CEE Insights

Fixed Income and Foreign Exchange

Looking ahead this week

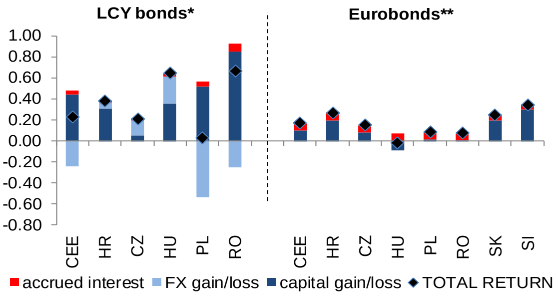
Monday	Tuesday	Wednesday	Thursday	Friday
RS: Current Account **PL:** Industry, PPI	**SK, HR:** Unemployment **PL:** Retail	**SI:** Industry, PPI		**HU:** Current Account **PL:** Unemployment

Click for: this week's detailed releases/events, market forecasts, macro forecasts

This week will be relatively empty of new data releases. Only the first set of February monthly indicators for Poland could be somewhat interesting, and this will give us a chance to run our now-cast model for Poland on a much larger set of data, which should give us a more precise indication of the growth momentum in 1Q18. We expect strong growth of industrial output and retail sales for February, somewhere around 7% and 8% y/y, respectively. The political scene will be busier after the resignation of the Slovak and Slovenian prime ministers in a single week. While the ruling coalition in Slovakia seems to be hurrying to reshuffle the government to avoid mounting public pressure for snap elections, political leaders in Slovenia have decided to go for early elections (in May, instead of the regular ones in June). On Friday, Moody's may release its assessment of Croatia's rating. We expect that Croatia could be upgraded by one notch from its current Ba2 rating, with the agency appraising a huge improvement on the fiscal side.

In case you missed it last week…

- Prime minister of Slovenia resigned; elections will take place already in May
- Prime minister of Slovakia resigned; ruling coalition will try to form new government, avoid early elections
- Serbian central bank cut key rate to 3.25% in order to tame appreciation pressure
- Inflation rate jumped to 4.7% in February in Romania and should stay around target until autumn
- After surprising drop of Poland's inflation in February, we see risk of first rate (1Q19) being postponed
- For other events last week, please check respective countries: HR, CZ, HU, PL, RO, TR, SI, SK, SR



On Radar

CEE economies have been running at almost their full potential recently. Last year, the GDP growth dynamics at 4.6% (CEE average) were the highest since the Great Recession. Although the solid economic expansion in the region should continue this year, as our CEE GDP growth forecast for 2018 stands at 4.0%, the growth dynamics could be close to their peak in several countries. Romania's growth is not likely to accelerate above the 8.8% y/y seen already in 3Q17. Once one-off factors are excluded, Romania is expected to expand around 6.0% in 1Q18 and 4.7% in the whole year. The Czech Republic and Slovenia are likely to experience a moderation of growth this quarter as well, as GDP growth dynamics are expected to be 1pp lower in 1Q18 compared to the previous quarter. The Hungarian and Polish economies seem to have peaked in 4Q17, with GDP growth at 4.4% y/y and 5.1% y/y, respectively. On the other hand, the economic outlook in Croatia, Serbia and Slovakia assumes an acceleration of the growth in the coming quarters, supported by strong domestic demand. (For further details, see the next page.)

Annual growth reached its peak in 3-4Q17 in the Czech Republic, Poland, Romania and Slovenia. Hungary could extend its strong growth into 1Q18, while growth should accelerate in Croatia, Serbia and Slovakia later this year.

GDP growth peaked in half of CEE countries in 4Q17

Did GDP growth peak in 4Q17 in your country?

Croatia: Following a somewhat disappointing 4Q17 GDP figure (2.0% y/y), we see room for some acceleration in 1Q18. We expect the headline figure to remain supported by the domestic demand outlook, i.e. a steady private consumption footprint and somewhat more supportive investment profile going into 2018. Net exports on average are anticipated to continue to weigh on the headline figure performance. On average, we expect GDP growth to remain in a similar gear to that seen in 2017, and hence keep our call for 2018 flat at 2.8% y/y.

Czech Republic: We expect GDP to arrive at 3.4% in 2018, from the 4.5% reached the previous year (5.2% in 4Q17). The slowdown will mainly be driven by higher interest rates and the koruna's strengthening; however, we do not see this as a negative development, but rather a gradual return to potential GDP growth from the current slightly overheated economy. The economic story will not change, in our view, with firm support from both domestic and foreign demand. In 1Q18, we expect GDP growth to arrive at 0.8% q/q and 4.3% y/y, as a reflection of the wage growth acceleration at the 2017/18 turn.

Hungary: Hungarian economic growth was exceptionally strong in 4Q17, as it reached 4.4% y/y. Without going deeply into the details, we must address the fact that government expenditures contributed to a great extent to the headline growth in 4Q17, which might be repeated in 1H18, but the effect of budgetary spending will most likely fade after the April parliamentary elections. Underlying economic activity should remain strong, as household consumption and gross fixed capital formation will strengthen further. The already available high-frequency data from January - such as industrial production, external trade, construction and retail sales - underpin this assumption. However, in the absence of an additional fiscal impulse, we are unlikely to see similarly strong growth figures for a sustained period of time.

Poland: We believe that GDP growth peaked in 4Q17, arriving at 5.1% y/y (1.0% q/q). Such a strong performance was driven by domestic demand (up 6.1% y/y), particularly the visible recovery of investment, which grew 11.3% y/y, suggesting a good year ahead. Although the beginning of the year was solid, with industry and retail sales growth above 8% y/y in January, we expect to see slightly lower GDP growth dynamics in 1Q18 and the quarters to come compared to 4Q17. The PMI index seems to have peaked, as recent months showed a soothing of market sentiment, while retail sales growth dynamics remain in a sideways trend. The update of our now-casting model suggests that GPD growth might decelerate in 1Q18, as it is tracking the growth dynamics above 4.5%. This year, we expect the economy to expand 4.2%. Thus, in the following quarters, annual GDP growth is expected at between 4.0% and 4.5%.

Romania: Romania's economic growth peaked at 8.8% y/y in 3Q17 and then lost speed to 6.9% y/y in 4Q17. One-off items like the extraordinary growth of agriculture of 33.2% in 3Q17, followed by a surprising fall of 1.6% in 4Q17, explained this development, along with a modest slowdown in retail sales at the end of 2017. Based on preliminary data, we foresee an additional slowdown of the economic growth towards 6-6.5% in 1Q18. We think that we will see a rotation of growth engines from consumption towards investments this year. Gross fixed capital formation recovered in the second half of 2017 and the prospects for this year are fairly good, in the context of higher inflows of EU structural and investment funds, ongoing optimism in the residential and office markets and ambitious plans for public CAPEX. On the other hand, personal consumption will cool off, since the higher inflation rate will erode part of households' purchasing power and net nominal salary gains will be below those from 2017.

Serbia: Unlike in most other countries in the CEE region, in Serbia, we expect an acceleration of economic activity in 2018, as the modest growth performance 2017 was marked by the effects of negative one-offs in the agriculture and energy sectors. In our view, the 1Q18 growth figure should land at 2.6% y/y (vs 1.1% y/y in 1Q17 and 2.5% y/y in 4Q17). Domestic demand will be the key driver of growth in 2018, as we expect that rising private and public wages, the stronger labor market, new public investment cycle, stronger lending activity and stronger FDI inflows should support the growth of public and private consumption and investments. Exports are expected to maintain their robust performance, but we expect a marginally negative contribution from net exports, as stronger domestic demand will put stronger pressure on imports. All that said, the FY18 growth figure is expected to land at 2.9% y/y vs. 1.9% y/y in 2017.

Slovakia: Real GDP growth was confirmed at 3.5% y/y in 4Q17, bringing up the full-year average to 3.4%. Nevertheless, the last quarter of 2017 is far from the expected peak. We expect economic growth to speed up to 3.9% this year (the first two quarters could stand at 3.6% and 4% y/y, respectively) and 4.2% in 2019. Domestic demand should remain a significant growth driver, mainly via household consumption, which is benefiting from the good labor market and consumer sentiment. Investment should also help growth, amid the good economic environment, gradual pick-up in EU funds absorption and private sector investments. Importantly, exports will get a boost from the start of production at the new Jaguar Land Rover car plant (late 2018) and the bright outlook of our Eurozone partners.

Slovenia: Following robust GDP expansion of 6% y/y in 4Q17 (making it the strongest growth since 2Q08), we see the Slovenian economy shifting into a slightly lower gear, as the growth is seen gradually decelerating below the 5% mark, i.e. averaging around 4.5% in 2018. We see this cooling down coming mainly at the cost of somewhat milder net export support, amid rising import pressures. However, the resilient export performance as well as ongoing firming on the domestic demand side should ensure that growth remains on a robust track in the coming quarters.

Looking ahead

	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
19. Mar		**RS**	**Current Account Balance (monthly)**	Jan			-397.4	
	10:00	**PL**	**Industrial Production (y/y)**	Feb	*8,1%*	***6,9%***	8.6%	*Market sentiment has been strongly pointing to ongoing solid expansion of manufacturing sector.*
	10:00	**PL**	**PPI (y/y)**	Feb	*0,1%*	***0,3%***	0.2%	*Cost pressure has recently been limited.*
20. Mar		**HR**	**Unemployment Rate**	Feb		***12,7%***	12.7%	*Headline figure still showing strong compression trend on annual level*
		SK	**Unemployment Rate**	Feb	*5,8%*	***5,8%***	5.9%	*Unemployment rate could inch lower on good employment growth.*
	10:00	**PL**	**Retail Sales (y/y)**	Feb	*8,2%*	***8,4%***	8.2%	*High level of household spending supported by growing consumer confidence.*
21. Mar	10:30	**SI**	**Industrial Production (y/y)**	Jan		***11,0%***	12.2%	*Vivid industrial production trend is seen extending also in January, with base effect additionally supporting strong performance*
	10:30	**SI**	**PPI (y/y)**	Feb			2.2%	
22. Mar			**No relases scheduled**					
23. Mar	8:30	**HU**	**Current Account Balance (quarterly)**	4Q	*885*		805.8	
	10:00	**PL**	**Unemployment Rate**	Feb	*6,8%*	***6,8%***	6.9%	*Unemployment rate should marginally drop in February.*

Sources: Bloomberg, Reuters

Major markets

Rainer Singer
rainer.singer@erstegroup.com

- The FOMC will this week decide upon its future monetary policy stance. A rate hike seems almost certain and is already entirely anticipated by the markets. As in every quarter, the latest survey among the committee members will also be released. In contrast to the rate hike next week, the outcome of the survey is more uncertain. At the last survey in December, the median estimate corresponded to three rate hikes for 2018. However, the environment has changed since then. While tax cuts had already been foreseeable in December, the announcement of large-scale public sector spending increases at the beginning of February came as a surprise. This is not negligible for the determination of monetary policy, as the fiscal stimulus, expected economic growth and thereby the inflation risks have risen. Further, former Fed chair Yellen will no longer attend the meeting. Impact on the outcome is unlikely, but possible in a universe of only 15 votes.
- This week, the first flash estimate of manufacturing PMI for March for the Eurozone, Germany and France will be released, In February, sentiment declined slightly; however, with an index reading of 58.6 points, it remained close to its historic highs. Even though the growth pace of new orders and production eased slightly, the growth pace of the Eurozone's manufacturing sector remained robust. On the regional level, the Netherlands, Germany and Austria remained on top. For March, we expect a slightly weaker reading for Eurozone industry sentiment. Nevertheless, the prolonged uptrend of commodity prices signals unchanged robust global demand. Overall, we forecast GDP growth of +2.4% for the Eurozone in 2018.

Croatia

Alen Kovac
akovac2@erstebank.com

- February inflation came in below our expectations and landed at 0.8% y/y, thus showing a slight deceleration vs. the January figure (1.1% y/y). On the monthly level, inflation decreased by 0.1%, amid a still-present seasonal effect. Going forward, we see CPI gradually accelerating, as cost-side pressures continue to play a less supportive role, and demand-side pressures remain under control.
- Retail trade delivered a positive surprise, as consumption growth accelerated from 1.5% y/y in December to 6.1% y/y WDA in January, thus entering 2018 on a promising note. We see the favorable consumption trends continuing, supported by the disposable income growth and improving consumer sentiment, thus supporting our view of private consumption remaining an important backbone of a steady growth profile.
- Markets showed a steady performance throughout the week, with the exchange rate moving slightly below the 7.45 level, while yields on the bond market brought a mild downward footprint w/w

Czech Republic

David Navrátil
dnavratil@csas.cz

- CNB Governor Jiri Rusnok said that the Czech economy is currently near the peak of the economic cycle and is in a slightly overheated state (above potential). He also stated that the current pace of wage growth is, from his point of view, unsustainable in the long run (it exceeds productivity growth and hence constitutes a squeeze of companies' profit margins). This development creates room for monetary policy tightening. However, the Euro Area's ultra-loose monetary policy constitutes a great limiting factor for monetary policy tightening in the Czech economy (via exchange rate appreciation).

- Industrial production arrived at 5.5% y/y in January, as it is still supported by sound domestic as well as foreign demand. January retail sales (excluding car sales) came in at 8.2% y/y, well above the market consensus (6.5% y/y). This figure also confirms the solid outlook for consumer demand in the Czech economy. PPI inflation came in at -0.3% m/m and -0.4% y/y. Although prices of industrial producers were negatively affected by the February decrease in oil prices, we see the figure as a significant negative surprise. If the low PPI inflation continues, we expect that CNB monetary policy could take it into consideration.

Hungary

Orsolya Nyeste
orsolya.nyeste@erstebank.hu

Gergely Ürmössy
Gergely.Urmossy@erstebank.hu

- The construction industry jumped in January, as the output volume grew by 43.2% y/y, after the 35% y/y seen in December. In a monthly comparison, output rose by an impressive 6.4%, indicating a rather strong start for this year. The sector - partly driven by EU funds inflow - could remain an important contributor to this year's GDP growth as well.
- The Debt Management Agency (ÁKK) announced that they issued a three-year samurai bond in an amount of JPY 30bn with a 0.37% coupon rate (25bp above the 3Y JPY swap). Due to the conversion into euro, the bond has a yield under 0.6%, according to the ÁKK's statement. The economy minister decided already at the end of last year on the reappearance on the Japanese market, as a ten-year samurai bond matured in 2017

Poland

Katarzyna Rzentarzewska
katarzyna.rzentarzewska@erstegroup.com

- The inflation rate surprised visibly to the downside and arrived at 1.4% y/y in February (vs. the market consensus at 1.8% y/y), which corresponds to a drop of 0.2% m/m. The lower dynamics of food prices, transport and clothing prices have contributed to this decrease of headline inflation. Such a strong drop of CPI might affect the inflation trajectory this year and supports the stability of rates scenario beyond 2018, which has been suggested by Governor Glapinski. We put our inflation forecast under revision, endangering our call for a first rate hike in 1Q19.
- The NPB published its new inflation and growth projection. Inflation is expected to average 2.1% this year and increase to 2.7% and 3.0% in the following years. On the other hand, growth is expected to reach 4.2% this year and to slow to 3.8% and 3.6% in the coming years.
- Recent comments from MPC member Ancyparowicz maintained the tone of Governor Glapinski that a rate hike (or hikes) might not be needed in 2019 either, given the disparity of rates between the ECB and NBP.

- Nominal wages grew 6.8% y/y in February, slightly below expectations, while employment went up 3.7% y/y, as expected. The ongoing tightening on the labor market supports solid growth of private consumption.

Romania

Eugen Sinca
eugen.sinca@bcr.ro

- Industrial production increased by 8.5% y/y in January (unadjusted series), in line with the average growth rate from the past six months, helped by the export-oriented manufacturing sector, which advanced by 12.7% y/y. New orders for manufacturing started the year strongly and expanded by a record 21.5% y/y in January, due to a solid development of new orders for capital goods.
- January brought a long-awaited change in the construction sector and civil engineering work increased by 29.7% y/y. This was the strongest growth rate in almost two years, signaling the ongoing recovery of public investments. Inflows of European structural and investment funds have improved in recent months, while locally-financed CAPEX also moved higher in January, according to the budget execution data recently released by the Ministry of Finance. On the other hand, the residential and the non-residential sectors contracted in January (-10.2% y/y and -0.5% y/y, respectively). Today's data supports our view about a stronger contribution of investments to the economic growth in 2018, at the expense of consumption.
- The inflation rate was 0.3% m/m and 4.72% y/y in February, matching our expectations and the market consensus (Reuters) of 4.7%. A statistical effect related to the elimination of some non-fiscal taxes in February last year drove up the y/y inflation rate to 4.72% in February, from 4.32% in January. However, the m/m consumer price index of only 0.3% was the smallest in the past six months, which might signal weaker inflationary pressures in the absence of significant hikes in the administered energy price. We think that inflation will remain above the NBR's target until the autumn and decrease afterwards to 3.6% y/y in December.

Serbia

Alen Kovac
akovac2@erstebank.com

Milan Deskar-Skrbic
mdskrbic@erstebank.com

- The NBS decided to cut the key rate to 3.25%, as February inflation landed at the lower end of the NBS' inflation target interval. In our view, additional monetary easing will have a very limited impact on inflation developments in the coming period, so we expect the NBS to keep the key rate unchanged for the rest of the year, in order to keep its room for maneuver in the case of stronger external shocks, amid stronger Fed tightening and ECB tapering. For more details, see our Short Note.
- On the FX market, we saw a reversal of the appreciation pressures, as the EUR/RSD moved from below 118 to around the 118.3 mark. Part of this movement can probably be attributed to the rate cut, as there were no interventions on the market. On the bond market, we saw milder upward pressure on the 5Y LCY bond yield, but we see this mostly as a result of the auction that was held last week, i.e. reopening of the new 5Y bond.

Slovakia

Katarina Muchova
muchova.katarina@slsp.sk

- Consumer prices rose by 2.1% y/y in February (0.2% m/m), close to our expectations, and core inflation eased to 2.3% y/y. Food prices contributed to the slowdown in dynamics, as they fell by 0.7% m/m. Further, clothing and footwear prices fell by 0.8% m/m.
- Industrial production rose by 2.2% y/y in January (0.3% m/m), above expectations, while construction production picked up speed and rose by 20.7% y/y in January (5.3% m/m), marking an exceptionally good start of the year. Industrial production surprised slightly to the upside, but the fundamentals remain unchanged – industrial production should keep growing at good rates and support GDP growth, which we expect at 3.9% this year.
- Robert Fico resigned from his post as prime minister. At the same time, his deputy Peter Pellegrini was appointed by President Andrej Kiska to set up a new government having the support of 79 out of 150 members of Parliament, which should be sufficient to win a confidence vote for the new government. The government will consist of the same parties as before – SMER-SD together with junior coalition partners: the nationalistic SNS and center-right Most-Hid. The Slovak political scene became turbulent in early March as the murder of investigative journalist J.Kuciak and his fiancée sparked nation-wide protests calling for change in the top governing positions and/or early parliamentary elections.

Slovenia

Alen Kovac
akovac2@erstebank.com

- The situation on the political scene took an unexpected turn last week, as PM Cerar submitted his resignation, stating that 'the final straw' was the annulment of last year's referendum, which backed the upgrade of a new rail link, i.e. his government's biggest investment project (though the NLB privatization and public wage hike demands should also be mentioned). However, he did said that he is ready to lead a technocratic government until the elections in June. The president Pahor stated he preferred an early election for a new prime minister (most likely in mid-May), rather than appointing a prime minister-designate. We see Supreme Court's ruling as a trigger for PM's Cerar resignation, as his CMC party was lagging being in the polls for the upcoming election, so this could also be seen as pre-election move to improve its current rating. We do not expect the political uncertainty to have an adverse impact on the economy and markets, while the reform outlook was stalled by the approaching elections. We keep our FY18 GDP forecast at 4.5%, seeing risks remaining dominantly skewed to the upside.
- After an exceptional 2017 performance, January trade balance data continued in a similar manner, revealing a double-digit expansion rate on both the export and import sides (13.6% y/y and 12.5% y/y, respectively) and resulting in the export-import cover ratio slightly above 100%. Going forward, we see imports additionally gaining pace, amid a strong domestic demand profile, thus implying a somewhat more modest net export contribution vs. the one seen in 2017.

Capital market forecasts

Government bond yields	current	2018Q2	2018Q3	2018Q4	2019Q1
Croatia 10Y	2.19	2.20	2.30	2.40	2.50
spread (bps)	162	145	146	145	145
Czech Rep. 10Y	1.89	1.96	2.00	2.05	2.14
spread (bps)	132	121	116	110	109
Hungary 10Y	2.59	2.30	2.10	2.00	2.05
spread (bps)	202	155	126	105	100
Poland 10Y	3.23	3.35	3.45	3.70	3.85
spread (bps)	267	260	261	275	280
Romania10Y	4.70	4.70	4.80	5.10	5.40
spread (bps)	413	395	396	415	435
Slovakia 10Y	0.76	1.10	1.15	1.25	1.45
spread (bps)	19	35	31	30	40
Slovenia 10Y	1.18	1.20	1.30	1.40	1.40
spread (bps)	61	45	46	45	35
Serbia 7Y	4.11	4.30	4.40	4.50	4.50
DE10Y (BBG)*	***0.57***	***0.75***	***0.84***	***0.95***	***1.05***

FX	current	2018Q2	2018Q3	2018Q4	2019Q1
EURHRK	7.43	7.35	7.45	7.50	7.45
forwards		7.43	7.43	7.43	7.43
EURCZK	25.41	25.23	25.02	24.90	24.71
forwards		25.44	25.44	25.44	25.44
EURHUF	311.0	315.0	315.0	315.0	315.0
forwards		314.1	314.1	314.1	314.1
EURPLN	4.22	4.15	4.18	4.14	4.12
forwards		4.22	4.22	4.22	4.22
EURRON	4.67	4.65	4.70	4.73	4.74
forwards		4.67	4.67	4.67	4.67
EURRSD	118.2	117.5	117.3	118.0	118.5
forwards		-	-	-	-
EURUSD	1.23	1.15	1.14	1.13	-

3M Money Market Rate	current	2018Q2	2018Q3	2018Q4	2019Q1
Croatia	0.49	0.50	0.50	0.50	0.60
Czech Republic	0.90	0.96	1.11	1.19	1.34
Hungary	0.03	0.02	0.02	0.02	0.02
Poland	1.70	1.72	1.73	1.79	1.99
Romania	2.03	2.45	2.70	2.75	2.80
Serbia	2.90	3.20	3.40	3.40	3.60
Eurozone	-0.33	-0.30	-0.30	-0.30	-0.30

Key Interest Rate	current	2018Q2	2018Q3	2018Q4	2019Q1
Croatia	0.50	0.30	0.30	0.30	0.30
Czech Republic	0.75	0.75	1.00	1.00	1.25
Hungary	0.90	0.90	0.90	0.90	0.90
Poland	1.50	1.50	1.50	1.50	1.75
Romania	2.25	2.50	2.75	2.75	2.75
Serbia	3.25	3.25	3.25	3.25	3.50
Eurozone	0.00	0.00	0.00	0.00	0.00

Macro forecasts

Real GDP growth (%)	2016	2017f	2018f	2019f
Croatia	3.2	2.8	2.8	2.7
Czech Republic	2.5	4.5	3.4	2.9
Hungary	2.2	4.0	3.7	3.3
Poland	2.9	4.6	4.2	3.3
Romania	4.8	7.0	4.7	3.0
Serbia	2.8	1.9	2.9	3.0
Slovakia	3.3	3.4	3.9	4.2
Slovenia	3.1	5.0	4.5	4.1
CEE8 average	**3.1**	**4.7**	**4.0**	**3.2**

Average inflation (%)	2016	2017f	2018f	2019f
Croatia	-1.1	1.1	1.4	1.9
Czech Republic	0.7	2.5	2.3	1.9
Hungary	0.4	2.4	2.8	3.5
Poland	-0.6	2.0	2.2	2.5
Romania	-1.5	1.3	4.5	2.8
Serbia	1.6	3.0	2.9	3.6
Slovakia	-0.5	1.3	2.2	2.3
Slovenia	-0.1	1.4	1.5	1.8
CEE8 average	**-0.4**	**1.9**	**2.6**	**2.5**

Unemployment (%)	2016	2017f	2018f	2019f
Croatia	13.1	11.3	10.1	9.2
Czech Republic	4.0	2.9	2.5	2.9
Hungary	5.1	4.2	3.9	3.9
Poland	8.9	7.2	6.5	6.7
Romania	6.0	5.0	4.9	5.0
Serbia	15.3	13.2	11.6	11.1
Slovakia	9.6	8.1	7.2	6.6
Slovenia	8.0	6.8	6.3	5.8
CEE8 average	**7.7**	**6.3**	**5.7**	**5.7**

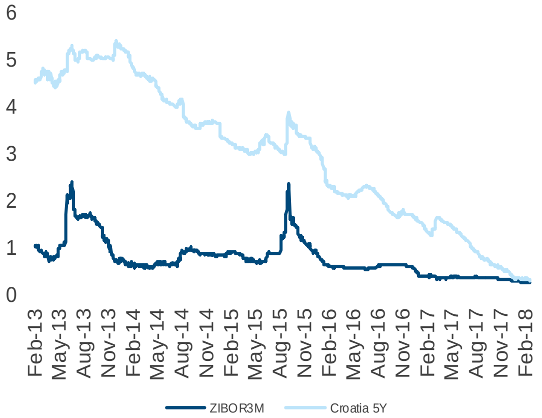
Public debt (% of GDP)	2016	2017f	2018f	2019f
Croatia	82.7	78.7	75.2	72.1
Czech Republic	36.8	33.9	31.9	30.4
Hungary	73.9	72.0	70.7	69.7
Poland	52.1	52.4	53.2	52.9
Romania	37.5	36.3	35.8	35.4
Serbia	71.9	61.3	58.4	55.2
Slovakia	51.8	51.1	50.0	47.5
Slovenia	78.3	72.8	71.5	67.7
CEE8 average	**52.6**	**51.0**	**50.3**	**49.1**

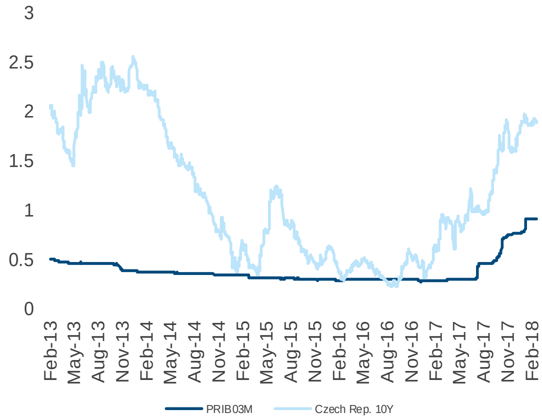
C/A (%GDP)	2016	2017f	2018f	2019f
Croatia	2.5	3.6	2.6	1.8
Czech Republic	1.1	1.2	0.9	0.7
Hungary	6.1	3.5	3.0	2.4
Poland	-0.3	0.2	-0.3	-0.9
Romania	-2.1	-3.4	-4.1	-4.5
Serbia	-4.2	-4.7	-5.3	-6.6
Slovakia	-1.5	-0.9	-0.2	0.3
Slovenia	5.2	6.5	6.7	6.5
CEE8 average	**0.4**	**0.3**	**-0.1**	**-0.6**

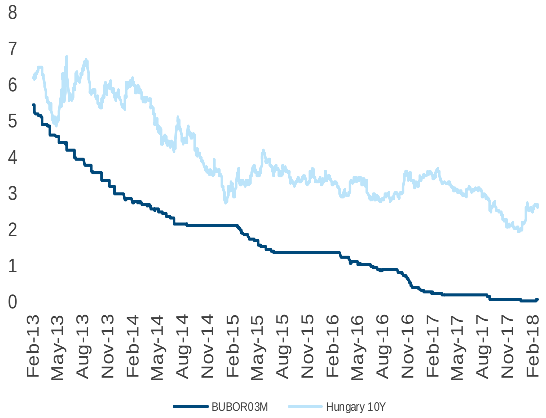
Budget Balance (%GDP)	2016	2017f	2018f	2019f
Croatia	-0.9	0.3	0.0	-0.5
Czech Republic	0.5	0.6	0.3	0.3
Hungary	-1.8	-2.0	-2.5	-2.5
Poland	-2.4	-2.1	-2.5	-2.3
Romania	-3.0	-3.0	-3.4	-2.9
Serbia	-1.3	1.2	-0.5	-0.5
Slovakia	-2.2	-1.5	-1.0	-0.6
Slovenia	-1.8	-0.8	-0.3	0.0
CEE8 average	**-1.8**	**-1.5**	**-1.8**	**-1.6**

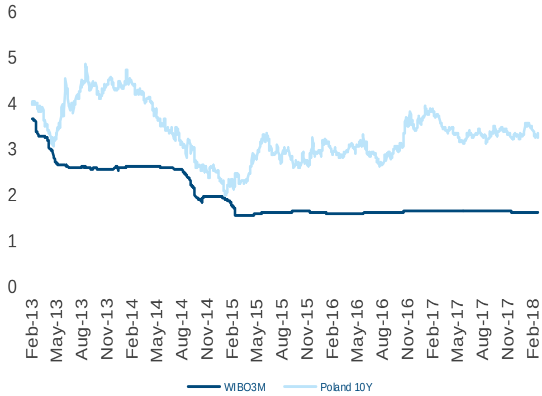
Note:*Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.

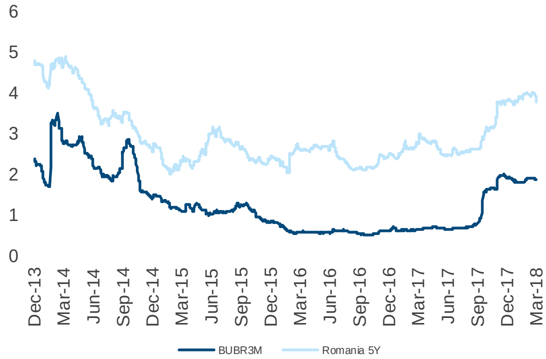
Appendix

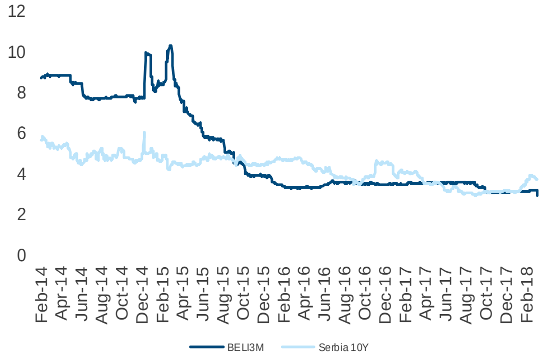












Note:*Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.

Contacts

Group Research

Head of Group Research	
Friedrich Mostböck, CEFA	+43 (0)5 0100 11902
Major Markets & Credit Research	
Head: Gudrun Egger, CEFA	+43 (0)5 0100 11909
Ralf Burchert, CEFA (Agency Analyst)	+43 (0)5 0100 16314
Hans Engel (Senior Analyst Global Equities)	+43 (0)5 0100 19835
Christian Enger, CFA (Covered Bonds)	+43 (0)5 0100 84052
Margarita Grushanina (Economist AT, Quant Analyst)	+43 (0)5 0100 11957
Peter Kaufmann, CFA (Corporate Bonds)	+43 (0)5 0100 11183
Stephan Lingnau (Global Equities)	+43 (0)5 0100 16574
Carmen Riefler-Kowarsch (Covered Bonds)	+43 (0)5 0100 19632
Rainer Singer (Senior Economist Euro, US)	+43 (0)5 0100 17331
Bernadett Povazsai-Römhild (Corporate Bonds)	+43 (0)5 0100 17203
Elena Statelov, CIIA (Corporate Bonds)	+43 (0)5 0100 19641
Gerald Walek, CFA (Economist Euro, CHF)	+43 (0)5 0100 16360
Macro/Fixed Income Research CEE	
Head CEE: Juraj Kotian (Macro/FI)	+43 (0)5 0100 17357
Zoltan Arokszallasi, CFA (Fixed income)	+43 (0)5 0100 18781
Katarzyna Rzentarzewska (Fixed income)	+43 (0)5 0100 17356
CEE Equity Research	
Head: Henning Eßkuchen	+43 (0)5 0100 19634
Daniel Lion, CIIA (Technology, Ind. Goods&Services)	+43 (0)5 0100 17420
Michael Marschallinger	+43 (0)5 0100 17906
Christoph Schultes, MBA, CIIA (Real Estate)	+43 (0)5 0100 11523
Vera Sutedja, CFA, MBA (Telecom, Steel)	+43 (0)5 0100 11905
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
Editor Research CEE	
Brett Aarons	+420 956 711 014
Research Croatia/Serbia	
Head: Mladen Dodig (Equity)	+381 11 22 09178
Head: Alen Kovac (Fixed income)	+385 72 37 1383
Anto Augustinovic (Equity)	+385 72 37 2833
Milan Deskar-Skrbic (Fixed income)	+385 72 37 1349
Magdalena Dolenec (Equity)	+385 72 37 1407
Ivana Rogic (Fixed income)	+385 72 37 2419
Davor Spoljar, CFA (Equity)	+385 72 37 2825
Research Czech Republic	
Head: David Navratil (Fixed income)	+420 956 765 439
Head: Petr Bartek (Equity)	+420 956 765 227
Vit Machacek (Fixed income)	+420 956 765 456
Jiri Polansky (Fixed income)	+420 956 765 192
Michal Skorepa (Fixed income)	+420 956 765 172
Pavel Smolik (Equity)	+420 956 765 434
Jan Sumbera (Equity)	+420 956 765 218
Research Hungary	
Head: József Miró (Equity)	+361 235 5131
Gergely Ürmössy (Fixed income)	+361 373 2830
András Nagy (Equity)	+361 235 5132
Orsolya Nyeste (Fixed income)	+361 268 4428
Tamás Pletser, CFA (Oil&Gas)	+361 235 5135
Research Poland	
Director of Research: Tomasz Duda (Equity)	+48 22 330 6253
Deputy Director: Magdalena Komaracka, CFA (Equity)	+48 22 330 6256
Marek Czachor (Equity)	+48 22 330 6254
Mateusz Krupa (Equity)	+48 22 330 6251
Karol Brodziński (Equity)	+48 22 330 6252
Research Romania	
Head: Horia Braun-Erdei	+40 3735 10424
Mihai Caruntu (Equity)	+40 3735 10427
Dumitru Dulgheru (Fixed income)	+40 3735 10433
Eugen Sinca (Fixed income)	+40 3735 10435
Dorina Ilasco (Fixed Income)	+40 3735 10436
Research Slovakia	
Head: Maria Valachyova, (Fixed income)	+421 2 4862 4185
Katarina Muchova (Fixed income)	+421 2 4862 4762
Research Turkey	
Ender Kaynar (Equity)	+90 212 371 2530

Treasury - Erste Bank Vienna

Group Markets Retail Sales	
Head: Christian Reiss	+43 (0)5 0100 84012
Markets Retail a. Sparkassen Sales AT	
Head: Markus Kaller	+43 (0)5 0100 84239
Equity a. Fund Retail Sales	
Head: Kurt Gerhold	+43 (0)5 0100 84232
Fixed Income a. Certificate 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: Harald Müller	+43 (0)5 0100 84890
Institutional Distribution non CEE:	
Head: Margit Hraschek	+43 (0)5 0100 84117
Thomas Almen	+43 (0)5 0100 84323
Bernd Bollhof	+49 (0)30 8105800 5525
Charles-Henry La Coste de Fontenilles	+43 (0)5 0100 84115
Rene Klasen	+49 (0)30 8105800 5521
Christian Kössler	+43 (0)5 0100 84116
Karin Rattay	+43 (0)5 0100 84118
Bernd Thaler	+43 (0)5 0100 84119
Bank Distribution:	
Head: Marc Friebertshäuser	+49 (0)711 810400 5540
Sven Kienzle	+49 (0)711 810400 5541
Michael Schmotz	+43 (0)5 0100 85542
Ulrich Inhofner	+43 (0)5 0100 85544
Klaus Vosseler	+49 (0)711 810400 5560
Andreas Goll	+49 (0)711 810400 5561
Mathias Gindele	+49 (0)711 810400 5562
Institutional Distribution CEE:	
Head: Jaromir Malak	+43 (0)5 0100 84254
Institutional Distribution PL and CIS	
Pawel Kielek	+48 22 538 6223
Michal Jarmakowicz	+43 50100 85611
Institutional Distribution Slovakia	
Head: Sarlota Sipulova	+421 2 4862 5619
Monika Smelikova	+421 2 4862 5629
Institutional Distribution Czech Republic	
Head: Ondrej Cech	+420 2 2499 5577
Milan Bartos	+420 2 2499 5562
Barbara Suvadova	+420 2 2499 5590
Institutional Asset Management Czech Republic	
Head: Petr Holecek	+420 956 765 453
Martin Perina	+420 956 765 106
Petr Valenta	+420 956 765 140
David Petracek	+420 956 765 809
Blanca Weinerova	+420 956 765 317
Institutional Distribution Croatia	
Head: Antun Buric	+385 (0)7237 2439
Željko Pavičić	+385 (0)7237 1494
Natalija Zujic	+385 (0)7237 1638
Institutional Distribution Hungary	
Head: Peter Csizmadia	+36 1 237 8211
Attila Hollo	+36 1 237 8209
Gabor Balint	+36 1 237 8205
Institutional Distribution Romania and Bulgaria	
Head: Ciprian Mitu	+43 (0)50100 85612
Stefan Mortun Racovita	+40 373 516 531
Institutional Equity Sales	
Head: Brigitte Zeitlberger-Schmid	+43 (0)50100 83123
Werner Fürst	+43 (0)50100 83121
Josef Kerekes	+43 (0)50100 83125
Cormac Lyden	+43 (0)50100 83120
Business Support	
Bettina Mahoric	+43 (0)50100 86441

Disclaimer

This publication was prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries "Erste Group") independently and objectively as other information pursuant to the Circular of the Austrian Financial Market Authority regarding information including marketing communication pursuant to the Austrian Securities Supervision Act. This publication serves interested investors as additional source of information and provides general information, information about product features or macroeconomic information without emphasizing product selling marketing statements. This publication does not constitute marketing communication pursuant to Art. 36 (2) Austrian Securities Supervision Act as no direct buying incentives were included in this publication, which is of information character. This publication does not constitute investment research pursuant to § 36 (1) Austrian Securities Supervision Act. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to the prohibition on dealing ahead of the dissemination of investment research. The information only serves as non-binding and additional information and is based on the level of knowledge of the person in charge of drawing up the information on the respective date of its preparation. The content of the publication can be changed at any time without notice. This publication does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation to subscribe for or purchase any securities, and neither this publication nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a security or financial product in a trading strategy. Information provided in this publication are based on publicly available sources which Erste Group considers as reliable, however, without verifying any such information by independent third persons. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this publication. Erste Group may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Erste Group endorses, recommends or approves any material on the linked page or accessible from it. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers of other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this publication. Any opinion, estimate or projection expressed in this publication reflects the current judgment of the author(s) on the date of publication of this document and do not necessarily reflect the opinions of Erste Group. They are subject to change without prior notice. Erste Group has no obligation to update, modify or amend this publication or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The past performance of securities or financial instruments is not indicative for future results. No assurance can be given that any financial instrument or issuer described herein would yield favorable investment results or that particular price levels may be reached. Forecasts in this publication are based on assumptions which are supported by objective data. However, the used forecasts are not indicative for future performance of securities or financial instrument. Erste Group, its affiliates, principals or employees may have a long or short position or may transact in the financial instrument(s) referred to herein or may trade in such financial instruments with other customers on a principal basis. Erste Group may act as a market maker in the financial instruments or companies discussed herein and may also perform or seek to perform investment services for those companies. Erste Group may act upon or use the information or conclusion contained in this publication before it is distributed to other persons. This publication is subject to the copyright of Erste Group and may not be copied, distributed or partially or in total provided or transmitted to unauthorized recipients. By accepting this publication, a recipient hereof agrees to be bound by the foregoing limitations.

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

Erste Group Homepage: www.erstegroup.com