

CEE Market Insights

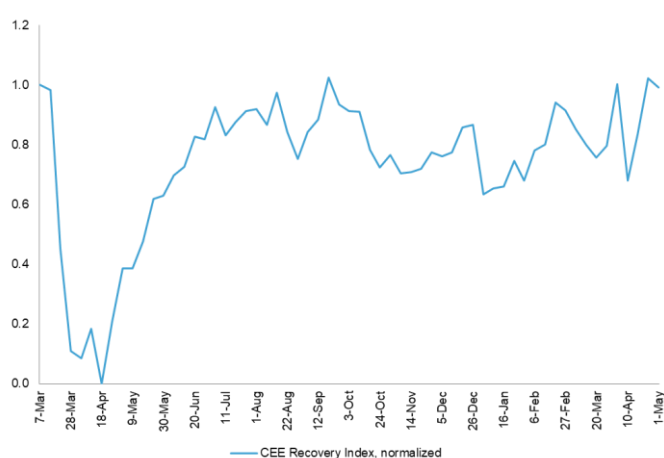
Inflation likely shifted into a higher gear in April

This week in CEE

This week is packed with interesting releases. Poland will reveal its flash GDP in 1Q21, which we see at -1.4% y/y. Although strict restrictions affected retail and services sectors for most of the quarter, the economy likely expanded by 1.1% on a quarterly basis. Inflation data for April will be finalized across the region as all countries apart from Slovenia and Poland, which have already done so, will publish their CPI prints. These are likely to show a noticeable increase in annual terms, pushed up by base effects from last year – rising as high as to 4.8% y/y in Hungary. Higher fuel prices spurred by last year's low base on oil are to play an important part in the year-on-year inflation rates. Moreover, excise tax changes and correspondingly higher tobacco prices likely contributed to the increased inflationary pressures in Slovakia, Hungary and Romania. March industrial production growth could have shifted up to 9% y/y in Slovenia, 15.3% y/y in Romania and 21% y/y in Slovakia, driven by solid external demand (even amidst some supply-side disruptions) and strong base effects. The central bank meetings in Romania and Serbia are likely to keep the key rates unchanged at 1.25% and 1%, respectively. The Serbian central bank could leave its rate untouched throughout 2021. The Romanian central bank is ready to ensure the flexibility of its inflation target, which suggests, in our view, that it is likely to tolerate temporarily higher supply-driven inflation.

Monday	Tuesday	Wednesday	Thursday	Friday
SK, SI: Industrial production SK, RO: Trade balance	CZ, HU: CPI	RO: Central bank, Industrial production RS: CPI SK: Wages	RS: Central bank RO, SK: CPI RO: Wages	PL: 1Q21 GDP, Trade balance HR, PL: CPI RO: Current account
RO: 2036 Bonds	SI: Bills RS: 2023 Bonds	CZ: 2031, 2032, 2040 Bonds	RO: Bills, 2028 Bonds	

CEE Recovery Index

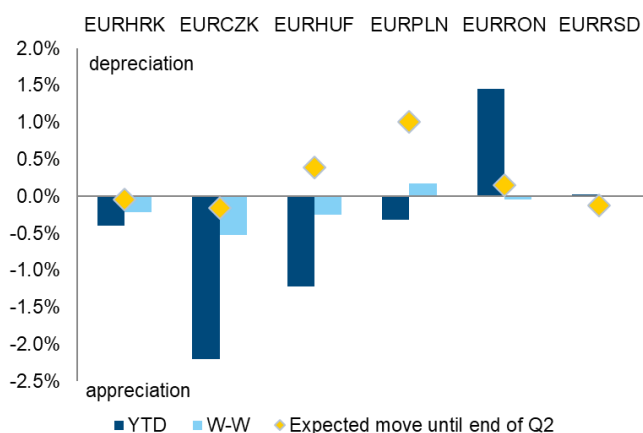


Source: Erste Group Research

In the last week of April, the CEE Recovery Index marginally corrected, although it still remains close to recently observed highs. As restrictions for the retail sector have mostly been lifted across the CEE region, mobility to grocery and retail stores improved further. Mobility to grocery stores hit new record-high levels. On the other hand, mobility to the workplace and air pollution somewhat deteriorated at the end of the previous month. In the coming weeks, a slight revision of the Recovery Index cannot be ruled out, as electricity data has been unavailable since mid-April. The CEE Recovery Index suggests that the region is heading toward a strong recovery in 2Q21, and double-digit GDP growth dynamics are increasingly likely.

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

FX market

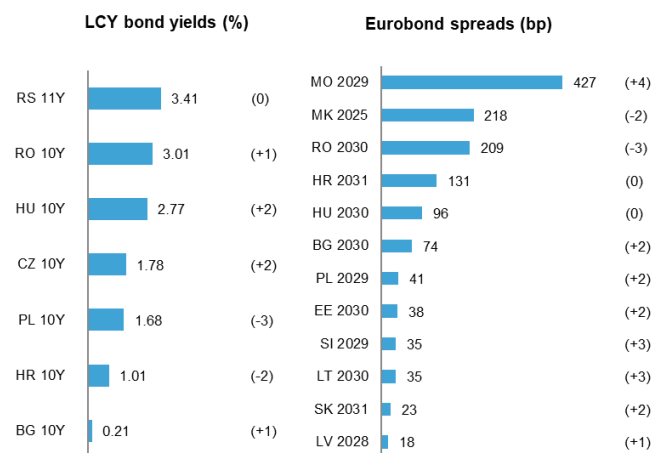


Source: Bloomberg, Erste Group Research

FX market developments

The US dollar depreciated sharply at the end of the week and the EURUSD moved above 1.21, as labor statistics for April came in below market expectations. CEE currencies benefited from the weaker dollar and appreciated. The Czech koruna was likely additionally supported by the central bank's decision. Although the CNB surprisingly lowered its GDP growth forecast for 2021, the overall wording sounded hawkish. Thus, the koruna moved below 25.7 vs. the EUR. The Croatian kuna marginally strengthened, due to tourism inflows. The zloty appreciated strongly after the Supreme Court decision on CHF loans. The court stood by its previous opinion that the claims of the banks and consumers do not automatically lead to mutual compensation. In the court's view, the bank may demand repayment of the benefit from the moment the loan agreement has become permanently ineffective, which determines the running of the statute of limitations.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

CEE bond markets remained relatively stable last week; more interesting moves happened on the short end. Hawkish comments from the CNB triggered an upward shift (+20bp w/w/) in FRA9x12, which landed around 1.15%, well above the key rate (0.25%). We expect the CNB to deliver the first hike in August and another in November, but cannot rule out that policy normalization could already start at the end of June (at the next policy meeting). This week, the National Bank of Poland will hold its first of two QE auctions scheduled for May. In its last operation conducted in April, it bought government securities for PLN 5bn. Moreover, BGK is going to place at least PLN 1bn of bonds. Czechia, Hungary, Romania and Slovenia will be selling T-bills this week. On top of that, a broad variety of bonds will be on offer – ROMGBs 2028, 2030, and 2036, CZGBs 2031, 2032 and 2040, and some HGBs and SLOVGBs.

In case you missed

CEE: March retail sales above our expectations in [Hungary](#), [Romania](#) and [Slovakia](#).

RS: [1Q21 GDP growth](#) surprised to upside. We revised our FY21 GDP forecast up by 1pp to 6%.

HU: [Industry](#) accelerated in March due to base effect.

CZ: [Central bank](#) kept policy rate stable at 0.25%. [Industrial production](#) for March confirmed economic recovery.

SK: [Exports](#) reached record figure in March.

PL: [National Bank of Poland](#) kept key rate unchanged at 0.1%.

North Macedonia: Fitch affirmed the rating at 'BB+' with negative outlook.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment	
10. May		SK	Industrial Production (y/y)	Mar		21.00%	1.10%	Industrial performance strongly affected by base effects and sharp drop in March 2020. However, we expect positive patterns in industry to persist, as supply-chain problems were not so pronounced in March.	
	8:00	RO	Trade Balance	Mar			-1889.3		
	10:30	SI	Industrial Production (y/y)	Mar		9.00%	-1.50%		Headline figure recovery seen as accelerating, supported by base effect.
	10:30	SI	Trade Balance	Mar			0.3		
11. May	9:00	CZ	CPI (y/y)	Apr	2.80%	2.60%	2.30%	High y/y growth of energy prices is main factor behind increase in headline inflation. Although prices of services are still relatively low, we expect them to start increasing from May, and thus to become another pro-inflationary factor.	
	9:00	HU	CPI (y/y)	Apr	4.80%	4.80%	3.70%	Unsupportive base effect from last year and further excise tax increase on tobacco are main reasons for expected acceleration.	
12. May		RO	Central Bank Rate	May 12	1.25%	1.25%	1.25%	NBR governor does not 'see reason for further reductions of the policy rate'. NBR is ready to ensure flexibility of its inflation target, which suggests, in our view, that it is likely to tolerate higher supply-driven inflation.	
	8:00	RO	Industrial Production (y/y)	Mar		15.30%	-2.60%	Favorable base effect, improved confidence and external demand, despite some disruptions from chip shortages.	
	9:00	SK	Wages (y/y)	Mar			0.30%		
	12:00	RS	CPI (y/y)	Apr		2.20%	1.80%	We expect further monthly acceleration (0.5% m/m), implying 2.2% y/y growth. Prices likely to peak in May and hover around 2% mark for rest of year.	
13. May	8:00	RO	CPI (y/y)	Apr	3.20%	3.16%	3.05%	After first three months of year, there were few signs of consumers changing their electricity providing contracts to competitive prices. If low consumer sensitivity to higher electricity bills persists, we might have to revise upwards our 3.1% year-end forecast.	
	8:00	RO	Wages (y/y)	Mar		2.70%	5.09%	Real wages likely to remain unchanged this year. Labor market expected to adjust, as government should gradually unwind its job support schemes and companies adapt to changed consumer behavior.	
	9:00	SK	CPI (y/y)	Apr			1.40%		
	12:00	RS	Central Bank Rate	May 13		1.00%	1.00%	We expect NBS to hold steady throughout 2021.	
14. May		RO	Current Account Balance (monthly)	Mar			-1627		
	10:00	PL	CPI (y/y)	Apr F		4.30%	4.30%	We expect flash reading to be confirmed at 4.3% y/y in April. Core inflation likely marginally eased to 3.8% y/y.	
	10:00	PL	GDP (y/y)	1Q P	-1.40%	-1.40%	-2.70%	Although strict restrictions affecting retail and services sector were in place for most of 1Q21, economy likely expanded on quarterly basis (+1.1% q/q s.a.). Strong real economy data for March suggest solid growth in 1Q21. Positive surprise cannot be ruled out.	
	11:00	HR	CPI (y/y)	Apr		1.80%	1.20%	Higher fuel prices and base effects will push inflation higher.	
	14:00	PL	Trade Balance	Mar	786.5		883		

Source: Erste Group Research

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Note: Past performance is not necessarily indicative of future results

Forecasts

Government bond yields

	current	2021Q2	2021Q3	2021Q4	2022Q1
Croatia 10Y	0.5	0.0	0.5	0.5	0.6
spread (bps)	73	26	72	66	70
Czechia 10Y	1.8	1.8	1.8	1.9	2.0
spread (bps)	198	201	202	203	205
Hungary 10Y	2.8	2.7	2.7	2.7	2.8
spread (bps)	296	291	290	289	294
Poland 10Y	1.7	1.80	1.90	1.90	1.95
spread (bps)	188	206	212	206	205
Romania 10Y	3.0	2.9	2.8	2.8	2.9
spread (bps)	321	316	302	291	300
Slovakia 10Y	-0.1	0.0	0.2	0.3	0.4
spread (bps)	12	26	37	46	45
Slovenia 10Y	0.16	0.10	0.10	0.10	0.20
spread (bps)	36	36	32	26	30
Serbia 5Y	2.3	2.2	2.2	2.2	2.1
spread (bps)	254	246	242	236	220
DE10Y*	-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
Czechia	0.36	0.44	0.67	0.83	0.92
Hungary	0.79	0.78	0.78	0.79	0.80
Poland	0.21	0.21	0.21	0.21	0.21
Romania	1.59	1.55	1.50	1.40	1.50
Serbia	0.87	0.87	0.85	0.83	0.83
Eurozone	-0.53	-0.54	-0.54	-0.54	-0.54

Real GDP growth (%)

	2019	2020	2021f	2022f
Croatia	2.9	-8.0	4.5	4.0
Czechia	2.2	-5.6	3.3	4.3
Hungary	4.6	-5.0	4.4	4.7
Poland	4.7	-2.7	3.4	4.7
Romania	4.1	-3.9	4.2	4.5
Serbia	4.2	-1.0	6.0	4.0
Slovakia	2.5	-4.8	4.0	4.8
Slovenia	3.2	-5.5	4.4	4.1
CEE8 avg	3.9	-4.0	3.8	4.5

Public debt (% of GDP)

	2019	2020	2021f	2022f
Croatia	72.8	88.7	88.1	86.4
Czechia	31.2	38.4	45.0	48.1
Hungary	65.5	80.4	78.6	76.9
Poland	45.6	57.5	58.3	57.4
Romania	35.3	47.3	50.8	52.0
Serbia	52.1	57.4	59.5	57.8
Slovakia	48.2	60.3	63.5	63.5
Slovenia	65.6	78.1	76.9	74.5
CEE8 avg	45.9	57.3	59.2	59.1

FX

	current	2021Q2	2021Q3	2021Q4	2022Q1
EURHRK	7.54	7.53	7.53	7.53	7.53
EURCZK	25.64	25.62	25.54	25.36	25.08
EURHUF	357.96	360.00	360.00	360.00	360.00
EURPLN	4.55	4.60	4.58	4.56	4.54
EURRON	4.93	4.93	4.94	4.95	5.01
EURRSD	117.61	117.50	117.40	117.50	117.50
EURUSD	1.22	1.16	1.16	1.18	1.20

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	0.00

Average inflation (%)

	2019	2020	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	3.9	3.2
Poland	2.3	3.4	4.0	3.1
Romania	3.8	2.7	3.2	2.4
Serbia	1.9	1.6	2.0	1.9
Slovakia	2.7	1.9	1.3	1.9
Slovenia	1.6	0.0	0.8	1.7
CEE8 avg	2.7	2.8	3.1	2.6

C/A (%GDP)

	2019	2020	2021f	2022f
Croatia	2.8	-0.8	0.5	0.4
Czechia	-0.3	3.2	0.2	0.3
Hungary	-0.5	0.1	-0.2	-0.3
Poland	0.5	3.6	2.1	1.2
Romania	-4.9	-5.2	-4.8	-4.2
Serbia	-6.9	-4.3	-3.6	-3.7
Slovakia	-2.7	-2.7	-1.6	-0.9
Slovenia	5.6	7.3	6.7	5.6
CEE8 avg	-0.8	1.0	0.1	-0.2

Unemployment (%)

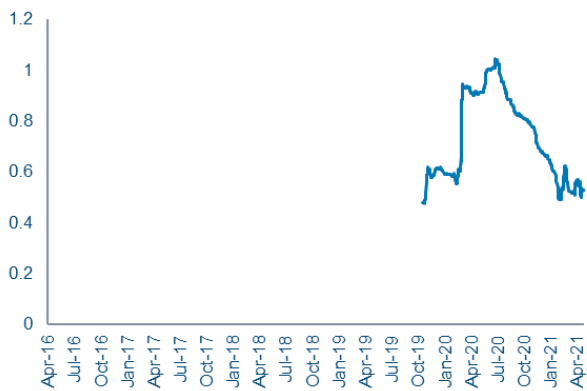
	2019	2020	2021f	2022f
Croatia	6.6	7.5	8.0	6.9
Czechia	2.0	2.6	3.4	2.8
Hungary	3.4	4.2	4.5	3.8
Poland	5.4	5.9	6.2	5.9
Romania	3.9	4.9	5.9	6.1
Serbia	10.4	9.0	8.9	8.5
Slovakia	5.8	6.7	7.0	6.0
Slovenia	4.4	5.1	5.2	4.9
CEE8 avg	4.6	5.2	5.7	5.3

Budget Balance (%GDP)

	2019	2020	2021f	2022f
Croatia	0.3	-7.4	-4.2	-3.0
Czechia	0.3	-6.1	-7.0	-2.7
Hungary	-2.1	-8.1	-7.4	-5.0
Poland	-0.7	-7.0	-5.3	-3.2
Romania	-4.4	-9.2	-7.8	-5.4
Serbia	-0.2	-8.0	-6.5	-1.6
Slovakia	-1.3	-6.1	-6.0	-4.0
Slovenia	0.5	-9.5	-6.0	-4.0
CEE8 avg	-1.2	-7.4	-6.3	-3.7

Source: Bloomberg, Erste Group Research

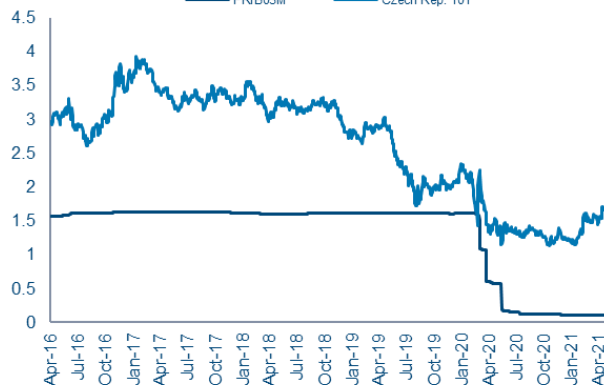
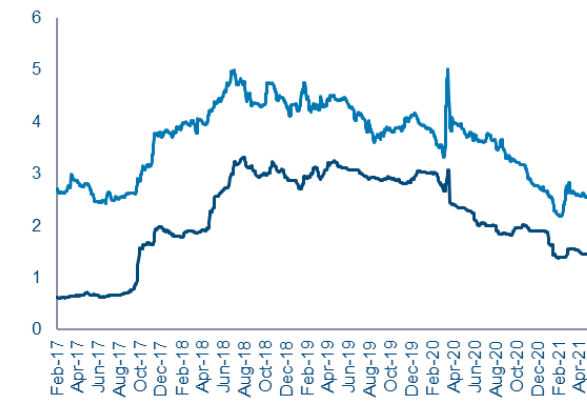
Appendix



Croatia 5Y

PRIB03M

Czech Rep. 10Y

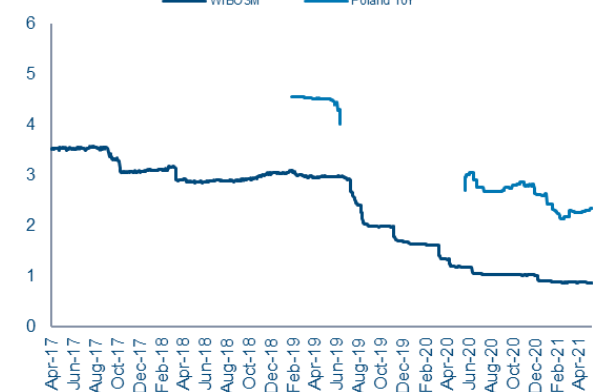


BUBR3M

Romania 5Y

WIBO3M

Poland 10Y

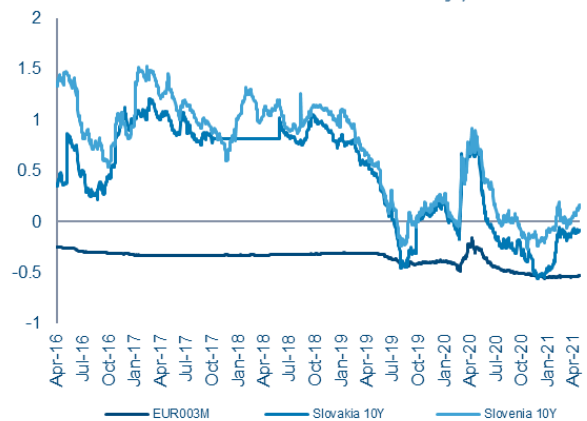


BUBOR03M

Hungary 10Y

BEU3M

Serbia 10Y



EUR003M

Slovakia 10Y

Slovenia 10Y

Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Market Insights
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