

## CEE Market Insights

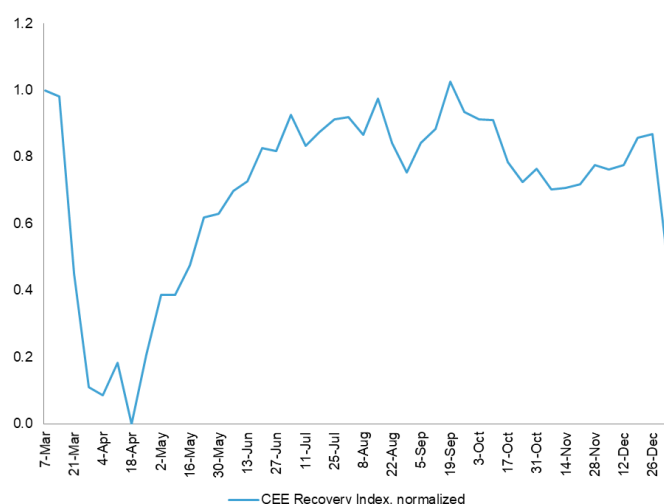
Central bank meetings in Poland and Serbia in focus

### This week in CEE

This week will bring a harvest of inflation data for the CEE region. In most cases, we expect that the y/y inflation rate decelerated in December compared to November (in Croatia, Czechia and Serbia) or remained unchanged (in Slovakia and Romania). Hungary is the only country for which we expect inflation to notch upwards (+0.1bp), driven by higher m/m inflation as a result of higher fuel prices. Poland should confirm its flash estimate of December inflation, which surprised to the downside. Inflation undershooting the inflation target at the year-end and the central bank intervening against its own currency sparked bets on the central bank cutting rates to zero (-10bp). The central bank meeting will take place this Wednesday. We stick to a stability of rates scenario, given the likely stronger than expected GDP growth and inflation returning to the target in 2H21. A central bank meeting will also take place in Serbia. After cutting rates in December, the central bank will likely remain on hold this time.

Monday	Tuesday	Wednesday	Thursday	Friday
SK, SI: Industry	RO: GDP	PL: Central bank, Trade balance	RS: Central bank	PL, HR: CPI
RO, HU: Trade balance	RS: CPI	RO: Industry, Current account, Wages	RO, HU, SK: CPI	
	HR: PPI	CZ: CPI, Retail		
		SK: Wages		
RO: 2028 Bonds	SI: Bills	CZ: 2026, 2029, 2040 Bonds	RO: 2023 Bonds	

### CEE Recovery Index

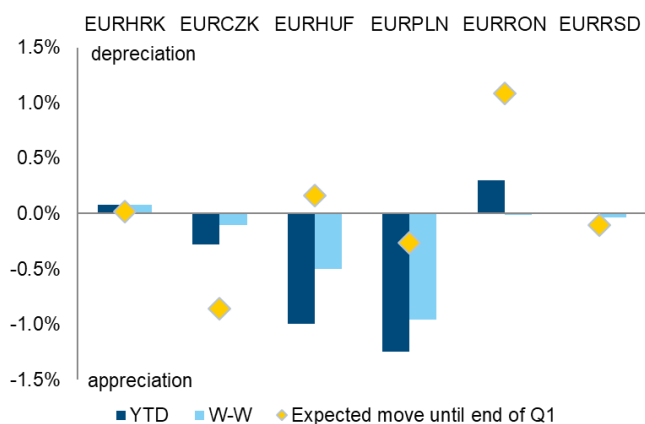


Source: Erste Group Research

The CEE Recovery Index dropped sharply in the last week of 2020. The re-introduction of tighter restrictions after Christmas as well as the holiday season itself dragged mobility down. Mobility decreased across all categories, with the sharpest drop in mobility to the workplace. At the turn of the year, mobility to the workplace was below the trough reached in mid-March. Although mobility should gradually recover in January, it will likely remain dampened, as the current restrictions are strict and are expected to remain in place in the coming weeks across the CEE region. On the other hand, electricity consumption increased quite visibly at the end of the year, which could have been due to colder weather and the holiday season. Capacity utilization in the automotive sector remains unchanged at the pre-pandemic level, as the current restrictions affect the retail and services sector and, to a lesser extent, manufacturing.

For more details, please check our [website](#).

## FX market

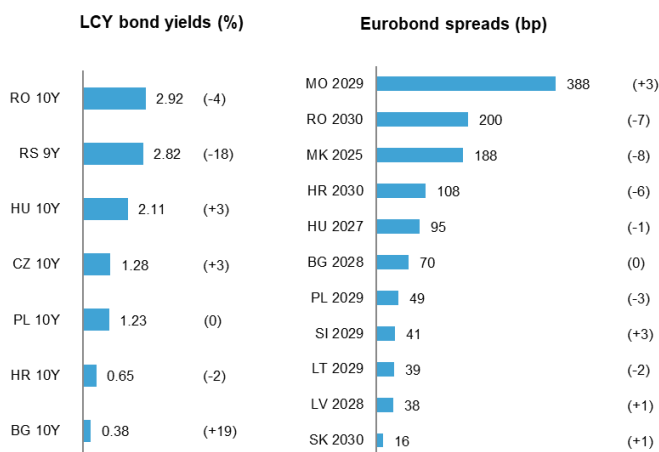


Source: Bloomberg, Erste Group Research

## FX market developments

The US dollar depreciated in the first half of the week, creating a positive environment for CEE currencies. Especially the zloty and the forint appreciated in the first few days, but gains reversed in the second half of the week as the US dollar also reversed its earlier weakening. In Poland, the lower than expected inflation release increases the room for the NBP to possibly weaken the zloty. This makes it riskier to see appreciation in the PLN in the short-term. After the temporary appreciation of the leu during the start of the year, the EURRON returned to around 4.87. In Croatia, the EURHRK continued its increasing path that started in mid-December with the rate approaching 7.57. The central rate in the ERM2 mechanism was set at 7.5345, but the kuna tends to be weaker out of the tourist season.

## LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

## Bond market developments

The previous week saw notable (+20bps w/w) increases in 10Y UST yields, but this was not really followed on the Bund market, nor in CEE bonds. Yields only edged up marginally. As for rates, some very small increase was seen in Hungary. On the other hand, Polish rate expectations dropped by around 5-10bps (looking at FRAs) after explicit comments from rate-setters about a possible easing in 1Q21. While inflation was lower than expected in December, the economy should rebound this year, making it questionable if a cut is really necessary. In Czechia, Governor Rusnok hinted that no 'more fundamental discussion' on rates is expected before May.

## In case you missed

PL: [Inflation](#) dropped visibly at end of 2020.

SK: [Retail sales](#) affected by second wave. [Import growth](#) returned in November.

RO: [Retail sales](#) remained in good shape in November. [Sentiment](#) improved in December.

HU: [Retail sales](#) growth remained in red in November. [Industry](#) slowed down as well.

CZ: [Industrial production](#) decreased in November.

## Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
11. Jan		SK	Industrial Production (y/y)	Nov		0.00%	-2.90%	Industrial production may have broken trend of negative y/y growth, on back of robust economic situation in manufacturing.
	8:00	RO	Trade Balance	Nov			-1512.9	
	9:00	HU	Trade Balance	Nov P	524		894.5	
	10:30	SI	Industrial Production (y/y)	Nov		-1.00%	-1%	Industrial production expected to maintain mild negative tone.
12. Jan	8:00	RO	GDP (q/q)	3Q F		5.60%	5.56%	
	8:00	RO	GDP (y/y)	3Q F		-6%	-5.97%	GDP print to be reconfirmed at third reading.
	11:00	HR	PPI (y/y)	Dec			-3.60%	
	12:00	RS	CPI (y/y)	Dec		1.50%	1.70%	We expect to see slight pickup in monthly inflation, but due to base effects, y/y figure is likely to fall exactly on lower end of targeted band.
	12:00	RS	CPI (m/m)	Dec		0.30%		
13. Jan		PL	Central Bank Rate	Jan 13	0.10%	0.10%	0.10%	Recent comments of Governor Glapinski unnerved markets, which now expect 10bp cut to 0.0%. We stick to stability of rates scenario, given likely stronger than expected GDP growth and inflation returning to target in 2Q21.
		RO	Current Account Balance (monthly)	Nov			-8778	
	8:00	RO	Industrial Production (y/y)	Nov		1.50%	1.20%	Industrial production should be supported by higher domestic order book levels.
	8:00	RO	Wages (y/y)	Nov		6.80%	7.30%	Nominal wages to be shaped by lower bonuses received by private sector, especially manufacturing, vs. November of previous year.
	9:00	CZ	Retail Sales (y/y)	Nov	-4.80%	-4.40%	-0.90%	Retail sales affected by government restrictive measures.
	9:00	CZ	CPI (y/y)	Dec	2.50%	2.50%	2.70%	Inflation remained above target at end of 2020. However, we expect it to return closer to 2% at beginning of this year.
	9:00	CZ	CPI (m/m)	Dec	0.00%	0.00%	0.00%	Decrease in food prices offset by higher prices of fuel.
	9:00	SK	Wages (y/y)	Nov			-1.20%	
	14:00	PL	Trade Balance	Nov	1623		1732	
14. Jan	8:00	RO	CPI (y/y)	Dec		2.10%	2.14%	Annual inflation rate should remain virtually flat, as weaker domestic demand is likely to be offset by increase in oil and energy prices.
	9:00	HU	CPI (y/y)	Dec	2.80%	2.80%	2.70%	
	9:00	SK	CPI (y/y)	Dec		1.50%	1.50%	Inflation should remain mostly unchanged compared to previous month, standing at 1.5% y/y.
	12:00	RS	Central Bank Rate	Jan 14		1.00%	1.00%	After cutting in December, CB is likely to remain on hold at start of 2021.
15. Jan	10:00	PL	CPI (y/y)	Dec F	2.60%		2.30%	
	11:00	HR	CPI (y/y)	Dec		-0.30%	-0.20%	Inflation remains in tight band.

Source: Erste Group Research

**Erste Group Research**  
CEE Market Insights  
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*Note: Past performance is not necessarily indicative of future results*

## Forecasts

### Government bond yields

	current	2021Q1	2021Q2	2021Q3	2021Q4
<b>Croatia 10Y</b>	0.6	0.7	0.7	0.7	0.7
spread (bps)	118	116	107	100	98
<b>Czechia 10Y</b>	1.3	1.2	1.3	1.4	1.5
spread (bps)	182	175	175	176	182
<b>Hungary 10Y</b>	2.1	2.2	2.4	2.4	2.4
spread (bps)	266	271	277	275	273
<b>Poland 10Y</b>	1.2	1.4	1.5	1.5	1.6
spread (bps)	177	191	187	185	188
<b>Romania 10Y</b>	2.9	3.5	3.6	3.7	3.8
spread (bps)	345	401	402	405	413
<b>Slovakia 10Y</b>	-0.5	-0.3	-0.2	-0.1	0.1
spread (bps)	3	18	19	29	40
<b>Slovenia 10Y</b>	-0.16	0.00	0.10	0.10	0.10
spread (bps)	37	51	52	45	43
<b>Serbia 5Y</b>	2.1	2.5	2.5	2.4	2.3
spread (bps)	265	301	292	275	263
<b>DE10Y*</b>	-0.5	-0.5	-0.4	-0.4	-0.3

\* Spreads based on Bloomberg consensus forecast

### 3M Money Market Rate

	current	2021Q1	2021Q2	2021Q3	2021Q4
<b>Czechia</b>	0.36	0.34	0.34	0.42	0.66
<b>Hungary</b>	0.75	0.75	0.75	0.75	0.75
<b>Poland</b>	0.21	0.21	0.21	0.21	0.21
<b>Romania</b>	1.79	1.50	1.50	1.75	2.00
<b>Serbia</b>	0.90	0.84	0.84	0.84	0.84
<b>Eurozone</b>	-0.55	-0.55	-0.55	-0.55	-0.55

### Real GDP growth (%)

	2019	2020f	2021f	2022f
<b>Croatia</b>	2.9	-8.5	4.5	3.6
<b>Czechia</b>	2.3	-7.7	3.9	5.7
<b>Hungary</b>	4.6	-6.1	3.9	5.2
<b>Poland</b>	4.5	-3.3	3.1	4.5
<b>Romania</b>	4.1	-5.2	2.7	4.5
<b>Serbia</b>	4.2	-1.0	5.0	4.0
<b>Slovakia</b>	2.3	-6.2	6.0	4.5
<b>Slovenia</b>	3.2	-6.7	4.4	3.9
<b>CEE8 avg</b>	3.8	-5.1	3.6	4.7

### Public debt (% of GDP)

	2019	2020f	2021f	2022f
<b>Croatia</b>	72.8	87.6	86.6	85.1
<b>Czechia</b>	30.2	43.7	49.3	50.1
<b>Hungary</b>	66.3	78.8	75.3	70.4
<b>Poland</b>	45.7	61.0	59.0	57.5
<b>Romania</b>	35.2	44.6	48.7	50.0
<b>Serbia</b>	52.0	60.4	59.6	57.6
<b>Slovakia</b>	48.5	61.7	64.0	63.9
<b>Slovenia</b>	65.6	79.1	78.3	75.7
<b>CEE8 avg</b>	45.9	59.1	59.5	58.5

### FX

	current	2021Q1	2021Q2	2021Q3	2021Q4
<b>EURHRK</b>	7.57	7.57	7.50	7.48	7.53
<b>EURCZK</b>	26.19	25.94	25.78	25.60	25.39
<b>EURHUF</b>	360.33	360.00	355.00	355.00	355.00
<b>EURPLN</b>	4.51	4.50	4.48	4.46	4.45
<b>EURRON</b>	4.87	4.92	4.94	4.95	4.99
<b>EURRSD</b>	117.62	117.50	117.40	117.30	117.40
<b>EURUSD</b>	1.22	1.22	1.22	1.23	1.24

### Key Interest Rate

	current	2021Q1	2021Q2	2021Q3	2021Q4
<b>Croatia</b>	0.05	0.05	0.05	0.05	0.05
<b>Czechia</b>	0.25	0.25	0.25	0.25	0.50
<b>Hungary</b>	0.60	0.60	0.60	0.60	0.60
<b>Poland</b>	0.10	0.10	0.10	0.10	0.10
<b>Romania</b>	1.50	1.50	1.50	1.50	1.50
<b>Serbia</b>	1.00	1.00	1.00	1.00	1.00
<b>Eurozone</b>	0.00	0.00	0.00	0.00	0.00

### Average inflation (%)

	2019	2020f	2021f	2022f
<b>Croatia</b>	0.8	0.0	0.8	1.5
<b>Czechia</b>	2.8	3.2	2.4	2.3
<b>Hungary</b>	3.4	3.3	3.3	3.1
<b>Poland</b>	2.3	3.4	2.4	1.9
<b>Romania</b>	3.8	2.7	2.8	2.7
<b>Serbia</b>	1.9	1.6	1.7	2.2
<b>Slovakia</b>	2.7	1.9	0.9	1.9
<b>Slovenia</b>	1.6	0.0	0.9	1.5
<b>CEE8 avg</b>	2.7	2.8	2.3	2.2

### C/A (%GDP)

	2019	2020f	2021f	2022f
<b>Croatia</b>	2.7	-1.8	0.6	-0.2
<b>Czechia</b>	-0.3	2.2	0.3	0.5
<b>Hungary</b>	-0.2	-0.8	-0.5	-0.6
<b>Poland</b>	0.5	3.0	2.1	1.2
<b>Romania</b>	-4.7	-4.1	-4.0	-3.8
<b>Serbia</b>	-6.7	-6.0	-6.2	-6.1
<b>Slovakia</b>	-2.7	-2.7	-1.7	-1.0
<b>Slovenia</b>	5.6	5.0	4.3	3.8
<b>CEE8 avg</b>	-0.7	0.5	0.0	-0.3

### Unemployment (%)

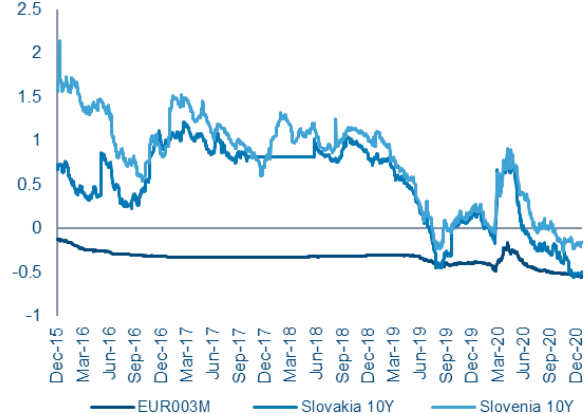
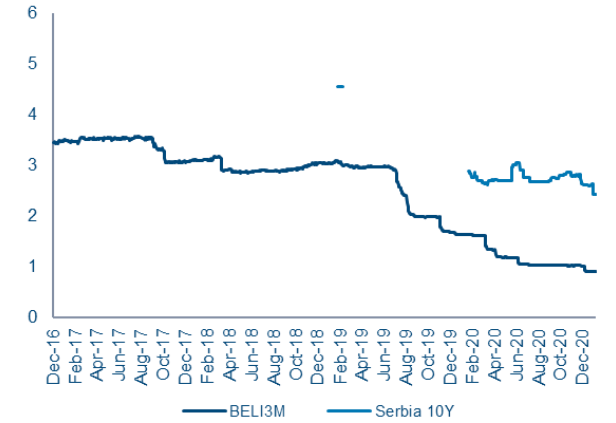
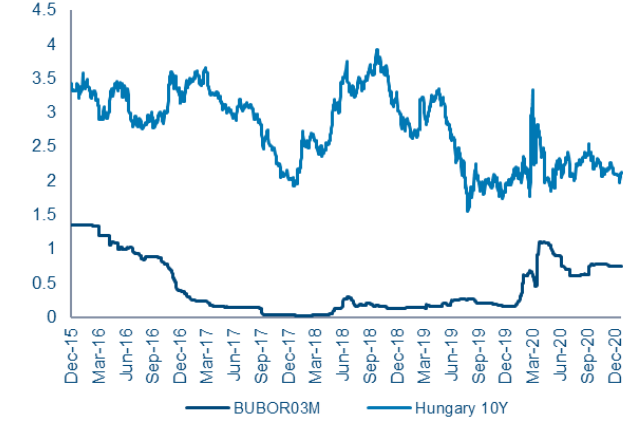
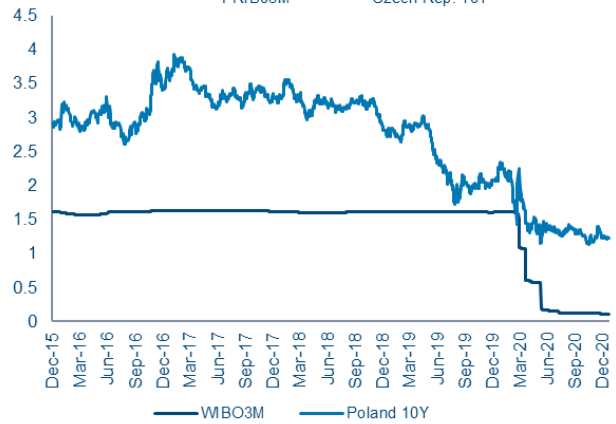
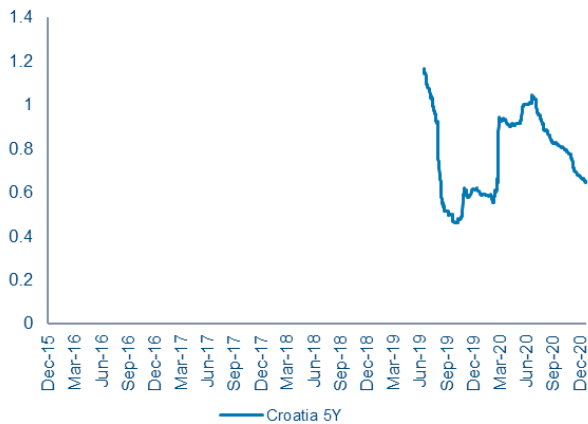
	2019	2020f	2021f	2022f
<b>Croatia</b>	6.6	7.7	8.7	7.6
<b>Czechia</b>	2.0	2.7	4.8	4.1
<b>Hungary</b>	3.4	4.4	5.0	4.1
<b>Poland</b>	5.4	5.9	6.2	5.9
<b>Romania</b>	3.9	5.0	6.5	6.7
<b>Serbia</b>	10.4	8.9	9.0	8.6
<b>Slovakia</b>	5.8	6.7	7.1	6.2
<b>Slovenia</b>	4.4	5.1	5.3	4.9
<b>CEE8 avg</b>	4.6	5.3	6.1	5.7

### Budget Balance (%GDP)

	2019	2020f	2021f	2022f
<b>Croatia</b>	0.4	-8.0	-3.5	-2.8
<b>Czechia</b>	0.3	-5.8	-3.5	-1.9
<b>Hungary</b>	-2.0	-8.5	-6.5	-4.4
<b>Poland</b>	-0.7	-9.7	-5.8	-3.2
<b>Romania</b>	-4.3	-9.2	-6.2	-4.7
<b>Serbia</b>	-0.2	-8.8	-3.0	-1.5
<b>Slovakia</b>	-1.4	-9.0	-6.0	-4.0
<b>Slovenia</b>	0.5	-9.5	-6.0	-4.0
<b>CEE8 avg</b>	-1.2	-8.7	-5.4	-3.4

Source: Bloomberg, Erste Group Research

## Appendix



Source: Bloomberg, Erste Group Research

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