

CEE Market Insights

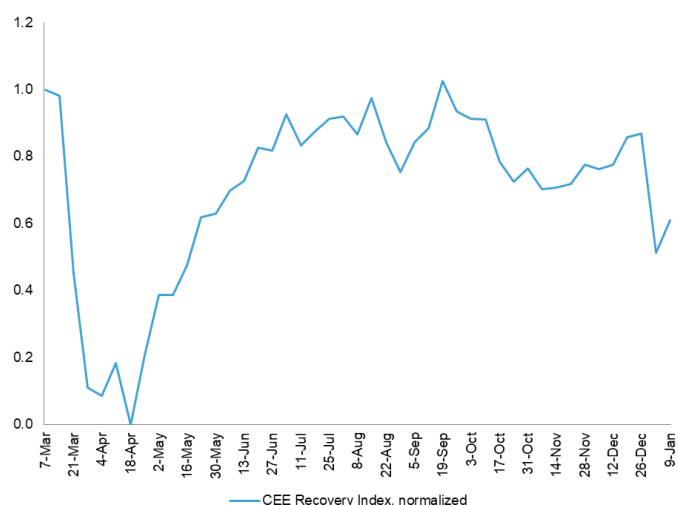
December real economy data for Poland

This week in CEE

This week will be relatively empty for data releases in CEE. Besides some labor market statistics for Croatia, Poland, and Slovakia, the December retail sales for Poland will be disclosed as well. As Poland eased restrictions at the beginning of December, we expect improvement of retail sales y/y dynamics towards -0.8% in December, from the -5.3% y/y reported in November. Given that industry has been performing well during the second wave, we see clear upward risks to our 2020 GDP growth forecast, which stands at -3.3%. Depending on the outcome of retail sales and industrial output in December, full-year growth could be actually 0.5-1.0pp better at the end. We will already know next week, when not only industrial output is due, but also 2020 GDP growth will be reported for Poland.

Monday	Tuesday	Wednesday	Thursday	Friday
	RS: Current Account		PL: Wages	PL: Retail, PPI
	HR: Wages, Unemployment		SI: PPI	
	CZ: PPI			
	SK: Unemployment			
SK: 2028, 2030, 2031, 2032 Bonds	RS: 2032 Bonds		CZ: Bills	PL: 2023, 2025, 2026, 2030, 2031 Bonds
HU: Bills	HR: Bills		RO: 2026 Bonds	
RO: 2031 Bonds				

CEE Recovery Index

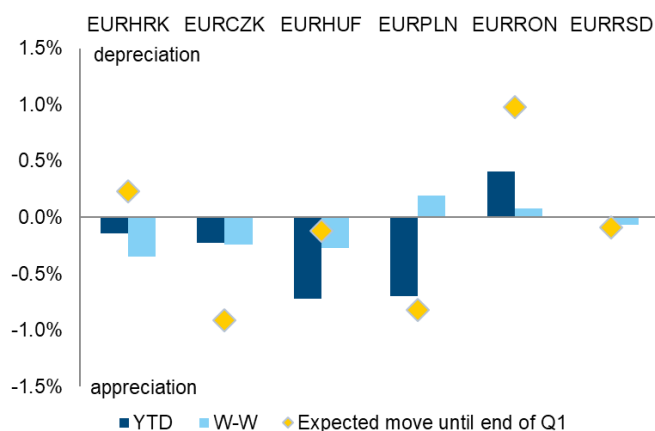


Source: Erste Group Research

After a sharp drop during the holiday season, the CEE Recovery Index inched up at the start of the year. The increase of the index came mostly from improved mobility in the first week of January. Mobility went up across all categories, with the biggest advancement in mobility to the workplace. We think that mobility could improve in the coming weeks, despite the restrictions still in place across the CEE region. Although the vaccination process has only started in CEE, this is likely to be another positive factor supporting recovery in the coming months. On the other hand, air pollution dropped marginally at the start of the year. Due to issues with data availability, we removed for the time being electricity consumption component from the calculation.

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

FX market

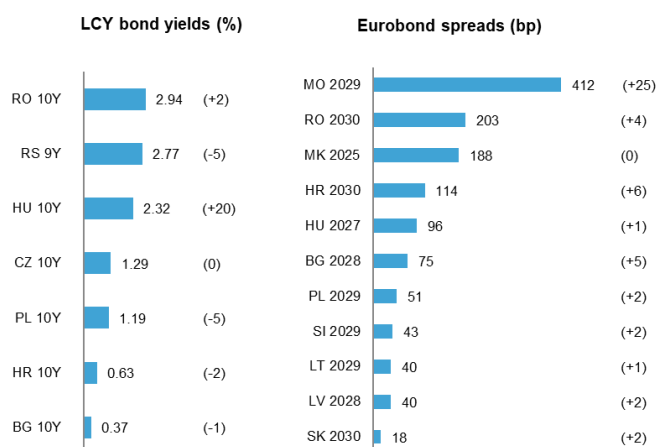


Source: Bloomberg, Erste Group Research

FX market developments

Friday afternoon was not at all boring in CEE. As for Poland, Governor Glapinski said at his Friday press conference that the NBP's intention is to prevent an appreciation of the zloty. This may mean no further depreciation, but a lasting appreciation of the PLN should not start anytime soon either. The NBR also cut the policy rate in an unexpected move by 25bps, slightly weakening the RON. On the other hand, Vice Governor Virág said (still earlier last week) that he does not see the MNB engaging in a "currency war" in Hungary. Our take is that, should there be any factor that could push CEE currencies stronger, the HUF may react, but the PLN will likely be prevented from firming.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Central bankers seem to somewhat diverge in their views in the region. The NBR cut the policy rate on Friday by 25bps to 1.25%, and we see another cut to 1% after this move. The NBP has also been somewhat dovish as of late, although Governor Glapinski's words suggest rate easing only as a last resort, should the pandemic situation worsen that much. Meanwhile in Hungary, central bankers warned about cautious monetary policy. Bond market presence should be maintained, however, according to MNB. As the central bank has nearly exhausted its 50% threshold on the long-end, shorter tenors may also be purchased. This could be a reason why we saw the shorter segment of the HGB curve reacting less to the news that last year's cash deficit was around 12% of GDP, much higher than expected.

In case you missed

CEE: In December, inflation inched up in [SK](#). It remained unchanged in [HU](#), while it went down in [RO](#), [CZ](#), [RS](#) and [HR](#).

PL: [Central bank](#) remained on hold. [Press conference](#) of Governor Glapinski.

RS: [Key rate remained](#) at 1.0%.

RO: [Central bank](#) unexpectedly cut target rate by 25bp to 1.25%. [Weaker industry](#) in November.

SK: [Industry](#) surprised to upside in November.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
18. Jan			No releases scheduled					
19. Jan		RS	Current Account Balance (monthly)	Nov			22.5	
		SK	Unemployment Rate	Dec		7.60%	7.4%	Mild increase in rate of unemployment expected, on back of stronger second wave and associated restrictions.
	9:00	CZ	PPI (y/y)	Dec	0.00%	0.20%	-0.10%	PPI inflation still close to 0%, as result of anti-inflationary pressures in euro area and low oil prices.
	11:00	HR	Unemployment Rate	Dec		9.50%	9.3%	Unemployment rate expected to maintain monthly upward movement.
	11:00	HR	Wages (y/y)	Nov			2.20%	
20. Jan			No releases scheduled					
21. Jan	10:00	PL	Wages (y/y)	Dec	5.00%	4.2%	4.90%	We expect wage growth to somewhat ease by year-end.
	10:30	SI	PPI (y/y)	Dec				
22. Jan	10:00	PL	Retail Sales (y/y)	Dec	1.20%	-0.80%	-5.30%	Retail sales likely recovered ahead of Christmas, but we expect them to stay in negative territory.
	10:00	PL	PPI (y/y)	Dec	-0.10%	-0.30%	-0.2%	Producer prices to remain deflationary.

Source: Erste Group Research

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Note: Past performance is not necessarily indicative of future results

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Forecasts

Government bond yields

	current	2021Q1	2021Q2	2021Q3	2021Q4
Croatia 10Y	0.6	0.6	0.6	0.6	0.6
spread (bps)	118	111	102	95	93
Czechia 10Y	1.3	1.2	1.3	1.4	1.5
spread (bps)	183	175	175	176	182
Hungary 10Y	2.3	2.2	2.4	2.5	2.5
spread (bps)	286	271	277	280	283
Poland 10Y	1.2	1.4	1.5	1.5	1.6
spread (bps)	174	191	187	185	188
Romania 10Y	2.9	3.5	3.6	3.7	3.8
spread (bps)	349	401	402	405	413
Slovakia 10Y	-0.5	-0.3	-0.2	-0.1	0.1
spread (bps)	6	18	19	29	40
Slovenia 10Y	-0.10	0.00	0.10	0.10	0.10
spread (bps)	44	51	52	45	43
Serbia 5Y	2.1	2.5	2.5	2.4	2.3
spread (bps)	263	301	292	275	263
DE10Y*	-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
Czechia	0.36	0.34	0.34	0.42	0.66
Hungary	0.75	0.75	0.75	0.75	0.75
Poland	0.21	0.21	0.21	0.21	0.21
Romania	1.78	1.50	1.50	1.75	2.00
Serbia	0.90	0.84	0.84	0.84	0.84
Eurozone	-0.55	-0.55	-0.55	-0.55	-0.55

Real GDP growth (%)

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

Public debt (% of GDP)

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

FX

	current	2021Q1	2021Q2	2021Q3	2021Q4
EURHRK	7.55	7.57	7.50	7.48	7.53
EURCZK	26.20	25.94	25.78	25.60	25.39
EURHUF	360.56	360.00	355.00	355.00	355.00
EURPLN	4.54	4.50	4.48	4.46	4.45
EURRON	4.88	4.92	4.94	4.95	4.99
EURRSD	117.61	117.50	117.40	117.30	117.40
EURUSD	1.21	1.22	1.22	1.23	1.24

Key Interest Rate

	current	2021Q1	2021Q2	2021Q3	2021Q4
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	0.25	0.25	0.25	0.25	0.50
Hungary	0.60	0.60	0.60	0.60	0.60
Poland	0.10	0.10	0.10	0.10	0.10
Romania	1.25	1.50	1.50	1.50	1.50
Serbia	1.00	1.00	1.00	1.00	1.00
Eurozone	0.00	0.00	0.00	0.00	0.00

Average inflation (%)

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

C/A (%GDP)

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

Unemployment (%)

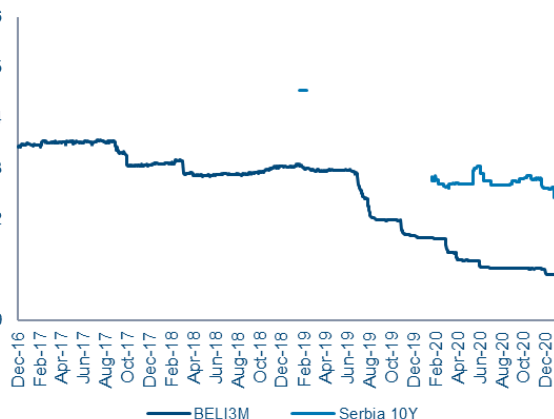
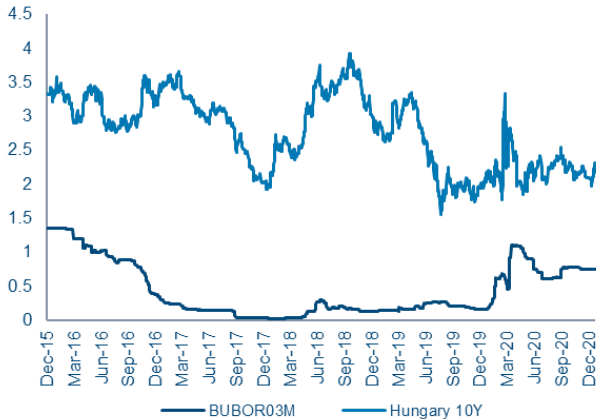
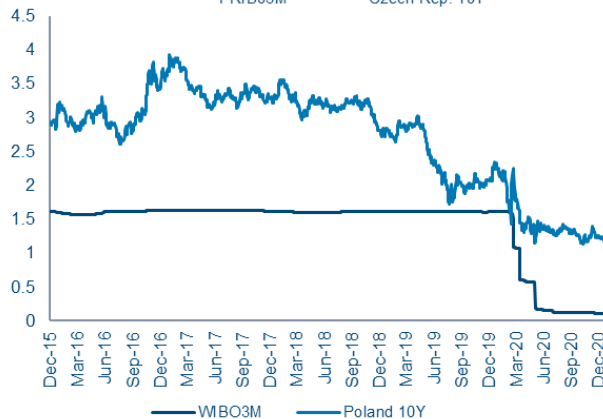
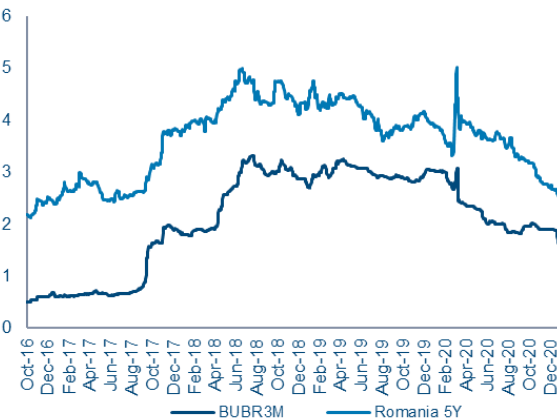
	2019	2020f	2021f	2022f
Croatia	6.6	7.7	8.7	7.6
Czechia	2.0	2.7	4.8	4.1
Hungary	3.4	4.4	5.0	4.1
Poland	5.4	5.9	6.2	5.9
Romania	3.9	5.0	6.5	6.7
Serbia	10.4	8.9	9.0	8.6
Slovakia	5.8	6.7	7.1	6.2
Slovenia	4.4	5.1	5.3	4.9
CEE8 avg	4.6	5.3	6.1	5.7

Budget Balance (%GDP)

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

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

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