



# National Bank of Poland to keep key rate flat

The central bank to stay on hold but any change in the monetary policy setup cannot be ruled out. Friday's conference of the Governor could bring more clarity about interest rate outlook. 5Y inflation average to hit the target in September, justifying policy normalization in 4Q21.

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## Watch this week

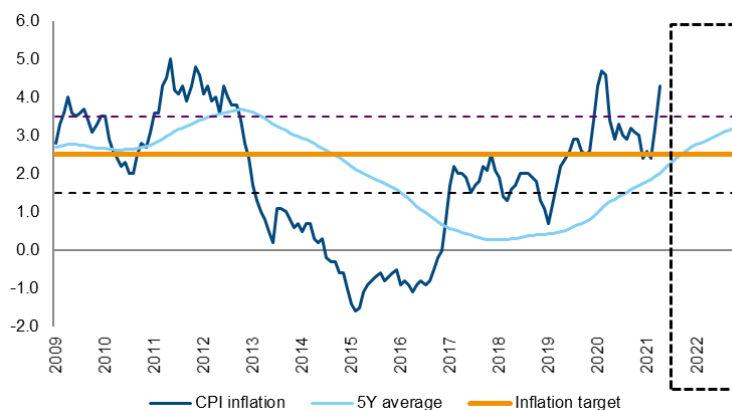
### June 9 | Central bank to remain on hold

We expect the National Bank of Poland to keep key rate unchanged at 0.1% at this week's meeting. Despite surging inflation and strong economic rebound we believe the NBP will most likely wait until November inflation and growth projections are out and would react only afterwards. However, any change in the monetary policy setup already in June cannot be ruled out. As inflation is expected to stay above the upper bound of the central bank's target until the yearend and likely at the beginning of next year, NBP could deliver a 15bp hike to anchor inflation expectations. Whereas such marginal increase of the key rate would signal central bank's readiness to react, it would likely not negatively affect the economic rebound. Furthermore, this month's central banks meetings in Czechia and Hungary could be decisive for the future monetary decisions in Poland. If regional central banks begin policy normalization as early as in June, it would be difficult for the NBP to defend its loose policy setup. All in all, if inflation stays elevated around current level the 5Y inflation average will hit the central bank's target at 2.5% in September 2021, while 5Y core inflation average will reach that level in April 2022, justifying policy normalization any time between 4Q21 and 1Q22.

It will be interesting to observe Friday's press conference of Governor Glapinski, who will likely address recent surge in inflation and better than expected economic growth in 1Q21. Moreover, we could get more insights on the possible tapering of the asset purchase program given recent lower activity of the NBP on the bond market and the rejection of most of the bids at the latest tender. As the NBP announced that it will hold only one QE auction in June after holding two in April-May, we expect the central bank to end its QE program after July projection is out.

### 5Y inflation average will hit the target in Sep 2021

Inflation headline and 5Y average, inflation target (%)



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Note: Past performance is not necessarily indicative of future results.

Source: Erste Group Research

## Last week's highlights

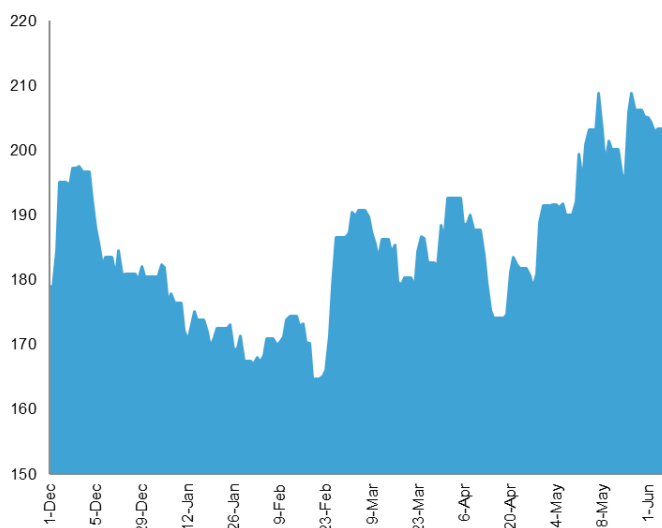
- [1Q21 GDP growth](#) has been revised up to -0.9% y/y (+1.1% q/q s.a.). Household consumption stood at 0.2% y/y, while investment growth surprised to the upside and arrived at 1.3% y/y. Domestic demand added 1.0pp to the headline figure, while net export shaved off 1.9pp. We revised our FY21 GDP growth forecast up to 4.8% with risks to the upside.
- [Flash inflation](#) jumped to 4.8% y/y in May on the back of rising food and energy prices.
- According to preliminary data unemployment rate dropped by 0.2pp to 6.1% in May.

## Market developments

### Bond market drivers | 10Y yield stabilized around 1.85%

Last week, there were hardly any movements in CEE sovereign bond yields. The long end of the Polish yield curve moved close to 1.85%, while the spread against the 10Y German Bund stayed close to 205bp. While the long-end of the curve remained broadly unchanged, market expectations for monetary tightening are pushing the short-end further up. The 2Y Polish yield went up by almost 30bp since mid-May and moved toward 0.4% resulting in a visible flattening of the Polish LCY curve. Markets' expectations for policy normalization are broadly in line with our forecasts as 10-15bp hike is priced-in by the end of the year, while key rate could increase by a total of 60-65bp within a year. State-development bank BGK sold papers worth PLN 2.3bn at the first auction this month. So far BGK sold bonds worth around PLN 23bn since the beginning of the year. Second BGK auction is planned for June, 30. This week, central bank meeting and Governor Glapinski's press conference will be the key events. We expect the MPC to remain on hold but any adjustment to the monetary policy setup cannot be ruled out. Separately, Polish MinFin will hold the first out of two planned for this month switch auctions at the end of the week.

Spread vs. German Bund (bp)



Source: Bloomberg, Erste Group Research

EURPLN



Source: Bloomberg, Erste Group Research

### **FX market drivers | Zloty awaits the MPC meeting**

Over the course of the week, zloty followed other CEE currencies and continued to appreciate, fueled by bets of an earlier start of monetary tightening. EURPLN moved toward 4.46, which is the strongest level since mid-December when the central bank intervened on the FX market in order to tame zloty's appreciation. Given that markets have already priced in some tightening, any moderation of central bank's rhetoric could result in currency weakening. On the other hand, US CPI data for May and the ECB's Governing Council meeting could both bring a surprise and thus affect the US dollar and the zloty. US consumer prices jumped surprisingly strongly in April on the back of price increases triggered by the ramp-up of the economy. Markets will be closely watching the pace of inflation and the sectors from which the increases are coming from. The ECB Council will decide on the pace of its asset purchases under PEPP in the third quarter, also on Thursday. We expect the elevated level of purchases to be extended from the second to the third quarter. But the outcome bears some uncertainty due to the ECB's very vague guidelines and contradicting statements by ECB officials recently. Should the ECB lower asset purchases, the EURUSD is likely to rise, what would be positive for the zloty.

## Upcoming in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
08.Jun	8:00	RO	GDP (y/y)	1Q P	-0.2%	<b>-0.2%</b>	-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%	<b>11.3%</b>	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%	<b>71.0%</b>	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%	<b>0.1%</b>	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%	<b>5.3%</b>	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		<b>16</b>	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		<b>68.0%</b>	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%	<b>3.2%</b>	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		<b>15.0%</b>	8.5%	Industrial production recovery expected to further accelerate in April
	12:00	RS	Central Bank Rate	Jun		<b>1.00%</b>	1%	We expect the CB to remain on hold
11.Jun	8:00	RO	CPI (y/y)	May	3.55%	<b>3.57%</b>	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		<b>3.1%</b>	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: Bloomberg, Erste Group Research

## Forecasts

### Government bond yields

	current	2021Q3	2021Q4	2022Q1	2022Q2
<b>Croatia 10Y</b>	0.5	0.5	0.5	0.6	0.6
spread (bps)	72	68	66	68	63
<b>Czechia 10Y</b>	1.7	1.8	1.9	2.0	2.0
spread (bps)	189	198	203	203	205
<b>Hungary 10Y</b>	2.9	2.9	2.9	2.9	3.0
spread (bps)	309	303	306	298	298
<b>Poland 10Y</b>	1.8	2.20	2.40	2.50	2.60
spread (bps)	202	238	256	258	263
<b>Romania10Y</b>	3.2	3.5	3.5	3.5	3.6
spread (bps)	345	363	361	358	358
<b>Slovakia 10Y</b>	0.2	0.2	0.3	0.4	0.5
spread (bps)	37	33	46	43	53
<b>Slovenia 10Y</b>	0.14	0.10	0.10	0.20	0.20
spread (bps)	35	28	26	28	23
<b>Serbia 5Y</b>	2.5	2.2	2.2	2.1	2.1
spread (bps)	270	238	236	218	213
<b>DE10Y*</b>	-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
<b>Czechia</b>	0.40	0.67	0.83	0.92	1.16
<b>Hungary</b>	0.92	0.95	0.95	0.95	0.95
<b>Poland</b>	0.21	0.21	0.35	0.50	0.60
<b>Romania</b>	1.50	1.60	1.60	1.65	1.65
<b>Serbia</b>	0.88	0.85	0.83	0.83	0.83
<b>Eurozone</b>	-0.55	-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	4.8	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	5.0	4.8
<b>CEE8 avg</b>	3.9	-4.0	5.1	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	79.7	76.8
<b>CEE8 avg</b>	45.9	57.4	58.5	57.9

### FX

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

### Key Interest Rate

	current	2021Q3	2021Q4	2022Q1	2022Q2
<b>Croatia</b>	0.05	0.05	0.05	0.05	0.05
<b>Czechia</b>	0.25	0.50	0.75	0.75	1.00
<b>Hungary</b>	0.60	0.90	0.90	0.90	0.90
<b>Poland</b>	0.10	0.10	0.25	0.25	0.50
<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	1.7	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	1.6	1.8
<b>Slovenia</b>	1.6	0.0	1.2	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	6.6	5.8
<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	5.0	5.0	4.8
<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	-7.0	-4.5
<b>CEE8 avg</b>	-1.2	-7.4	-6.0	-3.7

Source: Bloomberg, Erste Group Research

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**CEE Country Update | Poland | Weekly Focus**  
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