

CEE Market Insights

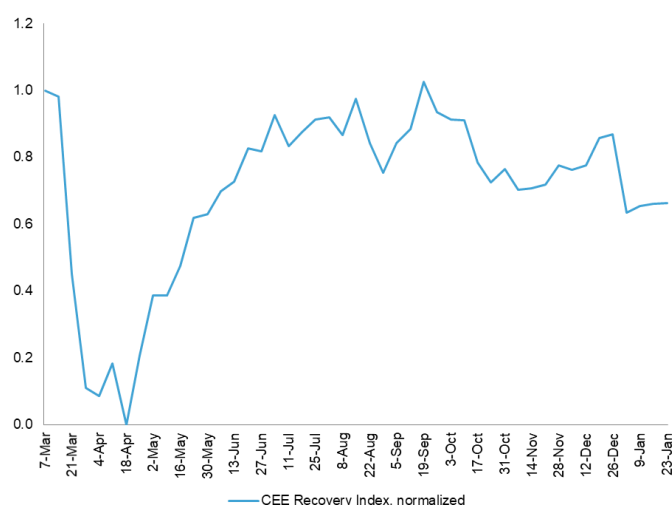
Czechia and Serbia to release 4Q20 GDP growth

This week in CEE

Today, PMIs in manufacturing for January will be published in Czechia, Hungary and Poland. Despite the worsening of the pandemic in the euro area and the Czech Republic in the first month of this year, we expect the damage to manufacturing to be rather limited. German PMIs in manufacturing published earlier pointed to the continuation of expansion of output in January, although at a slightly slower pace. Also, confidence indicators for the industry published by Eurostat for January did not indicate any abrupt change in the trend in CEE. Besides the flash estimates of 4Q20 GDP growth for Czechia and Serbia, we will get December retail sales for Czechia, Hungary, Slovakia and Romania with the latter being the only one posting positive growth. MPC meetings will be held in Poland and Czechia this week; rates should remain unchanged in both countries. The Czech national bank will reconfirm its view that there is no need to change the policy rate at this time. However, we believe that the CNB will already be considering its first rate hike at the August meeting, while delivering it only in November. The incorporation of fiscal loosening (massive tax cuts) scheduled for this year into the inflation forecast will make the CNB even more hawkish later this year. The CNB will just wait for evidence that the threat of another wave of the pandemic is over until late Autumn and then pull the trigger.

Monday	Tuesday	Wednesday	Thursday	Friday
RS: GDP	CZ: GDP	PL: Central Bank	HU, RO, SK: Retail	CZ: Retail
RO: Unemployment	HU, RO: PPI		CZ: Central Bank	HU: Industry
SK: Current Account				SI: CPI
HU: Trade Balance				
RO: 2024 Bonds	HU: Bills		RO: Bills, 2027 Bonds	

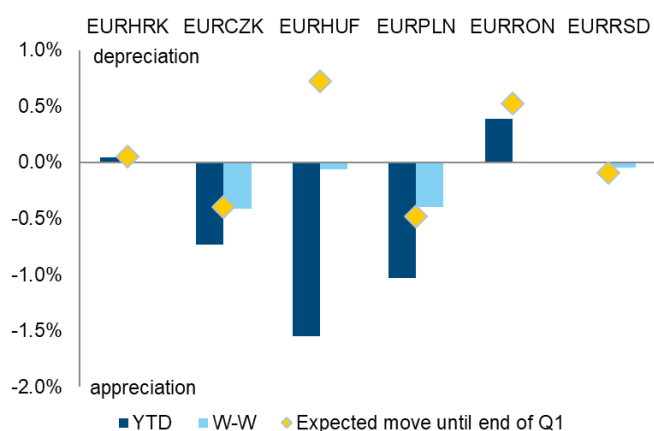
CEE Recovery Index



Source: Erste Group Research

The CEE Recovery Index remained broadly unchanged in the week ending with January 23. With the unfavorable pandemic development, governments across the CEE region kept or prolonged the current containment measures until the end of January or mid-February. Hence, mobility across all categories remains dampened and fluctuates around recent levels, with the exception of mobility to the workplace, which continued to recover. All in all, a stronger improvement of mobility trends and rebound of economic activity can only be expected when restrictions are eased more visibly and vaccination roll-out gains speed. In the week ending with January 23, air pollution went up, while capacity utilization in the automotive sector remains unchanged at the pre-pandemic level. For more details, please check our [website](#).

FX market

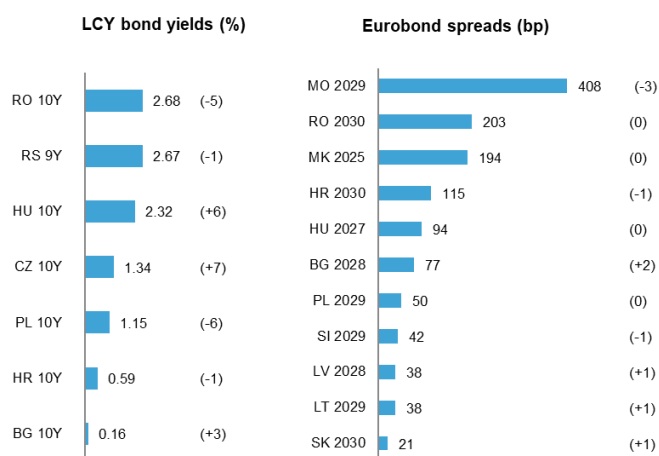


Source: Bloomberg, Erste Group Research

FX market developments

The EUR benefited from the better than expected 4Q20 GDP growth figures published last Friday for Germany and other major EA economies, as the EURUSD returned above 1.21 at the end of the week. Local factors were positive for CEE currencies last week. Solid FY20 GDP growth (released on Friday) supported the zloty, as the EURPLN moved toward 4.51. On the other hand, the Czech koruna benefited from Governor Rusnok's comments and the EURCZK broke 26 level couple of times. Governor Rusnok commented that he sees 'zero, one or two hikes' this year. In his view, the stronger Czech koruna and uncertainty could delay the rate hikes. However, gradual monetary tightening remains the baseline scenario for the CNB for this year. We expect the Czech central bank to deliver one 25bp hike in 4Q21, as the recent stronger than expected strengthening of the koruna already tightened monetary conditions.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

The long end of sovereign bond curves drifted up a little bit in Czechia and Hungary last week. In Hungary, the central bank hinted that they will shift their focus more to the mid part of the yield curve, as the QE has been approaching its per issue limit on longer maturities. The MNB also announced that it may reallocate liquidity provision from its collateralized loans provided to commercials more directly to bond purchases. The Romanian yield curve moved down last week, especially on shorter tenors, given the abundant RON liquidity on the market. The Romanian MinFin announced that they plan to borrow RON 600m via T-bills and about RON 4bn in local bond auctions in February, with maturities up to 15Y years in the offer. Last week, Slovenia sold EUR 500mn in a new 60Y bond via a syndicate of banks at a spread +75bp above mid-swaps.

In case you missed

PL: [FY20 GDP](#) landed at -2.8%. Strong [industrial production](#) at year-end.

HU: [Central bank](#) kept rates unchanged. QE program to be extended.

RO: [Optimism](#) prevailed in January.

HR: [Retail sales](#) came in above expectations in December, while [industry](#) posted mild rebound.

RS: Restrictions weighed on [retail trade](#) in December, while [industry](#) surprised to upside.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
01.Feb		SK	Current Account Balance (monthly)	Dec			-106	
	8:00	RO	Unemployment Rate	Dec		5.20%	5.1%	Unemployment rate increased moderately so far, reflecting only partially deterioration in labor market. Large number of people exited labor market and became inactive persons, no longer seeking job.
	9:00	HU	Trade Balance	Nov F			811.05	
	12:00	RS	GDP (y/y)	4Q P		-1.40%	-1.40%	We expect that economy stagnated on quarterly level, still under pressure from epidemiological situation. All components, aside from public consumption and inventories, likely contributed negatively to headline growth.
02.Feb	8:00	RO	PPI (y/y)	Dec			-0.7%	
	9:00	CZ	GDP (q/q)	4Q A	-2.50%	-2.5%	6.90%	Economic development was negatively affected by restrictive measures. Subdued domestic demand was partially offset by relatively favorable foreign demand development.
	9:00	CZ	GDP (y/y)	4Q A	-7.50%	-7.70%	-5.00%	Households consumption and fixed investment were subdued in 4Q, mainly as a result of several restrictive measures. Given data uncertainty, significant revisions of historical data are possible in the coming quarters.
	9:00	HU	PPI (y/y)	Dec			5.50%	
03.Feb		PL	Central Bank Rate	Feb	0.10%	0.10%	0.1%	Central bank to remain on hold.
04.Feb	8:00	RO	Retail Sales (y/y)	Dec		5.30%	5.30%	Retailers reported better sales over past three months in most recent EC survey.
	9:00	HU	Retail Sales (y/y)	Dec	-0.20%	-0.20%	-0.80%	Consolidation of sales probably continued last December.
	9:00	SK	Retail Sales (y/y)	Dec		0.00%	-0.40%	Some impact of restrictions associated with epidemiological situation is likely to be seen.
	14:30	CZ	Central Bank Rate	Feb	0.25%	0.25%	0.25%	No change of policy setting is expected. We expect first hike in second half of this year.
05.Feb	9:00	CZ	Retail Sales (y/y)	Dec	-1.00%	-0.80%	-7.00%	Retail sales development temporarily improved in December, as improved epidemic situation allowed releasing of several restrictive measures.
	9:00	HU	Industrial Production (y/y)	Dec	4.70%	4.70%	1.61%	Low base figure from previous year implies further increase in yearly rate, despite expected monthly winter drop.
	10:30	SI	CPI (y/y)	Jan		-0.70%	-1.10%	Deflationary pressures seen continuing in January, albeit at less pronounced pace vs. December.
	10:30	SI	CPI (m/m)	Jan			-0.30%	

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)	112	111	103	95	92
Czechia 10Y	1.3	1.2	1.3	1.4	1.5
spread (bps)	186	175	176	176	181
Hungary 10Y	2.3	2.2	2.4	2.5	2.5
spread (bps)	285	271	278	280	282
Poland 10Y	1.2	1.4	1.5	1.5	1.6
spread (bps)	167	191	188	185	187
Romania 10Y	2.7	2.8	2.7	2.6	2.5
spread (bps)	320	326	308	290	282
Slovakia 10Y	-0.4	-0.3	-0.2	-0.1	0.1
spread (bps)	7	18	20	29	39
Slovenia 10Y	-0.08	0.00	0.10	0.10	0.10
spread (bps)	45	51	53	45	42
Serbia 5Y	2.0	2.5	2.5	2.4	2.3
spread (bps)	254	301	293	275	262
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	1.54	1.25	1.10	1.00	0.90
Serbia	0.89	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	-2.8	3.1	4.1
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	-4.9	3.6	4.5

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	65.4	80.3	78.3	76.0
Poland	45.7	61.0	59.0	57.5
Romania	35.2	47.0	50.1	51.5
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	45.8	59.7	60.0	59.3

FX

	current	2021Q1	2021Q2	2021Q3	2021Q4
EURHRK	7.57	7.57	7.50	7.48	7.53
EURCZK	26.01	25.94	25.78	25.60	25.39
EURHUF	357.05	360.00	355.00	355.00	355.00
EURPLN	4.52	4.50	4.48	4.46	4.45
EURRON	4.87	4.90	4.92	4.94	4.99
EURRSD	117.60	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	1.00	1.00	1.00	1.00
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	0.4	-0.1	-0.2
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	0.6	0.0	-0.3

Unemployment (%)

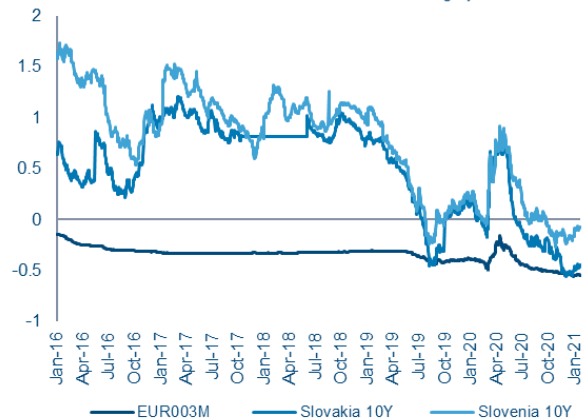
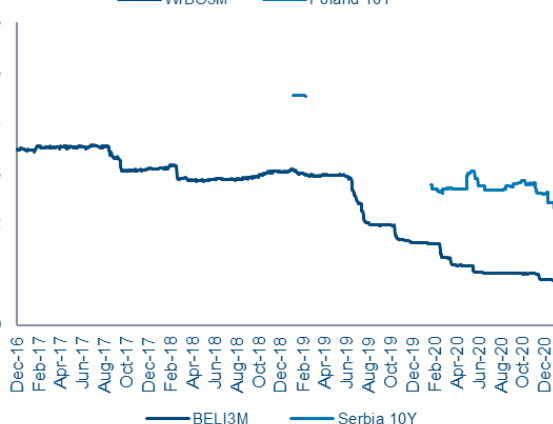
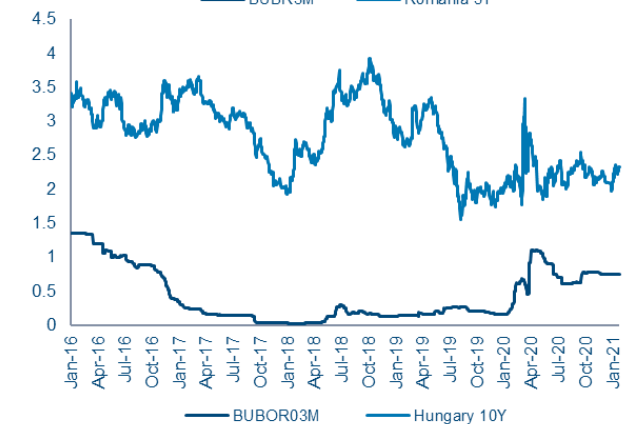
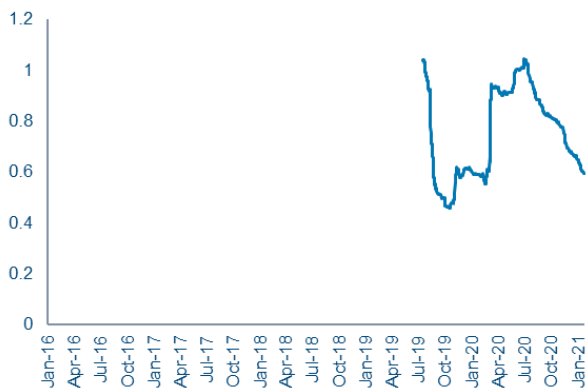
	2019	2020f	2021f	2022f
Croatia	6.6	7.7	8.7	7.6
Czechia	2.0	2.7	4.8	4.1
Hungary	3.4	4.2	4.4	4.4
Poland	5.4	5.9	6.2	5.9
Romania	3.9	5.0	6.5	6.7
Serbia	10.4	8.9	9.0	8.6
Slovakia	5.8	6.7	7.1	6.2
Slovenia	4.4	5.1	5.3	4.9
CEE8 avg	4.6	5.3	6.1	5.7

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	-8.6	-6.5	-4.4
Poland	-0.7	-9.7	-5.8	-3.2
Romania	-4.3	-9.2	-7.0	-4.9
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	-5.5	-3.4

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Market Insights
1 February 2021

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