

## CEE Market Insights

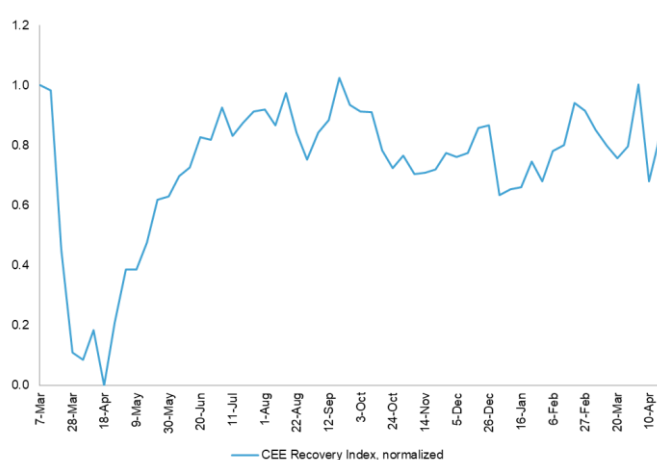
March retail sales likely to show mixed development in CEE

### This week in CEE

This week, Serbia will publish its flash GDP estimate for 1Q21, which we see at a promising -0.5% y/y (+1.4% q/q). The country's services sector likely fared better than in most CEE countries thanks to milder restrictions, higher mobility and a good vaccination rate. March retail sales figures will be published in Romania, Slovakia, Czechia and Hungary. Whereas base and calendar effects likely shifted up Czech retail trade growth close to the double-digits, low base from last year should have helped soften the vast decline from early 2021 in Slovakia. In Romania, March will likely show only a slight increase, reflecting slower wage growth and new regional restrictions. Hungarian retail sales may have declined by almost 7% y/y, affected by re-introduced lockdown measures and last year's relatively higher base. Moreover, March industrial production growth likely reached 12% y/y in Czechia and 15% y/y in Hungary, driven by solid external demand and strong base effects. Central banks in Poland and Czechia are expected to keep monetary policy unchanged, with key rates remaining at 0.1% and 0.25%, respectively. The Czech central bank remains in a wait-and-see mode and the spotlight will be on its new macroeconomic projections. Economic development indicates in our view the need for two hikes in 2021, but the exact timing remains unclear. Our baseline forecast sees August as the most likely option for the first rate hike.

Monday	Tuesday	Wednesday	Thursday	Friday
<b>SK: Current account</b>	<b>RS: 1Q21 GDP</b>	<b>PL: Central bank</b>	<b>CZ: Central bank</b>	<b>CZ: Industry, Trade balance</b>
		<b>RO: PPI</b>	<b>CZ, SK, RO: Retail sales</b>	<b>HR, HU, SK: Trade balance</b>
			<b>HU: Retail sales, Industry</b>	<b>RS: PPI</b>
			<b>HR: PPI</b>	
<b>HR: Bills</b>		<b>RS: 2041 Bonds</b>	<b>RO: 2024 Bonds</b>	

### CEE Recovery Index

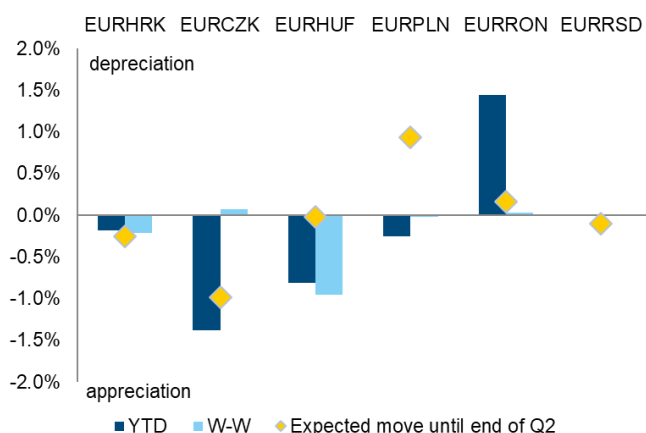


In the week ending with April 24, the CEE Recovery Index bounced back visibly and returned to its pre-Easter level. As COVID-19 restrictions continue to be lifted across the region, mobility across all sub-categories improved. Mobility to retail stores went up substantially, while mobility to the workplace sustained its upward trajectory and reached the highest level since mid-October 2020. Among the more volatile components of the index, air pollution jumped strongly, while electricity remained stable. We expect to see further improvement of the Recovery Index in the weeks to come, as mobility will benefit from more relaxed restrictions.

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

Source: Erste Group Research

## FX market

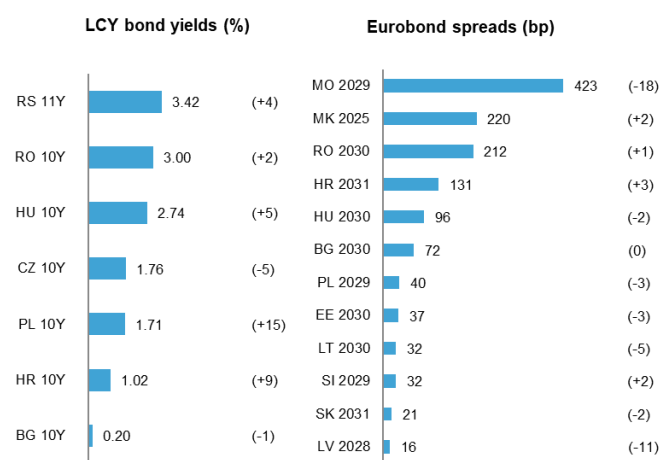


Source: Bloomberg, Erste Group Research

## FX market developments

The US dollar slightly depreciated over the course of the week, while CEE currencies were mixed. The Hungarian forint benefited from the weaker USD and went below 360 vs. the EUR. A dovish comment from central bank board member Benda weighed on the Czech koruna, which depreciated in the first half of the week. Moreover, better than expected 1Q21 GDP growth had only a limited impact on the EURCZK, which closed the week below 25.9. Separately, the ECJ ruling on CHF loans in Poland stated that the local courts should decide whether FX mortgage contracts containing an abusive clause should be annulled or not. Ahead of the ruling, the zloty weakened, but pared most of the losses after the release. The upcoming decision of the Polish Supreme Court (due May 7 and May 11) could provide more clarity on the issue. Separately, a surprisingly high inflation print for April did not weigh on the PLN.

## LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

## Bond market developments

Hopes of stronger economic prospects, backed by the better than expected economic data released last week, inched yields up in both the Euro Area and CEE. Czech bonds were outliers, given that yield increases had already been strongly frontloaded and saw some correction last week. This was apparent also from the comparison of yield spreads between 10Y CZBGS and POLGBs, which narrowed to 5bp, from nearly 50bp in mid-March. Polish yields increased about 15bp w/w, despite last week's PLN 5bn QE auction. The higher CPI flash estimate, which landed at 4.3% y/y in April, could cause some headwinds for the central bank's effort to keep yields down. The NBP will continue in its QE activity in May via two auctions and additional operations cannot be ruled out. Moreover, Poland will hold a regular bond auction with supply at PLN 4-7bn and one switch auction. The Hungarian central bank should also keep buying HGBs in 2Q, with the next technical review scheduled after reaching HUF 3000bn.

## In case you missed

- HR: Double-digit [retail sales](#) growth in March. [Industrial production](#) above expectations in March.
- PL: FY21 [inflation](#) forecast revised up to 4.0%. Moody's affirmed Polish rating at A2 with stable outlook.
- CZ: [1Q21 GDP growth](#) came in above expectations.
- RS: [Retail sales](#) accelerated in March. [Industrial production](#) in line with expectations in March.
- RO: [Economic sentiment](#) close to pre-pandemic level.
- HU: [Central bank](#) kept monetary policy unchanged and revised QE program.

## Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
3. May		SK	Current Account Balance (monthly)	Mar			-117	
04. May	12:00	RS	GDP (y/y)	1Q P	-0.50%	<b>-0.50%</b>	-1.10%	Serbia likely outperformed region again in 1Q21, with estimated 1.4% q/q sa growth, which implies 0.5% y/y drop. Services sector likely did better than in most CEE countries, thanks to milder COVID-19 restrictions, higher mobility, and one of highest vaccination rates in Europe.
05. May		PL	Central Bank Rate	May 5	0.10%	0.10%	0.10%	Central bank to keep monetary policy unchanged.
	8:00	RO	PPI (y/y)	Mar			2.12%	
06. May	8:00	RO	Retail Sales (y/y)	Mar		<b>0.30%</b>	0.0	Weaker retail sales in 1Q21, due to slower wage growth and rise in unemployment rate.
	9:00	CZ	Retail Sales (y/y)	Mar	9.30%	<b>9.60%</b>	-5.80%	Significant growth in retail sales is affected by base effect stemming from first pandemic wave during March 2020. However, compared with February 2021, retail sales slightly increased m/m.
	9:00	HU	Industrial Production (y/y)	Mar	15.20%	<b>15.00%</b>	3.90%	Strong base effect from last year implies double-digit yearly growth in sector.
	9:00	HU	Retail Sales (y/y)	Mar	-5.40%	<b>-6.80%</b>	-5.90%	Consumption could have remained subdued, stemming mainly from stricter lockdown measures introduced in March.
	9:00	SK	Retail Sales (y/y)	Mar		<b>-2.50%</b>	-0.1	We expect y/y decrease, due to strict lockdown and limited activity of certain kinds of retail stores.
	11:00	HR	PPI (y/y)	Apr			3.50%	
	14:30	CZ	Central Bank Rate	May 6	0.25%	<b>0.25%</b>	0.25%	CNB remains in wait-and-see mode. However, recent data increases probability that CNB will have to start hiking in 3Q21.
07. May		CZ	Industrial Production (y/y)	Mar	12.10%	<b>12.20%</b>	-2.60%	Improved foreign demand during March and base effect were most important drivers behind sound growth of industrial production.
		CZ	Trade Balance	Mar	19	<b>20</b>	16.3	Improved foreign demand implied high surplus in foreign trade.
	9:00	HU	Trade Balance	Mar P			849	
	9:00	SK	Trade Balance	Mar			398.47	
	11:00	HR	Trade Balance	Feb			-4261.6	
	12:00	RS	PPI (y/y)	Apr			4.10%	

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
<b>Croatia 10Y</b>	0.5	0.0	0.5	0.5	0.6
spread (bps)	74	27	72	66	71
<b>Czechia 10Y</b>	1.8	1.8	1.8	1.9	2.0
spread (bps)	196	202	202	203	206
<b>Hungary 10Y</b>	2.7	2.7	2.7	2.7	2.8
spread (bps)	294	292	290	289	295
<b>Poland 10Y</b>	1.7	1.6	1.6	1.7	1.7
spread (bps)	191	187	182	181	181
<b>Romania 10Y</b>	3.0	2.9	2.8	2.8	2.9
spread (bps)	320	317	302	291	301
<b>Slovakia 10Y</b>	-0.1	0.0	0.2	0.3	0.4
spread (bps)	12	27	37	46	46
<b>Slovenia 10Y</b>	0.13	0.10	0.10	0.10	0.20
spread (bps)	33	37	32	26	31
<b>Serbia 5Y</b>	2.3	2.2	2.2	2.2	2.1
spread (bps)	251	247	242	236	221
<b>DE10Y*</b>	-0.2	-0.3	-0.2	-0.2	-0.1

\* Spreads based on Bloomberg consensus forecast

### 3M Money Market Rate

	current	2021Q2	2021Q3	2021Q4	2022Q1
<b>Czechia</b>	0.36	0.44	0.67	0.83	0.92
<b>Hungary</b>	0.79	0.78	0.78	0.79	0.80
<b>Poland</b>	0.21	0.21	0.21	0.21	0.21
<b>Romania</b>	1.59	1.55	1.50	1.40	1.50
<b>Serbia</b>	0.87	0.87	0.85	0.83	0.83
<b>Eurozone</b>	-0.54	-0.54	-0.54	-0.54	-0.54

### Real GDP growth (%)

	2019	2020	2021f	2022f
<b>Croatia</b>	2.9	-8.0	4.5	4.0
<b>Czechia</b>	2.2	-5.6	3.3	4.3
<b>Hungary</b>	4.6	-5.0	4.4	4.7
<b>Poland</b>	4.7	-2.7	3.4	4.7
<b>Romania</b>	4.1	-3.9	4.2	4.5
<b>Serbia</b>	4.2	-1.0	5.0	4.0
<b>Slovakia</b>	2.3	-5.2	4.0	4.8
<b>Slovenia</b>	3.2	-5.5	4.4	4.1
<b>CEE8 avg</b>	3.9	-4.0	3.8	4.5

### Public debt (% of GDP)

	2019	2020	2021f	2022f
<b>Croatia</b>	72.8	88.7	88.1	86.4
<b>Czechia</b>	31.2	38.4	45.0	48.1
<b>Hungary</b>	65.5	80.4	78.6	76.9
<b>Poland</b>	45.6	57.5	58.3	57.4
<b>Romania</b>	35.3	47.3	50.8	52.0
<b>Serbia</b>	52.0	57.4	60.0	58.4
<b>Slovakia</b>	48.5	60.6	63.2	63.2
<b>Slovenia</b>	65.6	78.1	76.9	74.5
<b>CEE8 avg</b>	45.9	57.3	59.2	59.1

### FX

	current	2021Q2	2021Q3	2021Q4	2022Q1
<b>EURHRK</b>	7.55	7.53	7.53	7.53	7.53
<b>EURCZK</b>	25.86	25.62	25.54	25.36	25.08
<b>EURHUF</b>	360.28	360.00	360.00	360.00	360.00
<b>EURPLN</b>	4.56	4.60	4.58	4.56	4.54
<b>EURRON</b>	4.93	4.93	4.94	4.95	5.01
<b>EURRSD</b>	117.58	117.50	117.40	117.50	117.50
<b>EURUSD</b>	1.20	1.16	1.16	1.18	1.20

### Key Interest Rate

	current	2021Q2	2021Q3	2021Q4	2022Q1
<b>Croatia</b>	0.05	0.05	0.05	0.05	0.05
<b>Czechia</b>	0.25	0.25	0.50	0.75	0.75
<b>Hungary</b>	0.60	0.60	0.60	0.60	0.75
<b>Poland</b>	0.10	0.10	0.10	0.10	0.10
<b>Romania</b>	1.25	1.25	1.25	1.25	1.25
<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	2020	2021f	2022f
<b>Croatia</b>	0.8	0.1	1.2	1.5
<b>Czechia</b>	2.8	3.2	2.5	2.3
<b>Hungary</b>	3.4	3.3	3.8	3.2
<b>Poland</b>	2.3	3.4	3.0	2.3
<b>Romania</b>	3.8	2.7	3.2	2.4
<b>Serbia</b>	1.9	1.6	2.0	1.9
<b>Slovakia</b>	2.7	1.9	1.3	1.9
<b>Slovenia</b>	1.6	0.0	0.8	1.7
<b>CEE8 avg</b>	2.7	2.8	2.7	2.3

### C/A (%GDP)

	2019	2020	2021f	2022f
<b>Croatia</b>	2.8	-0.8	0.5	0.4
<b>Czechia</b>	-0.3	3.2	0.2	0.3
<b>Hungary</b>	-0.5	0.1	-0.2	-0.3
<b>Poland</b>	0.5	3.6	2.1	1.2
<b>Romania</b>	-4.9	-5.2	-4.8	-4.2
<b>Serbia</b>	-6.9	-4.3	-4.4	-4.6
<b>Slovakia</b>	-2.7	-2.7	-1.6	-0.9
<b>Slovenia</b>	5.6	7.3	6.7	5.6
<b>CEE8 avg</b>	-0.8	1.0	0.0	-0.2

### Unemployment (%)

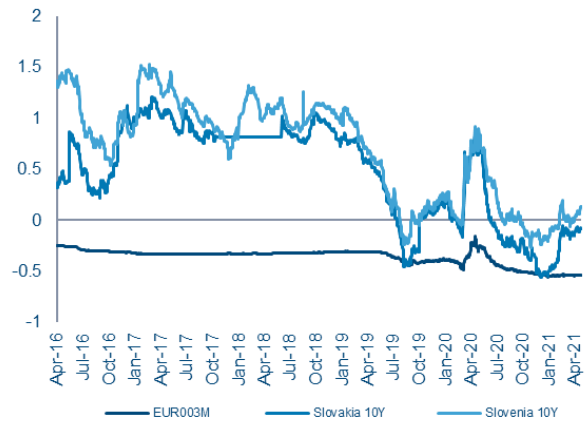
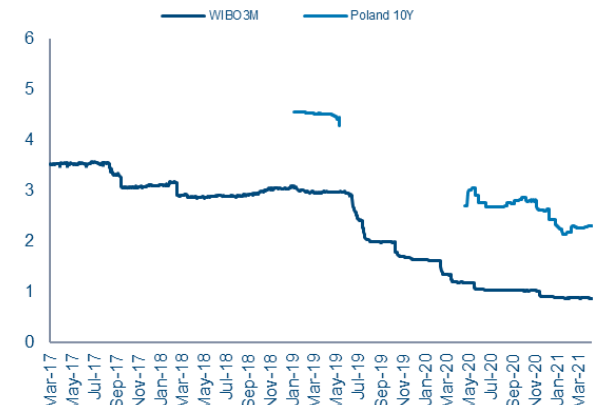
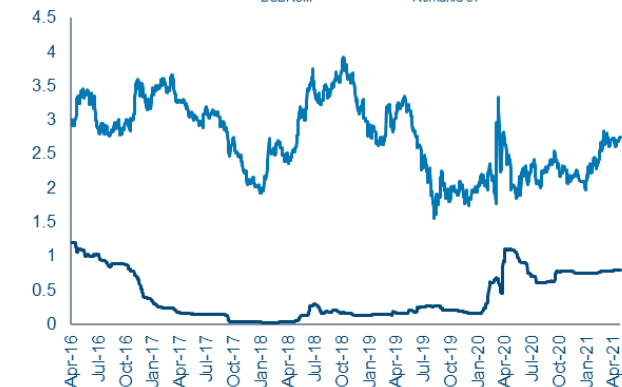
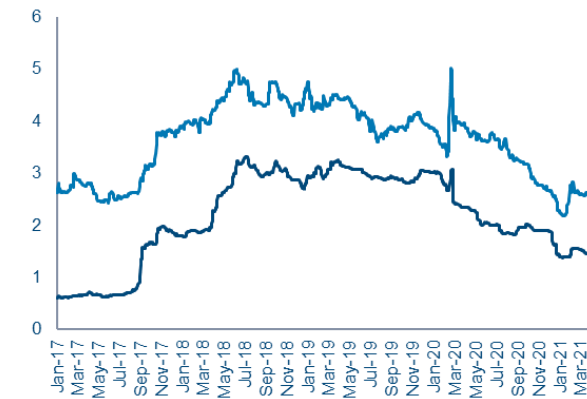
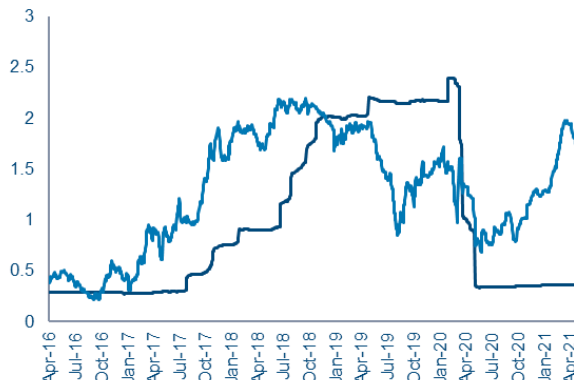
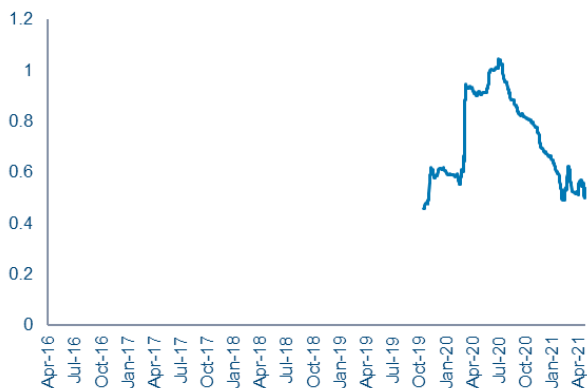
	2019	2020	2021f	2022f
<b>Croatia</b>	6.6	7.5	8.0	6.9
<b>Czechia</b>	2.0	2.6	3.4	2.8
<b>Hungary</b>	3.4	4.2	4.5	3.8
<b>Poland</b>	5.4	5.9	6.2	5.9
<b>Romania</b>	3.9	4.9	5.9	6.1
<b>Serbia</b>	10.4	9.0	8.9	8.5
<b>Slovakia</b>	5.8	6.7	7.3	6.3
<b>Slovenia</b>	4.4	5.1	5.2	4.9
<b>CEE8 avg</b>	4.6	5.2	5.7	5.3

### Budget Balance (%GDP)

	2019	2020	2021f	2022f
<b>Croatia</b>	0.3	-7.4	-4.2	-3.0
<b>Czechia</b>	0.3	-6.1	-7.0	-2.7
<b>Hungary</b>	-2.0	-8.1	-7.4	-5.0
<b>Poland</b>	-0.7	-7.0	-5.3	-3.2
<b>Romania</b>	-4.4	-9.2	-7.8	-5.4
<b>Serbia</b>	-0.2	-8.1	-6.5	-1.7
<b>Slovakia</b>	-1.3	-6.2	-6.0	-4.0
<b>Slovenia</b>	0.5	-9.5	-6.0	-4.0
<b>CEE8 avg</b>	-1.2	-7.4	-6.3	-3.7

Source: Bloomberg, Erste Group Research

## Appendix



Source: Bloomberg, Erste Group Research

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**3 May 2021**

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