

CEE Market Insights

Last central banks' meetings in Hungary and Czechia

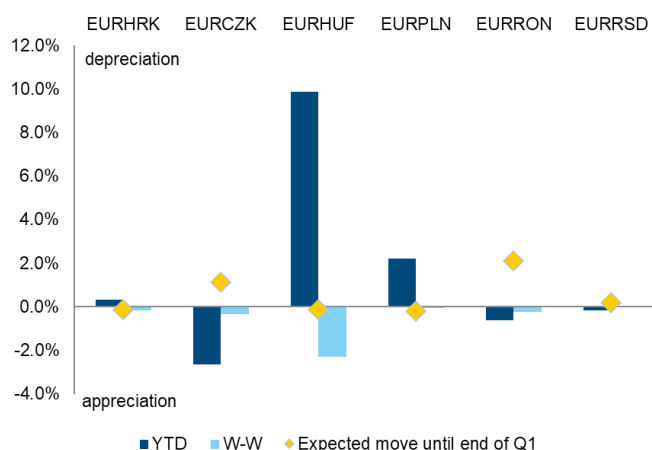
This week in CEE

This is the last edition of CEE Market Insights in 2022. We will return to you on January 9, 2023. We wish you happy holidays.

Hungary and Czechia will hold the last rate setting meetings this year. In Hungary, we do not expect any changes in interest rates or the central bank's communique. The new inflation and growth forecast will be published. In Czechia, stability of rates is the most likely scenario as well, as suggested by several board members in recent comments. In Poland, industrial output and retail sales growth for November will be published, which should enable us to assess the extent of the slowdown at the end of the year. Apart from that, labor market data will be released throughout the week, as the unemployment rates for November are due in Slovakia, Croatia and Poland, while wage growth will be published in Croatia and Poland.

Monday	Tuesday	Wednesday	Thursday	Friday
SK: Unemployment	HU: Central bank	CZ: Central bank	HU: Trade	PL: Unemployment
	PL: Industry, Wages, PPI	PL: Retail		
	SK RS: Current Account			
	HR: Unemployment, Wages			
HU: 2027 Bonds	HU: Bills		RO: 2027 2029 Bonds	
RO: 2026 2032 Bonds				

FX market



Source: Bloomberg, Erste Group Research

FX market developments

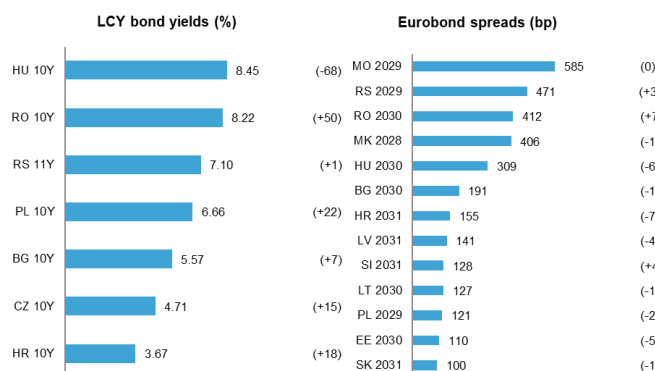
This week, two major central banks, the FOMC and ECB, continued their fight against high inflation by increasing the key interest rate by 50bp. In the case of the Fed decision, we have seen local currencies strengthening and yields moving down in response to the lower pace of tightening. The lower-than-expected inflation footprint in November in the US also contributed to this development. The ECB decision did not bring any major reaction to the local FX market but did push yields up.

It seems that, throughout the week, local news was of greater importance, especially for Hungary, which had its recovery plan accepted, keeping the path open to EUR 5.8bn in RRF funds. After the announcement, the

Hungarian forint strengthened against the euro more visibly, resulting in the week-to-date 3% appreciation.

This week, the Czech and Hungarian central banks will hold their rate setting meetings for the last time this year. In both countries, we expect the main interest rates to remain unchanged. In Czechia, several board members (Dedek, Kubelkova), including the governor, have confirmed that they see the current level of rates as high enough to curb inflation. In Hungary, the one-day deposit rate remains the effective interest rate. Although the dispute over the rule of law and access to EU funds by Hungary seems to be moving in the right direction (judging by the strengthening of the Hungarian forint), the FX market still needs to prove its resilience before the one-day deposit rate and key policy rate can be merged.

LCY yields, Eurobonds



Source: Bloomberg, Erste Group Research

Bond market developments

CEE bond yields moved up last week in reaction to the less pessimistic development of sentiment indicators for Germany as well as more hawkish comments from the ECB, which hinted at the continuation of rate hikes at a steady pace. Furthermore, it was emphasized that interest rates would remain in the restrictive range for longer. Hungarian bonds were outliers in the region, as their 10Y yields collapsed -60bp w/w, boosted by positive news on the acceptance of Hungary's Recovery Plan by the EU, which now just needs to be formally approved. This week, the auction calendar will be rather empty, as only Hungary and Romania announced their borrowing plans. Romania is going to reopen ROMGBs 2026, 2027, 2029 and 2032, while Hungary is going to issue T-bills and reopen HGBs 2027.

In case you missed

[Bosnia and Herzegovina Outlook](#): Growth set to slow in 2023

CZ: Two new members of [CNB Bank Board](#) were appointed.

CZ: [Inflation](#) could start weakening from February.

PL: [New Macro Outlook](#) - growth losing steam

RO: Confidence indicators point to [weaker industry outlook](#).

RO: [November inflation](#) exceeds expectations.

RS: [Inflation at its peak?](#)

SK: [Highest inflation](#) since the beginning of this millennium

SK: Fall of [Slovak government](#).

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
19. Dec		SK	Unemployment Rate	Nov		5.90%	5.90%	The pace of deceleration of the unemployment rate has been slowing down. Taking into account the worsening of the economic environment, we expect this trend to continue.
20. Dec		RS	Current Account Balance (monthly)	Oct			-50.80	
	09:00	SK	PPI (y/y)	Nov		57%	58.40%	The year-on-year growth is expected to decrease but caused by a hi
	10:00	PL	Industrial Production (y/y)	Nov			6.80%	
	10:00	PL	PPI (y/y)	Nov			22.90%	
	10:00	PL	Wages (y/y)	Nov			13.00%	
	10:30	SK	Current Account Balance (monthly)	Oct			-1024.00	
	11:00	HR	Unemployment Rate	Nov			6.50%	
	11:00	HR	Wages (y/y)	Oct			-4.20%	
	14:00	HU	Central Bank Rate	Dec 20		13%	13%	Neither the policy rate nor the monetary policy setup is to be changed. Approaching the 18% one-day depo rate to the 13% policy rate remains conditional on improvement in risk perception.
21. Dec	10:00	PL	Retail Sales (y/y)	Nov			18.30%	
	10:30	SI	PPI (y/y)	Nov			20.60%	
	14:30	CZ	Central Bank Rate	Dec 21		7%	7%	Stability of rates remains the most likely scenario, as demand-driven inflationary pressures have been weakening.
22. Dec	08:30	HU	Current Account Balance (quarterly)	3Q		-4500	-2629.9	Preliminary monthly statistics imply rising deficit on the C/A balance in 3Q22
	09:00	HU	Trade Balance	Oct F		0	-1009	
23. Dec	10:00	PL	Unemployment Rate	Nov			5.10%	

Source: Erste Group Research

Analyst:

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

Note: Past performance is not necessarily indicative of future results

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

Forecasts

Government bond yields

	current	2023Q1	2023Q2	2023Q3	2023Q4
Croatia 10Y	3.4	3.6	3.4	3.3	3.3
spread (bps)	125	130	121	123	140
Czechia 10Y	4.7	4.5	4.4	4.1	3.9
spread (bps)	255	222	217	206	199
Hungary 10Y	8.4	8.7	8.1	7.2	7.0
spread (bps)	629	640	588	515	506
Poland 10Y	6.7	6.8	6.5	6.3	6.0
spread (bps)	451	450	431	423	410
Romania10Y	8.2	8.3	8.0	7.8	7.5
spread (bps)	607	595	581	568	560
Slovakia 10Y	3.3	3.5	3.8	4.1	4.3
spread (bps)	115	120	161	203	240
Slovenia 10Y	3.36	3.20	3.00	3.00	2.90
spread (bps)	120	90	81	93	100
Serbia 5Y	6.5	6.9	6.6	6.5	6.2
spread (bps)	432	460	441	443	430
DE10Y*	2.15	2.30	2.19	2.07	1.90

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2023Q1	2023Q2	2023Q3	2023Q4
Czechia	7.25	7.23	7.04	6.02	5.25
Hungary	16.18	15.00	11.20	9.70	8.95
Poland	7.06	7.21	7.15	7.05	6.90
Romania	7.63	8.04	7.54	7.04	6.79
Serbia	4.94	5.33	5.33	5.33	5.33
Eurozone	2.05	2.88	2.97	3.01	3.04

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	5.7	0.4	2.9
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	4.5	0.7	3.3

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	51.5	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	53.7	53.4	52.4

Source: Bloomberg, Erste Group Research

FX

	current	2023Q1	2023Q2	2023Q3	2023Q4
EURHRK	7.54	7.53	7.53	7.53	7.53
EURCZK	24.22	24.50	24.39	24.31	24.25
EURHUF	405.69	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	117.33	117.55	117.50	117.50	117.60
EURUSD	1.06	1.05	1.08	1.09	1.10

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	2.50	3.25	3.50	3.50	3.50

Average inflation (%)

	2021	2022e	2023f	2024f
Croatia	2.6	10.6	6.7	3.0
Czechia	3.8	15.1	9.5	2.1
Hungary	5.1	14.6	18.5	4.3
Poland	5.1	14.4	12.6	3.7
Romania	5.1	13.8	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	-1.4	-2.9	-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	-2.3	-4.6	-2.6	-1.8

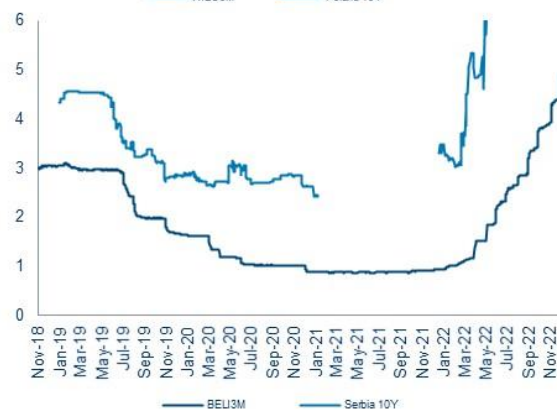
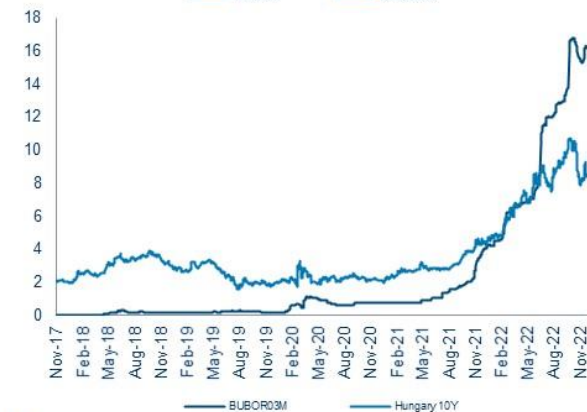
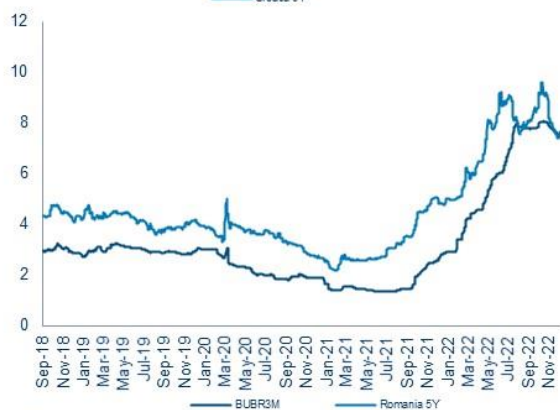
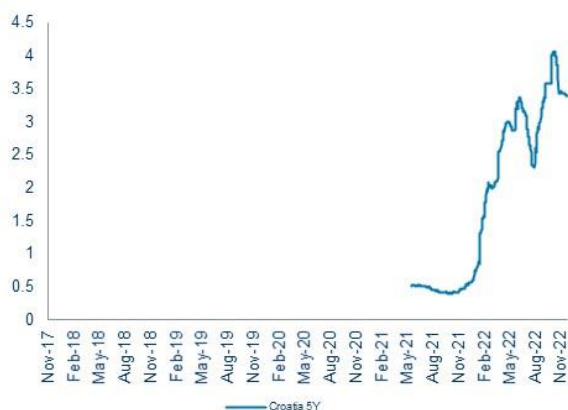
Unemployment (%)

	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	-1.8	-4.7	-4.9	-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	-4.8	-4.4	-3.2

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/Fl) Katarzyna Rzentarzewska (Fixed income)	+43 (0)5 0100 17357 +43 (0)5 0100 17356
Croatia/Serbia Alen Kovac (Head) Mate Jelić Ivana Rogic	+385 72 37 1383 +385 72 37 1443 +385 72 37 2419
Czech Republic David Navratil (Head) Jiri Polansky Michal Skorepa	+420 956 765 439 +420 956 765 192 +420 956 765 172
Hungary Orsolya Nyeste János Nagy	+361 268 4428 +361 272 5115
Romania Ciprian Dascalu (Head) Eugen Sinca Dorina Ilasco Vlad Nicolae Ionita	+40 3735 10108 +40 3735 10435 +40 3735 10436 +40 7867 15618
Slovakia Maria Valachyova (Head) Matej Hornak	+421 2 4862 4185 +421 902 213 591
Major Markets & Credit Research Head: Gudrun Egger, CEFA® Ralf Burchert, CEFA® (Sub-Sovereigns & Agencies) Hans Engel (Global Equities) Margarita Grushanina (Austria, Quant Analyst) Peter Kaufmann, CFA® (Corporate Bonds) Heiko Langer (Financials & Covered Bonds) Stephan Lingnau (Global Equities) Carmen Riefler-Kowarsch (Financials & Covered Bonds) Rainer Singer (Euro, US) Bernadett Povaszai-Römhild, CEFA®, CESGA® (Corporate Bonds) Elena Statelov, CIIA® (Corporate Bonds) Gerald Walek, CFA® (Euro, CHF)	+43 (0)5 0100 11909 +43 (0)5 0100 16314 +43 (0)5 0100 19835 +43 (0)5 0100 11957 +43 (0)5 0100 11183 +43 (0)5 0100 85509 +43 (0)5 0100 16574 +43 (0)5 0100 19632 +43 (0)5 0100 17331 +43 (0)5 0100 17203 +43 (0)5 0100 19641 +43 (0)5 0100 16360
CEE Equity Research Head: Henning Eckuchen Daniel Lion, CIIA® (Technology, Ind. Goods&Services) Michael Marschallinger, CFA® Nora Nagy (Telecom) Christoph Schultes, MBA, CIIA® (Real Estate) Thomas Unger, CFA® (Banks, Insurance) Vladimira Urbankova, MBA (Pharma) Martina Valenta, MBA	+43 (0)5 0100 19634 +43 (0)5 0100 17420 +43 (0)5 0100 17906 +43 (0)5 0100 17416 +43 (0)5 0100 11523 +43 (0)5 0100 17344 +43 (0)5 0100 17343 +43 (0)5 0100 11913
Croatia/Serbia Mladen Dodig (Head) Boris Pevalek, CFA® Marko Plastic Matej Pretkovic Iva Tomic Davor Spoljar, CFA®	+381 11 22 09178 +385 99 237 2201 +385 99 237 5191 +385 99 237 7519 +385 99 237 1662 +385 72 37 2825
Czech Republic Petr Bartek (Head) Jan Safranek	+420 956 765 227 +420 956 765 218
Hungary József Miró (Head) András Nagy Tamás Pletser, CFA®	+361 235 5131 +361 235 5132 +361 235 5135
Poland Cezary Bernatek (Head) Piotr Bogusz Łukasz Jańczak Krzysztof Kawa Jakub Skopek	+48 22 257 5751 +48 22 257 5755 +48 22 257 5754 +48 22 257 5752 +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 Friebertshäuser Bernd Bollhof Andreas Goll Mathias Gindele Ulrich Inhofner Sven Kienzle Rene Klasen Christopher Lampe-Traupe Karin Rattay Michael Schmotz Klaus Vosseler Slovakia Šarlota Šipulová Monika Směliková	+49 (0)711 810400 5540 +49 (0)30 8105800 5525 +49 (0)711 810400 5561 +49 (0)711 810400 5562 +43 (0)5 0100 85544 +49 (0)711 810400 5541 +49 (0)30 8105800 5521 +49 (0)30 8105800 5523 +43 (0)5 0100 84118 +43 (0)5 0100 85542 +49 (0)711 810400 5560 +421 2 4862 5619 +421 2 4862 5629
Institutional Distribution CEE & Insti AM CZ Head: Antun Burić Jaromir Malak	+385 (0)7237 2439 +43 (0)5 0100 84254
Czech Republic Head: Ondřej Čech Milan Bartoš Jan Porvich	+420 2 2499 5577 +420 2 2499 5562 +420 2 2499 5566
Institutional Asset Management Czech Republic Head: Petr Holeček Petra Maděrová Martin Pefina David Petráček Blanka Weinerová Petr Valenta Croatia Head: Antun Burić Zvonimir Tukač Natalija Zujic Hungary Head: Peter Csizmadia Gábor Bálint Ádám Szönyi Romania and Bulgaria Head: Octavian Florin Munteanu	+420 956 765 453 +420 956 765 178 +420 956 765 106 +420 956 765 809 +420 956 765 317 +420 956 765 140 +385 (0)7237 2439 +385 (0)7237 1787 +385 (0)7237 1638 +36 1 237 8211 +36 1 237 8205 +36 1 237 8213 +40 746128914
Group Institutional Equity Sales Head: Brigitte Zeittberger-Schmid Werner Fürst Josef Kerekes Viktoria Kubalcova Thomas Schneidhofer Oliver Schuster	+43 (0)50100 83123 +43 (0)50100 83121 +43 (0)50100 83125 +43 (0)5 0100 83124 +43 (0)5 0100 83120 +43 (0)5 0100 83119
Czech Republic Head: Michal Řízek Jiří Fereš Martin Havlan Pavel Krabička Poland Head: Jacek Jakub Langer Tomasz Galanciak Wojciech Wysocki Przemysław Nowosad Grzegorz Stepien Croatia Matija Tkalicanac Hungary Nandori Levente Krisztian Kandik Balasz Zankay Romania Liviu Avram	+420 224 995 537 +420 224 995 554 +420 224 995 551 +420 224 995 411 +48 22 257 5711 +48 22 257 5715 +48 22 257 5714 +48 22 257 5712 +48 22 257 5713 +385 72 37 21 14 + 36 1 23 55 141 + 36 1 23 55 162 + 36 1 23 55 156 +40 3735 16569
Group Fixed Income Securities Markets Head: Goran Hobljaj	+43 (0)50100 84403
FISM Flow Head: Aleksandar Doric Margit Hraschek Christian Kienesberger Ciprian Mitu Bernd Thaler Zsuzsanna Toth Poland: Pawel Kielek Michal Jarmakowicz	+43 (0)5 0100 87487 +43 (0)5 0100 84117 +43 (0)5 0100 84323 +43 (0)5 0100 85612 +43 (0)5 0100 84119 +36-1-237 8209 +48 22 538 6223 +43 50100 85611
Group Fixed Income Securities Trading Head: Goran Hobljaj	+43 (0)50100 84403
Group Equity Trading & Structuring Head: Ronald Nemec	+43 (0)50100 83011
Business Support Bettina Mahoric	+43 (0)50100 86441

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