

CEE Market Insights

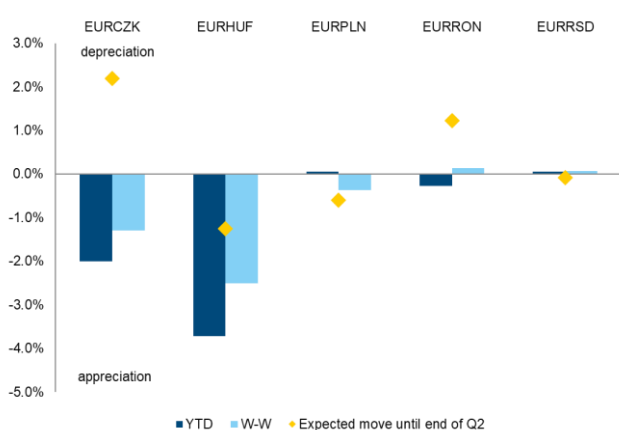
Hungarian central bank in the spotlight

This week in CEE

This week, the Hungarian central bank meeting will get the most attention, as markets are waiting for any indication on interest rate normalization. Apart from Hungary, the Czech central bank will hold its rate setting meeting as well and we expect no change in the policy rate. In Hungary, wage growth in January will be worth watching to evaluate how wage dynamics evolved at the beginning of the year, given the high-inflation environment. Further February's producer prices will be published in Hungary and Slovakia. Toward the end of the week, a variety of data will flow in. In Croatia, Slovenia and Serbia, retail sales growth will be released for February. On top of that, Serbia will publish data on industry performance in February. On Friday, a flash estimate of March inflation is scheduled in Poland and Slovenia.

Monday	Tuesday	Wednesday	Thursday	Friday
	HU: Central Bank	CZ: Central Bank	HR: Retail	RO: Unemployment
	HU: Wages, Current Account	SI: Retail sales		PL SI: CPI
	SK: PPI			RS: Retail, Industry
				HU: PPI
RO: 2027 Bonds	HU: Bills	PL: Bonds	RO: 2028 Bonds	

FX chart



Source: Bloomberg, Erste Group Research

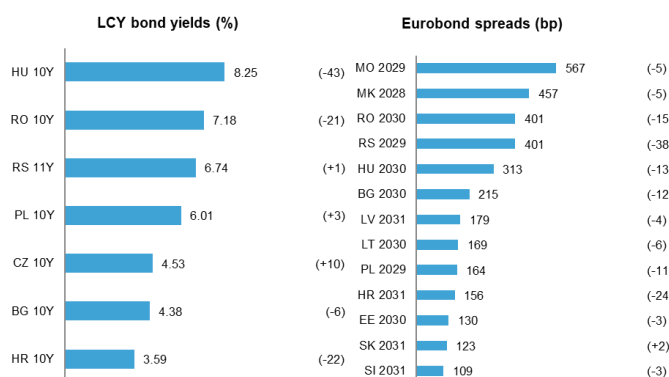
FX market developments

The weekly balance shows appreciation of the CEE currencies against the euro. While the Polish zloty strengthened only marginally, the Czech koruna and Hungarian forint gains were more substantial. Globally, the US Fed increasing interest rates by 25bp was the key event. This week, there are two central bank meetings in the region. While in Czechia we do not expect any major development, in Hungary the meeting is going to attract more attention, as markets are waiting for the indication on interest rate normalization. Recent market turmoil and the vulnerability of Hungarian forint in the aftermath of the troubles of the US SVB bank as well as Credit Suisse bank ma, however, delay the beginning of interest rate normalization. Wednesday's decision from the government bars institutional investors and large retail depositors from taking advantage of central bank credit facilities yielding the 18% interest rate. This decision could weaken the transmission mechanism of monetary

tightening pursued by the central bank and may affect the interest rate development as well.

LCY yields, Eurobond spreads

Bond market developments



Source: Bloomberg, Erste Group Research

We saw a diverse development on the CEE bond market last week. While Czech 10Y yields went up 20bp w/w, government bond yields of other countries followed the global trend of falling yields. In Czechia, expectations on interest rates priced in forwards went up (FRA9x12+20bp w/w), as Deputy Governor Eva Zamrazilova indirectly ruled out her vote for a rate cut before September. On the other hand, the Hungarian yield curve moved down, with the mid-part falling 40-50bp w/w. After the government intervention in monetary policy tools (the government actually restricted access to some resident investors to depositing at the 1d deposit rate), the effective policy rate declined, which resulted in the collapse of forwards (FRA9x12 -70bp w/w). Next week, Romania will reopen ROMGBs 2027 and 2028, Hungary will sell T-bills on top of regular T-bond auctions and Poland will offer 2025 zero coupon bonds and POLGBs 2028, 2033 both as coupon bonds and floaters.

In case you missed

CEE: [CEE region caught up in GDP per capita measured in PPS.](#)

CEE: [Labor market slack on a downward trend while Job vacancies varying across the CEE](#)

RO: Fitch revised Romania's Outlook to Stable affirming rating at 'BBB-'

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
27. Mar			No releases scheduled					
28. Mar	08:30	HU	Current Account Balance (quarterly)	4Q		0.0%	-2452.40	
	08:30	HU	Wages (y/y)	Jan			0.18	
	09:00	SK	PPI (y/y)	Feb		22.0%	33.6%	A higher base from 2022 is pushing down the year-on-year inflation rate.
	14:00	HU	Central Bank Rate	Mar 28		13.0%	13.0%	MNB is expected to leave the monetary conditions unchanged.
29. Mar	10:30	SI	Retail Sales (y/y)	Feb			18.5%	Headline figure seen remaining in the positive area
	14:30	CZ	Central Bank Rate	Mar 29		7.00%	7.00%	Stability of policy rates is widely expected.
30. Mar	11:00	HR	Retail Sales (y/y)	Feb		1.0%	1.1%	Subdued retail trade performance expected also in February
31. Mar		HR	Current Account Balance (quarterly)	4Q			4127.52	
	08:00	RO	Unemployment Rate	Feb			5.6%	
	08:30	HU	PPI (y/y)	Feb			35.0%	
	08:30	HU	Trade Balance	Jan F			-165.00	
	09:00	CZ	GDP (y/y)	4Q F		0.4%	0.2%	Households consumption decreased significantly in the second half of the last year.
	10:00	PL	CPI (y/y)	Mar P			18.4%	
	10:00	PL	CPI (m/m)	Mar P			0.01	
	10:30	SI	CPI (y/y)	Mar		0.10	0.09	Inflation still moving at elevated levels
	10:30	SI	CPI (m/m)	Mar			0.7%	
	11:00	HR	Industrial Production (y/y)	Feb		-3.0%	-2.8%	February release seen further extending negative industrial production trend
	12:00	RS	Industrial Production (y/y)	Feb		2.3%	4.1%	We expect continuation of small industry expansion
	12:00	RS	Retail Sales (y/y)	Feb		3.0%	1.8%	Mild acceleration compared to start of the year seen in February
	12:00	RS	Trade Balance	Feb			-689.90	

Source: Erste Group Research

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Note: Past performance is not necessarily indicative of future results

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Forecasts

Government bond yields

	current	2023Q2	2023Q3	2023Q4	2024Q1
Croatia 10Y	3.8	3.8	3.6	3.5	3.4
spread (bps)	167	114	111	117	114
Czechia 10Y	4.5	4.5	4.3	4.0	3.6
spread (bps)	240	181	184	166	137
Hungary 10Y	8.2	8.0	7.6	7.1	6.7
spread (bps)	612	535	510	478	449
Poland 10Y	6.0	6.0	6.1	6.0	5.9
spread (bps)	388	334	361	367	364
Romania10Y	7.2	8.0	7.8	7.5	7.5
spread (bps)	505	534	531	517	519
Slovakia 10Y	3.4	3.7	3.8	4.0	
spread (bps)	124	104	131	167	
Slovenia 10Y	3.20	3.60	3.40	3.40	3.40
spread (bps)	107	94	91	107	114
Serbia 5Y	5.6	6.1	6.0	5.9	5.7
spread (bps)	346	344	351	357	344
DE10Y*	2.12	2.66	2.49	2.33	2.26

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2023Q2	2023Q3	2023Q4	2024Q1
Czechia	7.19	7.18	6.84	6.05	5.31
Hungary	16.30	13.20	11.70	10.20	8.70
Poland	6.90	6.90	6.70	6.50	6.30
Romania	6.85	7.25	7.35	7.00	7.00
Serbia	5.45	5.80	5.80	5.80	5.59
Eurozone	3.03	3.45	3.47	3.50	3.44

Real GDP growth (%)

	2021	2022e	2023f	2024f
Croatia	13.1	6.3	1.0	2.1
Czechia	3.5	2.4	0.2	3.2
Hungary	7.1	4.6	1.0	4.2
Poland	6.8	4.9	0.3	2.4
Romania	5.8	4.8	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	0.8	3.1

Public debt (% of GDP)

	2021	2022e	2023f	2024f
Croatia	78.4	69.5	66.8	66.0
Czechia	42.0	44.6	43.9	45.0
Hungary	76.8	72.9	69.8	67.9
Poland	53.8	49.6	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	60.5	59.7	57.9
Slovenia	74.5	70.8	71.3	70.6
CEE8 avg	55.8	53.3	52.2	52.1

FX

	current	2023Q2	2023Q3	2023Q4	2024Q1
EURCZK	23.68	24.20	24.10	23.90	23.88
EURHUF	384.18	380.00	390.00	390.00	385.00
EURPLN	4.69	4.66	4.65	4.65	4.63
EURRON	4.93	4.99	5.02	5.05	5.08
EURRSD	117.39	117.30	117.30	117.40	117.40
EURUSD	1.08	1.08	1.10	1.12	1.15

Key Interest Rate

	current	2023Q2	2023Q3	2023Q4	2024Q1
Czechia	7.00	7.00	6.75	6.00	5.25
Hungary	13.00	13.00	11.50	10.00	8.50
Poland	6.75	6.75	6.75	6.75	6.50
Romania	7.00	7.00	7.00	7.00	7.00
Serbia	5.75	6.00	6.00	6.00	5.75
Eurozone	3.50	4.00	4.00	4.00	

Average inflation (%)

	2021	2022e	2023f	2024f
Croatia	2.6	10.8	7.4	2.6
Czechia	3.8	15.1	10.4	2.4
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	6.3	3.2
CEE8 avg	4.5	13.8	11.9	5.1

C/A (%GDP)

	2021	2022e	2023f	2024f
Croatia	1.8	-2.4	-1.9	-2.5
Czechia	-0.8	-5.6	-0.5	1.0
Hungary	-4.2	-7.8	-4.9	-3.8
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	-6.8	-5.1	-3.9
Slovenia	3.8	-0.8	0.1	1.0
CEE8 avg	-2.4	-5.4	-3.5	-2.6

Unemployment (%)

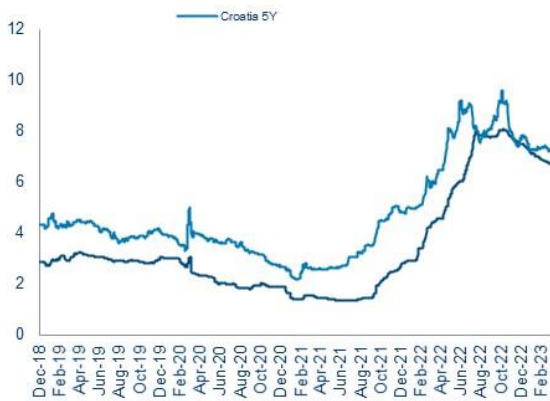
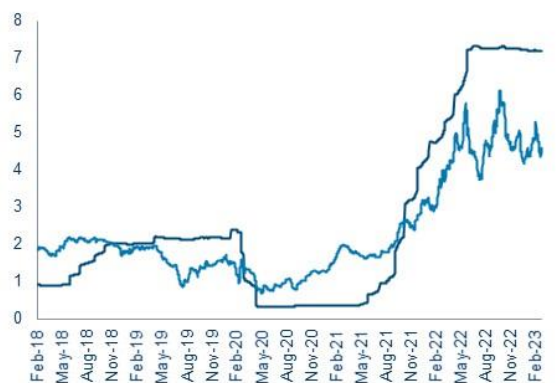
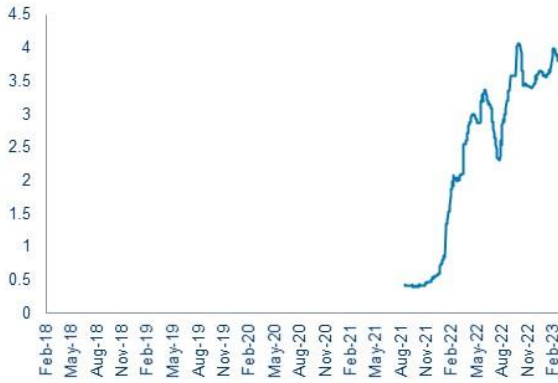
	2021	2022e	2023f	2024f
Croatia	7.6	6.8	6.8	6.4
Czechia	2.9	2.4	2.9	3.0
Hungary	4.1	3.6	3.8	3.4
Poland	5.9	5.1	5.2	5.0
Romania	5.6	5.6	5.8	5.7
Serbia	11.0	9.4	9.2	8.8
Slovakia	6.8	6.1	6.3	6.3
Slovenia	4.8	4.2	4.0	3.9
CEE8 avg	5.4	4.8	5.0	4.9

Budget Balance (%GDP)

	2021	2022e	2023f	2024f
Croatia	-2.6	-1.8	-2.5	-2.2
Czechia	-5.1	-3.5	-3.8	-2.8
Hungary	-6.8	-6.1	-4.2	-3.4
Poland	-1.8	-3.1	-4.5	-3.5
Romania	-7.1	-6.1	-4.7	-3.2
Serbia	-4.1	-3.1	-3.2	-2.5
Slovakia	-6.1	-4.0	-5.5	-4.0
Slovenia	-5.2	-3.8	-5.1	-2.9
CEE8 avg	-4.3	-4.0	-4.4	-3.3

Source: Bloomberg, Erste Group Research

Appendix



BELU3M

Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Market Insights
27 March 2023

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