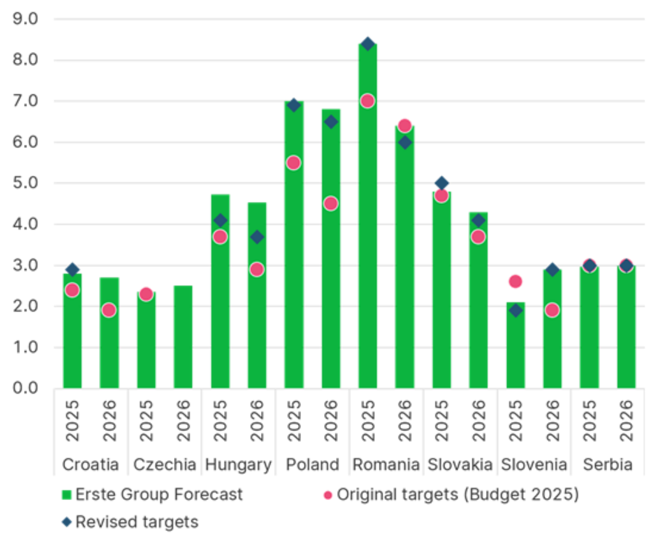
CEE MACRO AND FI DAILY

Fiscal slippage and less space for monetary easing in CEE

On the Radar

- On Friday, October 17, CEE Fixed Income Daily will not be released due to the annual meeting of Erste Group's analysts in Bucharest, Romania.
- In Romania, industrial output declined by -1.1% y/y in August.
- Inflation rate in Slovakia increased toward 4.3% y/y in September. In Croatia and Poland, final inflation releases confirmed flash estimates (4.2% and 2.9% accordingly).
- Today, Czechia will publish producer prices in September (9 AM CET), while Poland will release core inflation (2 PM CET).

Forecasted deficits vs. targets, % of GDP

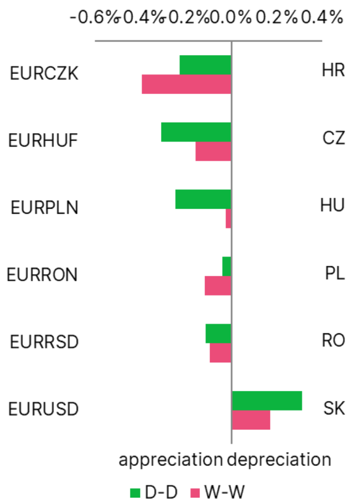


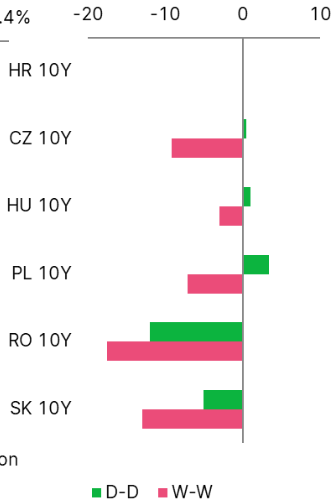
Source: Erste Group Research

Economic developments

In most recent Bond Report [Fiscal slippage and less space for monetary easing] we discuss relaxation of deficit targets in several countries and public debt trajectory across the region. Hungary, Romania and Poland are facing quite substantial fiscal slippage this year compared to their original fiscal targets. In Hungary and Romania, it is partially cyclical (both economies have been underperforming). In Romania, at the top, fiscal slippage is caused by the late start of consolidation due to repeated presidential elections. The most substantial easing of the fiscal target is taking place in Poland, where the government increased the 2025 and 2026 deficits by 2pp, from 4.5% to 6.5% of GDP. In Czechia, the new government is likely to come up with some fiscal expansion next year. Not surprisingly, debt to GDP ratios remain in an upward trend in Poland, Romania and Slovakia, forecasted to top 60% next year. The increase of gross public debt to GDP ratios over the last five years ranged within 10-20pp in all CEE countries except for Croatia and Slovenia. In Slovenia, the debt ratio in 2024 returned to the pre-covid level, while in Croatia, it declined by 13pp and dropped below 60% of GDP. Croatia ticked all important boxes for successful debt reduction – the most prudent public finances in CEE measured by low primary deficits and a very favorable differential between economic growth and real interest rate paid on debt.

Market performance





Source: Erste Group Research

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Market developments

In Czechia, ANO and two other parties, SPD and Motorists, reached agreement on the distribution of ministries. ANO's leader, Babis, said that who is appointed to specific posts will be known in a month or so. Currently, joint program of the government needs to be drafted that may take weeks according to Babis. Hungary's MOL increased oil exports to Serbia, following the US sanctions on Serbia's oil firm NIS that disrupted Serbia's energy supply chains. Croatia's state-owned oil pipeline operator Janaf stopped its supplies. Serbia's President Vucic welcomed Ursula von der Leyen to discuss Serbia's path towards joining the European Union.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.
16. Oct	**09:00**	**CZ**	PPI (y/y)	Sep	-0.57%	-0.60%	-0.80%
17. Oct		**RS**	Current Account Balance (monthly)	Aug			-411.20

FX Market

	Last	Change (%)	
		d/d	w/w
EUR/CZK	24.24	-0.2	-0.4
EUR/HUF	390.23	-0.3	-0.2
EUR/PLN	4.25	-0.2	0.0
EUR/RON	5.08	0.0	-0.1
EUR/RSD	116.94	-0.1	-0.1
EUR/USD	1.16	0.3	0.2

3M Market

	Last	Change (bps)	
		d-d	w-w
CZK	3.53	0	0
HUF	6.50	0	0
PLN	4.54	-1	-15
RON	6.46	-1	-2
RSD	4.68	0	0
EUR	2.02	0	0

10Y Yields

	Last	Change (bps)	
		d-d	w-w
CZ 10Y	4.34	0	-9
HU 10Y	6.77	1	-3
PL 10Y	5.41	3	-7
RO 10Y	7.18	-12	-18
HR 10Y	3.01	0	0
SK 10Y	3.31	-5	-13

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