

CEE Market Insights

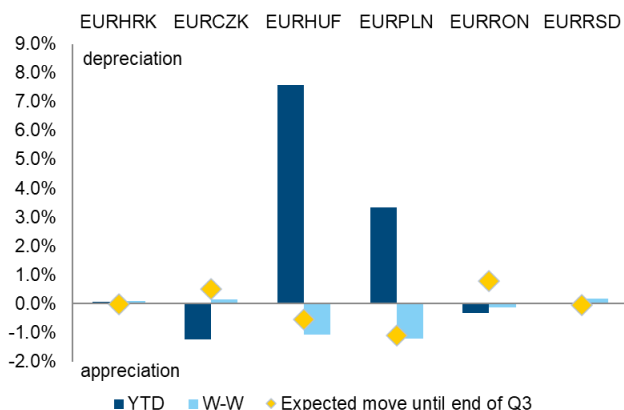
Hungarian central bank and Czech GDP in focus

This week in CEE

A busy week awaits us. Tuesday's Hungarian central bank meeting will be in special focus. Given the bigger-than-expected hike of the ECB, anticipated further tightening of the US Fed, as well as domestic factors – notably the vulnerability of the forint and considerable rate hiking expectations by market pricing – the MNB could increase its rates by at least 100bp. The key rate would thus reach 10.75% (or more if a larger hike occurs). Czechia will release its flash estimate of GDP growth in 2Q22. Impact of the war in Ukraine together with lower consumer demand stand behind the anticipated adverse development. Uncertainty is high though, mainly due to the development of inventories, which have become the most important contributor to GDP growth. We thus expect the Czech economy to have contracted by 1.3% q/q (still growing by 2.1% in y/y terms). Poland and Slovenia will release their flash inflation prints for July. These are expected to have inched up to 15.6% y/y in the former (market consensus) and 10.5% y/y in the latter. Moreover, Croatia, Slovenia and Serbia will publish their retail sales prints for June which should point to a moderation of growth paces (apart from Serbia). Croatian and Serbian industrial production figures for June will likely show a milder, but positive pace of growth. Moreover, June unemployment rates in Poland and Hungary, as well as June producer prices in Slovakia and Hungary will be out, too.

Monday	Tuesday	Wednesday	Thursday	Friday
PL: Unemployment	HU: Central bank	SK: PPI	HU: Unemployment	CZ: GDP
RS: Wages		SI: Retail sales		HU: PPI
				PL, SI: CPI
				HR, RS: Industry
				HR, RS: Retail sales
				RS: Trade balance
RO: 2032 Bonds	HU: T-bills	CZ: 2024, 2026 Bonds	PL: 2024, 2027, 2031, 2032 Bonds	CZ: T-bills

FX development



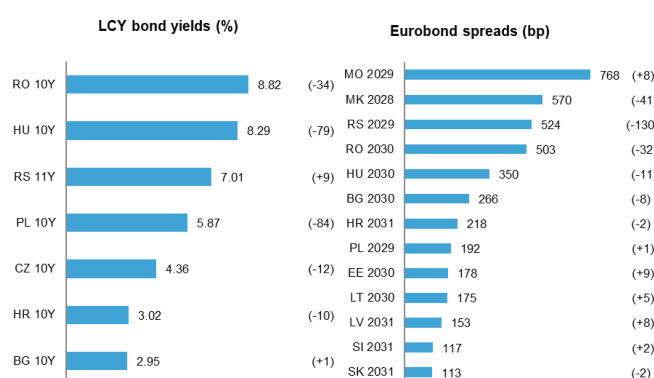
Source: Bloomberg, Erste Group Research

FX market developments

Last week's key event was the ECB meeting which brought the first interest rate increase in 11 years. The 50bp hike (twice the guidance given in June) ended the era of negative rates. The ECB also introduced a new tool for the even transmission of monetary policy – the so-called Transmission Protection Instrument. The next steps will be data-driven, but the ECB is committed to monetary policy normalization. The euro strengthened in response but has erased the gains since. CEE currencies ended last week mostly on a stronger footing, despite the larger-than-expected ECB hike. The forint appreciated towards 398.7 and the zloty close to 4.75 against the

euro, respectively. Even the leu firmed to 4.93 vs. EUR, but the koruna eased a tiny bit to 24.53 vs. EUR. Polish central banker Sura resigned in a surprising move given his term expires in four months – reducing the 10-person MPC to 7 members. NBP Governor Glapinski suggested the central bank may be heading towards the peak of its rate-hiking cycle, a view echoed by MPC member Dabrowski. The forint benefitted from the submission of anti-graft legislation to Hungary’s parliament, aimed at reaching a deal with the EU over its EU funds, and the approval of the 2023 budget. However, relations soured as Hungarian parliament voted to abolish the "ever closer union" expression in EU treaties and proposed severe curtailment of European Parliament powers. Czech Vice Governor Mora said he is in favour of using just interest rates and not the exchange rate as a policy tool, but he deems decisive action necessary to quell inflation. The new Vice Governor Zamrazilova stated she prefers stable rates or a small hike at the next meeting in August.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Yields on government bonds corrected across most of the region last week. Hungarian and Polish government bonds marked the largest moves as their 10-year yields dropped by 74bp and 82bp, respectively. The most visible exception was the 2028 Serbian bond that saw an increase of 20bp compared to the preceding Friday. The approval of the 2023 budget in Hungary helped, as the fiscal deficit is set to decline to 3.5% of GDP next year, down from this year’s targeted 4.9%. The government is trying to get its fiscal stance on a sustainable track at a time of high inflation, widening current account deficit and a weak forint. Yet, even after the correction, 10Y yield in Hungary remains close to 8.34% – not too far from the 10Y Romanian yield of 8.86%. Romanian yield curve inverted (as the 3Y yield just about exceeded the 10Y one), joining the ranks of Czechia, Hungary and Poland. Fitch upheld the ratings for Hungary and Poland at BBB and A-, respectively. The outlook for both remains stable.

In case you missed

EA: First [ECB rate hike](#) in 11 years ended the era of negative rates.

CEE: We published a report on housing markets: [CEE Special: House prices to cool down.](#)

We published the [Baltics Outlook: Steering economies through difficult waters.](#)

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
25. Jul	10:00	PL	Unemployment Rate	Jun	4.92%		5.1%	
	12:00	RS	Wages (y/y)	May			2.6%	
26. Jul	14:00	HU	Central Bank Rate	Jul	10.50%	10.8%	9.8%	Given bigger than expected hike of the ECB, vulnerability of the forint, and considerable rate hiking expectations by market pricing, the MNB could increase its rates at least by 100bp at the July rate-setting meeting.
27. Jul	9:00	SK	PPI (y/y)	Jun		38.6%	40.9%	On a monthly basis, we expect a slight calming of the pressures on the market, resulting in a decrease compared to May. However, the year-on-year level remains high.
	10:30	SI	Retail Sales (y/y)	Jun		10.0%	25.1%	Retail trade growth expected to remain high
28. Jul		HU	Unemployment Rate	Jun	3.50%	3.5%	3.4%	No relevant change in labor market processes is expected.
29. Jul	9:00	CZ	GDP (q/q)	2Q A	-0.23%	-1.3%	0.9%	Impacts of the war in Ukraine together with lower consumer demand stand behind adverse development. Uncertainty is high, mainly due to development of inventories, which have become the most important contributor to GDP growth.
	9:00	CZ	GDP (y/y)	2Q A		2.1%	4.9%	GDP growth in the y/y terms has been worsening, which will also continue in H2 2022.
	9:00	HU	PPI (y/y)	Jun			32.3%	
	10:00	PL	CPI (y/y)	Jul P	15.60%		15.5%	
	10:00	PL	CPI (m/m)	Jul P			1.5%	
	10:30	SI	CPI (y/y)	Jul		10.5%	10.4%	July inflation expected to remain at peak with another double-digit print
	10:30	SI	CPI (m/m)	Jul			2.7%	
	11:00	HR	Industrial Production (y/y)	Jun		2.0%	3.0%	Industrial production seen remaining in mild positive area also in June
	11:00	HR	Retail Sales (y/y)	Jun		3.5%	4.3%	Consumption expected to maintain positive footprint, despite inflation remaining the strong drag
	12:00	RS	Industrial Production (y/y)	Jun		4.5%	8.7%	We expect continuation of mid-single digit growth of industry
	12:00	RS	Retail Sales (y/y)	Jun		6.5%	5.1%	Retail likely remained relatively resilient despite high inflation
	12:00	RS	Trade Balance	Jun			-1141.10	

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	2022Q3	2022Q4	2023Q1	2023Q2
Croatia 10Y	3.1	3.6	3.6	3.6	3.6
spread (bps)	204	203	199	196	201
Czechia 10Y	4.4	4.4	4.3	4.2	4.0
spread (bps)	331	287	270	254	237
Hungary 10Y	8.3	8.5	8.4	7.8	7.2
spread (bps)	723	691	681	618	563
Poland 10Y	5.9	6.2	6.1	5.9	5.7
spread (bps)	483	466	445	425	409
Romania10Y	8.7	9.0	8.8	8.5	8.3
spread (bps)	770	743	714	686	666
Slovakia 10Y	2.0	2.5	2.7	2.9	2.9
spread (bps)	99	93	109	121	131
Slovenia 10Y	2.11	2.60	2.60	2.70	2.70
spread (bps)	107	103	99	106	111
Serbia 5Y	6.5	6.5	6.3	6.0	5.7
spread (bps)	549	493	469	436	411
DE10Y*	1.04	1.57	1.61	1.64	1.59

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2022Q3	2022Q4	2023Q1	2023Q2
Czechia	7.33	7.10	6.50	5.74	4.98
Hungary	11.58	11.45	12.20	12.20	10.45
Poland	7.00	7.50	7.80	7.75	7.75
Romania	7.36	8.15	9.05	8.25	7.75
Serbia	2.59	3.12	3.12	3.12	3.12
Eurozone	0.20	0.73	0.73	0.81	0.98

Real GDP growth (%)

	2020	2021	2022f	2023f
Croatia	-8.1	10.2	4.9	2.1
Czechia	-5.8	3.3	1.6	2.4
Hungary	-4.7	7.1	5.5	2.8
Poland	-2.2	5.9	4.2	3.1
Romania	-3.7	5.9	5.1	4.0
Serbia	-0.9	7.4	2.5	3.7
Slovakia	-4.4	3.0	2.0	3.0
Slovenia	-4.2	8.1	4.7	1.9
CEE8 avg	-3.7	5.7	3.9	3.0

Public debt (% of GDP)

	2020	2021	2022f	2023f
Croatia	87.3	79.8	71.5	69.0
Czechia	37.7	41.9	43.4	44.3
Hungary	79.6	76.8	73.2	70.8
Poland	57.1	53.8	55.0	52.0
Romania	47.2	48.8	48.3	49.1
Serbia	57.0	56.5	54.6	54.0
Slovakia	59.7	63.1	63.6	62.3
Slovenia	79.8	74.7	73.0	72.8
CEE8 avg	56.9	55.9	55.8	54.2

FX

	current	2022Q3	2022Q4	2023Q1	2023Q2
EURHRK	7.52	7.52	7.53	7.53	7.53
EURCZK	24.54	24.70	24.50	24.36	24.29
EURHUF	396.67	395.00	390.00	385.00	375.00
EURPLN	4.73	4.69	4.62	4.50	4.45
EURRON	4.93	4.97	5.00	5.02	5.05
EURRSD	117.39	117.50	117.60	117.60	117.60
EURUSD	1.02	1.03	1.05	1.10	1.13

Key Interest Rate

	current	2022Q3	2022Q4	2023Q1	2023Q2
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	7.00	7.00	6.50	5.75	5.00
Hungary	9.75	11.25	12.00	12.00	10.25
Poland	6.50	7.00	7.50	7.50	7.50
Romania	4.75	5.50	6.25	6.25	6.25
Serbia	2.75	3.00	3.00	3.00	3.00
Eurozone	0.50	1.00	1.25	1.25	1.25

Average inflation (%)

	2020	2021	2022f	2023f
Croatia	0.1	2.6	10.0	5.6
Czechia	3.2	3.8	14.3	4.4
Hungary	3.3	5.1	10.9	7.2
Poland	3.4	5.1	13.9	10.2
Romania	2.7	5.0	12.4	8.3
Serbia	1.6	4.0	9.6	5.6
Slovakia	1.9	3.2	11.4	7.8
Slovenia	0.0	1.9	9.3	5.3
CEE8 avg	2.8	4.5	12.8	8.0

C/A (%GDP)

	2020	2021	2022f	2023f
Croatia	-0.1	3.4	0.7	-1.2
Czechia	2.0	-0.8	-1.2	0.5
Hungary	-1.1	-3.1	-5.9	-4.9
Poland	2.9	-0.6	-1.3	-0.3
Romania	-5.0	-7.0	-8.0	-7.9
Serbia	-4.1	-4.4	-9.6	-8.9
Slovakia	0.1	-2.0	-1.7	-1.3
Slovenia	7.4	3.3	1.5	2.3
CEE8 avg	0.7	-1.9	-3.0	-2.2

Unemployment (%)

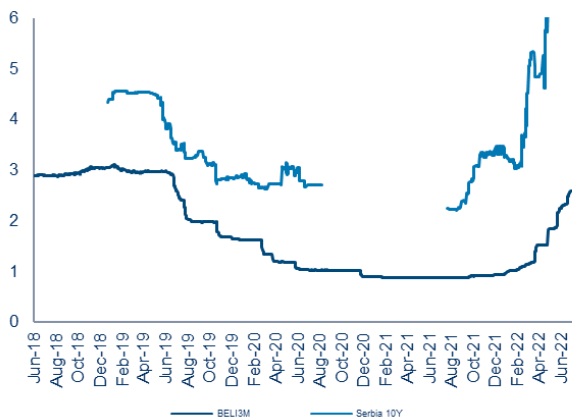
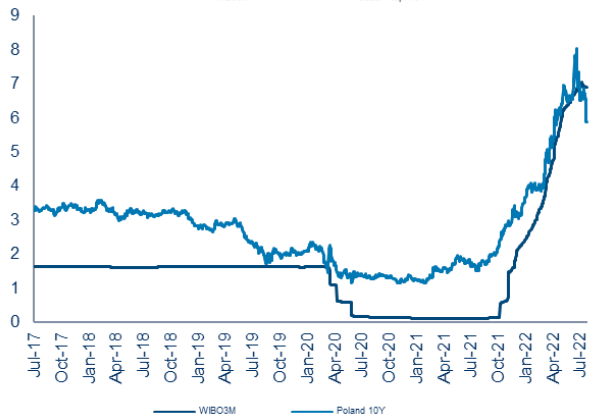
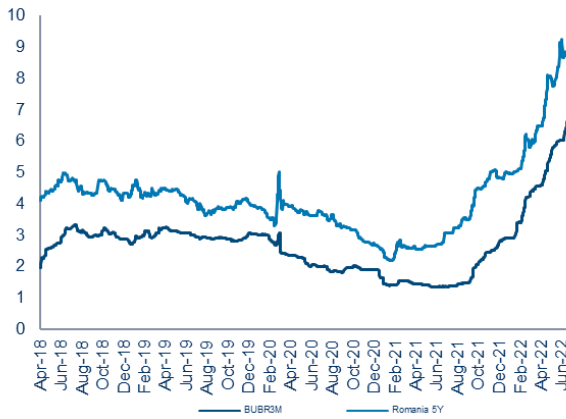
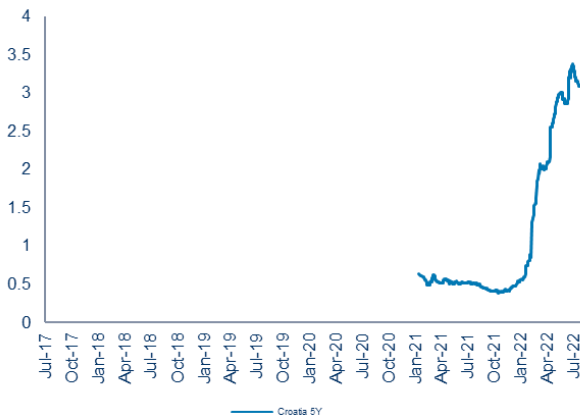
	2020	2021	2022f	2023f
Croatia	7.5	7.6	6.3	5.9
Czechia	2.6	2.9	2.7	3.5
Hungary	4.1	4.1	3.6	3.5
Poland	5.9	5.9	5.3	5.2
Romania	6.0	5.6	5.6	5.5
Serbia	9.7	11.0	10.1	9.7
Slovakia	6.7	6.8	6.6	6.2
Slovenia	5.0	4.8	4.3	4.1
CEE8 avg	5.4	5.4	5.0	5.0

Budget Balance (%GDP)

	2020	2021	2022f	2023f
Croatia	-7.4	-2.9	-2.5	-2.5
Czechia	-5.8	-5.9	-4.4	-3.1
Hungary	-7.8	-6.8	-4.9	-3.5
Poland	-6.9	-1.9	-3.9	-3.5
Romania	-9.3	-7.1	-6.7	-5.7
Serbia	-8.0	-4.1	-4.5	-2.5
Slovakia	-5.5	-6.2	-6.0	-4.0
Slovenia	-7.8	-5.2	-4.5	-3.5
CEE8 avg	-7.2	-4.4	-4.7	-3.8

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Market Insights
25 July 2022

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