

CEE MARKET INSIGHTS

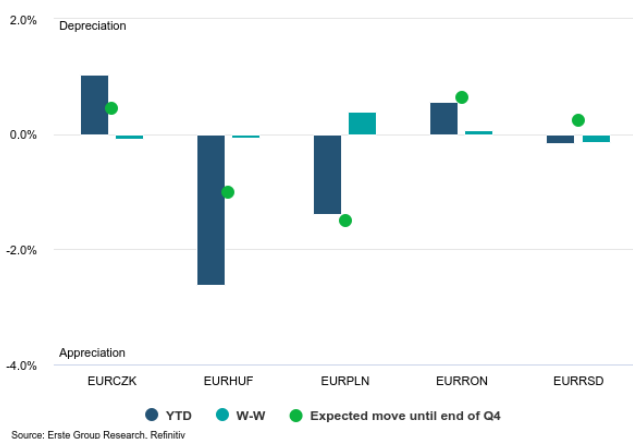
More central banks' meetings

This week in CEE

The week opens with the PMI releases in Czechia, Hungary and Poland. Further, there are more central bank meetings scheduled this week. On Wednesday, Poland holds its rate-setting meeting. On the one hand, inflation keeps declining, while on the other hand, the exchange rate remains stable, but relatively weak. We believe, however, that the dynamic fall of inflation will be decisive and we do not exclude even a 50bp cut. On Thursday, the Romanian central bank is expected to keep the policy rate flat at 7.0%. In Serbia, on Friday, we should also see no change in the key interest rate. Other than that, Czechia, Hungary, Romania and Slovakia will publish retail sales growth in August. Hungary at the top will release industrial output growth, and we should be able to get a pretty accurate estimate of economic growth in the third quarter, as the question of whether Hungary will exit recession has been open so far. Finally, Hungary and Slovenia will release trade data, while Romania and Serbia will release producer prices in August. On Friday, after the market closes, we might see revision of the rating and outlook of Croatia by Fitch, Slovenia by Moody's, and Serbia by S&P. We see possibility of positive rating action (most likely change of the outlook to positive) in case of Croatia.

Monday	Tuesday	Wednesday	Thursday	Friday
RO: Unemployment	RO: PPI	PL: Central Bank	RO: Central Bank	RS: Central Bank, PPI
HU: Trade		RO HU SK: Retail sales	SI: Trade	HU: Industry
CZ HU PL: Retail sales				CZ: Retail sales
RO: 2026 Bonds	HU: Bills	CZ: Bonds	RO: 2028 Bonds	

FX market



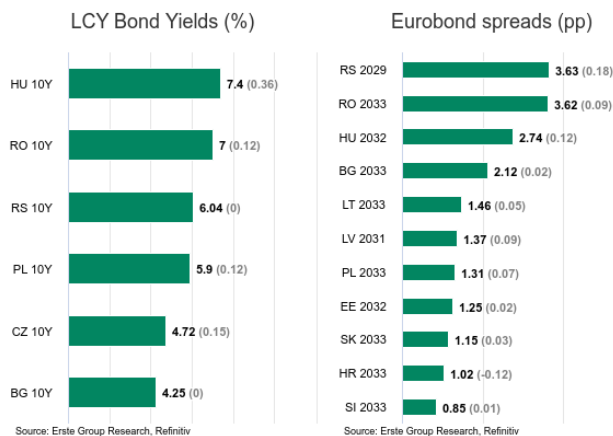
Source: Bloomberg, Erste Group Research

FX market developments

Throughout the week, the Czech koruna diverged from the Hungarian forint and the Polish zloty and appreciated against the euro. The Czech central bank kept the policy rate unchanged and gave no clear guidance on when monetary easing would begin. Although the data has been mostly disinflationary, the central bankers remain rather hawkish and prefer not to rush, which is a considerable risk to our call for the first interest rate cut in November. The Hungarian central bank normalized interest rates and flagged a slower pace of monetary easing ahead than the 100bp in recent months. The tone of the communication led us to revise our year-end forecast for the key interest rate to 11.5%. This week, Poland, Romania and Serbia hold rate-setting meetings, and we see Polish monetary policy as the only one that may act this week, especially since the inflation rate in September dropped to 8.2% y/y, according to the flash estimate. The only factor that may hold off the interest rate cut is the development of the Polish zloty, which weakened substantially after September's decision. We believe, however, that the downward trend of inflation

is strong enough to ensure further monetary easing, even with a 50bp cut.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

Last week, CEE government bond markets followed developments on major markets and experienced about a 10-15bp w/w increase in 10Y yields, with only Hungary as an outlier. In Hungary, 10Y yields increased much more – almost 50bp w/w. We suspect that the relatively cautious wording of the central bank, which also scaled back expectations regarding the magnitude of the rate cuts – FRAs 6x9 increased 60bp w/w and 12M yields implied from FX forwards jumped 50bp w/w – could be behind this move. Another factor could be the fiscal slippage, which still has to be addressed by the government. Overall, we believe that the central bank will be cutting interest rates at a slower pace compared to previous months while keeping an eye on the EURHUF. This week, Romania will reopen ROMGBs 2026 and 2028, Czechia will offer T-bonds and Hungary various T-bills.

In case you missed

CEE: [Explanatory and Predictive Yields Modelling CEE countries.](#)

CZ: Czech National Bank kept the policy rate unchanged at 7.0% but [Uncertainty for the rest of this year remains](#)

HR: [August industrial production down by 2.4% y/y](#)

HR: [Retail trade grew 3.0% y/y in August](#)

HR: [Inflation reverted to moderation trajectory in September](#)

HU: [Monetary policy steps into a new phase in Hungary](#)

PL: [Sharp drop of inflation in September](#)

RO: [We see key rate flat at 7.00% until May-2024](#)

SK Outlook: [Headwinds from Germany, but EU resources will keep economy growing](#)

SK: Saturday's parliamentary election in Slovakia brought a victory of Smer led by former PM Robert Fico

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
02. Oct	08:00	RO	Unemployment Rate	Aug			5.50%	
	08:30	HU	Trade Balance	Jul F			696.57	
03. Oct	08:00	RO	PPI (y/y)	Aug			-0.88%	
04. Oct		PL	Central Bank Rate	Oct 4	5.75%		6.00%	
	08:00	RO	Retail Sales (y/y)	Aug		0.90%	1.20%	We expect the monthly figure to be close to zero in line with the evolution of confidence indicators. The base effect should push the annual growth down.
	08:30	HU	Retail Sales (y/y)	Aug		-5.90%	-7.60%	Gradual improvement could be seen regarding consumption due to the developing real wages.
	09:00	SK	Retail Sales (y/y)	Aug		-1.00%	-4.40%	The Y-o-Y decline will slow down, due to moderate growth in real wages (still in negative on yearly basis in 2Q23)
05. Oct		RO	Central Bank Rate	Oct 5		7.00%	0.07	We expect the NBR to keep monetary policy rate unchanged. The press release should be neutral. Fiscal uncertainties are likely to be highlighted. Market implications: broadly neutral for RON and ROMGBs.
	10:30	SI	Trade Balance	Aug			0.61	
06. Oct	08:30	HU	Industrial Production (y/y)	Aug		-2.90%	-2.50%	New battery capacities could offset the negative effect of the unfavourable foreign demand.
	09:00	CZ	Retail Sales (y/y)	Aug		-2.20%		In comparison with the peak (June, 2021) sales are approx. 12% lower. Thus even a slight increase in sales in monthly trends, still means a subdued development.
	12:00	RS	PPI (y/y)	Sep			2.50%	
	12:00	RS	Central Bank Rate	Oct 6			6.5%	

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	2023Q4	2024Q1	2024Q2	2024Q3
Czechia 10Y	4.79	4.0	3.7	3.5	3.3
Hungary 10Y	7.37	7.4	6.9	6.5	6.2
Poland 10Y	5.90	5.4	5.3	5.1	5.1
Romania10Y	6.98	7.3	7.1	7.0	6.8
Serbia 5Y	5.18	5.1	5.0	4.8	4.6

Spreads vs. German Bunds (bps)

	current	2023Q4	2024Q1	2024Q2	2024Q3
Croatia 10Y	84	130	130	120	
Slovakia 10Y	120	120	115	100	100
Slovenia 10Y	81	90	90	90	90
DE10Y* yields	2.9	2.4	2.3	2.4	2.3

* Bloomberg consensus forecast

3M Money Market Rate

	current	2023Q4	2024Q1	2024Q2	2024Q3
Czechia	7.10	6.57	5.66	4.81	4.14
Hungary	12.27	11.35	9.85	8.35	7.20
Poland	5.77	5.90	5.90	5.70	5.65
Romania	6.40	6.50	6.25	6.00	5.50
Serbia	5.77	5.75	5.42	5.04	4.82
Eurozone	3.95	3.99	4.02	3.79	3.57

Real GDP growth (%)

	2021	2022e	2023f	2024f
Croatia	13.1	6.2	2.6	2.6
Czechia	3.5	2.4	0.0	2.5
Hungary	7.2	4.6	-0.6	3.2
Poland	6.8	4.9	0.2	2.3
Romania	5.8	4.7	2.1	3.3
Serbia	7.5	2.3	1.6	3.5
Slovakia	4.9	1.7	1.5	2.5
Slovenia	8.2	2.5	1.5	2.2
CEE8 avg	6.3	4.1	0.7	2.6

Public debt (% of GDP)

	2021	2022e	2023f	2024f
Croatia	78.3	68.8	62.8	60.8
Czechia	42.0	44.2	45.3	45.8
Hungary	76.6	73.3	71.1	69.3
Poland	53.8	49.1	50.0	51.0
Romania	48.6	47.3	47.8	47.7
Serbia	56.5	55.1	53.7	51.6
Slovakia	61.0	57.8	57.4	56.7
Slovenia	74.5	72.3	70.6	70.1
CEE8 avg	55.7	53.0	52.8	52.9

Source: Bloomberg, Erste Group Research

FX

	current	2023Q4	2024Q1	2024Q2	2024Q3
EURCZK	24.39	24.50	24.38	24.31	24.25
EURHUF	388.51	385.00	385.00	385.00	385.00
EURPLN	4.62	4.55	4.50	4.50	4.50
EURRON	4.97	5.00	5.02	5.05	5.07
EURRSD	117.18	117.30	117.40	117.40	117.40
EURUSD	1.06	1.12	1.14	1.16	1.18

Key Interest Rate

	current	2023Q4	2024Q1	2024Q2	2024Q3
Czechia	7.00	6.50	5.50	4.75	4.00
Hungary	13.00	11.50	10.00	8.50	7.00
Poland	6.75	5.75	5.75	5.50	5.00
Romania	7.00	7.00	7.00	6.75	6.25
Serbia	6.50	6.50	6.00	5.50	5.25
Eurozone	4.50	4.50	4.50	4.25	4.00

3M Money Market Rate

	current	2023Q2	2023Q3	2023Q4	2024Q1
Czechia	7.10	6.57	5.66	4.81	4.14
Hungary	12.27	11.35	9.85	8.35	7.20
Poland	5.77	5.90	5.90	5.70	5.65
Romania	6.40	6.50	6.25	6.00	5.50
Serbia	5.77	5.75	5.42	5.04	4.82
Eurozone	3.95	3.99	4.02	3.79	3.57

Average inflation (%)

	2021	2022	2023f	2024f
Croatia	2.6	10.8	8.1	4.2
Czechia	3.8	15.1	11.0	2.1
Hungary	5.1	14.5	17.9	5.5
Poland	5.1	14.3	12.1	6.0
Romania	5.1	13.7	10.4	6.5
Serbia	4.0	11.9	12.7	5.1
Slovakia	3.2	12.8	11.2	6.0
Slovenia	1.9	8.8	7.8	4.1
CEE8 avg	4.5	13.8	11.9	5.2

C/A (%GDP)

	2021	2022e	2023f	2024f
Croatia	1.8	-1.6	0.7	0.2
Czechia	-0.8	-5.6	0.8	1.0
Hungary	-4.1	-8.1	-0.5	0.3
Poland	-1.4	-3.3	2.5	1.0
Romania	-7.2	-9.3	-6.9	-6.5
Serbia	-4.2	-6.9	-2.1	-2.4
Slovakia	-2.5	-8.2	-5.6	-5.0
Slovenia	3.3	-1.0	3.0	2.8
CEE8 avg	-2.4	-5.5	-0.4	-0.8

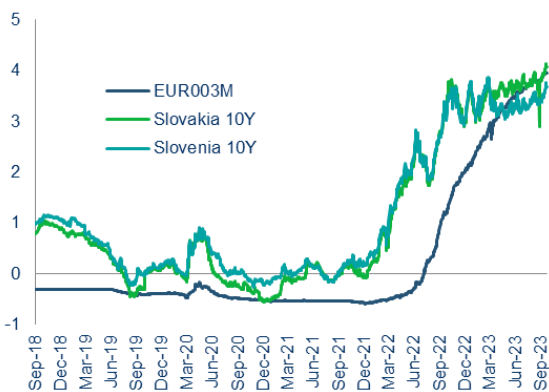
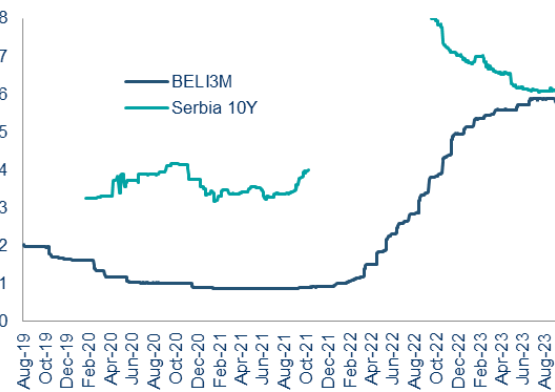
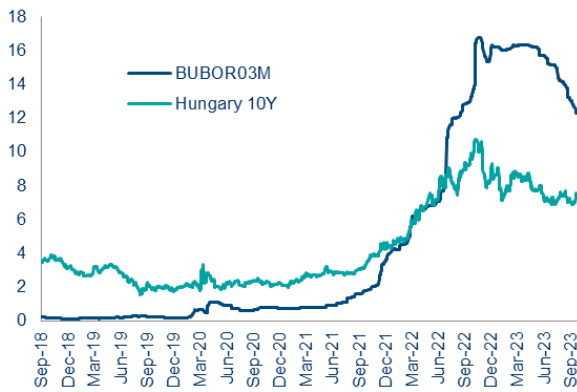
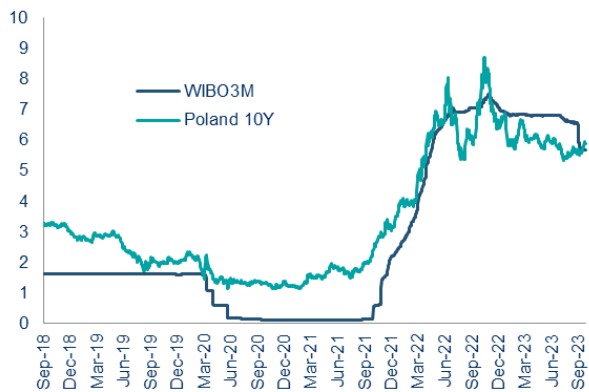
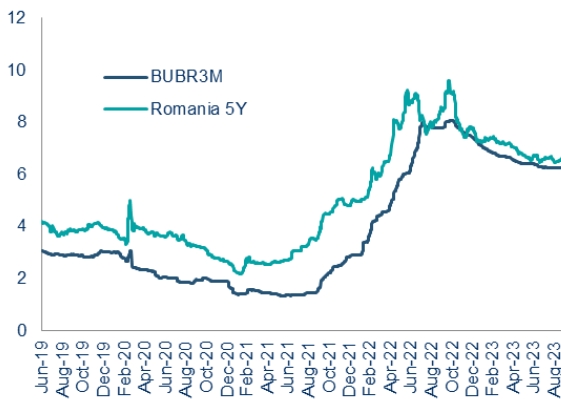
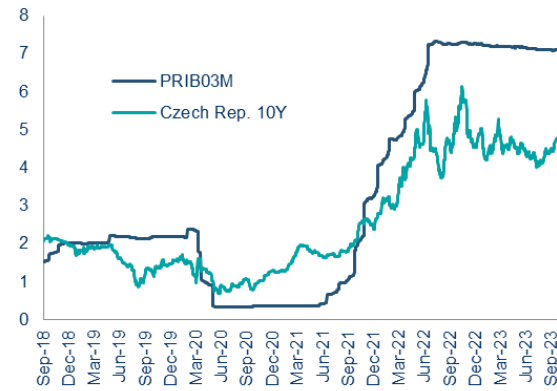
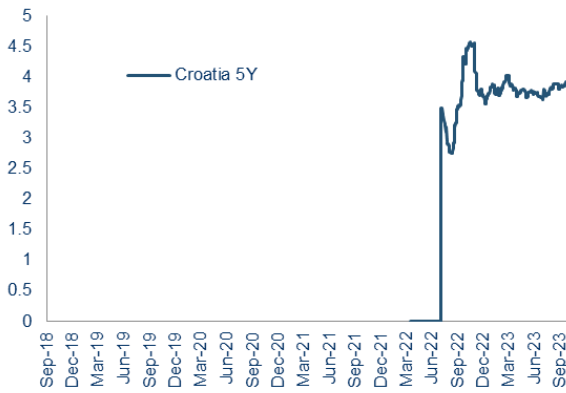
Unemployment (%)

	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	5.6	5.7
Serbia	11.0	9.4	9.5	9.0
Slovakia	6.8	6.1	6.1	6.3
Slovenia	4.8	4.0	3.7	3.6
CEE8 avg	5.4	4.8	5.0	5.0

Budget Balance (%GDP)

	2021	2022e	2023f	2024f
Croatia	-2.6	0.4	-0.8	-2.0
Czechia	-5.1	-3.6	-4.0	-2.8
Hungary	-7.1	-6.2	-5.0	-3.8
Poland	-1.8	-3.4	-5.0	-3.8
Romania	-7.1	-6.2	-5.5	-4.3
Serbia	-4.1	-3.1	-2.8	-2.5
Slovakia	-5.4	-2.0	-5.5	-4.3
Slovenia	-4.6	-3.0	-4.7	-3.5
CEE8 avg	-4.2	-3.9	-4.7	-3.6

Appendix



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