

CEE Market Insights

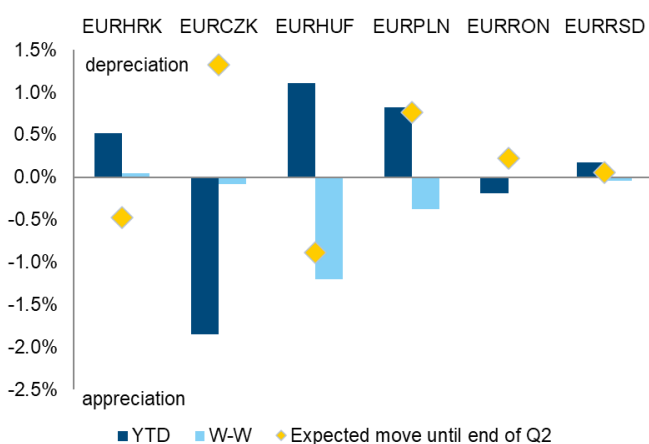
March industry and retail in Poland

This week in CEE

This week, the economic calendar is relatively empty. Only Poland is going to publish more relevant indicators toward the end of the week: industrial output and retail sales growth in March. The market consensus points to relatively strong, double-digit growth dynamics (11.6% y/y and 18.6% y/y, respectively). Further, the PPI Index in Czechia, Poland and Slovenia is due, as well as unemployment rates in Croatia and Slovakia. While in Croatia, the unemployment rate should decline, in Slovakia, we expect stagnation.

Monday	Tuesday	Wednesday	Thursday	Friday
	SK: Unemployment	CZ: PPI	PL: Industry, Wages	PL: Retail
		HR, Unemployment, Wages	PL SI: PPI	SK: Current Account
			RS: Current Account	
RO: 2026 2034 Bonds	SK: 2025 2030 2036 2051 Bonds	CZ: 2024 2026 Bonds	HU: 2028 2032 2041 Bonds	
	HR HU: Bills		PL: 2024 2027 2031 2032 Bonds	
			CZ RO: Bills	

FX market



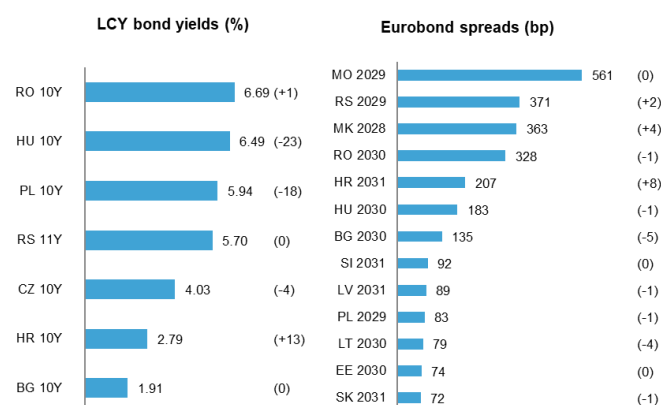
Source: Bloomberg, Erste Group Research

FX market developments

CEE currencies had a relatively calm pre-Easter week. Czech inflation accelerated to a new 24-year high in March, reaching 12.7% y/y. At its May meeting, the Czech national bank is likely to raise rates again and we expect 25-50bp hike from the current 5%. However, due to the uncertainty, anything between 0- 100bp is generally possible. Czech central bank governor Rusnok hopes the May hike “will be one of the last ones needed in this stage of rate increases”. A more hawkish hue was present in Vice-Governor Nidetzky’s claim that chances of rates starting to decline towards year-end have dissipated amidst the impact of the war in Ukraine. Yet, we still pencil in a small rate cut for November. Romania’s headline inflation jumped to 10.15% in March, hitting a 17-year high, underscoring the need for more policy tightening – we expect a 50bp key rate hike to 3.50% in May. The Hungarian central bank left its one-week deposit rate unchanged at 6.15% for the third consecutive week, despite a generally weaker currency (courtesy of global risks and looming disciplinary procedure from the EU) and worsening inflation outlook.

However, it came as no surprise as the forint barely reacted to it. Polish central bank head Glapinski stated that the country's inflation will hopefully decrease to the central bank target of 2.5% in late 2023, allowing a monetary policy easing cycle. The current NBP stance remains focused on tightening to tackle the elevated inflation. The ECB's April meeting brought a small next step towards the normalization of monetary policy – the withdrawal of very strong support for the economy. A decision to end securities purchases in 3Q22 could be taken at the June meeting and would open the door for an interest rate hike. We assume a rate hike in December, as we see significant risks of a slowdown in the economy during the coming months.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Last week, Croatia tapped the Eurobond market with a EUR 1.25bn (keeping the roll-over at 100%, as the same size matures in May) 10Y tenor priced at 2.975%. Demand was strong (books reported at EUR 3+bn), allowing for IPT tightening from MS+175bp to MS+150bp. Nevertheless, investors were sending a clear signal that the current issuance did not come cheap. The market was demanding a significant new issue premium, which was reflected on the long end of the curve, which moved up over the week, while the Eurobond spread widened. In Hungary, there was a visible correction, with 10Y yields dropping 20bp. This week, Czechia has the 2Y Eurobond issuance scheduled with EUR 50mn up to EUR 100mn planned.

In case you missed

CZ: [Inflation](#) driven mainly by supply-side factors.

SK: [Inflation rate](#) exceeded double-digit level in March.

RO: Energy and mining dragged [industry](#) lower. [Inflation](#) jumped into double digits, above expectations.

RS: [Inflation](#) above 9% y/y.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
19.Apr		SK	Unemployment Rate	Mar		6.9%	6.9%	We expect stagnation of the unemployment rate, as the impact of the Russian invasion was already visible (such as elevated uncertainty).
20.Apr	9:00	CZ	PPI (y/y)	Mar	23.3%	25.1%	21.3%	Higher energy prices stem behind stronger inflation of producer prices.
	11:00	HR	Unemployment Rate	Mar		7.5%	7.8%	March unemployment rate seen declining on monthly level
	11:00	HR	Wages (y/y)	Feb			0.8%	
21.Apr		RS	Current Account Balance (monthly)	Feb			-142	
	10:00	PL	Industrial Production (y/y)	Mar	11.6%		17.6%	
	10:00	PL	PPI (y/y)	Mar	18.1%		15.9%	
	10:00	PL	Wages (y/y)	Mar	10.6%		11.7%	
	10:30	SI	PPI (y/y)	Mar			16.5%	
22.Apr	10:00	PL	Retail Sales (y/y)	Mar	18.6%		16.5%	
	10:30	SK	Current Account Balance (monthly)	Feb			-803	

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	2.5	2.2	2.4	2.4	2.4
spread (bps)	171	164	178	173	164
Czechia 10Y	4.0	3.6	3.6	3.5	3.3
spread (bps)	319	302	294	279	255
Hungary 10Y	6.5	6.2	5.6	5.5	5.2
spread (bps)	565	564	501	485	443
Poland 10Y	5.9	5.72	5.70	5.67	5.60
spread (bps)	510	516	508	500	484
Romania10Y	6.7	6.7	6.8	6.9	7.0
spread (bps)	586	614	618	623	624
Slovakia 10Y	1.6	1.6	1.8	2.0	2.2
spread (bps)	75	104	118	133	144
Slovenia 10Y	1.78	1.60	1.60	1.60	1.70
spread (bps)	94	104	98	93	94
Serbia 5Y	4.8	5.0	5.1	5.0	4.8
spread (bps)	400	444	448	433	404
DE10Y*	0.84	0.56	0.62	0.67	0.76

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2022Q2	2022Q3	2022Q4	2023Q1
Czechia	5.37	5.35	5.28	4.94	4.36
Hungary	6.60	7.60	7.60	7.35	7.10
Poland	5.54	5.65	5.85	5.85	5.60
Romania	4.70	5.20	5.50	5.80	5.50
Serbia	1.52	1.53	1.78	2.04	2.04
Eurozone	-0.45	-0.50	-0.50	-0.27	0.00

Real GDP growth (%)

	2020	2021	2022f	2023f
Croatia	-8.1	10.4	2.7	3.5
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	2.5	3.4
Slovakia	-4.4	3.0	2.0	4.0
Slovenia	-4.2	8.1	3.2	3.5
CEE8 avg	-3.8	5.6	2.9	4.1

Public debt (% of GDP)

	2020	2021f	2022f	2023f
Croatia	87.3	79.6	75.6	73.4
Czechia	37.7	42.2	45.0	46.8
Hungary	79.6	76.8	73.6	72.0
Poland	57.5	56.1	55.0	52.0
Romania	47.2	48.9	49.8	49.9
Serbia	57.0	56.5	54.9	53.0
Slovakia	59.7	62.8	63.1	60.9
Slovenia	79.8	75.1	74.8	72.5
CEE8 avg	57.0	56.8	56.5	55.0

Source: Bloomberg, Erste Group Research

FX

	current	2022Q2	2022Q3	2022Q4	2023Q1
EURHRK	7.55	7.52	7.52	7.53	7.53
EURCZK	24.44	24.75	24.58	24.40	24.36
EURHUF	373.12	370.00	365.00	360.00	355.00
EURPLN	4.62	4.66	4.65	4.60	4.50
EURRON	4.94	4.95	5.00	5.05	5.08
EURRSD	117.73	117.80	117.70	117.80	117.90
EURUSD	1.08	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	5.00	5.25	5.25	5.00	4.50
Hungary	4.40	7.40	7.40	7.15	6.90
Poland	4.50	5.25	5.50	5.50	5.50
Romania	3.00	3.50	4.25	4.50	4.50
Serbia	1.50	1.50	1.75	2.00	2.00
Eurozone	0.00	0.00	0.00	0.00	0.25

Average inflation (%)

	2020	2021	2022f	2023f
Croatia	0.1	2.6	7.5	3.5
Czechia	3.2	3.8	11.7	4.1
Hungary	3.3	5.1	9.2	5.1
Poland	3.4	5.1	9.7	8.2
Romania	2.7	5.0	10.2	6.9
Serbia	1.6	4.0	8.6	5.8
Slovakia	1.9	3.2	9.5	5.0
Slovenia	0.0	1.9	6.2	2.8
CEE8 avg	2.8	4.5	9.8	6.3

C/A (%GDP)

	2020	2021f	2022f	2023f
Croatia	-0.1	3.4	1.4	0.4
Czechia	3.6	-0.2	0.2	1.1
Hungary	-1.1	-3.0	-4.9	-3.2
Poland	2.9	-0.9	-1.1	-0.3
Romania	-5.0	-7.1	-6.5	-6.4
Serbia	-4.1	-4.4	-6.9	-6.7
Slovakia	0.1	-1.0	-0.7	-1.3
Slovenia	7.4	3.2	2.7	2.9
CEE8 avg	0.9	-1.9	-2.1	-1.6

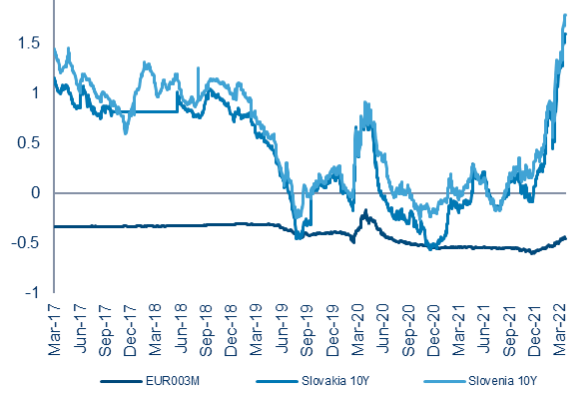
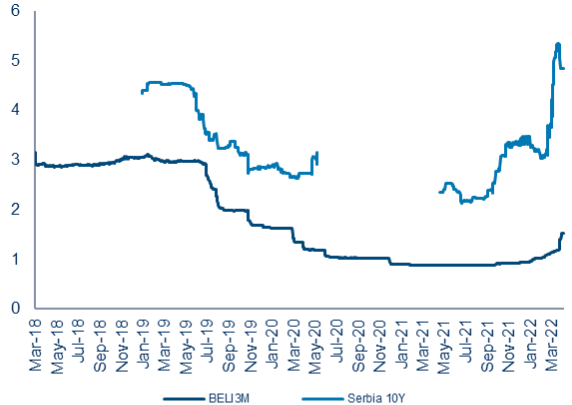
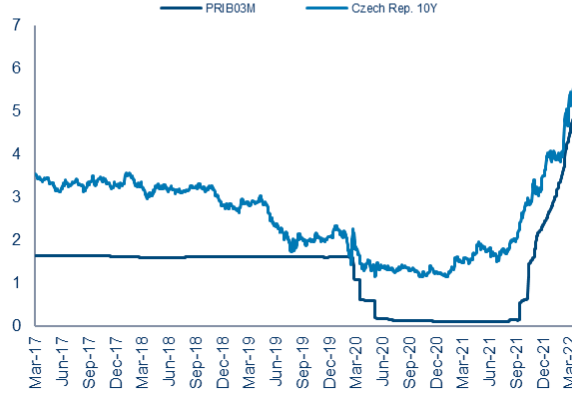
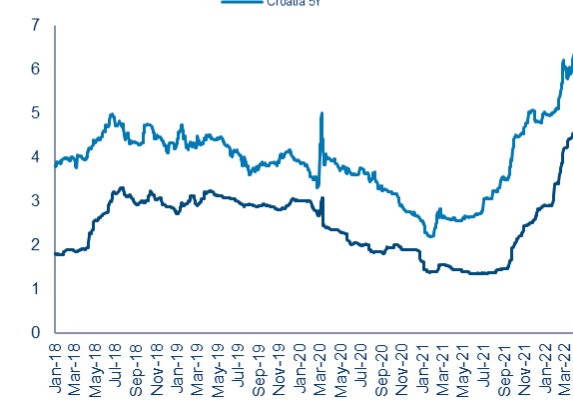
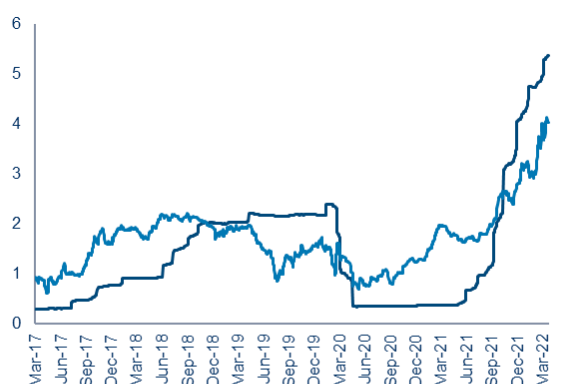
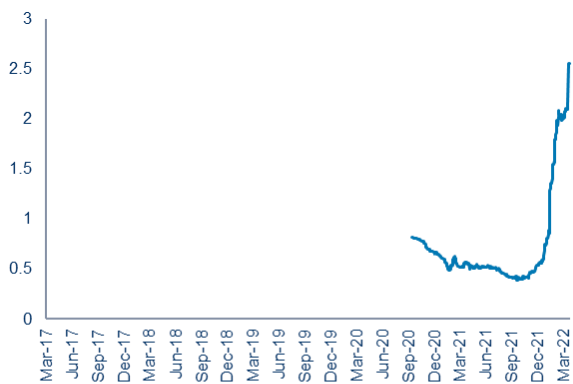
Unemployment (%)

	2020	2021	2022f	2023f
Croatia	7.5	7.6	6.8	6.2
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	-7.8	-6.8	-5.1	-4.0
Poland	-7.0	-2.1	-3.8	-3.3
Romania	-9.4	-7.0	-6.7	-5.7
Serbia	-8.0	-4.1	-4.5	-2.5
Slovakia	-5.5	-6.0	-6.0	-2.5
Slovenia	-7.7	-7.0	-5.5	-4.0
CEE8 avg	-7.2	-4.7	-4.8	-3.7

Appendix



Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Market Insights
19 April 2022

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Published by:

Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna

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