

CEE MARKET INSIGHTS

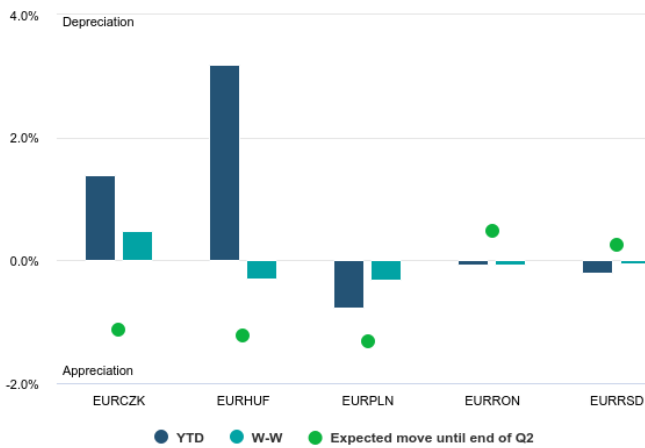
# Two more central banks meet this week

## This week in CEE

The economic release calendar for this week starts on Monday, with Hungary reporting its final trade balance for April. Romania follows on Tuesday July 2 with its May unemployment rate, last recorded at 5.30%, and the Producer Price Index. Croatia will release preliminary inflation data for June on the same day, with our estimate of 2.70% indicating a continued downward trend in inflation. The first central bank meeting this week will conclude on Wednesday, when the NBP announces its rate decision; it is expected to maintain the current 5.75%. Moreover, a new round of forecasts for the Polish economy will be published. Slovakia's Retail Sales for May are anticipated on July 4, with an estimate of 6.50% growth. On Friday, Romania is expected to reduce its key rate by 25bp to 6.75%, as fiscal risks and strong wage growth have delayed the cut in May. Romanian Retail Sales for May are also due, with a growth estimate of 6.60%, supported by strong real wage growth. Hungary's Retail Sales for May are expected to show a modest recovery, with a y/y increase of 3.90%, reflecting improved consumer confidence and positive real wage trends.

Monday	Tuesday	Wednesday	Thursday	Friday
<b>HU: Trade</b>	<b>RO: Unemployment, PPI</b>	<b>PL: Key rate</b>	<b>SK: Retail</b>	<b>RO: Key rate, Retail</b>
<b>CZ, HU, PL, RO: PMI</b>	<b>HR: Inflation</b>			<b>HU: Industry, Retail</b>
				<b>SI: Trade</b>
<b>RO: 2033, T-bills</b>	<b>HU: 3M T-bill</b>	<b>HU: 6M T-bill</b>	<b>HU: 12M T-bill</b>	<b>RO: 2031, T-bill</b>

## FX Market



Source: Bloomberg, Erste Group Research

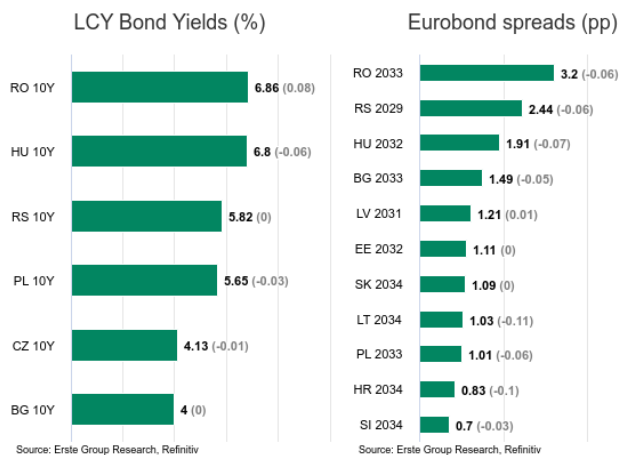
## FX market developments

In a surprising move last week, the CNB reduced interest rates by 50bp, bringing the principal rate down to 4.75%. The market had largely anticipated a more modest cut of 25bp. The CNB's decision, wavering between a 25- and 50-point cut, appears to have been influenced by the belief that the existing rate was excessively high in relation to projected inflation, thus negating any rationale for postponement. Despite this unexpected move, our medium-term forecast remains unchanged. We maintain our projection of the CNB's principal rate at 4% by year-end, with potential upward risks of 4.25% or 4.50%. As a result of the decision, the Czech koruna slightly depreciated and went above 25 against the euro. Over the last week, other CEE currencies remained relatively stable, except for the zloty, which appreciated below 4.30 at the beginning of the week, reverting some of the gains as the week progressed.

This week, locally, central banks in Poland and Romania keep the rate setting meeting and Romania should begin

monetary easing. Global developments such as flash inflation in the Eurozone and snap elections in France may also influence the FX market in the region.

## LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

## Bond market developments

The CEE bond market entered the summer season with very limited movement. Issuance is also expected to calm down in the next couple of months, as six CEE countries have already completed over 70% of their 2024 net issuance by the end of June. Croatia is preparing to place 3-year and 10-year bonds in the coming weeks, aiming to raise EUR 2bn. The first issuance will primarily target retail investors (approx. EUR 750mn), while the 10-year paper (about EUR 1.25bn) will be offered to institutional investors. After placing these bonds, Croatia will have completed 2/3 of its gross issuance, leaving only EUR 1bn to borrow for the remainder of the year.

## In case you missed

- SK: [Diving into Slovak competitiveness](#)
- HU: [High pressure economy: What have we learned?](#)
- RO: [ESI suggests GDP acceleration in 2Q24](#)
- CZ: [CNB has decided to take a more significant step](#)
- PL: [Last month in toleration band](#)
- HR: [Consumption maintaining robust footprint](#)
- HR: [Headline figure remains in the negative area](#)

## Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Erste Est.	Prev.	Pre Comment
01. Jul	08:30	HU	Trade Balance	Apr F		1766.00	
02. Jul	08:00	RO	Unemployment Rate	May		5.30%	
	08:00	RO	PPI (y/y)	May		-3.96%	
	11:00	HR	CPI (y/y)	Jun P	2.70%	3.30%	Inflation to remain on a downward path
	11:00	HR	CPI (m/m)	Jun P		0.10%	
03. Jul		PL	Central Bank Rate	Jul 03	5.75%	5.75%	
04. Jul	09:00	SK	Retail Sales (y/y)	May	6.50%	9.60%	
05. Jul		RO	Central Bank Rate	Jul 05	6.75%	7.00%	We expect the NBR to cut monetary policy rate by 25bp to 6.75% at the 5 July Board meeting. Fiscal risks, strong wage increases and the acceleration in consumer lending were cited by the NBR at May meeting as reasons to delay the first rate cut, highlighting that the decision-making is data dependent
	08:00	RO	Retail Sales (y/y)	May	6.60%	9.50%	Confidence indicators suggest a slight contraction in monthly terms while strong real wage growth moderates this effect. The annual figure still benefits from favorable base effect and remains quite strong.
	08:30	HU	Retail Sales (y/y)	May	3.90%	0.03	Slow recovery to have continued, based on positive real wages and some improvement in consumer confidence.

Source: Erste Group Research

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*Note: Past performance is not necessarily indicative of future results*

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## Forecasts

	Friday's close	2024Q3	2024Q4	2025Q1	2025Q2
Czechia 10Y	4.13	4.02	3.87	3.70	3.56
Hungary 10Y	6.80	6.42	6.37	6.05	5.95
Poland 10Y	5.65	5.50	5.40	5.40	5.20
Romania10Y	6.86	6.90	6.80	6.70	6.50
Serbia 10Y	5.82	5.80	5.60	5.50	5.30

Spreads vs. German Bunds (bps)					
Croatia 10Y	83.00	100.00	100.00	100.00	95.00
Slovakia 10Y	109.00	125.00	120.00	120.00	FALSE
Slovenia 10Y	70.00	80.00	80.00	80.00	80.00
DE10Y yields	2.50	2.40	2.50	2.60	2.60

3M Money Market Rate					
	Friday's close	2024Q3	2024Q4	2025Q1	2025Q2
Czechia	4.71	4.52	4.02	3.91	3.83
Hungary	6.89	6.75	6.55	6.35	6.10
Poland	5.85	5.60	5.40	5.20	4.65
Romania	6.01	5.72	5.32	5.62	5.37
Serbia	5.45	4.98	4.54	4.13	3.70
Eurozone	3.71	3.40	3.09	2.86	2.64

Real GDP growth (%)				
	2022	2023e	2024f	2025f
Croatia	7.0	3.1	3.4	2.8
Czechia	2.4	-0.2	1.3	3.1
Hungary	4.6	-0.9	2.0	3.5
Poland	5.6	0.2	2.8	3.5
Romania	4.1	2.1	2.6	3.4
Serbia	2.5	2.5	3.8	4.0
Slovakia	1.9	1.6	2.0	2.7
Slovenia	2.5	1.6	2.3	2.4
CEE8 avg	4.3	0.7	2.5	3.3

Public debt (% of GDP)				
	2022	2023e	2024f	2025f
Croatia	67.8	63.0	61.4	59.7
Czechia	44.2	44.0	44.9	45.1
Hungary	74.1	73.5	73.6	72.5
Poland	49.2	49.6	53.0	55.0
Romania	47.5	48.8	49.6	49.6
Serbia	55.2	52.0	51.8	51.3
Slovakia	57.7	56.0	58.2	59.6
Slovenia	72.3	69.2	68.1	67.0
CEE8 avg	52.9	52.7	54.4	55.1

	Friday's close	2024Q3	2024Q4	2025Q1	2025Q2
EURCZK	25.01	24.73	24.60	24.50	24.39
EURHUF	394.86	390.00	390.00	390.00	390.00
EURPLN	4.31	4.25	4.20	4.25	4.30
EURRON	4.97	4.99	5.00	5.02	5.05
EURRSD	116.85	117.15	117.20	117.20	117.10
EURUSD	1.07	1.11	1.13	1.14	1.14

Key Interest Rate (deposit facility in Eurozone)					
	Friday's close	2024Q3	2024Q4	2025Q1	2025Q2
Czechia	4.75	4.50	4.00	3.75	3.75
Hungary	7.00	6.75	6.50	6.25	6.00
Poland	5.75	5.75	5.75	5.50	5.25
Romania	7.00	6.50	6.00	6.00	5.75
Serbia	6.25	5.75	5.25	4.75	4.25
Eurozone	3.75	3.50	3.00	2.75	2.50

Average inflation (%)				
	2022	2023e	2024f	2025f
Croatia	10.8	8.1	3.0	2.5
Czechia	15.1	10.7	2.8	2.6
Hungary	14.5	17.6	4.2	4.0
Poland	14.3	11.6	3.5	3.8
Romania	13.7	10.5	5.2	3.7
Serbia	11.9	12.1	4.4	3.1
Slovakia	12.8	10.5	3.0	3.0
Slovenia	8.8	7.4	2.6	2.4
CEE8 avg	13.8	11.6	3.7	3.4

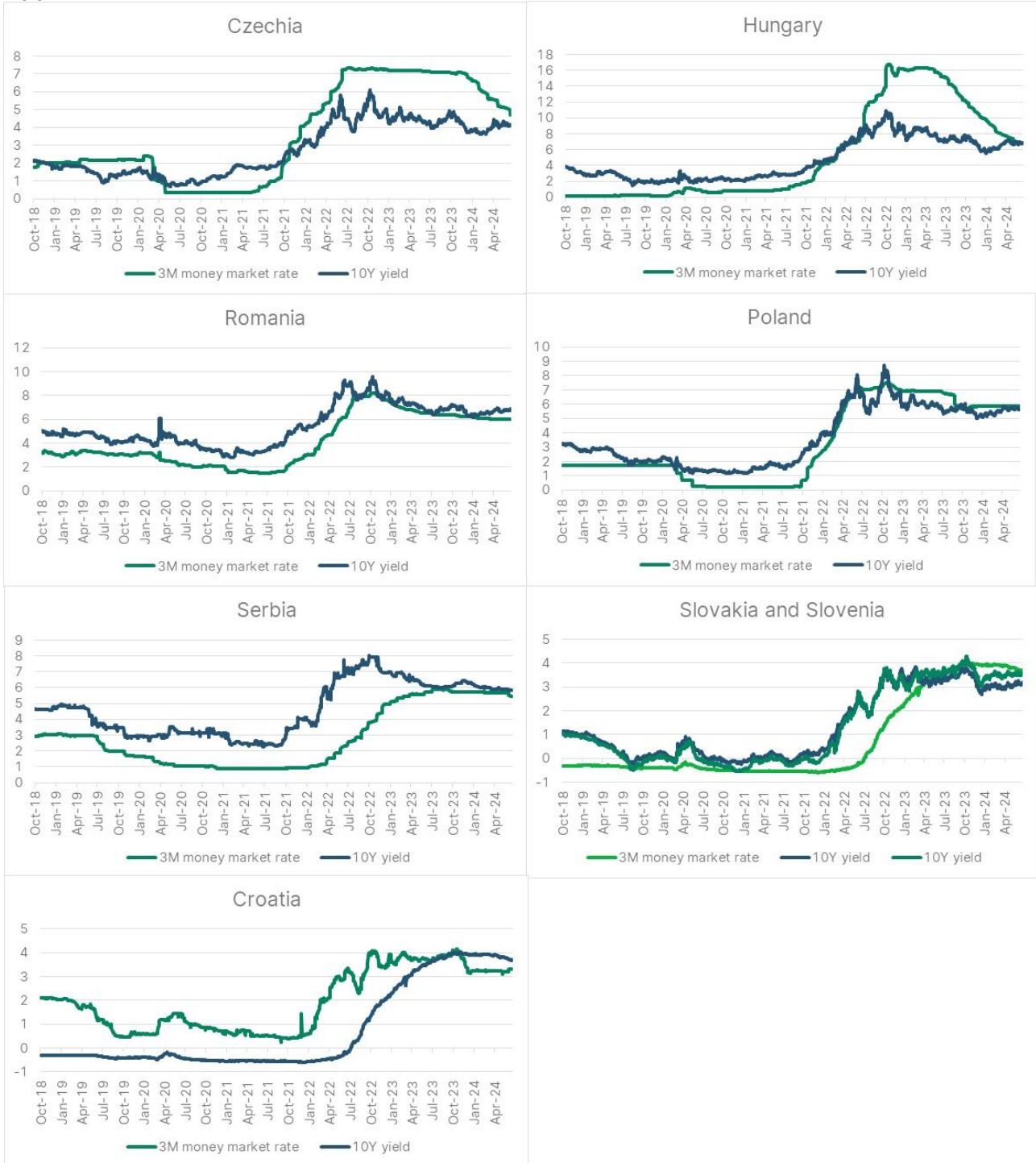
C/A (%GDP)				
	2022	2023e	2024f	2025f
Croatia	-2.8	1.1	0.5	0.0
Czechia	-6.1	1.2	0.5	0.9
Hungary	-8.4	0.2	0.4	0.7
Poland	-3.3	1.6	0.0	-1.0
Romania	-9.2	-7.0	-6.9	-6.8
Serbia	-6.9	-2.6	-3.9	-4.7
Slovakia	-7.4	-1.0	-1.2	-0.4
Slovenia	-1.0	4.5	3.2	2.8
CEE8 avg	-5.6	-0.3	-1.2	-1.5

Unemployment (%)				
	2022	2023e	2024f	2025f
Croatia	7.0	6.1	5.6	5.5
Czechia	2.2	2.6	3.1	3.6
Hungary	3.6	4.1	4.5	3.9
Poland	5.1	5.2	5.1	5.0
Romania	5.6	5.6	5.3	5.2
Serbia	9.4	9.5	8.9	8.6
Slovakia	6.1	5.8	5.7	5.7
Slovenia	4.0	3.7	3.7	3.6
CEE8 avg	4.8	4.9	4.9	4.9

Budget Balance (%GDP)				
	2022	2023e	2024f	2025f
Croatia	0.1	-0.7	-2.4	-1.5
Czechia	-3.2	-3.7	-2.7	-2.3
Hungary	-6.2	-6.7	-5.2	-4.1
Poland	-3.4	-5.1	-5.5	-4.0
Romania	-6.3	-6.6	-6.5	-5.0
Serbia	-3.1	-2.2	-2.2	-1.5
Slovakia	-1.7	-4.9	-6.0	-5.0
Slovenia	-3.0	-2.5	-3.0	-2.5
CEE8 avg	-3.9	-4.9	-4.9	-3.8

Source: Bloomberg, Erste Group Research

Appendix



Source: Bloomberg, Erste Group Research

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