

## CEE Market Insights

Tighter is the keyword for monetary policy

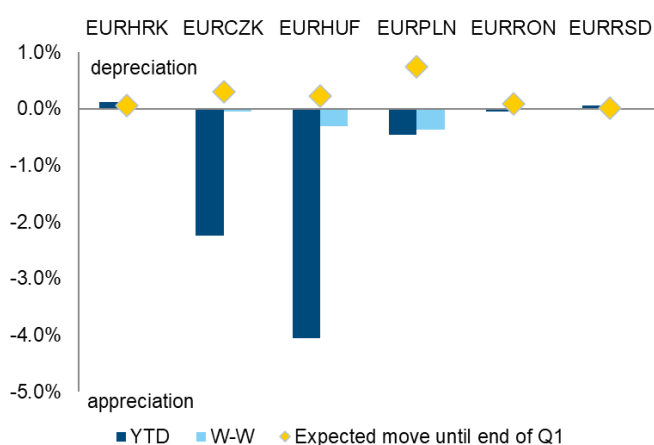
### This week in CEE

A busy week awaits, as three regional central banks are due to review their monetary policy. The Polish central bank starts the string of meetings with its sitting on Tuesday which should bring another hike of 50bp, thus raising the key rate to 2.75%. Romanian NBR follows the next day and the bank is likely to stick to its gradual pace of 25bp increases. We expect this week's rate to be raised to 2.25% and then further rate hikes of 25bp each are foreseen afterwards, with the terminal rate for the cycle being reached at 3% by mid-2022. Hence, the credit facility rate should reach 4% by mid-2022, and likely become the relevant operational instrument. Serbian central bank, which meets on Thursday, is anticipated to stick to its 1% key rate as long as the reverse repo rate is below that level (currently, the repo rate stands at 0.71%). Given the pace of recent repo rate hikes, it may match the key rate at the end of March or in early April; thus we expect the first hike in April, or May at the latest. Inflation prints for January will be released in Slovenia and Hungary. We expect inflation to have remained elevated at 5% y/y and 7.5% y/y in the two countries, respectively, with strong repricing behavior likely at play, too. Moreover, industrial production prints for December are due for Slovakia, Czechia and Slovenia. With some potential easing of supply-side issues at year-end, industry may have grown by 1.3-2% year-on-year in Czechia and Slovakia, and by a brisk 6% y/y in Slovenia.

Monday	Tuesday	Wednesday	Thursday	Friday
<b>CZ: Industry, Trade balance</b>	<b>PL: Central bank</b>	<b>RO: Central bank, Trade balance</b>	<b>RS: Central bank</b>	<b>HU: CPI</b>
<b>SI: CPI</b>	<b>CZ: Retail sales</b>	<b>SI: Trade balance</b>	<b>SK: Industry, Wages</b>	<b>RO: Wages</b>
	<b>HR, HU, SK: Trade balance</b>		<b>SI: Industry</b>	
<b>SI: Bills</b>	<b>RS: 2024 Bonds</b>	<b>CZ: 2029, 2032, 2040 Bonds</b>	<b>CZ: Bills</b>	
<b>RO: 2036 Bonds</b>	<b>HR, HU: Bills</b>		<b>RO: Bills, 2029 Bonds</b>	

### FX market

### FX market developments



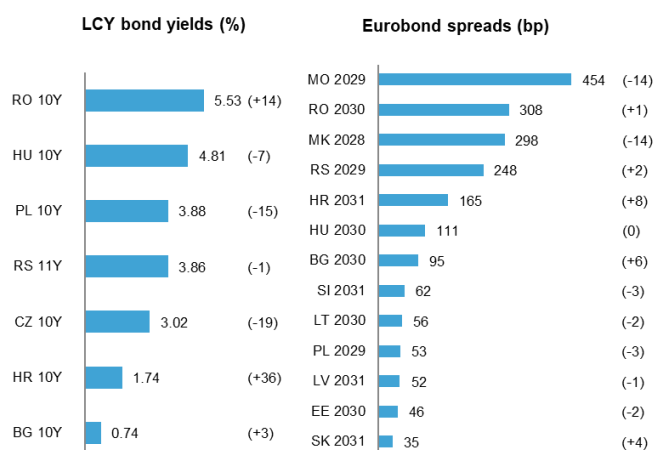
Source: Bloomberg, Erste Group Research

The EURUSD has been quite volatile over the past two weeks. While the statements by Fed Chairman Powell at the end of January increased the risks of rapid monetary tightening during the coming months, which pushed the EURUSD toward 1.11, the press conference of President Lagarde following the ECB meeting just over a week later and the ECB's concern about the renewed rise in inflation weighed on the US dollar as it moved to 1.1450 vs. the EUR. The strong swings in the EURUSD affected CEE currencies as well. The Hungarian forint and the Polish zloty continued to appreciate and moved to 354 vs. the EUR and 4.54 vs. the EUR, respectively. Ahead of last week's rate-setting meeting in Czechia, the koruna briefly touched 24.10 vs. EUR but pared the gains as the central bank acted in line with expectations and raised the key

rate by 75bp to 4.5%. In our view, the current level of the EURCZK corresponds to fundamentals and we expect the currency to fluctuate around 24.40 vs. the EUR until the end of the year. This week, three central banks hold their rate-setting meetings. While the National Bank of Serbia is expected to remain on hold, the National Bank of Poland and the National Bank of Romania will raise their key rates once again. We foresee a 50bp increase to 2.75% in Poland and a milder hike by 25bp to 2.25% in Romania. Although the NBS will most likely keep the key rate unchanged this week, we expect the first rate hike to be delivered in April-May as the central bank will run out of ammunition on the repo rate, which currently stands at 0.71%. We see the key rate at 2.0% by year-end in Serbia.

## LCY yields, Eurobond spreads

## Bond market developments



Source: Bloomberg, Erste Group Research

The ECB meeting and the statements by President Lagarde during the press conference were 'the' event of last week. As President Lagarde at least put the tightening of monetary policy this year into the realm of possibility, the German Bund curve shifted considerably up by about 25bp. While the 2Y yield moved to -0.28%, the 10Y yield increased to almost 0.2%, the highest level since the beginning of 2019. Hence the spreads against 10Y Bund narrowed considerably by about 30-50bp in Czechia to 295bp, in Poland to 365bp and in Hungary to 466bp. In Romania, the long end somewhat underperformed as the 10Y yield climbed above 5.5% following the announcement of the issuance calendar for February and last week's bond auction. As a result, the spread between 10Y ROMGB and 10Y German Bund remained broadly stable at about 540bp.

## In case you missed

CEE: Strong 4Q21 GDP growth in [CZ](#) and [RS](#).

CEE: Mixed December retail sales data in [HU](#), [RO](#) and [SK](#).

CZ: [Central bank](#) raised key rate by 75bp to 4.5%. Moody's affirmed Czech rating at 'Aa3' with stable outlook.

PL: [FY21 GDP growth](#) landed at 5.7%

HU: [Industry](#) stagnated on monthly level in December.

BiH: S&P affirmed rating of Bosnia and Herzegovina at 'B' with stable outlook.

## Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
07.Feb		CZ	Industrial Production (y/y)	Dec		1.30%	1.60%	Production was negatively affected by lack of semiconductors. On contrary, several other indicators, e.g. new orders or price developments of several inputs, improved at end of last year. Trade balance should stay in deficit. This is result of high energy prices and, more importantly, low car exports. Moreover, there is significant negative seasonal effect in December.
		CZ	Trade Balance	Dec	-10.8	-25	16.3	
	10:30	SI	CPI (y/y)	Jan		5.00%	4.90%	Inflation to remain elevated.
08.Feb		PL	Central Bank Rate	Feb.08	2.75%	2.75%	2.25%	Central bank to stick to 50bp tightening pace.
	9:00	CZ	Retail Sales (y/y)	Dec	8.10%	6.50%	13.20%	High y/y growth affected by base effect. Household consumption started slowing down during 4Q22 because of high energy prices.
	9:00	HU	Trade Balance	Dec P	-109	30	-76	While automotive industry has been generating lower declines, gap between exports and imports is closing.
	9:00	SK	Trade Balance	Dec		-150	-23.1	According to our estimates, good performance of industry encouraged foreign trade as well - both import and export side.
	11:00	HR	Trade Balance	Nov			-5610	
09.Feb		RO	Central Bank Rate	Feb	2.40%	2.25%	2.00%	NBR is likely to stick to its gradual pace of rate increases. We see 100bp of rate hikes this year in steps of 25bp each, with terminal rate for cycle being reached at 3.00% by mid-2022. Hence, credit facility should reach 4.00% by mid-2022.
	8:00	RO	Trade Balance	Dec			-2159	
	10:30	SI	Trade Balance	Dec			-46.00%	
10.Feb		SK	Industrial Production (y/y)	Dec		2.00%	4.30%	No production disruptions were visible in Slovak industry in December; year-end is traditionally affected by company-wide holidays. We expect growth of 2.0% y/y in December, bringing full-year average to 9.8% y/y.
	9:00	SK	Wages (y/y)	Dec		0.00%	2.70%	
	10:30	SI	Industrial Production (y/y)	Dec		6.00%	10.10%	Industrial production seen maintaining solid footprint.
	12:00	RS	Central Bank Rate	Feb		1.00%	1.00%	Key rate likely to remain at 1% as long as reverse repo rate is below that level. We expect first hike in April, or May at latest.
11.Feb	8:00	RO	Wages (y/y)	Dec			6.86%	
	9:00	HU	CPI (y/y)	Jan	7.3%	7.50%	7.40%	High monthly rate could have translated into further small increase in 12-month CPI rate. Slowdown of inflation is to come from February.
	9:00	HU	CPI (m/m)	Jan		1.00%	0.30%	Repricing behaviour in economy could have been stronger, especially in case of foods and services, implying high monthly increase.

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
<b>Croatia 10Y</b>	0.9	0.6	0.7	0.7	0.8
spread (bps)	67	66	63	63	64
<b>Czechia 10Y</b>	3.0	3.0	2.9	2.8	2.7
spread (bps)	285	301	285	273	255
<b>Hungary 10Y</b>	4.8	4.6	4.5	4.4	4.3
spread (bps)	462	466	448	428	419
<b>Poland 10Y</b>	3.9	4.00	3.90	3.80	3.70
spread (bps)	370	406	388	373	359
<b>Romania 10Y</b>	5.5	5.1	4.9	4.8	4.7
spread (bps)	535	516	488	473	459
<b>Slovakia 10Y</b>	0.6	0.2	0.3	0.4	0.4
spread (bps)	42	21	23	28	29
<b>Slovenia 10Y</b>	0.73	0.35	0.40	0.45	0.45
spread (bps)	55	41	38	38	34
<b>Serbia 5Y</b>	3.1	3.5	3.6	3.7	3.8
spread (bps)	296	356	358	363	364
<b>DE10Y*</b>	0.18	-0.06	0.02	0.07	0.11

\* Spreads based on Bloomberg consensus forecast

### 3M Money Market Rate

	current	2022Q1	2022Q2	2022Q3	2022Q4
<b>Czechia</b>	4.74	4.30	4.23	3.99	3.74
<b>Hungary</b>	4.52	5.00	5.20	5.20	4.95
<b>Poland</b>	3.11	3.25	3.50	4.00	4.25
<b>Romania</b>	3.11	3.25	3.75	4.00	4.00
<b>Serbia</b>	1.02	1.06	1.53	1.78	2.04
<b>Eurozone</b>	-0.55	-0.54	-0.54	-0.54	-0.54

### Real GDP growth (%)

	2020	2021f	2022f	2023f
<b>Croatia</b>	-8.1	10.4	4.6	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	7.4	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	5.4	4.3	4.4

### Public debt (% of GDP)

	2020	2021f	2022f	2023f
<b>Croatia</b>	87.3	81.2	78.0	76.3
<b>Czechia</b>	37.7	42.2	43.4	45.1
<b>Hungary</b>	80.1	79.5	76.7	74.8
<b>Poland</b>	57.5	56.1	55.0	52.0
<b>Romania</b>	47.4	50.0	50.3	50.7
<b>Serbia</b>	57.0	54.7	52.6	50.6
<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	57.3	56.6	55.1

### FX

	current	2022Q1	2022Q2	2022Q3	2022Q4
<b>EURHRK</b>	7.53	7.53	7.48	7.48	7.53
<b>EURCZK</b>	24.32	24.40	24.35	24.38	24.28
<b>EURHUF</b>	354.36	355.00	355.00	350.00	350.00
<b>EURPLN</b>	4.55	4.60	4.58	4.56	4.55
<b>EURRON</b>	4.95	4.95	4.98	5.00	5.05
<b>EURRSD</b>	117.59	117.60	117.60	117.60	117.60
<b>EURUSD</b>	1.14	1.13	1.13	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>	4.50	4.25	4.25	4.00	3.75
<b>Hungary</b>	2.90	4.00	5.00	5.00	4.75
<b>Poland</b>	2.25	3.00	3.25	3.75	4.00
<b>Romania</b>	2.00	2.25	2.75	3.00	3.00
<b>Serbia</b>	1.00	1.00	1.50	1.75	2.00
<b>Eurozone</b>	0.00	0.00	0.00	0.00	0.00

### Average inflation (%)

	2020	2021f	2022f	2023f
<b>Croatia</b>	0.1	2.6	3.4	1.8
<b>Czechia</b>	3.2	3.8	5.0	2.1
<b>Hungary</b>	3.3	5.1	5.5	3.5
<b>Poland</b>	3.4	5.1	7.4	5.1
<b>Romania</b>	2.7	5.0	6.8	3.6
<b>Serbia</b>	1.6	4.0	6.0	3.5
<b>Slovakia</b>	1.9	3.2	5.0	3.5
<b>Slovenia</b>	0.0	1.9	2.6	1.8
<b>CEE8 avg</b>	2.8	4.5	6.2	3.8

### C/A (%GDP)

	2020	2021f	2022f	2023f
<b>Croatia</b>	-0.1	2.9	2.2	1.4
<b>Czechia</b>	3.6	0.3	1.1	1.2
<b>Hungary</b>	-1.6	-2.8	-3.6	-2.3
<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	-3.5	-3.7	-4.2
<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	-1.4	-0.9

### Unemployment (%)

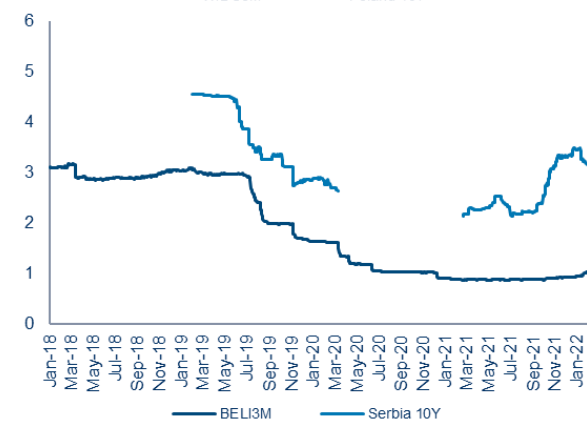
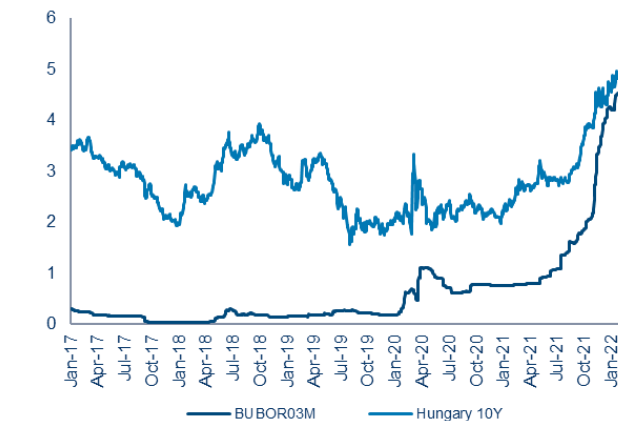
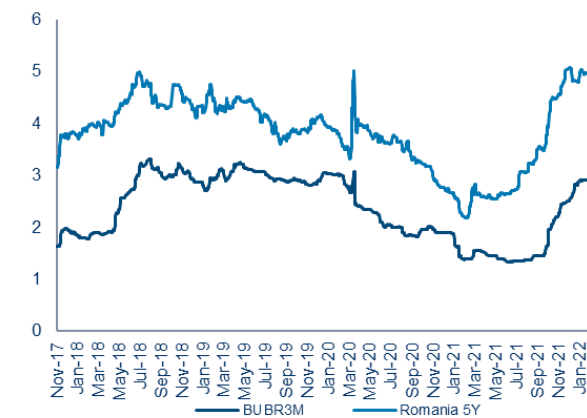
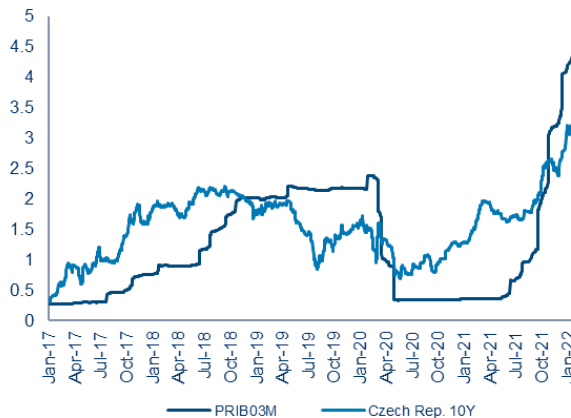
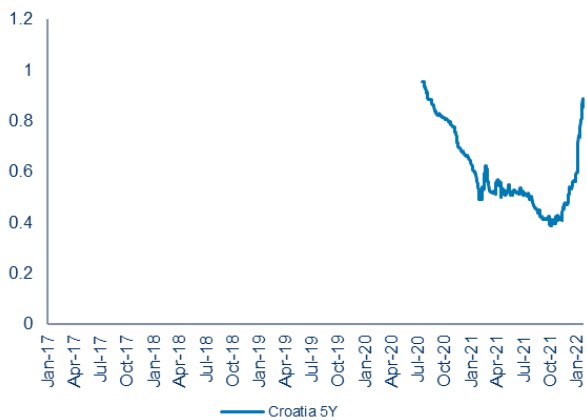
	2020	2021f	2022f	2023f
<b>Croatia</b>	7.5	8.2	7.1	6.6
<b>Czechia</b>	2.6	3.0	2.8	3.0
<b>Hungary</b>	4.1	4.1	3.8	3.5
<b>Poland</b>	5.9	5.9	5.5	5.4
<b>Romania</b>	6.0	5.5	5.2	5.1
<b>Serbia</b>	9.7	11.2	10.3	9.8
<b>Slovakia</b>	6.7	7.0	6.4	5.7
<b>Slovenia</b>	5.0	4.8	4.6	4.3
<b>CEE8 avg</b>	5.4	5.5	5.1	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	-7.6	-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

**Group Research**

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