

## CEE Market Insights

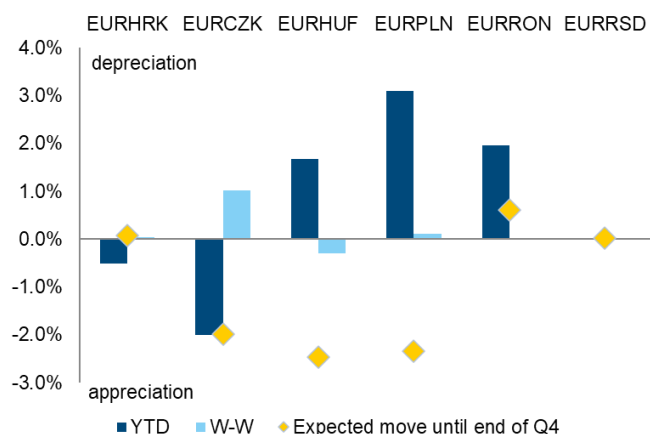
### Domestic demand behind the wheel

#### This week in CEE

An action-packed week awaits us. Many CEE countries will publish their 3Q21 GDP breakdown, followed by several monthly indicators. Serbian GDP footprint will likely be confirmed as one of the strongest ones in the region, standing at 7.4% y/y last quarter. As far as structure goes, domestic demand, notably household consumption, should be the key driver of growth. Brisk economic growth is also to be confirmed in Poland (5.1% y/y) and in Hungary (6.1% y/y), driven predominantly by private consumption and, in the latter case, also investments. Slovenian GDP is also thought to have marked a solid 4% year-over-year increase in 3Q21, driven mostly by domestic demand. A much milder GDP growth pace is likely to be confirmed in Slovakia and Czechia, at 1.3% y/y and 2.8% y/y, respectively, as solid domestic demand was mitigated by weak net exports (linked to supply-side semiconductor issues). Moreover, Poland and Slovenia will publish their flash inflation figures for November – these are likely to show an acceleration to 7.5% y/y and 3.9% y/y, respectively. Retail sales for October will be released in Hungary, Slovakia, Slovenia, Croatia, Serbia and Romania. Slovenian and Croatian prints are likely to be in the double-digits, but a relatively robust development of retail sales is expected also in the other regional economies, even despite some local restrictions that were in place. Industrial production for October is expected to have retained a modest but steady print in Croatia and Serbia, in the region of 2-2.5% y/y.

Monday	Tuesday	Wednesday	Thursday	Friday
<b>HU: Unemployment</b>	<b>PL, SI: 3Q21 GDP, CPI</b>	<b>HU: 3Q21 GDP, PPI</b>	<b>RO: Unemployment, PPI</b>	<b>SK: 3Q21 GDP, Retail sales</b>
<b>SI: Retail sales</b>	<b>RS: GDP, Industry, Retail sales, Trade balance</b>	<b>SK: Current account</b>	<b>HU: Trade balance</b>	<b>HU, RO: Retail sales</b>
	<b>HR: Industry, Retail sales</b>			
	<b>CZ: 3Q21 GDP</b>			
	<b>HR, HU: Bills</b>	<b>CZ: 2031, 2032 Bonds</b>	<b>CZ: Bills</b>	

#### FX market



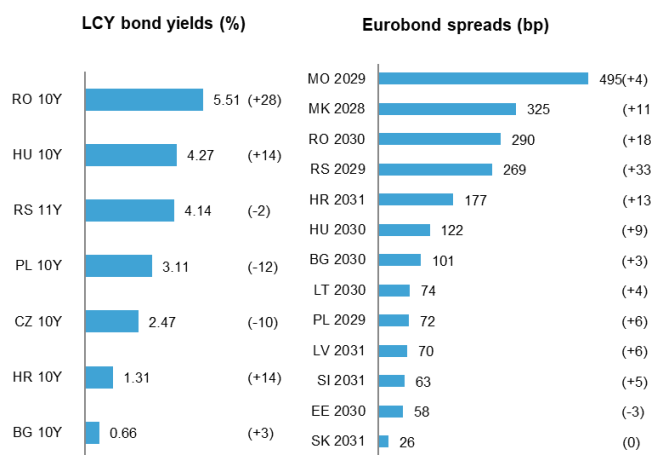
Source: Bloomberg, Erste Group Research

#### FX market developments

The deteriorating pandemic situation is taking its toll on emerging market assets, as investors are fleeing to safe havens. Negative global sentiment and the alarming pandemic situation weighed on the Czech koruna, which depreciated to 25.70 vs. the EUR. Meanwhile, Czech National Bank Governor Rusnok said that after a significant increase in interest rates in September and November, the CNB does not have to rush with further hikes. Rusnok added that he could imagine that the CNB would not raise interest rates at its December meeting. This is a significant change in comparison to his previous statements, probably affected by the current pandemic situation. Should the CNB remain on hold in December, koruna could depreciated further as 50-75bp increase

was broadly expected. This comes on top of risks of country-wide lockdown, which could in our view send koruna to 26.0 vs. the EUR. The strengthening of the Hungarian forint following a bold move by the central bank was short-lived, as the HUF quickly pared its gains and returned to 368 vs. the EUR. The MNB raised the one-week depo rate by 40bp to 2.9% just 15bp below the upper limit of the interest rate corridor. We think that at this week's non-rate-setting meeting (November 30) the MNB could reassess its toolkit and reiterate to the market its commitment to fight inflation, as recent tightening had limited impact on the forint. A mix of global and local factors continues to weigh on the Polish zloty. The PLN bounced back to 4.70 vs. the EUR and remains close to the 12-year low reached earlier last week. The zloty will closely watch the flash inflation reading for November, which will show further acceleration of inflation likely beyond the 7% margin and will be a key driver of the central bank's decision next week.

## LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

## Bond market developments

10Y yields on Hungarian government bonds topped 4.5% last week, the highest yield seen in the last seven years. The situation calmed down after the central bank increased the 1-week deposit rate by another 40bp (thus 110bp in total in November) at its Thursday meeting. Decisive action was targeted to primarily help the forint, but it also supported the long end, while the HGBs curve flattened at the 3Y-5Y segment (around 4.1%). The swap curve was already inverse, with the short end ranging between 3.5% and 4% and the long end falling below 3%. Romanian 10Y yields climbed to 5.5% last week (+30bp w/w) and ROMGBs have pretty much ignored the approval of the new government so far. Given the high pressure on CEE currencies and relatively stable RON observed last week, it is very likely that the NBR was intervening on the FX market and withdrawing RON liquidity, which could weigh on ROMGBs. This week, the Czech Ministry of Finance plans to reopen the CZGB 2031 floater and CZGB 2032. On top of that, Czechia, Croatia and Hungary will be selling T-bills. On Friday, Fitch Ratings is scheduled to review Slovenia's sovereign rating, which currently stands at 'A' with a stable outlook.

## In case you missed

North Macedonia: We published new [Macro Outlook](#).

HR: [3Q21 GDP figure](#) delivered positive surprise.

PL: Government proposed set of [tax cuts](#) to curb inflation. Solid [industrial production](#) and [retail sales](#) in October.

## Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
29. Nov		HU	Unemployment Rate	Oct	3.90%	<b>4.00%</b>	3.90%	Unemployment rate probably hardly changed, while activity rate might have further increased.
	10:30	SI	Retail Sales (y/y)	Oct		<b>15.00%</b>	17.10%	Retail trade growth expected to remain strong.
30. Nov	9:00	CZ	GDP (y/y)	3Q P	2.80%	<b>2.80%</b>	2.80%	Given problems in automotive sector and high energy prices, GDP growth should slow down.
	10:00	PL	CPI (y/y)	Nov P	7.2%	<b>7.5%</b>	6.80%	Inflation to accelerate further in November. Proposed tax changes should start to have impact on headline CPI starting from December 2021.
	10:00	PL	GDP (y/y)	3Q F		<b>5.10%</b>	5.10%	Flash 3Q21 GDP growth to be confirmed at 5.1% y/y. Private consumption was likely key growth driver, while net export likely remained drag on headline figure.
	10:30	SI	CPI (y/y)	Nov		<b>3.90%</b>	3.00%	Inflation seen staying at higher levels.
	10:30	SI	GDP (y/y)	3Q		<b>4.00%</b>	16.30%	GDP growth is expected to moderate in 3Q, with domestic demand remaining key growth engine.
	11:00	HR	Industrial Production (y/y)	Oct		<b>2.50%</b>	3%	October industrial production to remain in modest positive region.
	11:00	HR	Retail Sales (y/y)	Oct		<b>12.00%</b>	14.50%	Retail trade expected to keep vivid growth footprint.
	12:00	RS	Industrial Production (y/y)	Oct		<b>2.00%</b>	1.40%	We expect continuation of slow but steady industry growth.
	12:00	RS	Retail Sales (y/y)	Oct		<b>7.00%</b>	4.30%	Retail activity likely recorded high-single-digit growth in October, underpinned by steady wage growth and solid credit activity.
	12:00	RS	Trade Balance	Oct			-517.8	
	12:00	RS	GDP (y/y)	3Q F		<b>7.40%</b>	7.40%	We expect stat office to confirm initial estimate. As far as structure goes, domestic demand, notably household consumption, will likely be confirmed as key driver of growth.
01. Dec		SK	Current Account Balance (monthly)	Oct			-461	
	9:00	HU	PPI (y/y)	Oct			13.98%	
	9:00	HU	GDP (y/y)	3Q F	6.10%	<b>6.10%</b>	6.10%	Flash estimate to be confirmed. Main growth drivers were probably consumption and investments.
02. Dec	8:00	RO	Unemployment Rate	Oct			5%	
	8:00	RO	PPI (y/y)	Oct			19.51%	
	9:00	HU	Trade Balance	Sep F			1.0	
03. Dec	8:00	RO	Retail Sales (y/y)	Oct		<b>6.20%</b>	8.40%	Weaker business activity (sales) development over past three months reported by managers. Green certificate applicable towards end of the month. Peak fourth pandemic wave discouraging mobility.
	9:00	HU	Retail Sales (y/y)	Oct	4.2%	<b>4.70%</b>	5.80%	Fuel base figure from last year is still low, but base of non-food items are higher, implying slowdown in yearly growth figure.
	9:00	SK	Retail Sales (y/y)	Oct		<b>8.00%</b>	5.30%	Low base in October 2020 combined with strong economic activity, indicated by payments of our clients, will result in high y/y growth.
	9:00	SK	GDP (y/y)	3Q F		<b>1.30%</b>	1.30%	Flash GDP estimate to be confirmed.

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	2021Q4	2022Q1	2022Q2	2022Q3
<b>Croatia 10Y</b>	0.5	0.5	0.6	0.6	0.7
spread (bps)	79	61	63	61	59
<b>Czechia 10Y</b>	2.5	2.5	2.4	2.3	2.3
spread (bps)	281	265	251	235	225
<b>Hungary 10Y</b>	4.3	4.0	4.0	4.0	4.1
spread (bps)	461	416	408	401	399
<b>Poland 10Y</b>	3.1	3.10	3.20	3.20	3.10
spread (bps)	344	326	328	321	304
<b>Romania10Y</b>	5.5	5.2	5.1	4.9	4.8
spread (bps)	585	536	518	491	474
<b>Slovakia 10Y</b>	0.0	0.2	0.3	0.3	0.4
spread (bps)	30	36	33	31	34
<b>Slovenia 10Y</b>	0.19	0.10	0.20	0.30	0.35
spread (bps)	53	26	28	31	29
<b>Serbia 5Y</b>	3.3	3.4	3.2	3.0	2.8
spread (bps)	366	351	323	296	274
<b>DE10Y*</b>	-0.34	-0.16	-0.08	-0.01	0.06

\* Spreads based on Bloomberg consensus forecast

### 3M Money Market Rate

	current	2021Q4	2022Q1	2022Q2	2022Q3
<b>Czechia</b>	3.20	3.21	3.32	3.32	3.07
<b>Hungary</b>	3.32	3.45	4.35	4.40	4.15
<b>Poland</b>	1.91	1.95	2.70	2.70	2.95
<b>Romania</b>	2.63	2.50	3.25	3.75	4.00
<b>Serbia</b>	0.92	0.93	0.93	0.94	0.94
<b>Eurozone</b>	-0.57	-0.54	-0.54	-0.54	-0.54

### Real GDP growth (%)

	2020	2021f	2022f	2023f
<b>Croatia</b>	-8.1	8.7	4.8	4.5
<b>Czechia</b>	-5.8	2.4	4.0	4.7
<b>Hungary</b>	-4.7	6.7	4.7	4.5
<b>Poland</b>	-2.5	5.3	4.8	4.3
<b>Romania</b>	-3.9	6.4	4.0	5.0
<b>Serbia</b>	-1.0	7.0	4.5	4.5
<b>Slovakia</b>	-4.4	3.0	4.2	3.7
<b>Slovenia</b>	-4.2	7.2	4.8	3.9
<b>CEE8 avg</b>	-3.9	5.2	4.5	4.5

### Public debt (% of GDP)

	2020	2021f	2022f	2023f
<b>Croatia</b>	87.1	82.6	79.7	81.4
<b>Czechia</b>	38.1	43.1	45.2	47.0
<b>Hungary</b>	80.1	79.6	77.8	76.5
<b>Poland</b>	57.5	56.1	55.0	52.0
<b>Romania</b>	47.4	49.4	50.7	50.2
<b>Serbia</b>	57.4	55.5	54.6	52.5
<b>Slovakia</b>	59.7	62.9	61.7	60.1
<b>Slovenia</b>	79.8	76.9	74.2	72.3
<b>CEE8 avg</b>	57.2	57.5	57.1	55.8

### FX

	current	2021Q4	2022Q1	2022Q2	2022Q3
<b>EURHRK</b>	7.52	7.53	7.53	7.48	7.48
<b>EURCZK</b>	25.61	25.20	25.00	24.78	24.69
<b>EURHUF</b>	368.10	360.00	355.00	350.00	350.00
<b>EURPLN</b>	4.69	4.60	4.55	4.55	4.52
<b>EURRON</b>	4.95	4.98	4.99	5.03	5.05
<b>EURRSD</b>	117.51	117.60	117.60	117.60	117.60
<b>EURUSD</b>	1.13	1.13	1.15	1.17	1.18

### Key Interest Rate

	current	2021Q4	2022Q1	2022Q2	2022Q3
<b>Croatia</b>	0.05	0.05	0.05	0.05	0.05
<b>Czechia</b>	2.75	3.00	3.25	3.25	3.00
<b>Hungary</b>	2.10	2.40	3.30	3.50	3.50
<b>Poland</b>	1.25	1.75	2.50	2.50	2.75
<b>Romania</b>	1.75	1.75	2.25	2.75	3.00
<b>Serbia</b>	1.00	1.00	1.00	1.00	1.00
<b>Eurozone</b>	0.00	0.00	0.00	0.00	0.00

### Average inflation (%)

	2020	2021f	2022f	2023f
<b>Croatia</b>	0.1	2.5	2.6	1.5
<b>Czechia</b>	3.2	3.8	4.5	2.2
<b>Hungary</b>	3.3	5.0	4.7	3.3
<b>Poland</b>	3.4	5.0	6.0	3.5
<b>Romania</b>	2.7	4.9	5.5	3.5
<b>Serbia</b>	1.6	3.9	3.9	2.5
<b>Slovakia</b>	1.9	3.0	5.0	3.5
<b>Slovenia</b>	0.0	1.5	1.7	1.6
<b>CEE8 avg</b>	2.8	4.4	5.1	3.1

### C/A (%GDP)

	2020	2021f	2022f	2023f
<b>Croatia</b>	-0.1	1.0	0.7	-0.2
<b>Czechia</b>	3.6	1.5	1.2	0.9
<b>Hungary</b>	-1.6	-2.3	-2.2	-1.4
<b>Poland</b>	3.5	-1.1	-0.6	0.3
<b>Romania</b>	-5.2	-6.5	-6.1	-5.9
<b>Serbia</b>	-4.2	-3.7	-3.8	-3.6
<b>Slovakia</b>	0.1	-1.1	-0.8	-1.3
<b>Slovenia</b>	7.0	5.3	4.5	4.3
<b>CEE8 avg</b>	1.0	-1.5	-1.3	-0.9

### Unemployment (%)

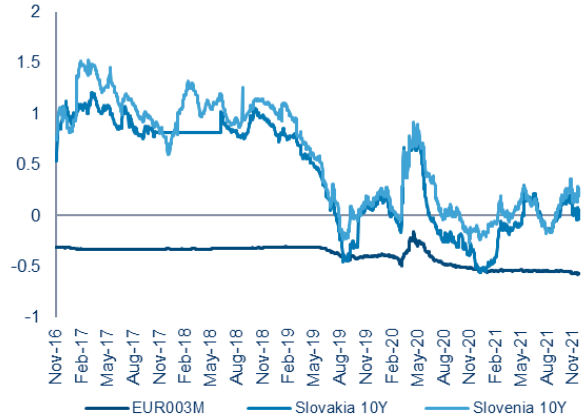
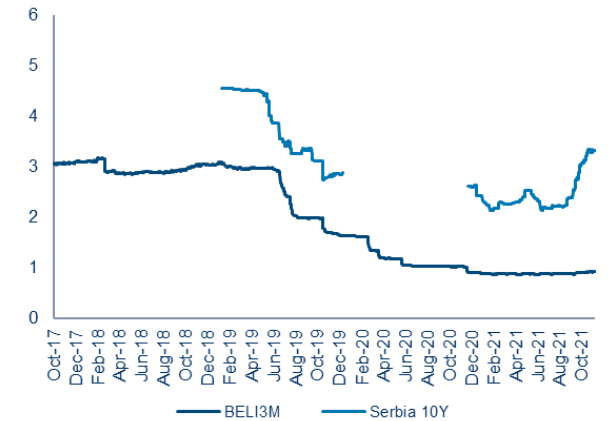
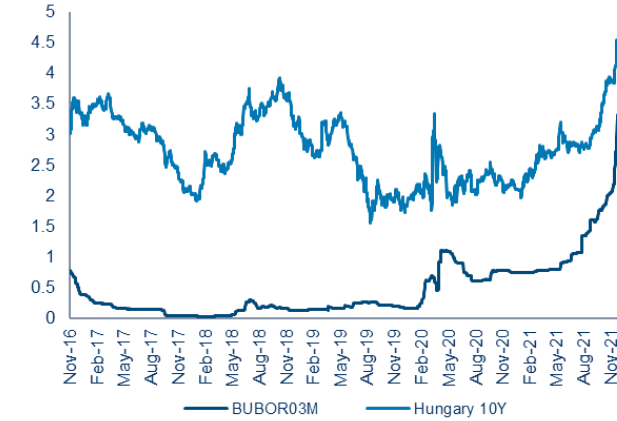
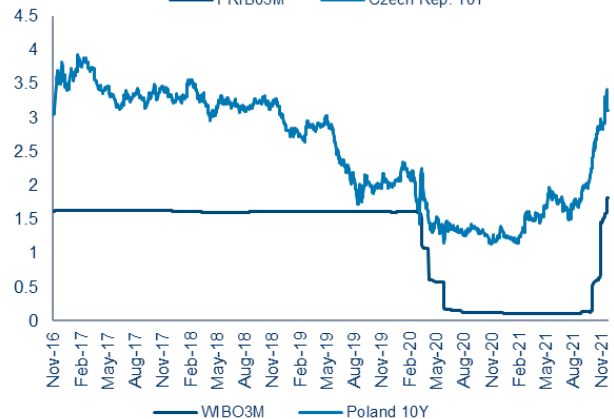
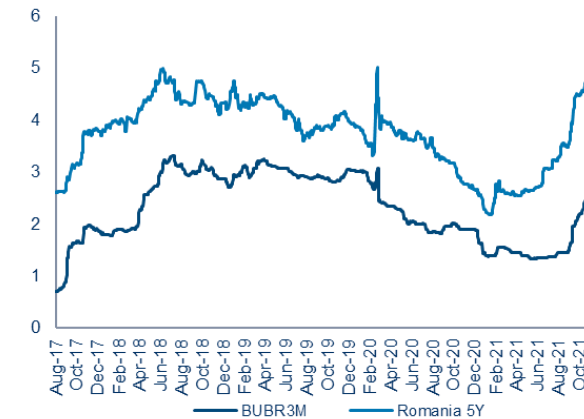
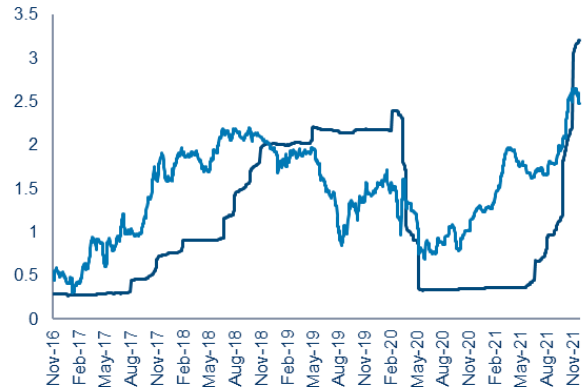
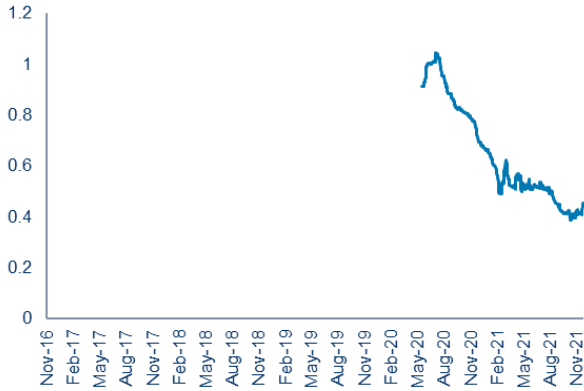
	2020	2021f	2022f	2023f
<b>Croatia</b>	7.5	8.2	7.1	6.1
<b>Czechia</b>	2.6	3.0	2.9	3.0
<b>Hungary</b>	4.1	4.1	3.8	3.5
<b>Poland</b>	5.9	6.0	5.5	5.4
<b>Romania</b>	5.0	5.5	5.4	4.9
<b>Serbia</b>	9.7	11.4	10.6	10.1
<b>Slovakia</b>	6.7	7.0	6.4	5.7
<b>Slovenia</b>	5.0	5.2	4.9	4.6
<b>CEE8 avg</b>	5.2	5.6	5.2	4.9

### Budget Balance (%GDP)

	2020	2021f	2022f	2023f
<b>Croatia</b>	-7.4	-4.5	-2.9	-2.0
<b>Czechia</b>	-6.1	-7.2	-4.6	-1.8
<b>Hungary</b>	-8.0	-7.3	-5.8	-4.0
<b>Poland</b>	-7.0	-2.1	-2.9	-3.0
<b>Romania</b>	-9.4	-7.8	-5.4	-4.3
<b>Serbia</b>	-8.0	-4.5	-3.0	-1.5
<b>Slovakia</b>	-5.5	-6.0	-4.0	-2.5
<b>Slovenia</b>	-8.4	-7.0	-4.5	-1.0
<b>CEE8 avg</b>	-7.3	-5.0	-4.0	-2.9

Source: Bloomberg, Erste Group Research

## Appendix



Source: Bloomberg, Erste Group Research

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