

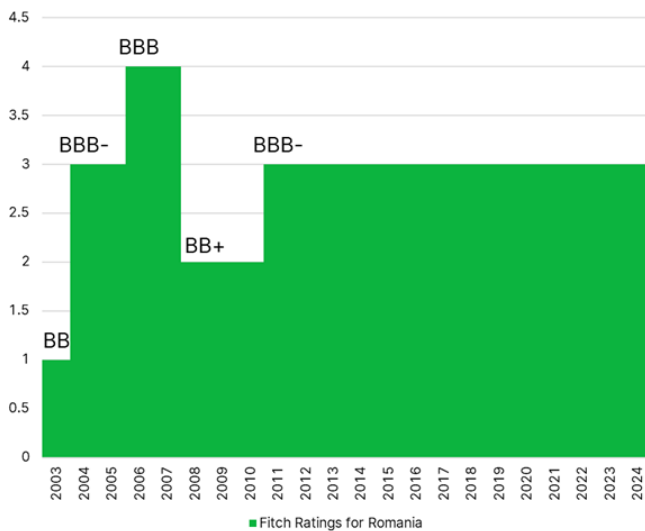
CEE MACRO AND FI DAILY

Fitch changes Romania's outlook to negative

On the Radar

- Fitch changed the Romania's outlook to negative and kept the rating at BBB-
- Hungarian central bank left the key policy rate unchanged at 6.5%.
- Today at noon, Serbia will publish current account data.
- Otherwise, there are no releases scheduled.

Romania's rating by Fitch



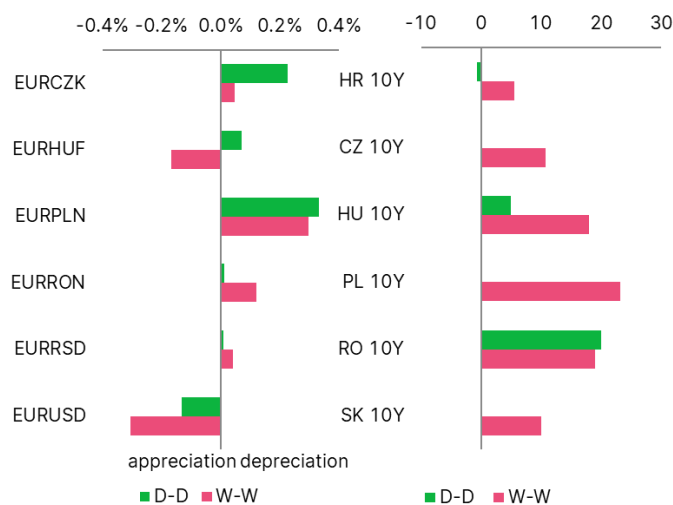
Source: Erste Group Research

Economic developments

On Tuesday, in an unscheduled review (if necessary for credit rating agencies it is possible to deviate from the schedule in order to comply with the obligation to issue credit ratings based on all available and relevant information and disclose credit ratings in a timely manner). Fitch revised Romania's outlook to negative from stable and affirmed the rating at 'BBB-'. Fitch believes that developments in the country warrant such a deviation from the calendar. The first and main reason behind such decision is increased political uncertainty to high levels (cancelled presidential elections, a more divided parliament with an increase of far-right, anti-EU parties). Fitch assessment is that it will likely have a significant adverse effect on fiscal consolidation. Fitch expects that Romania's general government deficit will increase to 8.2% of GDP in 2024, above our August review forecast of 7.2%, the government's earlier target. Although Fitch assumes that fiscal consolidation will start in 2025, they have revised up our general government deficit forecast to 7.5% of GDP in 2025 and 6.8% in 2026, more than double the current projected 'BBB' median averaging 3.2% in 2025-2026. The greater-than-expected fiscal deterioration reflects mainly rapid expenditure growth, including public sector salaries and unfunded pre-election pension increases. The full year impact of the September 2024 pension increase will add to the fiscal pressures next year, making future consolidation even more challenging. Finally, the higher deficit path will lead to a rapid increase in the public debt to GDP ratio over the medium term. However, Fitch's Sovereign Rating Model (SRM) assigns Romania a score equivalent to a rating of 'BBB' and Fitch's sovereign rating committee adjusted it by applying its Qualitative Overlay (QO). Hence, in our view, a rating downgrade is

unlikely by fall 2025 and it is likely to be avoided as the government should present a fiscal adjustment plan after the rerun of the presidential elections which is expected in March-April. The next scheduled review date for Fitch's rating on Romania is in February 2025.

Market performance



Source: Erste Group Research

Market developments

As for other market related news, Hungarian central bank kept policy rate unchanged at 6.5% on Tuesday. The monetary council emphasized that risk aversion has continued and increased volatility on the domestic markets persisted. If warranted by the external environment and the inflation outlook, the base rate may remain at the current level for an extended period, leading to an increase in Hungary's relative interest rate spread. The new inflation and growth projection of Hungarian central bank shows that annual average inflation is set to be 3.3-4.1% in 2025 and 2.5-3.5% in 2026 and 2027. In 2025, the expected inflation trajectory will move upwards. Inflation will not return permanently to the central bank target of 3% until 2026. As for the new GDP projections, the economy is set to grow by 2.6-3.6% in 2025, 3.5-4.5% in 2026 and 2.5-3.5% in 2027. On the FX market, we have seen the CEE currencies strengthening against the euro since the beginning of the week while bond market has been stable.

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Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.
18. Dec		RS	Current Account Balance (monthly)	Oct			-925.10
19. Dec		SK	Unemployment Rate	Nov		5.00%	4.91%
	10:00	PL	Industrial Production (y/y)	Nov			4.70%
	10:00	PL	PPI (y/y)	Nov			-5.20%
	10:00	PL	Wages (y/y)	Nov			10.20%
	10:30	SK	Current Account Balance (monthly)	Oct			-353.50
	14:30	CZ	Central Bank Rate	Dec-24		4.00%	4.00%

FX Market

	Last	Change (%)	
		d/d	w/w
EUR/CZK	25.07	0.2	0.0
EUR/HUF	409.17	0.1	-0.2
EUR/PLN	4.27	0.3	0.3
EUR/RON	4.97	0.0	0.1
EUR/RSD	116.82	0.0	0.0
EUR/USD	1.05	-0.1	-0.3

3M Market

	Last	Change (bps)	
		d-d	w-w
CZK	3.91	0	1
HUF	6.50	0	0
PLN	5.85	-1	0
RON	5.91	0	0
RSD	4.70	0	0
EUR	2.87	0	-1

10Y Yields

	Last	Change (bps)	
		d-d	w-w
CZ 10Y	4.08	0	11
HU 10Y	6.38	5	18
PL 10Y	5.83	0	23
RO 10Y	7.16	20	19
HR 10Y	2.94	-1	6
SK 10Y	3.09	0	10

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