

## CEE Market Insights

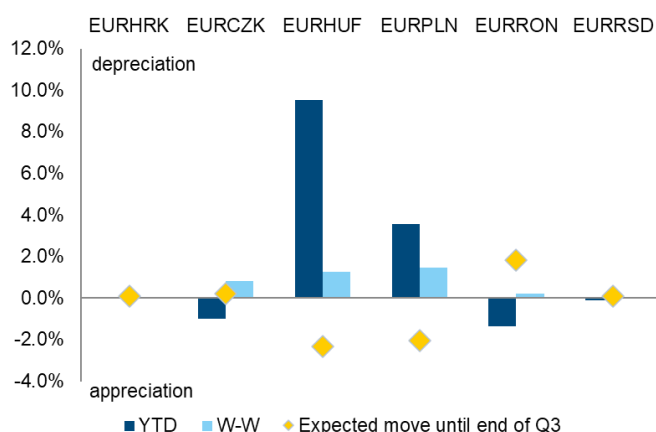
### GDP in Croatia, unemployment rates in Poland and Hungary

#### This week in CEE

This week, GDP growth in Croatia will be the highlight of the week. Croatia is the last country to publish its GDP figure. A strong tourism pre-season, coupled with vibrant domestic demand, suggests solid growth in the second quarter. It will also be interesting to see July's retail sales growth in Poland after very a weak economic performance in the second quarter. Also, industrial output (published on Friday) declined on a monthly basis in July. Furthermore, unemployment rates will be published for Poland and Hungary for July. So far, the labor market has not suffered from high inflation or slowing economic activity. Last week, we saw the unemployment rate in Slovakia dropping marginally in July to 6.2%. All in all, we will be monitoring the labor market developments closely in the coming months to see if household expectations for the unemployment rate to increase over the one-year horizon (outlined in recent consumer confidence surveys) become reality. Finally, Monday is a deadline for Hungary to respond to European Commission letter outlining EU concerns about the rule of law.

Monday	Tuesday	Wednesday	Thursday	Friday
<b>PL: Retail</b>		<b>PL: Unemployment</b>	<b>HU: Unemployment</b>	<b>HR: GDP</b>
			<b>RS: Wages</b>	<b>SK: PPI</b>
<b>RO: 2036 Bonds</b>	<b>HU: Bills</b>	<b>CZ: 2024 Bonds</b>	<b>CZ: Bills</b>	
			<b>RO: 2026 Bonds</b>	

#### FX market



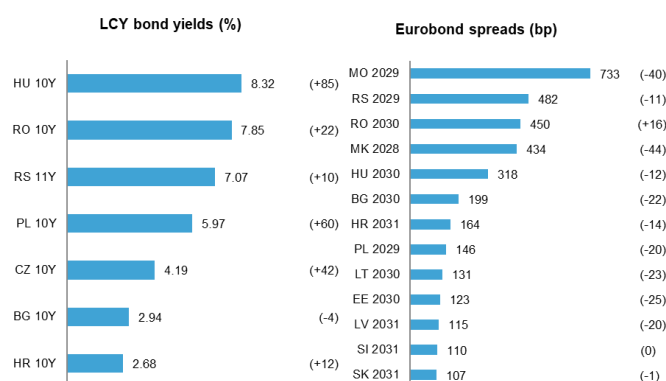
Source: Bloomberg, Erste Group Research

#### FX market developments

CEE currencies weakened over the last week. The simultaneous move suggests the impact of global factors, with the energy crisis and rising threats of recession as the main suspects having a negative impact on the regional FX market. As far as local factors are concerned, slowing economic growth could add to the weakening pressure in Hungary and Poland, in particular. In Poland, the negative q/q growth was a major surprise to the downside. Such a development may support a less aggressive tightening scenario from now on, which seems to have become a baseline scenario for the MPC members in any case. Comments from MPC member Litwiniuk that there is only limited scope to raise interest rates seem to confirm that. The tightening cycle seems to have come to an end in Czechia, as the minutes from the central bank meeting suggest that a majority of board members support a stability of rates scenario followed by

a rate cut next year. This week, the Jackson Hole conference is scheduled; we expect global moves to drive the market, especially as the calendar of local releases is quite empty.

## LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

## Bond market developments

After a pretty strong performance of CEE government bonds in the first half of August, many of them erased all of their gains last week. The CZGB and POLGB curves shifted up about 30-40bp and 50-65bp w/w, respectively, while the correction on ROMGBs was among the smallest. The most spectacular move took place in HGBs, where 10Y yields jumped 85bp w/w. The situation remains tense on Hungary's money market, where FRAs are still elevated at 13-14%, while Czech and Polish FRAs have collapsed about 100bp since mid-July, on expectations of less aggressive tightening. This week, Hungary will offer T-bills on top of its regular auctions, Czechia will issue T-bills and a 2024 floater and Romania will reopen 2026 and 2036 ROMGBs.

## In case you missed

CEE: [Economic growth](#) in the second quarter sustained solid pace everywhere but Poland. The slowdown is around the corner, though.

RO: The [economy](#) is running hot ... data says.

HU: The [slowdown](#) has begun.

SK: [Labor market](#) remains strong. [Inflation](#) is about to peak. Fitch changed the outlook from stable to negative affirming rating at A.

## Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
22.Aug	10:00	PL	Retail Sales (y/y)	Jul	17.7%		19.9%	
24.Aug	10:00	PL	Unemployment Rate	Jul	4.8%		4.9%	
25.Aug		HU	Unemployment Rate	Jul			3.2%	
	12:00	RS	Wages (y/y)	Jun			0.0	
26.Aug	9:00	SK	PPI (y/y)	Jul		42.0%	43.2%	We expect producer price growth at 42% y/y, amidst declining pressures from oil and demand; however, push up by energy prices.
	11:00	HR	GDP (y/y)	2Q		7.0%	7.0%	Strong tourism pre-season, coupled with vibrant domestic demand, suggest solid growth in 2Q22.

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
<b>Croatia 10Y</b>	2.3	3.6	3.6	3.6	3.6
spread (bps)	111	241	234	234	226
<b>Czechia 10Y</b>	4.2	4.4	4.3	4.2	4.0
spread (bps)	298	325	305	292	262
<b>Hungary 10Y</b>	8.3	8.2	8.2	8.1	7.3
spread (bps)	711	703	692	682	601
<b>Poland 10Y</b>	6.0	5.3	5.3	5.2	5.1
spread (bps)	477	412	401	391	375
<b>Romania 10Y</b>	7.8	9.0	8.8	8.5	8.3
spread (bps)	664	781	749	724	691
<b>Slovakia 10Y</b>	2.2	2.5	2.7	2.9	2.9
spread (bps)	97	131	144	159	156
<b>Slovenia 10Y</b>	2.26	2.60	2.60	2.70	2.70
spread (bps)	105	141	134	144	136
<b>Serbia 5Y</b>	6.1	6.5	6.3	6.0	5.7
spread (bps)	489	531	504	474	436
<b>DE10Y*</b>	1.21	1.19	1.26	1.26	1.34

\* Spreads based on Bloomberg consensus forecast

### 3M Money Market Rate

	current	2022Q3	2022Q4	2023Q1	2023Q2
<b>Czechia</b>	7.25	7.10	6.50	5.74	4.98
<b>Hungary</b>	12.09	13.35	13.95	13.95	10.95
<b>Poland</b>	7.04	7.50	7.80	7.75	7.75
<b>Romania</b>	7.97	8.15	9.05	8.25	7.75
<b>Serbia</b>	2.85	3.12	3.12	3.12	3.12
<b>Eurozone</b>	0.43	0.73	0.73	0.81	0.98

### Real GDP growth (%)

	2020	2021	2022f	2023f
<b>Croatia</b>	-8.1	10.2	4.9	2.1
<b>Czechia</b>	-5.8	3.3	1.6	2.4
<b>Hungary</b>	-4.7	7.1	5.5	1.5
<b>Poland</b>	-2.2	5.9	4.2	3.1
<b>Romania</b>	-3.7	5.9	5.1	4.0
<b>Serbia</b>	-0.9	7.4	2.5	3.7
<b>Slovakia</b>	-4.4	3.0	2.0	3.0
<b>Slovenia</b>	-4.2	8.1	4.7	1.9
<b>CEE8 avg</b>	-3.7	5.7	3.9	2.9

### Public debt (% of GDP)

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

Source: Bloomberg, Erste Group Research

### FX

	current	2022Q3	2022Q4	2023Q1	2023Q2
<b>EURHRK</b>	7.51	7.52	7.53	7.53	7.53
<b>EURCZK</b>	24.63	24.70	24.50	24.36	24.29
<b>EURHUF</b>	405.58	395.00	390.00	385.00	375.00
<b>EURPLN</b>	4.75	4.65	4.61	4.56	4.51
<b>EURRON</b>	4.88	4.97	5.00	5.02	5.05
<b>EURRSD</b>	117.37	117.50	117.60	117.60	117.60
<b>EURUSD</b>	1.00	1.03	1.05	1.10	1.13

### Key Interest Rate

	current	2022Q3	2022Q4	2023Q1	2023Q2
<b>Croatia</b>	0.05	0.05	0.05	0.05	0.05
<b>Czechia</b>	7.00	7.00	6.50	5.75	5.00
<b>Hungary</b>	10.75	12.75	13.75	13.75	10.75
<b>Poland</b>	6.50	7.00	7.50	7.50	7.50
<b>Romania</b>	5.50	5.50	6.25	6.25	6.25
<b>Serbia</b>	3.00	3.00	3.00	3.00	3.00
<b>Eurozone</b>	0.50	1.00	1.25	1.25	1.25

### Average inflation (%)

	2020	2021	2022f	2023f
<b>Croatia</b>	0.1	2.6	10.0	5.6
<b>Czechia</b>	3.2	3.8	14.3	4.4
<b>Hungary</b>	3.3	5.1	13.8	12.5
<b>Poland</b>	3.4	5.1	13.9	10.2
<b>Romania</b>	2.7	5.0	12.9	9.3
<b>Serbia</b>	1.6	4.0	9.6	5.6
<b>Slovakia</b>	1.9	3.2	11.4	7.8
<b>Slovenia</b>	0.0	1.9	9.3	5.3
<b>CEE8 avg</b>	2.8	4.5	13.2	8.7

### C/A (%GDP)

	2020	2021	2022f	2023f
<b>Croatia</b>	-0.1	3.4	0.7	-1.2
<b>Czechia</b>	2.0	-0.8	-1.2	0.5
<b>Hungary</b>	-1.1	-3.2	-7.1	-3.7
<b>Poland</b>	2.9	-0.6	-1.3	-0.3
<b>Romania</b>	-5.0	-7.0	-8.0	-7.9
<b>Serbia</b>	-4.1	-4.4	-9.6	-8.9
<b>Slovakia</b>	0.1	-2.0	-1.7	-1.3
<b>Slovenia</b>	7.4	3.3	1.5	2.3
<b>CEE8 avg</b>	0.7	-1.9	-3.1	-2.1

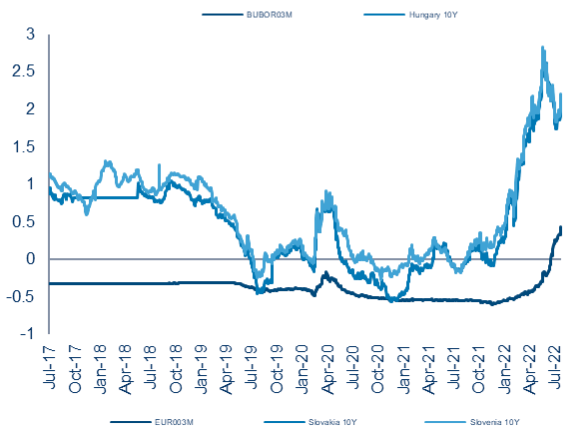
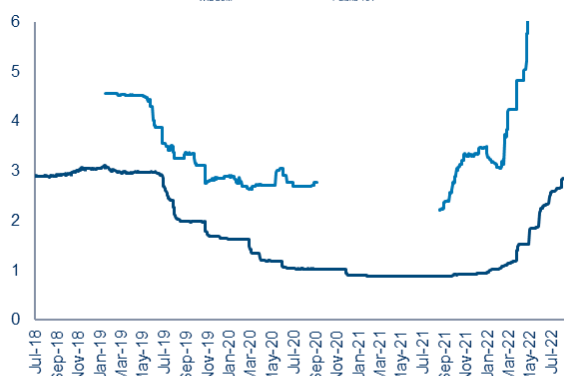
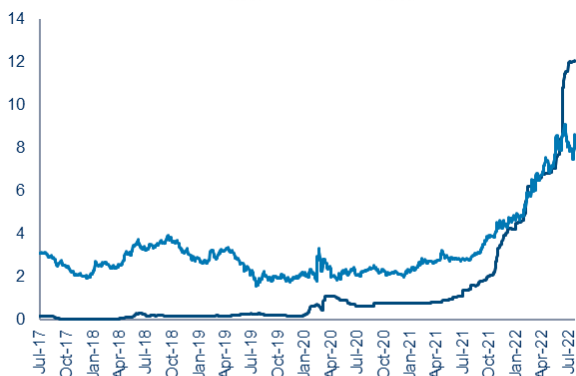
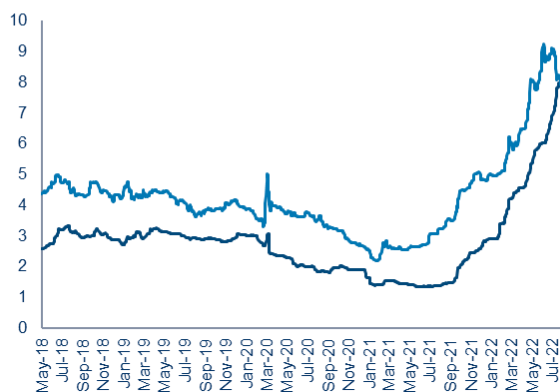
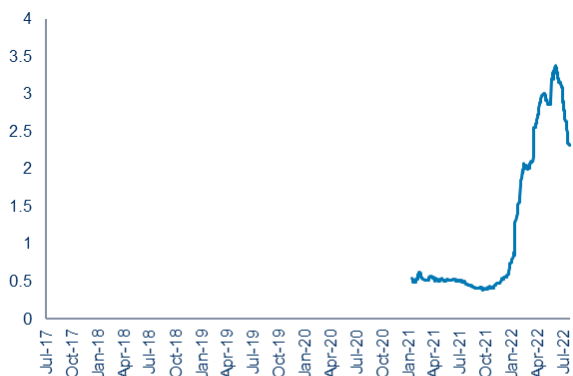
### Unemployment (%)

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

### Budget Balance (%GDP)

	2020	2021	2022f	2023f
<b>Croatia</b>	-7.4	-2.9	-2.5	-2.5
<b>Czechia</b>	-5.8	-5.9	-4.4	-3.1
<b>Hungary</b>	-7.8	-6.8	-4.2	-3.5
<b>Poland</b>	-6.9	-1.9	-3.9	-3.5
<b>Romania</b>	-9.3	-7.1	-6.7	-5.7
<b>Serbia</b>	-8.0	-4.1	-4.5	-2.5
<b>Slovakia</b>	-5.5	-6.2	-6.0	-4.0
<b>Slovenia</b>	-7.8	-5.2	-4.5	-3.5
<b>CEE8 avg</b>	-7.2	-4.4	-4.6	-3.8

## Appendix



Source: Bloomberg, Erste Group Research

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**22 August 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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