

CEE Market Insights

More countries offer a peak into their 2Q21 GDP data

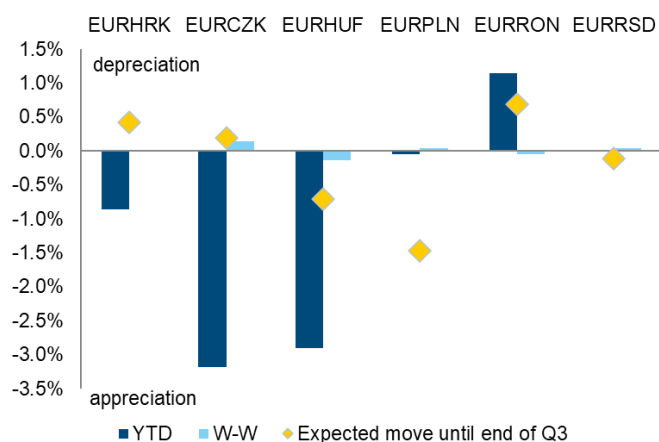
This week in CEE

This week will bring the long-awaited 2Q21 flash GDP figures for Romania, Hungary and Slovakia. Strong service sector aided by pent-up demand was more than offsetting the relative weakness in industry, thus we expect a 2% q/q increase of GDP in Romania. Low statistical base likely pushed up the year-on-year growth pace to 15.4%. Hungarian and Slovak GDP likely rose by 2% q/q and 3% q/q, respectively, spurred by the revival of domestic consumption in parallel with economic reopening. Robust stance of the industry as well as good external demand development likely helped, too. Given the very low base from 2020, year-on-year growth rates may be in the double-digits at 17.2% y/y in Hungary and 11.6% y/y in Slovakia. July unemployment rates should bring further mild decreases in Croatia and in Slovakia. Moreover, Croatia will publish its inflation print for July, which we expect to have inched up to 2.2% y/y. Producer prices in Czechia and Poland likely continued on their upward trajectory last month, affected mainly by oil prices and some supply-side factors. Furthermore, Poland will publish its real economy data for July. Industrial production growth likely retained a double-digit pace at 11.7% y/y, amid strong sentiment and despite some supply-side bottlenecks and a negative calendar effect. Strong sentiment and solid labor market support retail sales, which likely grew by 10.4% y/y in July. Polish wage growth is expected at 9.1% y/y, still impacted by the base effect.

Monday	Tuesday	Wednesday	Thursday	Friday
CZ: PPI	HU, RO, SK: 2Q21 GDP	PL: Wages	SK: Unemployment	PL: Retail sales
HR: CPI			PL: Industry, PPI	SI: PPI HR: Unemployment, Wages
RO: 2029 Bonds	HR, HU: Bills	CZ: 2027 Bonds	RO: 2026 Bonds	

FX market

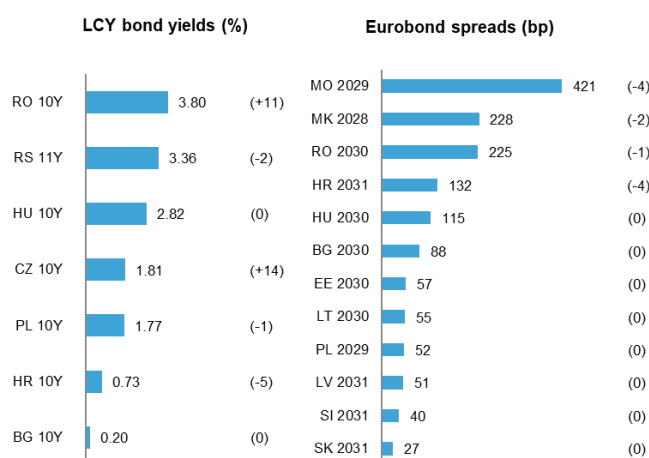
FX market developments



Source: Bloomberg, Erste Group Research

Although US dollar weakened and moved toward 1.18 vs. EUR, CEE currencies were little changed over the course of last week. While the Romanian central bank decision pushed 10Y ROMGBs up, leu remained locked close to 4.91 vs. EUR. Czech koruna was anchored at 25.4 vs. EUR and we do not expect any significant changes in the coming weeks. In our view, CZK is still being negatively affected by the pandemic. We think that the Czech National Bank could continue to tighten monetary policy such that the key rate could land at 1.25-1.5% by the end of the year. However, if pandemic fears fade away, which would support the CZK, CNB may not need to hike so quickly. Elsewhere, National Bank of Serbia stepped in on the market to prevent dinar from appreciation. Since the recent inclusion of Serbian local bonds in JP Morgan's GEMBI Index, we have seen increased interest in dinar.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Following the Romanian central bank meeting, the long-end of ROMGBs curve came under pressure and moved up by around 10bp w/w. Given the profile of the NBR new inflation forecast, we now expect the first 25bp rate hike in November, followed by another 25-50bps of hikes in 2022. Furthermore, Romanian MinFin rejected all bids at its October 2034 bond auction last week due to low demand. This was the third time in the past two months that the ministry failed to raise any money at a local debt auction. Thus, Romania could return to foreign bond markets for the third time this year. Even though it has already raised EUR 7bn via two Eurobond sales, it has covered less than 60% of its gross funding needs thus far. We think that MinFin could tap international bond market in October with a USD-denominated paper given next year's redemptions. Elsewhere, Czech 10Y yield went up by almost 15bp w/w likely digesting the upward inflation surprise. This week, National Bank of Poland will hold its monthly QE tender and NBP will likely stick to lower volume of purchases. Polish rate setters reiterated last week that the first interest rate hike might come in November following the release of new inflation and growth projection, in line with our expectations.

In case you missed

- CZ: [Inflation rose to 3.4% y/y in July](#), increasing earlier than expected and exceeding the tolerance band
- HU: [Inflation rose to 3.4% y/y in July](#) as it eased to 4.6% y/y in July
- RO: NBR delivered a higher-than-expected [inflation forecast revision](#); we see the first hike in November
- RO: [July inflation sped up](#) to 4.95% y/y on higher energy prices, leading to our forecast reevaluation
- SK: [Inflation soared](#) to an 8-year high of 3.3% y/y in July
- SK: [Industrial production](#) and [foreign trade](#) confirmed their robust development in June
- RS: [Central bank kept key rate at 1%](#) and will likely maintain its course this year
- RS: [July inflation reached 3.3% y/y](#), somewhat above expectations, leading to our forecast revision

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
16.Aug	9:00	CZ	PPI (y/y)	Jul	6.83%	6.8%	6.1%	Producer prices are affected mainly by oil prices, but also several supply-side factors influence PPI inflation in a pro-inflationary direction.
	11:00	HR	CPI (y/y)	Jul		2.2%	0.02	We expect inflation remained in a tight band around the 2% mark
17.Aug	8:00	RO	GDP (q/q)	2Q A	2.00%	2.00%	2.9%	Strong services sector helped by pend-up demand more than offsetting the weakness in industry.
	8:00	RO	GDP (y/y)	2Q A	14.50%	15.4%	-0.2%	Low statistical base effect should boost the annuan growth figure.
	9:00	HU	GDP (q/q)	2Q P	1.20%	2.00%	2.0%	Revival of internal consumption - in parallel with the reopening - might have been the key driver. Meanwhile, role of industrial exports probably remained strong, as well.
	9:00	HU	GDP (y/y)	2Q P	15.90%	17.2%	-2.1%	Economy was supported by both external and internal demand, while role of the last year's low base figure is decisive in the double-digit y/y figure.
18.Aug	9:00	SK	GDP (y/y)	2Q P		11.6%	0.2%	We expect a significant rise in 2Q Y/Y due to easing restrictions. This solid move is partially impacted by the low base in 2020. However, net export is higher than expected, and industrial conditions are very good.
	10:00	PL	Wages (y/y)	Jul	8.90%	9.1%	9.8%	The base effect to still have a strong impact on the labor market statistics.
	10:00	SK	Unemployment Rate	Jul		7.7%	7.76%	The unemployment rate should decline during the summer as the economy reopens widely, with rejuvenation seen also in accommodation and restaurants.
	10:00	PL	Industrial Production (y/y)	Jul	10.60%	11.7%	18.4%	Industrial production growth to sustain double-digit dynamics amid strong sentiment. However, calendar effect (-1WD) and supply-side bottlenecks could weigh on the figure.
20.Aug	10:00	PL	PPI (y/y)	Jul	7.70%	7.3%	7.00%	Price pressures continue to increase.
	10:00	PL	Retail Sales (y/y)	Jul	8.1%	10.4%	13.00%	Strong sentiment and solid labor market to support retail sales growth in July.
	10:30	SI	PPI (y/y)	Jul			4.8%	
	11:00	HR	Unemployment Rate	Jul		7.4%	7.5%	We expect UR dropped further due to seasonal factors
	11:00	HR	Wages (y/y)	Jun			3.2%	

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)	95	67	65	67	62
Czechia 10Y	1.8	1.8	1.8	1.9	2.0
spread (bps)	228	192	198	199	203
Hungary 10Y	2.8	2.9	3.0	3.0	3.1
spread (bps)	329	311	316	311	309
Poland 10Y	1.8	1.80	1.90	2.00	2.10
spread (bps)	224	197	205	207	212
Romania 10Y	3.8	3.4	3.4	3.5	3.5
spread (bps)	427	362	360	357	357
Slovakia 10Y	-0.1	0.2	0.2	0.3	0.3
spread (bps)	35	32	35	32	32
Slovenia 10Y	-0.15	0.15	0.15	0.25	0.35
spread (bps)	32	32	30	32	37
Serbia 5Y	2.2	2.3	2.2	2.1	2.1
spread (bps)	269	247	235	217	212
DE10Y*	-0.5	-0.2	-0.2	-0.1	0.0

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2021Q3	2021Q4	2022Q1	2022Q2
Czechia	0.97	0.82	1.06	1.29	1.55
Hungary	1.38	1.85	1.85	1.85	1.85
Poland	0.21	0.21	0.35	0.35	0.60
Romania	1.53	1.55	1.80	2.05	2.05
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	8.0	4.5
Serbia	4.2	-1.0	7.0	4.5
Slovakia	2.5	-4.8	4.2	4.8
Slovenia	3.2	-5.5	5.0	4.8
CEE8 avg	4.0	-4.0	5.4	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	77.8	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	57.8	56.8
Slovakia	48.2	60.3	63.0	62.8
Slovenia	65.6	80.8	79.7	76.3
CEE8 avg	45.9	57.4	58.2	57.6

Source: Bloomberg, Erste Group Research

FX

	current	2021Q3	2021Q4	2022Q1	2022Q2
EURHRK	7.50	7.53	7.53	7.53	7.48
EURCZK	25.41	25.45	25.25	25.14	24.98
EURHUF	352.49	350.00	350.00	350.00	350.00
EURPLN	4.57	4.50	4.48	4.45	4.42
EURRON	4.91	4.94	4.98	4.99	5.03
EURRSD	117.59	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	0.75	0.67	1.00	1.17	1.42
Hungary	1.20	1.80	1.80	1.80	1.80
Poland	0.10	0.10	0.25	0.25	0.50
Romania	1.25	1.25	1.50	1.75	1.75
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	4.5	3.3
Poland	2.3	3.4	4.4	3.9
Romania	3.8	2.7	4.3	3.5
Serbia	1.9	1.6	3.0	3.0
Slovakia	2.7	1.9	2.4	2.8
Slovenia	1.6	0.0	1.3	1.5
CEE8 avg	2.7	2.8	3.8	3.3

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	-5.8	-5.4
Serbia	-6.9	-4.3	-3.7	-3.7
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

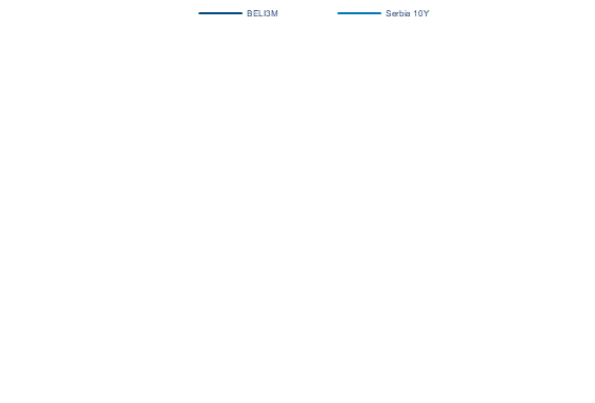
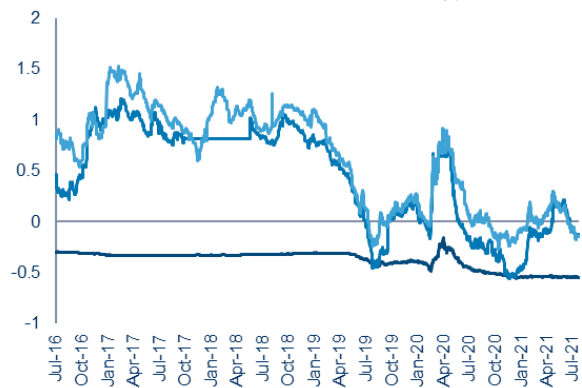
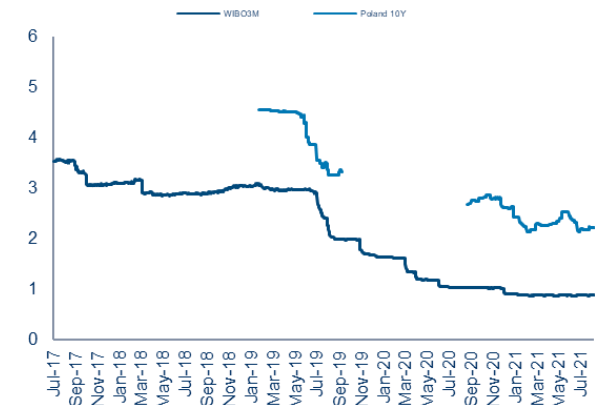
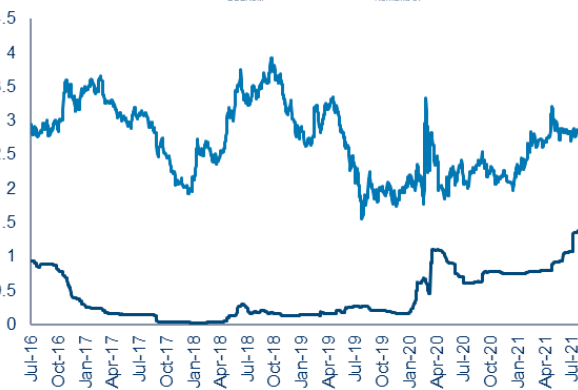
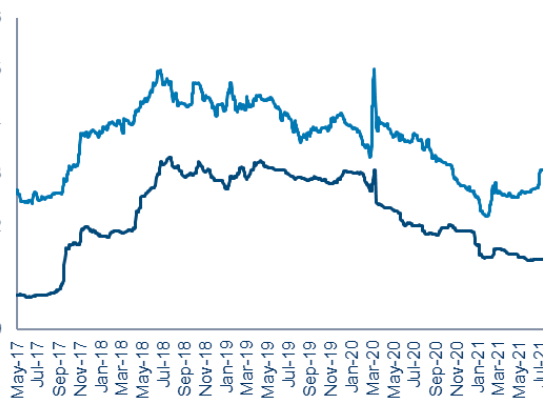
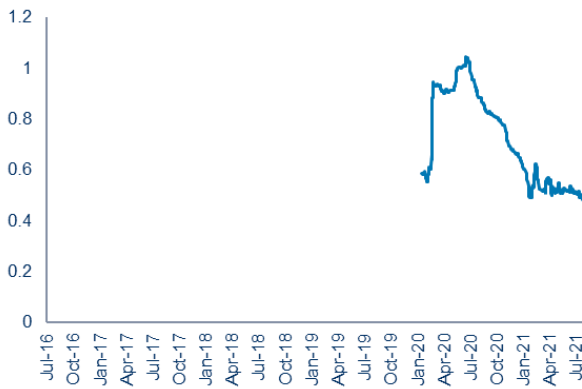
Unemployment (%)

	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	11.3	9.9
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	-7.2	-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	-6.0	-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

Erste Group Research
CEE Market Insights
16 August 2021

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Published by:

Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna

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