

Economy slowed down in 2019

Flash estimate of FY19 GDP growth to be in focus. We see figure at 4.2%. Slippage towards 4.1% cannot be ruled out, due to weaker than expected industrial performance in December. Markets to watch for news concerning judicial reform.

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Watch this week

January 29 | Economic growth to slow down in 2019

We expect the flash estimate of 2019 GDP growth to be 4.2%, down from 5.1% in 2018. Weaker than expected performance of industry at the turn of the year could have dragged GDP growth below 3.5% in 4Q19. Our now-casting model suggests GDP growth at 3.6% y/y in the last quarter of 2019. Therefore, slippage of the FY19 figure to 4.1% cannot be ruled out. We expect the economy to further cool down this year, as we see FY20 growth at 3.4%.

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Note: Past performance is not necessarily indicative of future results.

Last week's highlights

- December's labor market data in line with expectations, with wage growth at 7.2% y/y, employment up by 2.6% y/y and unemployment rate at 5.2%.
- [Industrial production growth disappointed](#) in December, as it came in at 3.8% y/y, while [retail sales kept up strong dynamics](#) of 7.5% y/y.

Market developments

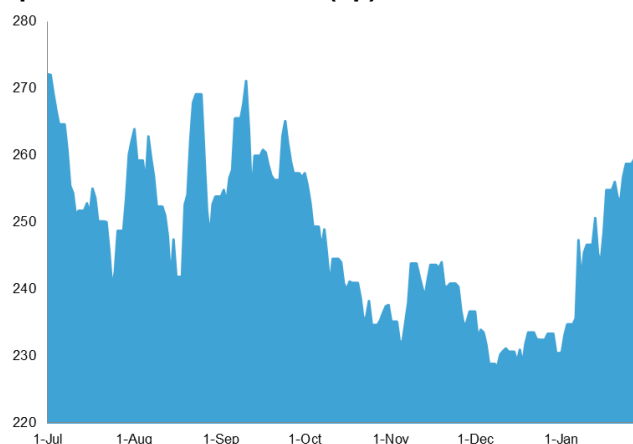
Bond market drivers | Long end followed global news

The long end of the Polish curve peaked at the beginning of the week close to 2.35% and moved towards 2.25% over the course of the week, reflecting global developments. Market uncertainty related to the spread of the coronavirus, as well as comments from Christine Lagarde that there are still downside risks to the Eurozone economy, pushed safe haven assets down. The 10Y German Bund dropped by 15bp to -0.35% over the week. As a result, the spread over the 10Y Bund has widened further and stands close to 260bp. That is the highest level since the end of September 2019. This week, the flash estimate of 2019 GDP growth is not likely to attract the attention of the market, unless the figure lands visibly below market expectations. Investors could be watching for news regarding the rule of law.

FX market drivers | Supreme Court ruling pushed EURPLN up

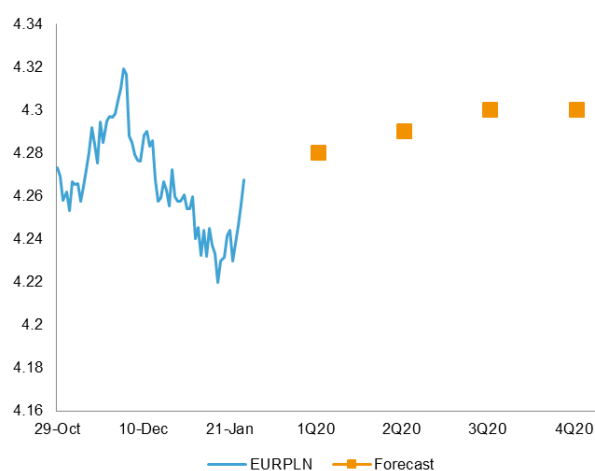
On the back of weaker than expected economic data as well as the ruling of the Polish Supreme Court concerning the judicial reform undertaken by Law and Justice in 2018, the EURPLN weakened to 4.26. Last week's ruling calls into question the independence of the National Council of the Judiciary (KRS) and is in conflict with government opinion. The decision of the Supreme Court could inflame the ongoing dispute between the Polish government and the European Commission regarding the rule of law. We expect the zloty to focus mainly on local news this week. We expect the EURPLN to be at 4.28 at the end of 1Q20.

Spread vs. German Bund (bp)



Source: Bloomberg, Erste Group Research

EURPLN



Source: Bloomberg, Erste Group Research

Upcoming in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
28. Jan	9:00	SK	PPI (y/y)	Dec			1.1%	
	14:00	HU	Central Bank Rate	Jan 28	0.90%	0.9%	0.9%	Rates to remain intact at upcoming meeting. MNB might fine-tune market with liquidity measures via FX swaps, while maintaining overall dovish monetary policy.
	14:00	HU	Overnight Deposit Rate	Jan 28	-0.05%	-0.05%	-0.05%	
	14:30	SK	Current Account Balance (monthly)	Nov			-92.00	
29. Jan	9:00	HU	Unemployment Rate	Dec	3.5%	3.5%	3.5%	Tight labor market conditions could have persisted in 4Q19.
	10:00	PL	GDP	2019	4.2%	4.2%	5.1%	We expect economy to have slowed down in 2019.
30. Jan		RO	Unemployment Rate	Dec			3.0%	
	11:00	HR	Industrial Production (y/y)	Dec		0.5%	-0.4%	December industrial production expected to show mild rebound, wrapping up 2019 performance slightly below 1%.
	11:00	HR	Retail Sales (y/y)	Dec		4.2%	0.0	Retail trade growth seen as accelerating, confirming expectations that consumption remains growth pillar.
31. Jan	9:00	HU	Trade Balance	Nov F			499.67	
	9:00	HU	Wages (y/y)	Nov	11.1%		11.6%	
	10:30	SI	Retail Sales (y/y)	Dec			-0.02	
	12:00	RS	Industrial Production (y/y)	Dec		4.5%	1.1%	Recovery pattern coupled with low base effect implies we could see highest monthly figure for whole 2019.
	12:00	RS	Retail Sales (y/y)	Dec		12.4%	11.2%	Strong labor market coupled with double-digit wage increases suggest yet another strong retail print.
	12:00	RS	Trade Balance	Dec			-519	

Source: Bloomberg, Erste Group Research

Market forecasts

Government bond yields

	current	2020Q1	2020Q2	2020Q3	2020Q4
Croatia 10Y	0.6	0.4	0.4	0.4	0.4
spread (bps)	96	60	60	50	50
Czechia 10Y	1.5	1.7	1.7	1.8	1.9
spread (bps)	190	186	191	187	197
Hungary 10Y	2.0	2.1	2.2	2.2	2.3
spread (bps)	237	229	235	230	235
Poland 10Y	2.2	2.2	2.2	2.3	2.3
spread (bps)	259	235	240	235	240
Romania10Y	4.2	4.5	4.5	4.6	4.6
spread (bps)	457	470	470	470	470
Slovakia 10Y	0.0	0.2	0.2	0.3	0.4
spread (bps)	40	37	42	42	52
Slovenia 10Y	0.15	0.20	0.30	0.30	0.30
spread (bps)	51	40	50	40	40
Serbia 5Y	2.5	2.5	2.3	2.2	2.1
spread (bps)	291	270	250	230	220
DE10Y	-0.4	-0.2	-0.2	-0.1	-0.1

3M Money Market Rate

	current	2020Q1	2020Q2	2020Q3	2020Q4
Czechia	2.17	2.16	2.14	2.13	2.12
Hungary	0.20	0.19	0.20	0.22	0.22
Poland	1.71	1.71	1.71	1.71	1.71
Romania	3.16	2.90	2.90	3.20	3.40
Serbia	1.63	1.55	1.45	1.45	1.20
Eurozone	-0.40	-0.40	-0.40	-0.40	-0.40

Source: Bloomberg, Erste Group Research

FX

	current	2020Q1	2020Q2	2020Q3	2020Q4
EURHRK	7.44	7.42	7.38	7.40	7.42
forwards		7.44	7.44	7.44	7.44
EURCZK	25.24	25.26	25.04	24.86	24.65
forwards		25.35	25.49	25.63	25.75
EURHUF	337.19	335.00	335.00	335.00	335.00
forwards		337.62	338.21	338.97	339.69
EURPLN	4.27	4.28	4.29	4.30	4.30
forwards		4.28	4.31	4.33	4.35
EURRON	4.78	4.80	4.82	4.85	4.87
forwards		4.81	4.85	4.90	4.94
EURRSD	117.46	117.60	117.40	117.20	117.30
forwards		-	-	-	-
EURUSD	1.10	1.15	1.15	1.15	1.15

Key Interest Rate

	current	2020Q1	2020Q2	2020Q3	2020Q4
Croatia	0.30	0.30	0.30	0.30	0.30
Czechia	2.00	2.00	2.00	2.00	2.00
Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.50	1.50	1.50	1.50	1.50
Romania	2.50	2.50	2.50	2.50	2.50
Serbia	2.25	2.25	2.00	2.00	1.75
Eurozone	0.00	0.00	0.00	0.00	0.00

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