

Major central banks in focus

This week, major central banks including Fed and ECB will hold their rate-setting meetings. If Fed announces faster tapering of its bond purchases, US dollar could appreciate and push EURPLN towards 4.65. Local labor market statistics and core inflation for November are due.

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Watch this week

December 16 | Core inflation for November

The flash inflation reading for November delivered another surprise to the upside, as it arrived at 7.7% y/y (up from 6.8% y/y in October). Given the available information, we expect core inflation to accelerate to 4.7% y/y in November (up from 4.5% y/y in the previous month). Given the announcement of the anti-inflation shield, CPI will most likely already peak in December at around 8% y/y. Although the majority of the proposed measures come into force as of the beginning of the year, the excise duties on fuels will be lowered to the minimum allowed in the EU already from December 20, which could limit the increase of CPI in December. While headline inflation is expected to gradually decrease throughout next year, core inflation will remain elevated.

December 17 | Labor market statistics for November

This week, we will receive the first real economy indicators for November as labor market statistics will be released. We expect wage growth to maintain solid dynamics and increase by 8.5% y/y in November, while employment growth should land at 0.5% y/y. Although the situation on the labor market remains favorable, employment is still around 95tsd lower compared to pre-crisis levels. On the other hand, according to the estimates of the Ministry of Family and Social Policy unemployment rate decreased by 0.1pp to 5.4% and hence returned to pre-pandemic levels.

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

Last week's highlights

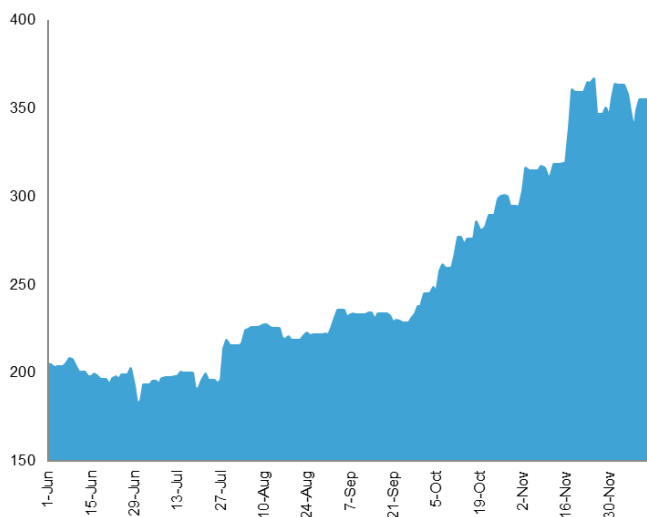
- [National Bank of Poland](#) raised key rate by 50bp to 1.75%. Tightening to continue in coming months, but likely at [slower pace](#).

Market developments

Bond market drivers | 10Y yield back around 3.2%

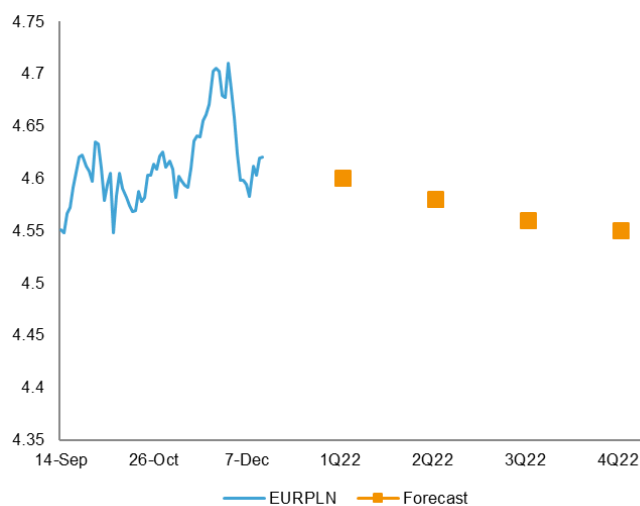
Over the course of the week, the 10Y LCY yield moved within the range of 3.0-3.2%, while the short end of the curve returned to 2.9%. The spread against the 10Y German Bund widened again toward 355bp. Last week's decision of the National Bank of Poland was broadly expected and did not have any strong impact on the local bond market. During the press conference, Governor Glapinski confirmed that the QE program has ceased and the central bank will no longer organize tenders. However, if required by the market situation, the NBP can use the tool once again. Following last week's hike, two MPC members expressed their opinion. MPC member Hardt said that, in his view, another 50bp rate hike is the most likely scenario at the rate-setting meeting in January. In his view, the reaction of the central bank was delayed and the NBP should have delivered the first rate hike earlier and thus increases could be less aggressive. He expects that the current rate hikes should considerably lower inflation by the end of 2023. On the other hand, MPC member Lon said that the tightening cycle may already end at the beginning of the year and he does not rule out a situation in which the NBP will already remain on hold. At last week's switch auction, the MinFin bought back papers worth PLN 3.65bn and sold papers worth PLN 4bn. Following the auction, 11% of next week's borrowing needs have already been pre-financed.

Spread vs. German Bund (bp)



Source: Bloomberg, Erste Group Research

EURPLN



Source: Bloomberg, Erste Group Research

FX market drivers | Zloty broadly unchanged

This week will be all about the rate-setting meetings, as 20 central banks around the world will convene. Most important for emerging market currencies, including the zloty, will be the meeting of the Fed and of the ECB. While rates are to remain stable on both sides of the Atlantic, both central banks are expected to decide on their purchase programs. It seems almost certain that the ECB's PEPP purchase program will end in March. However, it is more difficult to assess what the ECB Governing Council will decide for the second purchase program, APP, after March. On the other hand, the FOMC will decide on the pace of withdrawal of their purchases

program, which might be faster than currently anticipated. At the November meeting, the FOMC reduced monthly purchases by USD 15bn to USD 90bn. According to recent statements by Fed Chairman Powell, the tapering could be faster such that the program could end "a few months earlier". Should the Fed announce more aggressive tapering, the US dollar could appreciate and push the EURPLN toward 4.65. At last week's press conference, Governor Glapinski reiterated that the central bank might intervene on the FX market if needed, but there is no targeted level for the exchange rate. The central bank would intervene on the market in order to prevent the currency from sharp depreciation or appreciation. All in all, the MPC sees the current level of the PLN as good.

Upcoming in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
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: Bloomberg, Erste Group Research

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

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

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

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

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

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

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

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

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

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

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CEE Country Update | Poland | Weekly Focus
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