

CEE Market Insights

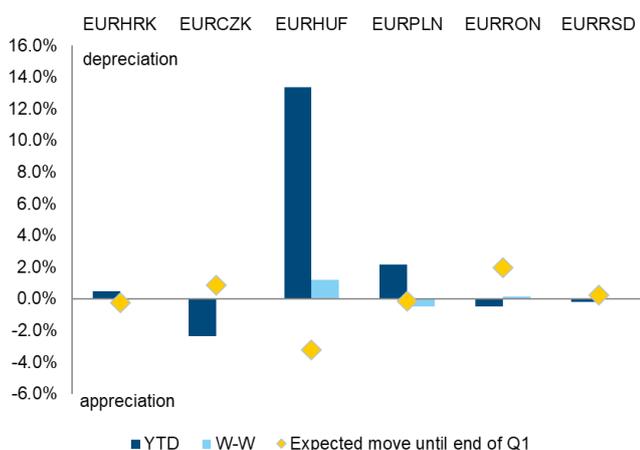
Inflation in focus.

This week in CEE

Throughout the week, we will continue to see November's inflation numbers across the region. Hungary and Poland already published the footprints, with Hungarian inflation rising to 22.5% y/y in November, while according to the flash estimate in Poland, inflation eased marginally to 17.4% y/y. In Czechia inflation bounced backed to 16.2%, while in Serbia, we expect the inflation rate to remain close to October's number of around 15% y/y. In Czechia, the decline in the annual rate of inflation is driven by government support for households and firms in the form of a cap on electricity and gas prices. In Slovakia and Romania, we expect November's headline inflation to increase further. In Croatia, on the other hand, marginal easing below the 13% seen in October is broadly expected. Otherwise, there are few economic releases scheduled apart from inflation. In Romania, trade data as well as industrial output growth for October will be published, while wage growth is due in Romania and Slovakia.

Monday	Tuesday	Wednesday	Thursday	Friday
CZ RS: CPI	RO: CPI	SK: CPI	PL: CPI	HR: CPI
RO: Trade	SK RO: Wages	RO: Industry, Current Account		CZ: PPI
HU: 2027 Bonds	HU: Bills	CZ: Bonds	RO: 2028 2032 Bonds	
RO: 2024 2028 Bonds				

FX market



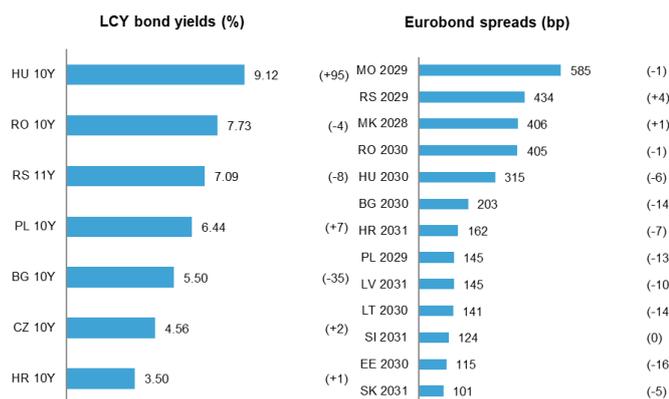
Source: Bloomberg, Erste Group Research

FX market developments

Throughout the week, the Czech koruna and Romanian leu strengthened marginally vs. the euro, while the Polish zloty and Hungarian forint depreciated. While in Poland the weakening of the currency was rather small, the EURHUF moved toward 415. First, inflation surprised to the upside in November and further increases are expected as the government decided to lift the price cap on gasoline on December 6. This may influence market expectations for monetary policy to remain tight for longer. Further, the (loss of) access to EU funds remains an open question. The Polish central bank kept the policy rate unchanged at 6.75% and despite Governor Glapinski's reassurance that this is not the end of the hiking cycle, we do not expect the interest rate to increase any further, as the economy has been slowing. However, monetary easing in 2023 seems unlikely, in our

view. The Serbian central bank, on the other hand, continued with monetary tightening and delivered a 50bp hike. We expect the policy rate to increase further to 5.5% throughout the first quarter of 2023 with the central bank scaling back the pace of tightening to 25bp hikes.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

The situation on CEE bond markets was rather calm last week, with the exception of Hungary, where the whole yield curve moved up about 60-90bp w/w. The main trigger was unsustainable price caps on fuels, which have been proven to be a policy mistake, leading to the strengthening of domestic demand price pressure and prolonging the period of high inflation. Indeed, the inflation number for November, which landed at 22.5% (and it will go further up after the scrapping of price caps), just demonstrated that inflation is more deeply rooted in Hungary and the country will need more time to rein it in. While Poland's government is still negotiating the conditions with the EC under which it would get access to their RRF funds, Polish state-owned BGK borrowed USD 4bn via an international syndicate to finance arms purchases. This week, Romania should reopen ROMGBs 2024, 2028 and 2032, Czechia should place bonds, and Hungary should sell HGBs 2027 along with T-bills.

In case you missed

CZ: [Industrial production](#) decreased significantly due to one-off factors.

HU: November [inflation](#) surprised to upside arriving at 22.5% y/y in November.

HU: [Retail remained](#) in positive territory in October, while [industry](#) surprised to downside.

RS: [Key rate](#) at 5%.

RO: [Economy shrugged off global headwinds so far](#). Weaker retail sales outlook as inflation bites.

SK: Positive surprise from foreign demand in [3Q22 GDP structure](#).

SK: [Retail sales](#) components affected by base effect.

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
12. Dec	8:00	RO	Trade Balance	Oct			-3035.70	
	9:00	CZ	CPI (y/y)	Nov		15.6%	15.10%	Between October and December, inflation is affected by the Savings Tarriff. Without this factor, it would be close to 19%.
	09:00	CZ	CPI (m/m)	Nov		1%	-1.40%	Food and energy prices stem behind a further increase in the price level.
	12:00	RS	CPI (y/y)	Nov		15.0%	15.0%	November is expected to show roughly a 1pp m/m increase in prices, thus leaving the y/y headline rate around last month's print
	12:00	RS	CPI (m/m)	Nov			1.9%	
13. Dec	08:00	RO	CPI (y/y)	Nov		16.5%	15.3%	Annual inflation should accelerate due to statistical base effect. Underlying inflationary pressures remain strong with core inflation forecasted to inch up to 13.5% in November from 12.9% in October.
	08:00	RO	CPI (m/m)	Nov		1.0%	1.3%	
	08:00	RO	Wages (y/y)	Oct			13.82%	
	09:00	SK	Wages (y/y)	Oct			-4.30%	
14. Dec		RO	Current Account Balance (monthly)	Oct			-20181	
	08:00	RO	Industrial Production (y/y)	Oct		1.70%	1.60%	Stronger production trend observed in recent months reported by managers in manufacturing.
	09:00	SK	CPI (y/y)	Nov		15.50%	14.90%	Acceleration of the price growth is expected, as a flash estimate from Eurostat suggested.
	09:00	SK	CPI (m/m)	Nov		1.10%	1.20%	On a monthly basis, inflation should be fueled by food prices and services.
	14:00	PL	Trade Balance	Oct			-2054	
15. Dec	10:00	PL	CPI (y/y)	Nov F			17.40%	
	10:00	PL	CPI (m/m)	Nov F			0.70%	
16. Dec	09:00	CZ	PPI (y/y)	Nov		23%	24.10%	PPI inflation has been slowing down, mainly due to the base effect. Lower oil prices will affect it in December.
	11:00	HR	CPI (y/y)	Nov		12.80%	13.20%	
	11:00	HR	CPI (m/m)	Nov			1.30%	

Source: Erste Group Resarch

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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)	148	124	117	117	134
Czechia 10Y	4.6	5.3	5.2	4.8	4.5
spread (bps)	264	297	294	270	254
Hungary 10Y	9.1	8.7	8.1	7.2	7.0
spread (bps)	720	634	584	509	500
Poland 10Y	6.4	6.7	6.4	6.2	6.0
spread (bps)	452	434	417	407	404
Romania10Y	7.7	8.3	8.0	7.8	7.5
spread (bps)	581	589	577	562	554
Slovakia 10Y	3.0	3.5	3.8	4.1	4.3
spread (bps)	107	114	157	197	234
Slovenia 10Y	3.06	3.20	3.00	3.00	2.90
spread (bps)	114	84	77	87	94
Serbia 5Y	6.3	6.9	6.6	6.5	6.2
spread (bps)	441	454	437	437	424
DE10Y*	1.92	2.36	2.23	2.13	1.96

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2023Q1	2023Q2	2023Q3	2023Q4
Czechia	7.26	7.26	7.07	6.04	5.27
Hungary	16.20	14.50	11.20	9.70	8.95
Poland	7.16	7.50	7.25	7.15	7.15
Romania	7.70	8.04	7.54	7.04	6.79
Serbia	4.81	5.33	5.33	5.33	5.33
Eurozone	2.01	2.22	2.23	2.26	2.29

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

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

Source: Bloomberg, Erste Group Research

FX

	current	2023Q1	2023Q2	2023Q3	2023Q4
EURHRK	7.55	7.53	7.53	7.53	7.53
EURCZK	24.29	24.50	24.39	24.31	24.25
EURHUF	420.07	405.00	400.00	390.00	390.00
EURPLN	4.69	4.68	4.66	4.65	4.65
EURRON	4.92	5.02	5.05	5.07	5.10
EURRSD	117.29	117.55	117.50	117.50	117.60
EURUSD	1.05	1.05	1.08	1.08	1.08

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	5.00	5.50	5.50	5.50	5.50
Eurozone	2.00	2.75	2.75	2.75	2.75

Average inflation (%)

	2021	2022e	2023f	2024f
Croatia	2.6	10.6	6.7	3.0
Czechia	3.8	15.0	7.9	2.1
Hungary	5.1	14.6	18.5	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	13.9	11.9	4.0

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	-5.7	-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

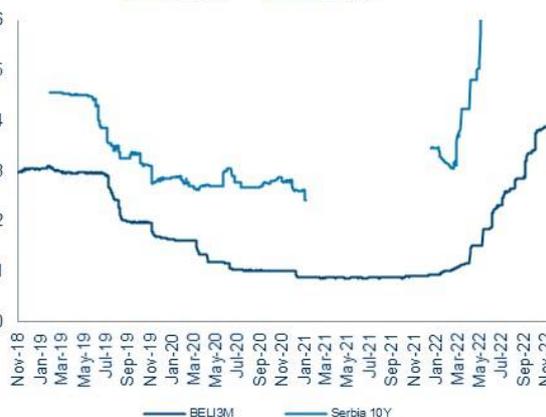
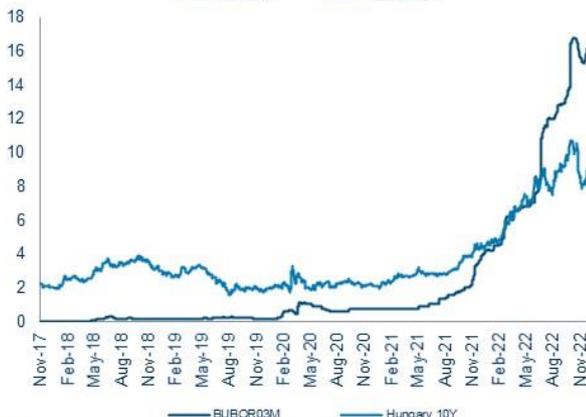
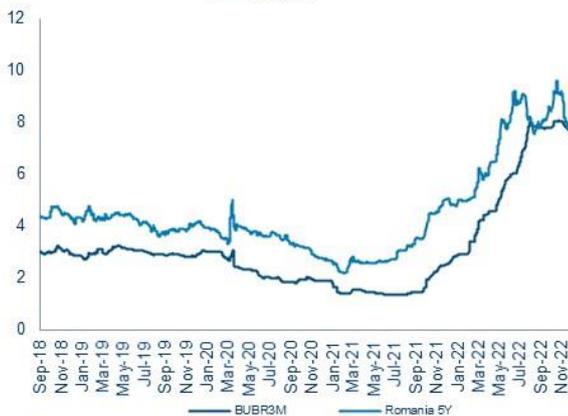
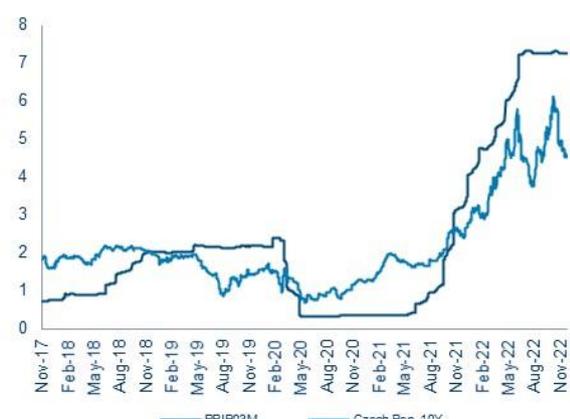
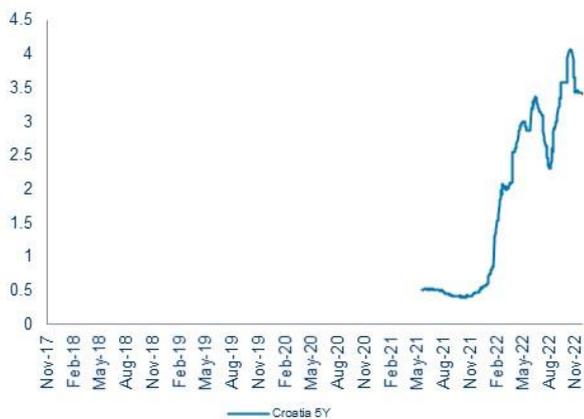
Unemployment (%)

	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

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

Appendix



Source: Bloomberg, Erste Group Research

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