

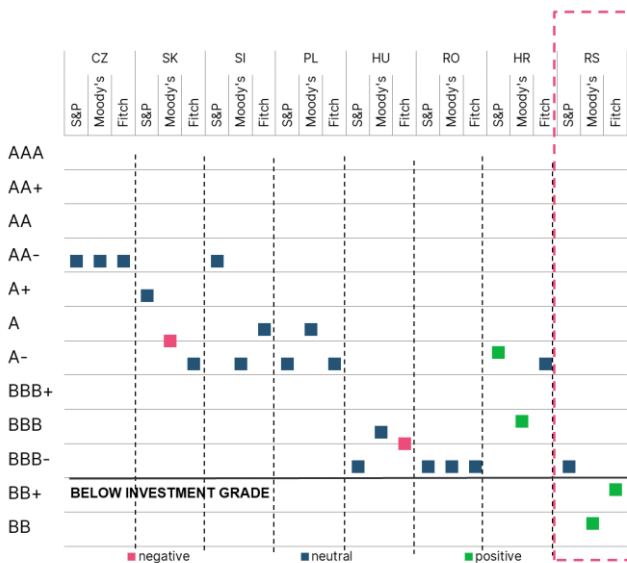
CEE MACRO AND FI DAILY

Serbia with an investment-grade rating from S&P

On the Radar

- S&P raised Serbia's credit rating to BBB- with a stable outlook. Serbia entered the investment grade ranking for the first time in history.
- Romanian central bank decided to keep monetary policy rate unchanged at 6.50% at the last Friday's meeting.
- Retail sales in Romania grew by 9.2 y/y in August. In Hungary it landed at 4.1% y/y while August's trade balance reached EUR 671 million in Hungary.
- Slovakia will release retail sales data at 9 AM. At the same time Czechia will publish industrial output growth for August.
- At noon CET, Serbia will publish producer prices.

Sovereign ratings in CEE

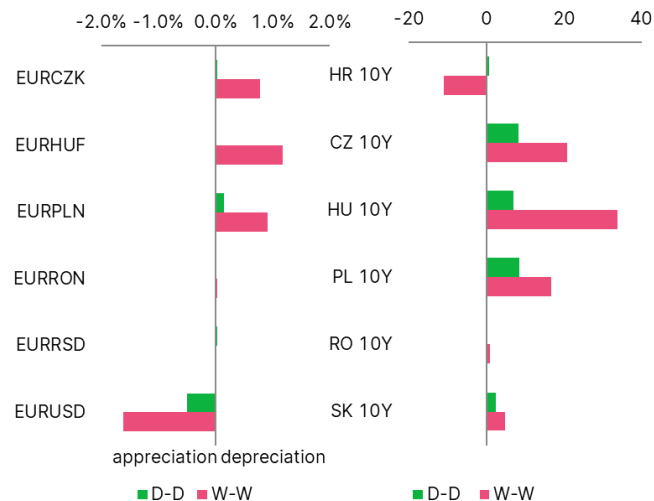


Source: Erste Group Research

Economic developments

S&P raised Serbia's credit rating to BBB- with a stable outlook. Serbia thus entered the investment grade rating for the first time in history. The move was underpinned by Serbia's favorable macroeconomic prospects and increased resilience to external shocks. Compared with pre-pandemic levels, Serbia's real GDP has increased by 18%, foreign exchange reserves have doubled, and gross general government debt has dropped by over 2 percentage points to 48.4% of GDP. Looking at S&P's forecasts for key macro variables, they align nicely with our view. Real GDP is expected at around 4% y/y this year and an acceleration to 4.3% y/y in 2025. Average inflation figures are seen at 4.5% y/y and 3.4% y/y respectively in 2024 and 2025. Looking ahead, the key signpost to watch will be wider fiscal deficits due to substantial government investments related to Expo 2027 and other capital expenditure. Serbia is allocating approximately EUR 17.8bn, roughly 25% of GDP, to this project and other related projects over the next few years, prompting a temporary freeze of fiscal rules. As a result, fiscal deficits are expected to average 2.4% of GDP from 2025-2027. As far as market reaction is concerned, we expect to see positive developments over the medium term. The investor circle should grow and push overall turnover higher. Looking at price action year-to-date, we can conclude that the move was very much expected, especially on the longer end of the curve with Serbia already trading below Romania. There might be more appeal on the shorter end of the curve for those who move fast.

Market performance



Source: Erste Group Research

Market developments

On Friday, Romanian central bank decided to keep monetary policy rate unchanged at 6.50% at the last meeting of the current Board. This decision is in line with the market consensus but came contrary to our expectation of a 25bp cut. Considering that there is only one last meeting left this year on November 8 we now expect the key rate to end 2024 at 6.50%. Especially a new inflation projection (to be revised higher) will be released. The fiscal slippage and heavy election period in the last two months of the year will most likely add an extra degree of prudence. The next rate cut should take place only in 2Q25. The escalation of the military conflict in the Middle East negatively impacted CEE currencies last week. The Hungarian forint was hit the hardest, breaching the 400 EUR/HUF level and depreciating more than 1% week-to-week for the second consecutive week. CEE government yields have increased as well as data in the US surprised with unemployment rate dropping and wage growth accelerating reducing the probability of bigger rate cuts.

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Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.
07. Oct		CZ	Industrial Production (y/y)	Aug		-0.9%	-1.9%
		CZ	Trade Balance	Aug		6.80	16.30
	08:00	RO	Retail Sales (y/y)	Aug		7.70%	7.4%
	08:30	HU	Retail Sales (y/y)	Aug	2.78%	2.8%	2.5%
	08:30	HU	Trade Balance	Aug P	215.33		167.00
	09:00	SK	Retail Sales (y/y)	Aug		2.5%	5.7%
	12:00	RS	PPI (y/y)	Sep			1.5%
09. Oct	09:00	SK	Trade Balance	Aug		-30.00	205.80

FX Market

	Last	Change (%)	
		d/d	w/w
EUR/CZK	25.31	0.0	0.8
EUR/HUF	401.19	0.0	1.2
EUR/PLN	4.31	0.2	0.9
EUR/RON	4.97	0.0	0.0
EUR/RSD	116.96	0.0	0.0
EUR/USD	1.10	-0.5	-1.6

3M Market

	Last	Change (bps)	
		d-d	w-w
CZK	4.17	-1	-2
HUF	6.31	1	-2
PLN	5.85	0	0
RON	5.55	0	0
RSD	4.93	0	-1
EUR	3.25	1	-8

10Y Yields

	Last	Change (bps)	
		d-d	w-w
CZ 10Y	3.87	8	21
HU 10Y	6.33	7	34
PL 10Y	5.32	9	17
RO 10Y	6.63	0	1
HR 10Y	3.07	1	-11
SK 10Y	3.23	2	5

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