

# Domestic demand supported growth in 2Q21

Flash estimate of 2Q21 GDP growth to be confirmed at 10.9% y/y. Private consumption and investments to post strong growth dynamics, while net export is to weigh on figure. We will revise our FY21 growth forecast up likely to 5.2%. Flash inflation for August is expected at 5.2% y/y.

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## Watch this week

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### August 31 | 2Q21 GDP growth to be confirmed

We expect the flash estimate of 2Q21 GDP to be confirmed at 10.9% y/y (1.9% q/q s.a.), marking the strongest growth on record. The broad-based economic rebound and base effect were behind such a high print. We expect both private consumption and investment activity to accelerate and post solid growth dynamics. Last year's strict lockdown imposed in mid-March pushed the Polish economy into the first recession in 30 years and resulted in a massive drop in private consumption (at -10.8% y/y) and investment growth (at -9.8% y/y) in 2Q20. While domestic demand contributed positively to the headline figure in 2Q21, net export likely continued to weigh on the GDP growth. Given the recovering import activity, the trade balance shrunk visibly in 2Q21. All in all, following the publication of detailed GDP data, we will revise our FY21 growth forecast up likely by around 0.4pp to 5.2%.

### August 31 | Inflation increased in August

After reaching a 10-year high at 5.0% y/y in July, we expect headline CPI to have accelerated further to 5.2% y/y in August. In our view, the recently announced increase of gas prices for households, which took effect on August 1, pushed CPI up further. Price pressure will remain elevated until the end of the year and likely in 1Q22, as headline inflation will remain locked above the 5% mark in the coming months. We continue to think that the National Bank of Poland will deliver a 15bp hike in November following the publication of a new inflation and growth projection, which will envisage CPI staying above the central bank's target within the forecast horizon. All in all, we see inflation on average at 4.4% in 2021 and 3.9% in 2022.

### September 1 | Sentiment to weaken in August

The market expects the August manufacturing PMI index to ease to 57.0, from 57.6 a month earlier. However, a bigger correction cannot be ruled out, given the development in Germany, where the flash PMI landed at 62.7, compared to 65.9 in July and the market consensus at 65.0. Nevertheless, the index remained well above the threshold of 50 that divides contraction from growth.

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

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## Last week's highlights

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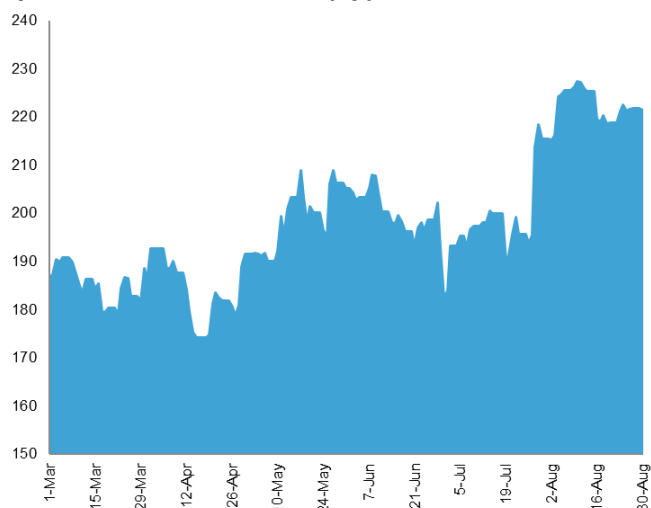
- Unemployment rate dropped by 0.1pp to 5.8% in July.
- MinFin presented budget draft for 2022 with general government deficit planned at 2.8% of GDP and public debt at 55.5% of GDP.
- Fitch affirmed Polish rating at 'A-' with stable outlook.

## Market developments

### Bond market drivers | 10Y yield followed core markets

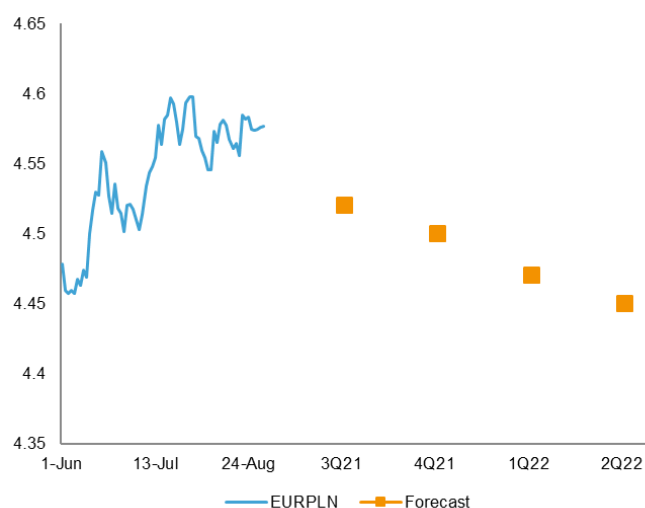
Over the course of the week, the long-end of the Polish LCY curve went up by around 10bp toward 1.8%, following core market developments. While markets were hoping for more clarity about the start date and pace of the tapering of Fed's asset purchases, Chairman Powell said that the central bank may start to limit its purchases this year but did not give a specific timeline for scaling back of stimulus. Ahead of the Jackson Hole symposium yields went visibly up in the Euro Area and the 10Y German Bund went up by almost 10bp to -0.42%. As a result, the spread over the 10Y Bund stabilized at around 220bp. Last week, the MinFin presented a draft of next year's budget act, which pencils in a budget deficit at 2.8% of GDP and public debt at 55.5% of GDP. Given the stronger than expected economic recovery and better performance of the budget in 1H21, this year's deficit will be lower compared to the one projected in the budget act. The MinFin expects the central government deficit to land at PLN 13bn (vs. PLN 83bn in the budget act), 'just' -0.5% of GDP. However, the pandemic response has been financed via BGK and PFR issuance, which is not included in the central government deficit, but affects the ESA2010 figure. Thus, the budget deficit could land within 1.5-2.0% of GDP in 2021. Furthermore, planned net borrowing needs for next year as well as revised needs for this year are low. Therefore, a limited bond supply should be expected in the coming months. This week, the National Bank of Poland and MinFin will announce the schedule of market operations in September. We expect the NBP to hold one QE tender, while the MinFin might focus only on a switch auction, given the favorable financing situation.

#### Spread vs. German Bund (bp)



Source: Bloomberg, Erste Group Research

#### EURPLN



Source: Bloomberg, Erste Group Research

### FX market drivers | Zloty remains unchanged

Despite the slightly improved global sentiment, the zloty was broadly unchanged and remains locked at around 4.57 vs. the EUR. While the Hungarian forint continued to benefit from monetary tightening, the dovish policy of the National Bank of Poland is weighing on the PLN. Fed Chair Powell's speech at the annual Jackson Hole symposium did not bring

expected clarity regarding the tapering of asset purchases program. Chair Powell said that the central bank may start paring bond purchases this year but did not provide any specific timeline for scaling back of the stimulus. Following Powell's speech, US dollar weakened to 1.18 vs. EUR, while 10Y US Treasury yield dropped to 1.3%. CEE currencies remained broadly unchanged at the end of the week but could strengthen today on the back of weaker US dollar.

## Upcoming in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
30.Aug	10:30	SI	Retail Sales (y/y)	Jul		8.00%	12.80%	Retail trade expected to maintain vivid growth pattern.
	11:00	HR	Retail Sales (y/y)	Jul		10.50%	10.90%	Solid tourism results support retail expansion.
31.Aug	9:00	CZ	GDP (y/y)	2Q P	7.90%	7.90%	7.8%	Despite favorable development of Czech economy, officially published figure indicated low GDP growth in 2Q. We expect upwards revision.
	10:00	PL	CPI (y/y)	Aug P	5.10%	5.20%	5.00%	Inflation to further increase in August on back of increase in gas prices for households as of beginning of month.
	10:00	PL	GDP (y/y)	2Q F		10.90%	10.90%	Flash estimate to be confirmed.
	10:30	SI	CPI (y/y)	Aug		1.90%	2.00%	Inflation seen as remaining close to 2% mark.
	10:30	SI	GDP (y/y)	2Q		10.00%	1.60%	Recovery expected to continue further, with base effect pushing figure into double-digit region.
	12:00	RS	Industrial Production (y/y)	Jul		1.00%	4.40%	We expect growth to slow from mid-single-digit trend to around 1% due to one fewer working day.
	12:00	RS	Retail Sales (y/y)	Jul		14.00%	5.80%	We see another strong print as retail continues to recover amid higher consumer optimism and decent credit activity.
	12:00	RS	Trade Balance	Jul			-598	
	12:00	RS	GDP (y/y)	2Q F		13.40%	13.40%	Flash estimate expected to be confirmed.
	01.Sep	8:00	RO	Unemployment Rate	Jul		5.20%	5.20%
9:00		HU	Trade Balance	Jun F			680	
9:00		HU	GDP (y/y)	2Q F		17.90%	17.90%	Economy gained strong momentum in 2Q, while low base from last year also helped high yearly growth.
11:00		HR	Industrial Production (y/y)	Jul		8.00%	8.30%	We expect that industry maintained decent growth momentum.
02.Sep		SK	Current Account Balance (monthly)	Jul			-35	
	8:00	RO	PPI (y/y)	Jul			11.78%	
	9:00	HU	PPI (y/y)	Jul			11.62%	
03.Sep	8:00	RO	Retail Sales (y/y)	Jul		9.00%	13.60%	Retail component of Economic Sentiment Indicator points towards some moderation in retail sales growth.
	9:00	CZ	Wages (y/y)	2Q	4.90%	4.10%	1.00%	Labor market improving during 2Q, as unemployment rate arrived at 2.9% and wage growth accelerated.
	9:00	HU	Retail Sales (y/y)	Jul		3.80%	5.80%	Rebound of retail sales activity to slow, as base effect fades.
	9:00	SK	Retail Sales (y/y)	Jul			6.60%	
	9:00	SK	GDP (y/y)	2Q F			9.60%	

Source: Bloomberg, Erste Group Research

## Forecasts

Government bond yields					
	current	2021Q3	2021Q4	2022Q1	2022Q3
<b>Croatia 10Y</b>	0.5	0.5	0.5	0.6	0.7
spread (bps)	88	76	68	72	67
<b>Czechia 10Y</b>	1.8	1.8	1.9	1.9	2.0
spread (bps)	222	201	203	202	193
<b>Hungary 10Y</b>	2.9	2.9	3.0	3.0	3.1
spread (bps)	336	320	319	316	306
<b>Poland 10Y</b>	1.8	1.80	1.90	2.00	2.20
spread (bps)	221	206	208	212	217
<b>Romania10Y</b>	3.8	3.4	3.4	3.5	3.6
spread (bps)	422	371	363	362	357
<b>Slovakia 10Y</b>	-0.1	0.2	0.2	0.3	0.4
spread (bps)	33	41	38	37	37
<b>Slovenia 10Y</b>	-0.09	0.15	0.15	0.25	0.35
spread (bps)	33	41	33	37	32
<b>Serbia 5Y</b>	2.2	2.3	2.2	2.1	2.0
spread (bps)	264	256	238	222	197
<b>DE10Y*</b>	-0.43	-0.26	-0.18	-0.12	0.03

\* Spreads based on Bloomberg consensus forecast

3M Money Market Rate					
	current	2021Q3	2021Q4	2022Q1	2022Q3
<b>Czechia</b>	0.97	1.17	1.38	1.64	2.15
<b>Hungary</b>	1.61	1.85	1.85	1.85	1.85
<b>Poland</b>	0.21	0.21	0.35	0.35	0.85
<b>Romania</b>	1.60	1.55	1.80	2.05	2.30
<b>Serbia</b>	0.88	0.85	0.83	0.83	0.83
<b>Eurozone</b>	-0.55	-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	7.4	4.5
<b>Serbia</b>	4.2	-1.0	7.0	4.5
<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	5.3	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	77.8	76.0
<b>Poland</b>	45.6	57.5	57.0	55.0
<b>Romania</b>	35.3	47.3	49.4	50.7
<b>Serbia</b>	52.1	57.4	57.8	56.8
<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	58.2	57.6

Source: Bloomberg, Erste Group Research

FX					
	current	2021Q3	2021Q4	2022Q1	2022Q3
<b>EURHRK</b>	7.49	7.53	7.53	7.53	7.48
<b>EURCZK</b>	25.51	25.45	25.25	25.14	24.84
<b>EURHUF</b>	349.36	350.00	350.00	350.00	350.00
<b>EURPLN</b>	4.58	4.52	4.50	4.47	4.42
<b>EURRON</b>	4.94	4.94	4.98	4.99	5.05
<b>EURRSD</b>	117.60	117.50	117.60	117.55	117.50
<b>EURUSD</b>	1.18	1.18	1.20	1.20	-

Key Interest Rate					
	current	2021Q3	2021Q4	2022Q1	2022Q3
<b>Croatia</b>	0.05	0.05	0.05	0.05	0.05
<b>Czechia</b>	0.75	1.00	1.25	1.50	2.00
<b>Hungary</b>	1.50	1.80	1.80	1.80	1.80
<b>Poland</b>	0.10	0.10	0.25	0.25	0.75
<b>Romania</b>	1.25	1.25	1.50	1.75	2.00
<b>Serbia</b>	1.00	1.00	1.00	1.00	1.00
<b>Eurozone</b>	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	4.5	3.3
<b>Poland</b>	2.3	3.4	4.4	3.9
<b>Romania</b>	3.8	2.7	4.3	3.5
<b>Serbia</b>	1.9	1.6	3.0	3.0
<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	3.8	3.3

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	-5.8	-5.4
<b>Serbia</b>	-6.9	-4.3	-3.7	-3.7
<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	11.3	9.9
<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	-7.2	-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	-6.0	-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

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**30. August 2021**

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