

CEE Market Insights

Poland to release February real economy data

This week in CEE

This week's calendar is dominated by February data releases in Poland. Starting with the inflation print on Monday that, despite the high base from last year, should show headline inflation at 2.7% y/y, courtesy of increases in electricity prices and newly introduced taxes and fees. Moreover, adjusted weights in the inflation basket, based on last year's consumption patterns, may alter the picture for inflation for both January and February. February wage growth in Poland is likely to have sustained solid dynamics. A pick-up in last month's industrial production is anticipated, aided by improved sentiment. On the other hand, despite shops reopening in February, we still expect negative growth of Polish retail sales. Slovakia and Croatia will publish their February inflation prints, as well. These are likely to show only a mild pick-up from January, as domestic inflationary pressures remain muted. February unemployment rate in Slovakia and Croatia will be influenced by the restrictive measures in place, thus likely showing a slight increase. Producer prices in Czechia, Poland and Slovenia could see an increase due to rising global commodity prices.

Monday	Tuesday	Wednesday	Thursday	Friday
PL, SK: CPI	HR: CPI	PL: Wages	PL: Industry, PPI	PL: Retail sales
CZ: Retail sales, PPI	PL: Trade balance			HR, SK: Unemployment
	RO: Current account			HR: Wages
SK: 2028, 2030, 2032, 2047 Bonds	RS: 2032 Bond	CZ: 2024, 2030, 2040 Bonds	RO: 2030 Bond	
RO: 2028 Bonds		RO: 2026 EUR Bond		

CEE Recovery Index

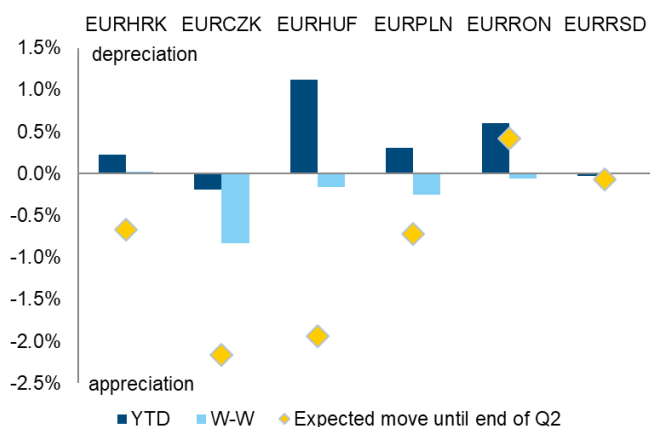


Source: Erste Group Research

In the first week of March, the CEE Recovery Index dropped marginally. The main reason behind the correction was a decrease in the most volatile components, electricity consumption and air pollution. On the other hand, mobility across all categories remained broadly unchanged, despite recent tightening of the measures in some CEE countries. Although the second wave of the pandemic and subsequent lockdowns did not weigh on economic activity as strongly as the first wave, we expect 1Q21 to still be characterized by weaker growth. Later in the year, we expect a solid rebound. However, the pandemic development remains the key risk factor.

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

FX market

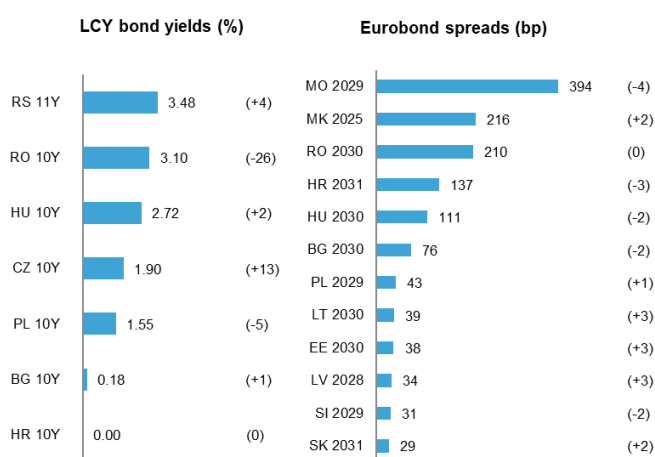


Source: Bloomberg, Erste Group Research

FX market developments

The Czech koruna and Hungarian forint benefited from the weaker US dollar and appreciated over the course of the week. Other CEE currencies were mostly unchanged on a weekly basis. We expect the CZK to stay above 26.0 vs. the EUR in the coming weeks and strengthen as soon as the pandemic situation improves and restrictions are lifted. The Hungarian central bank will monitor the FX development and could react with an increase of the one-week deposit rate to tame the depreciation of the forint. The National Bank of Poland's comment that it is considering adjusting its asset purchase program stressed the bank's commitment to a loose monetary policy that will, in our view, limit the appreciation potential of the zloty.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

The announcement from the ECB that they are ready to intensify asset purchases in the next quarter in order to avoid an excessive increase of yields calmed down the situation on European bond markets. However, Czech 10Y bond yields increased further to 1.85% (+15bp w/w), as the CNB was among the few central banks that neither has a bond-buying program nor plans any. Romanian 10Y bond yields dropped to 3% (-25bp w/w), as the central bank resumed ROMGBs buying for the first time since mid-August. The Polish and Hungarian central banks commented that they will make their purchase programs more flexible, with the latter one allowed to buy above the current 50% of the bond issue limit.

In case you missed

CEE: We published new Macro Outlooks for [CEE](#), [CZ](#), [HR](#), [HU](#), [PL](#), [RO](#), [SK](#), [SI](#) and [RS](#).

CEE: February inflation in [Czechia](#), [Hungary](#), [Romania](#) and [Serbia](#).

RS: Moody's upgraded Serbian rating to 'Ba2' with stable outlook. [Key rate](#) stable at 1.0%.

HR: [Retail trade](#) decline moderated in January.

CZ: [Industrial production](#) increased in January.

RO: Detailed [4Q20 GDP](#) growth figure. [Industry](#) slipped into negative territory in January.

SK: [Industry](#) affected by base effect in January. [Trade surplus](#) at start of year.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
15. Mar	9:00	CZ	Retail Sales (y/y)	Jan	-6.20%	-1.90%	3.70%	Retail sales development is affected by tight restrictive measures.
	9:00	CZ	PPI (y/y)	Feb	1.20%	1.60%		Base effect is key factor behind increase in growth of producer prices.
	9:00	SK	CPI (y/y)	Feb		0.80%	0.70%	We expect inflation to be affected by eased domestic price pressures, due to cooler economic environment, and by rising commodity prices.
	9:00	SK	CPI (m/m)	Feb		0.10%	0.30%	
	10:00	PL	CPI (y/y)	Feb	2.60%	2.70%	2.70%	Despite high base from last year, we expect that increases in electricity prices and introduced new taxes and fees will push headline inflation up.
	10:00	PL	CPI (m/m)	Feb	0.70%	0.80%	1.20%	
16. Mar		RO	Current Account Balance (monthly)	Jan			-10983	
	11:00	HR	CPI (y/y)	Feb		0.40%	-0.30%	Inflation expected to move back to mild positive region.
	11:00	HR	CPI (m/m)	Feb			0.10%	
	14:00	PL	Trade Balance	Jan	867		333	
17. Mar	10:00	PL	Wages (y/y)	Feb	4.90%	4.10%	4.80%	Wage growth to maintain recent dynamics.
18. Mar	10:00	PL	Industrial Production (y/y)	Feb	3.80%	3.20%	0.90%	Upside surprise cannot be ruled out, as sentiment improved in February.
	10:00	PL	PPI (y/y)	Feb	1.50%	1.00%	0.70%	Rising global commodity prices could push producer prices up.
19. Mar		SK	Unemployment Rate	Feb		7.90%	7.81%	Unemployment influenced by stricter lockdown and restrictive measures at beginning of year.
	10:00	PL	Retail Sales (y/y)	Feb	-2.00%	-1.20%	-6.00%	Despite lifting of restrictions, we still expect negative growth of retail sales.
	10:30	SI	PPI (y/y)	Feb			0.50%	
	11:00	HR	Unemployment Rate	Feb		9.70%	9.80%	Unemployment rate seen remaining tad below 10% mark in February.
	11:00	HR	Wages (y/y)	Jan			4.40%	

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	2021Q2	2021Q3	2021Q4	2022Q1
Croatia 10Y	0.6	0.6	0.6	0.6	-
spread (bps)	89	100	93	90	92
Czechia 10Y	1.9	1.8	1.8	1.9	2.0
spread (bps)	222	220	213	217	217
Hungary 10Y	2.7	2.7	2.7	2.7	2.8
spread (bps)	305	305	301	303	306
Poland 10Y	1.6	1.6	1.6	1.7	1.7
spread (bps)	188	200	193	195	192
Romania 10Y	3.1	2.9	2.8	2.8	2.9
spread (bps)	344	330	313	305	312
Slovakia 10Y	-0.1	0.0	0.2	0.3	0.4
spread (bps)	23	40	48	60	57
Slovenia 10Y	0.00	0.10	0.10	0.10	0.20
spread (bps)	32	50	43	40	42
Serbia 5Y	2.3	2.2	2.2	2.2	2.1
spread (bps)	262	260	253	250	232
DE10Y*	-0.3	-0.4	-0.3	-0.3	-0.2

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2021Q2	2021Q3	2021Q4	2022Q1
Czechia	0.36	0.44	0.67	0.83	0.92
Hungary	0.77	0.77	0.77	0.77	0.80
Poland	0.21	0.21	0.21	0.21	0.21
Romania	1.70	1.55	1.50	1.40	1.50
Serbia	0.88	0.86	0.86	0.86	0.86
Eurozone	-0.54	-0.54	-0.54	-0.54	-

Real GDP growth (%)

	2019	2020f	2021f	2022f
Croatia	2.9	-8.4	4.5	4.0
Czechia	2.2	-5.6	3.3	4.3
Hungary	4.6	-5.0	4.4	4.7
Poland	4.5	-2.7	3.4	4.7
Romania	4.1	-3.9	4.2	4.5
Serbia	4.2	-1.0	5.0	4.0
Slovakia	2.3	-5.2	4.0	4.8
Slovenia	3.2	-5.5	4.4	4.1
CEE8 avg	3.8	-4.0	3.8	4.5

Public debt (% of GDP)

	2019	2020f	2021f	2022f
Croatia	72.8	87.2	85.9	84.4
Czechia	31.2	38.4	45.0	48.1
Hungary	65.4	81.0	79.7	76.9
Poland	45.7	57.7	58.3	57.4
Romania	35.3	47.3	50.8	52.0
Serbia	52.0	57.4	57.0	55.5
Slovakia	48.5	59.9	63.2	63.2
Slovenia	65.6	78.1	76.9	74.5
CEE8 avg	46.0	57.4	59.1	58.9

FX

	current	2021Q2	2021Q3	2021Q4	2022Q1
EURHRK	7.59	7.53	7.53	7.53	7.53
EURCZK	26.19	25.62	25.54	25.36	25.08
EURHUF	367.17	360.00	360.00	360.00	360.00
EURPLN	4.58	4.55	4.53	4.50	4.48
EURRON	4.89	4.90	4.92	4.95	5.01
EURRSD	117.57	117.50	117.40	117.50	117.50
EURUSD	1.19	1.18	1.20	1.22	-

Key Interest Rate

	current	2021Q2	2021Q3	2021Q4	2022Q1
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	0.25	0.25	0.50	0.75	0.75
Hungary	0.60	0.60	0.60	0.60	0.75
Poland	0.10	0.10	0.10	0.10	0.10
Romania	1.25	1.25	1.25	1.25	1.25
Serbia	1.00	1.00	1.00	1.00	1.00
Eurozone	0.00	0.00	0.00	0.00	-

Average inflation (%)

	2019	2020f	2021f	2022f
Croatia	0.8	0.1	1.2	1.5
Czechia	2.8	3.2	2.5	2.3
Hungary	3.4	3.3	3.7	3.2
Poland	2.3	3.4	3.0	2.3
Romania	3.8	2.7	2.9	2.7
Serbia	1.9	1.6	2.0	1.9
Slovakia	2.7	1.9	0.9	1.9
Slovenia	1.6	0.0	0.8	1.7
CEE8 avg	2.7	2.8	2.6	2.4

C/A (%GDP)

	2019	2020f	2021f	2022f
Croatia	2.8	-1.0	0.3	0.2
Czechia	-0.3	3.2	0.2	0.3
Hungary	-0.2	0.7	-0.1	-0.2
Poland	0.5	3.5	2.1	1.2
Romania	-4.7	-5.0	-4.6	-4.1
Serbia	-6.9	-4.3	-5.3	-5.5
Slovakia	-2.7	-2.7	-1.6	-0.9
Slovenia	5.6	7.3	6.7	5.6
CEE8 avg	-0.7	1.0	0.0	-0.2

Unemployment (%)

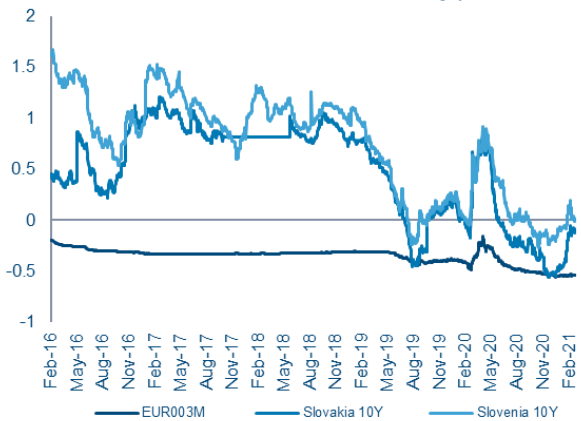
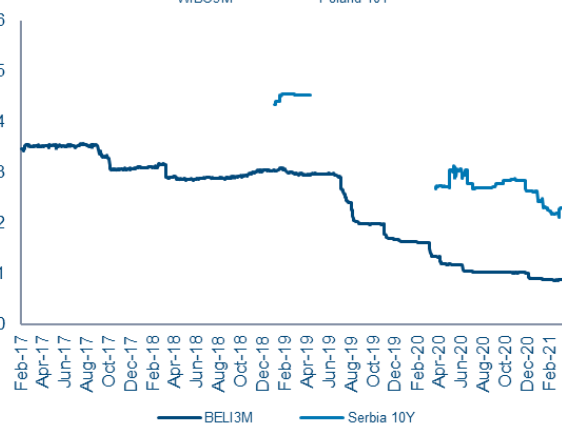
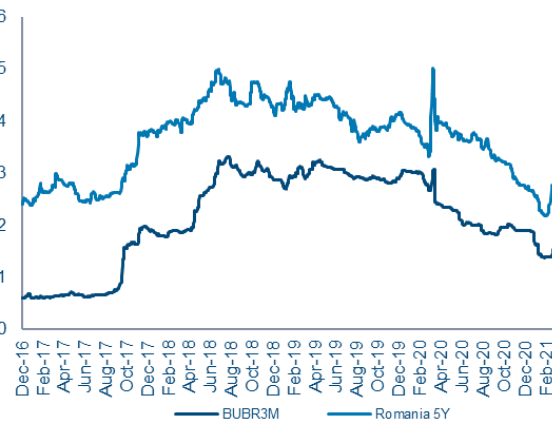
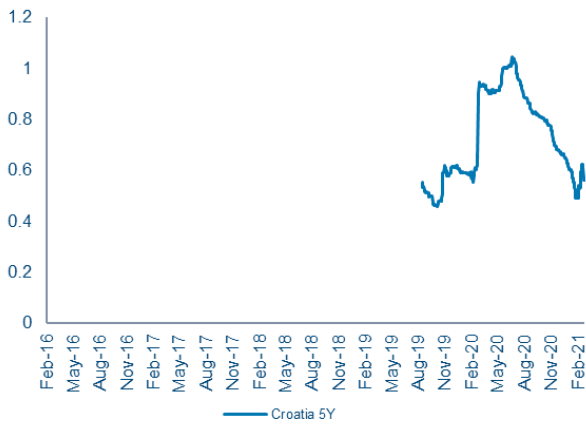
	2019	2020f	2021f	2022f
Croatia	6.6	7.4	8.0	6.9
Czechia	2.0	2.6	3.4	2.8
Hungary	3.4	4.2	4.5	3.8
Poland	5.4	5.9	6.2	5.9
Romania	3.9	4.9	5.9	6.1
Serbia	10.4	9.0	8.9	8.5
Slovakia	5.8	6.7	7.3	6.3
Slovenia	4.4	5.1	5.2	4.9
CEE8 avg	4.6	5.2	5.7	5.3

Budget Balance (%GDP)

	2019	2020f	2021f	2022f
Croatia	0.4	-8.0	-3.5	-3.0
Czechia	0.3	-6.1	-7.0	-2.7
Hungary	-2.0	-8.6	-6.8	-5.0
Poland	-0.7	-8.8	-5.3	-3.2
Romania	-4.4	-9.1	-7.9	-5.4
Serbia	-0.2	-8.1	-3.5	-1.7
Slovakia	-1.4	-8.0	-6.0	-4.0
Slovenia	0.5	-9.5	-6.0	-4.0
CEE8 avg	-1.2	-8.3	-6.1	-3.7

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

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CEE Market Insights
15 March 2021

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