new government to carry out fiscal measures after the election.

4.4 Budget and debt - Latvia

Latvia's 2026 state budget foresees revenues at €16.1bn and expenditures at €17.9bn, with a 3.3% GDP deficit, prioritising national security, education, and family support while also raising excise taxes on unhealthy products and gambling. The budget emphasises security, allocating significant funds to defence (strengthening border, defence systems, Ukraine support) and includes measures like a temporary reduced VAT on basic food. The budget deficit is estimated at 3.3% of the country's gross domestic product (GDP).

Latvia’s defence budget for 2026 is planned at around €2.16bn, equivalent to approximately 4.8-5.0% of GDP.

Latvia’s public debt in 2026 is forecast to increase to approximately 48-50% of GDP, remaining the highest among the three Baltic economies.

Despite rising debt ratios, overall fiscal sustainability remains manageable by EU standards.

As a member of the euro area, Latvia does not depend on foreign exchange reserves for currency management. Reserve holdings, maintained through national central banks and the Eurosystem, primarily serve as a liquidity and confidence buffer rather than a policy tool.

4.5 Budget and debt - Lithuania

Lithuania’s 2026 budget projects total revenue, including EU funds, of approximately €21.07bn, while total expenditure is set at €27.51bn. The headline budget deficit is estimated at 2.7% of GDP, widening to around 5% of GDP once military acquisitions are considered.

In 2026, an additional €1.06bn will be allocated to personal income and social security, including €554.2mn for wage increases. The minimum monthly wage will rise by 11.1% to €1,153, increasing net income by €69.58, while pensions will increase by 12%, raising the average old-age pension from €670 to €750 at a cost of €388.4mn, affecting 640,000 people. Social benefit indexation will receive €121.8mn, boosting child benefits and scholarships.

Defence spending will rise to €4.8bn, equivalent to 5.38% of GDP, including €700.3mn from the Defence Fund. Defence outlays will increase by almost €1.6bn and account for nearly 14% of total expenditure.

Lithuania’s public debt is expected to reach around 40–45% of GDP, supported by comparatively stronger revenue performance but still reflecting persistent budget deficits.

Despite rising debt ratios, overall fiscal sustainability remains manageable by EU standards. In contrast, gross international reserves are expected to remain stable and adequate. As a member of the euro area, Lithuania does not depend on foreign exchange reserves for currency management. Reserve holdings, maintained through national central banks and the Eurosystem, primarily serve as a liquidity and confidence buffer rather than a policy tool.

4.6 Budget and debt - Slovakia

The Slovak parliament passed the state budget for 2026 with a deficit amounting to 4.1% of gross domestic product (GDP), or close to €6bn. The national deficit should decrease from the 5% planned for 2025 after unpopular consolidation measures worth €2.7bn were incorporated into the budget. The overall budget income is calculated to be €62bn, which amounts to 43% of GDP. The costs are expected to amount to €67.9bn, or 47.1% of GDP, leaving the deficit at €5.9bn, or 4.1% of GDP. As part of the budget approval the public spending was capped at €61.8bn in 2027, €62.8bn in 2028 and €64.4% in 2029. The general government deficit in 2024 amounted to 5.5% of GDP, or €7.2bn, which was an increase of 0.6bn y/y and up from 5.3% in 2023.

As an eurozone country and an EU member state, Slovakia is under watch to narrow its deficit below 3% of GDP, but to achieve this by 2028 “it will be necessary to implement consolidation measures amounting to 1.8% of GDP in future budgets,” the country’s Minister of Finance Ladislav Kamenický stated after drafting the 2026 budget. Under the government approved plan, the deficit should decline to 3.5% of GDP in 2027 and to 2.8% in 2028, provided the fiscal consolidation measures are adopted. Budget income for 2026 is forecast at €62bn, or 43% of GDP, while expenditures are expected to reach €67.9bn, or 47.1% of GDP.

In its autumn macroeconomic forecast the European Commission projects public spending at 5% in 2025, before decreasing to 4.6% in 2026 “amid the impact of consolidation measures, and increasing to 5.3% in 2027.” EC stated that in 2027, “the deficit is forecast to rise again to 5.3% mainly due to increased public investments in defence expenditures and the national cofinancing of EU-funded projects.”

The defence chapter of the Slovak state budget for 2026 amounts to €2.87bn, or 2% of the country’s gross domestic product. It is an increase of €90.4mn y/y in defence spending, as Slovakia is set to meet its Nato defence investments target of at least 2% of GDP in 2026. In the defence chapter, €2.1bn is allocated for the command and securing of the defence, while another €757mn is allocated for the development of the resort, including armament, technology, materiel, as well as development communication and information systems and infrastructure.

5.0 Markets outlook

5.1 Markets - Czech Republic

The Prague bourse PX index increased by 1.78% to reach 2,640.70 points on December 17, which was the highest daily closing in the history of the bourse, beating 1,940.44 points from February and subsequent surpassing of the 2,000 points mark, while the previous record high was registered in October 2007. The bourse then beat the December 17 record high on December 19 again after the PX index increased by 0.89% to 2,654.25 points after stocks of traded banks, including Moneta and local branches of Erste and Societe Générale, and the majority-state-owned energy utility ČEZ performed well. Vienna Insurance Group stock led the trading in the previous record highs. Stocks of weaponry group Colt stagnated, while stocks of soft drinks producer Kofoala and drone producer Primoco weakened at the end of the last full week in December ahead of the end of the year's holidays.

The bourse also registered a record trading volume on August 26, reaching CZK5.17bn (€0.2bn). It was the largest volume of trades since the stocks trading system Xetra was introduced in

2012, and was driven by the traded stocks of house leader ČEZ. Trades with ČEZ stocks registered significant spikes in August, and traded ČEZ stocks reached the volume of CZK950.6mn with 766,375 stocks traded overall on August 5, which is four times more than the daily average of traded volume during the last year. Czech coal barron Pavel Tykač, who controls one of the largest Czech energy groups Sev.en, continued to buy ČEZ stocks, increasing his footing in the state company.

5.2 Markets - Estonia

The Baltic markets operate as local exchanges within a single integrated market called Nasdaq Baltic, all owned and run by Nasdaq. Each Baltic capital – Vilnius, Riga and Tallinn – has its own exchange name, legal entity and local issuer base; however, trading, rules, technology, and data are unified across the three markets.

In 2026, equity capital markets in Lithuania, Latvia and Estonia are expected to remain relatively shallow but increasingly selective, reflecting cautious investor sentiment and global volatility. Market capitalisation across Baltic exchanges remains modest at around 25–35% of GDP, limiting liquidity and large-scale fundraising. Initial public offerings are likely to be sporadic rather than cyclical, with activity concentrated in niche sectors such as technology, energy, infrastructure and defence-related industries. Secondary market trading will continue to dominate, driven largely by institutional and regional investors rather than retail flows.

In 2026, debt capital markets in Lithuania, Latvia and Estonia are expected to remain the dominant channel for capital raising, reflecting conservative investor preferences and limited equity market depth. Combined sovereign debt outstanding across the three states is projected at 35–45% of GDP, well below the EU average, supporting continued issuance without immediate sustainability concerns. Annual sovereign bond issuance is likely to total €8bn-10 billion, driven by refinancing needs, defence spending and infrastructure investment.

Corporate bond markets will remain relatively small, accounting for 10-15% of total debt issuance, with activity concentrated among banks, utilities, energy companies and large industrial firms. Typical corporate bond maturities are expected to remain short to medium term at 3-7 years, reflecting interest rate uncertainty. Average yields are projected to stabilise in the 3.5-5.0% range, depending on credit quality.

Green and sustainability-linked bonds will continue to expand, potentially representing 30-40% of new sovereign issuance and 20–30% of corporate issuance. Market liquidity will remain limited, relying heavily on regional and Nordic institutional investors, while retail participation stays marginal.

5.3 Markets - Hungary

The benchmark BUX reached historic highs in 2025, up 40% after a gain of 30% in 2024, with OTP leading the rally. CEE's leading lender surged 59% year-to-date to all-time highs, boosted by hefty profits and the contribution of foreign subsidiaries. Despite the appreciation, OTP’s P/E ratio remains below that of its sector peers. Among mid-caps, the share price of ICT 4iG surged fourfold, boosted by a string of acquisitions and its foray into defence and space. There is substantial upside potential in local assets, given the risk premiums associated with the war. A ceasefire or longer-term peace could bring CDS premiums and local bond yields lower, leading to a stronger forint and trading at its strongest levels in two years. The forint bucked a weakening trend seen since much of the first Orban government, gaining 6-7% against the euro, supported by a carry trade driven by high real interest rates, a strong current account balance, and expectations of political change. Bank of America (BofA) in a fresh note forecast the EUR/HUF to strengthen to 360 if the opposition wins, supported by hopes for securing EU funds and progress toward euro adoption, while a Fidesz victory could push the rate back above 390. Foreign speculative investors have switched to the long-forint side, and technically, the forint looks overbought at 380.

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5.6 Markets - Slovakia

The Slovak government announced launching another emission of bonds for people for 2026. In March 2025, Slovakia increased emission of bonds for people from €400mn to €500mn after bonds were sold out within three days of launching the sales. Two-year maturity Investor bonds were introduced at a 3% yield per annum and four-year maturity Patriot bonds at 3.3% p.a., and were not subject to tax. The earnings from the 2025 emission are expected to be announced in January 2026, and the new emission should again offer two-year and four-year maturity bonds.

In 2025, Slovakia raised €12.181bn in the sales of state bonds overall, according to the country's Debt and Liquidity Management Agency

(Ardal). Bonds amounting to €6.681bn were sold through regular monthly auctions and another €5bn in syndicated sales, and €500mn were raised in the March emission of bonds for people. The first monthly auction in 2026 is scheduled for January 19.