

CEE MARKET INSIGHTS

May's inflation footprints flowing in

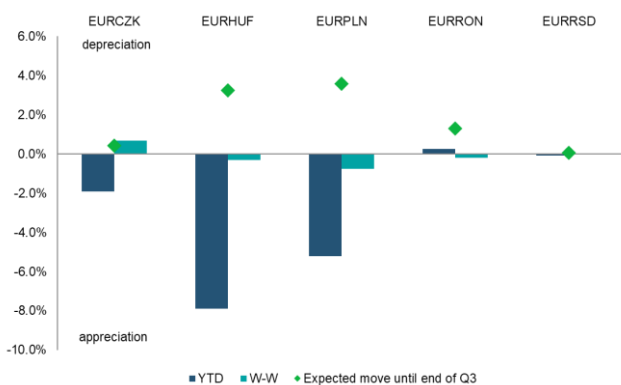
This week in CEE

This week, May's inflation numbers will be flowing in throughout the week. We have already seen the flash estimates in Poland and Slovenia (inflation dropped to 13.0% y/y and 8.4% y/y, respectively), while in Hungary, headline inflation in May eased to 21.5% y/y. We expect to see the easing trend across the region this week, as Czechia and Serbia will publish inflation on Monday, Romania on Tuesday, Slovakia on Wednesday. Details on inflation drivers in Poland will be released on Thursday, while Croatia will see the local inflation footprint on Friday, which should come in line with the initial estimate published at the beginning of the year within the Eurozone. As for other price developments in the region Czechia and Croatia will also release producer price growth in May. Other economic releases will include industrial output growth in April in Romania, alongside wage growth in Romania and Slovakia, the current account balance in Romania and trade balance in Poland.

Monday	Tuesday	Wednesday	Thursday	Friday
CZ RS: CPI	RO: CPI, Wages, Current Account	RO: Industry	PL: CPI	CZ: PPI
HR: PPI	SK Wages	SK: CPI		HR: CPI
	PL: Trade			

RO: 2027 Bonds	HU SI: Bills	CZ: Bonds	RO: 2032 Bonds	PL: Bonds
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FX market

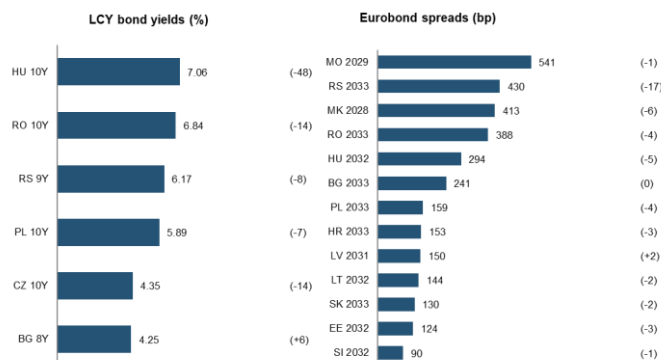


Source: Bloomberg, Erste Group Research

FX market developments

In general, all CEE currencies have been holding strong against the euro throughout the last week. Apart from the Czech koruna, which weakened marginally, the Hungarian forint, Polish zloty and Romanian leu gained. In Romania, the interest of international investors in long-term bonds has likely supported the strengthening bias. The biggest appreciation trend was visible in Poland, with the EURPLN moving down to 4.44. The Polish central bank kept the policy rate unchanged at 6.75%, but the dovish tone is becoming more and more profound, with Governor Glapinski formulating conditions for the rate cut toward the end of the year, inflation below 10% and on a clear downward trend. Monetary easing has become increasingly likely. In Serbia, on the other hand, the central bank surprised with an interest rate hike to 6.25% at the last meeting. This week, inflation releases will be the most important data from the monetary policy point of view.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Over the last week, long-term yields kept declining across the region, with Hungarian 10Y yields moving down by as much as 50 basis points, while the drops of 10Y yields in other countries were less pronounced. Croatia tapped the bond market, selling EUR 1.5bn of treasury papers maturing in 2035. The final supply was a bit higher than the plan of EUR 1.25bn. The demand was strong, with a book size in excess of EUR 7bn. The final pricing was set at MS+105, translating into yield-to-maturity just above 4%. This auction brought the issuance just above 70% of the 2023 target, with one big ticket still expected in 4Q23 on the local market. Romania also saw strong demand at the bond auction offering government papers maturing in 2038, with offshore investors interested in long-end term yields. This week, Romania will offer 2027 and 2032 bonds. Czechia and Poland also plan bond auctions, while Slovenia and Hungary will release T-bills.

In case you missed

CEE: [Baltics | Slow growth and lower inflation](#)

CEE: [Retail sector under the pressure in CEE.](#)

CZ: Slight downward revision of 2023 GDP should be expected. [Anti-inflationary data from Czech industry](#)

HR: We see risks to the upside to our current growth forecast.

HU: [Finally, inflation surprised to the downside. Industry also surprised to the downside in April](#)

HU: [Retail sales figures surprised to the downside](#)

RO: 1Q23 GDP growth confirmed at +2.3% y/y

RO: [Weak retail sales in April](#)

SK: [Challenging, but interesting macroeconomic environment](#)

[Bosnia and Herzegovina Outlook | Growth set to slow moderately](#)

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
12.Jun	09:00	CZ	CPI (y/y)	May	11.0%		12.7%	
	09:00	CZ	CPI (m/m)	May	0.2%		-0.2%	
	11:00	HR	PPI (y/y)	May			6.5%	
	12:00	RS	CPI (y/y)	May	14.6%	14.4%	15.1%	Headline figure further moderating, pressures on monthly level still present owing largely to non-energy items
	12:00	RS	CPI (m/m)	May			0.7%	
13.Jun		RO	Current Account Balance (monthly)	Apr			-5004.00	
	08:00	RO	CPI (y/y)	May	10.3%	10.3%	11.2%	Inflation expected to further decelerate in yearly terms mainly due to statistical base effect.
	08:00	RO	CPI (m/m)	May		0.4%	0.8%	This month's the figure is also helped by milk prices which went down significantly after the agreement between local retailers and government to cut prices by 20%
	08:00	RO	Wages (y/y)	Apr			15.7%	
	09:00	SK	Wages (y/y)	Apr			-5.1%	
	14:00	PL	Trade Balance	Apr	1586.50		608.00	
14.Jun	08:00	RO	Industrial Production (y/y)	Apr		-5.0%	-3.4%	Weak economic sentiment driven by order book level and expected business is indicating a -1.4% monthly contraction for industrial production. Large statistical base effect is pushing the annual figure further down.
	09:00	SK	CPI (y/y)	May		12.2%	13.8%	Annual inflation fell to 12.2% in April, caused by fading base effect – lower increase of food prices than a year ago.
	09:00	SK	CPI (m/m)	May		0.0%	0.6%	
15.Jun	10:00	PL	CPI (y/y)	May F			13.0%	
	10:00	PL	CPI (m/m)	May F				
16.Jun	09:00	CZ	PPI (y/y)	May	4.3%		6.4%	
	11:00	HR	CPI (y/y)	May		7.9%	8.9%	We see flash estimate being confirmed tad below 8% mark
	11:00	HR	CPI (m/m)	May			1.0%	

Source: Erste Group Research

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Note: Past performance is not necessarily indicative of future results

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Forecasts

LCY Government bond yields

	current	2023Q3	2023Q4	2024Q1	2024Q2
Czechia 10Y	4.4	4.3	4.0	3.7	3.4
Hungary 10Y	7.1	7.6	7.2	6.7	6.3
Poland 10Y	5.9	6.1	6.0	5.9	5.9
Romania10Y	6.8	7.5	7.5	7.4	7.3
Serbia 5Y	5.2	6.0	5.9	5.7	5.5

Spreads vs. German Bunds (bps)

	current	2023Q3	2023Q4	2024Q1	2024Q2
Croatia 10Y	126	130	130	130	n/a
Slovakia 10Y	128	12000	11500	100	n/a
Slovenia 10Y	88	100	100	100	n/a
DE10Y* yields	2.4	2.4	2.2	2.1	2.1

* Bloomberg consensus forecast

3M Money Market Rate

	current	2023Q3	2023Q4	2024Q1	2024Q2
Czechia	7.15	7.08	6.31	5.30	4.54
Hungary	15.68	13.10	10.70	9.20	7.70
Poland	6.90	6.90	6.30	6.30	6.30
Romania	6.55	6.90	6.50	6.50	6.50
Serbia	5.66	5.80	5.80	5.59	5.14
Eurozone	3.47	3.72	3.74	3.77	3.54

Real GDP growth (%)

	2021	2022e	2023f	2024f
Croatia	13.1	6.3	1.8	2.6
Czechia	3.5	2.5	0.2	2.8
Hungary	7.2	4.6	0.5	4.1
Poland	6.8	4.9	1.5	2.1
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	1.3	2.9

Public debt (% of GDP)

	2021	2022e	2023f	2024f
Croatia	78.4	68.4	64.0	62.6
Czechia	42.0	44.1	44.8	45.1
Hungary	76.6	73.3	69.9	67.7
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	52.2	51.9

Source: Bloomberg, Erste Group Research

FX

	current	2023Q3	2023Q4	2024Q1	2024Q2
EURCZK	23.72	23.80	23.90	23.88	23.81
EURHUF	368.17	380.00	385.00	385.00	385.00
EURPLN	4.44	4.60	4.60	4.55	4.52
EURRON	4.95	5.02	5.05	5.08	5.11
EURRSD	117.18	117.30	117.40	117.40	117.40
EURUSD	1.07	1.14	1.16	1.18	1.19

Key Interest Rate

	current	2023Q3	2023Q4	2024Q1	2024Q2
Czechia	7.00	7.00	6.50	5.50	4.75
Hungary	13.00	13.00	10.50	9.00	7.50
Poland	6.75	6.75	6.50	6.50	6.00
Romania	7.00	7.00	7.00	7.00	7.00
Serbia	6.25	6.00	6.00	5.75	5.25
Eurozone	3.75	4.25	4.25	4.25	4.00

Average inflation (%)

	2021	2022e	2023f	2024f
Croatia	2.6	10.8	6.8	3.4
Czechia	3.8	15.1	10.4	2.6
Hungary	5.1	14.5	18.6	5.3
Poland	5.1	14.3	12.7	7.1
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	12.0	5.6

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	-3.7	-2.8
Poland	-1.4	-3.3	1.0	-0.5
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	-2.0	-2.0

3M Money Market Rate

	current	2023Q2	2023Q3	2023Q4	2024Q1
Czechia	7.15	7.08	6.31	5.30	4.54
Hungary	15.68	13.10	10.70	9.20	7.70
Poland	6.90	6.90	6.30	6.30	6.30
Romania	6.55	6.90	6.50	6.50	6.50
Serbia	5.66	5.80	5.80	5.59	5.14
Eurozone	3.47	3.72	3.74	3.77	3.54

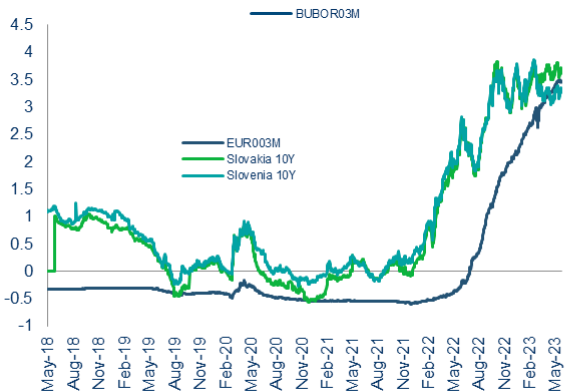
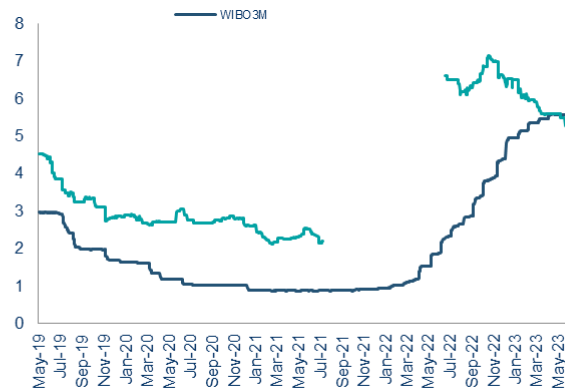
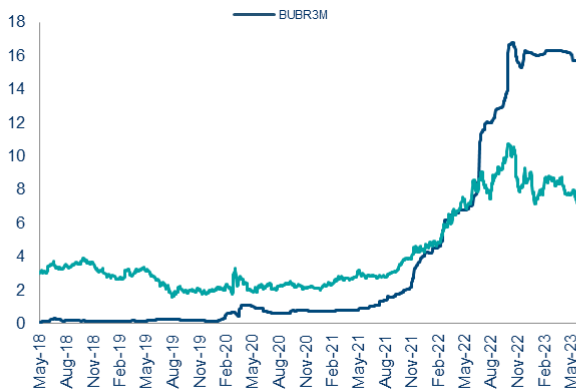
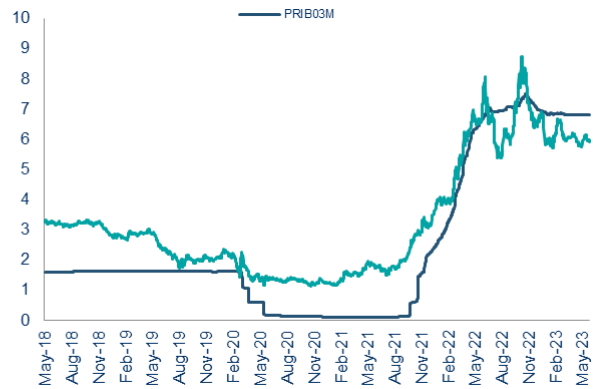
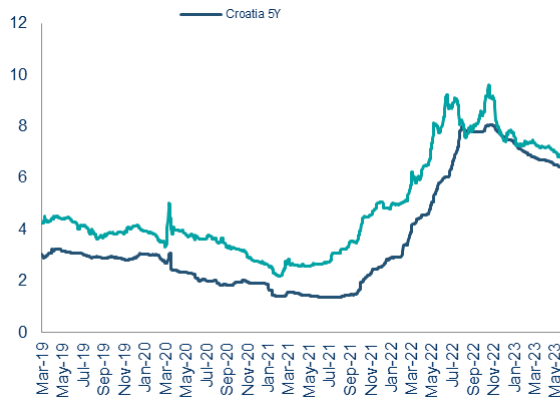
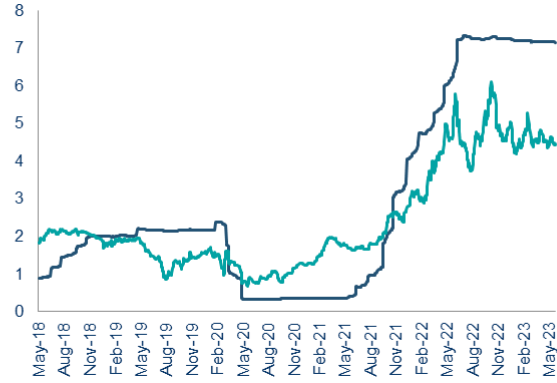
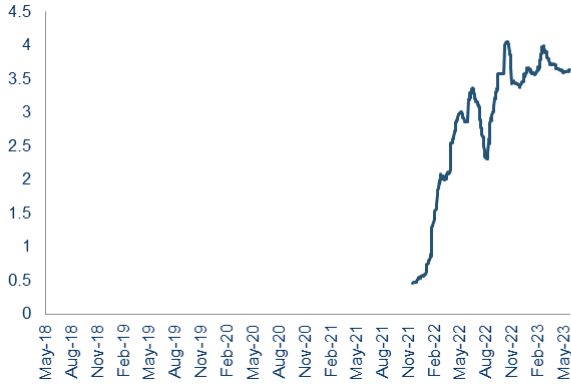
Unemployment (%)

	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	3.9	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	0.4	-1.0	-2.2
Czechia	-5.1	-3.6	-4.0	-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



BEU 3M

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