Erste Group Research
CEE Market Insights
13 December 2021

CEE Market Insights

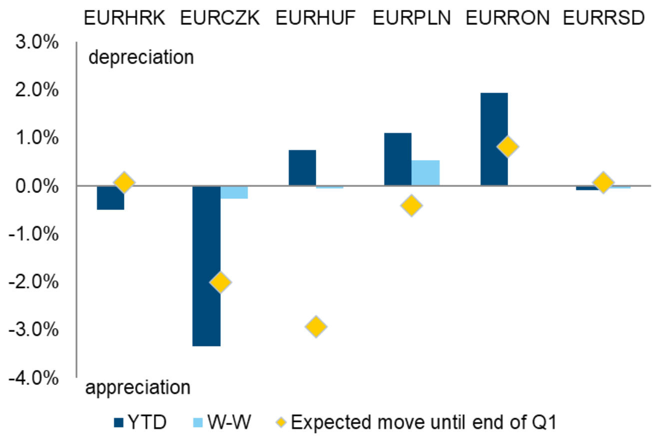
All eyes on the Hungarian central bank move

This week in CEE

Inflation and monetary policy will be in the limelight this week, as we await a flood of CPI prints and the Hungarian central bank decision. Another 30bp increase of the policy rate to 2.4% is the most probable at Tuesday's MNB meeting, however the Hungarian central bank may adjust the policy rate closer to the 1-week depo rate which would indicate a bigger step. The review of the QE program, which is expected to be gradually phased out soon, as well as publication of economic and inflation forecasts are also scheduled. Consumer price growth likely accelerated further across the region in November. Fuel and food prices continue to play a visible role, combined with several local factors. Croatian CPI print is anticipated to have sped up to 4.2% y/y and the Slovak one to 5.4% y/y. Serbian inflation likely went up to 7.1% y/y, whereas Romanian CPI growth is expected at just over 8% year-on-year. Romanian gas bills were not impacted by the price cap and subsidies in November, but the impact should be visible in December. Polish flash inflation reading of 7.7% y/y should be confirmed, with core inflation accelerating to 4.7% y/y last month. Moreover, inflationary pressures remain elevated also in production – we expect Czech producer price growth to have peaked at 13.3% y/y in November. Moreover, October industrial production in Romania likely fell by 6.6% y/y, on the back of supply-side issues. We will also see the first November real economy data for Poland. Both employment and wage growth likely remained solid, at 0.5% y/y and 8.5% y/y, respectively.

Monday	Tuesday	Wednesday	Thursday	Friday
RO: CPI, Industry, Wages	**HU: Central bank**	**PL: CPI**	**CZ: PPI**	**HR: CPI**
RS: CPI	**SK: CPI**			**PL: Wages**
SK: Wages	**PL: Trade balance**			**SK: Unemployment**
RO: 2027, 2031 Bonds	**RS: 2025 Bonds**	**CZ: 2027, 2029, 2033 Bonds**	**CZ: Bills**	
	HU: Bills		**RO: Bills, 2036 Bonds**	

FX market

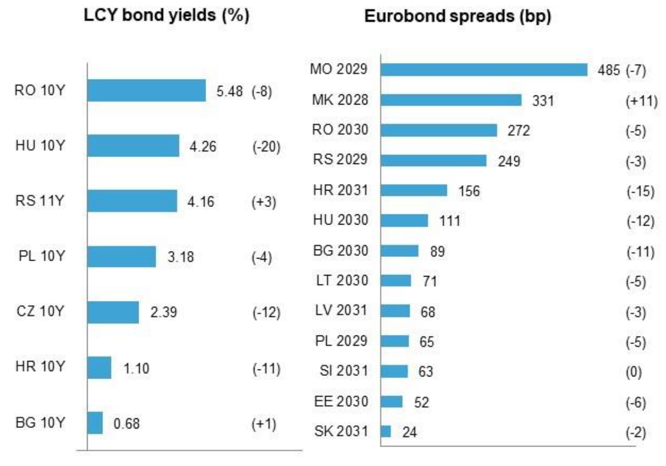


Source: Bloomberg, Erste Group Research

FX market developments

The preceding week was calm on the CEE FX market as the currencies were broadly unchanged. The Hungarian central bank delivered its fifth rate hike in a month as it raised the one-week deposit rate by 20bp to 3.3%. Despite the delivered increase and Deputy Governor Virag reiterating the MNB's pledge to further rate hikes, the Hungarian forint marginally weakened toward 365 vs. the EUR. This week, all eyes will still be on the MNB as the central bank is to hold a regular rate-setting meeting. Given last week's increase of the one-week depo rate, we expect the MNB to raise the key rate by 30bp to 2.4% and follow with the same increase of the deposit rate later this week. Elsewhere, the National Bank of Poland raised the target rate by 50bp to 1.75%, bringing it above the pre-pandemic level. The statement released after the decision suggests that the central bank will continue raising rates, but the pace of tightening might be slower than we currently expect. Governor Glapinski sees space for further rate hike(s), but in his view the NBP 'have already raised rates quite significantly'. The decision left markets somewhat unsatisfied as a more aggressive increase has been priced in, resulting in the weakening of the PLN toward 4.62 vs. the EUR. The EURCZK trades in the range 25.4-25.50, while the National Bank of Romania keeps a tight grip on the exchange rate as the EURRON remains anchored at 4.95. We expect some weakening of the leu at the end of the year to 4.98 vs. the EUR.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

CEE government bond markets finally saw some correction; yields declined and spreads (also on Eurobonds) narrowed last week. The most visible move happened on the HGB yield curve, where the 10Y yield fell 25bp w/w and the curve continued to flatten around 4-4.20%. It seems that the reduction of government bond purchases is not harming HGBs too much, as it adds credibility to the recent tightening, which may help to anchor inflation expectations and thus keep rates at a less elevated level in the mid run. We expect flattening or even an inversion of yield curves to take place in the coming quarters in all countries in which central banks have taken bold steps towards fighting inflation. This week, Czechia will reopen CZGBs 2027, 2029, 2033, Romania ROMGBs 2027, 2031, 2036 and Serbia SERBG 2025. On top of that, Czechia, Hungary and Romania will issue T-bills. On Friday, Moody's is supposed to issue its review of Slovakia's sovereign rating, which currently stands at 'A2' with a stable outlook.

In case you missed

CEE: We published CEE Macro Outlook and country outlooks for CZ, HR, HU, PL, RO, SK, SI, RS and Montenegro.
CEE: We published CEE Special Report | Inflation: Through the (Taylor) Looking-Glass
CZ: Inflation affected by VAT changes. Industrial production above expectations in October. Fitch affirmed rating at 'AA-' with stable outlook.
SK: Industry and trade performed better than expected in October.
PL: Central bank raised key rate by 50bp to 1.75%. More rate hikes to come, but tightening might be spread over time.
RS: Central bank remained on hold. S&P affirmed rating at 'BB+' and moved outlook to positive from stable.
HU: Another increase of one-week depo rate. Inflation continued to accelerate in November. Moderate monthly performance of industry. Trade surplus disappeared in October.

RO: Weak underlying picture for 3Q21 GDP growth.
SI: S&P affirmed rating at ‘AA-‘ with stable outlook.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
13. Dec	8:00	RO	Industrial Production (y/y)	Oct		**-6.60%**	-3.20%	Sharp drop in production trend observed in recent months reported in ESI survey.
	8:00	RO	CPI (y/y)	Nov	8.04%	**8.04%**	7.94%	
	8:00	RO	CPI (m/m)	Nov		**0.22%**	1.78%	Gas bills not impacted by price cap and subsidies in November. Impact should be visible in December.
	8:00	RO	Wages (y/y)	Oct		**5.70%**	5.90%	
	9:00	SK	Wages (y/y)	Oct			0.50%	
	12:00	RS	CPI (y/y)	Nov	6.80%	**7.10%**	6.60%	We expect further acceleration of inflation.
14. Dec		RO	Current Account Balance (monthly)	Oct			-11500	
	9:00	SK	CPI (y/y)	Nov		**5.40%**	5.10%	Imputed rents (proxy for construction materials) have been rising since beginning of 2021, currently acting as largest contributor to inflation rate. Moreover, food and fuel prices have been playing important role.
	9:00	SK	CPI (m/m)	Nov		**0.30%**	0.60%	On a monthly basis, we expect the largest contributions from industrial goods, services, and fuel prices.
	14:00	HU	Central Bank Rate	Dec 14	2.40%	**2.40%**	2.10%	Another 30bp increase in policy rate is most probable, however bank might adjust policy rate closer to 1-week depo rate, which indicates bigger step. Review of QE program and publication of economic and inflation forecasts are also scheduled.
	14:00	PL	Trade Balance	Oct	112		-111	
15. Dec	10:00	PL	CPI (y/y)	Nov F		**7.70%**	7.70%	We expect flash reading to be confirmed at 7.7% y/y. Core inflation to accelerate to 4.7% y/y in November.
16. Dec	9:00	CZ	PPI (y/y)	Nov	13.30%	**13.30%**	11.60%	Energy prices and lack of materials have been pushing producer prices upwards. We expect November figure to be peak, with gradual slowing down from December thereafter.
17. Dec		SK	Unemployment Rate	Nov		**6.70%**	6.79%	We expect only small decrease in unemployment rate in November as more strict pandemic restrictions became valid at end of month.
	10:00	PL	Wages (y/y)	Nov	9.0%	**8.50%**	8.4%	Wage growth to remain solid in November.
	11:00	HR	CPI (y/y)	Nov		**4.20%**	3.80%	Inflation expected to remain at higher levels.
	11:00	HR	CPI (m/m)	Nov			1.00%	

Source: Erste Group Resarch

Note: Past performance is not necessarily indicative of future results

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Forecasts

Government bond yields

	current	2022Q1	2022Q2	2022Q3	2022Q4
Croatia 10Y	0.5	0.6	0.6	0.7	0.7
spread (bps)	82	62	61	59	63
Czechia 10Y	2.4	2.7	2.6	2.5	2.4
spread (bps)	276	273	258	244	232
Hungary 10Y	4.3	4.3	4.1	4.1	4.1
spread (bps)	462	437	411	404	403
Poland 10Y	3.2	3.20	3.10	3.00	2.90
spread (bps)	353	327	311	294	283
Romania10Y	5.5	5.1	4.9	4.8	4.7
spread (bps)	583	517	491	474	463
Slovakia 10Y	0.0	0.3	0.3	0.4	0.5
spread (bps)	30	32	31	34	38
Slovenia 10Y	0.20	0.35	0.40	0.45	0.45
spread (bps)	55	42	41	39	38
Serbia 5Y	3.3	3.5	3.4	3.2	3.1
spread (bps)	368	357	336	314	303
DE10Y*	-0.35	-0.07	-0.01	0.06	0.07

* Spreads based on Bloomberg consensus forecast

FX

	current	2022Q1	2022Q2	2022Q3	2022Q4
EURHRK	7.52	7.53	7.48	7.48	7.53
EURCZK	25.35	24.85	24.68	24.53	24.44
EURHUF	365.82	355.00	350.00	350.00	350.00
EURPLN	4.62	4.60	4.58	4.56	4.55
EURRON	4.95	4.99	5.03	5.05	5.08
EURRSD	117.59	117.60	117.60	117.60	117.60
EURUSD	1.13	1.15	1.15	1.15	1.15

3M Money Market Rate

	current	2022Q1	2022Q2	2022Q3	2022Q4
Czechia	3.25	3.54	3.54	3.23	2.98
Hungary	3.67	4.35	4.40	4.15	3.75
Poland	2.30	3.25	3.25	3.50	3.50
Romania	2.72	3.25	3.75	4.00	3.75
Serbia	0.92	0.93	0.94	0.94	0.95
Eurozone	-0.59	-0.54	-0.54	-0.54	-0.54

Key Interest Rate

	current	2022Q1	2022Q2	2022Q3	2022Q4
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	2.75	3.50	3.50	3.25	3.00
Hungary	2.10	3.30	3.50	3.50	3.50
Poland	1.75	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

Real GDP growth (%)

	2020	2021f	2022f	2023f
Croatia	-8.1	8.7	4.8	3.8
Czechia	-5.8	2.3	3.8	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	-0.9	7.3	4.5	4.5
Slovakia	-4.4	3.0	4.2	3.7
Slovenia	-4.2	6.8	4.4	3.8
CEE8 avg	-3.9	5.2	4.4	4.4

Average inflation (%)

	2020	2021f	2022f	2023f
Croatia	0.1	2.5	2.6	2.1
Czechia	3.2	3.8	5.0	2.1
Hungary	3.3	5.1	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	4.0	4.8	2.6
Slovakia	1.9	3.0	5.0	3.5
Slovenia	0.0	1.9	2.2	1.4
CEE8 avg	2.8	4.4	5.3	3.1

Unemployment (%)

	2020	2021f	2022f	2023f
Croatia	7.5	8.2	7.1	6.6
Czechia	2.6	3.0	2.8	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	11.3	10.4	10.0
Slovakia	6.7	7.0	6.4	5.7
Slovenia	5.0	4.8	4.6	4.3
CEE8 avg	5.2	5.5	5.1	4.9

Public debt (% of GDP)

	2020	2021f	2022f	2023f
Croatia	87.1	82.6	79.7	77.7
Czechia	37.7	42.2	43.4	45.1
Hungary	80.1	79.4	76.6	74.8
Poland	57.5	56.1	55.0	52.0
Romania	47.4	50.2	52.4	53.3
Serbia	57.0	54.8	53.6	51.6
Slovakia	59.7	62.9	61.7	60.1
Slovenia	79.8	76.4	74.6	71.5
CEE8 avg	57.1	57.4	57.0	55.6

C/A (%GDP)

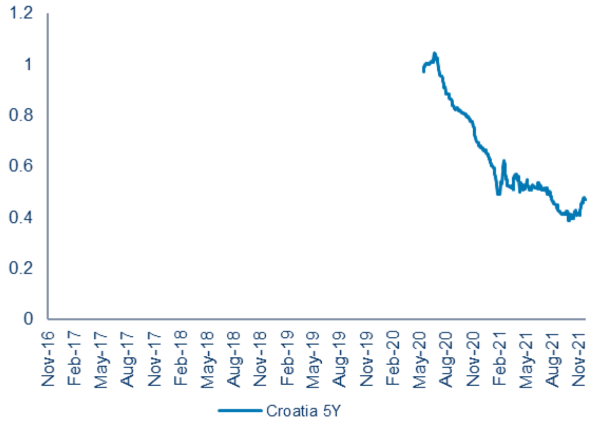
	2020	2021f	2022f	2023f
Croatia	-0.1	1.0	0.7	0.4
Czechia	3.6	0.3	1.1	1.2
Hungary	-1.6	-2.4	-2.7	-1.3
Poland	3.5	-1.1	-0.6	0.3
Romania	-5.2	-6.5	-6.1	-5.9
Serbia	-4.1	-3.8	-3.8	-3.6
Slovakia	0.1	-1.1	-0.7	-1.3
Slovenia	7.4	4.8	4.5	4.3
CEE8 avg	1.1	-1.7	-1.3	-0.8

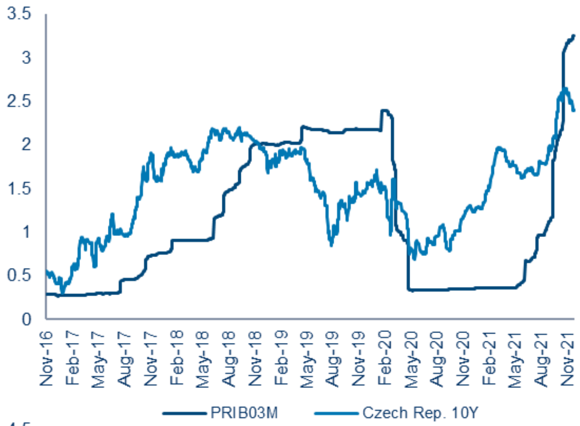
Budget Balance (%GDP)

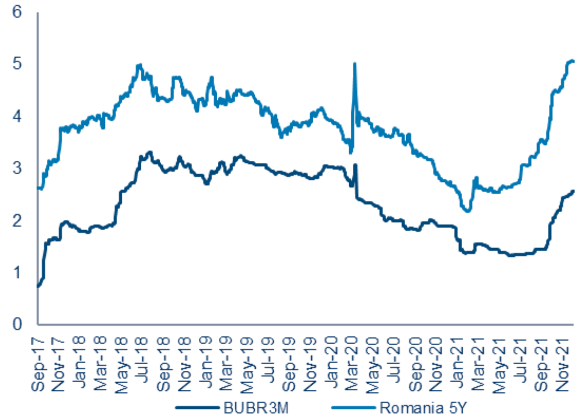
	2020	2021f	2022f	2023f
Croatia	-7.4	-4.5	-2.9	-2.5
Czechia	-5.6	-6.8	-4.1	-2.5
Hungary	-8.0	-7.3	-5.7	-3.9
Poland	-7.0	-2.1	-3.3	-3.0
Romania	-9.4	-7.8	-6.2	-5.2
Serbia	-8.0	-4.5	-3.0	-1.5
Slovakia	-5.5	-6.0	-4.0	-2.5
Slovenia	-8.4	-7.0	-5.0	-3.3
CEE8 avg	-7.3	-4.9	-4.2	-3.3

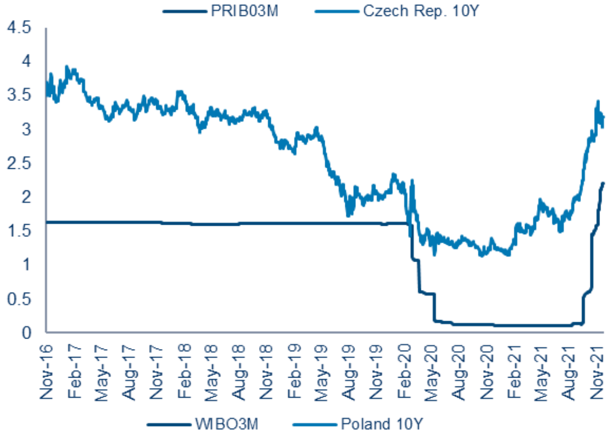
Source: Bloomberg, Erste Group Research

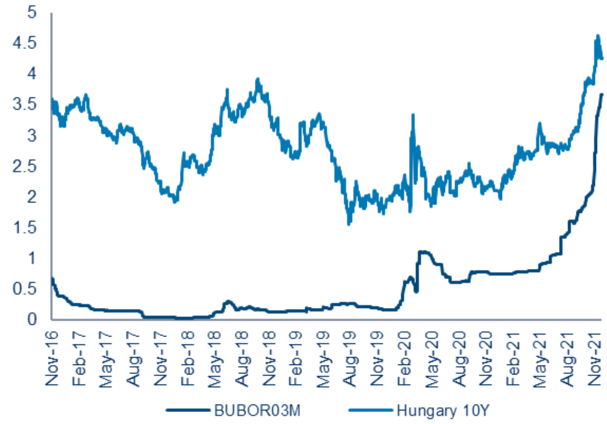
Appendix

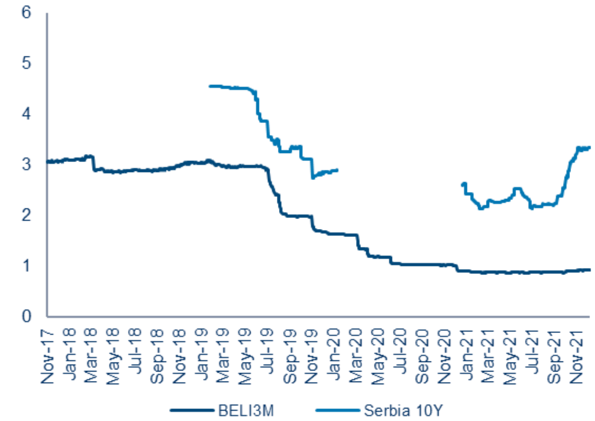


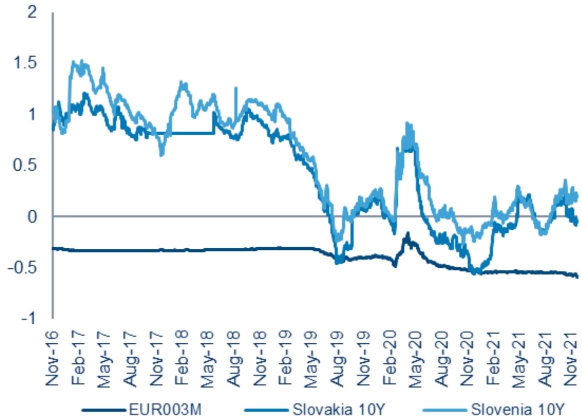












Source: Bloomberg, Erste Group Research

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