

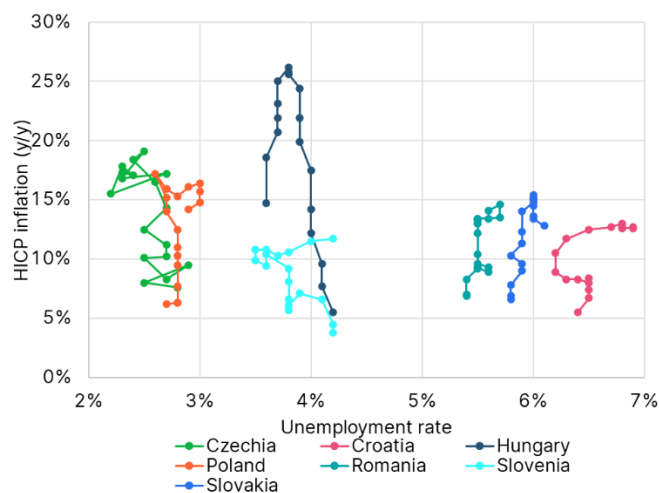
CEE MACRO AND FI DAILY

Unemployment unscarred by disinflation

On the Radar

- Hungarian central bank cut policy rate by 100 basis points so that key interest rate is at 9.0%
- In Croatia, 4Q23 GDP accelerated to 4.3% y/y, marking the strongest growth rate during 2023, and wrapping FY23 performance at 2.8%.
- In Czechia PPI index landed at -1.8% y/y while in Slovakia it arrived at -3.3% y/y.
- At 10.30 AM CET Slovenia will publish retail sales in January.

Unemployment rate vs. inflation, Eurostat, Jul. '22 – Dec. '23

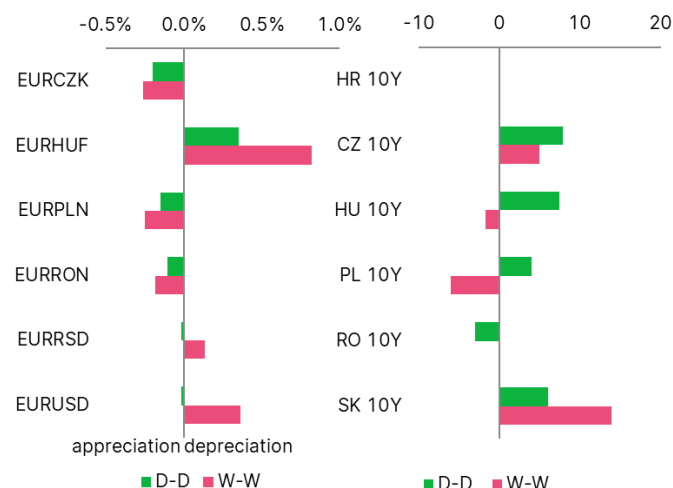


Source: Erste Group Research

Economic developments

As inflation drops close to normal levels in many countries, we can start to evaluate how much did the economies suffer from the adjustment. The impact on economic growth is clear, especially in Hungary, Czechia and Poland. However, the effect of tight monetary policy and disinflation on unemployment, as described in the basic form of the Phillips curve, is less visible in CEE. Despite monetary policies that reduced inflation and added to the slowdown of the economy, unemployment stayed relatively stable in most of the countries in the region. Only in Hungary, which also faced the worst recession in CEE, the unemployment rate rose from 3.6% to just 4.2%. Other countries in CEE have a rather vertical line in the scatterplot. The factors behind the steady unemployment rate vary by country, but we could mention demographics, early retirement age, fiscal support policies and lack of skilled workers before the inflation crisis. Especially the last reason might add to reluctance of employers to lay off their workers during a period of reduced business activity, as they could face difficulty to hire them back once the situation improves.

Market performance



Source: Erste Group Research

Market developments

Hungarian central bank reduced the policy rate by 100 basis points, to 9%. Both the O/N deposit and O/N lending rates were also cut by 100 basis points to 8% and 10%, respectively. Vice Governor Virag said at the press conference that lower-than-expected inflation and the favorable development of the country's risk assessment made it possible to temporarily accelerate the reduction of the base rate. He added that a scenario, in which the key interest rate reaches 6-7% by the end of June remains realistic. We stick to our forecast that the policy rate would stand at 6.50% at the end of June. The EURHUF went up and is at 390 on Wednesday morning. The Czech koruna on the other hand strengthened slightly against the euro this week. In Czechia, the central banker Holub commented that weaker koruna is a pro-inflationary risk adding to the Zamrazilova's view that higher EURCZK levels may slow monetary easing. On the bond market we have seen long-term yields rising across the region this week. Slovakia sold on Tuesday the 10Y euro bonds worth EUR 3 billion amid strong demand (orders were worth more than EUR 6 billion). The 10Y euro bonds were priced at +100 basis points above mid-swaps down 15 basis points from initial price guidelines.

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Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.
28. Feb	09:00	CZ	PPI (y/y)	Jan		-2.00%	1.40%
	09:00	SK	PPI (y/y)	Jan		6.00%	9.60%
	10:30	SI	Retail Sales (y/y)	Jan			-0.15
29. Feb	08:30	HU	PPI (y/y)	Jan			-7.17%
	10:00	PL	GDP (y/y)	4Q F			1.00%
	10:30	SI	CPI (y/y)	Feb		3.20%	3.30%
	10:30	SI	CPI (m/m)	Feb			-0.60%
	11:00	HR	PPI (y/y)	Jan			
	12:00	RS	Industrial Production (y/y)	Jan		3.00%	1.70%
	12:00	RS	Retail Sales (y/y)	Jan		4.70%	3.60%
	12:00	RS	GDP (y/y)	4Q F		3.80%	3.80%

FX Market

	Last	Change (%)	
		d/d	w/w
EUR/CZK	25.30	-0.2	-0.3
EUR/HUF	390.53	0.3	0.8
EUR/PLN	4.30	-0.1	-0.3
EUR/RON	4.96	-0.1	-0.2
EUR/RSD	117.04	0.0	0.1
EUR/USD	1.08	0.0	0.4

3M Market

	Last	Change (bps)	
		d-d	w-w
CZK	6.00	-1	-9
HUF	8.57	-7	-30
PLN	5.86	1	0
RON	6.08	0	0
RSD	5.70	0	0
EUR	3.95	0	1

10Y Yields

	Last	Change (bps)	
		d-d	w-w
CZ 10Y	3.73	8	5
HU 10Y	6.13	7	-2
PL 10Y	5.36	4	-6
RO 10Y	6.45	-3	0
HR 10Y	3.24	0	0
SK 10Y	3.67	6	14

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