CEE Market Insights

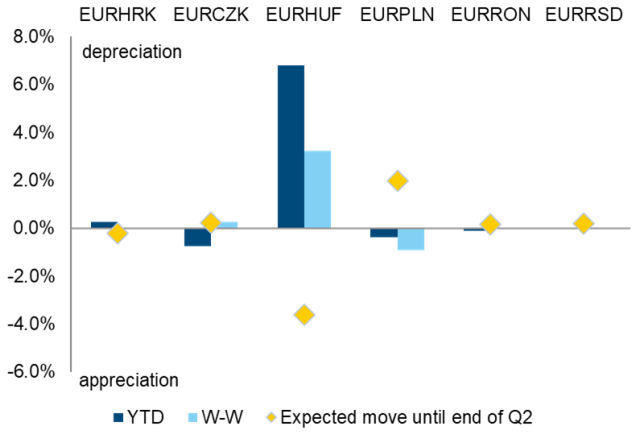
Mix of data on real economy

This week in CEE

This week, a mix of data on the real economy will be published across the region, while the Hungarian central bank is to hold a rate setting meeting. First, we get to see the GDP structure in Czechia, Hungary and Poland, which will show what was behind the particularly strong growth dynamics. Most importantly, we should see whether these were just one-off factors that are not sustainable in the future or if the underlying fundamentals remain solid. Further, retail sales data for April will be published in Hungary, Romania, Slovakia and Serbia, providing a first glimpse into the second quarter. PMIs for May will be published in Czechia, Hungary and Poland that should already provide a relatively accurate picture of how much economies may slow in the second quarter. Inflation for May is due Tuesday in Poland and Slovenia and a further increase of headline numbers is broadly expected. Finally, in Hungary, we expect the central bank to continue with monetary tightening, albeit at a slower pace, following the vice-governor's comment that base interest rate hikes could be 'halved' of the earlier 100bp rises. The key policy rate increase should be followed by the adjustment of the one-week deposit rate on Thursday. Last but not least, Croatia will publish a convergence report on June 1 that should provide highlights on how well the country is prepared for euro adoption.

Monday	Tuesday	Wednesday	Thursday	Friday
	HU: Central bank	**HU: GDP structure**	**RO: PPI**	**HU RO SK: Retail**
	HR RS: Industry	**CZ HU PL: PMIs**	**HU: Trade**	**SI: Trade**
	PL SI: Inflation			
	CZ PL: GDP structure			
	HU: Bills	**CZ: 2026 2031 2033 Bonds**	**CZ: Bills**	

FX market



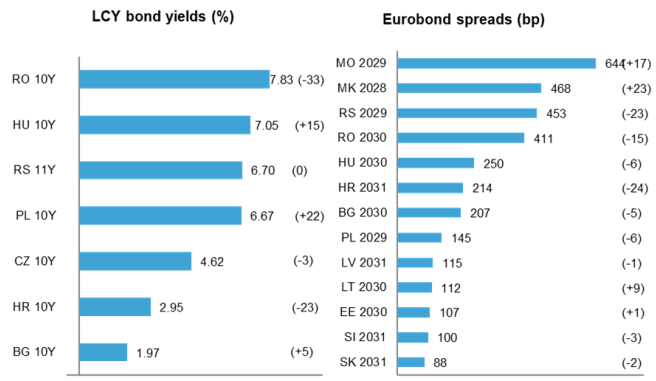
Source: Bloomberg, Erste Group Research

FX market developments

Hungarian forint weakened abruptly in the second half of last week and finished the week close to 393 vs. EUR. It reacted to the news that Hungary's government is planning a windfall tax on eight industries, primarily in energy and in banking, that seeks to add revenue of more than HUF 800bn (roughly EUR 2bn) this year and in 2023, helping to cover household utility subsidies in light of soaring inflation. This week's central bank meeting should bring another key rate hike (we expect an increase of 50bp to 5.9%). Later in the week, the one-week deposit rate could be raised by 30bp to 6.75% on Thursday. Polish zloty firmed below 4.61 vs. EUR last week, helped by the news of looming approval of Next Generation EU funds for the country. European Commission President von der Leyen is planning to travel

to Warsaw on June 2 to announce the agreement with Poland, provided all procedural steps are completed by then. Czech koruna moved only slightly towards 24.69 against the euro last week. The incoming Governor of the Czech National Bank Michl, whose previous more dovish views concerned the markets, voiced his support for rate stability and stated that rates should be kept higher than normal to prevent the current cost-push inflation from turning into demand-pull inflation.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

We saw an interesting counter-move in POLGBs and ROMGBs last week. ROMGBs rallied and 10Y yields collapsed 33bp w/w as ROMGBs benefited from favorable RON liquidity on the domestic market after the central bank paused its FX interventions last week. Investors started to load some ROMGBs into their portfolios after keeping ROMGBs underweighted in previous weeks. On the opposite side, yields on 10Y POLGBs jumped up about 22bp w/w, compressing the spread vs. 10Y ROMGBs to 116bp from 175bp a week ago. While spreads on Poland's Eurobonds narrowed in response to the looming announcement of the approval of Poland's National Recovery Plan by the EC, which should unlock access to billions of euros from the NGEU fund, local yields were more affected by worries about inflation resulting from very strong growth. Indeed, retail sales surprised on upside and the release of funds from the NGEU could pose some upward risk to GDP growth this year. In Poland, FRAs and implied rates from FX forwards increased 30-40bp w/w.

In case you missed

CEE: We published Special Report on inflation in region.
HR: 1Q22 GDP surprised to upside, arriving at 7.0% y/y, while retail trade went up 5.7% y/y in April.
HU: Government announced windfall taxes in a consolidation package. What do we know about it?

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
31. May	**8:00**	**RO**	Unemployment Rate	Apr			5.7%	
	9:00	**CZ**	GDP (y/y)	1Q P			4.6%	
	9:00	**HU**	PPI (y/y)	Apr			25.9%	
	10:00	**PL**	CPI (y/y)	May P	13.60%		12.4%	
	10:00	**PL**	GDP (y/y)	1Q F			8.5%	
	10:30	**SI**	CPI (y/y)	May		**7.5%**	6.9%	Inflation expected to additionally accelerate above 7% mark in May
	11:00	**HR**	Industrial Production (y/y)	Apr		**-3.0%**	-1.9%	Industrial production expected to remain in the negative, with high base effect weighing on the headline figure
	12:00	**RS**	Industrial Production (y/y)	Apr		**6.5%**	7.7%	We expect continuation of solid industry performance at the start of 2Q
	12:00	**RS**	Retail Sales (y/y)	Apr		**10.5%**	18.7%	Retail appears resilient early in the year
	12:00	**RS**	Trade Balance	Apr			-980.00	
	12:00	**RS**	GDP (y/y)	1Q F		**4.3%**	4.3%	Flash estimate should be confirmed and likely show strong domestic demand contribution
	14:00	**HU**	Central Bank Rate	May 31	5.90%	**5.9%**	5.4%	Vice Governor indicated recently that they plan to slow the pace of base interest rate hikes to “about half” of the earlier 100bp rises.
01.Jun	**9:00**	**HU**	GDP (y/y)	1Q F		**8.2%**	8.2%	Flash estimate to be confirmed.
02.Jun	**8:00**	**RO**	PPI (y/y)	Apr			51.7%	
	9:00	**HU**	Trade Balance	Mar F			-503.00	
03.Jun	**8:00**	**RO**	Retail Sales (y/y)	Apr		**4.4%**	5.5%	Weaker business activity (sales) development reported by the retail managers.
	9:00	**HU**	Retail Sales (y/y)	Apr		**11.3%**	16.2%	In April the massive growth could continue at somewhat slower pace than in March. Fiscal transfers and fuel tourism suggest strong figure again.
	9:00	**SK**	Retail Sales (y/y)	Apr		**9.0%**	14.5%	Data from sales registration system indicate a strong year-on-year increase, due to base effects. However, we expect a decrease on a monthly basis.
	10:30	**SI**	Trade Balance	Apr			-0.64	

Source: Erste Group Resarch

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	2.9	2.2	2.4	2.4	2.4
spread (bps)	190	122	133	136	130
Czechia 10Y	4.6	4.2	4.1	4.2	3.9
spread (bps)	360	319	306	313	280
Hungary 10Y	7.0	6.6	6.2	6.2	5.6
spread (bps)	603	565	517	512	446
Poland 10Y	6.7	6.35	6.34	6.32	6.28
spread (bps)	567	537	527	528	518
Romania10Y	7.8	9.0	8.5	8.0	7.8
spread (bps)	680	802	743	696	665
Slovakia 10Y	1.9	2.3	2.5	2.7	2.9
spread (bps)	90	132	143	166	175
Slovenia 10Y	2.01	1.60	1.60	1.60	1.70
spread (bps)	99	62	53	56	60
Serbia 5Y	6.4	5.0	5.1	5.0	4.8
spread (bps)	539	402	403	396	370
DE10Y*	1.02	0.98	1.07	1.04	1.10

* Spreads based on Bloomberg consensus forecast

FX

	current	2022Q2	2022Q3	2022Q4	2023Q1
EURHRK	7.54	7.52	7.52	7.53	7.53
EURCZK	24.70	24.75	24.58	24.40	24.36
EURHUF	393.04	380.00	375.00	370.00	365.00
EURPLN	4.57	4.66	4.65	4.60	4.50
EURRON	4.94	4.95	5.00	5.05	5.08
EURRSD	117.48	117.80	117.70	117.80	117.90
EURUSD	1.08	1.08	1.13	1.13	1.15

3M Money Market Rate

	current	2022Q2	2022Q3	2022Q4	2023Q1
Czechia	6.15	6.20	6.10	5.80	4.80
Hungary	6.85	7.60	7.60	7.35	7.10
Poland	6.54	6.30	7.60	7.60	7.55
Romania	5.95	5.90	7.50	6.75	6.50
Serbia	1.85	1.53	1.78	2.04	2.04
Eurozone	-0.37	-0.33	0.00	0.07	0.25

Key Interest Rate

	current	2022Q2	2022Q3	2022Q4	2023Q1
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	5.75	6.00	6.00	5.75	4.75
Hungary	5.40	7.40	7.40	7.15	6.90
Poland	5.25	6.25	7.50	7.50	7.50
Romania	3.75	3.75	5.00	5.50	5.50
Serbia	2.00	1.50	1.75	2.00	2.00
Eurozone	0.00	0.00	0.25	0.50	0.50

Real GDP growth (%)

	2020	2021	2022f	2023f
Croatia	-8.1	10.4	2.7	3.5
Czechia	-5.8	3.3	1.3	2.8
Hungary	-4.7	7.1	4.3	3.8
Poland	-2.5	5.9	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	5.7	3.0	3.9

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	10.3	5.7
Poland	3.4	5.1	12.8	8.6
Romania	2.7	5.0	12.4	8.3
Serbia	1.6	4.0	8.6	5.8
Slovakia	1.9	3.2	9.5	5.0
Slovenia	0.0	1.9	6.7	3.3
CEE8 avg	2.8	4.5	11.5	6.8

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	5.6	5.6	5.5
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	5.2	5.1

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	73.1	71.5
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	74.7	73.7	70.9
CEE8 avg	56.9	55.9	56.4	54.9

C/A (%GDP)

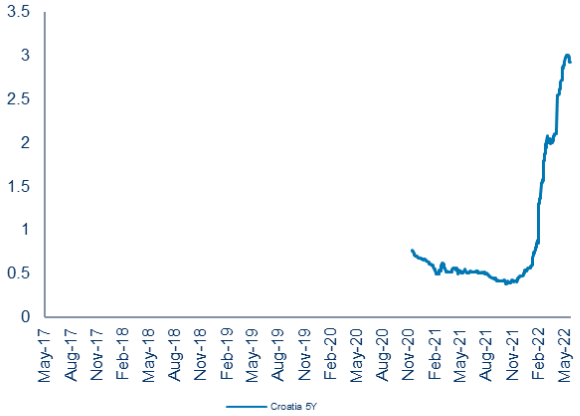
	2020	2021f	2022f	2023f
Croatia	-0.1	3.4	1.4	0.4
Czechia	3.6	-0.2	0.2	1.1
Hungary	-1.1	-3.0	-4.9	-3.3
Poland	2.9	-0.9	-1.1	-0.3
Romania	-5.0	-7.0	-8.0	-7.9
Serbia	-4.1	-4.4	-6.9	-6.7
Slovakia	0.1	-1.0	-0.7	-1.3
Slovenia	7.4	3.2	2.7	2.9
CEE8 avg	0.9	-1.8	-2.4	-1.8

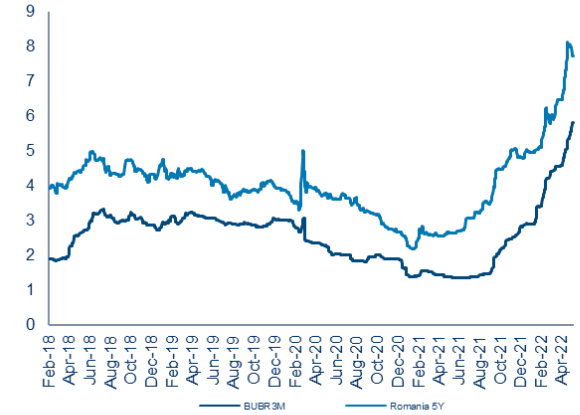
Budget Balance (%GDP)

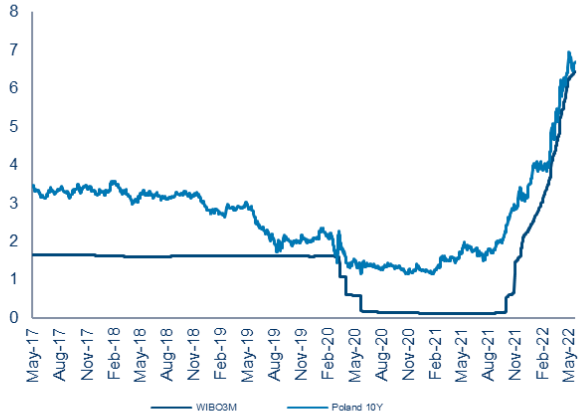
	2020	2021f	2022f	2023f
Croatia	-7.4	-3.8	-3.5	-2.8
Czechia	-5.6	-6.8	-5.1	-3.4
Hungary	-7.8	-6.8	-5.2	-4.2
Poland	-6.9	-1.9	-3.8	-3.3
Romania	-9.4	-7.0	-6.7	-5.7
Serbia	-8.0	-4.1	-4.5	-2.5
Slovakia	-5.5	-6.0	-6.0	-2.5
Slovenia	-7.7	-5.2	-4.8	-3.5
CEE8 avg	-7.2	-4.6	-4.8	-3.7

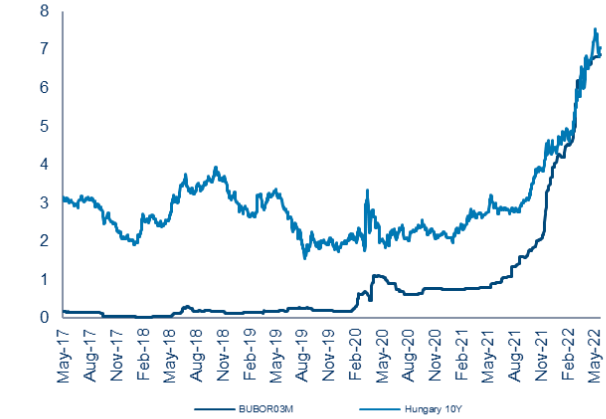
Source: Bloomberg, Erste Group Research

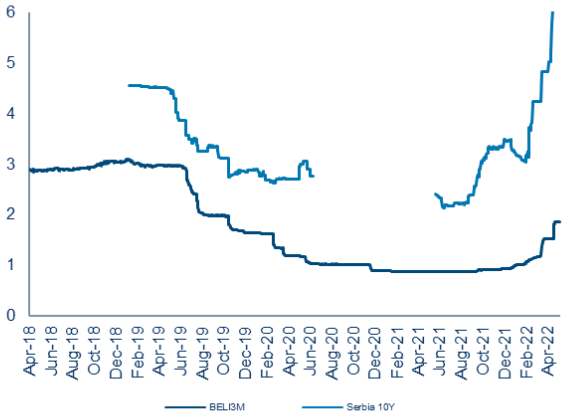
Appendix

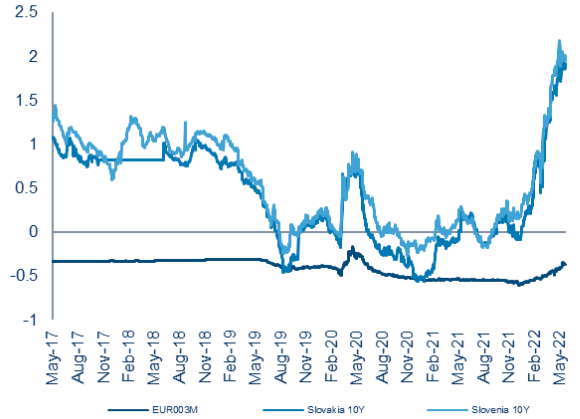












Source: Bloomberg, Erste Group Research

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