

CEE Market Insights

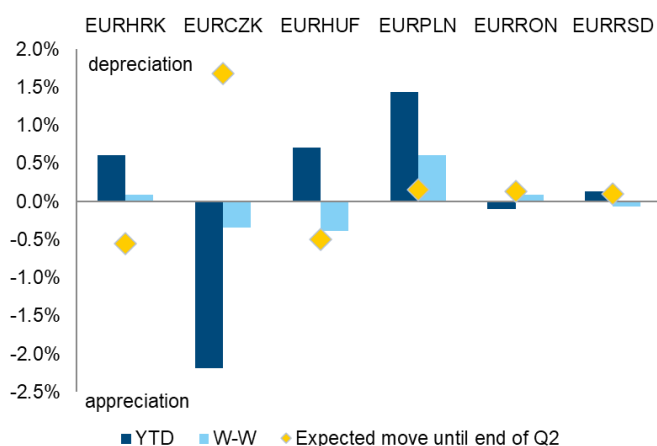
Further tightening in Hungary, flash GDP in Czechia

This week in CEE

This week Hungary is in the spotlight. First, the central bank is holding a rate-setting meeting. Given the inflation development, it comes as no surprise that monetary tightening will continue. We expect another 100bp hike of the key policy rate (to 5.4%), while the one-week deposit rate should be raised by 30bp (to 6.45%). The outlook should not change much and monetary tightening should continue until mid-summer. Further, political developments in Hungary are likely to attract attention and on April 27 a letter from the European Commission is expected to shed more light on the rule of law proceedings and the underlying threat of EU funds suspension. As far as other events are concerned, Czechia will be the first to publish flash 1Q22 GDP data and our expectations sit at 4.1% y/y (0.1% q/q), reflecting mostly the impact of high energy prices and supply chain bottlenecks. We will also see March industrial output and retail sales growth in Croatia and Serbia. In Croatia, we expect modest growth figures, in line with the deteriorating growth outlook. In Serbia, the retail sales footprint is likely to remain relatively solid, reflecting recent wage and pension increases. Last but not least, inflation in Slovenia is expected to rise to 6.5% in March.

Monday	Tuesday	Wednesday	Thursday	Friday
RS: Wages	HU: Central Bank	SK: PPI	HU: Unemployment	CZ: 1Q22 GDP
	PL: Unemployment		SI: Retail	HR RS: Retail, Industry
				RS: Trade
	HU: Bills		CZ: Bills	

FX market



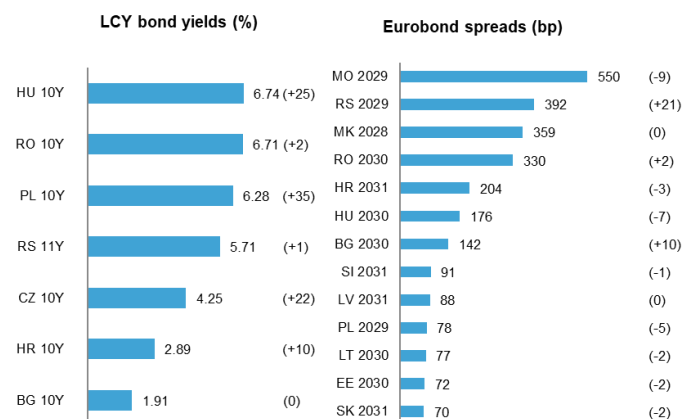
Source: Bloomberg, Erste Group Research

FX market developments

Local currencies had a calm post-Easter week, with only the Hungarian forint strengthening a bit more to 371 vs. EUR. The HUF is gearing up for this week's central bank decisions on widely expected rate hikes. Increase in the base rate is considered as rather formal issue but slower or no increase in the one-week deposit rate (we expect +30bp to 6.45%) could trigger a negative reaction on forint. The Polish zloty ended the week close to 4.64 against the euro, while the Czech koruna inched to a stronger level of 24.36 vs. EUR. Polish MPC member Litwiniuk "is hoping" that the central bank is coming closer to the end of its rate hiking cycle. He said inflation should peak at around 17% between June and September. The Czech central bank Governor Rusnok expects a careful debate on the use of FX reserves to tackle inflation at the next meeting in May, but he sees any further rate hikes as rather cosmetic. Given hawkish comments from top ECB officials, markets have upped

their bets on the ECB as they now price in 80bps of rate hikes by December. Traders raised their bets and now see an 80% chance of a 25bps hike in July.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Yields on global markets continued to increase last week, as more central bankers openly voiced support for earlier or bolder monetary tightening. Yields on government bonds also increased in CEE, where inflation continues to surprise on the upside and central banks are likely to address higher inflation via further rate hikes. However, some signs of hesitation started to be seen in the CNB, where the governor rightly pointed out that a reduction of the central bank's balance sheet would be worth discussing and might be a more efficient and faster way of curbing inflation than further rate hikes. In Poland and Hungary, 5Y yields climbed to 6.9-7.0%, thus exceeding 5Y yields on ROMGBs. The POLGB curve actually moved up 40bp w/w as the economy is growing fast and inflation is expected to increase further. The comment from Polish MPC member Litwiniuk that inflation should peak at around 17% between June and September certainly raised the eyebrow of every fixed-income investor exposed to POLGBs or PLN. This week, the auction calendar is pretty empty, with only Czech and Hungarian T-bills to be issued on top of regular auctions.

In case you missed

CEE: in latest [Bond Report](#) we look at bond market after Russia's invasion of Ukraine.

PL: Strong performance of economy in March, as evidenced by solid industrial output and retail sales growth.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
25.Apr		RS	Wages (y/y)	Feb				
26.Apr	9:00	HU	Wages (y/y)	Feb	14.00%		13.7%	
	10:00	PL	Unemployment Rate	Mar	5.4%		5.5%	
	14:00	HU	Central Bank Rate	Apr	5.4%	5.4%	4.4%	Raising the base rate by another 100bp to 5.40% is the most likely scenario. Then on Thursday the one-week depo rate could be increased by 30bp to 6.45%.
27.Apr	9:00	SK	PPI (y/y)	Mar		44.0%	39.0%	Supply-side tensions have been rising, especially from energy commodities and supply-chain disruptions.
28.Apr		HU	Unemployment Rate	Mar	3.80%	3.9%	3.8%	No relevant change is expected in labor market processes
	10:30	SI	Retail Sales (y/y)	Mar		7.0%	21.7%	Headline figure growth expected to decelerate as base effect wears-off
29.Apr	9:00	CZ	GDP (q/q)	1Q A	0.4%	0.1%	0.8%	Several time series indicate a very low growth in 1Q. The negative effects of the war in Ukraine are likely to be delayed by a few months.
	9:00	CZ	GDP (y/y)	1Q A	4.3%	4.1%	3.6%	GDP growth affected by a base effect, as the development in 1Q21 was subdued due to the lockdown.
	10:00	PL	CPI (y/y)	Apr P	11.3%		11.0%	
	10:30	SI	CPI (y/y)	Apr		6.5%	5.4%	Inflation to remain elevated also in April
	11:00	HR	Industrial Production (y/y)	Mar		2.0%	4.0%	Headline figure expected to maintain moderate positive trend
	11:00	HR	Retail Sales (y/y)	Mar		3.0%	0.3%	Consumption in March seen remaining modest
	12:00	RS	Industrial Production (y/y)	Mar		1.5%	-0.7%	Modest growth expected in March
	12:00	RS	Retail Sales (y/y)	Mar		7.0%	7.7%	Retail trade seen maintaining decent growth pace
	12:00	RS	Trade Balance	Mar			-1072.30	

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	2.6	2.2	2.4	2.4	2.4
spread (bps)	164	164	178	173	164
Czechia 10Y	4.2	3.6	3.6	3.5	3.3
spread (bps)	328	302	294	279	255
Hungary 10Y	6.7	6.2	5.6	5.5	5.2
spread (bps)	577	564	501	485	443
Poland 10Y	6.3	6.35	6.34	6.32	6.28
spread (bps)	531	579	572	565	552
Romania10Y	6.7	6.7	6.8	6.9	7.0
spread (bps)	574	614	618	623	624
Slovakia 10Y	1.7	1.6	1.8	2.0	2.2
spread (bps)	70	104	118	133	144
Slovenia 10Y	1.88	1.60	1.60	1.60	1.70
spread (bps)	91	104	98	93	94
Serbia 5Y	4.9	5.0	5.1	5.0	4.8
spread (bps)	392	444	448	433	404
DE10Y*	0.97	0.56	0.62	0.67	0.76

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate					
	current	2022Q2	2022Q3	2022Q4	2023Q1
Czechia	5.40	5.35	5.28	4.94	4.36
Hungary	6.60	7.60	7.60	7.35	7.10
Poland	5.74	5.70	5.85	5.85	5.65
Romania	4.73	5.20	5.50	5.80	5.50
Serbia	1.52	1.53	1.78	2.04	2.04
Eurozone	-0.43	-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	57.1	53.8	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	56.9	55.9	56.5	55.0

FX					
	current	2022Q2	2022Q3	2022Q4	2023Q1
EURHRK	7.56	7.52	7.52	7.53	7.53
EURCZK	24.33	24.75	24.58	24.40	24.36
EURHUF	372.41	370.00	365.00	360.00	355.00
EURPLN	4.66	4.66	4.65	4.60	4.50
EURRON	4.94	4.95	5.00	5.05	5.08
EURRSD	117.66	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	5.50	5.75	5.75	5.75
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

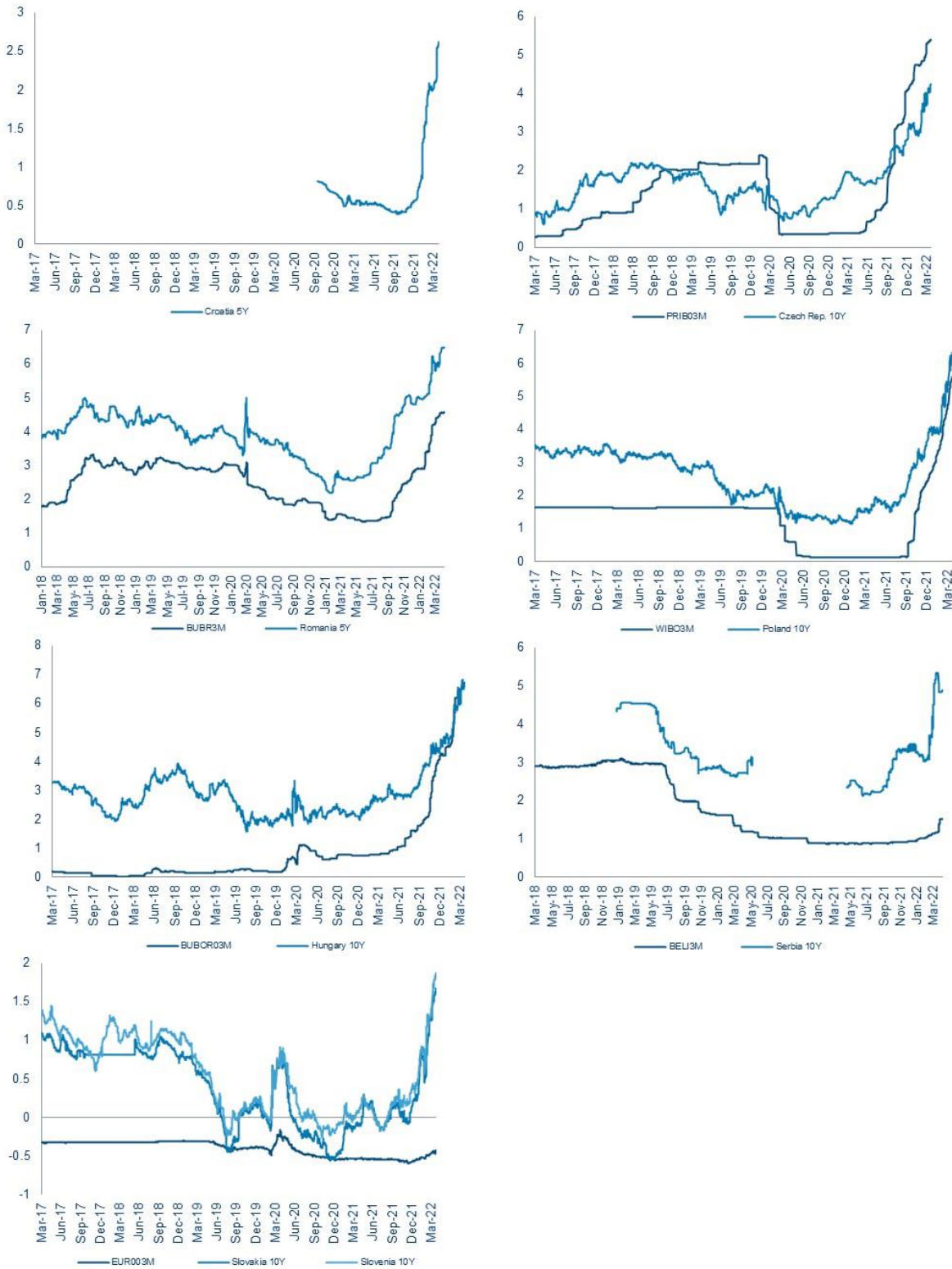
C/A (%GDP)				
	2020	2021f	2022f	2023f
Croatia	-0.1	3.4	1.4	0.4
Czechia	3.6	-0.2	0.2	1.1
Hungary	-1.1	-3.0	-4.9	-3.2
Poland	2.9	-0.9	-1.1	-0.3
Romania	-5.0	-7.1	-6.5	-6.4
Serbia	-4.1	-4.4	-6.9	-6.7
Slovakia	0.1	-1.0	-0.7	-1.3
Slovenia	7.4	3.2	2.7	2.9
CEE8 avg	0.9	-1.9	-2.1	-1.6

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	-6.9	-1.9	-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	-4.6	-4.8	-3.7

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

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25 April 2022

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