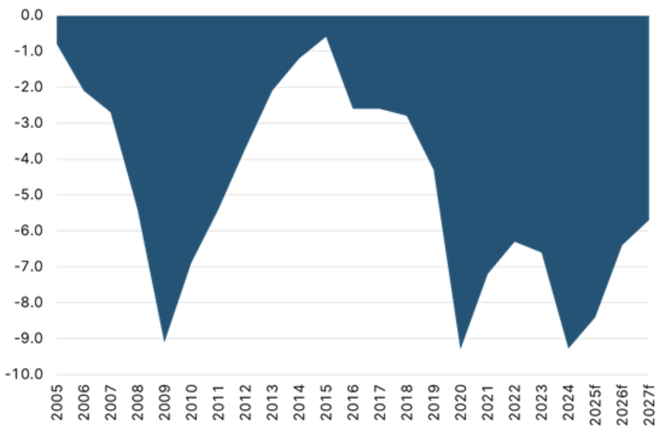
CEE MACRO AND FI DAILY

Fitch worried about risk of delays in Romania's consolidation

On the Radar

- Today, at 8 AM CET, Romania releases inflation in September and wage growth in August.
- At noon CET, Serbia will publish September's inflation as well.

Budget deficit in Romania

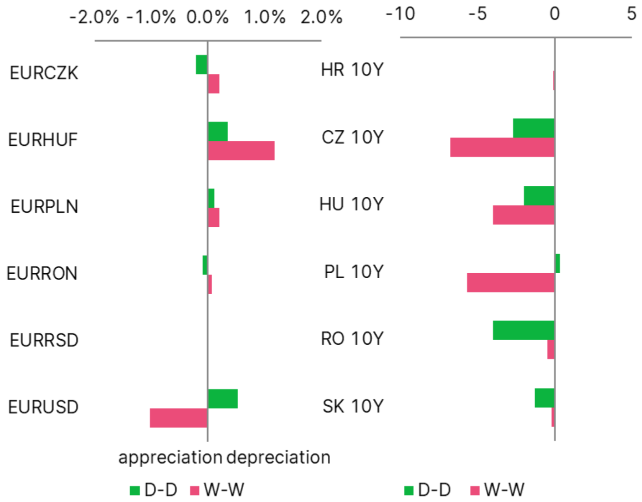


Source: Erste Group Research

Economic developments

While S&P did not release scheduled rating and outlook review for Romania, we have heard from Fitch Ratings regarding Romania instead. S&P published its assessment in summer in the unexpected, unscheduled review sustaining the investment grade rating with negative outlook. Romania, so far, managed to avoid a downgrade given the undertaken fiscal effort. While Constitutional Court keeps delaying the ruling regarding consolidation measures in the second fiscal package, Fitch Ratings warned Romania about the risks to its plan of reducing the EU's widest budget deficit. Delays in implementing reforms will likely lead to a wider gap in 2026 and 2027 according to the rating agency. Fitch ratings estimate Romania's budget gap at 7% of GDP next year and at 6.5% of GDP in 2027, which is higher than what the government has pledged. There are risks to the public debt-to-GDP ratio as well. At this point we remain more optimistic in our assessment of Romania's economy than Fitch ratings. We see the budget gap falling toward 6.4% in 2026 and below 6% in 2027. Further, we believe that any discussion regarding a possible change of the outlook back to stable will require some improvement in the fiscal metrics. The debt-to-GDP ratio is one of the most important indicators for both markets and rating agencies. Stabilization could be reached around 2028-2029 period with debt to GDP ratio peaking at around 67-68% and gradually going down afterwards. Finally, with the economy expected to expand well below potential for the second consecutive year and fiscal consolidation adding downside risks to economic growth, the central bank is likely to look through the supply-side inflationary shocks once the inflation trajectory enters a firm downward path. Monetary easing should help Romania's economy to withhold more challenging times.

Market performance



Source: Erste Group Research

Market developments

Last week, CEE currencies were slightly weaker against the euro, while the long-term yields have declined marginally in most of the CEE countries. In Czechia, central bank reaffirmed the need for tight monetary conditions (interest rate at 3.5%) as elevated core inflation (despite headline inflation decline) shows that overall price developments have not yet fully stabilized according to the central bank's chief economist Sklenar. In Poland central banker Kochalski attempted to cool down expectations for another rate cut in November, after Poland's central bank eased monetary conditions in October. The room for further monetary easing remains limited according to Kochalski. Slovakia's government approved the fiscal deficit for 2026 with a budget gap at 4.1% of GDP, down from roughly 5% of GDP this year.

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Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.
13. Oct	**08:00**	**RO**	CPI (y/y)	Sep	10.1%	10.00%	9.85%
	08:00	**RO**	CPI (m/m)	Sep	0.6%	0.42%	2.10%
	08:00	**RO**	Wages (y/y)	Aug			5.25%
	12:00	**RS**	CPI (y/y)	Sep	4.4%	2.90%	4.70%
	12:00	**RS**	CPI (m/m)	Sep			0.20%
14. Oct		**RO**	Current Account Balance (monthly)	Aug			-17226.00
	09:00	**SK**	Wages (y/y)	Aug			1.50%
	14:00	**PL**	Trade Balance	Aug	-1145.00		-1265.00

FX Market

	Last	Change (%)	
		d/d	w/w
EUR/CZK	24.29	-0.2	0.2
EUR/HUF	392.25	0.4	1.2
EUR/PLN	4.26	0.1	0.2
EUR/RON	5.09	-0.1	0.1
EUR/RSD	117.00	0.0	0.0
EUR/USD	1.16	0.5	-1.0

3M Market

	Last	Change (bps)	
		d-d	w-w
CZK	3.53	0	1
HUF	6.50	0	0
PLN	4.54	1	-16
RON	6.48	0	-2
RSD	4.68	0	0
EUR	2.01	-2	-1

10Y Yields

	Last	Change (bps)	
		d-d	w-w
CZ 10Y	4.41	-3	-7
HU 10Y	6.78	-2	-4
PL 10Y	5.44	0	-6
RO 10Y	7.31	-4	-1
HR 10Y	3.01	0	0
SK 10Y	3.44	-1	0

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