Erste Group Research
CEE Market Insights
7 November 2022

CEE Market Insights

Data overload in CEE: central banks, inflation, industry and retail

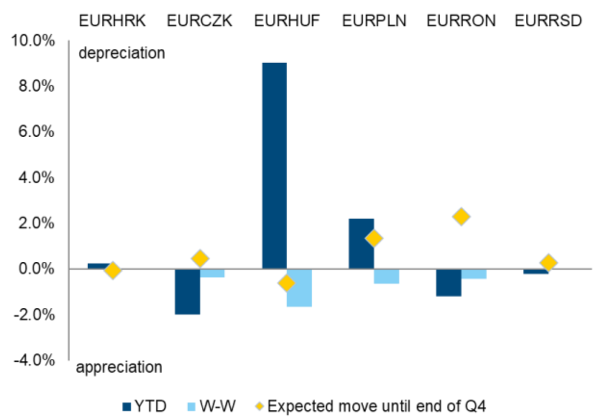
This week in CEE

This week is going to be very busy in the region, as the calendar is packed with data releases. Let's begin with central bank meetings in Romania, Poland and Serbia. In Romania and Serbia, further monetary tightening is a done deal, while in Poland, an increase of interest rates remains an open question. In October, the central bank announced a pause. This time, the MPC members will see the new inflation and growth projections, which may prompt some adjustment in the policy rate. The inflation rate for October will be published in Czechia, Hungary and Romania. In Czechia and Hungary, further increases of headline inflation are expected, while in Romania, it may drop marginally. Finally, industrial output and retail sales growth for September as well as trade balances will be released across the region. As far as the performance of industry is concerned, the low base from the previous year is likely to support the annual growth dynamics in Czechia, Hungary and Slovakia, masking the underlying moderation of industrial output growth. In Hungary and Slovakia, retail sales growth will also be published and is likely to reflect the effects of high inflation.

Last but not least, we put the Czech growth forecast under revision and expect 2023 economic growth to be lower than the previously estimated 0.9%. Although we most likely will not pencil in a contraction next year, as the Czech National Bank did (November's forecast for FY23 at -0.7%), the risks remain clearly to the downside.

Monday	Tuesday	Wednesday	Thursday	Friday
CZ: Industry, Trade	**RO: Central bank**	**PL: Central bank**	**RS: Central bank**	**RO: CPI, Wages**
RS: PPI	**HU SK RO: Retail**	**HU: CPI**	**CZ: CPI**	
	HU: Industry	**HU HR SK RO: Trade**	**SK SI: Industry**	
	HR: PPI		**SK: Wages**	
RO: 2025 2036 Bonds	**HU SI: Bills**	**CZ: Bonds**	**RO: 2025 2032 Bonds**	

FX market

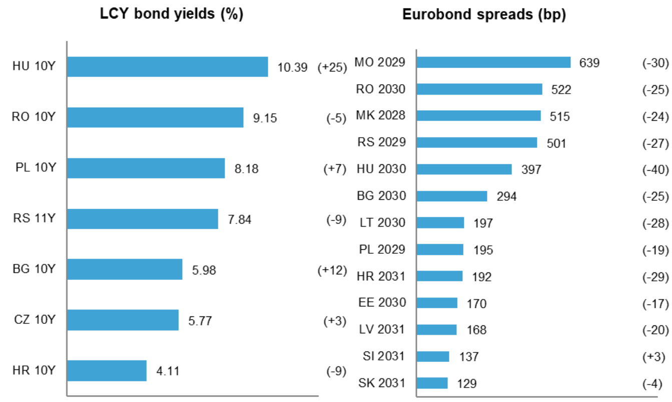


Source: Bloomberg, Erste Group Research

FX market developments

Throughout the week, currencies in the region appreciated. The Hungarian forint strengthened the most, with the EURHUF going down toward 403 on Friday. The Polish zloty dropped below 4.70 vs. the euro, while the Czech koruna moved toward 24.5 vs. the euro. The Romanian leu also followed the pattern and remained relatively strong, given the current account position. As far as global factors are concerned, the recent Fed decision was of importance. Locally, the central banks' meetings remain in focus as well. The Czech National Bank confirmed the continuation of exchange rate interventions in the event of increased pressure on the koruna. This week, the Polish, Romanian and Serbian central banks hold rate setting meetings. Uncertainty regarding the outcome is present only in the case of Poland. Amid rising inflation, the central bank announced a pause in October, and it remains to be seen whether new inflation and growth projections will prompt further tightening. Ending the cycle of interest rate hikes could also affect the zloty, especially if inflation surges further.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Hawkish comments from the FED chair following their 75bp rate hike decision last week sent yields in both the Euro Area and CEE higher. Slovak and Slovene 10Y yields went up about 20bp w/w, mirroring the increase in EUR IRS and Bund yields. Hungarian bonds received the strongest hit from the global increase of yields, as 10Y yields again moved above 10.5%, while Romanian and Serbian bonds experienced a decline in yields, benefiting from positive country-specific news, which eased the pressure on foreign financing. The NBR confirmed that, in October, their FX reserves were boosted by another tranche of grants and loan worth EUR 2.6bn received by the Ministry of Finance from the EU's Recovery and Resilience Fund. Serbia reached a staff-level agreement with the IMF regarding a 24-month stand-by arrangement providing access to EUR 2.4bn (it still needs to be formally approved by the IMF board). This week, Romania will reopen ROMGBs 2025, 2032, 2036, while Slovenia and Hungary will offer T-bills and Czechia will sell T-bonds.

In case you missed

CEE: Economic Sentiment Indicator kept dropping in region.
CEE: Electricity and gas price development in first half of 2022.
CZ: Czech economy contracted in 3Q. Czech National Bank kept policy rate unchanged at 7.00%.
RS: Weak growth in 3Q indicates that slowdown has begun.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
07.Nov	**09:00**	**CZ**	Industrial Production (y/y)	Sep		**7.2%**	7.20%	Although industrial production probably decreased in the m/m terms, its y/y development is affected by a significant base effect associated with the lack of semiconductors in 2H 21.
	09:00	**CZ**	Trade Balance	Sep		**-12.30**	16.30	The war in Ukraine and high energy prices stem behind a deficit in foreign trade. The figure is affected by a positive seasonal effect.
	12:00	**RS**	PPI (y/y)	Oct			15.30%	
08.Nov		**RO**	Central Bank Rate	Nov.08		6.75%	6.25%	We expect 50bp hike to 6.75%. There is a material probability for a 75bp hike after inflation came in above August NBR forecast over last couple ofmonths. We tend to believe this is the terminal point for the rate hiking
	08:00	**RO**	Retail Sales (y/y)	Sep		**4.80%**	3.70%	Retail managers interviewed in the most recent ESI survey reported an increase in sales in the past months.
	09:00	**HU**	Industrial Production (y/y)	Sep		**9.10%**	9.30%	Slight moderation is expected in September, however the really low basis from last year could indicate a high figure for the ninth month data.
	09:00	**HU**	Retail Sales (y/y)	Sep		**2.20%**	2.40%	Moderation could be continued in September: only y-o-y fuel sales could remain in the positive territory, but food and non-purchases could have already shown negative figures.
	09:00	**SK**	Retail Sales (y/y)	Sep		**-4.50%**	-0.30%	Based on the payments of our clients, we expect stagnation of retail sales on the monthly basis mainly due to elevated prices and declining purchasing power.
	11:00	**HR**	PPI (y/y)	Oct			22.10%	
09.Nov		**PL**	Central Bank Rate	Nov			6.75%	
	8:00	**RO**	Trade Balance	Sep			-2691.10	
	9:00	**HU**	CPI (y/y)	Oct		**21.0%**	0.20	As for the broad-based inflationary processes could continue in October in addition with the extremely weak performance of the HUF in the first half of October.
	9:00	**HU**	CPI (m/m)	Oct		**1.7%**	4.1%	Monthly repricing could be led by food prices once again.
	9:00	**HU**	Trade Balance	Sep P			-1580	
	9:00	**SK**	Trade Balance	Sep		**90**	-158	Increased volatility in foreign trade is anticipated to persist due to supply-chain problems.
	11:00	**HR**	Trade Balance	Aug			-10193	
10.Nov	**9:00**	**SK**	Industrial Production (y/y)	Sep		**1.0%**	-1.9%	Industrial production is expected to rise, however, affected by a lower base in 2021.
	9:00	**CZ**	CPI (y/y)	Oct		**19.0%**	18.0%	
	9:00	**CZ**	CPI (m/m)	Oct		**1.9%**	0.8%	Price level increased mainly due to higher food and energy prices.
	9:00	**SK**	Wages (y/y)	Sep			-4.3%	
	10:30	**SI**	Industrial Production (y/y)	Sep		**2.5%**	4.8%	Industrial production expected to maintain modest growth pattern
	12:00	**RS**	Central Bank Rate	Nov		**4.3%**	4.0%	We expect the NBS to continue with hikes. 25bps is our baseline expectations although there are arguments for a 50bps hike as well.
11.Nov	**8:00**	**RO**	CPI (y/y)	Oct		**15.5%**	15.9%	Inflation is close to its peak, though a visible downward trend is expected only in 2H23.
	8:00	**RO**	CPI (m/m)	Oct		**1.5%**	1.3%	
	8:00	**RO**	Wages (y/y)	Sep			12.8%	

Source: Erste Group Resarch

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Note: Past performance is not necessarily indicative of future results

Forecasts

Government bond yields

	current	2022Q4	2023Q1	2023Q2	2023Q3
Croatia 10Y	4.0	4.0	4.3	4.3	4.3
spread (bps)	168	185	196	207	215
Czechia 10Y	5.8	4.5	4.4	4.1	3.8
spread (bps)	349	235	208	192	174
Hungary 10Y	10.4	10.1	9.1	8.1	7.2
spread (bps)	809	798	680	589	512
Poland 10Y	8.2	8.1	8.0	7.9	7.9
spread (bps)	587	595	571	572	580
Romania10Y	9.1	8.5	8.3	8.0	7.8
spread (bps)	684	635	596	582	565
Slovakia 10Y	3.7	3.8	3.9	4.0	4.1
spread (bps)	137	165	161	182	200
Slovenia 10Y	3.65	3.80	3.90	4.00	4.00
spread (bps)	135	165	161	182	190
Serbia 5Y	7.0	7.0	7.0	6.8	6.5
spread (bps)	469	485	471	462	440
DE10Y*	2.30	2.15	2.29	2.18	2.10

* Spreads based on Bloomberg consensus forecast

FX

	current	2022Q4	2023Q1	2023Q2	2023Q3
EURHRK	7.54	7.53	7.53	7.53	7.53
EURCZK	24.38	24.50	24.36	24.29	24.21
EURHUF	403.07	400.00	390.00	385.00	385.00
EURPLN	4.69	4.75	4.70	4.66	4.65
EURRON	4.89	5.00	5.02	5.05	5.07
EURRSD	117.31	117.60	117.60	117.60	117.60
EURUSD	0.99	1.00	1.00	1.02	1.04

3M Money Market Rate

	current	2022Q4	2023Q1	2023Q2	2023Q3
Czechia	7.31	7.07	6.04	5.27	4.51
Hungary	16.56	17.00	15.00	11.20	9.70
Poland	7.59	7.50	7.50	7.25	7.15
Romania	8.16	8.84	8.04	7.54	7.04
Serbia	3.89	4.45	5.02	5.02	5.02
Eurozone	1.73	2.14	2.22	2.22	2.22

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	13.00	13.00	13.00	11.00	9.50
Poland	6.75	7.00	7.00	7.00	7.00
Romania	6.25	6.75	6.75	6.75	6.75
Serbia	4.00	4.50	5.00	5.00	5.00
Eurozone	2.00	2.50	2.50	2.50	2.50

Real GDP growth (%)

	2021	2022e	2023f	2024f
Croatia	13.1	5.5	1.0	2.5
Czechia	3.5	2.3	0.9	3.7
Hungary	7.1	5.0	0.2	4.2
Poland	5.9	3.9	0.7	2.7
Romania	5.1	6.2	2.7	5.3
Serbia	7.4	3.5	3.0	4.0
Slovakia	3.0	1.8	1.5	2.6
Slovenia	8.1	5.4	1.2	2.5
CEE8 avg	5.7	4.1	1.2	3.5

Average inflation (%)

	2021	2022e	2023f	2024f
Croatia	2.6	10.5	6.5	3.0
Czechia	3.8	15.8	7.0	2.1
Hungary	5.1	14.0	14.3	4.2
Poland	5.1	13.9	10.2	3.7
Romania	5.0	13.6	10.5	5.8
Serbia	4.0	11.4	8.6	4.4
Slovakia	3.2	12.2	11.0	5.0
Slovenia	1.9	8.8	5.9	3.0
CEE8 avg	4.5	13.6	9.8	3.9

Unemployment (%)

	2021	2022e	2023f	2024f
Croatia	7.6	6.5	6.2	5.8
Czechia	2.9	2.6	3.3	3.4
Hungary	4.1	3.5	3.7	3.4
Poland	5.9	5.1	5.5	5.3
Romania	5.6	5.6	5.8	5.7
Serbia	11.0	9.5	9.0	8.5
Slovakia	6.8	6.3	6.5	6.5
Slovenia	4.8	4.3	4.1	4.0
CEE8 avg	5.4	4.9	5.2	5.0

Public debt (% of GDP)

	2021	2022e	2023f	2024f
Croatia	78.4	70.3	68.1	66.7
Czechia	42.0	43.3	44.0	44.6
Hungary	76.8	74.6	73.8	72.3
Poland	53.8	52.5	51.9	51.0
Romania	48.8	46.4	45.8	44.3
Serbia	56.5	54.4	53.3	51.9
Slovakia	63.1	62.4	63.5	63.2
Slovenia	74.7	71.0	71.7	69.7
CEE8 avg	55.8	54.4	53.8	52.9

C/A (%GDP)

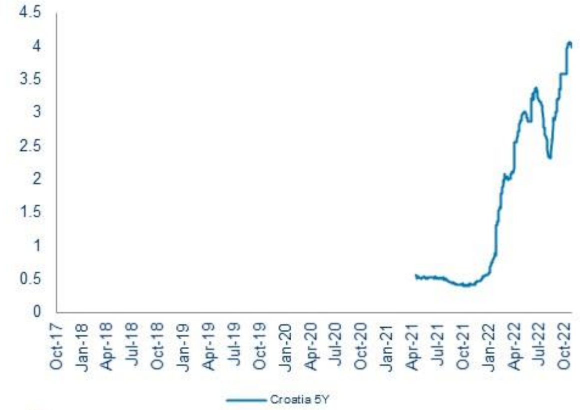
	2021	2022e	2023f	2024f
Croatia	3.2	1.1	-0.3	-1.4
Czechia	-0.8	-2.8	0.3	1.1
Hungary	-4.2	-9.2	-5.7	-4.6
Poland	-0.6	-1.3	-0.3	0.2
Romania	-7.0	-9.1	-7.2	-6.9
Serbia	-4.4	-9.1	-9.1	-8.9
Slovakia	-2.0	-3.9	-4.5	-2.5
Slovenia	3.8	0.8	1.0	1.5
CEE8 avg	-2.0	-3.9	-2.5	-1.9

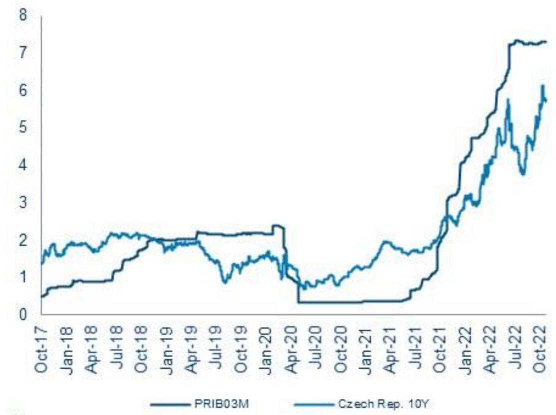
Budget Balance (%GDP)

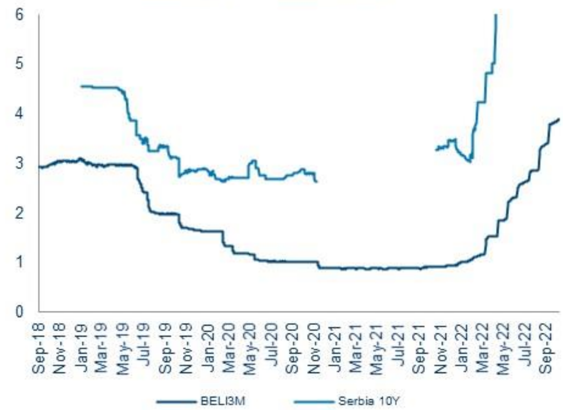
	2021	2022e	2023f	2024f
Croatia	-2.6	-1.8	-2.5	-2.2
Czechia	-5.9	-4.7	-3.7	-2.8
Hungary	-6.8	-6.1	-4.5	-3.2
Poland	-1.9	-4.5	-4.4	-3.5
Romania	-7.1	-6.2	-4.4	-2.9
Serbia	-4.1	-3.5	-3.0	-2.0
Slovakia	-6.2	-5.5	-5.5	-4.0
Slovenia	-5.2	-4.0	-5.0	-3.0
CEE8 avg	-4.4	-4.9	-4.3	-3.2

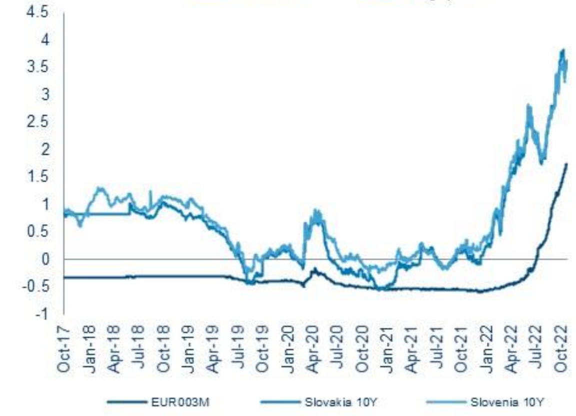
Source: Bloomberg, Erste Group Research

Appendix









Source: Bloomberg, Erste Group Research

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