

CEE Market Insights

Stepping fully into the third quarter, hikes in Serbia and Poland

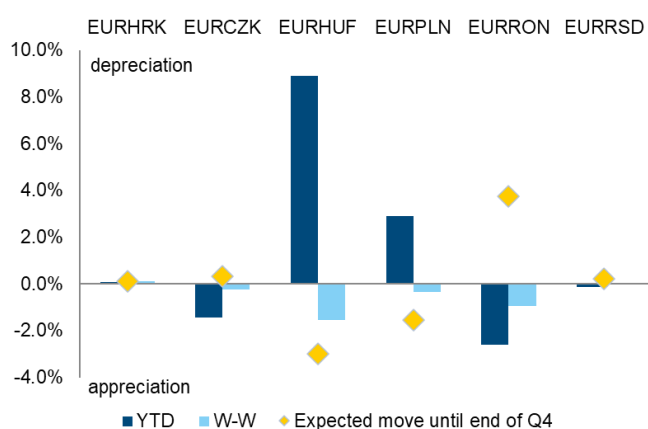
This week in CEE

This week, there are many economic releases scheduled in the region. Let's begin with July's retail sales and industrial production in a number of countries. On Monday morning, retail sales growth was published in Hungary, Romania and Slovakia, and the growth dynamics moderated compared to June's numbers. A similar development is expected in Czechia later this week. Industry across the region is also likely to show some deterioration, as indicated by the weakening market sentiment. There will also be two central bank rate setting meetings taking place. In Serbia, we expect another 25bp hike, so that the policy rate should reach 3.25% after the meeting. In Poland, the rate should also increase by at least 25bp in September. A higher rate increase cannot be ruled out, given the further rise of inflation in August. The monetary tightening cycle is coming to an end in Poland, however, as suggested by numerous comments from MPC members. Finally, the 2Q22 GDP structure will be published in Romania and Slovakia alongside August inflation in Hungary, where further increases are broadly expected.

Monday	Tuesday	Wednesday	Thursday	Friday
RO HU SK: Retail	SK: GDP structure	RO: GDP Structure	RS: Central Bank	SK SI: Industry
CZ: Wages	CZ: Industry	PL: Central Bank	HU: Inflation	RO: Trade
		HU: Industry	HR SK: Trade	
		RS: PPI		
RO: 2025 2034 Bonds	RS: 2028 Bonds	CZ: Bonds	RO: 2027 Bonds	
	HU: Bills		CZ RO: Bills	

FX market

FX market developments

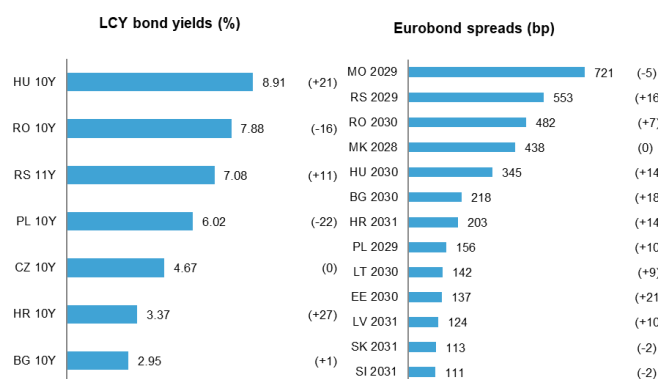


Source: Bloomberg, Erste Group Research

CEE currencies firmed across the board last week. Forint marked the strongest move, appreciating by 2.9% compared to last Friday and ending the week just below 400 vs. EUR. The Hungarian central bank raised both its key policy rate and the one-week deposit rate by 100bp to 11.75%, as expected. Moreover, to enhance monetary transmission, it added three measures which will support the development of short-term financial market rates consistently with the key policy stance by draining interbank liquidity from this autumn. Easing of gas prices and signs of a possible approval of Next Generation EU funds by the European Commission by end-December also helped. The zloty and the koruna also firmed towards 4.71 and 24.47 vs. EUR, respectively. This week, the ECB as well as the Serbian and Polish central bank meetings will be in the spotlight. We expect the NBS to keep its course of moderate tightening and

deliver a 25bp hike to 3.25% in Serbia. In Poland, the market anticipates a 25bp increase to 6.75%, but recent comments from NBP policymakers leave the room open for anything between stability and a larger than 25bp hike.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Last week, CEE government bond yields showed a mixed development. While yields on 10Y HGBs drifted up 20bp w/w, getting closer to this year's high, Romanian bonds rallied, with the 10Y yield falling 20bp w/w. The spread between 10Y HGBs and ROMGBs has widened to its new high (110bp) and far exceeds its average level from this year (-50bp). There are a couple of reasons for such a divergence. First, it seems that the NBR did not need to intervene on the FX market, as the RON was appreciating last week. A couple of investment houses and index trackers started to rebuild their ROMGB positions, while Hungary, due to the unclear situation surrounding its access to EU funds and rule of law issues, remains uninvestable. Moreover, the latest decision of the central bank contributed to the most recent yield move; on top of a 100bp rate hike, the central bank announced its intention to drain excess liquidity from the market via longer instruments (discount bills). This has also been reflected in a more pronounced increase of 3Y yields (+80bp w/w) compared to the long end. This week, there are plenty of T-bond and T-bill auctions scheduled in CEE, with Romania to be the most active.

In case you missed

CEE: Region has progressed in meeting all [Sustainable Development Goals](#)

CEE: [Fading strength of domestic demand](#), as private consumption and investment growth has slowed

CZ: [Favorable 2Q22](#) GDP data confirmed

HU: [Technical recession](#) is knocking on door

HU: Another [rate hike](#) and liquidity withdrawal

PL: Flash inflation estimate arrived at 16.1% y/y in August, while GDP was driven by domestic demand.

RS: [GDP](#) landed at 3.9% y/y in 2Q

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
05. Sep	8:00	RO	Retail Sales (y/y)	Jul		3.6%	4.2%	Stronger business activity (sales) development over the past 3 months reported by the managers, though high statistical base effect should lead to a slowdown in annual growth.
	9:00	CZ	Wages (y/y)	2Q	-9.18%	-10.7%	-3.6%	Real wages are decreasing, mainly due to high inflation. However, the 2Q figures are affected significantly by a base effect.
	9:00	HU	Retail Sales (y/y)	Jul		3.3%	4.5%	The slowdown of consumption is set to continue driven by the emerging inflation.
	9:00	SK	Retail Sales (y/y)	Jul		3.5%	1.5%	The official sales registration system indicates a month-on-month increase, resulting in a stronger year-on-year growth.
06. Sep		CZ	Industrial Production (y/y)	Jul		-2.0%	1.7%	Domestic as well as foreign demand for industrial production have been gradually slowing down. Moreover, data are volatile in the m/m terms.
		CZ	Trade Balance	Jul		-21	16	The war in Ukraine and high energy prices stem behind a deficit in foreign trade.
	9:00	SK	GDP (y/y)	2Q F		0.02	0.02	Flash estimate to be confirmed.
07. Sep		PL	Central Bank Rate	Sep	6.80%		6.5%	
	8:00	RO	GDP (q/q)	2Q P		2.1%	2.1%	Breakdown should reveal strong consumption on the demand side. Supply side, early wheat harvest might add a boost to agriculture, while other sectors posted a weak performance based on high frequency data, with industry likely to have a negative contribution to sequential growth in the second quarter.
	8:00	RO	GDP (y/y)	2Q P		5.3%	5.3%	Depending on the underlying drivers, we could revise higher our 2022 GDP growth estimate and subsequently lower 2023 forecast.
	9:00	HU	Industrial Production (y/y)	Jul		3.5%	4.8%	On monthly level we expect 1.5% decrease parallel with the slowing foreign demand which could indicate 3.5% growth y/y for July.
08. Sep	12:00	RS	PPI (y/y)	Aug			17.7%	
	9:00	HU	CPI (y/y)	Aug		15.6%	13.7%	Price increases could go further in August.
	9:00	HU	CPI (m/m)	Aug		1.8%	2.3%	On monthly level food prices and partially phased out fuel price limit could be the most important growth contributors.
	9:00	HU	Trade Balance	Jul P			-408	
	9:00	SK	Trade Balance	Jul		-350	-78	Export activity has been affected by an unfavorable development in the industry. Decreasing household consumption and industrial production are also pushing down imports.
	11:00	HR	PPI (y/y)	Aug			23.6%	
	11:00	HR	Trade Balance	Jun			-11017	
	12:00	RS	Central Bank Rate	Sep		3.3%	3.0%	We expect the NBS to continue with 25bp hikes as global monetary narrative tightened further.
09. Sep		SK	Industrial Production (y/y)	Jul		-5.0%	-0.06	The Slovak industry has been facing supply-side disruptions, however, energy prices have been causing the biggest problems. Some companies already announced lower production.
	8:00	RO	Trade Balance	Jul			-2828	
	10:30	SI	Industrial Production (y/y)	Jul		1.0%	0.8%	Industrial production expected to maintain mild positive footprint

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	2022Q4	2023Q1	2023Q2	2023Q3
Croatia 10Y	2.9	3.6	3.6	3.6	FALSE
spread (bps)	140	234	234	226	-129
Czechia 10Y	4.7	3.8	3.6	3.4	335.0
spread (bps)	315	254	230	207	33371
Hungary 10Y	8.9	8.2	8.1	7.3	6.9
spread (bps)	739	692	682	601	565
Poland 10Y	6.0	6.1	6.1	6.0	6.0
spread (bps)	450	484	482	465	468
Romania 10Y	7.9	8.8	8.5	8.3	8.0
spread (bps)	636	749	724	691	671
Slovakia 10Y	2.6	2.7	2.9	2.9	3.0
spread (bps)	103	144	159	156	171
Slovenia 10Y	2.59	2.60	2.70	2.70	2.70
spread (bps)	107	134	144	136	141
Serbia 5Y	6.3	6.8	6.9	6.6	6.5
spread (bps)	477	554	564	526	521
DE10Y*	1.52	1.26	1.26	1.34	1.29

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2022Q4	2023Q1	2023Q2	2023Q3
Czechia	7.26	7.09	6.06	5.29	4.52
Hungary	12.80	13.95	13.95	10.95	9.95
Poland	7.15	7.80	7.75	7.75	6.80
Romania	7.93	9.05	8.25	7.75	7.25
Serbia	2.86	3.83	3.88	3.88	3.88
Eurozone	0.76	1.47	1.47	1.47	1.47

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	1.5
Poland	-2.2	5.9	4.2	3.1
Romania	-3.7	5.9	5.1	4.0
Serbia	-0.9	7.4	3.5	3.0
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	2.9

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	51.9	51.0
Slovakia	59.7	63.1	63.6	62.3
Slovenia	79.8	74.7	73.0	72.8
CEE8 avg	56.9	55.9	55.7	54.1

FX

	current	2022Q4	2023Q1	2023Q2	2023Q3
EURHRK	7.52	7.53	7.53	7.53	7.53
EURCZK	24.55	24.60	24.37	24.32	24.23
EURHUF	403.08	390.00	385.00	375.00	375.00
EURPLN	4.73	4.65	4.62	4.57	4.52
EURRON	4.83	5.00	5.02	5.05	5.07
EURRSD	117.32	117.60	117.60	117.60	117.60
EURUSD	0.99	1.05	1.10	1.10	1.13

Key Interest Rate

	current	2022Q4	2023Q1	2023Q2	2023Q3
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	7.00	7.00	6.00	5.25	4.50
Hungary	11.75	13.75	13.75	10.75	9.75
Poland	6.50	7.50	7.50	7.50	6.50
Romania	5.50	6.25	6.25	6.25	6.25
Serbia	3.00	4.00	4.00	4.00	4.00
Eurozone	0.50	1.75	1.75	1.75	1.75

Average inflation (%)

	2020	2021	2022f	2023f
Croatia	0.1	2.6	10.0	5.6
Czechia	3.2	3.8	16.0	6.0
Hungary	3.3	5.1	14.3	13.3
Poland	3.4	5.1	13.9	10.2
Romania	2.7	5.0	12.9	9.3
Serbia	1.6	4.0	11.4	8.6
Slovakia	1.9	3.2	11.4	7.8
Slovenia	0.0	1.9	9.3	5.3
CEE8 avg	2.8	4.5	13.5	9.1

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	-3.2	-8.0	-4.4
Poland	2.9	-0.6	-1.3	-0.3
Romania	-5.0	-7.0	-8.0	-7.9
Serbia	-4.1	-4.4	-9.1	-9.1
Slovakia	0.1	-2.0	-1.7	-1.3
Slovenia	7.4	3.3	1.5	2.3
CEE8 avg	0.7	-1.9	-3.2	-2.2

Unemployment (%)

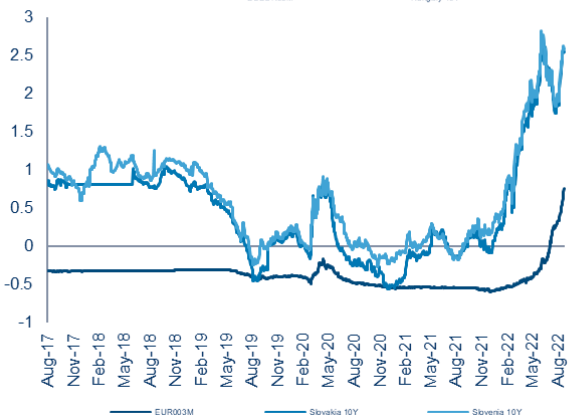
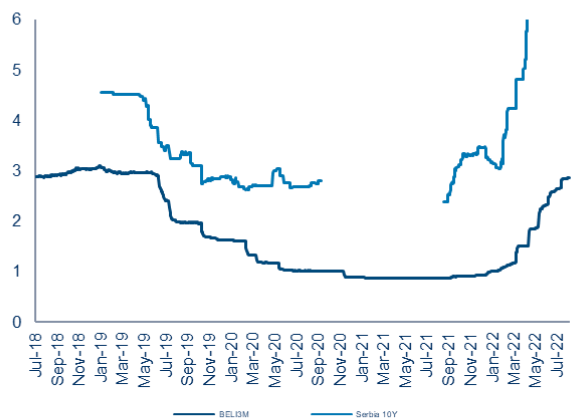
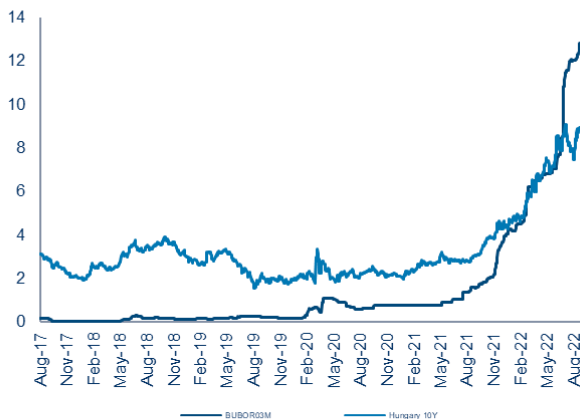
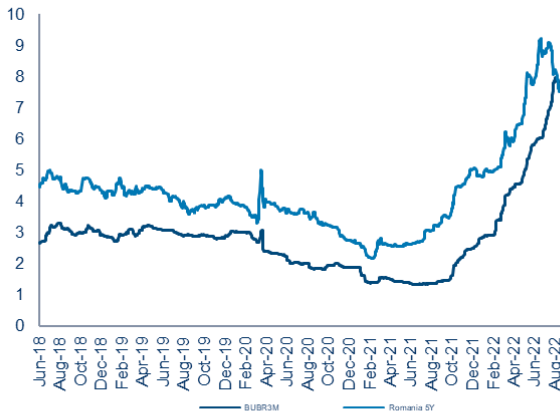
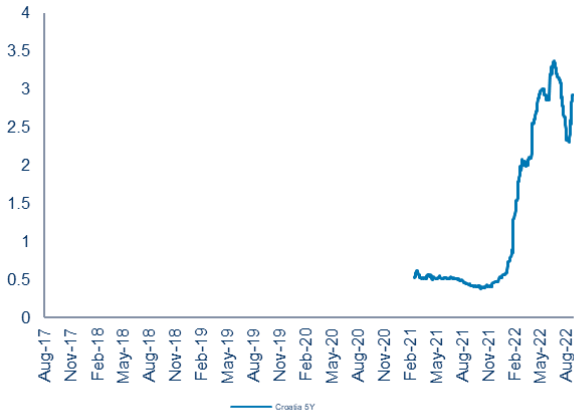
	2020	2021	2022f	2023f
Croatia	7.5	7.6	6.3	5.9
Czechia	2.6	2.9	2.7	3.5
Hungary	4.1	4.1	3.5	3.7
Poland	5.9	5.9	5.3	5.2
Romania	6.0	5.6	5.6	5.5
Serbia	9.7	11.0	9.5	9.0
Slovakia	6.7	6.8	6.6	6.2
Slovenia	5.0	4.8	4.3	4.1
CEE8 avg	5.4	5.4	5.0	5.0

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	-4.2	-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	-3.0	-3.0
Slovakia	-5.5	-6.2	-6.0	-4.0
Slovenia	-7.8	-5.2	-4.5	-3.5
CEE8 avg	-7.2	-4.4	-4.5	-3.8

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

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