

## CEE Market Insights

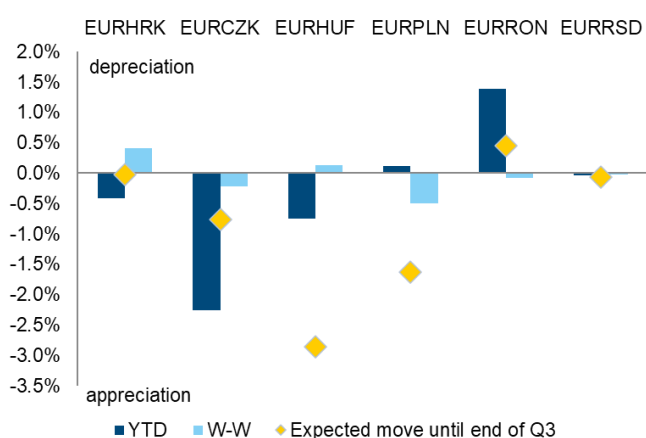
### Busy macroeconomic calendar in CEE

#### This week in CEE

This week is packed with interesting releases. We will get the first look at the 2Q21 GDP in Czechia, which is likely to show a robust quarter-on-quarter recovery of 2.5%. The Czech economy has been recovering since April, with domestic as well as foreign demand marking a rejuvenation. Given last year's low base, this should translate to a brisk 9.8% y/y growth pace. Hungarian central bank meeting should bring another rate hike, as justified by the inflation and economic outlook. Yet, its magnitude is not known in advance – we anticipate the key rate to be raised by 15bp to 1.05%. Moreover, Hungary and Romania will publish their unemployment rates for June which could stand at 3.8% and 5.5%, respectively, supported by the budding economic rebound, although failing to disclose the full impact of COVID-19 on the local labor markets (esp. in Romania). Croatia, Slovenia and Serbia will all publish their June retail sales prints which are likely to show strong growth dynamics close to 6-11% y/y, supported by the base effect much less so than in April or May. Similarly, the waning base effect will contribute to more moderate June industrial production prints in Croatia and Serbia which may have reached 10% y/y and 5.4% y/y, respectively. We will also see the first inflation data for July in Slovenia and Poland. Whereas the Polish CPI print could have increased to 4.5% y/y this month (and higher food prices could deliver an upward surprise), the Slovenian inflation likely decelerated to 1% y/y.

Monday	Tuesday	Wednesday	Thursday	Friday
<b>SK: Wages</b>	<b>HU: Central bank</b>	<b>HU: Unemployment rate</b>	<b>HR: Industry</b>	<b>CZ: 2Q21 GDP</b>
		<b>SI: Retail sales</b>		<b>PL, SI: CPI</b>
		<b>SK: PPI</b>		<b>RS: Retail, Industry, Trade balance</b>
				<b>HR: Retail</b>
<b>RO: 2025 Bonds</b>	<b>HU: Bills</b>	<b>CZ: 2027, 2032, 2040 Bonds</b>		

#### FX market



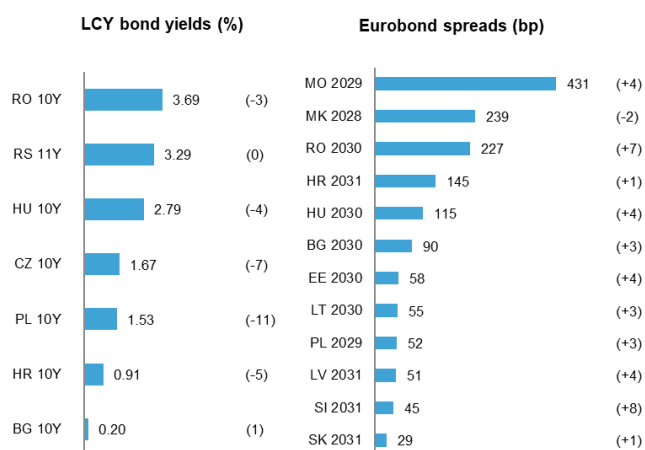
Source: Bloomberg, Erste Group Research

#### FX market developments

Global sentiment deteriorated visibly at the beginning of last week, as investors remained concerned over the delta variant and its possible impact on the economic recovery, as well as soaring inflation, which resulted in a sell-off in more risky assets, including CEE currencies. However, the grim mood was only temporary and local currencies pared most of the losses by the end of the week. The rate setting meeting in Hungary as well as the flash estimate of 2Q21 GDP growth in Czechia should support the forint and koruna this week. In line with the comments of Deputy Governor Virag, we expect the Hungarian central bank to continue with tightening and deliver another 15bp hike this week. However, it cannot be ruled out that the MNB will raise the key rate by 20bp, as core inflation remains the central bank's key concern.

In the medium term, the dovish stance of the ECB and growing interest rate differential between Hungary and the EA will be positive for the HUF. Elsewhere, the Czech koruna should benefit from strong 2Q21 GDP growth and the rising probability of the next rate hike already at the August meeting. Thus, we expect the EURCZK to move toward 25.50.

## LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

## Bond market developments

Over the course of the week, the 10Y German Bund dropped to -0.4%, while the 10Y US Treasury held below 1.3%. CEE LCY yields followed core market developments and went down as well. The strongest decrease was observed in Poland (down by 10bp w/w) and Czechia (down by 7bp w/w). Thus, the spread between the 10Y CZGB and 10Y POLGB has remained negative since the beginning of July. While last week's Romanian T-bill auction was visibly over-subscribed, the 2026 ROMGBs auction was rejected, due to too low demand. This week, the Romanian MinFin plans to tap the market with a 2025 paper. Upcoming macro releases should not have a strong impact on the CEE bond market, as the interest rate hike in Hungary seems certain, while high demand on the long end of the Czech curve should keep yields in a narrow range of 1.8-2.0%. As usual at the end of the month, the schedule of next month's operations will be published by the Polish MinFin, National Bank of Poland and state development bank BGK.

## In case you missed

PL: Solid [retail sales](#) and [industrial production](#) data for June.

## Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
26.Jul	12:00	RS	Wages (y/y)	May			6.90%	
27.Jul	14:00	HU	Central Bank Rate	Jul	1.05%	<b>1.05%</b>	0.90%	MNB will continue to raise key rate on monthly basis. We expect another 15bp step; however, size of hike may come as surprise.
28.Jul		HU	Unemployment Rate	Jun		<b>3.80%</b>	4.10%	Economic rebound and seasonal effects imply further small decline of unemployment.
	9:00	SK	PPI (y/y)	Jun		<b>4.00%</b>	3.50%	
	10:30	SI	Retail Sales (y/y)	Jun		<b>9.00%</b>	14.30%	Retail trade expected to keep strong growth dynamics.
29.Jul	11:00	HR	Industrial Production (y/y)	Jun		<b>10.00%</b>	15.80%	Industrial production expected to maintain positive pattern.
30.Jul	8:00	RO	Unemployment Rate	Jun		<b>5.50%</b>	5.5%	Low unemployment rate does not reflect full damage inflicted by corona crisis on labor market.
	9:00	CZ	GDP (q/q)	2Q A		<b>2.5%</b>	-0.30%	Czech economy has been recovering since April after end of lockdown.
	9:00	CZ	GDP (y/y)	2Q A		<b>9.80%</b>	-2.40%	Favorable development of foreign demand spilled over into solid dynamics of exports and investment. Also, household consumption recovered quickly during 2Q21.
	9:00	HU	Trade Balance	May F			97	
	10:00	PL	CPI (y/y)	Jul P	4.70%	<b>4.50%</b>	4.4%	Inflation likely increased marginally in July. However, upward surprise could be driven by higher food prices.
	10:00	PL	CPI (m/m)	Jul P		<b>0.10%</b>	0.10%	
	10:30	SI	CPI (y/y)	Jul		<b>1.00%</b>	1.40%	Inflation seen further decelerating in July.
	10:30	SI	CPI (m/m)	Jul			0.60%	
	11:00	HR	Retail Sales (y/y)	Jun		<b>11.00%</b>	16.50%	Favorable trends on retail trade side seen continuing.
	12:00	RS	Industrial Production (y/y)	Jun		<b>5.40%</b>	9.40%	We expect to see mid-single-digit growth, as base effect plays lesser role now.
	12:00	RS	Retail Sales (y/y)	Jun		<b>6.00%</b>	12.00%	We expect continuation of recovery in retail.
	12:00	RS	Trade Balance	Jun			-600.8	

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
<b>Croatia 10Y</b>	0.5	0.5	0.5	0.6	0.6
spread (bps)	93	66	64	67	62
<b>Czechia 10Y</b>	1.7	1.7	1.8	1.9	1.9
spread (bps)	209	189	191	193	196
<b>Hungary 10Y</b>	2.8	2.9	3.0	3.0	3.1
spread (bps)	321	310	315	311	309
<b>Poland 10Y</b>	1.5	1.80	1.90	2.00	2.10
spread (bps)	195	196	204	207	212
<b>Romania 10Y</b>	3.7	3.4	3.4	3.5	3.5
spread (bps)	411	361	359	357	357
<b>Slovakia 10Y</b>	-0.1	0.2	0.2	0.3	0.3
spread (bps)	32	31	34	32	32
<b>Slovenia 10Y</b>	-0.05	0.15	0.15	0.25	0.35
spread (bps)	37	31	29	32	37
<b>Serbia 5Y</b>	2.2	2.3	2.2	2.1	2.1
spread (bps)	258	246	234	217	212
<b>DE10Y*</b>	-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
<b>Czechia</b>	0.71	0.78	0.87	1.13	1.39
<b>Hungary</b>	1.07	1.35	1.50	1.50	1.50
<b>Poland</b>	0.21	0.21	0.35	0.35	0.60
<b>Romania</b>	1.50	1.55	1.55	1.55	1.55
<b>Serbia</b>	0.88	0.85	0.83	0.83	0.83
<b>Eurozone</b>	-0.54	-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>	3.0	-5.8	3.7	4.3
<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	4.2	4.8
<b>Slovenia</b>	3.2	-5.5	5.0	4.8
<b>CEE8 avg</b>	4.0	-4.0	5.2	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	38.1	44.4	46.8
<b>Hungary</b>	65.5	80.4	77.7	76.0
<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	59.1	58.4
<b>Slovakia</b>	48.2	60.3	63.0	62.8
<b>Slovenia</b>	65.6	80.8	79.7	76.3
<b>CEE8 avg</b>	45.9	57.4	58.3	57.6

Source: Bloomberg, Erste Group Research

### FX

	current	2021Q3	2021Q4	2022Q1	2022Q2
<b>EURHRK</b>	7.54	7.53	7.53	7.53	7.48
<b>EURCZK</b>	25.67	25.45	25.25	25.14	24.98
<b>EURHUF</b>	360.50	350.00	350.00	350.00	350.00
<b>EURPLN</b>	4.58	4.50	4.48	4.45	4.42
<b>EURRON</b>	4.92	4.94	4.98	4.99	5.03
<b>EURRSD</b>	117.56	117.50	117.60	117.55	117.50
<b>EURUSD</b>	1.18	1.18	1.20	1.20	1.20

### Key Interest Rate

	current	2021Q3	2021Q4	2022Q1	2022Q2
<b>Croatia</b>	0.05	0.05	0.05	0.05	0.05
<b>Czechia</b>	0.50	0.75	0.75	1.00	1.25
<b>Hungary</b>	0.90	1.35	1.50	1.50	1.50
<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	3.1	2.4
<b>Hungary</b>	3.4	3.3	4.3	3.3
<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	2.4	2.8
<b>Slovenia</b>	1.6	0.0	1.3	1.5
<b>CEE8 avg</b>	2.7	2.8	3.5	3.0

### C/A (%GDP)

	2019	2020	2021f	2022f
<b>Croatia</b>	2.8	-0.8	0.6	0.4
<b>Czechia</b>	0.3	3.6	0.7	0.3
<b>Hungary</b>	-0.5	-0.1	-0.1	0.1
<b>Poland</b>	0.5	3.5	1.6	0.9
<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	7.1	6.3	5.5
<b>CEE8 avg</b>	-0.7	1.0	-0.2	-0.5

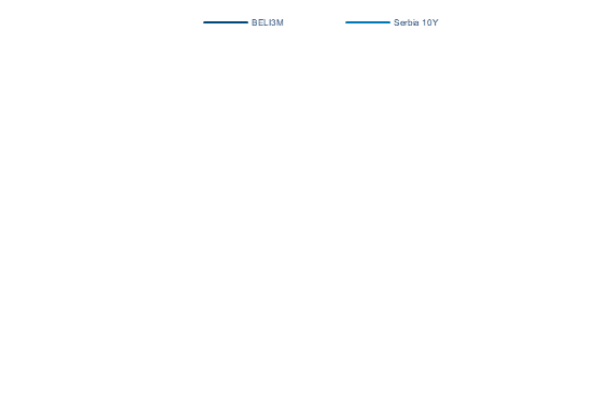
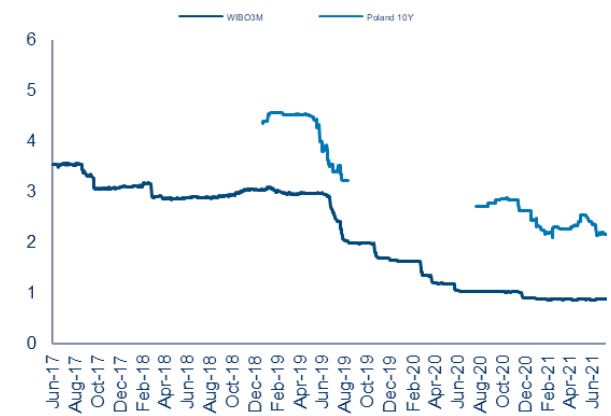
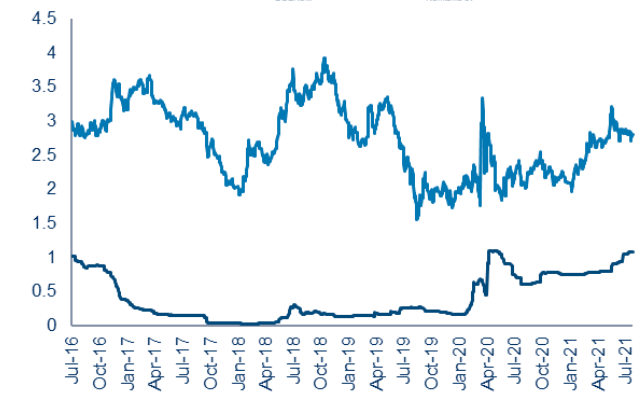
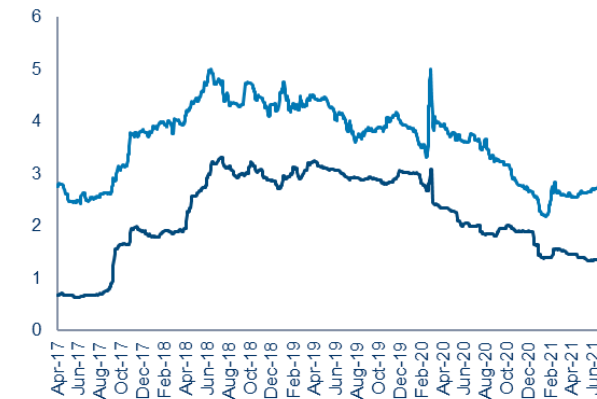
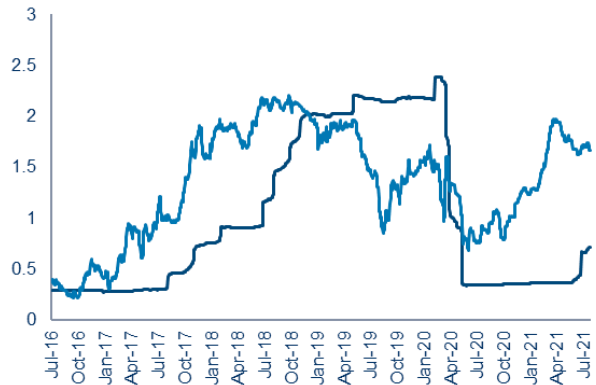
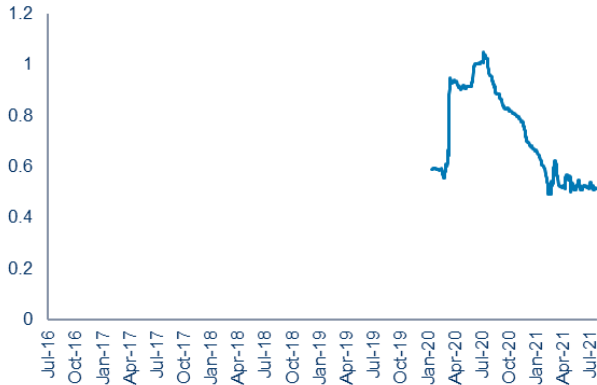
### Unemployment (%)

	2019	2020	2021f	2022f
<b>Croatia</b>	6.6	7.5	7.5	6.7
<b>Czechia</b>	2.0	2.6	3.3	2.7
<b>Hungary</b>	3.4	4.2	4.2	3.8
<b>Poland</b>	5.4	5.9	6.1	5.9
<b>Romania</b>	3.9	5.0	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	5.6	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	-7.2	-3.5
<b>Hungary</b>	-2.1	-8.1	-7.1	-5.5
<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	-3.0
<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	-3.9

## Appendix



Source: Bloomberg, Erste Group Research

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CEE Market Insights  
26 July 2021

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