

## CEE Market Insights

### Romanian central bank ups its game

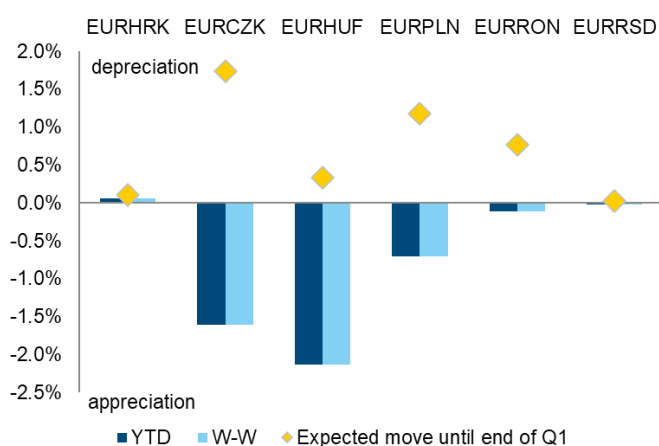
#### This week in CEE

Apart from the fresh winter air, the upcoming days will bring a string of inflation data and two monetary policy meetings in the CEE region. Given inflation running way above the target and fiscal consolidation progressing at a slow pace, we expect the Romanian central bank to accelerate its hiking cycle and catch up with CEE peers by delivering a 50bp key rate hike to 2.25% today. It may also widen its rate corridor to 100bp, lifting the credit facility rate to 3.25%. On the other hand, Thursday's meeting of the Serbian central bank should leave its key rate untouched at 1% as it focuses more on the repo rate for now. Inflation is likely to have closed the year at an elevated level. Whereas further moderate acceleration is expected in Czechia, Serbia and Slovakia; Romanian and Hungarian consumer price growth likely eased at year-end. December CPI prints in Romania and Hungary are expected close to 7.1% y/y, supported by government subsidies for natural gas and electricity prices in the former, and a government cap on fuel prices in the latter. Serbian inflation may land at 7.6% y/y, just above its November value. Czech and Slovak inflation rates are likely to have sped up to 6.3% and 5.9% in year-over-year terms, respectively, with further acceleration likely in the new year on the back of energy price increases and possible upside risks from food prices. Moreover, we will see the November industrial production prints for Romania, Slovenia and Slovakia. These are likely to show a diverse development – with Slovenia sticking to a robust pace of around 5% y/y, Slovakia marking a mild 1% y/y growth and Romania improving its October performance but still clocking in a fall of 5.1% y/y.

Monday	Tuesday	Wednesday	Thursday	Friday
RO: Central bank, Unemployment rate		CZ, RS: CPI	RS: Central bank	HU, RO, SK: CPI
SK, SI: Industry		RO: Industry, 3Q21 GDP	CZ: Retail sales	
RO, HU: Trade balance			PL: Trade balance	
RO: 2025 Bonds	HU, SI: Bills	CZ: 2031, 2032, 2040 Bonds	RO: Bills, 2031 Bonds	
			CZ: Bills	

#### FX market

#### FX market developments

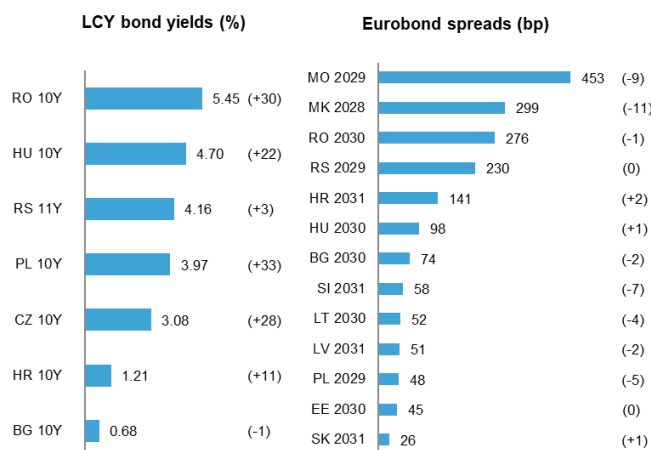


CEE currencies started the new year with solid strengthening, supported by stabilization of the US dollar and further tightening of monetary conditions by regional central banks. The Hungarian forint strengthened by 2.4% YTD and moved toward 359 vs. the EUR. The Czech koruna appreciated by 1.2% YTD, extending its gains following the December rate hike. The bigger than expected rate increase delivered by the Czech National Bank in December and hawkish market expectations pushed the EURCZK to 24.50. While some market participants see the CNB raising the key rate toward 5%, we are more cautious and therefore expect some correction for the CZK. Despite another negative inflation

Source: Bloomberg, Erste Group Research

surprise, the Polish zloty followed regional peers and moved to 4.55 vs. the EUR.

## LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

## Bond market developments

CEE LCY curves have shifted up considerably since the start of the year, with the 10Y yield increasing by 20-30bp in Czechia, Hungary, Poland and Romania. Part of the move can be attributed to core market developments, as the 10Y German Bund went up toward -0.05%. Nevertheless, spreads against the 10Y Bund widened significantly and stand well above recently observed levels. In fact, in Czechia, the spread vs. the 10Y Bund reached a new all-time high at 310bp. This week, two regional central banks will hold their rate setting meetings. We expect the National Bank of Romania to align with its peers and raise the key rate by 50bp to 2.25%, as well as widen the standing facility corridor. The National Bank of Serbia should keep the key rate stable at 1.0%, as it controls market liquidity via repo operations; as long as the repo rate (at 0.5%) remains below the key rate, the NBS should remain on hold. Moreover, the Hungarian central bank holds a non-rate setting meeting this week and changes in the interest rate corridor could be announced.

## In case you missed

PL: [Inflation](#) surged in December. [Central bank](#) delivered its fourth rate hike.

CZ: [Industrial production](#) above expectations in November.

SK: Strong growth of [exports](#) in November. [Retail sales](#) in line with expectations in November.

HU: [Industry](#) delivered strong positive surprise in November, [retail sales](#) slightly below expectations.

RO: [Retail sales](#) below expectations. [Business sentiment](#) improved across board.

## Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
10. Jan		RO	Central Bank Rate	Jan 10	2.10%	2.25%	1.75%	We expect NBR to catch up with CEE peers and deliver 50bp key rate hike to 2.25%.
		SK	Industrial Production (y/y)	Nov		1.00%	-0.90%	We expect industrial production in November to grow at 1% y/y. From public data, we did not see any semiconductor issues in November.
	8:00	RO	Unemployment Rate	Nov		5.30%	5.60%	Unemployment rate fell gradually in 2021 and number of jobs in economy reached record high in October.
	8:00	RO	Trade Balance	Nov			-2465.8	
	9:00	HU	Trade Balance	Nov P			-302	
	10:30	SI	Industrial Production (y/y)	Nov		5.00%	6.20%	Industrial production seen keeping steady growth pace.
12. Jan	8:00	RO	Industrial Production (y/y)	Nov		-5.10%	-6.10%	Manufacturing confidence improved in November, on rising production expectations of local managers. Local car production increased in m/m terms.
	8:00	RO	GDP (q/q)	3Q F	0.40%	0.40%	0.40%	
	8:00	RO	GDP (y/y)	3Q F	7.40%	7.40%	7.38%	
	9:00	CZ	CPI (y/y)	Dec	6.60%	6.30%	6.00%	Inflation has been accelerating. We expect its peak in 1Q22, with figures above 8%. Even higher (above 9%) inflation cannot be ruled out, as risk for food and energy prices is tilted to upside.
	9:00	CZ	CPI (m/m)	Dec	0.30%	0.20%	0.20%	Another increase in energy prices stands behind expected upward move of price level.
	9:00	SK	Wages (y/y)	Nov			7.50%	
	12:00	RS	CPI (y/y)	Dec		7.60%	7.50%	Inflation likely remained elevated in December.
13. Jan		RO	Current Account Balance (monthly)	Nov			-13850	
	8:00	RO	Wages (y/y)	Nov		6.20%	6.01%	Real wage growth slipped into negative territory in 4Q21.
	9:00	CZ	Retail Sales (y/y)	Nov	12.4%	11.80%	5.60%	Sound demand of households and base effect are key reasons behind double-digit growth in y/y terms.
	11:00	HR	PPI (y/y)	Dec			16.60%	
	12:00	RS	Central Bank Rate	Jan 13		1.00%	1.00%	NBS expected to remain on hold as communicated.
	14:00	PL	Trade Balance	Nov	-550		-822	
14. Jan	8:00	RO	CPI (y/y)	Dec	7.80%	7.14%	7.80%	Inflation well above NBR target is likely to trigger response from central bank in form of 50bp hike in key rate to 2.25% at next MPC meeting.
	8:00	RO	CPI (m/m)	Dec		-0.28%	-0.2%	Government subsidies for natural gas and electricity price to have positive impact on December inflation rate.
	9:00	HU	CPI (y/y)	Dec	7.20%	7.10%	7.40%	Monthly drop of fuel prices could have led to small slowdown in headline rate.
	9:00	SK	CPI (y/y)	Dec		5.90%	5.60%	From y/y perspective, CPI is rising, mainly due to high pressures from imputed rents, services, food, and fuel prices. We expect rising trend to continue in next several months.

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
<b>Croatia 10Y</b>	0.6	0.6	0.6	0.7	0.7
spread (bps)	60	64	61	59	61
<b>Czechia 10Y</b>	3.1	3.0	2.9	2.8	2.7
spread (bps)	310	304	288	274	257
<b>Hungary 10Y</b>	4.7	4.6	4.5	4.4	4.3
spread (bps)	474	464	451	429	421
<b>Poland 10Y</b>	4.0	3.40	3.30	3.20	3.10
spread (bps)	401	349	331	314	301
<b>Romania 10Y</b>	5.4	5.1	4.9	4.8	4.7
spread (bps)	549	519	491	474	461
<b>Slovakia 10Y</b>	0.2	0.3	0.3	0.4	0.5
spread (bps)	27	34	31	34	36
<b>Slovenia 10Y</b>	0.41	0.35	0.40	0.45	0.45
spread (bps)	45	44	41	39	36
<b>Serbia 5Y</b>	3.5	3.5	3.4	3.2	3.1
spread (bps)	350	359	336	314	301
<b>DE10Y*</b>	-0.04	-0.09	-0.01	0.06	0.09

\* Spreads based on Bloomberg consensus forecast

### 3M Money Market Rate

	current	2022Q1	2022Q2	2022Q3	2022Q4
<b>Czechia</b>	4.12	4.30	4.23	3.99	3.74
<b>Hungary</b>	4.26	4.80	4.80	4.60	4.30
<b>Poland</b>	2.63	3.25	3.50	4.00	4.25
<b>Romania</b>	3.05	3.25	4.00	4.00	3.75
<b>Serbia</b>	0.94	0.93	0.94	0.94	0.95
<b>Eurozone</b>	-0.58	-0.54	-0.54	-0.54	-0.54

### Real GDP growth (%)

	2020	2021f	2022f	2023f
<b>Croatia</b>	-8.1	8.7	4.8	3.8
<b>Czechia</b>	-5.8	2.3	3.8	4.7
<b>Hungary</b>	-4.7	6.7	4.7	4.5
<b>Poland</b>	-2.5	5.5	4.6	4.2
<b>Romania</b>	-3.7	6.4	4.0	5.0
<b>Serbia</b>	-0.9	7.3	4.5	4.5
<b>Slovakia</b>	-4.4	3.0	4.2	3.7
<b>Slovenia</b>	-4.2	6.8	4.4	3.8
<b>CEE8 avg</b>	-3.8	5.3	4.4	4.4

### Public debt (% of GDP)

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

### FX

	current	2022Q1	2022Q2	2022Q3	2022Q4
<b>EURHRK</b>	7.52	7.53	7.48	7.48	7.53
<b>EURCZK</b>	24.43	24.85	24.68	24.53	24.44
<b>EURHUF</b>	359.17	360.00	355.00	350.00	350.00
<b>EURPLN</b>	4.55	4.60	4.58	4.56	4.55
<b>EURRON</b>	4.94	4.98	5.01	5.05	5.08
<b>EURRSD</b>	117.47	117.60	117.60	117.60	117.60
<b>EURUSD</b>	1.13	1.15	1.15	1.15	1.15

### Key Interest Rate

	current	2022Q1	2022Q2	2022Q3	2022Q4
<b>Croatia</b>	0.05	0.05	0.05	0.05	0.05
<b>Czechia</b>	3.75	4.25	4.25	4.00	3.75
<b>Hungary</b>	2.40	3.30	3.50	3.50	3.50
<b>Poland</b>	2.25	3.00	3.25	3.75	4.00
<b>Romania</b>	1.75	2.25	3.00	3.00	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	2.1
<b>Czechia</b>	3.2	3.8	5.0	2.1
<b>Hungary</b>	3.3	5.1	5.1	3.3
<b>Poland</b>	3.4	5.1	7.8	4.4
<b>Romania</b>	2.7	4.9	5.5	3.5
<b>Serbia</b>	1.6	4.0	4.8	2.6
<b>Slovakia</b>	1.9	3.0	5.0	3.5
<b>Slovenia</b>	0.0	1.9	2.2	1.4
<b>CEE8 avg</b>	2.8	4.5	6.0	3.5

### C/A (%GDP)

	2020	2021f	2022f	2023f
<b>Croatia</b>	-0.1	1.0	0.7	0.4
<b>Czechia</b>	3.6	0.3	1.1	1.2
<b>Hungary</b>	-1.6	-2.4	-2.7	-1.3
<b>Poland</b>	3.5	-1.1	-0.6	0.3
<b>Romania</b>	-5.0	-6.5	-6.1	-5.9
<b>Serbia</b>	-4.1	-3.8	-3.8	-3.6
<b>Slovakia</b>	0.1	-1.1	-0.7	-1.3
<b>Slovenia</b>	7.4	4.8	4.5	4.3
<b>CEE8 avg</b>	1.1	-1.7	-1.3	-0.8

### Unemployment (%)

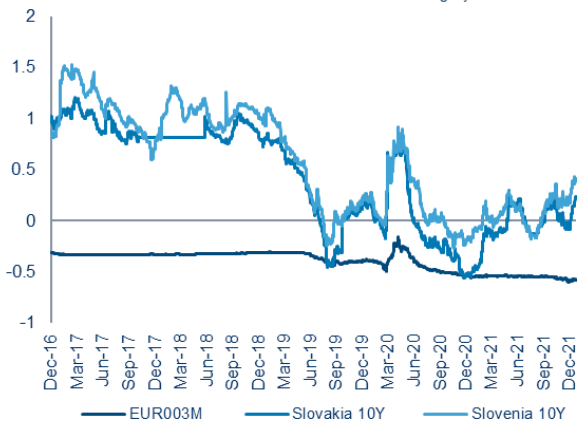
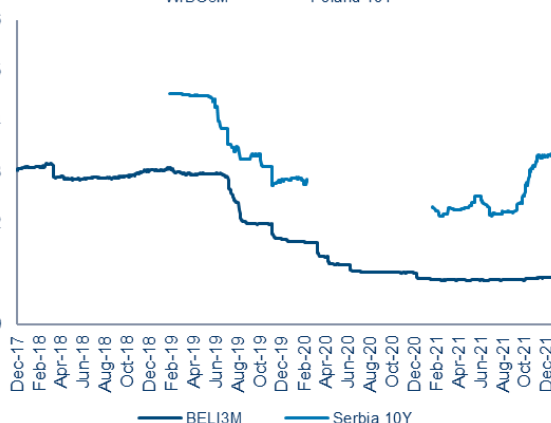
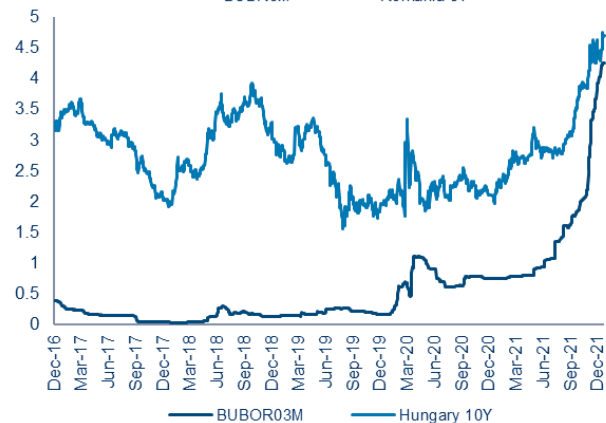
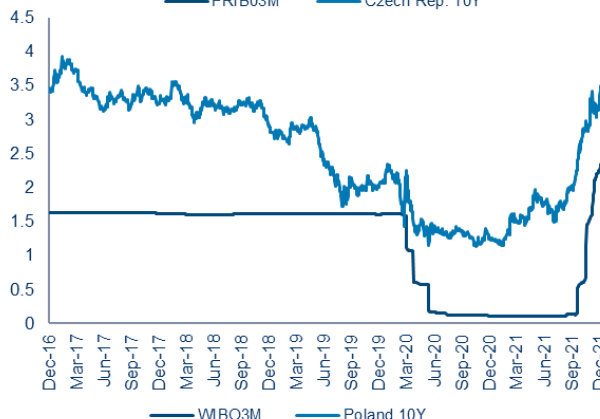
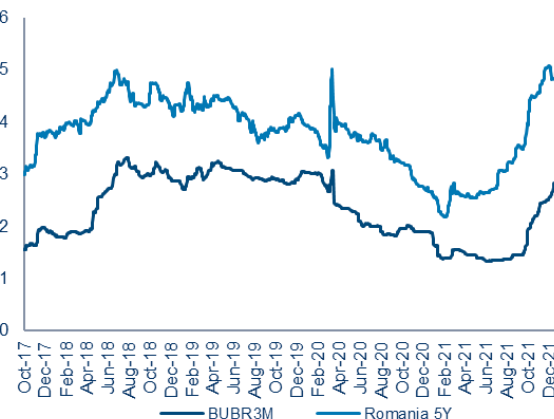
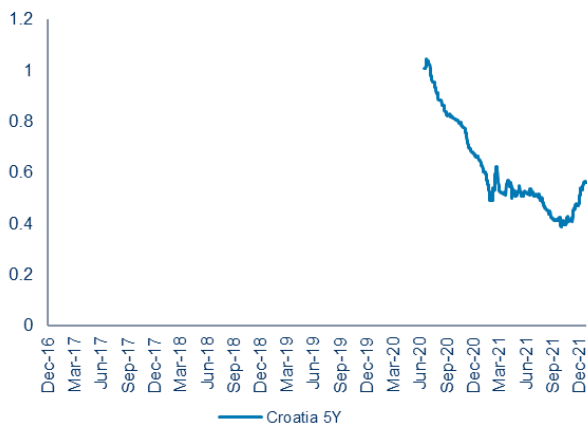
	2020	2021f	2022f	2023f
<b>Croatia</b>	7.5	8.2	7.1	6.6
<b>Czechia</b>	2.6	3.0	2.8	3.0
<b>Hungary</b>	4.1	4.1	3.8	3.5
<b>Poland</b>	5.9	6.0	5.5	5.4
<b>Romania</b>	5.0	5.5	5.4	4.9
<b>Serbia</b>	9.7	11.3	10.4	10.0
<b>Slovakia</b>	6.7	7.0	6.4	5.7
<b>Slovenia</b>	5.0	4.8	4.6	4.3
<b>CEE8 avg</b>	5.2	5.5	5.1	4.9

### Budget Balance (%GDP)

	2020	2021f	2022f	2023f
<b>Croatia</b>	-7.4	-4.5	-2.9	-2.5
<b>Czechia</b>	-5.6	-6.8	-4.1	-2.5
<b>Hungary</b>	-8.0	-7.4	-5.1	-3.9
<b>Poland</b>	-7.0	-2.1	-3.3	-3.0
<b>Romania</b>	-9.4	-7.8	-6.2	-5.2
<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	-5.0	-3.3
<b>CEE8 avg</b>	-7.3	-5.0	-4.2	-3.3

Source: Bloomberg, Erste Group Research

## Appendix



Source: Bloomberg, Erste Group Research

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CEE Market Insights  
10 January 2022

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