

CEE Market Insights

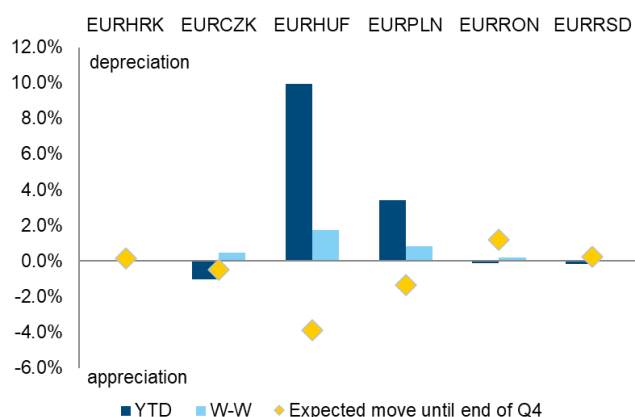
Busy week ahead with central banks' meetings in the spotlight

This week in CEE

It is going to be an interesting week in the region, with the Czech and Hungarian central banks in the spotlight. While the Czech National Bank should keep the policy rate flat at 7.0%, Hungary is likely to manifest its fight against inflation with another 100bp hike so that the key policy rate lands at 12.75% after the meeting. Poland and Slovenia will publish flash estimates of September's inflation numbers, which are expected to go up. As far as price development is concerned, Hungary and Slovakia have the release of their PPIs scheduled for next week, with footprints expected at around 40% in both countries. Finally, industrial output and retail sales growth in August will be released in Croatia and Serbia. While industry should sustain a modest growth dynamic, retail trade growth should slow, as inflation is biting into consumption. On Thursday, the European Commission will release business and consumer survey results that will give a hint as to how the sentiment has changed during September, indicating further trends in the regional economies.

Monday	Tuesday	Wednesday	Thursday	Friday
RS: Wages	HU: Central bank	SK: PPI	CZ: Central bank	PL SI: Inflation
		SI: Retail		HR RS: Retail, Industry
				RO: Unemployment
RO: 2028 Bonds	HU: Bills			
	PL: 2024 2027 2032 Bonds			

FX Market



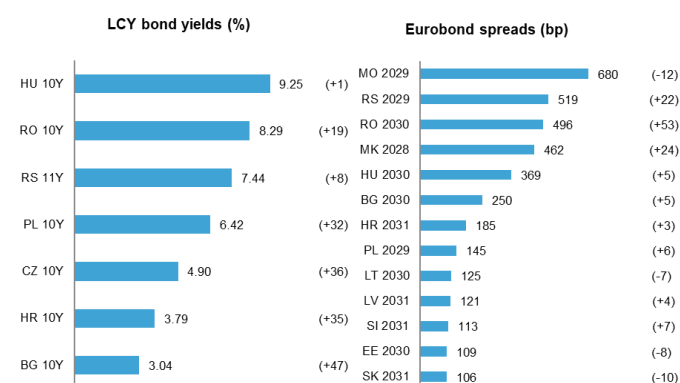
Source: Bloomberg, Erste Group Research

FX market developments

CEE currencies weakened amidst a flight to safety of the US dollar, as the news of partial mobilization in Russia disturbed markets. Moreover, the US Fed delivered an expected 75bp hike on Wednesday and upped its outlook for interest rates. The forint weakened to 406.3 vs. EUR on Friday. It was affected by the escalation of the EU-Hungarian dispute as the EU executive recommended suspending around EUR 7.5bn in funding for Hungary over corruption. Yet, investors remained optimistic as the amount is smaller than figures touted before. This week's Hungarian central bank meeting will be in focus. We expect the MNB to deliver a 100bp hike to 12.75%. Deputy Governor Virag voiced his view that smaller rate hikes are possible going forward, especially if monetary policy effectively transmits into the broader economy - yet, we deem that likely from October only. The Czech

central bank's meeting will also be in the spotlight this week. We expect stability of rates at 7%, mainly due to weakening demand-driven pro-inflationary factors. However, another hike cannot be ruled out, as suggested by MPC member Holub to reduce the risk of a 1970s US-style price shock imposing more severe tightening later – though he remains in the hawkish minority. The koruna was moved by the geopolitical jitters and shifted to 24.66 against the euro. The zloty depreciated towards 4.76 vs. EUR by Friday. Interesting comments came from MPC member Kotecki, who expects the central bank to pause in its rate-hiking cycle to gain greater visibility as to anti-inflation shield extension and energy prices freezes (electricity, gas). Yet, he reckons Poland's inflation might have already become persistent to some extent.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

In reaction to higher yields on major markets supported by the FED's 75bp rate hike, yields on 10Y government bonds moved up 20-40bp w/w in CEE. The only exception was Hungary, where some correction of previous robust increases took place last week. Comments from Deputy Governor Virag pointing to ongoing discussions about the end of the current hiking cycle, or less hikes being needed if the tighter liquidity control proves to be efficient, and cooling down of growth expectations sent HUF 6x9 FRAs down 70bp w/w. Romania placed its dual-tranche Eurobonds (4Y, 7Y) on international markets last week with the pricing at MS+245 and MS+405, respectively. This week, Hungary will be selling T-bills along with conducting its regular T-bond auctions, Poland will reopen POLGBs 2024, 2027, 2032 and 2027 floaters, while Romania will reopen ROMGBs 2028.

In case you missed

Baltics Outlook: [Slowdown is the order of the day](#).

HU: Next phase of [EU-Hungary dispute](#).

PL: [Industry](#) expanded by 10.9% y/y, while real retail sales were up 4.2% y/y in August.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
26.Sep	12:00	RS	Wages (y/y)	Jul			2.1%	
27.Sep	14:00	HU	Central Bank Rate	Sep	12.6%	12.8%	11.8%	We expect a decisive move could come again, manifesting a 100 bps hike in September. Vice Governor Virág revealed yesterday that the MC is starting to examine ending the hiking cycle, whether the announced liquidity withdrawal measures reach their goals.
28.Sep	9:00	SK	PPI (y/y)	Aug		42.5%	42.9%	Energy prices are expected to stay elevated, mainly on the back of energy prices and secondary inflationary pressures.
	10:30	SI	Retail Sales (y/y)	Aug			0.25	
29.Sep	14:30	CZ	Central Bank Rate	Sep	7.0%	7.0%	7.0%	We expect stability of rates, mainly due to weakening demand-driven proinflationary factors. However, another hike cannot be ruled out.
30.Sep		HR	Current Account Balance (quarterly)	2Q			-2391.00	
	8:00	RO	Unemployment Rate	Aug			5.5%	
	9:00	HU	PPI (y/y)	Aug			0.38	
	10:00	PL	CPI (y/y)	Sep P	16.3%		16.1%	
	10:30	SI	CPI (y/y)	Sep		12.1%	11.0%	We expect to see a record high print in September at 12.1%
	11:00	HR	Industrial Production (y/y)	Aug			2.9%	
	11:00	HR	Retail Sales (y/y)	Aug			3.3%	
	12:00	RS	Industrial Production (y/y)	Aug		2.5%	-1.6%	We expect modest growth of industry in August
	12:00	RS	Retail Sales (y/y)	Aug		3.5%	4.0%	High inflation started to bite into consumption; hence retail growth slowing down
	12:00	RS	Trade Balance	Aug			-650.30	

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	3.3	3.5	3.5	3.5	3.4
spread (bps)	133	183	181	188	182
Czechia 10Y	4.9	4.4	4.2	3.9	3.7
spread (bps)	288	270	247	227	209
Hungary 10Y	9.2	8.2	8.1	7.3	6.9
spread (bps)	723	651	639	573	536
Poland 10Y	6.4	6.0	6.1	5.9	5.8
spread (bps)	440	433	441	428	422
Romania 10Y	8.3	8.5	8.3	8.0	7.8
spread (bps)	627	683	656	638	617
Slovakia 10Y	3.1	3.2	3.3	3.4	3.5
spread (bps)	105	153	161	178	192
Slovenia 10Y	3.14	2.70	2.80	2.80	2.80
spread (bps)	112	103	111	118	122
Serbia 5Y	6.5	6.8	6.9	6.6	6.5
spread (bps)	444	513	521	498	492
DE10Y*	2.02	1.67	1.69	1.62	1.58

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2022Q4	2023Q1	2023Q2	2023Q3
Czechia	7.24	7.07	6.04	5.27	4.51
Hungary	12.94	13.95	13.95	10.95	9.95
Poland	7.15	7.15	7.15	7.15	7.05
Romania	7.91	8.84	8.04	7.54	7.04
Serbia	3.36	4.32	4.89	4.89	4.89
Eurozone	1.15	1.97	1.97	1.97	1.97

Real GDP growth (%)

	2020	2021	2022f	2023f
Croatia	-8.1	10.2	5.5	2.1
Czechia	-5.5	3.5	2.3	0.9
Hungary	-4.7	7.1	5.0	0.9
Poland	-2.2	5.9	3.9	0.7
Romania	-3.7	5.9	6.0	2.7
Serbia	-0.9	7.4	3.5	3.0
Slovakia	-4.4	3.0	1.8	1.5
Slovenia	-4.2	8.1	5.8	1.7
CEE8 avg	-3.7	5.7	4.1	1.3

Public debt (% of GDP)

	2020	2021	2022f	2023f
Croatia	87.3	79.8	71.0	68.0
Czechia	37.6	42.0	43.3	44.0
Hungary	79.6	76.8	74.1	72.8
Poland	57.1	53.8	52.5	51.9
Romania	47.2	48.8	48.3	49.1
Serbia	57.0	56.5	54.4	53.3
Slovakia	59.7	63.1	62.4	62.0
Slovenia	79.8	74.7	70.7	69.1
CEE8 avg	56.9	55.9	54.7	54.1

FX

	current	2022Q4	2023Q1	2023Q2	2023Q3
EURHRK	7.51	7.53	7.53	7.53	7.53
EURCZK	24.65	24.50	24.36	24.29	24.21
EURHUF	407.54	390.00	385.00	380.00	380.00
EURPLN	4.76	4.68	4.70	4.66	4.65
EURRON	4.94	5.00	5.02	5.05	5.07
EURRSD	117.24	117.60	117.60	117.60	117.60
EURUSD	0.96	1.03	1.06	1.07	1.09

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	6.75	7.00	7.00	7.00	7.00
Romania	5.50	6.25	6.25	6.25	6.25
Serbia	3.50	4.50	5.00	5.00	5.00
Eurozone	1.25	2.25	2.25	2.25	2.25

Average inflation (%)

	2020	2021	2022f	2023f
Croatia	0.1	2.6	10.5	6.5
Czechia	3.2	3.8	15.8	7.0
Hungary	3.3	5.1	14.3	13.3
Poland	3.4	5.1	13.9	10.2
Romania	2.7	5.0	13.4	10.2
Serbia	1.6	4.0	11.4	8.6
Slovakia	1.9	3.2	12.2	9.5
Slovenia	0.0	1.9	9.3	5.5
CEE8 avg	2.8	4.5	13.7	9.6

C/A (%GDP)

	2020	2021	2022f	2023f
Croatia	-0.1	3.4	1.5	0.4
Czechia	2.0	-0.8	-2.8	0.3
Hungary	-1.1	-4.2	-9.0	-5.6
Poland	2.9	-0.6	-1.3	-0.3
Romania	-5.0	-7.0	-9.3	-7.5
Serbia	-4.1	-4.4	-9.1	-9.1
Slovakia	0.1	-2.0	-3.2	-2.0
Slovenia	7.6	3.8	1.4	2.0
CEE8 avg	0.7	-2.0	-3.9	-2.3

Unemployment (%)

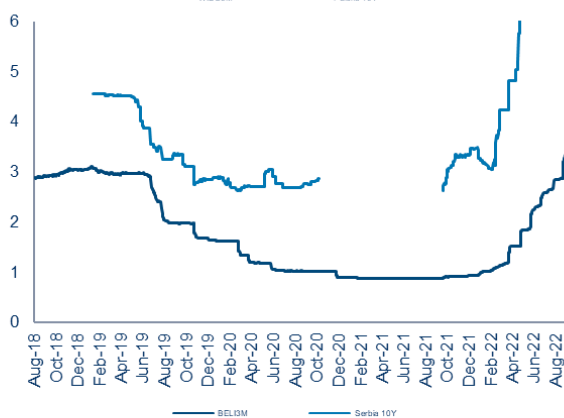
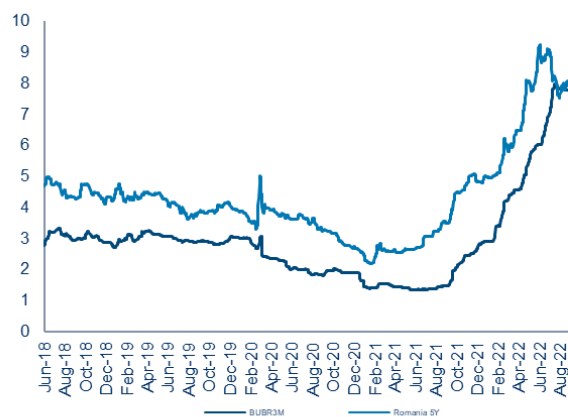
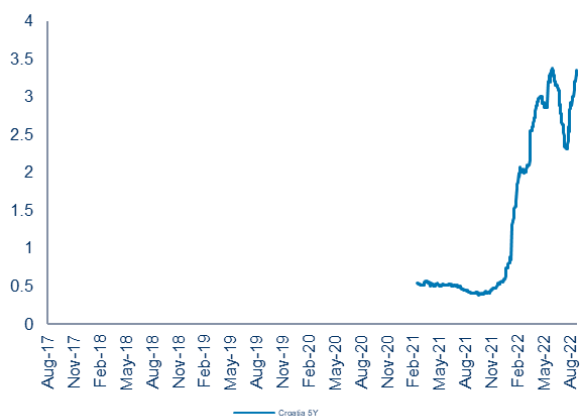
	2020	2021	2022f	2023f
Croatia	7.5	7.6	6.3	5.9
Czechia	2.6	2.9	2.6	3.3
Hungary	4.1	4.1	3.5	3.7
Poland	5.9	5.9	5.1	5.5
Romania	6.0	5.6	5.6	5.8
Serbia	9.7	11.0	9.5	9.0
Slovakia	6.7	6.8	6.3	6.5
Slovenia	5.0	4.8	4.3	4.1
CEE8 avg	5.4	5.4	4.9	5.2

Budget Balance (%GDP)

	2020	2021	2022f	2023f
Croatia	-7.4	-2.9	-2.5	-2.5
Czechia	-5.8	-5.9	-4.7	-3.7
Hungary	-7.8	-6.8	-6.0	-4.5
Poland	-6.9	-1.9	-4.5	-4.4
Romania	-9.3	-7.1	-6.2	-4.4
Serbia	-8.0	-4.1	-3.5	-3.0
Slovakia	-5.5	-6.2	-5.5	-4.0
Slovenia	-7.8	-5.2	-4.0	-3.0
CEE8 avg	-7.2	-4.4	-4.9	-4.1

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

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