

CEE Market Insights

Hungarian central bank to raise rates

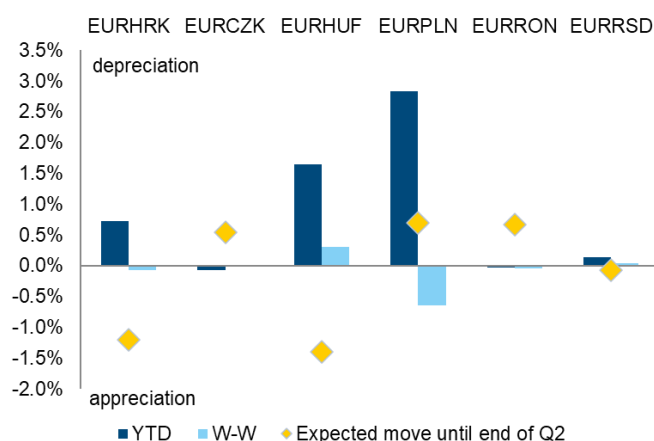
This week in CEE

This week, the Hungarian central bank meeting is likely to be the most-watched economic event in the region (due Tuesday). We expect the key rate to go up by 125bp to 4.65%. Expectations for a quick adjustment of the policy rate are a result of a widening of the difference between the key rate and the 1-week depo rate (which was recently raised on a weekly basis). The step is likely to be followed by a 50bp hike in the 1-week depo rate on Thursday, with the two rates converging most likely during summer. On Monday morning, Poland will publish the retail sales growth in February. Double-digit growth dynamics should mimic the strong performance of the industrial sector in February (industrial production up 17.6% y/y and 3.6% m/m), also reflecting the strong base effects from last year. Apart from that, we get to see current account balances in Hungary, Slovakia and Serbia, as well as the unemployment rate in Hungary, Poland and Slovakia. As for the latter indicator, we do not expect any major changes confirming the robust labor market conditions.

Monday	Tuesday	Wednesday	Thursday	Friday
PL: Retail	HU: Central Bank	HU: Current Account	RS: Wages	HU: Unemployment
SI: PPI	RS, SI: Current Account	PL: Unemployment		
SK: 2024, 2030, 2051 Bonds	HU: Bills	CZ: 2032, 2035, 2037 Bonds	PL: 2024, 2027, 2031, 2032 Bonds	
RO: 2034 Bonds			CZ: Bills	
			RO: 2026 Bonds	

FX market

FX market developments

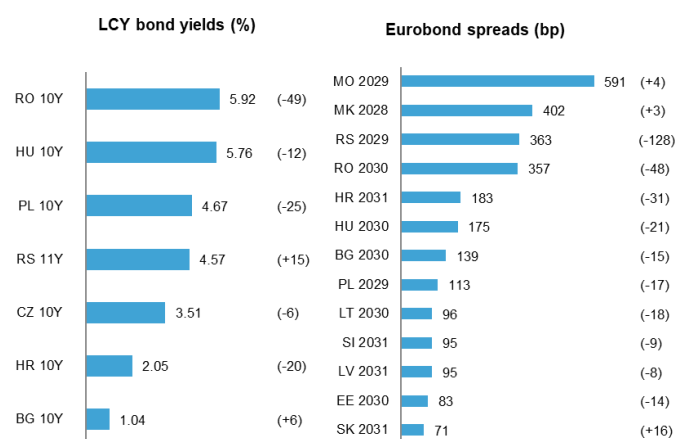


Source: Bloomberg, Erste Group Research

CEE currencies pared many of the losses last week, supported by improved market sentiment, previous and current central bank interventions (Romania, Serbia) as well as likely continuation of monetary tightening. After the difference between the policy and the one-week deposit rate widened significantly, the Hungarian central bank will raise its key rate again this week and may, in our view, opt for a bolder 125bp step. Moreover, we expect a 50bp hike to the one-week rate on Thursday. Thus, this should support the forint (although risks from the war and due to upcoming elections remain) and we currently keep our end-of-first quarter forecast unchanged at 375 vs the EUR. According to Governor Rusnok, the Czech central bank is weighing prolonged and higher inflation against risks to growth, with stagflation a possibility. Simultaneously, he stressed it is not about “substantial interest-rate increases” as the room for further tightening is limited and the CNB cannot

fight energy price shocks. March meeting is a tough call, as Rusnok indicated a hike earlier, without specifying its scope, but also clearly stated the difficult situation overall. The new Polish MPC member Janczyk mentioned a more cautious approach to monetary tightening amidst gains in the zloty and signs of record-inflation being contained for now. Last week brought an expected 25bp rate hike in the US, as the Fed raised rates to 0.25-0.5% and penciled in further 150bp rate hikes this year and an additional 125bp for 2023 – a strong upward revision from its December forecasts. Moreover, it will make a decision regarding reduction of the securities portfolio at one of the upcoming meetings.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

CEE bonds rallied last week across the board. Improvement of sentiment on global markets led to higher yields in advanced economies, while LCY yield curves in CEE shifted down 20-30bp w/w, with yields on 10Y ROMGBs going down almost 50bp w/w. We still see hefty space for further compression of yields in CEE from still rather elevated levels inflated by recent sell-offs, especially in Czechia (-50bp), Poland (-30bp) and Hungary (-90bp) by the year-end. This week, Czechia will re-open CZGBs 2032, 2035 and 2037 plus issue T-bills, Slovakia will offer SLOVGBs 2024, 2030, 2036 and 2051, Poland will sell POLGBs 2024, 2027, 2032 and a 9Y floater, while Romania will have on offer ROMGBs 2026 and 2034. Hungary will sell T-bills on top of its regular auctions.

In case you missed

CEE: [Outlook](#) after Russia's invasion of Ukraine.

HR: February [inflation](#) reaching a new-high at 6.3% y/y. S&P kept the Croatian rating unchanged.

PL: Only a temporary [easing of inflation](#). Strong performance of the industry.

SK: Housing and food accounted for almost two-thirds of the [price growth](#). Slovak rating (Fitch) remained stable.

RO: Strong start to the year for [industry](#), while [core inflation](#) accelerated faster than expected in February.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
21. Mar	10:00	PL	Retail Sales (y/y)	Feb	17.1%	18.2%	20.0%	Retail sales growth to remain robust supported by last year's base effect as well as increased purchases due to inflow of refugees to Poland at the end of February.
	10:30	SI	PPI (y/y)	Feb			12.3%	
22. Mar		RS	Current Account Balance (monthly)	Jan			-575.60	
	10:30	SK	Current Account Balance (monthly)	Jan			-831	
	14:00	HU	Central Bank Rate	Mar 22	4.4%	4.65%	3.4%	As a result of some weekly raises of the 1-week depo rate, the difference between the two rates widened, demanding adjustment of the policy rate at a faster pace. The step would be followed by a 50bp hike in the 1-week depo rate on Thursday. The two rates might converge in summer
23. Mar	8:30	HU	Current Account Balance (quarterly)	4Q		-1930	-2263	Forecast is based on preliminary monthly C/A balance figures, published earlier by the MNB.
	10:00	PL	Unemployment Rate	Feb	5.5%	5.5%	5.5%	
24. Mar		RS	Wages (y/y)	Jan			12.5%	
25. Mar		HU	Unemployment Rate	Feb		3.9%	3.8%	Unemployment rate probably reversed below 4% after the unexpected increase in January.

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	2022Q2	2022Q3	2022Q4	2023Q1
Croatia 10Y	2.0	2.0	2.0	2.0	2.0
spread (bps)	163	180	170	159	151
Czechia 10Y	3.5	3.1	3.1	3.1	3.0
spread (bps)	311	294	282	268	251
Hungary 10Y	5.8	5.0	5.0	4.9	4.9
spread (bps)	537	485	470	448	440
Poland 10Y	4.7	4.80	4.60	4.40	4.20
spread (bps)	428	460	430	399	371
Romania 10Y	5.9	6.2	6.0	5.9	5.6
spread (bps)	555	600	570	549	511
Slovakia 10Y	1.1	0.9	1.1	1.3	1.5
spread (bps)	71	70	80	89	101
Slovenia 10Y	1.23	1.10	1.10	1.20	1.30
spread (bps)	83	90	80	79	81
Serbia 5Y	4.5	4.0	4.1	4.1	4.0
spread (bps)	413	380	380	369	351
DE10Y*	0.40	0.20	0.30	0.41	0.49

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2022Q2	2022Q3	2022Q4	2023Q1
Czechia	4.85	4.74	4.72	4.63	4.19
Hungary	6.20	7.60	7.60	7.35	7.10
Poland	4.40	5.50	5.75	5.75	5.50
Romania	4.39	4.75	5.00	4.75	4.50
Serbia	1.14	1.53	1.78	2.04	2.04
Eurozone	-0.49	-0.54	-0.54	-0.34	-0.14

Real GDP growth (%)

	2020	2021	2022f	2023f
Croatia	-8.1	10.4	3.4	3.8
Czechia	-5.8	3.3	0.6	3.9
Hungary	-4.7	7.1	4.8	3.8
Poland	-2.5	5.7	3.6	3.7
Romania	-3.7	5.9	2.8	5.7
Serbia	-0.9	7.4	4.0	4.3
Slovakia	-4.4	3.0	2.0	4.0
Slovenia	-4.2	8.1	3.2	3.5
CEE8 avg	-3.8	5.6	3.0	4.1

Public debt (% of GDP)

	2020	2021f	2022f	2023f
Croatia	87.3	80.7	77.1	75.0
Czechia	37.7	42.2	45.0	46.8
Hungary	80.1	78.2	75.5	74.0
Poland	57.5	56.1	55.0	52.0
Romania	47.4	50.0	50.3	50.7
Serbia	57.0	56.5	51.7	49.2
Slovakia	59.7	62.8	63.8	61.7
Slovenia	79.8	75.1	74.8	72.5
CEE8 avg	57.1	57.2	56.8	55.4

FX

	current	2022Q2	2022Q3	2022Q4	2023Q1
EURHRK	7.57	7.48	7.48	7.53	7.53
EURCZK	24.75	25.00	24.84	24.70	24.59
EURHUF	374.58	370.00	365.00	360.00	355.00
EURPLN	4.69	4.75	4.65	4.65	4.50
EURRON	4.95	4.98	5.00	5.05	5.08
EURRSD	117.67	117.60	117.60	117.60	117.60
EURUSD	1.11	1.11	1.13	1.13	1.15

Key Interest Rate

	current	2022Q2	2022Q3	2022Q4	2023Q1
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	4.50	4.50	4.50	4.50	4.25
Hungary	3.40	7.40	7.40	7.15	6.90
Poland	3.50	4.50	4.75	4.75	4.75
Romania	2.50	3.25	3.50	3.50	3.50
Serbia	1.00	1.50	1.75	2.00	2.00
Eurozone	0.00	0.00	0.00	0.00	0.00

Average inflation (%)

	2020	2021	2022f	2023f
Croatia	0.1	2.6	6.0	3.0
Czechia	3.2	3.8	10.7	4.1
Hungary	3.3	5.1	8.6	4.8
Poland	3.4	5.1	9.7	8.2
Romania	2.7	5.0	11.5	7.1
Serbia	1.6	4.0	7.2	4.2
Slovakia	1.9	3.2	9.5	5.0
Slovenia	0.0	1.9	6.2	2.8
CEE8 avg	2.8	4.5	9.7	6.2

C/A (%GDP)

	2020	2021f	2022f	2023f
Croatia	-0.1	3.7	2.1	1.1
Czechia	3.6	-0.2	0.2	1.1
Hungary	-1.6	-2.9	-4.4	-2.8
Poland	2.9	-0.9	-1.1	-0.3
Romania	-5.0	-7.1	-6.5	-6.4
Serbia	-4.1	-4.4	-4.4	-4.7
Slovakia	0.1	-1.0	-0.7	-1.3
Slovenia	7.4	3.2	2.7	2.9
CEE8 avg	0.9	-1.8	-2.0	-1.4

Unemployment (%)

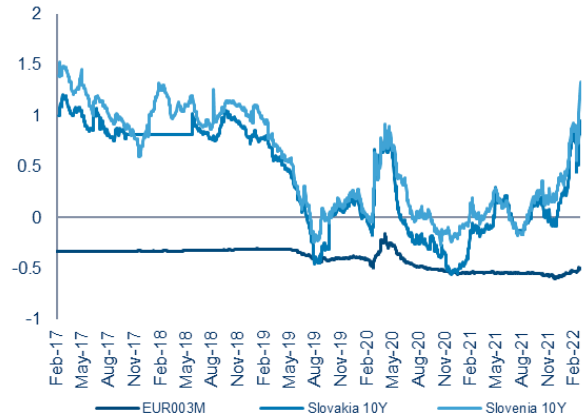
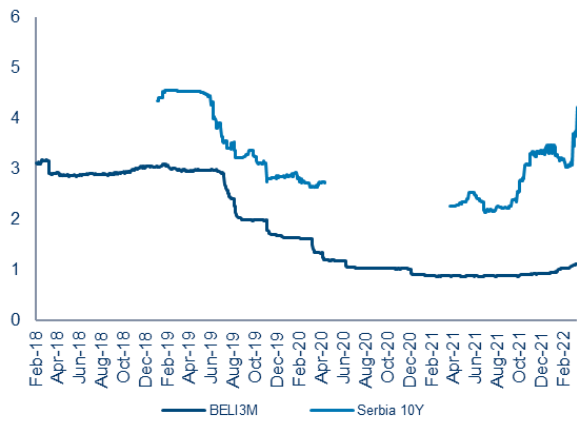
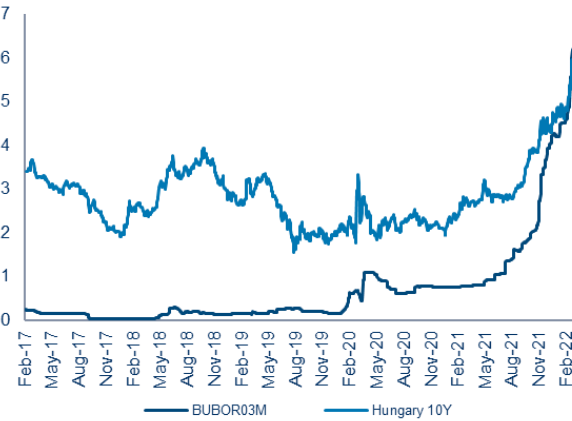
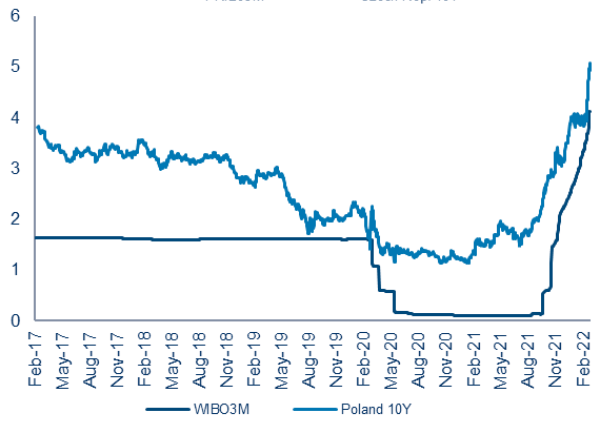
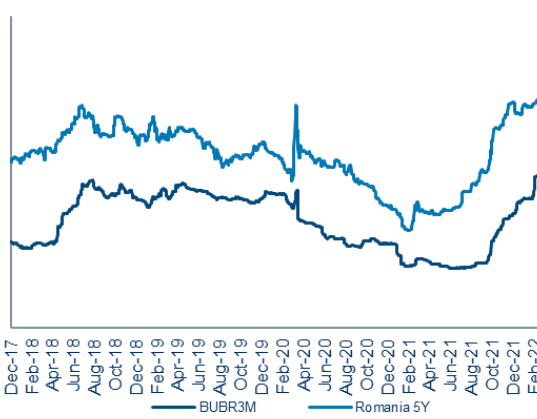
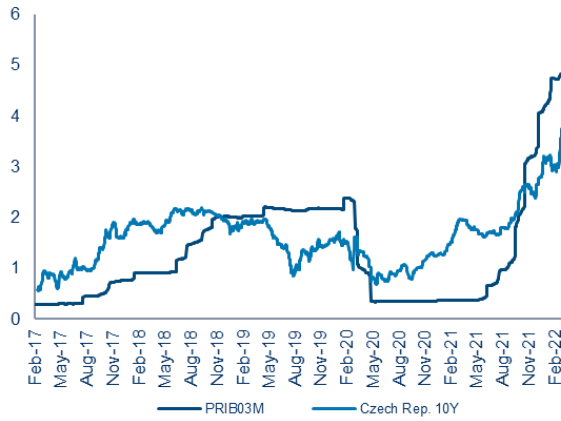
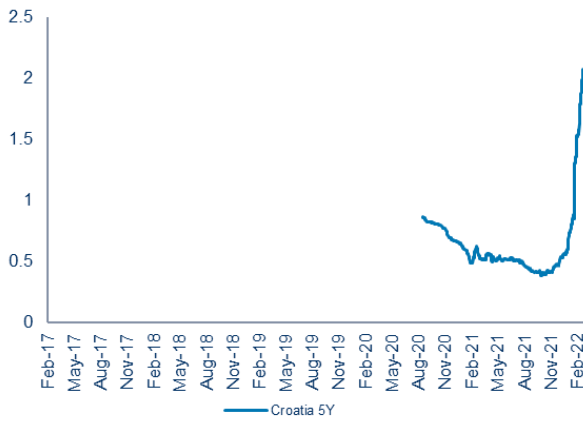
	2020	2021	2022f	2023f
Croatia	7.5	7.9	7.0	6.4
Czechia	2.6	2.9	2.9	3.6
Hungary	4.1	4.1	3.8	3.5
Poland	5.9	5.9	5.5	5.4
Romania	6.0	5.5	5.3	5.2
Serbia	9.7	11.0	9.6	9.2
Slovakia	6.7	6.8	6.7	6.2
Slovenia	5.0	4.8	4.6	4.3
CEE8 avg	5.4	5.4	5.1	5.1

Budget Balance (%GDP)

	2020	2021f	2022f	2023f
Croatia	-7.4	-3.8	-3.5	-2.8
Czechia	-5.6	-6.8	-5.1	-3.4
Hungary	-8.0	-7.3	-5.3	-4.0
Poland	-7.0	-2.1	-3.8	-3.3
Romania	-9.4	-7.0	-6.2	-5.2
Serbia	-8.0	-4.1	-3.0	-1.5
Slovakia	-5.5	-6.0	-6.0	-2.5
Slovenia	-7.7	-7.0	-5.5	-4.0
CEE8 avg	-7.2	-4.8	-4.7	-3.6

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

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