

CEE Market Insights

Polish economy at year-end

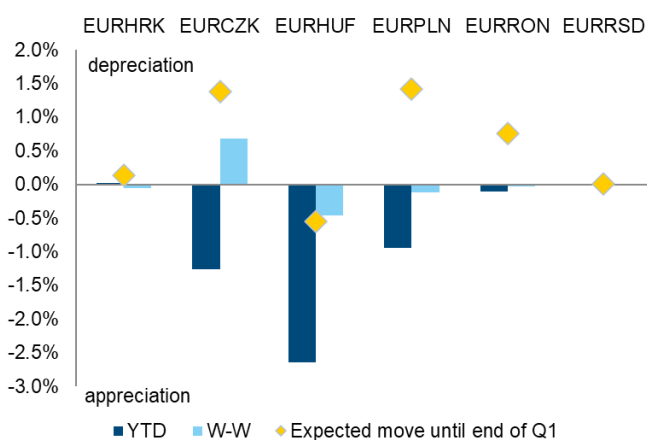
This week in CEE

This week will put Poland on the center stage, as we await a series of real economy data for December. We expect industrial output to have grown by a robust 8.9% y/y at year-end. Whereas industrial production may have been slightly limited by the higher base from the preceding year, the positive calendar effect (+1WD) and strong momentum pose risks to the upside. December development of wages likely continued at a strong pace of over 8% y/y, whereas Polish producer price growth should have remained in the double-digits and even accelerated further to 13.8% y/y. A similar pace of PPI growth, just shy of 14% year-on-year, is expected in Czechia as energy prices remain the most important driver of producer-side inflation. Moreover, Croatia will finalize the list of CEE inflation prints for December. Its consumer price growth is thought to have surpassed the 5% y/y mark at year-end. Slovakia and Croatia will also publish their unemployment figures for the last month of 2021. Unemployment rate is expected to have remained roughly unchanged compared to the previous month in Croatia, whereas a slight decline is anticipated in Slovakia.

| Monday | Tuesday | Wednesday | Thursday | Friday |
|----------------------------------|----------------|-------------------------|-------------------------|--------------------------|
| HR: CPI | | SK: Unemployment | HR: Unemployment, Wages | PL: Industry, PPI, Wages |
| CZ: PPI | | RS, SK: Current account | | SI: PPI |
| SK: 2024, 2032, 2036, 2047 bonds | RS: 2024 bonds | RS: 2024 bonds | RO: 2026 bonds | |
| RO: 2027, 2034 bonds | HR: T-bills | | CZ: T-bills | |
| | HU: T-bills | | | |

FX market

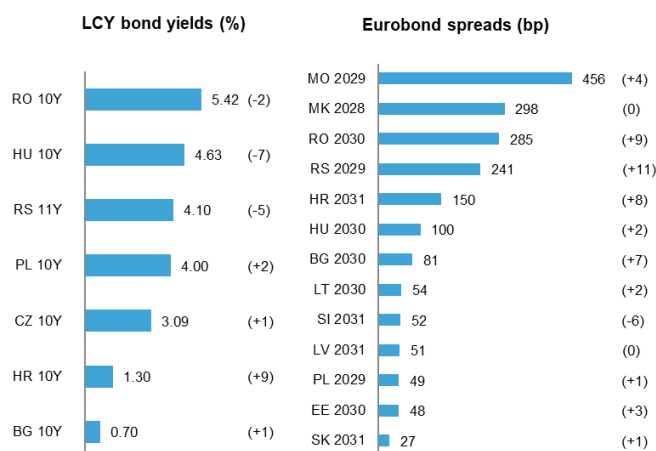
FX market developments



Source: Bloomberg, Erste Group Research

Despite higher than expected inflation, CEE currencies slightly appreciated, benefiting mainly from a weaker USD. The Hungarian forint, which already gained more than 2.5% vs. the EUR since the beginning of the year, was the main beneficiary of the sliding USD last week, which was also reflected in lower pressure on money market rates. Both FRA3x6 and 12M rates implied from currency forwards collapsed by 70bp in the last couple of weeks and the MNB is not in a rush to increase its 1-week deposit rate. Governor Rusnok confirmed that the CNB will have to continue in raising its key rate, but tried to downplay expectations of rates exceeding 5%. Several MPC members tried to prepare the market for inflation potentially peaking at 9-10% at the beginning of this year before starting to visibly moderate.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

We commented in our recent Bond Report that CEE LCY bonds offer very generous yields at the moment when compared to the inflation target or average inflation reported over a longer period of time (i.e. the last ten years), as yield increases were somewhat overdone. Indeed, it seems that markets have started to correct previous yield increases, firstly at the mid part of the yield curve. 1-5Y yields on POLGBs collapsed by 20-50bp w/w, while the mid part of the HBGs curve went down 15-20bp w/w. We also expect 10Y LCY yields to inch down slowly throughout this year, especially once inflation passes its peak. This week, we expect almost all governments to be selling bonds or bills on their domestic markets. On top of that, Romania is likely to intensify its preparations for placing a new Eurobond denominated in USD, which should cover the rollover of a USD 2bn Eurobond due on February 7.

In case you missed

CEE: We published the latest [Bond Report: Juicy spreads on government bonds](#).

RO: December [inflation](#) surprisingly inched up. [Dovish NBR lags](#) CEE peers due to smaller hiking steps.

RO: [Industrial production](#) rebounded in November.

CZ: [Inflation](#) rises further, affected by energy and food prices.

HU: [Inflation](#) surprised on the upside in December.

RS: Another record [inflation print](#) in December, as [central bank holds](#) key rate at 1%.

SK: Further acceleration of [inflation](#) at year-end. [Industrial output](#) grew briskly in November.

PL: Government extended [anti-inflation measures](#). We revised our FY22 and FY23 inflation forecast.

Upcoming releases in CEE

| Date | Time | Country | Indicator | Period | Survey | Erste Est. | Prev. | Comment |
|---------|-------|---------|-----------------------------------|--------|--------|------------|--------|---|
| 17. Jan | 9:00 | CZ | PPI (y/y) | Dec | 13.9% | 13.9% | 13.5% | Energy prices are the most important driver of the PPI inflation. |
| | 11:00 | HR | CPI (y/y) | Dec | | 5.2% | 4.8% | Inflation expected to surpass 5% mark in December |
| 19. Jan | | RS | Current Account Balance (monthly) | Nov | | | -273.6 | |
| | | SK | Unemployment Rate | Dec | | 6.5% | 6.64% | We expect the continuation of decreasing trend of the unemployment rate. We do not see the impact of lockdown measures taken in December as a considerable risk to the unemployment rate. |
| | 10:30 | SK | Current Account Balance (monthly) | Nov | | | 64.00 | |
| 20. Jan | 11:00 | HR | Unemployment Rate | Dec | | 7.4% | 7.4% | Unemployment rate to remain unchanged on monthly level |
| | 11:00 | HR | Wages (y/y) | Nov | | | 0.6% | |
| 21. Jan | 10:00 | PL | Industrial Production (y/y) | Dec | 13.44% | 8.9% | 15.2% | Higher base from last December might slightly limit the growth dynamics. Positive calendar effect (+1WD) and strong momentum pose risks to the upside. |
| | 10:00 | PL | PPI (y/y) | Dec | 13.46% | 13.8% | 13.2% | Producer prices to accelerate further at the yearend. |
| | 10:00 | PL | Wages (y/y) | Dec | 9.3% | 8.2% | 9.8% | Wage growth to sustain strong dynamics at the end of the year. |
| | 10:30 | SI | PPI (y/y) | Dec | | | 9.9% | |

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 | 2022Q1 | 2022Q2 | 2022Q3 | 2022Q4 |
|---------------------|---------|--------|--------|--------|--------|
| Croatia 10Y | 0.6 | 0.6 | 0.7 | 0.7 | 0.8 |
| spread (bps) | 63 | 69 | 66 | 63 | 66 |
| Czechia 10Y | 3.1 | 3.0 | 2.9 | 2.8 | 2.7 |
| spread (bps) | 310 | 304 | 288 | 273 | 257 |
| Hungary 10Y | 4.6 | 4.6 | 4.5 | 4.4 | 4.3 |
| spread (bps) | 466 | 464 | 451 | 428 | 421 |
| Poland 10Y | 4.0 | 3.40 | 3.30 | 3.20 | 3.10 |
| spread (bps) | 403 | 349 | 331 | 313 | 301 |
| Romania 10Y | 5.4 | 5.1 | 4.9 | 4.8 | 4.7 |
| spread (bps) | 545 | 519 | 491 | 473 | 461 |
| Slovakia 10Y | 0.3 | 0.3 | 0.3 | 0.4 | 0.5 |
| spread (bps) | 28 | 34 | 31 | 33 | 36 |
| Slovenia 10Y | 0.36 | 0.35 | 0.40 | 0.45 | 0.45 |
| spread (bps) | 39 | 44 | 41 | 38 | 36 |
| Serbia 5Y | 3.3 | 3.5 | 3.4 | 3.2 | 3.1 |
| spread (bps) | 330 | 359 | 336 | 313 | 301 |
| DE10Y* | -0.03 | -0.09 | -0.01 | 0.07 | 0.09 |

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

| | current | 2022Q1 | 2022Q2 | 2022Q3 | 2022Q4 |
|-----------------|---------|--------|--------|--------|--------|
| Czechia | 4.21 | 4.30 | 4.23 | 3.99 | 3.74 |
| Hungary | 4.19 | 4.80 | 4.70 | 4.60 | 4.30 |
| Poland | 2.77 | 3.25 | 3.50 | 4.00 | 4.25 |
| Romania | 3.05 | 3.25 | 3.75 | 4.00 | 3.75 |
| Serbia | 0.95 | 0.93 | 0.94 | 0.94 | 0.95 |
| Eurozone | -0.57 | -0.54 | -0.54 | -0.54 | -0.54 |

Real GDP growth (%)

| | 2020 | 2021f | 2022f | 2023f |
|-----------------|------|-------|-------|-------|
| Croatia | -8.1 | 10.4 | 4.6 | 3.8 |
| Czechia | -5.8 | 2.3 | 3.8 | 4.7 |
| Hungary | -4.7 | 6.7 | 4.7 | 4.5 |
| Poland | -2.5 | 5.5 | 4.6 | 4.2 |
| Romania | -3.7 | 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 | -3.8 | 5.4 | 4.3 | 4.4 |

Public debt (% of GDP)

| | 2020 | 2021f | 2022f | 2023f |
|-----------------|------|-------|-------|-------|
| Croatia | 87.3 | 81.2 | 78.0 | 76.3 |
| 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 | 54.7 | 53.1 | 51.1 |
| Slovakia | 59.7 | 62.9 | 61.7 | 60.1 |
| Slovenia | 79.8 | 76.4 | 74.6 | 71.5 |
| CEE8 avg | 57.1 | 57.4 | 56.9 | 55.6 |

FX

| | current | 2022Q1 | 2022Q2 | 2022Q3 | 2022Q4 |
|---------------|---------|--------|--------|--------|--------|
| EURHRK | 7.52 | 7.53 | 7.48 | 7.48 | 7.53 |
| EURCZK | 24.51 | 24.85 | 24.68 | 24.53 | 24.44 |
| EURHUF | 355.78 | 355.00 | 355.00 | 350.00 | 350.00 |
| EURPLN | 4.53 | 4.60 | 4.58 | 4.56 | 4.55 |
| EURRON | 4.94 | 4.98 | 5.01 | 5.05 | 5.08 |
| EURRSD | 117.61 | 117.60 | 117.60 | 117.60 | 117.60 |
| EURUSD | 1.14 | 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 | 3.75 | 4.25 | 4.25 | 4.00 | 3.75 |
| Hungary | 2.40 | 3.30 | 3.50 | 3.50 | 3.50 |
| Poland | 2.25 | 3.00 | 3.25 | 3.75 | 4.00 |
| Romania | 2.00 | 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 | 2.6 | 3.4 | 1.8 |
| Czechia | 3.2 | 3.8 | 5.0 | 2.1 |
| Hungary | 3.3 | 5.1 | 5.5 | 3.4 |
| Poland | 3.4 | 5.1 | 7.4 | 5.1 |
| Romania | 2.7 | 5.0 | 6.8 | 3.6 |
| Serbia | 1.6 | 4.1 | 5.1 | 2.6 |
| Slovakia | 1.9 | 3.0 | 5.0 | 3.5 |
| Slovenia | 0.0 | 1.9 | 2.2 | 1.4 |
| CEE8 avg | 2.8 | 4.5 | 6.1 | 3.7 |

C/A (%GDP)

| | 2020 | 2021f | 2022f | 2023f |
|-----------------|------|-------|-------|-------|
| Croatia | -0.1 | 2.9 | 2.2 | 1.4 |
| 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 | -5.0 | -6.5 | -6.1 | -5.9 |
| Serbia | -4.1 | -3.5 | -3.5 | -3.3 |
| Slovakia | 0.1 | -1.1 | -0.7 | -1.3 |
| Slovenia | 7.4 | 4.8 | 4.5 | 4.3 |
| CEE8 avg | 1.1 | -1.6 | -1.3 | -0.8 |

Unemployment (%)

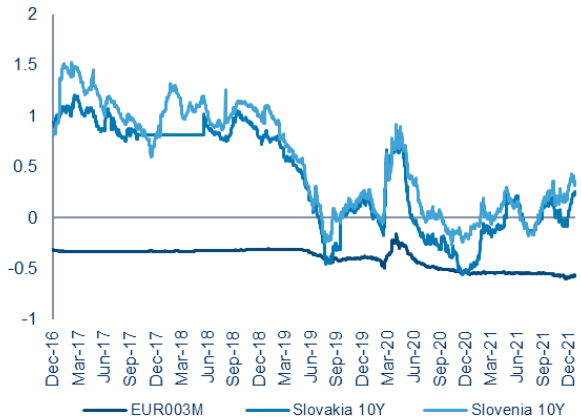
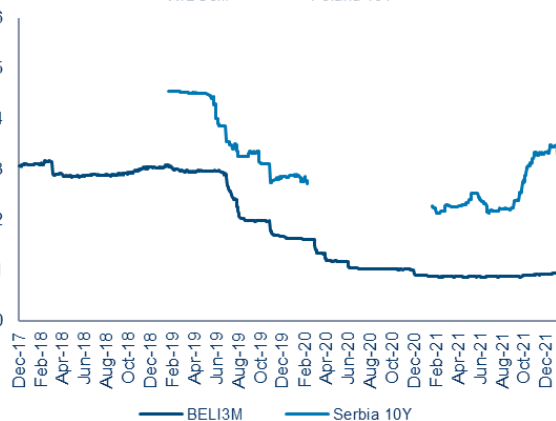
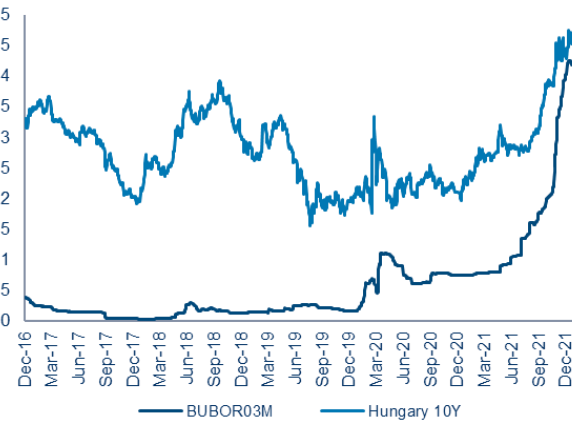
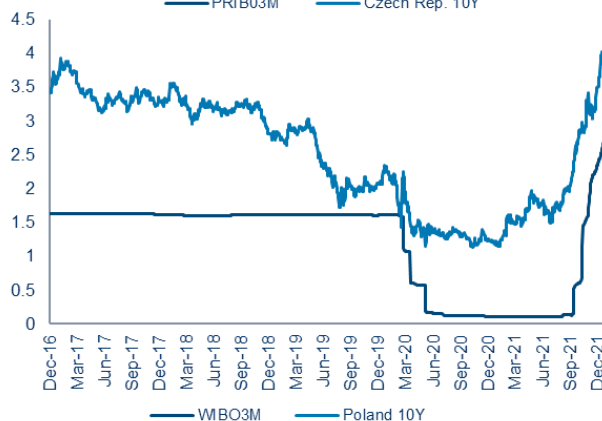
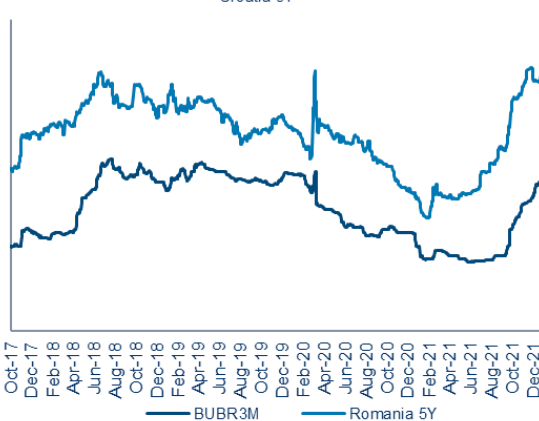
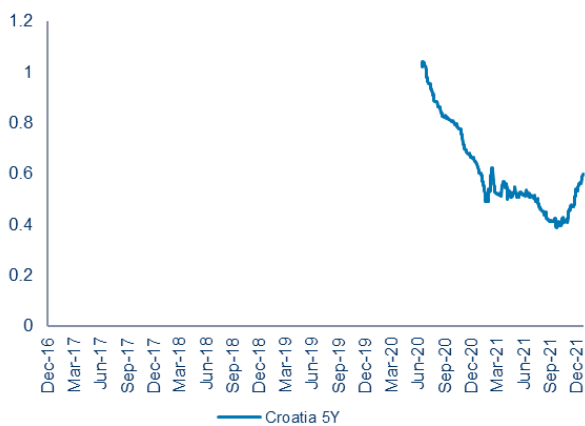
| | 2020 | 2021f | 2022f | 2023f |
|-----------------|------|-------|-------|-------|
| Croatia | 7.5 | 8.2 | 7.1 | 6.6 |
| Czechia | 2.6 | 3.0 | 2.8 | 3.0 |
| Hungary | 4.1 | 4.1 | 3.8 | 3.5 |
| Poland | 5.9 | 6.0 | 5.5 | 5.4 |
| Romania | 6.0 | 5.5 | 5.2 | 5.1 |
| Serbia | 9.7 | 11.3 | 10.4 | 10.0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

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 | -7.4 | -5.1 | -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 | -5.0 | -4.2 | -3.3 |

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Market Insights
17 January 2022

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