

CEE Market Insights

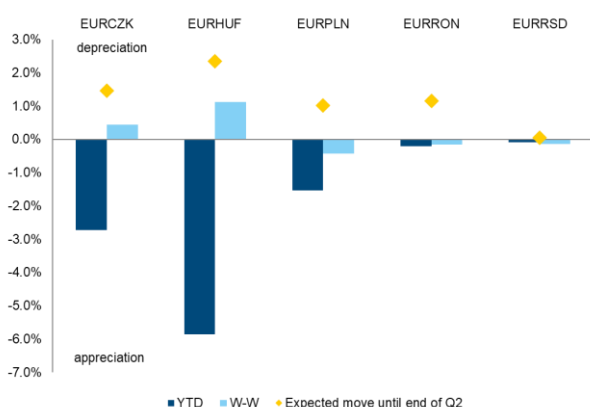
Hungary prepares for normalization of interest rates

This week in CEE

The MPC meeting in Hungary will be the most watched event of this week in CEE. We do not expect a change of the one-day deposit rate, which currently stands at 18%, but lowering of the upper bound of the interest rate corridor, as signaled by Deputy Governor Virag last week, could be the first step towards normalization of interest rates in Hungary. We believe that the upper bound could be cut by 250bp, from 25% to 22.5% this week, and lowering of the one-day deposit rate could start in May with a 100bp cut. Monetary conditions are currently extremely tight in Hungary - money supply growth is already negative, while the forint has appreciated more than 5% vs. the euro since the beginning of the year and has clearly outperformed its regional peers. From this week's data releases, flash estimates of April inflation for Poland and Slovenia should not lack for attention. Large drops in headline inflation are expected in both countries - in Poland from 16.1% to 14.8% and in Slovenia from 10.5% to 8.5%. Furthermore, April economic sentiment data will be released by individual countries and later by the European Commission.

Monday	Tuesday	Wednesday	Thursday	Friday
PL: Retail, Industry	HU: Central bank	PL: Unemployment		PL SI: Inflation
PL: PPI	RS: Wages	SI: Retail		HR RS: Retail, Industry
				HU: Unemployment
				SK: PPI
RO: Bonds	HU: Bills	HU: Bills	RO: Bonds	
	RS: Bonds	CZ: Bonds	CZ: Bills	

FX performance



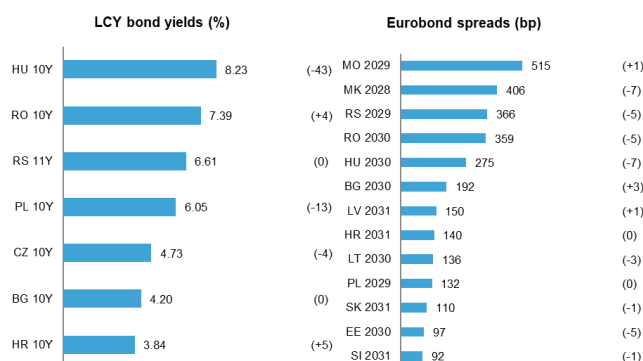
Source: Bloomberg, Erste Group Research

FX market developments

CEE currencies showed a mixed development last week. While the Polish zloty remained on an appreciation path, approaching its 10-month high vs. the euro, the Czech koruna experienced about a 1% correction after reaching a 15-year high vs. the euro (CZKEUR at 23.200) the week before. The Hungarian forint was on a roller-coaster ride last week, shaken by news that the Hungarian central bank could start cutting rates already at this week's meeting. We think that the market overreacted, as a cut of the upper bound of the interest rate corridor should not have any material impact on FX. The central bank will likely outline its readiness to cut rates in the following months, but make it data-dependent. The announcement of preparation for normalization of interest rates could also be seen as a verbal intervention against

the forint and an indication that the EURHUF below 370 is seen by the central bank as too strong.

Bond yields and spreads



Source: Bloomberg, Erste Group Research

Bond market developments

The HGB curve experienced a 40-50bp downward shift in the aftermath of strong comments from Deputy Governor Virag, who sent markets a clear signal that the first steps toward normalization of interest rates in Hungary could start already this week. Regarding last week's debt issuance, debt agencies in Slovakia, Hungary and Romania raised more money than they initially planned to borrow. Slovakia's ARDAL increased its YTD gross issuance to 62% of its full-year plan, with the rest to be completed in five remaining auctions. This week, Romania will offer ROMGBs 2028, 2030, 2032, and 2036, Serbia two bonds, Czechia T-bills, one coupon and one floater bond. Hungary will offer T-bills on top of regular bond auctions.

In case you missed

CEE: Bond Market Report 2Q23 ['Heavy foreign issuance started the year'](#)

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Note: Past performance is not necessarily indicative of future results

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Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
24-Apr	10:00	PL	Industrial Production (y/y)	Mar	-1.70%		-1.2%	
	10:00	PL	Retail Sales (y/y)	Mar	9.2%		10.8%	
	10:00	PL	PPI (y/y)	Mar	11.46%		18.4%	
25-Apr	12:00	RS	Wages (y/y)	Feb			0.80%	
	14:00	HU	Central Bank Rate	Apr-25	13.0%		13.0%	
26-Apr	10:00	PL	Unemployment Rate	Mar	5.4%		5.5%	
	10:30	SI	Retail Sales (y/y)	Mar		-4.0%	-4.0%	Retail trade seen remaining in the negative, with base effect weighing on the figure
28-Apr		HU	Unemployment Rate	Mar			4.1%	
	9:00	SK	PPI (y/y)	Mar		30.0%	27.9%	Another rise is expected due to a base effect. In the coming months, disinflation will follow.
	10:00	PL	CPI (y/y)	Apr P	14.9%		16.1%	
	10:00	PL	CPI (m/m)	Apr P			1.10%	
	10:30	SI	CPI (y/y)	Apr		8.50%	10.50%	Inflation expected to move back to single-digit area
	10:30	SI	CPI (m/m)	Apr				
	11:00	HR	Industrial Production (y/y)	Mar		-2.0%	-1.7%	Industrial production seen further extending negative pattern
	11:00	HR	Retail Sales (y/y)	Mar		2.0%	0.4%	Headline figure growth expected to remain modest, although showing slight pick-up in March
	12:00	RS	Industrial Production (y/y)	Mar		0.5%	1.9%	Industrial production likely slowed further
	12:00	RS	Retail Sales (y/y)	Mar		-3.5%	-3.8%	Inflation likely continued to weigh on consumer appetite.
	12:00	RS	Trade Balance	Mar			-712.80	

Source: Erste Group Research

Forecasts

LCY Government bond yields					
	current	2023Q2	2023Q3	2023Q4	2024Q1
Czechia 10Y	4.7	4.5	4.3	4.0	3.6
Hungary 10Y	8.2	8.0	7.6	7.1	6.7
Poland 10Y	6.1	6.0	6.1	6.0	5.9
Romania 10Y	7.4	8.0	7.8	7.5	7.5
Serbia 5Y	5.6	6.1	6.0	5.9	5.7

Spreads vs. German Bunds (bps)					
Croatia 10Y	121	140	140	130	130
Slovakia 10Y	130	110	100	100	n/a
Slovenia 10Y	89	100	100	100	100
DE10Y* yields	2.45	2.56	2.44	2.31	2.26

* Bloomberg consensus forecast

3M Money Market Rate					
	current	2023Q2	2023Q3	2023Q4	2024Q1
Czechia	7.17	7.18	6.84	6.05	5.31
Hungary	16.25	13.20	11.70	10.20	8.70
Poland	6.90	6.90	6.70	6.50	6.30
Romania	6.78	7.25	7.35	7.00	7.00
Serbia	5.59	5.80	5.80	5.80	5.59
Eurozone	3.26	3.45	3.47	3.50	3.44

Real GDP growth (%)				
	2021	2022e	2023f	2024f
Croatia	13.1	6.3	1.8	2.6
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	4.7	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	3.1

Public debt (% of GDP)				
	2021	2022e	2023f	2024f
Croatia	78.4	67.2	64.5	63.0
Czechia	42.0	44.6	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	60.5	59.7	57.9
Slovenia	74.5	70.8	70.8	70.1
CEE8 avg	55.7	53.1	52.1	52.0

FX					
	current	2023Q2	2023Q3	2023Q4	2024Q1
EURCZK	23.47	23.85	24.00	23.90	23.88
EURHUF	377.00	385.00	390.00	390.00	385.00
EURPLN	4.61	4.66	4.65	4.65	4.63
EURRON	4.94	4.99	5.02	5.05	5.08
EURRSD	117.26	117.30	117.30	117.40	117.40
EURUSD	1.10	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	6.00	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	6.8	3.4
Czechia	3.8	15.1	10.3	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	6.3	3.2
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	-4.4	-3.6
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	-3.4	-2.5

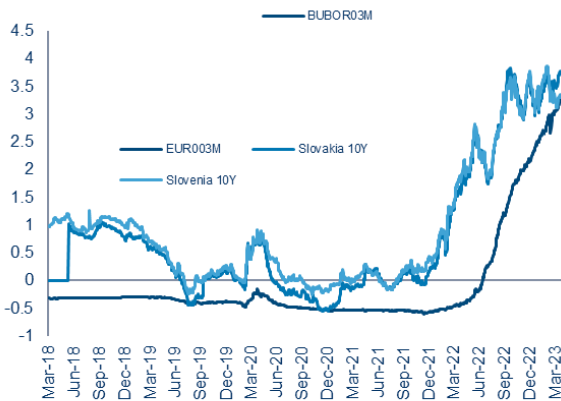
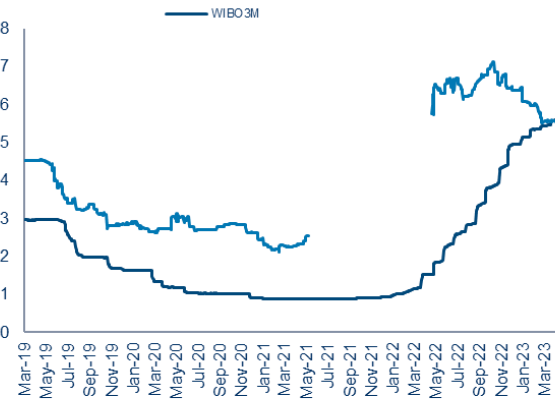
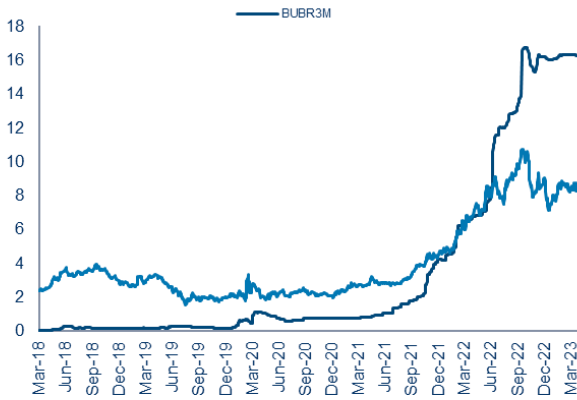
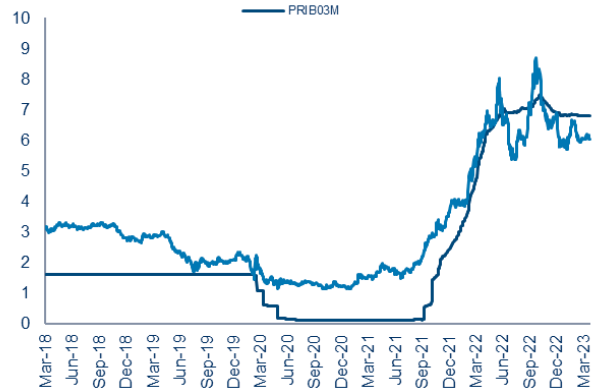
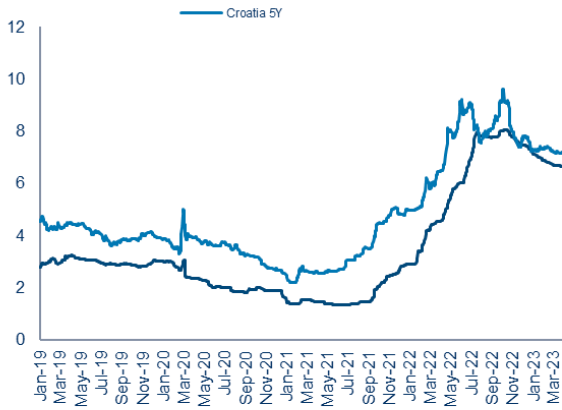
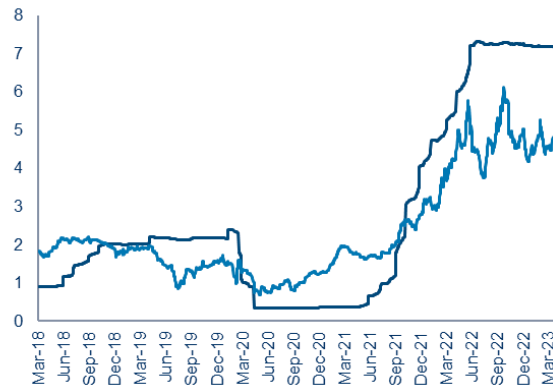
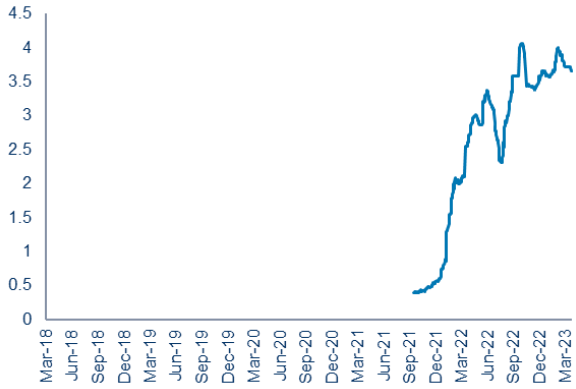
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Romania	6.78	7.25	7.35	7.00	7.00
Serbia	5.59	5.80	5.80	5.80	5.59
Eurozone	3.26	3.45	3.47	3.50	3.44

Unemployment (%)				
	2021	2022e	2023f	2024f
Croatia	7.6	7.0	6.9	6.6
Czechia	2.9	2.4	2.9	3.0
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	4.8	5.0	4.9

Budget Balance (%GDP)				
	2021	2022e	2023f	2024f
Croatia	-2.6	0.5	-2.5	-2.2
Czechia	-5.1	-3.5	-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	-6.1	-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	-4.5	-2.9
CEE8 avg	-4.3	-4.0	-4.3	-3.3

Source: Bloomberg, Erste Group Research

Appendix



— BELI3M

Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Market Insights
24 April 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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