

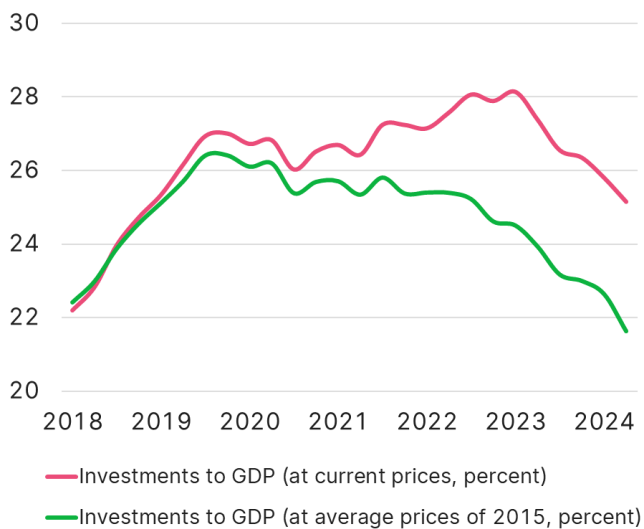
CEE MACRO AND FI DAILY

Weak investments in Hungary drag growth

On the Radar

- Hungarian central bank cut the policy rate to 6.5%.
- Today, the Czech central bank will release the policy rate decision at 2.30 PM CET.
- Prior to that, Serbia publishes real wage growth for July (noon CET).

Investment to GDP in Hungary, %

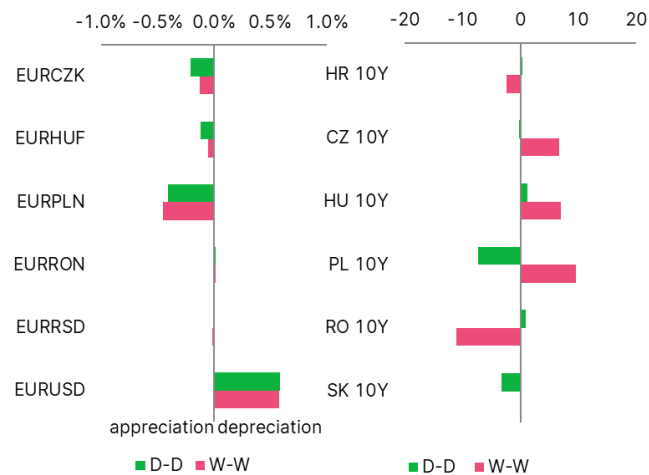


Source: Erste Group Research

Economic developments

Domestic demand is a crucial part of the GDP growth: households' consumption and investments account for 85 percent of GDP in Hungary. Households have recovered only partially from the 2022 energy and inflation shock as private consumption growth ticked up. Worryingly, investment activity remains subdued dragging the growth and the recovery. Actually, Hungary is the only country where investment growth declined since the pandemic making us curious about possible reasons of such development that we discuss in the detail in latest Hungary Special Report: [Chasing growth](#). In the past 10-15 years, economic policy encouraged investments through tax reductions, state subsidies and pursuing rather accommodative monetary policy. On average, EU funds inflow amounted to 2.5 percent of GDP per year between 2012 and 2022, supporting the growth via the investment channel, as well. Although there was a rebound after the pandemic crisis - partly driven by pre-election spending - it quite quickly faded. Strict monetary policy, weak external demand, energy crisis, much lower amount of EU funds, increased uncertainties caused partly by the Russian-Ukrainian war all have led to delays of investment and FDI projects. Further, moderate willingness of firms to invest is also observable in the deposit and lending figures of the corporate sector.

Market performance



Source: Erste Group Research

Market developments

Hungarian central bank lowered the key policy rate to 6.50%. In the communique, Deputy Governor Virag kept emphasizing caution. Financial market developments remain volatile, with emerging markets being highly exposed. Meanwhile, inflationary expectations are decreasing only slowly and display more volatility than usual. Virag also noted that there was no need to overreact to the Fed's 50 basis point interest rate cut. We keep expecting one or two 25 basis points cuts until the year-end. Next year - depending mostly on the development of inflation – further slow normalization of interest rates is to continue, and the policy rate is to be reduced to 5-5.25% by the year-end. Today, we expect the Czech central bank to continue with monetary easing as well and lower key rate by another 25 basis points. The Czech koruna and the Hungarian forint were slightly weaker against the euro this week while the Polish zloty on the contrary. Long term yields have been slightly lower this week Slovenia opted to reopen its ten-year euro bond issue by placing additional EUR 750mn, thus with previous two issues, putting total size of its Mar-2034 tenor at EUR 2.75bn. Demand was strong, with book size exceeding EUR 3bn, thus allowing for the final pricing to be set at 2.946% i.e. MS+56bps (vs initial guidance at MS+62bps). With this issuance, Slovenia has closed around 80% of this year's funding needs, suggesting comfortable financing position ahead.

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Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.
25. Sep	08:30	HU	Current Account Balance (quarterly)	2Q	1832.67	1832.00	1859.80
	12:00	RS	Wages (y/y)	Jul			8.0%
	14:30	CZ	Central Bank Rate	Sep 24	4.25%	4.25%	4.5%
26. Sep	09:00	SK	PPI (y/y)	Aug		-7.5%	-9.1%

FX Market

	Last	Change (%)	
		d/d	w/w
EUR/CZK	25.05	-0.2	-0.1
EUR/HUF	394.05	-0.1	0.0
EUR/PLN	4.25	-0.4	-0.5
EUR/RON	4.97	0.0	0.0
EUR/RSD	116.94	0.0	0.0
EUR/USD	1.12	0.6	0.6

3M Market

	Last	Change (bps)	
		d-d	w-w
CZK	4.28	0	-3
HUF	6.41	-2	-5
PLN	5.85	0	-2
RON	5.55	0	0
RSD	4.94	0	-2
EUR	3.40	-3	-8

10Y Yields

	Last	Change (bps)	
		d-d	w-w
CZ 10Y	3.75	0	7
HU 10Y	6.10	1	7
PL 10Y	5.29	-7	10
RO 10Y	6.66	1	-11
HR 10Y	3.19	0	-2
SK 10Y	3.19	-3	0

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