

CEE Market Insights

Hungarian and Czech central banks to remain on hold

This week in CEE

This week's calendar is rather empty when it comes to data releases – most notably, February unemployment rate will be published in Poland (where a slight increase to 6.6% is expected) and Slovak producer price development will likely remain mildly negative compared to February 2020. Yet, the center stage is taken by local central banks in Hungary and Czechia. We expect both rate setting meetings to confirm the current set up of monetary policy – keeping the key rates unchanged at 0.6% in Hungary and 0.25% in Czechia. In Hungary, rather than policy announcements, the spotlight will be on the new economic and inflation projections. The Czech central bank remains in a wait-and-see mode. It will probably increase interest rates in the second half of this year, as economic development implies that two hikes would be needed in 2021. However, the exact timing remains unclear due to uncertainties surrounding the pandemic and economic outlook. CNB could provide some guidance in the spring, possibly in May, when more will be known regarding progress in the country's vaccine rollout and the possible future epidemiological development in the spring and the autumn.

Monday	Tuesday	Wednesday	Thursday	Friday
RS: Current account	HU: Central bank, Current account PL: Unemployment	CZ: Central bank	RS: Wages	SK: PPI
RO: 2024 Bonds	RS: 2023 Bonds HU: Bills	RS: EUR bonds CZ: 2027, 2029, 2033 Bonds	PL: Bonds CZ: Bills RO: 2027 Bonds	

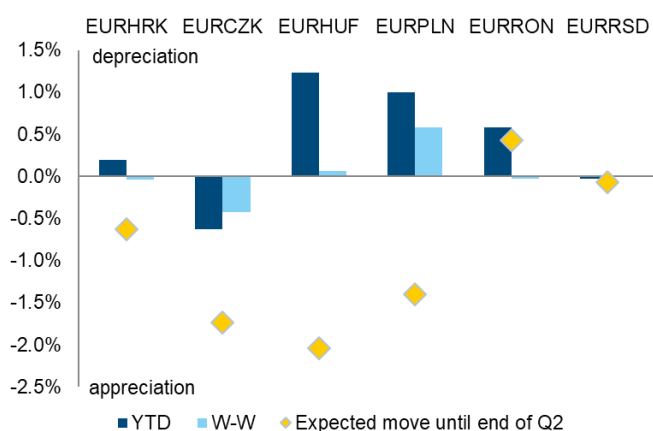
CEE Recovery Index



In the week ending with March 13, the CEE Recovery Index corrected more visibly to the downside and returned to the level observed between October and November 2020. The biggest decrease was observed in air pollution. Although strict restrictions were re-imposed in Hungary and stayed in place in other CEE countries, mobility trends remained broadly unchanged. Given the deteriorating pandemic situation, stricter rules were also introduced in Poland as of March 20, which could affect the mobility trends. The extension of restrictions, coupled with the slow pace of vaccine roll-out, will hamper the economic recovery in the coming weeks. For more details, please check our [website](#).

Source: Erste Group Research

FX market

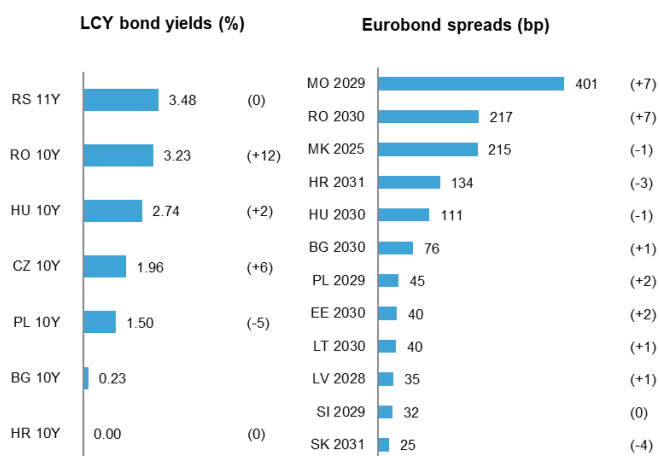


Source: Bloomberg, Erste Group Research

FX market developments

CEE currencies were a mixed bag last week. Despite the strengthening of the US dollar, the Czech koruna appreciated slightly, supported by the central bank's comments that monetary tightening will begin in 2H21. On the other hand, global factors weighed on the forint and zloty, as both currencies weakened visibly against the euro. As far as the PLN is concerned, the ongoing discussion on FX mortgages and postponement of the Supreme Court's ruling until April 13 will continue to weigh on the currency. Croatia's PM hinted that entering the Eurozone as of January 2023, given the ongoing pandemic, may no longer seem plausible. Anyhow our take remains that one year delay to the process would not make material difference.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Czech 10Y government bond yields increased further last week, coming close to the 2% level and staying just 20bp below the 7Y high. Obviously, interest rate hike expectations and the lack of a government bond-buying program from the central bank have made Czech bond yields more prone to upward moves these days. On the other hand, spreads are more generous and definitely less distorted compared to regional peers. Romania's finance minister confirmed that Romania is looking to tap international markets if conditions are favorable. So far this year, they have not issued any bonds on the foreign market, just borrowing in euro-denominated bonds via local auctions. On top of that Romania has been borrowing via the SURE program at very favorable conditions; there is still about EUR 1bn available for Romania to borrow this year.

In case you missed

PL: [Inflation](#) likely bottomed out in February. [Retail sales](#) and [industrial production](#) disappointed in February. Fitch affirmed rating at 'A-' with stable outlook.

RO: [NBR](#) kept rates unchanged.

SK: February [CPI](#) met expectations.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
22. Mar		RS	Current Account Balance (monthly)	Jan			-17.4	
23. Mar	8:30	HU	Current Account Balance (quarterly)	4Q	568.67		752	
	10:00	PL	Unemployment Rate	Feb	6.57%	6.60%	6.50%	Unemployment inched up by 0.1pp in February.
	14:00	HU	Central Bank Rate	Mar 23	0.60%	0.60%	0.60%	Monetary policy to remain unchanged. Central bank to publish new inflation and growth projection.
24. Mar	14:30	CZ	Central Bank Rate	Mar 24	0.25%	0.25%	0.25%	CNB remains in wait-and-see mode. It will probably increase interest rates in second half of this year; however, exact timing is still not clear, due to uncertainties.
25. Mar	12:00	RS	Wages (y/y)	Jan			9.00%	
26. Mar	9:00	SK	PPI (y/y)	Feb		-1.90%	-0.30%	We expect decrease due to weaker demand pressures and high base level.

Source: Erste Group Research

Analyst:

Katarina Muchova
+43 5 0100 17336
katarina.muchova@erstegroup.com

Note: Past performance is not necessarily indicative of future results

Malgorzata Krzywicka
+43 (0)5 0100 17338
malgorzata.krzywicka@erstegroup.com

Forecasts

Government bond yields

	current	2021Q2	2021Q3	2021Q4	2022Q1
Croatia 10Y	0.5	0.6	0.6	0.6	-
spread (bps)	82	89	82	78	83
Czechia 10Y	2.0	1.8	1.8	1.9	2.0
spread (bps)	226	209	202	205	208
Hungary 10Y	2.7	2.7	2.7	2.7	2.8
spread (bps)	304	294	290	291	297
Poland 10Y	1.5	1.6	1.6	1.7	1.7
spread (bps)	180	189	182	183	183
Romania 10Y	3.2	2.9	2.8	2.8	2.9
spread (bps)	352	319	302	293	303
Slovakia 10Y	-0.1	0.0	0.2	0.3	0.4
spread (bps)	18	29	37	48	48
Slovenia 10Y	0.03	0.10	0.10	0.10	0.20
spread (bps)	32	39	32	28	33
Serbia 5Y	2.3	2.2	2.2	2.2	2.1
spread (bps)	258	249	242	238	223
DE10Y*	-0.3	-0.3	-0.2	-0.2	-0.1

* 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	7.58	7.53	7.53	7.53	7.53
EURCZK	26.08	25.62	25.54	25.36	25.08
EURHUF	367.80	360.00	360.00	360.00	360.00
EURPLN	4.62	4.55	4.53	4.50	4.48
EURRON	4.88	4.90	4.92	4.95	5.01
EURRSD	117.58	117.50	117.40	117.50	117.50
EURUSD	1.19	1.16	1.16	1.18	-

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 (%)

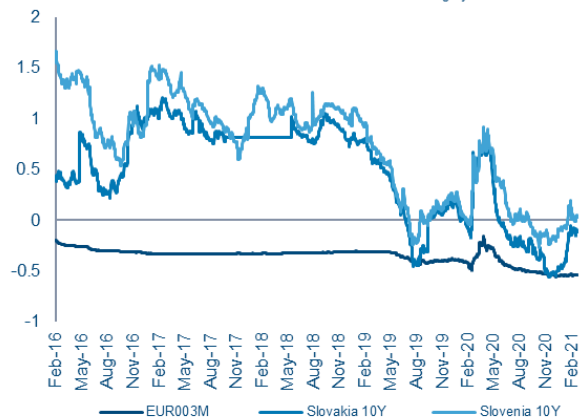
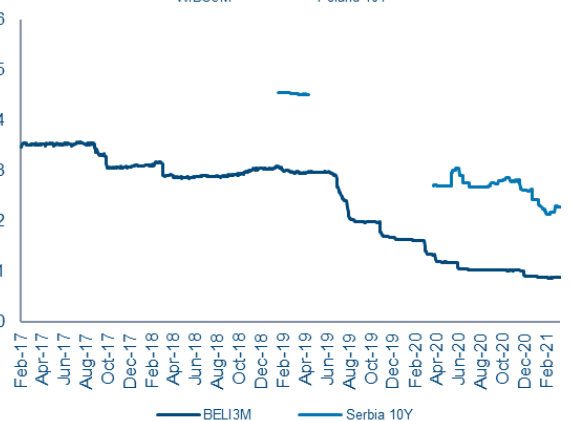
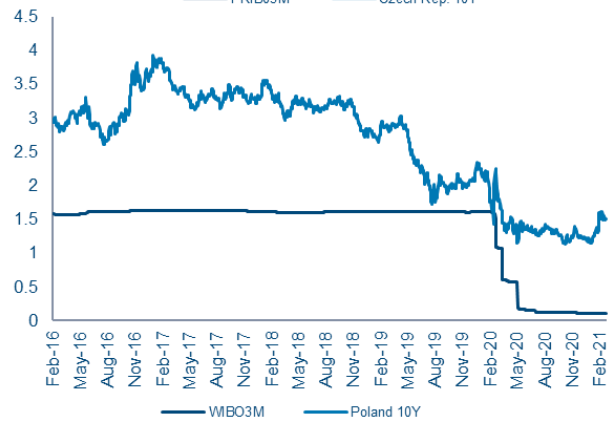
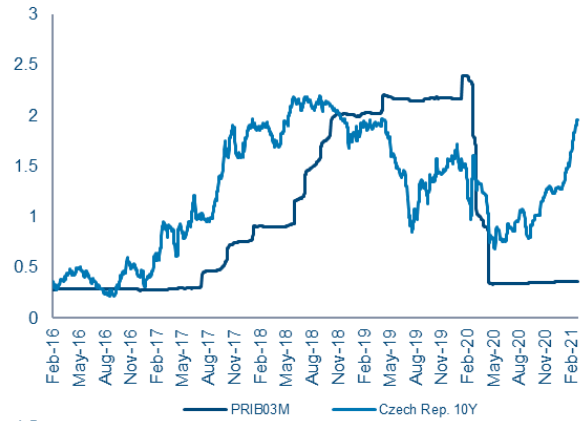
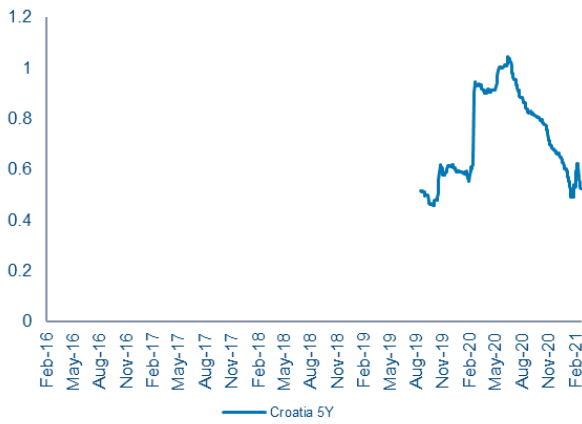
	2019	2020f	2021f	2022f
Croatia	6.6	7.4	8.0	6.9
Czechia	2.0	2.6	3.4	2.8
Hungary	3.4	4.2	4.5	3.8
Poland	5.4	5.9	6.2	5.9
Romania	3.9	4.9	5.9	6.1
Serbia	10.4	9.0	8.9	8.5
Slovakia	5.8	6.7	7.3	6.3
Slovenia	4.4	5.1	5.2	4.9
CEE8 avg	4.6	5.2	5.7	5.3

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

Group Research

Head of Group Research
Friedrich Mostböck, CEFA +43 (0)5 0100 11902

CEE Macro/Fixed Income Research
Head: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
Katarzyna Rzentarzewska (Fixed income) +43 (0)5 0100 17356
Malgorzata Krzywicka (Fixed income, Poland) +43 (0)5 0100 17338
Katarina Muchova +43 (0)5 0100 17336

Croatia/Serbia
Alen Kovac (Head) +385 72 37 1383
Mate Jelic +385 72 37 1443
Ivana Rogic +385 72 37 2419

Czech Republic
David Navratil (Head) +420 956 765 439
Jiri Polansky +420 956 765 192
Michal Skorepa +420 956 765 172

Hungary
Orsolya Nyeste +361 268 4428

Romania
Ciprian Dascalu (Head) +40 3735 10108
Eugen Sinca +40 3735 10435
Dorina Ilasco +40 3735 10436
Iulian George Misu +40 758484043

Slovakia
Maria Valachyova (Head) +421 2 4862 4185
Matej Hornak +421 902 213 591

Major Markets & Credit Research
Head: Gudrun Egger, CEFA +43 (0)5 0100 11909
Raif Burchert, CEFA (Sub-Sovereigns & Agencies) +43 (0)5 0100 16314
Hans Engel (Global Equities) +43 (0)5 0100 19835
Margarita Grushanina (Austria, Quant Analyst) +43 (0)5 0100 11957
Peter Kaufmann, CFA (Corporate Bonds) +43 (0)5 0100 11183
Heiko Langer (Financials & Covered Bonds) +43 (0)5 0100 85509
Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
Carmen Riefler-Kowarsch (Financials & Covered Bonds) +43 (0)5 0100 19632
Rainer Singer (Euro, US) +43 (0)5 0100 17331
Bernadett Povaszai-Römhild, CEFA (Corporate Bonds) +43 (0)5 0100 17203
Elena Statelov, CIIA (Corporate Bonds) +43 (0)5 0100 19641
Gerald Walek, CFA (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research
Head: Henning Eßkuchen +43 (0)5 0100 19634
Daniel Lion, CIIA (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
Michael Marschallinger, CFA +43 (0)5 0100 17906
Nora Nagy (Telecom) +43 (0)5 0100 17416
Christoph Schultes, MBA, CIIA (Real Estate) +43 (0)5 0100 11523
Thomas Unger, CFA (Banks, Insurance) +43 (0)5 0100 17344
Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
Martina Valenta, MBA +43 (0)5 0100 11913

Croatia/Serbia
Mladen Dodig (Head) +381 11 22 09178
Anto Augustinovic +385 72 37 2833
Magdalena Dolenc +385 72 37 1407
Davor Spoljar, CFA +385 72 37 2825

Czech Republic
Petr Bartek (Head) +420 956 765 227
Marek Dongres +420 956 765 218
Jan Safranek +420 956 765 218

Hungary
József Miró (Head) +361 235 5131
András Nagy +361 235 5132
Tamás Pletser, CFA +361 235 5135

Poland
Tomasz Duda (Head) +48 22 330 6253
Cezary Bernatek +48 22 538 6256
Konrad Grygo +48 22 330 6254
Emil Poplawski +48 22 330 6252
Marcin Gornik +48 22 330 6251

Romania
Caius Rapanu +40 3735 10441

Group Markets

Head of Group Markets
Oswald Huber +43 (0)5 0100 84901

Group Markets Retail and Agency Business
Head: Christian Reiss +43 (0)5 0100 84012

Markets Retail Sales AT
Head: Markus Kaller +43 (0)5 0100 84239

Group Markets Execution
Head: Kurt Gerhold +43 (0)5 0100 84232

Retail & Sparkassen Sales
Head: Uwe Kolar +43 (0)5 0100 83214

Corporate Treasury Product Distribution AT
Head: Christian Skopek +43 (0)5 0100 84146

Fixed Income Institutional Sales

Group Securities Markets
Head: Thomas Einramhof +43 (0)50100 84432

Institutional Distribution Core
Head: Jürgen Niemeier +49 (0)30 8105800 5503

Institutional Distribution DACH+
Head: Marc Frieberthshäuser +49 (0)711 810400 5540
Bernd Bollhof +49 (0)30 8105800 5525
Andreas Goll +49 (0)711 810400 5561
Mathias Gindale +49 (0)711 810400 5562
Ulrich Inhofner +43 (0)5 0100 85544
Sven Kienzle +49 (0)711 810400 5541
Rene Klasen +49 (0)30 8105800 5521
Christopher Lampe-Traupe +49 (0)30 8105800 5523
Karin Rattay +43 (0)5 0100 84118
Michael Schmotz +43 (0)5 0100 85542
Klaus Vosseler +49 (0)711 810400 5560

Slovakia
Šarlota Šipulová +421 2 4862 5619
Monika Směliková +421 2 4862 5629

Institutional Distribution CEE & Insti AM CZ
Head: Antun Burić +385 (0)7237 2439
Jaromir Malak +43 (0)5 0100 84254

Czech Republic
Head: Ondrej Čech +420 2 2499 5577
Milan Bartoš +420 2 2499 5562

Institutional Asset Management Czech Republic
Head: Petr Holeček +420 956 765 453
Petra Maděrová +420 956 765 178
Martin Peřina +420 956 765 106
David Petráček +420 956 765 809
Blanca Weinerová +420 956 765 317
Petr Valenta +420 956 765 140

Croatia
Head: Antun Burić +385 (0)7237 2439
Zvonimir Tukač +385 (0)7237 1787
Natalija Zujic +385 (0)7237 1638

Hungary
Head: Peter Csizmadia +36 1 237 8211
Gábor Bálint +36 1 237 8205
Ádám Szönyi +36 1 237 8213

Romania and Bulgaria
Head: Ruxandra Lungu +40 373516562

Group Institutional Equity Sales
Head: Brigitte Zeitberger-Schmid +43 (0)50100 83123
Werner Fürst +43 (0)50100 83121
Josef Kerekes +43 (0)50100 83125
Cormac Lyden +43 (0)50100 83120

Czech Republic
Head: Michal Rizek +420 224 995 537
Jiří Fereš +420 224 995 554
Martin Havlan +420 224 995 551
Pavel Krabička +420 224 995 411

Poland
Head: Jacek Jakub Langer +48 22 538 62 65
Tomasz Galanciak +48 22 538 62 12
Przemyslaw Nowosad +48 22 538 62 66
Stepien Grzegorz +48 22 538 62 11
Wysocki Wojciech +48 22 538 62 17

Croatia
Damir Eror +385 (0)72 37 2836

Hungary
Nandori Levente +36 1 23 55 141
Krisztian Kandik +36 1 23 55 162
Balasz Zankay +36 1 23 55 156

Romania
Liviu Avram +40 3735 16569

Group Fixed Income Securities Markets
Head: Goran Hobljaj +43 (0)50100 84403

FISM Flow
Head: Aleksandar Doric +43 (0)5 0100 87487
Margit Hraschek +43 (0)5 0100 84117
Christian Kienesberger +43 (0)5 0100 84323
Ciprian Mitu +43 (0)5 0100 85612
Bernd Thaler +43 (0)5 0100 84119
Zsuzsanna Toth +36-1-237 8209

Poland:
Pawel Kielek +48 22 538 6223

Michal Jarmakowicz +43 50100 85611

Group Fixed Income Securities Trading
Head: Goran Hobljaj +43 (0)50100 84403

Group Equity Trading & Structuring
Head: Ronald Nemeč +43 (0)50100 83011

Business Support
Bettina Mahoric +43 (0)50100 86441

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