

CEE Market Insights

Busy week ahead of the region

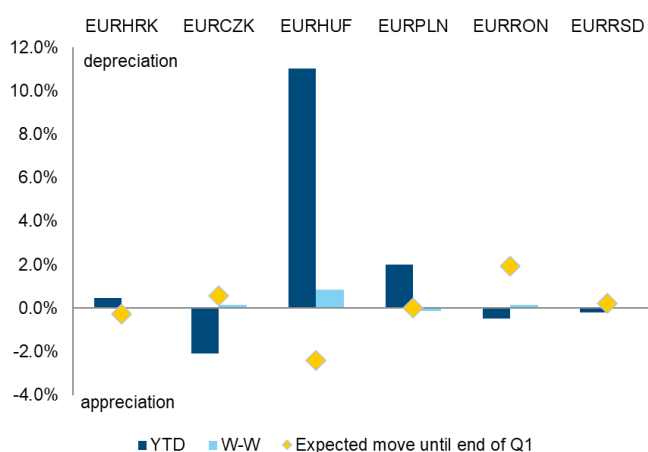
This week in CEE

It is going to be a busy week ahead for the region, as many economic releases are scheduled. Slovakia and Romania will get to see the 3Q22 GDP structure, the last two countries in the region to do so. The Polish and Serbian central banks will hold their rate setting meetings. We still expect the Serbian central bank to tighten monetary conditions further and increase the key interest rate to 5%, while the Polish central bank should keep the policy rate unchanged. Retail sales growth in October will be published in Hungary, Romania and Slovakia. In Hungary and Slovakia, we expect to see a contraction of retail trade, reflecting the gradual slowdown of consumption. On the other hand, Romania should maintain a rather solid pace of retail sales growth, given the economic downturn. Industrial production is expected to decline in Hungary and Slovakia, amid weakening demand. Finally, Hungary will publish the November inflation rate, which is likely to rise further toward 22%, while in Croatia and Serbia, the PPI Index will be released.

Monday	Tuesday	Wednesday	Thursday	Friday
RO: Unemployment	RO: Retail	RO: GDP structure	HU: CPI	SK: Industry, Trade
CZ: Wages	SK: GDP structure	PL: Central bank	RS: Central bank	HR: Trade
HU SK: Retail		CZ HU: Industry		
SI: Trade		HR RS: PPI		
HU: Bills	HU: Bills		RO: Bills, 2034 Bonds	
RO: 2025 2036 Bonds	RS: 2028 Bonds			

FX market

FX market developments

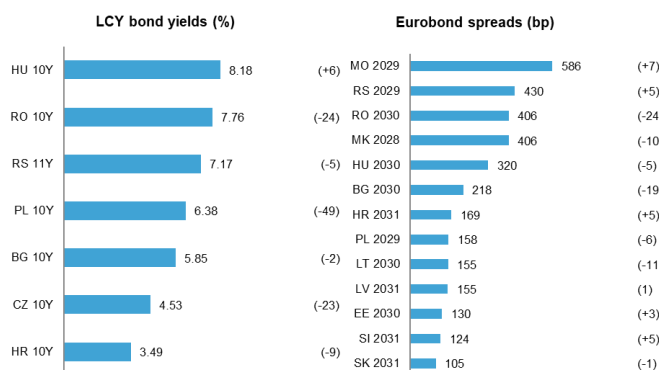


Source: Bloomberg, Erste Group Research

The Hungarian forint swung back and forth throughout the week. The EURHUF opened at 409 and moved down to 406 by Wednesday, then bounced up toward 412 on Thursday, ending the week close to 409. The expected recommendation of the European Commission to accept the Recovery Plan with conditionality, but to proceed with freezing part of the Cohesion funds, could add to the weakness of the Hungarian forint at the end of the week. The National Bank of Hungary held the competitive phase of the 2-month variable-rate deposit tender. The weighted average spread of the accepted bids was 4.95 percent above the reference base rate, resulting in an initial average interest rate of 17.95 percent. The maturity date is January 26, 2023, suggesting that the market

believes that the official policy rate and effective rate (one-day deposit rate) will remain unchanged (5pp) until January. The Polish zloty was relatively stable throughout the week, amid the MPC members' comments that the current level of interest rates is optimal.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Long-term yields keep declining across the CEE countries, except for Hungary. As the EU funds are to be withheld for the time being, Hungary will need to go to the market to finance its borrowing needs. Other markets will follow the development on the core markets in response, above all, to the publication of data in the US. The PCE Deflator for October arrived below market expectations, while ISM Manufacturing surprised to the downside. Polish 10Y yields dropped almost 60bp week-to-date and they are slightly above 6%. The Slovak long end of the curve moved down by 30bp, putting 10Y yields below 3%, while Slovenian and Romanian yields dropped roughly 20bp. This week, Hungary is going to sell bills. Romania will be active on the bond market, selling 3Y, 12Y and 14Y bonds, while Serbia will hold an auction to sell 6Y bonds.

In case you missed

CEE Outlook: [Is CEE heading into stagflation scenario?](#)

CZ: [GDP hurt](#) by weak consumer spending.

HU: [Details of 3Q22 GDP](#) did not bring much news. [European Commission to block](#) some Cohesion funds.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
05. Dec	08:00	RO	Unemployment Rate	Oct			5.2%	
	09:00	CZ	Wages (y/y)	3Q		-10.5%	-9.8%	Real wages are affected by very high inflation.
	09:00	HU	Retail Sales (y/y)	Oct		-2.6%	3.0%	Consumption is gradually slowing down, and as a result of the unsupportive base effect, the yearly index might have slipped into the negative territory.
	09:00	SK	Retail Sales (y/y)	Oct		-4.0%	-4.9%	Payments of our clients indicate weakening activity in retail.
	10:30	SI	Trade Balance	Oct			0.26	
06. Dec	08:00	RO	Retail Sales (y/y)	Oct		4.5%	3.2%	Stronger business activity (sales) development over the past 3 months reported by managers.
	09:00	SK	GDP (y/y)	3Q F		1.2%	1.2%	Flash GDP to be confirmed. Investment activity is expected to be the main driver (low base, EU funds).
07. Dec		PL	Central Bank Rate	Dec 7	6.75%		6.8%	
	08:00	RO	GDP (q/q)	3Q P		1.3%	1.3%	
	08:00	RO	GDP (y/y)	3Q P		4.0%	4.0%	
	09:00	CZ	Industrial Production (y/y)	Oct			8.3%	
	09:00	CZ	Trade Balance	Oct		-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.
	09:00	HU	Industrial Production (y/y)	Oct		10.4%	11.6%	A small monthly decline in the production might have taken place, however the still low base figure from last year implies a high yearly index in industry. Car manufacturing and manufacture of electronic products were the main drivers.
	11:00	HR	PPI (y/y)	Nov			17.9%	
	12:00	RS	PPI (y/y)	Nov			14.9%	
08. Dec	09:00	HU	CPI (y/y)	Nov	22.3%	22.0%	21.1%	The expected further acceleration of the headline rate is primarily attributable to continued increase in food prices.
	09:00	HU	CPI (m/m)	Nov			2.0%	
	09:00	HU	Trade Balance	Oct P			-745	
	12:00	RS	Central Bank Rate	Dec 8		5%	4.50%	We expect another 50bps hike
09. Dec	9:00	SK	Industrial Production (y/y)	Oct		-4.0%	-1.7%	Industrial performance affected by persisting problems in supply-chain, energy prices and demand weakening.
	9:00	SK	Trade Balance	Oct		-350.00	-9.30	Negative trade balance caused mainly by commodity prices.
	11:00	HR	Trade Balance	Sep			-14966.00	

Source: Erste Group Research

Analyst:

Katarzyna Rzentarzewska
+43 5 0100 17356
katarzyna.rzentarzewska@erstegroup.com

Juraj Kotian
+43 (0)5 0100 17357
juraj.kotian@erstegroup.com

Note: Past performance is not necessarily indicative of future results

Forecasts

Government bond yields

	current	2023Q1	2023Q2	2023Q3	2023Q4
Croatia 10Y	3.4	3.6	3.4	3.3	3.3
spread (bps)	157	124	117	117	134
Czechia 10Y	4.5	5.3	5.2	4.8	4.5
spread (bps)	268	297	294	270	254
Hungary 10Y	8.2	8.7	8.1	7.2	7.0
spread (bps)	633	634	584	509	500
Poland 10Y	6.4	6.7	6.4	6.2	6.0
spread (bps)	453	434	417	407	404
Romania 10Y	7.8	8.3	8.0	7.8	7.5
spread (bps)	591	589	577	562	554
Slovakia 10Y	3.0	3.5	3.8	4.1	4.3
spread (bps)	114	114	157	197	234
Slovenia 10Y	2.99	3.20	3.00	3.00	2.90
spread (bps)	114	84	77	87	94
Serbia 5Y	6.6	6.9	6.6	6.5	6.2
spread (bps)	472	454	437	437	424
DE10Y*	1.85	2.36	2.23	2.13	1.96

* Spreads based on Bloomberg consensus forecast

FX

	current	2023Q1	2023Q2	2023Q3	2023Q4
EURHRK	7.57	7.53	7.53	7.53	7.53
EURCZK	24.37	24.50	24.39	24.31	24.25
EURHUF	409.24	400.00	390.00	390.00	390.00
EURPLN	4.67	4.68	4.66	4.65	4.65
EURRON	4.93	5.02	5.05	5.07	5.10
EURRSD	117.65	117.55	117.50	117.50	117.60
EURUSD	1.06	1.05	1.08	1.08	1.08

3M Money Market Rate

	current	2023Q1	2023Q2	2023Q3	2023Q4
Czechia	7.26	7.26	7.07	6.04	5.27
Hungary	15.46	14.50	11.20	9.70	8.95
Poland	7.24	7.50	7.25	7.15	7.15
Romania	7.78	8.04	7.54	7.04	6.79
Serbia	4.40	5.33	5.33	5.33	5.33
Eurozone	1.98	2.22	2.23	2.26	2.29

Key Interest Rate

	current	2023Q1	2023Q2	2023Q3	2023Q4
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	7.00	7.00	7.00	6.00	5.25
Hungary	13.00	13.00	11.00	9.50	9.00
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	5.50	5.50	5.50	5.50
Eurozone	2.00	2.75	2.75	2.75	2.75

Real GDP growth (%)

	2021	2022e	2023f	2024f
Croatia	13.1	6.0	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	2.7
Romania	5.1	4.7	2.1	4.2
Serbia	7.5	2.3	1.6	3.8
Slovakia	3.0	1.5	1.5	2.5
Slovenia	8.2	5.4	0.9	2.2
CEE8 avg	6.1	4.6	0.7	3.2

Average inflation (%)

	2021	2022e	2023f	2024f
Croatia	2.6	10.6	6.7	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	11.8	9.5	4.3
Slovakia	3.2	12.7	13.5	7.0
Slovenia	1.9	8.8	6.1	3.0
CEE8 avg	4.5	14.0	11.6	4.0

Unemployment (%)

	2021	2022e	2023f	2024f
Croatia	7.6	6.5	6.3	5.9
Czechia	2.9	2.4	3.3	3.5
Hungary	4.1	3.7	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	4.9	5.2	5.1

Public debt (% of GDP)

	2021	2022e	2023f	2024f
Croatia	78.4	69.6	67.2	65.9
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	55.7	54.3	52.9
Slovakia	62.2	60.1	59.3	58.2
Slovenia	74.4	69.5	69.3	67.4
CEE8 avg	55.8	54.1	53.4	52.4

C/A (%GDP)

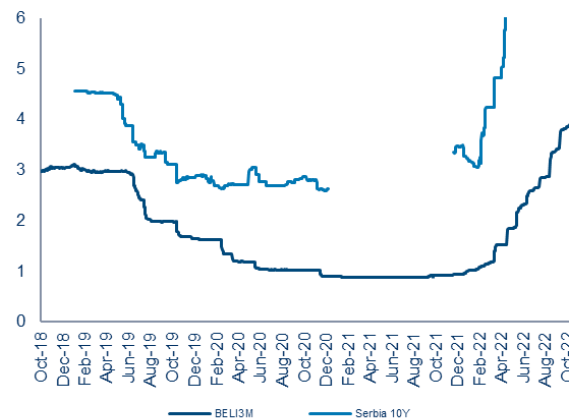
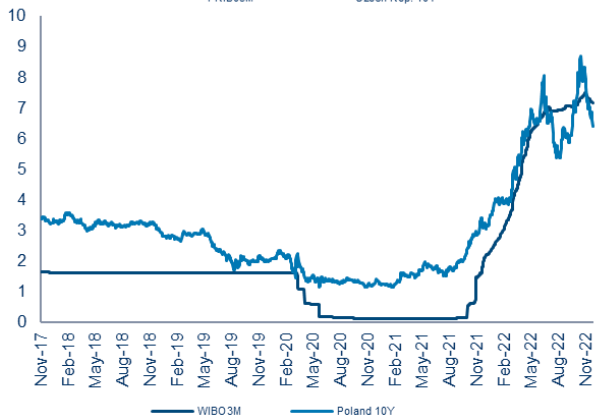
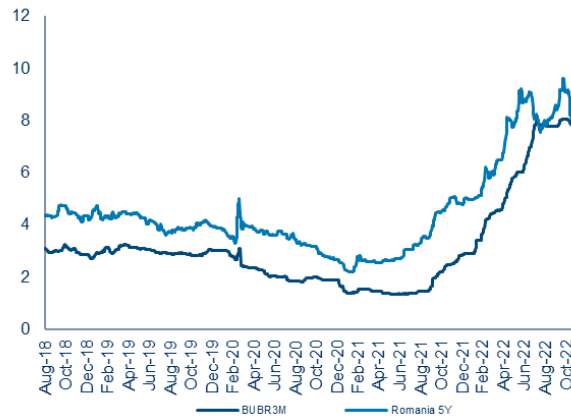
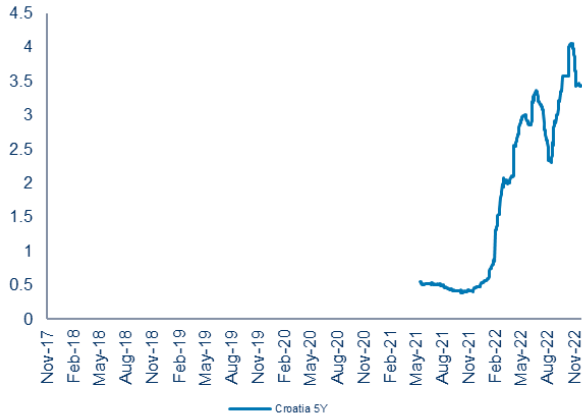
	2021	2022e	2023f	2024f
Croatia	3.1	0.1	-0.5	-1.4
Czechia	-0.8	-3.5	-0.5	0.9
Hungary	-4.2	-8.1	-5.6	-4.6
Poland	-0.6	-1.3	-0.3	0.2
Romania	-7.0	-9.1	-7.2	-6.9
Serbia	-4.5	-7.6	-8.7	-7.3
Slovakia	-1.9	-3.9	-4.5	-2.5
Slovenia	3.8	-0.3	-0.4	0.2
CEE8 avg	-2.0	-3.9	-2.6	-1.8

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	-4.3	-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	-3.2	-2.5
Slovakia	-6.1	-4.0	-5.5	-4.0
Slovenia	-5.2	-3.8	-5.1	-2.9
CEE8 avg	-4.4	-4.7	-4.3	-3.2

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

Group Research

Head of Group Research
Friedrich Mostböck, CEFA®, CESGA® +43 (0)5 0100 11902

CEE Macro/Fixed Income Research
Head: Juraj Kotian (Macro/FI) +43 (0)5 0100 17357
Katarzyna Rzentarzewska (Fixed income) +43 (0)5 0100 17356

Croatia/Serbia
Alen Kovac (Head) +385 72 37 1383
Mate Jelić +385 72 37 1443
Ivana Rogic +385 72 37 2419

Czech Republic
David Navratil (Head) +420 956 765 439
Jiri Polansky +420 956 765 192
Michal Skorepa +420 956 765 172

Hungary
Orsolya Nyeste +361 268 4428
János Nagy +361 272 5115

Romania
Ciprian Dascalu (Head) +40 3735 10108
Eugen Sinca +40 3735 10435
Dorina Ilasco +40 3735 10436
Vlad Nicolae Ionita +40 7867 15618

Slovakia
Maria Valachyova (Head) +421 2 4862 4185
Matej Hornak +421 902 213 591

Major Markets & Credit Research
Head: Gudrun Egger, CEFA® +43 (0)5 0100 11909
Ralf Burchert, CEFA® (Sub-Sovereigns & Agencies) +43 (0)5 0100 16314
Hans Engel (Global Equities) +43 (0)5 0100 19835
Margarita Grushanina (Austria, Quant Analyst) +43 (0)5 0100 11957
Peter Kaufmann, CFA® (Corporate Bonds) +43 (0)5 0100 11183
Heiko Langer (Financials & Covered Bonds) +43 (0)5 0100 85509
Stephan Lingnau (Global Equities) +43 (0)5 0100 16574
Carmen Riefler-Kowarsch (Financials & Covered Bonds) +43 (0)5 0100 19632
Rainer Singer (Euro, US) +43 (0)5 0100 17331
Bernadett Povaszai-Römhild, CEFA®, CESGA® (Corporate Bonds) +43 (0)5 0100 17203
Elena Statelov, CIIA® (Corporate Bonds) +43 (0)5 0100 19641
Gerald Walek, CFA® (Euro, CHF) +43 (0)5 0100 16360

CEE Equity Research
Head: Henning Eckkuhen +43 (0)5 0100 19634
Daniel Lion, CIIA® (Technology, Ind. Goods&Services) +43 (0)5 0100 17420
Michael Marschallinger, CFA® +43 (0)5 0100 17906
Nora Nagy (Telecom) +43 (0)5 0100 17416
Christoph Schultes, MBA, CIIA® (Real Estate) +43 (0)5 0100 11523
Thomas Unger, CFA® (Banks, Insurance) +43 (0)5 0100 17344
Vladimira Urbankova, MBA (Pharma) +43 (0)5 0100 17343
Martina Valenta, MBA +43 (0)5 0100 11913

Croatia/Serbia
Mladen Dodig (Head) +381 11 22 09178
Boris Pevalek, CFA® +385 99 237 2201
Marko Plastic +385 99 237 5191
Matej Pretkovic +385 99 237 7519
Iva Tomic +385 99 237 1662
Davor Spoljar, CFA® +385 72 37 2825

Czech Republic
Petr Bartek (Head) +420 956 765 227
Jan Safranek +420 956 765 218

Hungary
József Miró (Head) +361 235 5131
András Nagy +361 235 5132
Tamás Pleiser, CFA® +361 235 5135

Poland
Cezary Bernatek (Head) +48 22 257 5751
Piotr Bogusz +48 22 257 5755
Łukasz Jańczak +48 22 257 5754
Krzysztof Kawa +48 22 257 5752
Jakub Szkopek +48 22 257 5753

Romania
Caius Rapanu +40 3735 10441

Group Markets

Head of Group Markets
Oswald Huber +43 (0)5 0100 84901

Group Markets Retail and Agency Business
Head: Christian Reiss +43 (0)5 0100 84012

Markets Retail Sales AT
Head: Markus Kaller +43 (0)5 0100 84239

Group Markets Execution
Head: Kurt Gerhold +43 (0)5 0100 84232

Retail & Sparkassen Sales
Head: Uwe Kolar +43 (0)5 0100 83214

Corporate Treasury Product Distribution AT
Head: Christian Skopek +43 (0)5 0100 84146

Fixed Income Institutional Sales

Group Securities Markets
Head: Thomas Einramhof +43 (0)50100 84432

Institutional Distribution Core
Head: Jürgen Niemeier +49 (0)30 8105800 5503

Institutional Distribution DACH+
Head: Marc Frieberthshäuser +49 (0)711 810400 5540
Bernd Bollhof +49 (0)30 8105800 5525
Andreas Goll +49 (0)711 810400 5561
Mathias Gindele +49 (0)711 810400 5562
Ulrich Inhofner +43 (0)5 0100 85544
Sven Kienzle +49 (0)711 810400 5541
Rene Kiasen +49 (0)30 8105800 5521
Christopher Lampe-Traupe +49 (0)30 8105800 5523
Karin Rattay +43 (0)5 0100 84118
Michael Schmotz +43 (0)5 0100 85542
Klaus Vosseler +49 (0)711 810400 5560

Slovakia
Šarlota Šipulová +421 2 4862 5619
Monika Směliková +421 2 4862 5629

Institutional Distribution CEE & Insti AM CZ
Head: Antun Burić +385 (0)7237 2439
Jaromir Malak +43 (0)5 0100 84254

Czech Republic
Head: Ondřej Čech +420 2 2499 5577
Milan Bartoš +420 2 2499 5562
Jan Porvich +420 2 2499 5566

Institutional Asset Management Czech Republic
Head: Petr Holeček +420 956 765 453
Petra Maděrová +420 956 765 178
Martin Peřina +420 956 765 106
David Petráček +420 956 765 809
Blanka Weinerová +420 956 765 317
Petr Valenta +420 956 765 140

Croatia
Head: Antun Burić +385 (0)7237 2439
Zvonimir Tukač +385 (0)7237 1787
Natalija Zujic +385 (0)7237 1638

Hungary
Head: Peter Csizmadia +36 1 237 8211
Gábor Bálint +36 1 237 8205
Ádám Szónyi +36 1 237 8213

Romania and Bulgaria
Head: Octavian Florin Munteanu +40 746128914

Group Institutional Equity Sales
Head: Brigitte Zeitberger-Schmid +43 (0)50100 83123
Werner Fürst +43 (0)50100 83121
Josef Kerekes +43 (0)50100 83125
Viktoria Kubalcova +43 (0)5 0100 83124
Thomas Schneidhofer +43 (0)5 0100 83120
Oliver Schuster +43 (0)5 0100 83119

Czech Republic
Head: Michal Řizek +420 224 995 537
Jiří Fereš +420 224 995 554
Martin Havlan +420 224 995 551
Pavel Krabička +420 224 995 411

Poland
Head: Jacek Jakub Langer +48 22 257 5711
Tomasz Galanciak +48 22 257 5715
Wojciech Wysocki +48 22 257 5714
Przemyslaw Nowosad +48 22 257 5712
Grzegorz Stepien +48 22 257 5713

Croatia
Matija Tkalicanac +385 72 37 21 14

Hungary
Nandori Levente +36 1 23 55 141
Krisztian Kandik +36 1 23 55 162
Balasz Zankay +36 1 23 55 156

Romania
Liviu Avram +40 3735 16569

Group Fixed Income Securities Markets
Head: Goran Hobljaj +43 (0)50100 84403

FISM Flow
Head: Aleksandar Doric +43 (0)5 0100 87487
Margit Hraschek +43 (0)5 0100 84117
Christian Kienesberger +43 (0)5 0100 84323
Ciprian Mitu +43 (0)5 0100 85612
Bernd Thaler +43 (0)5 0100 84119
Zsuzsanna Toth +36-1-237 8209

Poland:
Pawel Kielek +48 22 538 6223
Michal Jarmakowicz +43 50100 85611

Group Fixed Income Securities Trading
Head: Goran Hobljaj +43 (0)50100 84403

Group Equity Trading & Structuring
Head: Ronald Nemeč +43 (0)50100 83011

Business Support
Bettina Mahoric +43 (0)50100 86441

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Group Research

1100 Vienna, Austria, Am Belvedere 1

Head Office: Wien

Commercial Register No: FN 33209m

Commercial Court of Vienna

Erste Group Homepage: www.erstegroup.com