

CEE Market Insights

GDP data for 2022 begin to flow in for the region

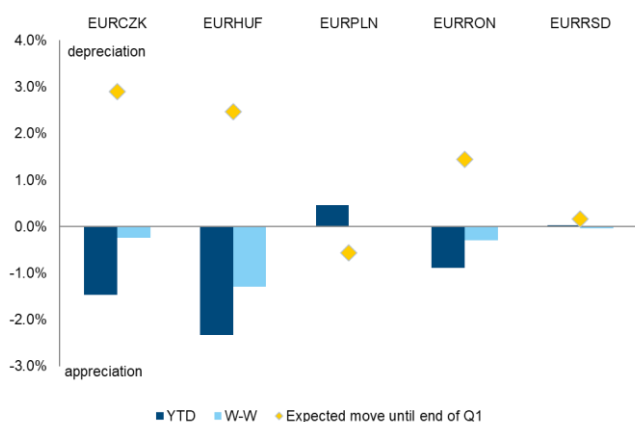
This week in CEE

Czechia held second round of presidential elections over weekend and Petr Pavel will become the Czech fourth President. In the second round of the election, he defeated former Prime Minister A. Babiš by a significant result (58.3% vs 41.7%). S&P downgraded Hungary's rating to BBB- (stable outlook) that is just one notch above investment grade threshold.

This week, the focus will go to the GDP data in the Eurozone and selected countries in the region. In CEE, Czechia, Poland and Serbia will be the first to release how the economies performed in 2022. We see Czechia and Serbia growing at a similar pace, slightly above 2%, while in Poland we expect dynamic expansion of close to 5% in the last year. Poland was the only country in the region that experienced a quite solid fiscal stimulus in 2022. This year, we expect the region to slow more visibly and CEE8 to expand 0.7% on average, with Czechia the only country to experience a contraction. If growth in the Eurozone arrives stronger than expected, however, an upward revision of the growth forecast may follow in the region as well. On Wednesday, the January PMI indices for Czechia, Hungary and Poland will be published, which may also bring a bit of optimism about the outlook. The second most important event will be the central bank meeting in Czechia. We expect the policy rate to remain unchanged. Together with the rate decision, new inflation and growth projections will be published as well.

Monday	Tuesday	Wednesday	Thursday	Friday
PL: 2022 GDP	CZ, RS: GDP	CZ HU PL: PMI	CZ: Central bank	SI: Trade
HR: Industry, Retail	RS : Industry, Retail	RO: Unemployment	RO:PPI	
	HU: PPI	HU: Trade		
	HU: Bills		CZ: Bills	

FX market

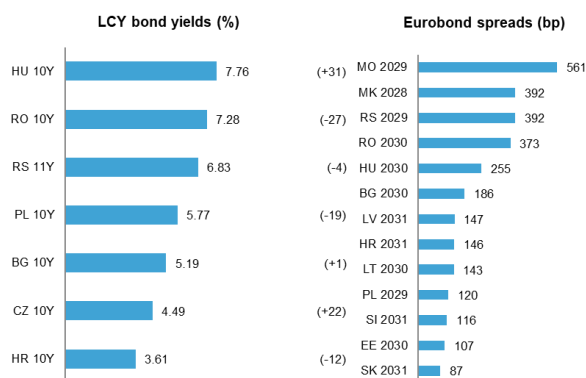


Source: Bloomberg, Erste Group Research

FX market developments

Throughout the past week, the Czech koruna, Hungarian forint and Romanian leu strengthened visibly vs. the euro. The Polish zloty, on the other hand, was quite an outlier, as it weakened marginally. Looking at the YTD development, the Polish currency has been underperforming its peers, as it has been weakening against the euro, the only currency in the region to do so. We see the Serbian dinar's strength vs. the euro as quite solid. This week, the Czech National Bank holds its rate setting meeting and the stability of rates is broadly expected. While bank board member Holub (who is in the minority) would be in favor of further tightening, Vice Governor Zamrazilova believes that the main inflation pressure has already passed and that further increase in rates would not bring inflation down faster. She sees the wage-price spiral as the main risk to inflation expectations; however, an increase of wages of between 5% and 10% in the first quarter would be acceptable for her. In Poland, MPC member Maslowska said that the chance for an interest rate cut may appear already at the end of 2023, while MPC member Kotecki does not see conditions to lower them this year. According to the money market rates and FRAs 9x12 monetary easing began to be priced in in the second half of the year in both countries.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

The CEE bond market showed a mixed performance last week. Spreads on 10Y Eurobonds narrowed somewhat between 10-20bp for many CEE sovereigns and 10Y LCY yields edged down for all CEE countries except for Czechia and Hungary. Both countries have already had strongly inverted yield curves, anticipating the approaching monetary easing. However, it seems that, after the strong rally experienced at the beginning of the year, a small correction took place last week. In Hungary, the hawkish comments of the central bank after its rate setting meeting and the announcement of additional strict monetary policy tools focused on draining excess liquidity from the market were also not supportive of bonds (in the short run). On the other hand, we have seen a very strong rally in 10Y ROMGBs, where large inflows from offshore investors moved the long end to 7.3%, thus very close to the policy rate. Given that Romania is still far from monetary easing, the pricing of the long end is

getting unattractive for local RON investors. We thus expect some correction in the following weeks/months.

In case you missed

CEE: [Worsening of trade balance driven mostly by energy related products](#).

HU: Policy rate remained unchanged and [MNB maintains its hawkishness](#).

HU: S&P downgraded Hungary's rating to BBB- (stable outlook)

PL: [Polish economy has been slowing down](#)

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
30. Jan	10:00	PL	GDP (y/y)	2022	4.8%		5.70%	
	11:00	HR	Industrial Production (y/y)	Dec		-2.0%	-2.0%	Headline figure expected to remain in negative area
	11:00	HR	Retail Sales (y/y)	Dec		-1.0%	1.0%	Retail trade seen delivering mild decline in December
31. Jan	8:30	HU	PPI (y/y)	Dec			37.0%	
	9:00	CZ	GDP (q/q)	4Q A	-0.6%	-0.8%	-0.20%	As a decrease in GDP is expected also for 4Q, the Czech economy was probably in a mild recession. The negative figure is affected mainly by household consumption.
	9:00	CZ	GDP (y/y)	4Q A	0.2%	-0.1%	0.02	Weakening domestic as well as foreign demand stand behind a stagnation of GDP in the y/y terms.
	12:00	RS	Industrial Production (y/y)	Dec		1.0%	0.4%	Modest growth of around 1% is expected for December, which would wrap up FY22 growth around 1.5% y/y
	12:00	RS	Retail Sales (y/y)	Dec		-0.5%	1.30%	Slight contraction of retail activity in December
	12:00	RS	Trade Balance	Dec			-728.80	
	12:00	RS	GDP (y/y)	4Q P	0.1%	0.5%	1.00%	We expect to see further slowdown of growth in 4Q22 as inflation burdened disposable income
01.Feb	8:00	RO	Unemployment Rate	Dec			5.4%	
	8:30	HU	Trade Balance	Nov F			-1283.00	
	9:00	HU	PMI	Jan	57.00		63.10	
	9:00	PL	PMI	Jan	46.20		45,6	
	9:30	CZ	PMI	Jan	43.30		42.60	
02.Feb	8:00	RO	PPI (y/y)	Dec			35.1%	
	14:30	CZ	Central Bank Rate	Feb	7.00%	7.0%	7.0%	Pro-inflationary demand pressures have ben weakening and expected inflation one year ahead is relatively close to the target. We still see the stability of rates as the most likely scenario.
03.Feb	10:30	SI	Trade Balance	Dec				

Source: Erste Group Research

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Note: Past performance is not necessarily indicative of future results

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Forecasts

3M Money Market Rate

	current	2023Q1	2023Q2	2023Q3	2023Q4
Czechia	7.21	7.21	7.02	6.51	5.66
Hungary	16.03	14.50	11.20	9.70	8.95
Poland	6.94	7.21	7.15	7.05	6.90
Romania	7.23	8.04	7.54	7.04	6.79
Serbia	5.14	5.33	5.33	5.33	5.33
Eurozone	2.49	3.11	3.21	3.24	3.28

Key Interest Rate

	current	2023Q1	2023Q2	2023Q3	2023Q4
Czechia	7.00	7.00	7.00	6.50	5.75
Hungary	13.00	13.00	11.00	9.50	9.00
Poland	6.75	6.75	6.75	6.75	6.75
Romania	7.00	7.00	7.00	7.00	7.00
Serbia	5.25	5.50	5.50	5.50	5.50
Eurozone	2.50	3.50	3.75	3.75	3.75

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	4.9	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	4.2	0.7	3.3

Average inflation (%)

	2021	2022e	2023f	2024f
Croatia	2.6	10.8	7.9	3.0
Czechia	3.8	15.2	10.6	2.1
Hungary	5.1	14.5	18.5	4.9
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	12.8	13.5	7.0
Slovenia	1.9	8.8	6.1	3.0
CEE8 avg	4.5	13.9	12.2	4.1

Unemployment (%)

	2021	2022e	2023f	2024f
Croatia	7.6	6.8	6.8	6.4
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	69.5	66.5	65.2
Czechia	42.0	42.6	43.5	44.0
Hungary	76.8	73.3	70.9	69.2
Poland	53.8	51.5	51.9	51.0
Romania	48.8	46.8	46.7	45.9
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	53.3	52.4

C/A (%GDP)

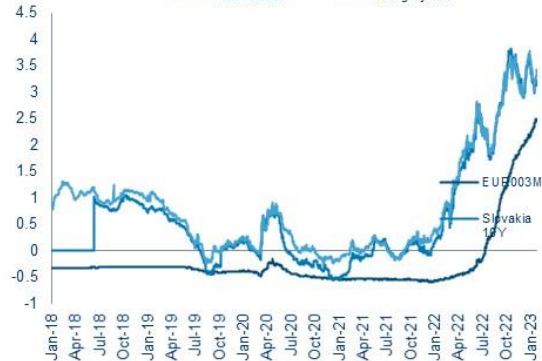
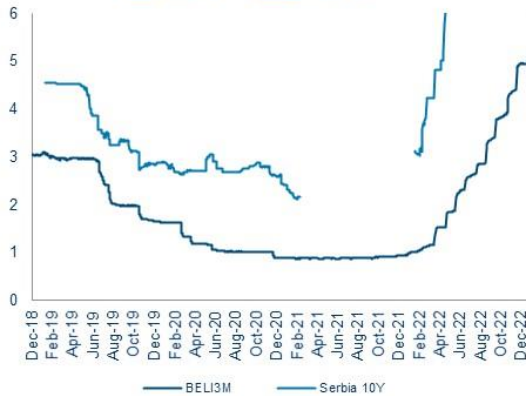
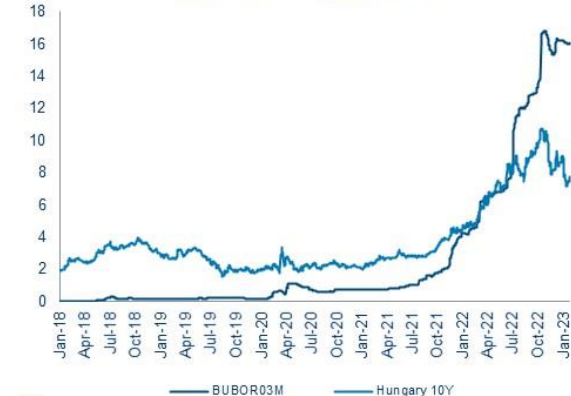
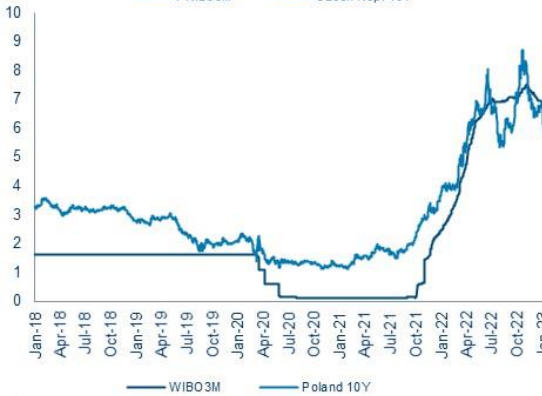
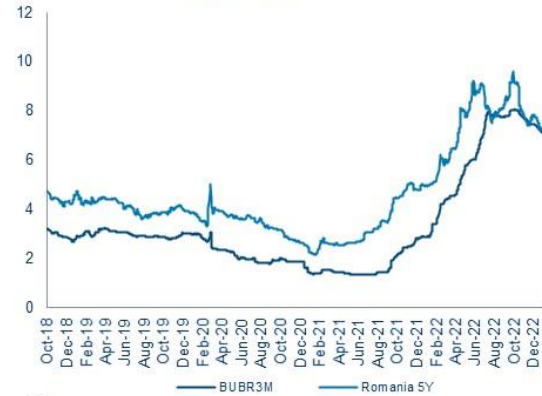
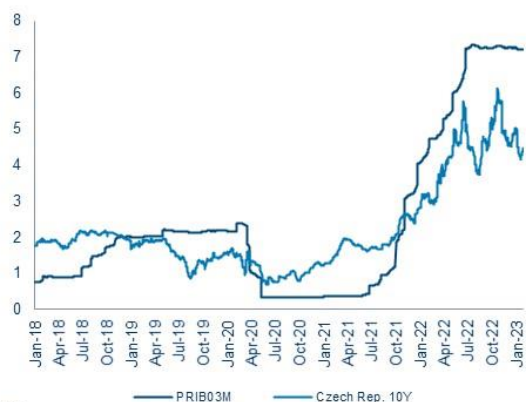
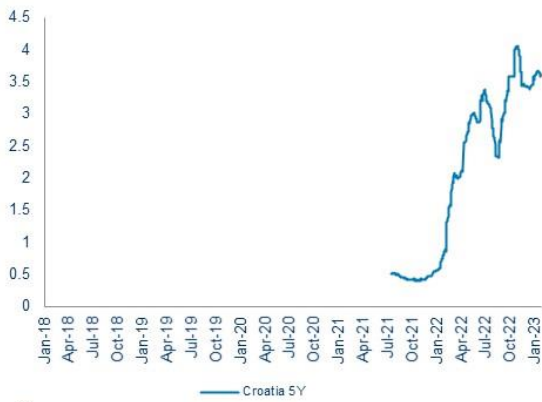
	2021	2022e	2023f	2024f
Croatia	3.1	0.1	-0.5	-1.5
Czechia	-0.8	-5.2	-0.5	0.9
Hungary	-4.2	-8.4	-5.5	-4.2
Poland	-1.4	-2.9	-0.3	0.2
Romania	-7.3	-9.5	-7.9	-7.6
Serbia	-4.5	-7.6	-8.7	-7.3
Slovakia	-1.9	-6.7	-7.1	-2.5
Slovenia	3.8	-0.3	-0.4	0.2
CEE8 avg	-2.4	-5.2	-2.9	-1.9

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	-4.2	-3.5
Poland	-1.8	-4.7	-4.9	-3.5
Romania	-7.1	-6.1	-4.7	-3.2
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	-4.5	-3.2

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Market Insights
30 January 2023

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Published by:

Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna

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