

Central bank to hold steady course

MPC meeting should not bring any material change in monetary policy setup. We expect key rate to remain unchanged at 0.1%. New projection should show visibly higher inflation path this year. First policy normalization step could take place at earliest in 4Q21.

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Watch this week

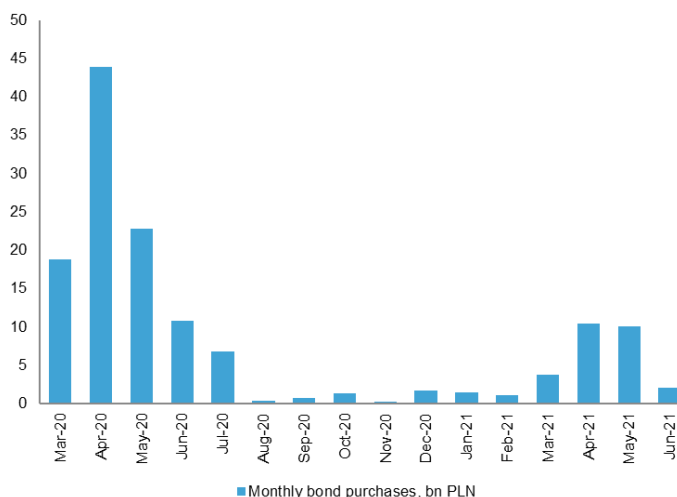
July 8 | Central bank to keep rates unchanged

At the last MPC meeting before the summer break, we do not expect any change in monetary policy setup and the key rate will most likely remain unchanged at 0.1%. Moreover, the central bank will present the main findings of the new inflation and growth projection; the full report is due on July 12. The new forecast should show a visibly higher inflation trajectory compared to the March figures, while GDP growth could remain broadly unchanged or be revised only marginally. Within the March projection, the National Bank of Poland saw inflation at 3.6% this and next year, while growth was expected at 5.3% and 6.9% in 2021 and 2022, respectively. In our view, the November projection will be crucial for the monetary policy outlook in Poland. If both headline and core inflation remains persistently outside of the tolerance band, the central bank will react. In an interview with the FT, Governor Glapinski reiterated that, if in the coming quarters we see demand-driven inflation, the NBP will react. The governor thinks that this could happen no earlier than in autumn this year or only in mid-2022.

Thus, we expect the first 15bp interest rate hike at the earliest in November 2021. However, June inflation (at 4.4% y/y), which came in below market expectations, could delay the start of policy normalization to 1Q22 or even 2Q22. Moreover, the NBP will continue asset purchases in July and hold one QE tender on July 16. Following the MPC meeting, Governor Glapinski is scheduled to hold a press conference on Friday July 9.

NBP monthly bond purchases

Purchases, bn PLN



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

Source: NBP, Erste Group Research

Last week's highlights

- [Inflation](#) eased more than expected in June as flash CPI arrived at 4.4% y/y (down from 4.7% y/y in May).
- PMI surged to record high in June and arrived at 59.4 (up from 57.2 in May).
- MPC member Zubelewicz said that, in order to stabilize inflation around the target, the key rate should be somewhere around 2.5%.
- Governor Glapinski said that there is nothing 'worrying' about current inflation, as it is transitory and driven by external factors. He added that, if those factors are subtracted from current headline figure, inflation would land close to 2.5%.

Market developments

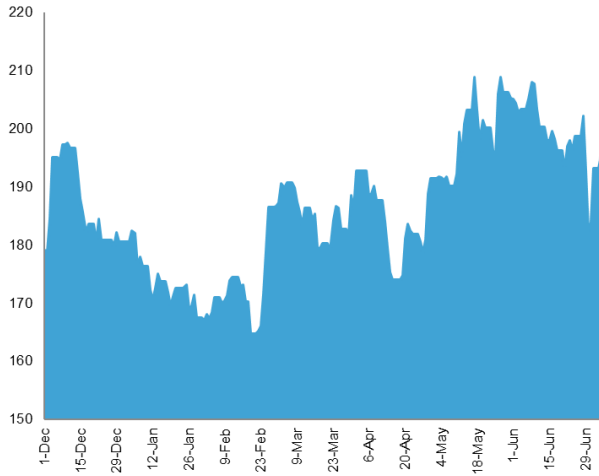
Bond market drivers | 10Y yield down on lower CPI

Following the publication of flash inflation for June, which came in below market expectations and supports the dovish stance of the central bank, the long end of the Polish curve went down by almost 20bp. Stronger than expected easing of inflation in June could thus delay the start of policy normalization in Poland. Nevertheless, the markets are pricing in a 10-15bp hike by the end of the year. The drop on the long end was likely amplified by core market development, where the 10Y German Bund decreased by 7bp over the course of the week. However, by the end of the week the 10Y Polish yield went up by almost 10bp to around 1.7%. As a result, the spread against the 10Y Bund was quite volatile and dropped from 200bp to slightly above 180bp and came back to just below 200bp by the end of the week. Separately, the Polish MinFin announced the bond supply for 3Q21 and auction calendar for July. Supply should reach PLN 3-14bn in 3Q21. The MinFin plans to hold 1-2 regular auctions and 3-4 switch auctions. State development bank BGK will hold two auctions this month (July 14 and July 28). Moreover, BGK increased this year's planned supply by PLN 6.5bn to PLN 39.7bn. So far this year BGK issued COVID-19 papers worth around PLN 25bn, while since the start of the pandemic the issuance reached PLN 125bn (5% of GDP). Last but not least, the NBP will hold a QE tender on July 16.

FX market drivers | EURPLN stayed on weaker side of 4.50

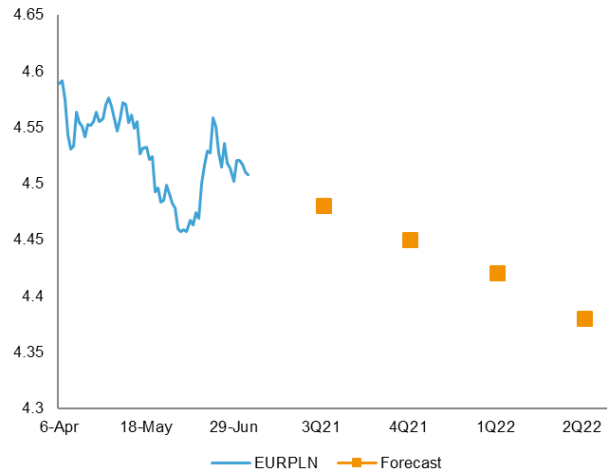
Over the course of the week, global concerns over the spread of the Delta variant of the coronavirus were positive for the US dollar, which strengthened and moved below 1.19 vs. the EUR. The zloty somewhat depreciated, but overall remained locked in a narrow range between 4.50-4.52 vs. the EUR. Although the publication of flash inflation for June could delay the start of policy normalization, the zloty did not weaken considerably afterwards. In the coming weeks, we expect the zloty to slightly strengthen, with more visible appreciation in 4Q21 in line with the first interest rate hike. We see the EURPLN at 4.45 by year-end.

Spread vs. German Bund (bp)



Source: Bloomberg, Erste Group Research

EURPLN



Source: Bloomberg, Erste Group Research

Upcoming in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
06.Jul	8:00	RO	Retail Sales (y/y)	May		20.10%	6.80%	Higher confidence among retail managers in recent months, as business restrictions were eased.
	9:00	HU	Retail Sales (y/y)	May		4.3%	10.60%	Retail sales probably rebounded both on yearly and monthly level, in parallel with reopening.
	9:00	SK	Retail Sales (y/y)	May		15.00%	11.50%	Growth expected, especially in specialized stores. Overall result affected by base effect.
07.Jul		CZ	Industrial Production (y/y)	May	34.90%	33.40%	55.10%	Favorable development of foreign demand together with base effect results in high y/y growth of industrial production. On other hand, firms still face lack of several intermediate goods.
		CZ	Trade Balance	May		25.1	16.3	Sound development of foreign demand stands behind high surplus in foreign trade. However, increase in oil prices and improving domestic demand mitigate overall figure.
		RO	Central Bank Rate	Jul	1.25%	1.25%	1.25%	Flat key rate and possible hints on regular deposit taking open market operations.
	9:00	HU	Industrial Production (y/y)	May		36.50%	59.20%	Still supportive base effect from last year implies outstanding yearly growth rate. On monthly level, performance probably slightly increased.
	12:00	RS	PPI (y/y)	Jun			9.5%	
08.Jul		PL	Central Bank Rate	Jul	0.10%	0.1%	0.10%	Central bank to keep key rate unchanged. Some tightening step could be considered in 4Q21.
	8:00	RO	GDP (q/q)	1Q F		2.80%	2.84%	We expect 1Q21 GDP growth to be reconfirmed and breakdown to show services as main growth driver.
	8:00	RO	GDP (y/y)	1Q F	-0.20%	-0.2%	-0.20%	
	9:00	CZ	Retail Sales (y/y)	May		5.00%	7.5%	Growth of retail sales is positively affected by tight labor market and positive sentiment of households. Moreover, households have high savings from 2020, which have become another important factor supporting current retail sales development.
	9:00	HU	CPI (y/y)	Jun	4.80%	5.20%	5.10%	Headline rate might have remained above 5% before slowdown expected for July.
	11:00	HR	PPI (y/y)	Jun			7.60%	
	12:00	RS	Central Bank Rate	Jul		1.00%	1.00%	We expect NBS to remain on hold
	09.Jul		SK	Industrial Production (y/y)	May		32.00%	69.80%
9:00		SK	Trade Balance	May		79	552.3	We expect semiconductor problems to be seen in export values, but partially offset by stocks.
10:30		SI	Industrial Production (y/y)	May		13.00%	35.90%	Industrial production expected to maintain double-digit growth dynamics in May
10:30		SI	Trade Balance	May			-5.00%	
11:00		HR	Trade Balance	Apr			-6504	

Source: Bloomberg, Erste Group Research

Forecasts

Government bond yields

	current	2021Q3	2021Q4	2022Q1	2022Q2
Croatia 10Y	0.5	0.5	0.5	0.6	0.6
spread (bps)	75	63	54	64	59
Czechia 10Y	1.7	1.8	1.9	2.0	2.1
spread (bps)	195	194	195	206	211
Hungary 10Y	2.9	2.9	3.0	3.0	3.1
spread (bps)	309	301	299	304	308
Poland 10Y	1.7	1.80	1.90	2.00	2.10
spread (bps)	194	193	194	204	209
Romania 10Y	3.5	3.5	3.5	3.5	3.6
spread (bps)	368	358	349	354	354
Slovakia 10Y	0.1	0.2	0.3	0.4	0.5
spread (bps)	34	28	34	39	49
Slovenia 10Y	0.06	0.15	0.15	0.25	0.35
spread (bps)	28	28	19	29	34
Serbia 5Y	2.1	2.3	2.2	2.1	2.1
spread (bps)	237	243	224	214	209
DE10Y*	-0.2	-0.1	0.0	0.0	0.0

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2021Q3	2021Q4	2022Q1	2022Q2
Czechia	0.66	0.59	0.86	1.13	1.39
Hungary	1.05	1.35	1.50	1.50	1.50
Poland	0.21	0.21	0.35	0.35	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	4.3
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	38.1	44.4	46.8
Hungary	65.5	80.4	77.7	76.0
Poland	45.6	57.5	57.0	55.0
Romania	35.3	47.3	49.6	50.8
Serbia	52.1	57.4	59.1	58.4
Slovakia	48.2	60.3	63.5	63.5
Slovenia	65.6	80.8	79.7	76.3
CEE8 avg	45.9	57.4	58.3	57.7

FX

	current	2021Q3	2021Q4	2022Q1	2022Q2
EURHRK	7.49	7.53	7.53	7.53	7.48
EURCZK	25.55	25.35	25.25	25.14	24.98
EURHUF	351.30	350.00	350.00	350.00	350.00
EURPLN	4.51	4.48	4.45	4.42	4.38
EURRON	4.93	4.94	4.98	4.99	5.03
EURRSD	117.58	117.50	117.60	117.55	117.50
EURUSD	1.19	1.18	1.20	1.20	1.20

Key Interest Rate

	current	2021Q3	2021Q4	2022Q1	2022Q2
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	0.50	0.50	0.75	1.00	1.25
Hungary	0.90	1.35	1.50	1.50	1.50
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	3.1	2.4
Hungary	3.4	3.3	4.3	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	1.3	1.5
CEE8 avg	2.7	2.8	3.4	2.9

C/A (%GDP)

	2019	2020	2021f	2022f
Croatia	2.8	-0.8	0.6	0.4
Czechia	-0.3	3.2	0.7	0.3
Hungary	-0.5	-0.1	-0.1	0.1
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	7.1	6.3	5.5
CEE8 avg	-0.8	0.9	0.0	-0.4

Unemployment (%)

	2019	2020	2021f	2022f
Croatia	6.6	7.5	7.5	6.7
Czechia	2.0	2.6	3.3	2.7
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	5.6	5.3

Budget Balance (%GDP)

	2019	2020	2021f	2022f
Croatia	0.3	-7.4	-4.2	-3.0
Czechia	0.3	-6.2	-7.2	-3.5
Hungary	-2.1	-8.1	-7.1	-5.5
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	-3.0
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	-3.9

Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Country Update | Poland | Weekly Focus
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