

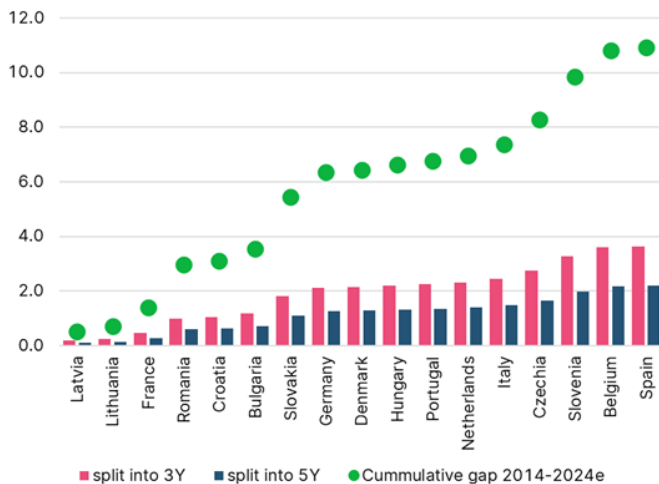
CEE MACRO AND FI DAILY

EU has been underspending on defense

On the Radar

- Romanian central bank kept policy rate stable at 6.50%.
- Fitch affirmed Czechia's rating at AA- with stable outlook.
- In Slovakia, inflation rate for January will be released at 9 AM CET.
- At 10.30 AM CET Slovenia will publish real wage growth for December.

Cumulative gap on defense spending, 2014-2024e % of GDP

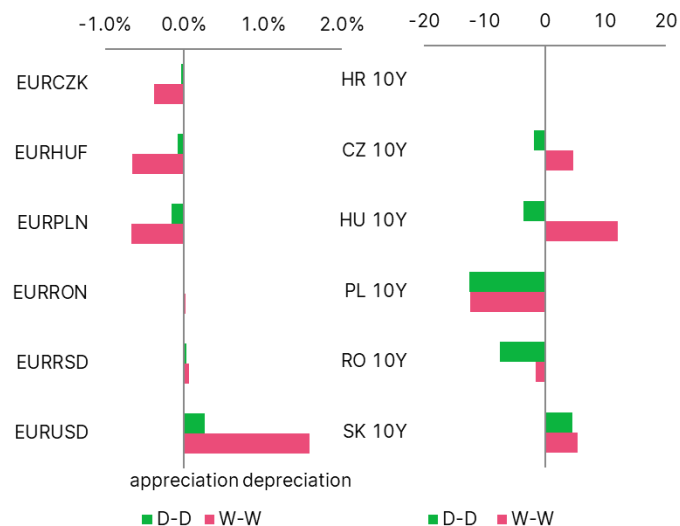


Source: Erste Group Research

Economic developments

Last Friday, during the Munich Security Conference, Ursula von der Leyen pledged to propose activating the escape clause for defense investments. This approach would allow member states to substantially increase their defense expenditure without the fear of cutting other expenses. The escape clause allows for a temporary deviation from the budgetary requirements for all Member States in a situation of a generalized crisis. On Friday, von der Leyen said Europe was “now in another period of crisis which warrants a similar approach,” referring to the war in Ukraine and recent developments. When looking at the cumulative gap in military spending from 2014-2024 against the 2 percent benchmark, Europe, in general, was not spending enough on defense. Within that period, only Poland, Greece, and Estonia consistently met the benchmark. Compensation for that gap would cost about EUR 945 million in 2025 prices, with about 30% attributed to Germany. Approximately 10 EU members would need to increase their military spending by at least 2 percentage points above the 2% of GDP benchmark for the next 3 years to compensate for underspending in the previous decade. Alternatively, they could increase spending by at least 1.3 percentage points above the benchmark for a period of 5 years.

Market performance



Source: Erste Group Research

Market developments

Romania's central bank kept the key policy rate at 6.50% unchanged. We expect Romania to resume cutting rates in August and deliver three key rate cuts of 25 basis points each, bringing the key rate to 5.75% by the end of 2025, with the risk for fewer cuts subject to fiscal and political developments. The next policy meeting is scheduled for April 7, 2025. Further revisions to the new inflation outlook will be made higher in the short run given recent inflation developments. The new figures, along with the quarterly Inflation Report, will be published today. Fitch affirmed Czechia's rating at AA- with a stable outlook. The minutes from the central bank meeting show that many central bankers are concerned about inflation risks that will require a cautious approach to further monetary easing. The Czech central bank lowered the key policy rate in February to 3.75%. The CEE currencies strengthened last week against the euro, while there was minimal movement in yields on CEE bond markets except in Hungary, where the curve shifted up.

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Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	
17. Feb	9:00	SK	CPI (y/y)	Jan		3.7%	2.9%	
	9:00	SK	CPI (m/m)	Jan		1.5%	-0.4%	
18. Feb			No releases scheduled					

FX Market

	Last	Change (%)	
		d/d	w/w
EUR/CZK	25.01	0.0	-0.4
EUR/HUF	402.14	-0.1	-0.7
EUR/PLN	4.16	-0.2	-0.7
EUR/RON	4.97	0.0	0.0
EUR/RSD	117.02	0.0	0.1
EUR/USD	1.05	0.3	1.6

3M Market

	Last	Change (bps)	
		d-d	w-w
CZK	3.74	0	0
HUF	6.51	0	1
PLN	5.87	0	1
RON	5.93	0	-1
RSD	4.70	0	0
EUR	2.52	-3	-1

10Y Yields

	Last	Change (bps)	
		d-d	w-w
CZ 10Y	3.93	-2	5
HU 10Y	6.57	-4	12
PL 10Y	5.68	-13	-12
RO 10Y	7.40	-8	-2
HR 10Y	3.09	0	0
SK 10Y	3.08	4	5

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