

CEE Market Insights

How did Polish economy perform in June?

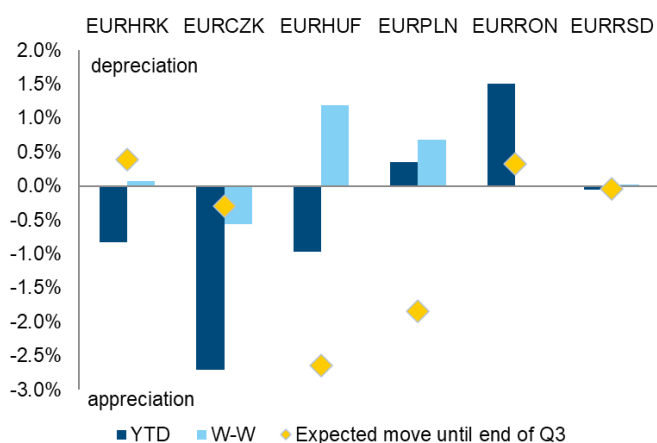
This week in CEE

Polish real economy data for June will be in the spotlight this week. Industrial production is expected to have risen by 16.4% y/y, sustaining solid double-digit dynamics on the back of record-high PMI print for June and a very mild base effect. However, supply-side bottlenecks and prolonged delivery times could have weighed down on industrial output to some extent. Polish retail sales growth likely benefited from good consumer sentiment and further easing of restrictions; thus it may have reached 11.2% y/y last month. Wage growth may be close to 8.6% y/y, as last year's low base was still at play. Moreover, we will see June unemployment data for Croatia, Slovakia and Poland. Given the favorable pandemic situation and broader reopening of economic activity, particularly in the service sector, unemployment rates likely went down – inching down by 0.1pp to 7.8% and 6% in Slovakia and Poland, respectively, and improving more visibly from 8.2% to 7.5% in Croatia. Last but not least, producer price growth in Czechia and Poland likely further accelerated in June, with higher oil prices remaining a key factor in PPI inflation.

| Monday | Tuesday | Wednesday | Thursday | Friday |
|--|---|---|------------------------------|---|
| SK: Unemployment rate PL: Wages | PL: Industry, PPI HR: Unemployment rate, wages RS: Current account | PL: Retail sales SI: PPI | | PL: Unemployment rate |
| HU: 2026 Bonds | HU: Bills | | RO: Bills, 2026 Bonds | PL: 2023, 2026, 2031, 2032 Bonds |
| RO: 2031 Bonds | RS: 2025 Bonds | | | |

FX market

FX market developments

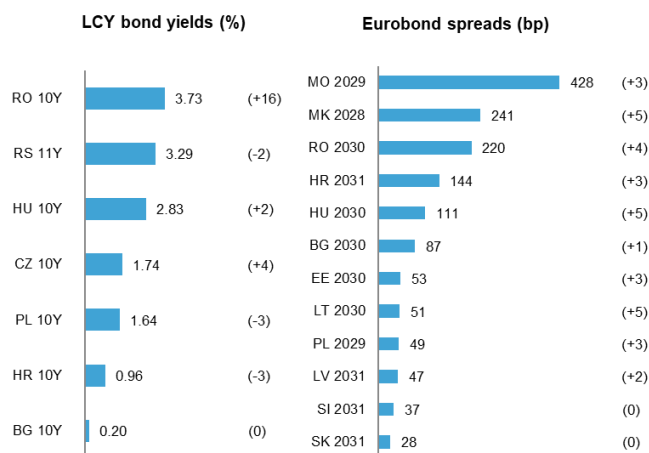


Source: Bloomberg, Erste Group Research

While US June inflation beat all market forecasts and surged to 5.4% y/y, Fed Chair Jerome said in his testimony to Congress that it was still too soon to scale back the central bank's support for the economy. Despite that, concerns over the pandemic situation supported the USD, which moved to 1.18 vs. the EUR. The strengthening of the US dollar as well as local factors continue to weigh on the forint and zloty. In fact, since the beginning of 3Q21, the HUF and PLN were the top worst performing EMEA currencies and lost 2% and 1.3% vs. the EUR, respectively. The recently inflamed conflict with the EU that could result in a delay of disbursement of NGEU funds could have increased the pressure on both currencies. Given the recent weakening of the PLN, we have slightly revised our EURPLN forecast. Despite the expected start of policy normalization already in 4Q21, we see the space for the appreciation of the zloty as limited. We expect the EURPLN to move slightly below 4.50 by the end of the year. This week, the ECB meeting

will be the key event for the markets and could affect CEE FX.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Among CEE countries, only POLGBs followed the trend of falling yields seen last week on major markets. This was visible mainly in the mid-part of the yield curve, where yields on 5Y POLGBs fell 10bp w/w. A completely opposite development could be seen in Romania, where the ROMGB curve shifted up about 15bp w/w, with yields on 5Y ROMGBs increasing almost 30bp w/w. The cumulative CA deficit for Jan-May totaled EUR 6bn, almost twice as much as the EUR 3.2bn reported for the year-earlier period. Given the further deterioration in the CA deficit, it seems that it is getting more costly to defend the RON against depreciation. Separately, National Bank of Poland bought at the QE auction last Friday PLN 4.4bn including PLN 3.7bn in Treasuries and 0.7bn in BGK papers. This week, Romania will reopen ROMGBs 2026, 2031, 2032, Hungary will sell its 2026 floater and T-bills, Poland will reopen POLGBs 2023, 2026, 2032 and floaters 2026, 2031, while Serbia will sell RSD 5bn in the reopening of the SERBGB 2025 bond.

In case you missed

CEE: Inflation surprised to upside in June in [SK](#), [RO](#) and [RS](#), while it eased slightly in [CZ](#).

RO: Weak [industrial production](#) in May.

Upcoming releases in CEE

| Date | Time | Country | Indicator | Period | Survey | Erste Est. | Prev. | Comment |
|--------|--------|---------|-----------------------------------|--------------------|--------|---------------|--------------|--|
| 19.Jul | | SK | Unemployment Rate | Jun | | 7.80% | 7.92% | Improving pandemic situation and eased restrictions supported economic activity, especially in services, which are in need of new employees. |
| | 10:00 | PL | Wages (y/y) | Jun | 9.3% | 8.6% | 10.10% | Wage growth to remain affected by low base from last year. |
| 20.Jul | | RS | Current Account Balance (monthly) | May | | | -172 | |
| | 9:00 | CZ | PPI (y/y) | Jun | 5.90% | 5.90% | 5.10% | High oil prices are most important factor behind PPI inflation. |
| | 10:00 | PL | Industrial Production (y/y) | Jun | 18.00% | 16.40% | 29.80% | Industry to sustain double-digit dynamics. While record-high PMI index for June confirms ongoing recovery, supply-side bottlenecks and lengthy delivery times could hamper production. |
| | 10:00 | PL | PPI (y/y) | Jun | 6.80% | 7.30% | 6.50% | Producer prices to further accelerate. |
| | 11:00 | HR | Unemployment Rate | Jun | | 7.50% | 8.20% | Unemployment rate maintaining downward trend in June. |
| | 11:00 | HR | Wages (y/y) | May | | | 3.0% | |
| | 21.Jul | 10:00 | PL | Retail Sales (y/y) | Jun | 13.10% | 11.2% | 19.10% |
| | 10:30 | SI | PPI (y/y) | Jun | | | 3.50% | |
| 23.Jul | 10:00 | PL | Unemployment Rate | Jun | 6.00% | 6.0% | 6.10% | Unemployment rate to slightly decrease in June. |

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 | 2021Q4 | 2022Q1 | 2022Q2 |
|---------------------|---------|--------|--------|--------|--------|
| Croatia 10Y | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 |
| spread (bps) | 87 | 66 | 64 | 67 | 63 |
| Czechia 10Y | 1.7 | 1.7 | 1.8 | 1.9 | 1.9 |
| spread (bps) | 210 | 189 | 191 | 193 | 197 |
| Hungary 10Y | 2.8 | 2.9 | 3.0 | 3.0 | 3.1 |
| spread (bps) | 320 | 310 | 315 | 311 | 310 |
| Poland 10Y | 1.6 | 1.80 | 1.90 | 2.00 | 2.10 |
| spread (bps) | 200 | 196 | 204 | 207 | 213 |
| Romania 10Y | 3.7 | 3.4 | 3.4 | 3.5 | 3.5 |
| spread (bps) | 409 | 361 | 359 | 357 | 358 |
| Slovakia 10Y | 0.0 | 0.2 | 0.2 | 0.3 | 0.3 |
| spread (bps) | 33 | 31 | 34 | 32 | 33 |
| Slovenia 10Y | -0.07 | 0.15 | 0.15 | 0.25 | 0.35 |
| spread (bps) | 29 | 31 | 29 | 32 | 38 |
| Serbia 5Y | 2.2 | 2.3 | 2.2 | 2.1 | 2.1 |
| spread (bps) | 254 | 246 | 234 | 217 | 213 |
| DE10Y* | -0.4 | -0.2 | -0.1 | -0.1 | 0.0 |

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

| | current | 2021Q3 | 2021Q4 | 2022Q1 | 2022Q2 |
|-----------------|---------|--------|--------|--------|--------|
| Czechia | 0.69 | 0.78 | 0.87 | 1.13 | 1.39 |
| Hungary | 1.07 | 1.35 | 1.50 | 1.50 | 1.50 |
| Poland | 0.21 | 0.21 | 0.35 | 0.35 | 0.60 |
| Romania | 1.51 | 1.55 | 1.55 | 1.55 | 1.55 |
| 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 | 3.0 | -5.8 | 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 | 4.0 | -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 |

Source: Bloomberg, Erste Group Research

FX

| | current | 2021Q3 | 2021Q4 | 2022Q1 | 2022Q2 |
|---------------|---------|--------|--------|--------|--------|
| EURHRK | 7.50 | 7.53 | 7.53 | 7.53 | 7.48 |
| EURCZK | 25.54 | 25.45 | 25.25 | 25.14 | 24.98 |
| EURHUF | 359.46 | 350.00 | 350.00 | 350.00 | 350.00 |
| EURPLN | 4.58 | 4.50 | 4.48 | 4.45 | 4.42 |
| EURRON | 4.93 | 4.94 | 4.98 | 4.99 | 5.03 |
| EURRSD | 117.64 | 117.50 | 117.60 | 117.55 | 117.50 |
| EURUSD | 1.18 | 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 | 0.75 | 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 | 3.3 |
| 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 | 1.9 | 2.1 |
| Slovenia | 1.6 | 0.0 | 1.3 | 1.5 |
| CEE8 avg | 2.7 | 2.8 | 3.5 | 3.0 |

C/A (%GDP)

| | 2019 | 2020 | 2021f | 2022f |
|-----------------|------|------|-------|-------|
| Croatia | 2.8 | -0.8 | 0.6 | 0.4 |
| Czechia | 0.3 | 3.6 | 0.7 | 0.3 |
| Hungary | -0.5 | -0.1 | -0.1 | 0.1 |
| Poland | 0.5 | 3.5 | 1.6 | 0.9 |
| 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 | -0.7 | 1.0 | -0.2 | -0.5 |

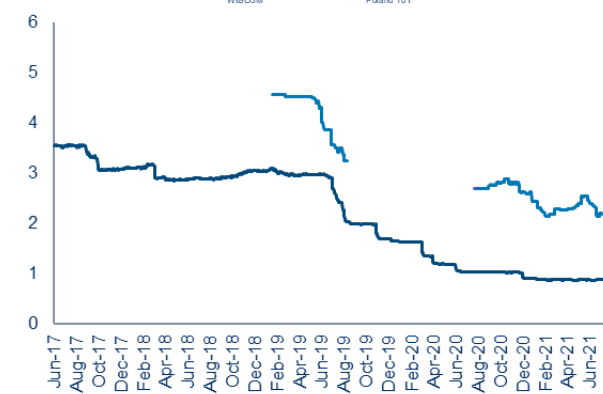
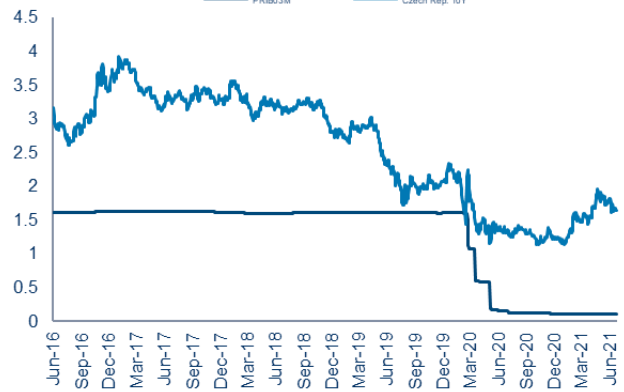
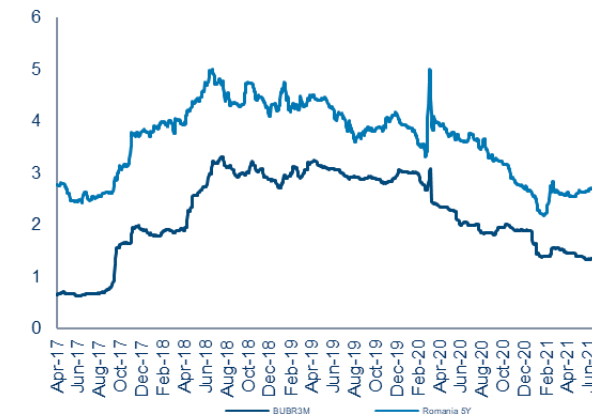
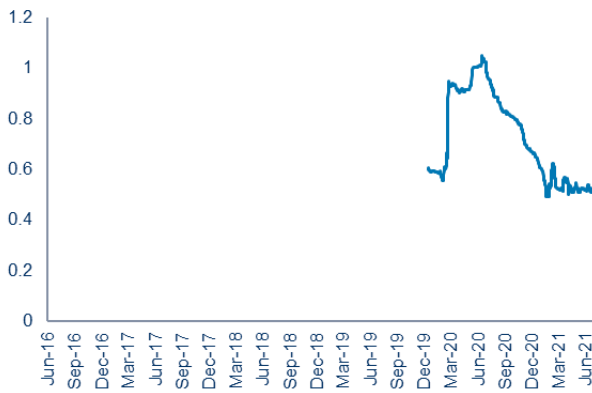
Unemployment (%)

| | 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 | 6.1 | 5.9 |
| Romania | 3.9 | 5.0 | 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 | -6.1 | -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 |

Appendix



Source: Bloomberg, Erste Group Research

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CEE Market Insights
19 July 2021

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Published by:

Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
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