

## CEE Market Insights

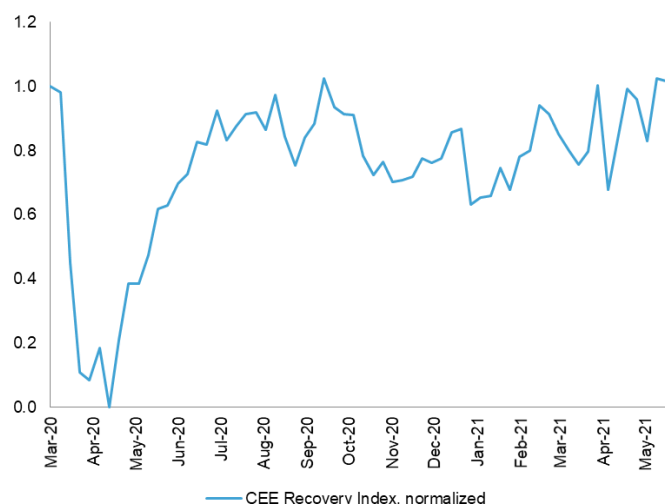
What was behind surprisingly high 1Q21 growth in CEE?

### This week in CEE

This week, 1Q21 GDP breakdowns will be in the spotlight across the region. Poland should confirm its flash estimate at -1.2% y/y, supported by net exports and government expenditure. External demand and state investments were probably the key drivers in Hungary, where GDP rose by 1.9% q/q, translating to -2.3% y/y. Subdued domestic demand played a visible role in the 1Q21 Czech GDP, which fell by 2.1% y/y (-0.3% q/q). Slovak economy marked a mild expansion of 0.3% y/y in early 2021, aided by net exports and industrial production, although it was down compared to late 2020 (-1.8% q/q). Slovenian GDP may have stagnated on a year-on-year basis, helped by the easing of some containment measures towards the end of the quarter. Serbian GDP should confirm its 1Q21 flash estimate of 1.2% y/y. Moreover, we will see retail sales prints for April in Hungary, Romania, Serbia and Slovakia. Last year's low base likely pushed retail sales growth into the strong double-digit region, ranging from 14.2% y/y in Hungary to 37.2% y/y in Romania. Similarly, April industrial production is expected at 15% y/y in Croatia and 31% y/y in Serbia. We will also see the first glimpse of May inflation figures in Slovenia and Poland. After accelerating towards the 2% mark in April, Slovenian inflation is expected to remain at a similar level; whereas Polish CPI print likely sped up to 5% y/y on the back of rising fuel and food prices.

Monday	Tuesday	Wednesday	Thursday	Friday
SI: 1Q21 GDP, CPI	CZ, HU: 1Q21 GDP	RO: PPI		SK: 1Q21 GDP
RS: 1Q21 GDP, Trade balance, Retail sales, Industry	PL: CPI			HU, SK, RO: Retail sales
HR: Industry	HU: Trade balance			CZ: Wages
PL: 1Q21 GDP	RO: Unemployment			
	HU: Bills		RO: 2024 Bonds	

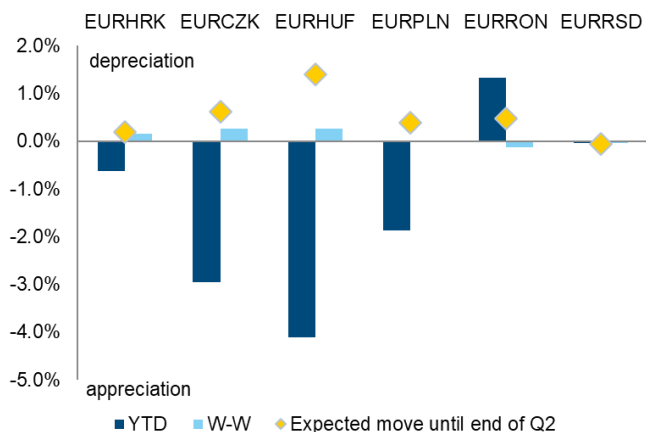
### CEE Recovery Index



In the second half of May, the CEE Recovery Index stabilized at a solid level, indicating an ongoing economic rebound. Mobility trends across the CEE region were mixed in the week ending with May 22, as mobility to grocery and retail stores went down slightly, while mobility to the workplace increased. Furthermore, air pollution went up as well. Due to data availability issues, we keep electricity consumption at an unchanged level from the end of April. All in all, 1Q21 GDP growth figures surprised to the upside across the region, suggesting that CEE economies weathered the winter round of restrictions well and are heading toward a strong rebound of economic activity in the coming quarters. For more details, please check our [website](#).

Source: Erste Group Research

## FX market

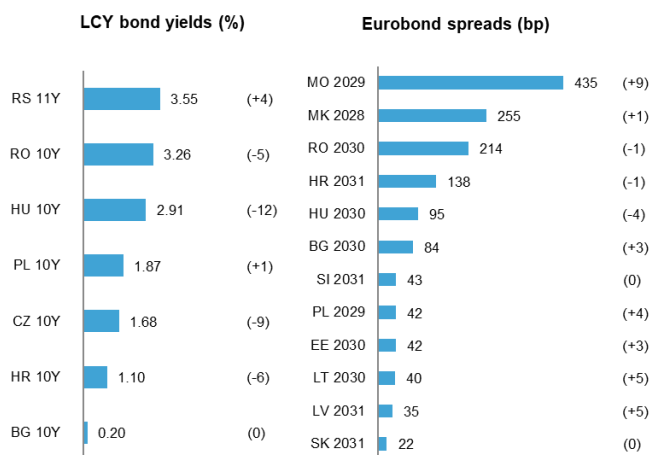


Source: Bloomberg, Erste Group Research

## FX market developments

Inflation developments and upcoming monetary tightening are currently the main currency drivers in the CEE region. Since the beginning of May, the Hungarian forint and Czech koruna were among the top three best performing EMEA currencies. The central bank meeting in Hungary was in line with market expectations, as the MNB kept the policy rate unchanged and reiterated its readiness to tighten monetary conditions. Although the forint appreciated quite visibly recently and moved below 350 vs. the EUR, we stick to our EURHUF forecast at 355. In the short term, the HUF might be characterized by increased volatility, while further FX development will strongly depend on the pace and scale of monetary tightening. Given the faster than earlier anticipated appreciation of the Czech koruna, we put our EURCZK forecast under revision and we expect some further strengthening to occur in the coming months. As far as the Romanian leu is concerned, we do not see much space left for further appreciation and the RON should stay above 4.9 vs. the EUR, in our view.

## LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

## Bond market developments

CEE government bonds followed the development on major markets and experienced a slight drop in yields last week. HGBs yields dropped the most visibly (10-15bp) on the 10-15Y segment, as the MPC meeting did not bring any surprises; we still expect the key rate and 1-week deposit rate to be merged at 0.9% at the June meeting. POLGBs were the only outlier, with yields edging up 10bp on the 2-5Y segment. The surprising result of last week's QE auction, in which the NBP accepted only PLN 2bn (out of PLN 6.8bn in bids), sparked speculation on potential tapering. Today, the NBP will announce the schedule of purchases for June and it will be important to observe whether the central bank will stick to two operations per month or scale it down to only one, which could indicate a potentially earlier end of the program than the year-end (our baseline). This week, the auction calendar will be relatively empty. The Czech MinFin will reopen its CZGBs 2031, 2032, 2040, Serbia will issue a 4Y bond and Hungary will sell 3M T-bills on top of its regular auctions.

## **In case you missed**

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HR: [1Q21 GDP](#) arrived at -0.7% y/y. We revised our growth forecast up by 0.5pp to 5% for 2021 and up by 1.5pp to 5.5% for 2022. April [retail sales](#) arrived in line with our expectations.

HU: [Central bank](#) kept policy rate unchanged and signaled approaching tightening.

PL: Industrial production arrived at 44.5% y/y in April, while retail sales came in at 25.7% y/y, affected by low base from last year.

RO: [Confidence in services](#) increased sharply in May.

## Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
31. May	9:00	HU	PPI (y/y)	Apr			9.62%	
	10:00	PL	GDP (y/y)	1Q F		-1.20%	-1.20%	Flash estimate to be confirmed
	10:30	SI	CPI (y/y)	May		1.90%	2.1%	After accelerating in April towards 2% level, inflation is expected to remain at similar levels in May
	10:30	SI	GDP (y/y)	1Q		0.00%	-4.50%	While pandemic is expected to affect overall economic activity in 1Q21, gradual relaxation of containment measures towards end of 1Q21 is seen providing some relief to headline figure
	11:00	HR	Industrial Production (y/y)	Apr		15.00%	9.90%	Low base effect pushing recovery trajectory to double-digit pace
	12:00	RS	Industrial Production (y/y)	Apr		31.00%	6%	Growth is expected to surge in April, due to pandemic-induced low base from 2020
	12:00	RS	Retail Sales (y/y)	Apr		22.00%	5.50%	Growth is set to accelerate as recovery continues, although base effect for April plays key role
	12:00	RS	Trade Balance	Apr			-493.6	
	12:00	RS	GDP (y/y)	1Q F		1.20%	1.20%	We expect stat office to confirm preliminary estimate
01. Jun		SK	Current Account Balance (monthly)	Apr			265	
	8:00	RO	Unemployment Rate	Apr			5.50%	
	9:00	CZ	GDP (y/y)	1Q P	-2.10%	-2.10%	-2.10%	Czech Statistical Office will publish first estimate of GDP components; we expect no change in overall economic story of subdued domestic demand; given overall uncertainty, revisions are possible
	9:00	HU	Trade Balance	Mar F			1013	
	9:00	HU	GDP (y/y)	1Q F	-2.30%	-2.30%	-2.30%	External demand and investments were probably most important drivers
	10:00	PL	CPI (y/y)	May P	4.90%	5.00%	4.30%	Rising fuel and food prices are expected to push headline inflation toward 5.0% y/y in May
02. Jun	8:00	RO	PPI (y/y)	Apr			4.84%	
04. Jun	8:00	RO	Retail Sales (y/y)	Apr		37.20%	-2.70%	School holiday effect offset by shopping spree ahead of orthodox Easter and higher fuel sales; large statistical base effect
	9:00	CZ	Wages (y/y)	1Q	1.30%	1.90%	3.80%	Labor market has remained tight; however, real wage growth is being negatively affected by high inflation
	9:00	HU	Retail Sales (y/y)	Apr		14.20%	-2.0%	Base effect from last year implies double-digit growth, while m/m index could also have been stronger, as economy started to reopen
	9:00	SK	Retail Sales (y/y)	Apr		16.50%	0.30%	Main driver was low base from April 2020 and easing of restrictions in second half of month
	9:00	SK	GDP (y/y)	1Q F	0.30%	0.30%	0.30%	We expect flash estimate to be confirmed

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	2021Q3	2021Q3	2021Q4	2022Q2
<b>Croatia 10Y</b>	0.5	0.5	0.5	0.5	0.6
spread (bps)	69	68	68	66	63
<b>Czechia 10Y</b>	1.7	1.8	1.8	1.9	2.0
spread (bps)	184	198	198	203	205
<b>Hungary 10Y</b>	2.9	2.9	2.9	2.9	3.0
spread (bps)	307	303	303	306	298
<b>Poland 10Y</b>	1.9	2.20	2.20	2.20	2.25
spread (bps)	204	238	238	236	228
<b>Romania 10Y</b>	3.3	3.5	3.5	3.5	3.6
spread (bps)	343	363	363	361	358
<b>Slovakia 10Y</b>	0.2	0.2	0.2	0.3	0.5
spread (bps)	34	33	33	46	53
<b>Slovenia 10Y</b>	0.19	0.10	0.10	0.10	0.20
spread (bps)	36	28	28	26	23
<b>Serbia 5Y</b>	2.5	2.2	2.2	2.2	2.1
spread (bps)	270	238	238	236	213
<b>DE10Y*</b>	-0.2	-0.2	-0.2	-0.2	0.0

\* Spreads based on Bloomberg consensus forecast

### 3M Money Market Rate

	current	2021Q3	2021Q3	2021Q4	2022Q2
<b>Czechia</b>	0.39	0.67	0.67	0.83	1.16
<b>Hungary</b>	0.91	0.95	0.95	0.95	0.95
<b>Poland</b>	0.21	0.21	0.21	0.21	0.21
<b>Romania</b>	1.54	1.60	1.60	1.60	1.65
<b>Serbia</b>	0.88	0.85	0.85	0.83	0.83
<b>Eurozone</b>	-0.54	-0.54	-0.54	-0.54	-

### Real GDP growth (%)

	2019	2020	2021f	2022f
<b>Croatia</b>	2.9	-8.0	5.0	5.5
<b>Czechia</b>	2.2	-5.6	3.7	4.4
<b>Hungary</b>	4.6	-5.0	6.9	4.1
<b>Poland</b>	4.7	-2.7	4.2	5.4
<b>Romania</b>	4.1	-3.9	6.7	4.5
<b>Serbia</b>	4.2	-1.0	6.0	4.0
<b>Slovakia</b>	2.5	-4.8	4.0	4.8
<b>Slovenia</b>	3.2	-5.5	4.4	4.1
<b>CEE8 avg</b>	3.9	-4.0	4.9	4.8

### Public debt (% of GDP)

	2019	2020	2021f	2022f
<b>Croatia</b>	72.8	88.7	87.2	84.3
<b>Czechia</b>	31.2	38.4	45.0	48.1
<b>Hungary</b>	65.5	80.4	78.7	76.9
<b>Poland</b>	45.6	57.5	57.0	55.0
<b>Romania</b>	35.3	47.3	49.6	50.8
<b>Serbia</b>	52.1	57.4	59.2	57.1
<b>Slovakia</b>	48.2	60.3	63.5	63.5
<b>Slovenia</b>	65.6	80.8	79.5	77.1
<b>CEE8 avg</b>	45.9	57.4	58.5	57.9

### FX

	current	2021Q3	2021Q3	2021Q4	2022Q2
<b>EURHRK</b>	7.51	7.53	7.53	7.53	7.48
<b>EURCZK</b>	25.47	25.54	25.54	25.36	24.94
<b>EURHUF</b>	348.03	355.00	355.00	355.00	355.00
<b>EURPLN</b>	4.48	4.48	4.48	4.46	4.42
<b>EURRON</b>	4.92	4.96	4.96	4.98	5.03
<b>EURRSD</b>	117.60	117.40	117.40	117.50	117.40
<b>EURUSD</b>	1.22	1.18	1.18	1.20	-

### Key Interest Rate

	current	2021Q3	2021Q3	2021Q4	2022Q2
<b>Croatia</b>	0.05	0.05	0.05	0.05	0.05
<b>Czechia</b>	0.25	0.50	0.50	0.75	1.00
<b>Hungary</b>	0.60	0.90	0.90	0.90	0.90
<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	-

### Average inflation (%)

	2019	2020	2021f	2022f
<b>Croatia</b>	0.8	0.1	1.7	1.6
<b>Czechia</b>	2.8	3.2	2.5	2.3
<b>Hungary</b>	3.4	3.3	4.2	3.2
<b>Poland</b>	2.3	3.4	4.0	3.5
<b>Romania</b>	3.8	2.7	3.7	3.0
<b>Serbia</b>	1.9	1.6	2.5	2.7
<b>Slovakia</b>	2.7	1.9	1.3	1.9
<b>Slovenia</b>	1.6	0.0	0.4	1.5
<b>CEE8 avg</b>	2.7	2.8	3.3	2.9

### C/A (%GDP)

	2019	2020	2021f	2022f
<b>Croatia</b>	2.8	-0.8	0.6	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	3.5	2.1	1.2
<b>Romania</b>	-4.9	-5.2	-5.9	-5.4
<b>Serbia</b>	-6.9	-4.3	-3.5	-3.6
<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	0.9	-0.1	-0.4

### Unemployment (%)

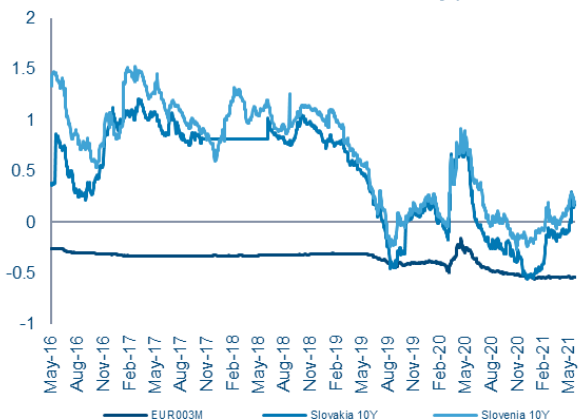
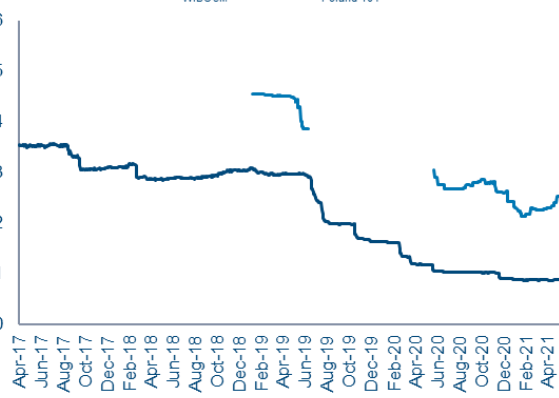
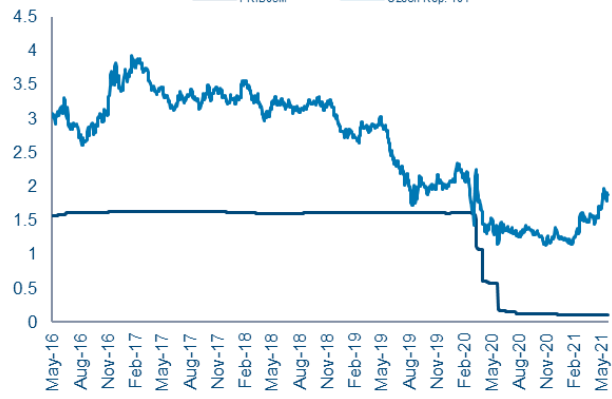
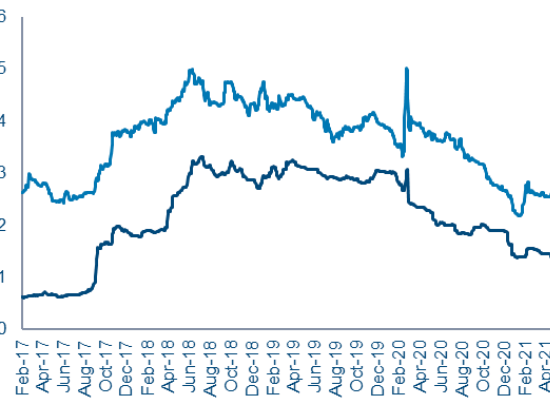
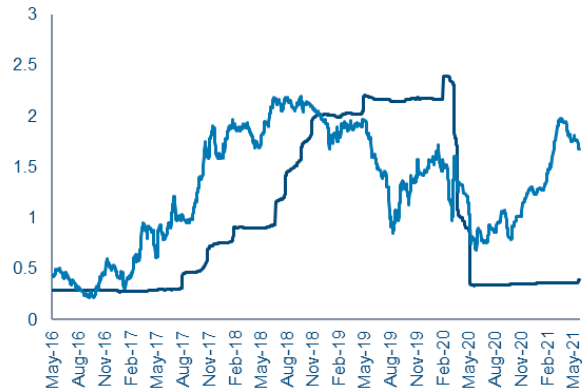
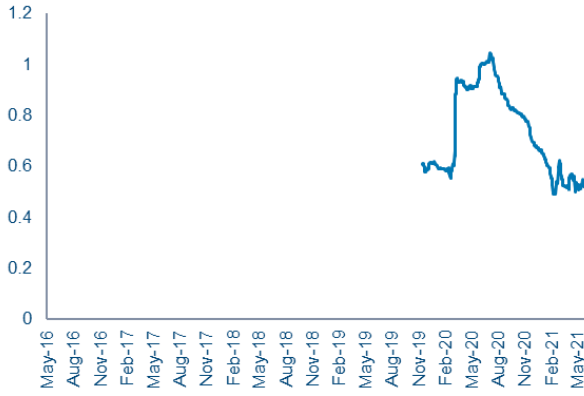
	2019	2020	2021f	2022f
<b>Croatia</b>	6.6	7.5	7.5	6.7
<b>Czechia</b>	2.0	2.6	3.4	2.8
<b>Hungary</b>	3.4	4.2	4.2	3.8
<b>Poland</b>	5.4	5.9	6.2	5.9
<b>Romania</b>	3.9	4.9	5.9	6.1
<b>Serbia</b>	10.4	9.0	8.9	8.5
<b>Slovakia</b>	5.8	6.7	7.0	6.0
<b>Slovenia</b>	4.4	5.1	5.2	4.9
<b>CEE8 avg</b>	4.6	5.2	5.7	5.3

### 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>	-2.1	-8.1	-7.4	-5.0
<b>Poland</b>	-0.7	-7.0	-4.5	-3.2
<b>Romania</b>	-4.4	-9.2	-7.8	-5.4
<b>Serbia</b>	-0.2	-8.0	-6.5	-1.6
<b>Slovakia</b>	-1.3	-6.1	-6.0	-4.0
<b>Slovenia</b>	0.5	-8.4	-6.0	-4.0
<b>CEE8 avg</b>	-1.2	-7.4	-6.0	-3.7

Source: Bloomberg, Erste Group Research

## Appendix



Source: Bloomberg, Erste Group Research

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**31 May 2021**

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