

CEE Market Insights

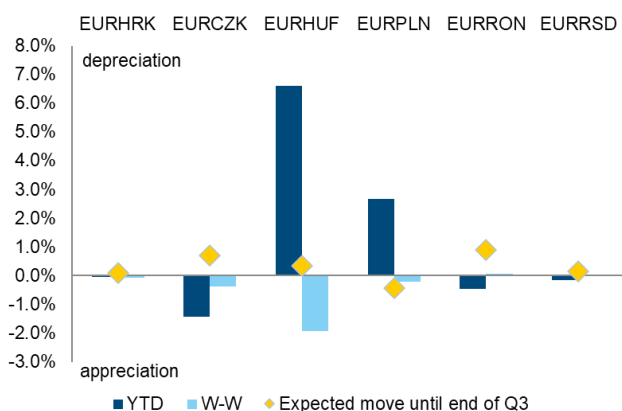
Inflation getting close to the peak

This week in CEE

This week, inflation numbers for July will be published in most of the CEE countries. In Czechia, Hungary and Serbia, we expect headline CPI to increase further, while in Romania, we believe that the peak was reached in June and inflation should ease in July. Other CEE countries should see the peak of inflation in the course of the third quarter. The Serbian central bank is to hold a rate setting meeting and we expect another 25bp hike so that the policy rate should reach 3%. Finally, industrial output growth and trade data for June will be published across the region. It will be interesting to see whether export activity was already affected in light of the slowing German economy.

Monday	Tuesday	Wednesday	Thursday	Friday
CZ: Industry	HU: CPI	CZ: CPI	RO: CPI	RO: Industry
CZ HU: Trade	HR RO SK: Trade	SK SI: Industry	RS: Central bank	PL RS: CPI
RS: PPI			RO SK: Wages	
RO: 2025 2032 Bonds	HU: Bills	CZ: 2031 Bonds	CZ: Bills	RO: Bills, 2029 Bonds

FX market



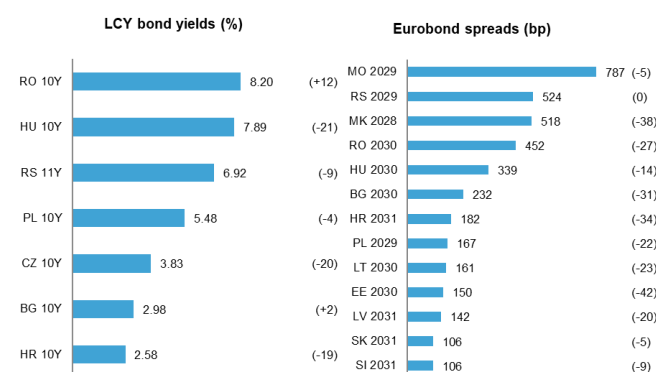
Source: Bloomberg, Erste Group Research

FX market developments

The forint and the zloty strengthened further over the course of last week, with the former firming by 2.4% to just below 395 vs. EUR and the latter marking a milder move to 4.70 vs. EUR. Forint's recent gains made it easier for the Hungarian central bank to keep its one-week deposit rate unchanged at 10.75%, as expected. In Poland, flash inflation for July remained at the 25-year high of 15.5% y/y, possibly raising chances the central bank may be nearing the peak of its tightening cycle. However, it is too early to tell yet and differences in opinions within the MPC remain. Last week's meeting of the Romanian central bank brought a 75bp hike to 5.50%, with the credit facility rate, as the relevant operational policy instrument under tight liquidity management policy, reaching 6.50%. On the other hand, the Czech National Bank (under its new MPC composition) left its key rate unchanged at 7%. The CNB also decided it will continue to actively prevent significant fluctuations in the koruna via its FX interventions and

temporarily moved the monetary policy horizon by 6 months to 18-24 months, which implies lower pressure on policy tightening. The koruna stands at 24.60 vs. EUR. Thursday brings the Serbian central bank meeting – we expect a 25bp hike to 3%, as global price pressures are still evident, and the peak of inflation remains ahead of us.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Whereas the development at the short-end of the curve differed across CEE, yields at the long-end moved down by 3-19bp everywhere apart from Romania by early Friday. However, many later reversed the moves and only the Czech 10Y yield was down compared to the preceding week on Monday morning. The 10Y ROMGB yield remained the highest in the region, at 8.22%. Even though the Romanian yield curve was briefly inverted in late July, the 10Y-3Y spread is back to small, but positive figures. On the other hand, Czech, Hungarian and Polish yield curves remain inverted under the 10Y-2Y comparison. According to official ECB data, the central bank has used the flexibility in its first line of defence – reinvestment of the pandemic PEPP programme redemptions – to help peripheral countries. Net purchases of debt from Italy, Spain, Portugal and Greece totalled EUR 17.3bn through June to July, whereas holdings of German, French and Dutch bonds were reduced by EUR 18.9bn in the same time frame. Romania plans several auctions this week – from T-bills to bond auctions (with the maturities ranging from 2025 to 2032). T-bills will also be issued in Hungary and Czechia, and Czech 2031 bonds should also be offered this week.

In case you missed

CEE: [Sentiment indicators](#) suggest upcoming economic slowdown

CZ: [Czech National Bank](#) left policy rate unchanged at 7.0% and announced further FX interventions

HU: Weak [retail sales](#) growth in June

RO: [Consumers cut spending](#) as inflation soars; National Bank of Romania increased interest rates

RS: 2Q22 GDP in Serbia arrived at 4.0% y/y

Moody's lowered its outlook on Czechia and Slovakia to negative from stable due to Russian gas supply dependency, whilst affirming the rating at Aa3 and A2 for the two countries, respectively.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
08.Aug	9:00	CZ	Industrial Production (y/y)	Jun		2.6%	3.3%	Improved development of the automotive sector stands behind the favorable figure. However, we expect the economic development to worsen in 2H 22.
	9:00	CZ	Trade Balance	Jun		-20.50	16.30	The war in Ukraine and high energy prices stem behind a deficit in foreign trade.
	9:00	HU	Trade Balance	Jun P			-95.00	
	12:00	RS	PPI (y/y)	Jul			0.17	
09.Aug	8:00	RO	Trade Balance	Jun			-2579.30	
	9:00	HU	CPI (y/y)	Jul	13.10%	13.2%	11.7%	Broad-based pricing could continue in July fueled by the new windfall taxes and the weak status of the currency.
	9:00	HU	CPI (m/m)	Jul		1.8%	1.5%	The monthly increase is expected to lead by food prices.
	9:00	SK	Trade Balance	Jun		184.00	160.50	Better-than-expected performance of industry should positively affect export activity in June.
	11:00	HR	Trade Balance	May			-11699.00	
10.Aug	9:00	SK	Industrial Production (y/y)	Jun		-4.0%	1.5%	Economic sentiment and activity in the most important trading partners indicate a slight monthly growth in industrial production, the year-on-year performance is expected to decline though.
	9:00	CZ	CPI (y/y)	Jul	17.90%	17.5%	17.2%	Prices of electricity and gas are the key factors behind high inflation. Inflation could peak above 19 %, given the current data.
	9:00	CZ	CPI (m/m)	Jul	1.67%	1.3%	1.6%	Several suppliers of gas and electricity is changing their prices during 3Q 22.
	10:30	SI	Industrial Production (y/y)	Jun		2.5%	3.0%	Industrial production expected to maintain positive growth footprint, albeit at somewhat milder pace
11.Aug	8:00	RO	CPI (y/y)	Jul		14.2%	15.1%	Inflation already peaked in June, next months are likely to bring a slow and uneven disinflation process.
	8:00	RO	CPI (m/m)	Jul		0.2%	0.8%	Low inflationary pressures in July in m/m terms after a drop in the price of fuels, fresh fruits and vegetables.
	8:00	RO	Wages (y/y)	Jun		13.0%	12.5%	Wage growth in the private sector is expected to remain stronger than in the public segment.
	9:00	SK	Wages (y/y)	Jun			-5.2%	
	12:00	RS	Central Bank Rate	Aug		3.0%	2.75%	We expect NBS to hike the rate by 25bp
12.Aug		RO	Current Account Balance (monthly)	Jun			-10238.00	
	8:00	RO	Industrial Production (y/y)	Jun		-0.6%	1.1%	Weak industrial production expected for June in line with declining sentiment indicators for manufacturing in Eurozone.
	10:00	PL	CPI (y/y)	Jul F			15.5%	
	12:00	RS	CPI (y/y)	Jul		12.7%	11.9%	Inflation seen additionally accelerating in July
	12:00	RS	CPI (m/m)	Jul			1.6%	

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	2.6	3.6	3.6	3.6	3.6
spread (bps)	171	203	199	196	201
Czechia 10Y	3.8	4.4	4.3	4.2	4.0
spread (bps)	289	287	270	254	237
Hungary 10Y	7.9	8.5	8.4	7.8	7.2
spread (bps)	696	691	681	618	563
Poland 10Y	5.5	6.2	6.1	5.9	5.7
spread (bps)	456	466	445	425	409
Romania10Y	8.2	9.0	8.8	8.5	8.3
spread (bps)	728	743	714	686	666
Slovakia 10Y	1.9	2.5	2.7	2.9	2.9
spread (bps)	98	93	109	121	131
Slovenia 10Y	1.94	2.60	2.60	2.70	2.70
spread (bps)	101	103	99	106	111
Serbia 5Y	6.2	6.5	6.3	6.0	5.7
spread (bps)	526	493	469	436	411
DE10Y*	0.93	1.57	1.61	1.64	1.59

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2022Q3	2022Q4	2023Q1	2023Q2
Czechia	7.30	7.10	6.50	5.74	4.98
Hungary	11.99	13.35	13.95	13.95	10.95
Poland	7.02	7.50	7.80	7.75	7.75
Romania	8.12	8.15	9.05	8.25	7.75
Serbia	2.64	3.12	3.12	3.12	3.12
Eurozone	0.28	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	7.51	7.52	7.53	7.53	7.53
EURCZK	24.50	24.70	24.50	24.36	24.29
EURHUF	393.77	395.00	390.00	385.00	375.00
EURPLN	4.71	4.69	4.62	4.50	4.45
EURRON	4.92	4.97	5.00	5.02	5.05
EURRSD	117.29	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	10.75	12.75	13.75	13.75	10.75
Poland	6.50	7.00	7.50	7.50	7.50
Romania	5.50	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	12.9	9.3
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	8.1

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 (%)

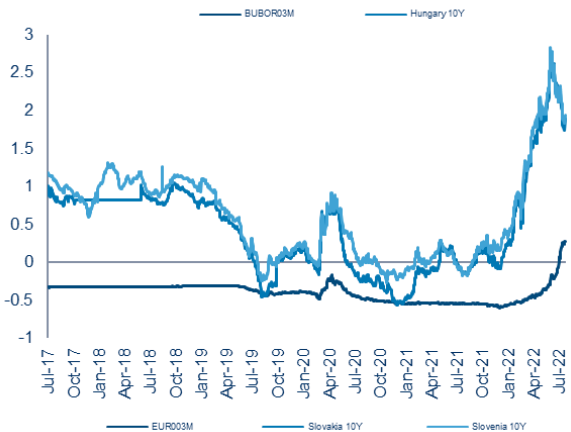
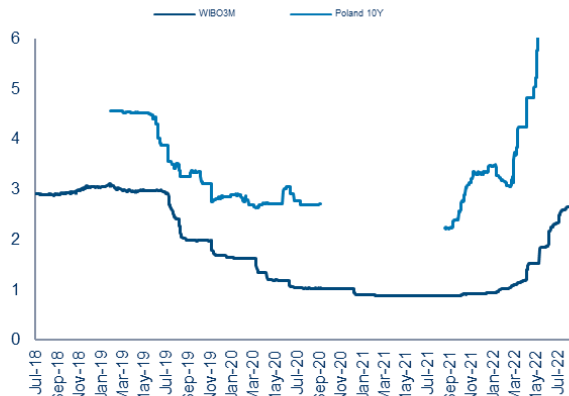
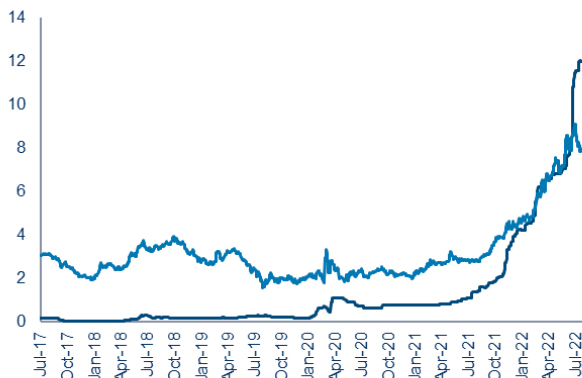
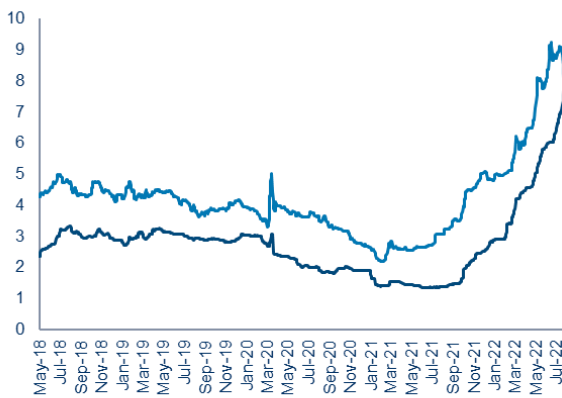
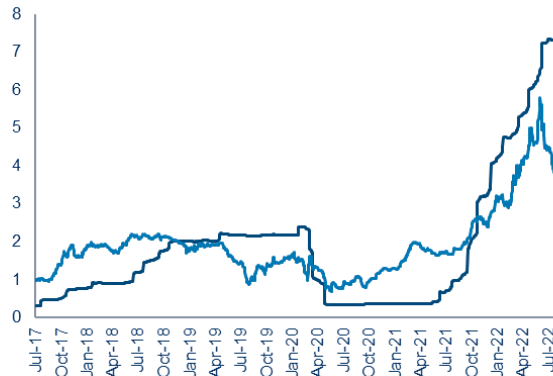
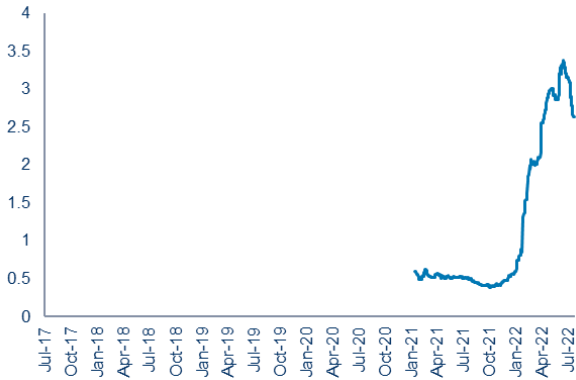
	2020	2021	2022f	2023f
Croatia	7.5	7.6	6.3	5.9
Czechia	2.6	2.9	2.7	3.5
Hungary	4.1	4.1	3.6	3.5
Poland	5.9	5.9	5.3	5.2
Romania	6.0	5.6	5.6	5.5
Serbia	9.7	11.0	10.1	9.7
Slovakia	6.7	6.8	6.6	6.2
Slovenia	5.0	4.8	4.3	4.1
CEE8 avg	5.4	5.4	5.0	5.0

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
8 August 2022

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