

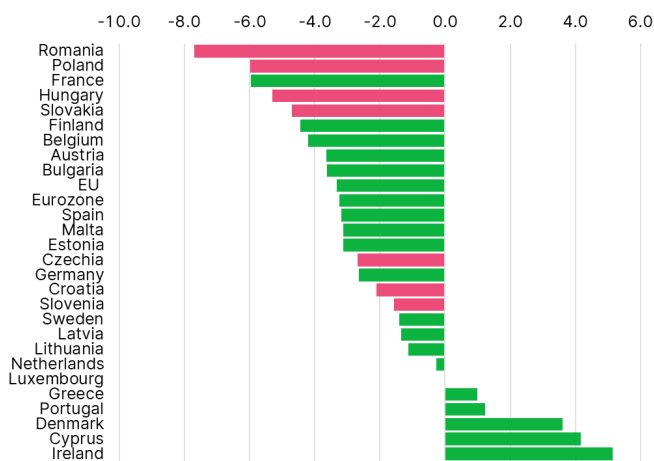
CEE MACRO AND FI DAILY

Low fiscal discipline in CEE continues

On the Radar

- Industrial production in Poland grew meagerly by 0.2% y/y in December. Producer prices declined by -2.6% y/y.
- Today, at 10 AM CET, Poland will release retail sales growth in December.

General government balance in 4Q23-3Q24, percent of GDP

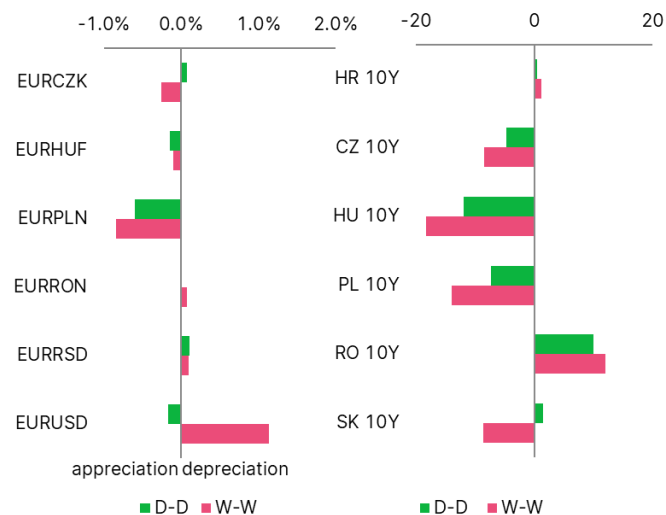


Source: Erste Group Research

Economic developments

Four out of first five countries with the highest general government deficit in the European Union are those from the region. Romania and Poland have the highest budget deficit after the third quarter of 2024 (calculated on four-quarter rolling basis) at almost 8% and 6% of GDP respectively. Hungary and Slovakia place themselves high as well with general government deficits close to 5% of GDP if measured as four-quarter rolling basis. Slovenia and Croatia have the best fiscal position within the CEE region. Only Slovakia and Romania will deliver more substantial fiscal consolidation, primarily based on revenue measures. On top of the measures already taken on the expenditure side (freezes of pensions and wages in the public sector), Romania is likely to lift tax rates. Hungary will reduce the deficit only mildly ahead of next year's elections. The budget should get support through lower interest expenditures and inflation-indexed tax revenues. Poland prioritized higher military spending and drawing loans from the RRF over consolidation, which will be postponed to 2026. In 2025, it bets on higher revenues from excise taxes and non-indexed tax allowances.

Market performance



Source: Erste Group Research

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Market developments

The Czech central banker Jan Prochazka expects the board to back a 25bp cut at the next central bank's meeting on February 6. The main argument is that headline inflation was weaker than anticipated in December. Moreover, prior to the interest rate decision the January's flash inflation estimate will be known. The CEE currencies keep strengthening against the euro. The EURCZK is at 25.14, EURHUF went down to 410 and EURPLN to 4.22. The long-term yields have been falling this week. The finance ministry borrowed CZK 1 billion selling a floating rate note. The amount was exactly at the borrowing ceiling, while demand was solid.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.
23. Jan	10:00	PL	Retail Sales (y/y)	Dec			0.03
24. Jan	08:30	HU	Unemployment Rate	Dec			4.70%
	12:00	RS	Wages (y/y)	Nov			8.80%

FX Market

	Last	Change (%)	
		d/d	w/w
EUR/CZK	25.12	0.1	-0.3
EUR/HUF	410.57	-0.1	-0.1
EUR/PLN	4.22	-0.6	-0.8
EUR/RON	4.97	0.0	0.1
EUR/RSD	117.11	0.1	0.1
EUR/USD	1.04	-0.2	1.1

3M Market

	Last	Change (bps)	
		d-d	w-w
CZK	3.87	0	-2
HUF	6.50	0	0
PLN	5.86	1	2
RON	5.94	0	2
RSD	4.70	0	0
EUR	2.67	-1	-8

10Y Yields

	Last	Change (bps)	
		d-d	w-w
CZ 10Y	4.04	-5	-8
HU 10Y	6.71	-12	-18
PL 10Y	5.82	-7	-14
RO 10Y	8.03	10	12
HR 10Y	3.12	1	1
SK 10Y	3.27	2	-9

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