

CEE Market Insights

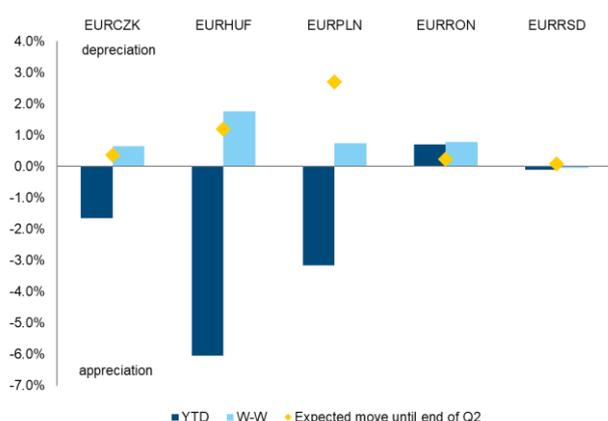
Hungary starts the monetary easing

This week in CEE

After a busy week of releases, the upcoming week is anticipated to be relatively calm. Poland will be the main source of data publications, while other countries in the CEE region will only witness sporadic releases. The highlight of the week will be the rate decision by the Hungarian Central Bank on Tuesday. Although the policy rate is expected to remain unchanged, we expect a 100bp reduction in the effective 1-day depo rate to 17%, reflecting an improved risk assessment. On Monday, Poland will release important indicators such as industrial production, producer price index, and wage growth. Despite a robust Q1 GDP performance, industrial production is forecasted to remain below last year's figures. On Tuesday, Polish retail sales figures will also be unveiled, and they are expected to show a decline in real terms compared to the previous year's reference. Towards the end of the week, both Poland and Hungary will publish their unemployment rates, which are projected to remain unchanged. Additionally, Slovakia's PPI release on Friday is likely to reveal further disinflationary trends.

Monday	Tuesday	Wednesday	Thursday	Friday
PL: Industrial Production, PPI, Wages	PL: Retail sales		PL: Unemployment	HU: Unemployment
	SK: CA balance		RS: Wages	SK: PPI
	HU: CB Rate			
RO: 2027 Bonds	HU: Bill	HU: Bill	CZ: Bills	
	RSD: Bonds 2025	CZ: Bonds	PL: various Bonds	
			RO: Bonds 2038	

FX performance

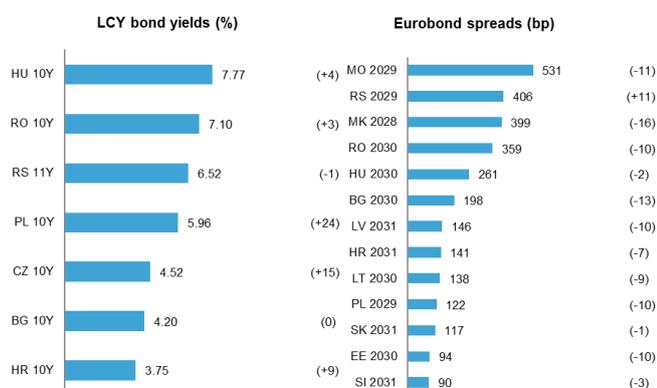


Source: Bloomberg, Erste Group Research

FX market developments

CEE currencies were under depreciation pressure last week, due to the surging dollar, which strengthened to well below 1.08 against the euro, supported by reports of progress in the ongoing US debt ceiling negotiations. The Hungarian forint suffered the most significant blow among CEE currencies, depreciating by 1.7% against the euro. The depreciation of the forint was likely intensified by Prime Minister Orban's threat to block the EU's financial aid to Ukraine and the new sanctions against Russia, as well as much firmer expectations of the first rate cut to be delivered by the MNB this week. The depreciation of the Romanian leu against the euro is also worth mentioning (1% w/w), as it confirms the previous warning from the NBR that the central bank is willing to tolerate a broader fluctuation of the RON (meaning weakening) in order to discourage companies from excessive FX borrowing.

Yields and spreads



Source: Bloomberg, Erste Group Research

Bond market developments

CEE government bonds followed the trend of higher yields experienced on major markets last week. While 10Y yields increased 15-20bp w/w almost everywhere, 10Y yields on ROMGBs and HBGs remained almost flat, despite weakening of their currencies. The main reason for the relatively good performance is still the good demand for ROMGBs from offshore investors and anticipation of the first rate cut in the region, which should be delivered by the Hungarian central bank this week. Indeed, FRAs 1x4 declined 40bp w/w and yields on short-term government securities even fell 50-100bp w/w. Yields on Croatia's governments bonds have already touched the level of Slovak bonds on a couple of maturities. Fitch Ratings released a note in which they stated that the installation of a new technocratic government in Slovakia does not change the country's underlying political dynamics and that the new parliament emerging from the elections scheduled for September could have difficulties supporting essential reforms due to further fragmentation.

In case you missed

CEE: European Commission uplifts forecasts

HU: Technical recession is still in the house. The forecasts for 2023 growth will be revised.

PL: Positive surprise for growth in Poland, upward revision of GDP figures needed.

PL: Poland in disinflation territory

SK: Labour market suggesting a slight weakening

SK: Role of food prices in inflation has eased

RO: Flash 1Q23 GDP surprised to the downside

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Note: Past performance is not necessarily indicative of future results

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
22. May	10:00	PL	Industrial Production (y/y)	Apr	-4.0%		-2.9%	
	10:00	PL	PPI (y/y)	Apr	7.7%		10.1%	
	10:00	PL	Wages (y/y)	Apr	11.8%		12.6%	
23. May	10:00	PL	Retail Sales (y/y)	Apr	3.2%		4.8%	
	10:30	SK	Current Account Balance (monthly)	Mar			-547.30	
	14:00	HU	Central Bank Rate	May 23	13%	13%	13%	Amid unchanged policy rate, the effective 1-day quick depo rate might be reduced by 100bp to 17%, due to improved risk assessment.
25. May	10:00	PL	Unemployment Rate	Apr	5.3%		5.40%	
	12:00	RS	Wages (y/y)	Mar			-0.80%	
26. May		HU	Unemployment Rate	Apr		4.1%	4.1%	Labor market to have remained stable.
	9:00	SK	PPI (y/y)	Apr		20.0%	27.7%	Disinflation in producer prices expected to continue.

Source: Erste Group Research

Forecasts

LCY Government bond yields

	current	2023Q2	2023Q3	2023Q4	2024Q1
Czechia 10Y	4.5	4.5	4.4	4.0	3.6
Hungary 10Y	7.8	8.0	7.6	7.1	6.7
Poland 10Y	6.0	6.0	6.1	6.0	5.9
Romania10Y	7.1	7.6	7.5	7.5	7.4
Serbia 5Y	5.5	6.1	6.0	5.9	5.7

Spreads vs. German Bunds (bps)

Croatia 10Y	117	140	140	130	130
Slovakia 10Y	128	110	100	100	n/a
Slovenia 10Y	85	100	100	100	100
DE10Y* yields	2.4	2.5	2.4	2.2	2.1

* Bloomberg consensus forecast

3M Money Market Rate

	current	2023Q2	2023Q3	2023Q4	2024Q1
Czechia	7.17	7.17	7.08	6.31	5.31
Hungary	16.09	14.90	13.10	10.70	9.20
Poland	6.90	6.90	6.70	6.50	6.30
Romania	6.58	6.80	6.90	6.50	6.50
Serbia	5.58	5.80	5.80	5.80	5.59
Eurozone	3.42	3.61	3.72	3.74	3.77

Real GDP growth (%)

	2021	2022e	2023f	2024f
Croatia	13.1	6.3	1.8	2.6
Czechia	3.5	2.5	0.4	2.8
Hungary	7.1	4.6	0.5	4.1
Poland	6.8	4.9	0.3	2.4
Romania	5.8	4.7	2.1	4.2
Serbia	7.5	2.3	1.6	3.8
Slovakia	3.0	1.7	1.5	2.5
Slovenia	8.2	5.4	1.3	2.5
CEE8 avg	6.2	4.2	0.9	3.0

Public debt (% of GDP)

	2021	2022e	2023f	2024f
Croatia	78.4	67.2	64.5	63.0
Czechia	42.0	44.2	43.9	45.0
Hungary	76.6	73.3	69.8	67.8
Poland	53.8	49.1	49.0	49.5
Romania	48.6	47.2	46.8	45.9
Serbia	56.5	55.1	54.0	53.2
Slovakia	62.2	60.9	60.0	58.2
Slovenia	74.5	69.9	69.1	68.5
CEE8 avg	55.7	53.0	52.1	51.9

Source: Bloomberg, Erste Group Research

FX

	current	2023Q2	2023Q3	2023Q4	2024Q1
EURCZK	23.73	23.85	24.00	23.90	23.88
EURHUF	375.47	380.00	385.00	385.00	385.00
EURPLN	4.53	4.66	4.65	4.65	4.63
EURRON	4.98	4.99	5.02	5.05	5.08
EURRSD	117.25	117.30	117.30	117.40	117.40
EURUSD	1.08	1.12	1.14	1.16	1.18

Key Interest Rate

	current	2023Q2	2023Q3	2023Q4	2024Q1
Czechia	7.00	7.00	7.00	6.50	5.50
Hungary	13.00	13.00	13.00	10.50	9.00
Poland	6.75	6.75	6.75	6.75	6.50
Romania	7.00	7.00	7.00	7.00	7.00
Serbia	6.00	6.00	6.00	6.00	5.75
Eurozone	3.75	4.00	4.25	4.25	4.25

3M Money Market Rate

	current	2023Q2	2023Q3	2023Q4	2024Q1
Czechia	7.17	7.17	7.08	6.31	5.31
Hungary	16.09	14.90	13.10	10.70	9.20
Poland	6.90	6.90	6.70	6.50	6.30
Romania	6.58	6.80	6.90	6.50	6.50
Serbia	5.58	5.80	5.80	5.80	5.59
Eurozone	3.42	3.61	3.72	3.74	3.77

Average inflation (%)

	2021	2022e	2023f	2024f
Croatia	2.6	10.8	6.8	3.4
Czechia	3.8	15.1	10.7	2.6
Hungary	5.1	14.5	18.6	5.3
Poland	5.1	14.3	12.3	6.0
Romania	5.1	13.7	10.7	6.2
Serbia	4.0	11.9	11.8	4.1
Slovakia	3.2	12.8	12.0	7.0
Slovenia	1.9	8.8	6.5	3.4
CEE8 avg	4.5	13.8	11.9	5.2

C/A (%GDP)

	2021	2022e	2023f	2024f
Croatia	1.8	-1.6	-0.5	-0.8
Czechia	-0.8	-5.6	-0.5	1.0
Hungary	-4.1	-8.1	-3.8	-3.1
Poland	-1.4	-3.3	-2.5	-1.5
Romania	-7.2	-9.3	-7.9	-7.5
Serbia	-4.2	-6.9	-5.8	-4.5
Slovakia	-1.9	-8.3	-6.0	-4.8
Slovenia	3.8	-0.8	0.1	1.0
CEE8 avg	-2.4	-5.5	-3.4	-2.5

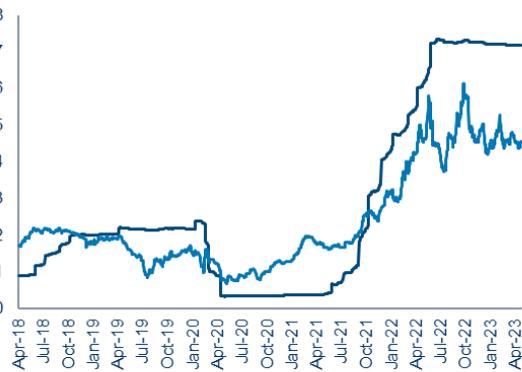
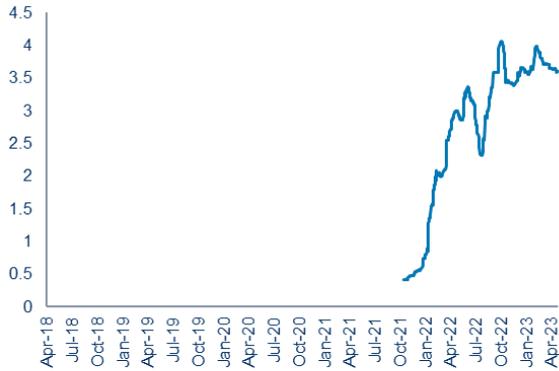
Unemployment (%)

	2021	2022e	2023f	2024f
Croatia	7.6	7.0	6.9	6.6
Czechia	2.9	2.4	2.9	3.4
Hungary	4.1	3.6	3.8	3.5
Poland	5.9	5.1	5.2	5.0
Romania	5.6	5.6	5.8	5.7
Serbia	11.0	9.4	9.2	8.8
Slovakia	6.8	6.1	6.3	6.3
Slovenia	4.8	4.2	4.0	3.9
CEE8 avg	5.4	4.9	5.0	4.9

Budget Balance (%GDP)

	2021	2022e	2023f	2024f
Croatia	-2.6	0.5	-2.5	-2.2
Czechia	-5.1	-3.6	-3.8	-2.8
Hungary	-7.1	-6.2	-4.2	-3.4
Poland	-1.8	-3.4	-4.5	-3.5
Romania	-7.1	-6.2	-4.7	-3.5
Serbia	-4.1	-3.1	-3.2	-2.5
Slovakia	-6.1	-4.0	-5.5	-4.0
Slovenia	-4.6	-3.0	-3.9	-2.9
CEE8 avg	-4.3	-4.1	-4.3	-3.3

Appendix



Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Market Insights
22 May 2023

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