

CEE Market Insights

Polish interest rate hike veiled by uncertainty

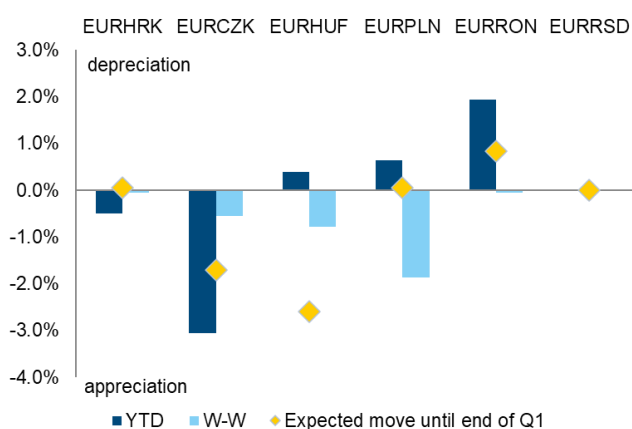
This week in CEE

The coming days will be action-packed as we will see two central bank meetings and a bunch of real economy data across CEE – including further inflation prints for November. The Polish central bank will meet on Wednesday and, given the size of November inflation surprise, we expect the central bank to raise the key rate by 75bp to 2.0%. However, a smaller move cannot be ruled out due to the recent announcement of the “Anti-inflation shield” package by the government, slowing economic growth and pandemic worries. The Serbian central bank, on the other hand, has outlined several times it has no intention to raise rates in the near term and we expect it to hold its key rate steady at 1%. Romania will complete the 3Q21 GDP breakdown in CEE. Economic growth should be confirmed at 7.2% y/y (0.3% q/q), whereby in quarter-on-quarter terms a strong positive contribution from agriculture likely just about offset the large negative contribution from industry and construction. November inflation will be released in Hungary and Czechia. We expect an acceleration of consumer price growth in both countries, to 7.3% y/y in Hungary and 6.3% y/y in Czechia. Higher food and fuel prices were likely the key culprits behind the speed-up compared to the preceding month. Whereas this might be the peak in Hungary, Czech inflation could have to wait until January for that. Moreover, industrial production figures for October will be published in Czechia, Slovakia, Hungary and Slovenia. We expect negative year-on-year development in the first three countries, as supply-side issues bite manufacturers; however, Slovenian industry likely marked a robust 5% y/y increase.

Monday	Tuesday	Wednesday	Thursday	Friday
CZ: Retail sales, wages	RO: 3Q21 GDP	PL: Central bank	RS: Central bank	CZ: CPI
	CZ: Industry, Trade balance	HU: CPI	HR, SK: Trade balance	SK, SI: Industry
	HU: Industry	HR: PPI		RO: Trade balance
RO: 2025, 2029 Bonds	HU: Bills		RO: 2025, 2030 Bonds	

FX market

FX market developments

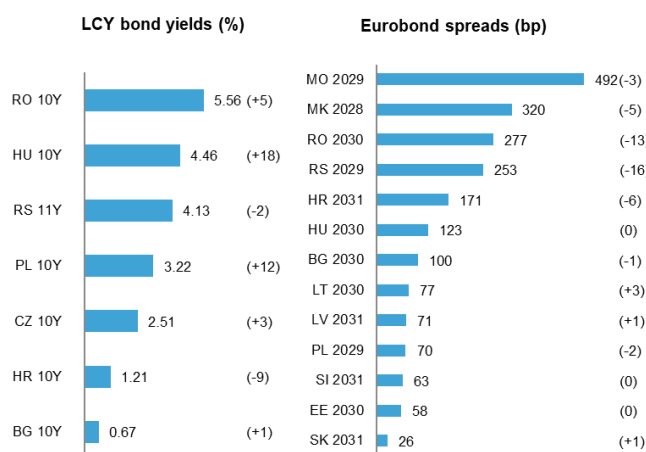


Source: Bloomberg, Erste Group Research

Increased volatility and the emerging market sell-off caused by the omicron variant was short-lived, as CEE currencies pared their losses and appreciated. The Polish zloty moved to 4.60 vs. the EUR, supported by a swing in the central bank’s rhetoric. Following a change in Jerome Powell’s view on inflation, Governor Glapinski also no longer sees it as transitory. He said that the central bank will bring inflation to ‘minimum levels’ without triggering high unemployment. Moreover, after the publication of flash CPI for November, which again surprised markets to the upside, the governor said that there is still room to raise interest rates, but ‘it is not unlimited’. Changes in the monetary policy toolkit and further tightening of monetary conditions supported the Hungarian forint. After shifting the interest rate corridor and significantly increasing its upper limit, the Hungarian central bank

delivered a fourth consecutive rate increase in a month, as it raised the one-week depo rate by 20bp to 3.1%. All in all, we expect the MNB to hike the depo rate once again on Thursday and follow with a key rate increase next week (December 14). The improved global sentiment was positive for the Czech koruna, as it strengthened and moved back to 25.4 vs. the EUR. As far as the Romanian leu is concerned, it remains stable at 4.95 vs. the EUR. Nevertheless, if regional central banks continue to tighten monetary conditions in December and January, the pressure on the RON might increase and may force the central bank to intervene more aggressively.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

QE programs seem to be coming to an official end in the CEE region. Although the National Bank of Poland has already significantly lowered its bond purchases in recent months, for the first time since the launch of the program, it did not schedule a tender in December. However, the NBP does not rule out future operations, if required by the market situation. The bond purchase program is also in focus in Hungary and Governor Matolcsy said that the MNB will wind down its QE program to boost its monetary tightening efforts. We think that the MNB might continue to buy bonds in 1Q22, but likely at much lower volumes, up to HUF 10bn per week. At the December rate setting meeting, the MNB will review its weekly limit of purchases, which currently stands at HUF 40bn. Long ends of LCY curves went up in the CEE region, with the most pronounced increases observed in Poland and Hungary, where the 10Y yields returned to 3.3% and 4.6%, respectively. This week, two regional central banks will convene meetings. While the National Bank of Poland will most likely deliver another rate hike, the National Bank of Serbia is expected to keep the key rate unchanged at 1.0%. The NBS has been communicating that they are using other available tools to withdraw surplus liquidity from the market.

In case you missed

CEE: 3Q21 GDP growth has been confirmed in [SK](#) and [HU](#), while it was revised up in [CZ](#), [PL](#) and [RS](#).

CEE: October retail sales were below expectations in [SK](#) and [RO](#), while they met expectations in [HU](#) and [RS](#).

HU: [Central bank](#) shifted interest rate corridor and raised [one-week depo](#) rate.

SI: [3Q21 GDP](#) growth arrived at 5.0% y/y. [Inflation](#) rose further in November. Fitch affirmed Slovenia rating at 'A' with stable outlook.

PL: [Inflation](#) surged to 7.7% y/y in November.

RS: [Industrial production](#) modestly up in October.

RO: [Sentiment](#) points toward slower growth.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
06. Dec	9:00	CZ	Retail Sales (y/y)	Oct	5.00%	6.10%	3.60%	Although domestic demand is slowing down, retail sales growth is affected by base effect in y/y terms.
	9:00	CZ	Wages (y/y)	3Q	1.20%	-0.90%	8.20%	High inflation stands behind decrease in real wages; however, nominal wage growth is still relatively low. Similar development is expected for several coming quarters.
07. Dec		CZ	Industrial Production (y/y)	Oct		-6.50%	-4.00%	Due to lack of chips, production of new cars significantly decreased in October.
		CZ	Trade Balance	Oct	-14.3	-17.5	16.3	Trade balance should stay in deficit. This is result of high energy prices and, more importantly, low car exports.
	8:00	RO	GDP (q/q)	3Q P		0.30%	0.30%	We expect flash estimate to be confirmed. We expect GDP excluding agriculture to show sequential contraction in 3Q21.
	8:00	RO	GDP (y/y)	3Q P	7.2%	7.20%	7.20%	Supply side, we suspect that strong positive contribution from agriculture barely offset large negative contribution from industry and construction, which posted large sequential contractions vs. previous quarter, based on monthly data. Industrial production was down 4.6% q/q in 3Q21.
	9:00	HU	Industrial Production (y/y)	Oct		-3.20%	-1.70%	Production levels remained moderate, due to supply chain tensions and high energy and raw material prices. Meanwhile, base figure from last year is high.
	12:00	RS	PPI (y/y)	Nov			14%	
08. Dec		PL	Central Bank Rate	Dec 8	1.75%	2.00%	1.25%	Given size of November inflation surprise, we expect central bank to raise key rate by 75bp to 2.0%. However, smaller move cannot be ruled out, due to announcement of 'anti-inflation shield', slowing economic growth and pandemic worries.
	9:00	HU	CPI (y/y)	Nov	7.20%	7.30%	6.50%	Unsupportive base effect from last year, coupled with higher food and fuel prices, implies further relevant acceleration of headline CPI rate.
	11:00	HR	PPI (y/y)	Nov			16.40%	
09. Dec	9:00	SK	Trade Balance	Oct		100	-75.8	Improved situation in the automotive industry is expected to have a positive effect on exports, while imports should be pushed by a partial domestic demand recovery.
	11:00	HR	Trade Balance	Sep			-6657.8	
	12:00	RS	Central Bank Rate	Dec 9		1.00%	1.00%	Central bank outlined several times it will not raise interest rates in near term.
10. Dec		SK	Industrial Production (y/y)	Oct		-3.00%	-5.00%	According to public sources, semiconductor problems affected to larger extent only smallest car manufacturer in Slovakia. In addition, high energy prices caused production disruptions in Slovak industry in October.
	8:00	RO	Trade Balance	Oct			-2131.3	
	9:00	CZ	CPI (y/y)	Nov	6%	6.30%	5.80%	Inflation has been accelerating, with expected peak between 7% and 7.5 % in January. Pro-inflationary environment is affected by both supply-side as well as demand factors.
	9:00	CZ	CPI (m/m)	Nov	0.1%	0.50%	1.0%	Food and energy prices are most important factors behind October rise in price level.
	10:30	SI	Industrial Production (y/y)	Oct		5.00%	7.80%	Positive trends on industrial production side expected to continue.

Source: Erste Group Research

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Note: Past performance is not necessarily indicative of future results

Forecasts

Government bond yields

	current	2022Q1	2022Q2	2022Q3	2022Q4
Croatia 10Y	0.5	0.6	0.6	0.7	0.7
spread (bps)	87	63	61	59	63
Czechia 10Y	2.5	2.4	2.3	2.3	2.2
spread (bps)	290	251	235	225	217
Hungary 10Y	4.5	4.3	4.1	4.1	4.1
spread (bps)	485	438	411	404	403
Poland 10Y	3.2	3.20	3.10	3.00	2.90
spread (bps)	362	328	311	294	283
Romania 10Y	5.6	5.1	4.9	4.8	4.7
spread (bps)	595	518	491	474	463
Slovakia 10Y	-0.1	0.3	0.3	0.4	0.5
spread (bps)	31	33	31	34	38
Slovenia 10Y	0.15	0.20	0.30	0.35	0.35
spread (bps)	54	28	31	29	28
Serbia 5Y	3.3	3.2	3.0	2.8	2.7
spread (bps)	371	323	296	274	258
DE10Y*	-0.39	-0.08	-0.01	0.06	0.07

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2022Q1	2022Q2	2022Q3	2022Q4
Czechia	3.20	3.32	3.32	3.07	2.98
Hungary	3.47	4.35	4.40	4.15	3.75
Poland	2.21	3.25	3.25	3.50	3.50
Romania	2.66	3.25	3.75	4.00	3.75
Serbia	0.92	0.93	0.94	0.94	0.95
Eurozone	-0.56	-0.54	-0.54	-0.54	-0.54

Real GDP growth (%)

	2020	2021f	2022f	2023f
Croatia	-8.1	8.7	4.8	4.5
Czechia	-5.8	2.4	4.0	4.7
Hungary	-4.7	6.7	4.7	4.5
Poland	-2.5	5.3	4.6	4.2
Romania	-3.9	6.4	4.0	5.0
Serbia	-1.0	7.0	4.5	4.5
Slovakia	-4.4	3.0	4.2	3.7
Slovenia	-4.2	7.2	4.8	3.9
CEE8 avg	-3.9	5.2	4.4	4.4

Public debt (% of GDP)

	2020	2021f	2022f	2023f
Croatia	87.1	82.6	79.7	81.4
Czechia	38.1	43.1	45.2	47.0
Hungary	80.1	79.4	76.6	74.8
Poland	57.5	56.1	55.0	52.0
Romania	47.4	49.0	50.9	51.4
Serbia	57.4	55.5	54.6	52.5
Slovakia	59.7	62.9	61.7	60.1
Slovenia	79.8	76.9	74.2	72.3
CEE8 avg	57.2	57.4	57.0	55.9

FX

	current	2022Q1	2022Q2	2022Q3	2022Q4
EURHRK	7.52	7.53	7.48	7.48	7.53
EURCZK	25.43	25.00	24.78	24.69	24.60
EURHUF	365.33	355.00	350.00	350.00	350.00
EURPLN	4.60	4.60	4.58	4.56	4.55
EURRON	4.95	4.99	5.03	5.05	5.08
EURRSD	117.62	117.60	117.60	117.60	117.60
EURUSD	1.13	1.15	1.15	1.15	1.15

Key Interest Rate

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

Average inflation (%)

	2020	2021f	2022f	2023f
Croatia	0.1	2.5	2.6	1.5
Czechia	3.2	3.8	4.5	2.2
Hungary	3.3	5.0	4.8	3.3
Poland	3.4	5.0	6.0	3.5
Romania	2.7	4.9	5.5	3.5
Serbia	1.6	3.9	3.9	2.5
Slovakia	1.9	3.0	5.0	3.5
Slovenia	0.0	1.5	1.7	1.6
CEE8 avg	2.8	4.4	5.1	3.1

C/A (%GDP)

	2020	2021f	2022f	2023f
Croatia	-0.1	1.0	0.7	-0.2
Czechia	3.6	1.5	1.2	0.9
Hungary	-1.6	-2.4	-2.7	-1.3
Poland	3.5	-1.1	-0.6	0.3
Romania	-5.2	-6.5	-6.1	-5.9
Serbia	-4.2	-3.7	-3.8	-3.6
Slovakia	0.1	-1.1	-0.8	-1.3
Slovenia	7.0	5.3	4.5	4.3
CEE8 avg	1.0	-1.5	-1.3	-0.9

Unemployment (%)

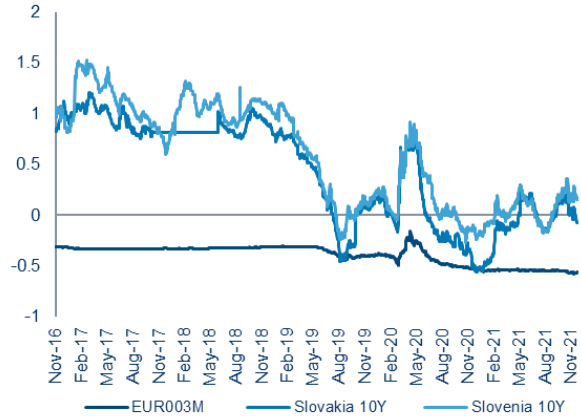
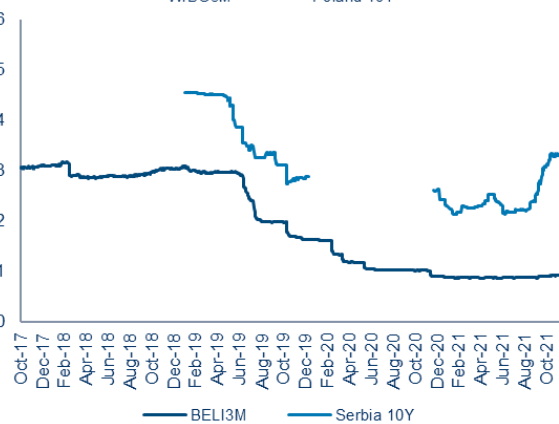
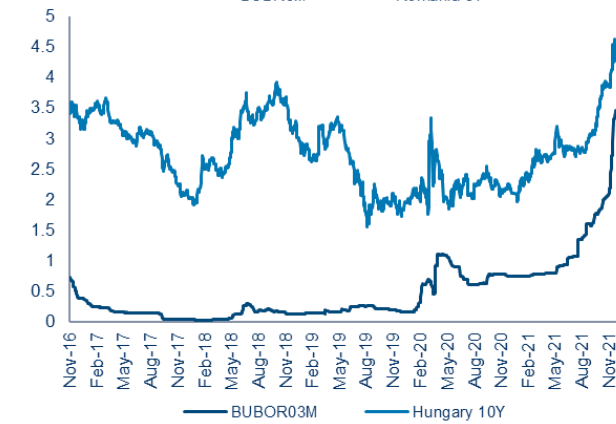
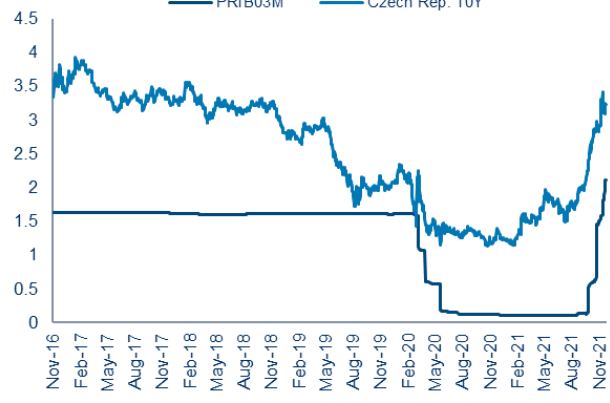
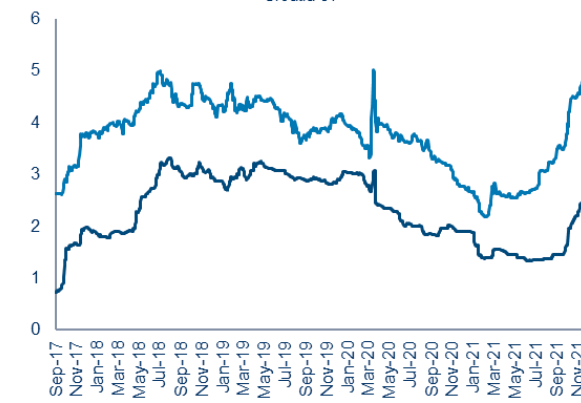
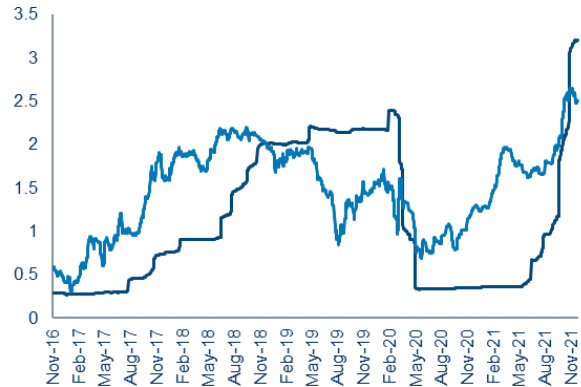
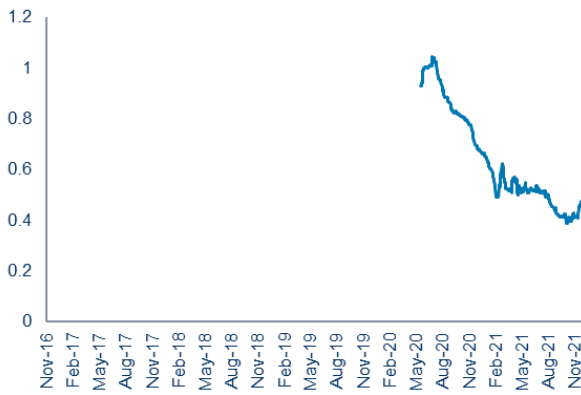
	2020	2021f	2022f	2023f
Croatia	7.5	8.2	7.1	6.1
Czechia	2.6	3.0	2.9	3.0
Hungary	4.1	4.1	3.8	3.5
Poland	5.9	6.0	5.5	5.4
Romania	5.0	5.5	5.4	4.9
Serbia	9.7	11.4	10.6	10.1
Slovakia	6.7	7.0	6.4	5.7
Slovenia	5.0	5.2	4.9	4.6
CEE8 avg	5.2	5.6	5.2	4.9

Budget Balance (%GDP)

	2020	2021f	2022f	2023f
Croatia	-7.4	-4.5	-2.9	-2.0
Czechia	-6.1	-7.2	-4.6	-1.8
Hungary	-8.0	-7.3	-5.7	-3.9
Poland	-7.0	-2.1	-3.3	-3.0
Romania	-9.4	-7.8	-6.2	-5.2
Serbia	-8.0	-4.5	-3.0	-1.5
Slovakia	-5.5	-6.0	-4.0	-2.5
Slovenia	-8.4	-7.0	-4.5	-1.0
CEE8 avg	-7.3	-5.0	-4.3	-3.1

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Market Insights
6 December 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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