

CEE Market Insights

CEE inflation on an upward trajectory

This week in CEE

This week will be busy as we await a flood of data and two central bank meetings. Base effects continued to affect inflation prints in May. We expect Romanian CPI to have risen to almost 3.6% y/y, whereas Serbian inflation may have stood around the mid-point of the target band, at 3.1% y/y. Czech inflation likely went up to 3.2% y/y, slightly above the tolerance band, mainly as a result of the tight labor market and sound domestic demand. The headline CPI figure in Hungary probably reached its yearly peak at 5.3% y/y in May; and is expected to remain above the higher tolerance band of 4% this year. Romania will complete the list of 1Q21 GDP breakdowns. The Romanian economy likely contracted by 0.2% y/y, whilst marking a brisk 2.8% q/q growth on the back of strong service sector performance and household consumption. Strong base effects pushed up industrial production growth to the high double-digits in April – we expect it between 55.5% y/y and 71% y/y in Czechia, Slovakia and Hungary, whereas Slovenian industry likely marked a more moderate increase of 15% y/y. Czech retail sales are expected to have risen by 11.3% y/y in April, aided by better consumer sentiment, epidemiological situation and low base. Moreover, April trade balance will be published in Czechia, Slovakia, Romania, Hungary and Slovenia. Central bank meetings in Poland and Serbia are unlikely to bring any changes to the key rates, which should remain at 0.1% and 1%, respectively. However, indication of an earlier end of the Polish asset purchase program cannot be ruled out.

Monday	Tuesday	Wednesday	Thursday	Friday
CZ: Industry, Trade balance	RO: 1Q21 GDP	PL: Central bank	RS: Central bank	RO, RS: CPI
RS: PPI	CZ: Retail sales	HU: CPI	SK, SI: Industry	RO: Wages
	HU: Industry	RO, SK, HU, SI, HR: Trade balance	CZ: CPI	
RO: Bills, 2030 Bonds	SI: Bills	CZ: 2031,2032,2040 Bonds	RO: 2028 Bonds	
PL: BGK Bonds	RS: 2025 Bonds			

CEE Recovery Index

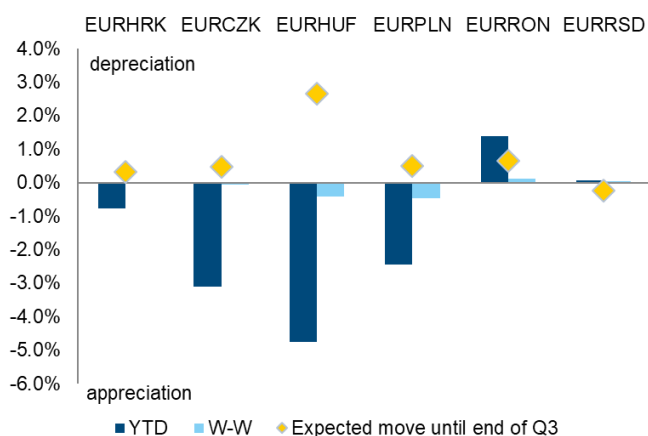


Source: Erste Group Research

After plateauing around 1 for two weeks in mid-May, the CEE Recovery Index fell slightly at the end of last month. Yet, the nascent economic rebound continues amidst an improving epidemiological situation, continued vaccine rollout and easing of containment measures. Mobility to grocery stores inched down marginally, while mobility to retail stores and workplaces moved in the opposite direction. Workplace mobility reached its highest value this year. On the other hand, air pollution dropped visibly, dragging down the overall Recovery Index. Due to data availability issues, we have kept electricity consumption unchanged for the last two weeks. Overall, the CEE Recovery Index bodes well for the ongoing economic recovery in 2Q21 thus far.

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

FX market

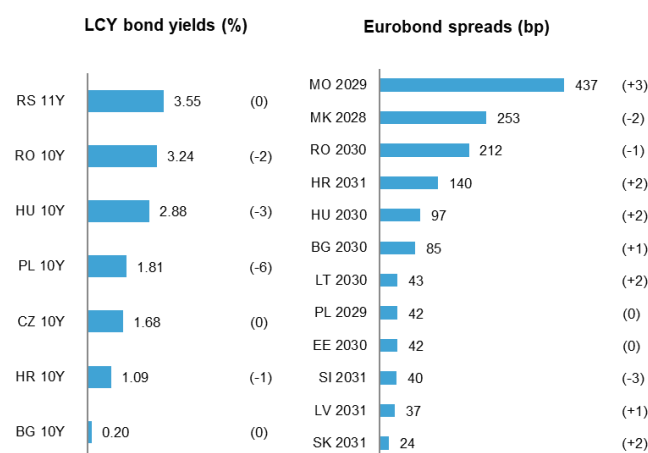


Source: Bloomberg, Erste Group Research

FX market developments

CEE currencies continued in their appreciation vs. the euro last week, fueled by bets on an earlier start of monetary tightening. The Hungarian forint gained the most vs. the euro, but at the same time it has become extremely volatile. This could be seen in the second half of the previous week, when the EURHUF corrected after the release of very strong labor market data in the US. For the further development of CEE currencies, it will be decisive whether central banks will walk the talk. Given that markets have already priced in some tightening, any moderation of language could result in currency weakening. The first country to face the test will be Poland, where the central bank will decide on rates this week. We do not expect any change of rates at this meeting, but the wording and further downsizing or indication of an earlier stop of the QE program may signal a readiness to lift rates already this year. The pressure to do so could be even higher if the Hungarian and Czech central banks deliver their first hikes already this month (on June 22-23).

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Last week, there were hardly any movements in CEE sovereign bond yields. The European Commission published its assessment of Convergence/Stability programs last week, in which they recommended that fiscal policy be supportive this year and that warning be given before premature withdrawal of stimulus/pandemic measures. Regarding the start of the consolidation, the EC has not communicated any date, just very vaguely called for a differentiated approach, taking into account the stage of the economic recovery and urgency to fix public finances (countries with high medium-term risks). All countries have been encouraged to maximize the benefits of NGEU funds and boost investments. An explicit recommendation was provided to Romania, which is the only country under the Excessive Deficit Procedure (EDP). Romania was asked to reduce its fiscal deficit below 3% of GDP by 2024, and the consolidation path proposed is very similar the one proposed by the government. Although the path is very ambitious, putting some of the intended reforms into milestones of the National Recovery Plan could incentivize policy-makers (via sweeteners) to implement them.

In case you missed

PL: [Upward revision of FY21 GDP](#) growth forecast after stronger 1Q21; [May inflation](#) rose further

SK: Foreign demand supported the [Slovak economy in 1Q21](#); April [retail sales](#) missed expectations

CZ: 1Q21 slight [decrease in GDP confirmed](#)

HU: [External demand an important growth driver](#) in 1Q21; strong [growth of retail sales](#) in April

SI: 1Q21 [GDP headline figure surprised on the upside](#)

RS: [GDP revised upwards](#) by 0.5pp to 1.7% y/y; [industry confirmed expectations](#) and [retail trade surges](#) in April

RO: Easter [retail trade surge](#) in April

CEE: [OECD outlook](#) shows uneven global recovery; May [manufacturing PMIs](#) bring good news

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
07.Jun		CZ	Industrial Production (y/y)	Apr		55.5%	14.9%	Industrial output driven by foreign demand. The y/y growth is significantly affected by the base effect.
		CZ	Trade Balance	Apr		16	16.3	Improved foreign demand implied high surplus in foreign trade.
	12:00	RS	PPI (y/y)	May			7.0%	
08.Jun	8:00	RO	GDP (y/y)	1Q P	-0.2%	-0.2%	-0.2%	We expect 1Q21 GDP growth to be reconfirmed and the breakdown to show services as the main growth driver.
	9:00	CZ	Retail Sales (y/y)	Apr	10.46%	11.3%	6.6%	Improved sentiment of households and pandemic weakening stem behind favorable growth of retail sales. The y/y figure affected by the base effect.
	9:00	HU	Industrial Production (y/y)	Apr	69.53%	71.0%	16.2%	Pandemic crisis had sharply affected the sector last April, creating an extremely low base figure for April 2021. On monthly level, industry probably slightly improved.
09.Jun		PL	Central Bank Rate	Jun	0.1%	0.1%	0.1%	Central bank to remain on hold at June's meeting. However, changes to asset purchases program cannot be ruled out after NBP rejected almost all bids at the latest tender.
	8:00	RO	Trade Balance	Apr			-1179.3	
	9:00	HU	CPI (y/y)	May	5.3%	5.3%	5.1%	The headline CPI rate probably reached its yearly peak in May. Food, fuel and services prices were the most important monthly drivers.
	9:00	HU	Trade Balance	Apr P			876	
	9:00	SK	Trade Balance	Apr		16	595.34	The easing of restrictions caused rising imports and a lower positive trade balance.
	10:30	SI	Trade Balance	Apr			0.12	
	11:00	HR	Trade Balance	Mar			-6051	
10.Jun		SK	Industrial Production (y/y)	Apr		68.0%	24.6%	Good performance of the industry combined with a low base resulted in high year-over-year growth.
	9:00	CZ	CPI (y/y)	May	3.13%	3.2%	3.1%	Inflation remains above the tolerance band, mainly as a result of tight labor market and sound domestic demand.
	10:30	SI	Industrial Production (y/y)	Apr		15.0%	8.5%	Industrial production recovery expected to further accelerate in April
	12:00	RS	Central Bank Rate	Jun		1.00%	1%	We expect the CB to remain on hold
11.Jun	8:00	RO	CPI (y/y)	May	3.55%	3.57%	3.24%	We expect annual inflation to inch up on low statistical base effects. Higher fuel prices and seasonal increase in fresh fruit and vegetables behind the monthly CPI rise.
	8:00	RO	Wages (y/y)	Apr			7.68%	
	12:00	RS	CPI (y/y)	May		3.1%	2.8%	We see stable monthly CPI developments, hence due to low base effects the yearly figure should land around the mid point of the target band.

Source: Erste Group Research

Analyst:

Juraj Kotian
+43 (0)5 0100 17357
juraj.kotian@erstegroup.com

Note: Past performance is not necessarily indicative of future results

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

Forecasts

Government bond yields

	current	2021Q3	2021Q4	2022Q1	2022Q2
Croatia 10Y	0.5	0.5	0.5	0.6	0.6
spread (bps)	72	68	66	68	63
Czechia 10Y	1.7	1.8	1.9	2.0	2.0
spread (bps)	189	198	203	203	205
Hungary 10Y	2.9	2.9	2.9	2.9	3.0
spread (bps)	309	303	306	298	298
Poland 10Y	1.8	2.20	2.40	2.50	2.60
spread (bps)	202	238	256	258	263
Romania 10Y	3.2	3.5	3.5	3.5	3.6
spread (bps)	345	363	361	358	358
Slovakia 10Y	0.2	0.2	0.3	0.4	0.5
spread (bps)	37	33	46	43	53
Slovenia 10Y	0.14	0.10	0.10	0.20	0.20
spread (bps)	35	28	26	28	23
Serbia 5Y	2.5	2.2	2.2	2.1	2.1
spread (bps)	270	238	236	218	213
DE10Y*	-0.2	-0.2	-0.2	-0.1	0.0

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2021Q3	2021Q4	2022Q1	2022Q2
Czechia	0.40	0.67	0.83	0.92	1.16
Hungary	0.92	0.95	0.95	0.95	0.95
Poland	0.21	0.21	0.35	0.50	0.60
Romania	1.50	1.60	1.60	1.65	1.65
Serbia	0.88	0.85	0.83	0.83	0.83
Eurozone	-0.55	-0.54	-0.54	-0.54	-0.54

Real GDP growth (%)

	2019	2020	2021f	2022f
Croatia	2.9	-8.0	5.0	5.5
Czechia	2.2	-5.6	3.7	4.4
Hungary	4.6	-5.0	6.9	4.1
Poland	4.7	-2.7	4.8	5.4
Romania	4.1	-3.9	6.7	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	5.0	4.8
CEE8 avg	3.9	-4.0	5.1	4.8

Public debt (% of GDP)

	2019	2020	2021f	2022f
Croatia	72.8	88.7	87.2	84.3
Czechia	31.2	38.4	45.0	48.1
Hungary	65.5	80.4	78.7	76.9
Poland	45.6	57.5	57.0	55.0
Romania	35.3	47.3	49.6	50.8
Serbia	52.1	57.4	59.2	57.1
Slovakia	48.2	60.3	63.5	63.5
Slovenia	65.6	80.8	79.7	76.8
CEE8 avg	45.9	57.4	58.5	57.9

FX

	current	2021Q3	2021Q4	2022Q1	2022Q2
EURHRK	7.50	7.53	7.53	7.53	7.48
EURCZK	25.43	25.54	25.36	25.08	24.94
EURHUF	346.10	355.00	355.00	355.00	355.00
EURPLN	4.46	4.48	4.42	4.38	4.35
EURRON	4.92	4.96	4.98	4.99	5.03
EURRSD	117.60	117.40	117.50	117.50	117.40
EURUSD	1.22	1.18	1.20	1.20	1.22

Key Interest Rate

	current	2021Q3	2021Q4	2022Q1	2022Q2
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	0.25	0.50	0.75	0.75	1.00
Hungary	0.60	0.90	0.90	0.90	0.90
Poland	0.10	0.10	0.25	0.25	0.50
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	1.7	1.6
Czechia	2.8	3.2	2.5	2.3
Hungary	3.4	3.3	4.2	3.2
Poland	2.3	3.4	4.0	3.5
Romania	3.8	2.7	3.7	3.0
Serbia	1.9	1.6	2.5	2.7
Slovakia	2.7	1.9	1.6	1.8
Slovenia	1.6	0.0	1.2	1.5
CEE8 avg	2.7	2.8	3.3	2.9

C/A (%GDP)

	2019	2020	2021f	2022f
Croatia	2.8	-0.8	0.6	0.4
Czechia	-0.3	3.2	0.2	0.3
Hungary	-0.5	0.1	-0.2	-0.3
Poland	0.5	3.5	2.1	1.2
Romania	-4.9	-5.2	-5.9	-5.4
Serbia	-6.9	-4.3	-3.5	-3.6
Slovakia	-2.7	-2.7	-1.6	-0.9
Slovenia	5.6	7.3	6.6	5.8
CEE8 avg	-0.8	0.9	-0.1	-0.4

Unemployment (%)

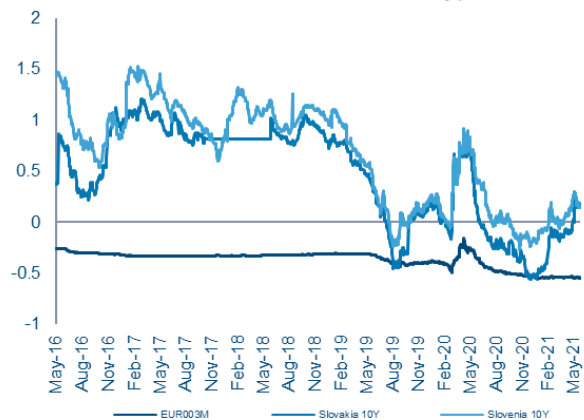
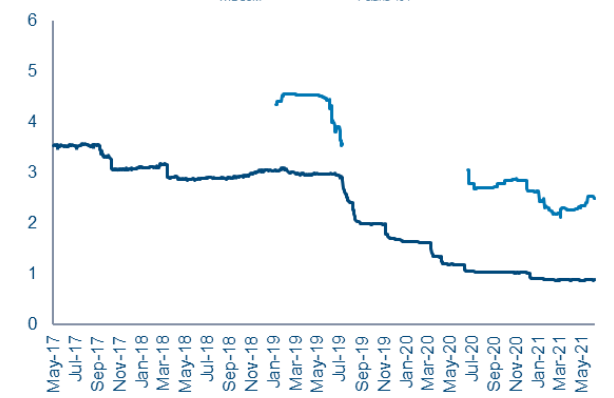
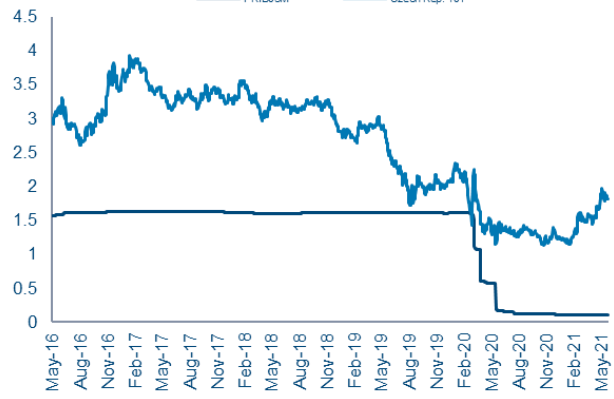
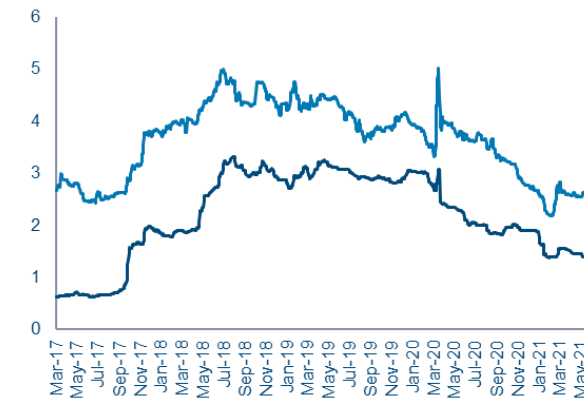
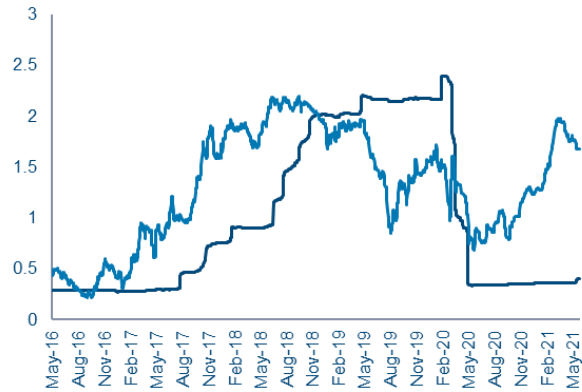
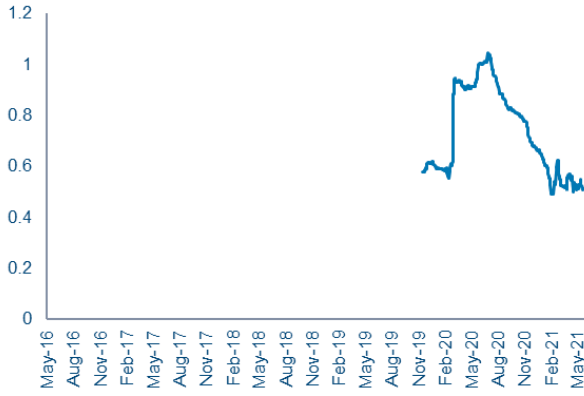
	2019	2020	2021f	2022f
Croatia	6.6	7.5	7.5	6.7
Czechia	2.0	2.6	3.4	2.8
Hungary	3.4	4.2	4.2	3.8
Poland	5.4	5.9	6.2	5.9
Romania	3.9	4.9	5.9	6.1
Serbia	10.4	9.0	8.9	8.5
Slovakia	5.8	6.7	7.0	6.0
Slovenia	4.4	5.0	5.0	4.8
CEE8 avg	4.6	5.2	5.7	5.3

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	-4.5	-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	-8.4	-7.0	-4.5
CEE8 avg	-1.2	-7.4	-6.0	-3.7

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Market Insights
7 June 2021

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 Klafen +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 Hoblaj +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 Hoblaj +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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