

CEE Market Insights

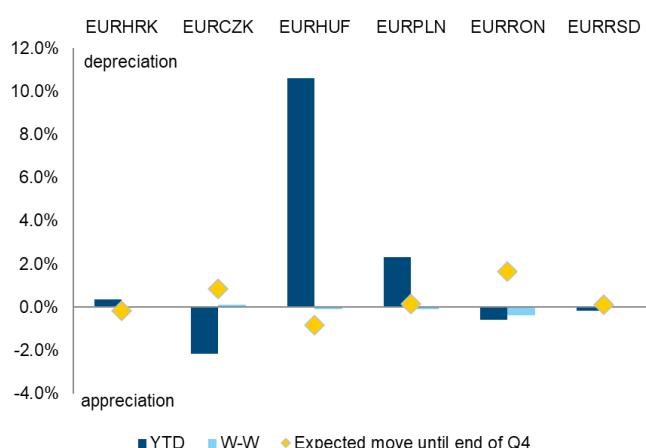
Structure of economic growth in the third quarter

This week in CEE

In the second half of the week, the structure of GDP growth will be published in several CEE countries. The development of private consumption will remain in focus for an evaluation of the extent to which rising inflation has impacted households' spending so far. In Poland and Slovenia, November's inflation rate will be published, while in Hungary, Romania and Slovakia, the development of producer prices in October will be released; we will be looking for signs of easing cost pressure. In Croatia and Serbia, retail sales and industrial output growth will be published. The high inflation is likely to leave a mark on Croatian retail sales growth dynamics, which are likely to slip into negative territory, while in Serbia, moderation of growth is expected. As for industry performance, further deterioration is our baseline scenario in both countries. Finally, the November PMI indices will be published in Czechia, Hungary and Poland. After a better-than-expected PMI performance in Germany, any signs of a revival of manufacturing industry would be positive news.

| Monday | Tuesday | Wednesday | Thursday | Friday |
|------------------------------|---------------------|--------------------------------|--------------------------|--------------------------|
| SK: PPI | | PL SI: CPI | HU: GDP structure | CZ: GDP structure |
| SI: Retail | | HU: PPI | | RO: PPI |
| | | PL RS: GDP structure | | |
| | | HR RS: Retail, Industry | | |
| RO: 2025 Bonds, Bills | HR HU: Bills | CZ: Bonds | | |

FX market

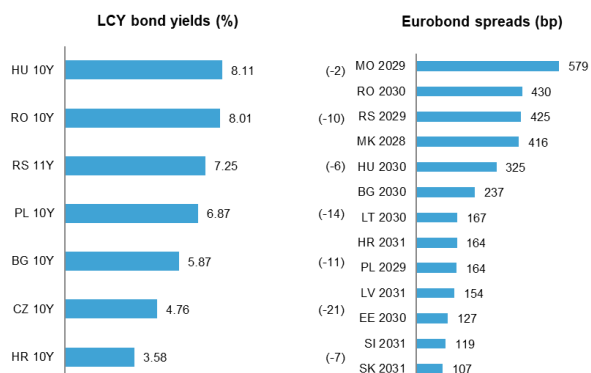


Source: Bloomberg, Erste Group Research

FX market developments

Over the week, the FX market in the region showed a mixed performance. The Polish zloty and Romanian forint slightly appreciated against the EUR. On the other hand, the Czech koruna and Hungarian forint weakened. In Hungary, the threat of having the cohesion funds frozen weighed on the local currency, as the European Parliament voted (416 to 124) to oppose any release of EU funds to Hungary. Although the vote does not have any material consequences, it shows the most likely development when it comes to the decision of the European Commission. The unfolding development regarding both Recovery Funds as well as Cohesion Funds will remain the key local driver of the Hungarian forint. Finally, the central bank remarks on the recent government policies interfering with monetary policy are not helping the FX market stability.

LCY yields, Eurobonds



Source: Bloomberg, Erste Group Research

Bond market developments

CEE government bonds continued their rally last week. LCY yield curves shifted down 10-25bp w/w, with the exception of Hungary. The Hungarian long end saw a correction after the media reported that the EC would recommend that Member States freeze EUR 7.5bn from three Cohesion Funds, due to the insufficient progress of Hungary in its promise to tackle corruption. We believe that, for further market development, it is more important to keep the RRF on track and approved by year-end, as it includes the road map and incentives for conducting the most necessary reforms, which, if executed, should also unfreeze the above-mentioned EUR 7.5bn. In the last bond auction, Romania repeated the success from the previous week; due to high demand, it placed two and a half times higher volume of 2032 bonds than it originally planned to issue. The average yield collapsed to 8.1%, from the 9.7% recorded in the previous auction of the paper at the end of September. This week, Romania will reopen ROMGB 2025, Czechia will issue bonds and, on top of that, Romania, Croatia and Hungary will auction T-bills..

In case you missed

HR: [GDP growth](#) decelerates to 5.2% y/y in 3Q22.

HU: Will Hungary have the [EU funds frozen](#)?

HU: [Policy rate](#) remained unchanged as expected.

[Montenegro Outlook](#): Strong performance in 2022 but numerous risks loom.

Upcoming releases in CEE

| Date | Time | Country | Indicator | Period | Survey | Erste Est. | Prev. | Pre Comment |
|---------|-------|---------|-----------------------------|--------|--------|------------|---------|--|
| 28.Nov | 09:00 | SK | PPI (y/y) | Oct | | | 61.80% | |
| | 10:30 | SI | Retail Sales (y/y) | Oct | | | 23.90% | |
| 28.Nov | | | No releases scheduled | | | | | |
| 30.Nov | 09:00 | HU | PPI (y/y) | Oct | | | 42.7% | |
| | 10:00 | PL | CPI (y/y) | Nov P | | | 17.9% | |
| | 10:00 | PL | GDP (y/y) | 3Q F | | | 3.50% | |
| | 10:30 | SI | CPI (y/y) | Nov | | 9.70% | 9.90% | Inflation expected to remain at similar levels as seen in October |
| | 11:00 | HR | Industrial Production (y/y) | Oct | | 1.50% | 2.20% | Headline figure growth seen gradually decelerating going into 4Q22 |
| | 11:00 | HR | Retail Sales (y/y) | Oct | | -0.50% | 0.40% | Inflation further weighing on the headline figure |
| | 12:00 | RS | Industrial Production (y/y) | Oct | | -0.50% | -0.30% | Similar to previous month performance, we expect another small contraction of industry output |
| | 12:00 | RS | Retail Sales (y/y) | Oct | | 4% | 5.20% | Retail activity should support overall growth in 4Q as well, albeit at moderating pace |
| | 12:00 | RS | Trade Balance | Oct | | | -681.10 | |
| | 12:00 | RS | GDP (y/y) | 3Q F | | 1.10% | 1.1% | We expect confirmation of the flash estimate |
| 01. Dec | 09:00 | HU | Trade Balance | Sep F | | | -652 | |
| | 09:00 | HU | GDP (q/q) | 3Q F | | | -0.40% | |
| | 09:00 | HU | GDP (y/y) | 3Q F | | | 4% | |
| 02. Dec | 08:00 | RO | PPI (y/y) | Oct | | | 46.68% | |
| | 09:00 | CZ | GDP (q/q) | 3Q P | | -0.40% | -0.40% | As a decrease in GDP is expected also for 4Q, the Czech economy is probably in a mild recession. The negative 3Q figure is negatively affected by household consumption. |
| | 09:00 | CZ | GDP (y/y) | 3Q P | | 1.60% | 1.60% | The y/y figure is influenced by a base effect, as the Czech automotive sector faced a significant shortage of semiconductors in 3Q 21. |

Source: Erste Group Research

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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 | 3.4 | 4.0 | 4.3 | 4.3 | 4.3 |
| spread (bps) | 146 | 175 | 189 | 202 | 212 |
| Czechia 10Y | 4.8 | 5.4 | 5.3 | 5.2 | 4.8 |
| spread (bps) | 279 | 315 | 297 | 294 | 270 |
| Hungary 10Y | 8.1 | 8.9 | 9.0 | 8.1 | 7.2 |
| spread (bps) | 614 | 665 | 664 | 584 | 509 |
| Poland 10Y | 6.9 | 7.4 | 7.6 | 7.2 | 6.8 |
| spread (bps) | 490 | 515 | 524 | 497 | 467 |
| Romania10Y | 8.0 | 8.5 | 8.3 | 8.0 | 7.8 |
| spread (bps) | 603 | 625 | 589 | 577 | 562 |
| Slovakia 10Y | 3.2 | 3.8 | 3.9 | 4.0 | 4.1 |
| spread (bps) | 127 | 155 | 154 | 177 | 197 |
| Slovenia 10Y | 3.13 | 3.80 | 3.90 | 4.00 | 4.00 |
| spread (bps) | 116 | 155 | 154 | 177 | 187 |
| Serbia 5Y | 6.6 | 7.1 | 7.0 | 6.8 | 6.5 |
| spread (bps) | 467 | 485 | 464 | 457 | 437 |
| DE10Y* | 1.97 | 2.25 | 2.36 | 2.23 | 2.13 |

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

| | current | 2022Q4 | 2023Q1 | 2023Q2 | 2023Q3 |
|-----------------|---------|--------|--------|--------|--------|
| Czechia | 7.25 | 7.29 | 7.26 | 7.07 | 6.04 |
| Hungary | 15.32 | 15.40 | 15.00 | 11.20 | 9.70 |
| Poland | 7.31 | 7.50 | 7.50 | 7.25 | 7.15 |
| Romania | 7.85 | 7.75 | 8.04 | 7.54 | 7.04 |
| Serbia | 4.37 | 4.41 | 4.98 | 4.98 | 4.98 |
| Eurozone | 1.92 | 2.14 | 2.22 | 2.22 | 2.22 |

Real GDP growth (%)

| | 2021 | 2022e | 2023f | 2024f |
|-----------------|------|-------|-------|-------|
| Croatia | 13.1 | 5.5 | 1.0 | 2.5 |
| Czechia | 3.5 | 2.5 | -0.5 | 3.3 |
| Hungary | 7.1 | 5.0 | 0.2 | 4.2 |
| Poland | 6.8 | 5.8 | 0.4 | 2.8 |
| Romania | 5.1 | 4.7 | 2.1 | 4.2 |
| Serbia | 7.4 | 2.3 | 1.6 | 3.8 |
| Slovakia | 3.0 | 1.5 | 1.5 | 2.5 |
| Slovenia | 8.1 | 5.4 | 1.2 | 2.5 |
| CEE8 avg | 6.1 | 4.6 | 0.7 | 3.2 |

Public debt (% of GDP)

| | 2021 | 2022e | 2023f | 2024f |
|-----------------|------|-------|-------|-------|
| Croatia | 78.4 | 70.3 | 68.1 | 66.7 |
| Czechia | 42.0 | 42.6 | 43.5 | 44.0 |
| 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 | 55.6 | 54.4 | 52.5 |
| Slovakia | 62.2 | 60.1 | 59.3 | 58.2 |
| Slovenia | 74.7 | 71.0 | 71.7 | 69.7 |
| CEE8 avg | 55.8 | 54.2 | 53.4 | 52.5 |

Source: Bloomberg, Erste Group Research

FX

| | current | 2022Q4 | 2023Q1 | 2023Q2 | 2023Q3 |
|---------------|---------|--------|--------|--------|--------|
| EURHRK | 7.51 | 7.53 | 7.53 | 7.53 | 7.53 |
| EURCZK | 24.35 | 24.55 | 24.50 | 24.39 | 24.31 |
| EURHUF | 409.30 | 405.00 | 390.00 | 390.00 | 390.00 |
| EURPLN | 4.69 | 4.70 | 4.68 | 4.66 | 4.65 |
| EURRON | 4.92 | 5.00 | 5.02 | 5.05 | 5.07 |
| EURRSD | 117.30 | 117.45 | 117.55 | 117.50 | 117.50 |
| EURUSD | 1.04 | 1.00 | 1.00 | 1.02 | 1.04 |

Key Interest Rate

| | current | 2022Q4 | 2023Q1 | 2023Q2 | 2023Q3 |
|-----------------|---------|--------|--------|--------|--------|
| Croatia | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| Czechia | 7.00 | 7.00 | 7.00 | 7.00 | 6.00 |
| Hungary | 13.00 | 13.00 | 13.00 | 11.00 | 9.50 |
| Poland | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 |
| Romania | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 |
| Serbia | 4.50 | 4.50 | 5.00 | 5.00 | 5.00 |
| Eurozone | 2.00 | 2.50 | 2.50 | 2.50 | 2.50 |

Average inflation (%)

| | 2021 | 2022e | 2023f | 2024f |
|-----------------|------|-------|-------|-------|
| Croatia | 2.6 | 10.5 | 6.5 | 3.0 |
| Czechia | 3.8 | 16.0 | 7.9 | 2.1 |
| Hungary | 5.1 | 14.3 | 16.0 | 4.3 |
| Poland | 5.1 | 14.6 | 13.1 | 3.7 |
| Romania | 5.1 | 13.7 | 11.2 | 5.8 |
| Serbia | 4.0 | 11.4 | 8.6 | 4.4 |
| Slovakia | 3.2 | 12.7 | 13.5 | 7.0 |
| Slovenia | 1.9 | 8.8 | 5.9 | 3.0 |
| CEE8 avg | 4.5 | 14.0 | 11.6 | 4.0 |

C/A (%GDP)

| | 2021 | 2022e | 2023f | 2024f |
|-----------------|------|-------|-------|-------|
| Croatia | 3.2 | 1.1 | -0.3 | -1.4 |
| Czechia | -0.8 | -3.5 | -0.5 | 0.9 |
| Hungary | -4.2 | -9.2 | -5.8 | -4.6 |
| Poland | -0.6 | -1.3 | -0.3 | 0.2 |
| Romania | -7.0 | -9.1 | -7.2 | -6.9 |
| Serbia | -4.5 | -7.6 | -8.7 | -7.4 |
| Slovakia | -1.9 | -3.9 | -4.5 | -2.5 |
| Slovenia | 3.8 | 0.8 | 1.0 | 1.5 |
| CEE8 avg | -2.0 | -4.0 | -2.6 | -1.8 |

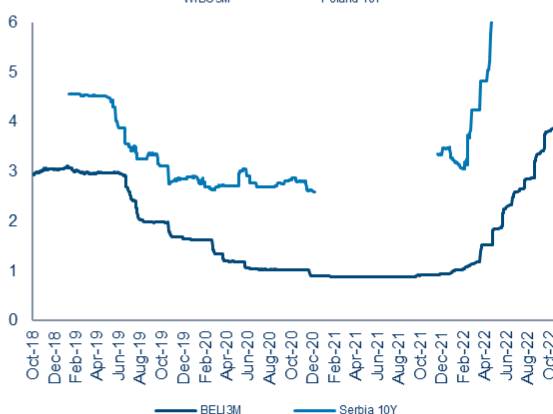
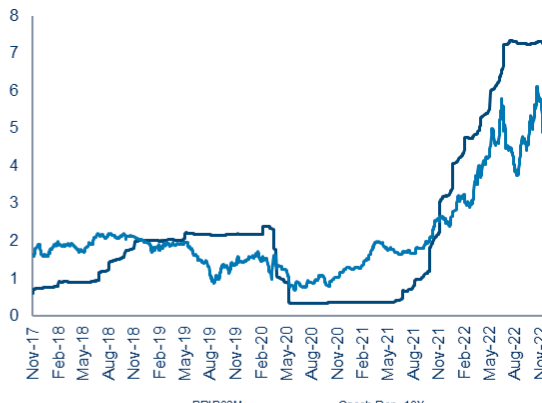
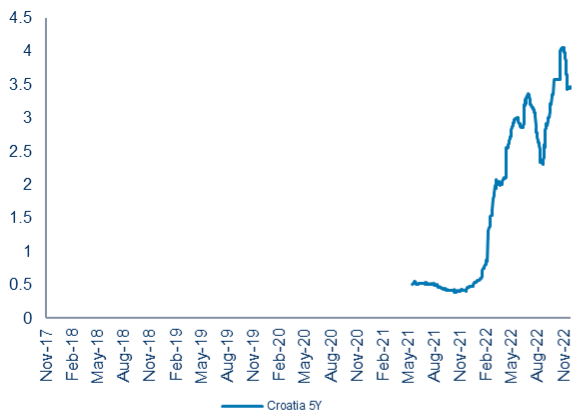
Unemployment (%)

| | 2021 | 2022e | 2023f | 2024f |
|-----------------|------|-------|-------|-------|
| Croatia | 7.6 | 6.5 | 6.2 | 5.8 |
| Czechia | 2.9 | 2.4 | 3.3 | 3.5 |
| 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 | 9.4 | 9.2 | 8.8 |
| Slovakia | 6.8 | 6.3 | 6.5 | 6.5 |
| Slovenia | 4.8 | 4.3 | 4.1 | 4.0 |
| CEE8 avg | 5.4 | 4.8 | 5.2 | 5.1 |

Budget Balance (%GDP)

| | 2021 | 2022e | 2023f | 2024f |
|-----------------|------|-------|-------|-------|
| Croatia | -2.6 | -1.8 | -2.5 | -2.2 |
| Czechia | -5.9 | -4.5 | -3.7 | -2.6 |
| 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 | -6.1 | -4.0 | -5.5 | -4.0 |
| Slovenia | -5.2 | -4.0 | -5.0 | -3.0 |
| CEE8 avg | -4.4 | -4.8 | -4.3 | -3.1 |

Appendix



Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Market Insights
28 November 2022

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