CEE MARKET INSIGHTS

Regional central banks to stay on hold

This week in CEE

Three central banks are meeting this week, in Poland, Romania and Serbia, and we do not expect any changes in the policy rate in any of them. There are some risks of another interest rate cut in Poland as inflation declines; on the other hand, new inflation and growth projections may send the signal to hold off with monetary easing. October inflation rates will be published for Czechia and Hungary. While disinflation should continue in Hungary, for Czechia, we expect headline inflation to rise, due to a base effect (Saving Tariff introduced a year ago). Apart from that, September data on retail and the industrial sector will be released. Industrial output growth will be published in Czechia, Hungary, Slovenia and Slovakia throughout the week, while on Wednesday, Hungary, Romania and Slovakia will report retail sales growth. These releases will come shortly before the flash 3Q23 data. Other than that, Croatia and Serbia will publish PPI, Romania and Slovakia trade data.
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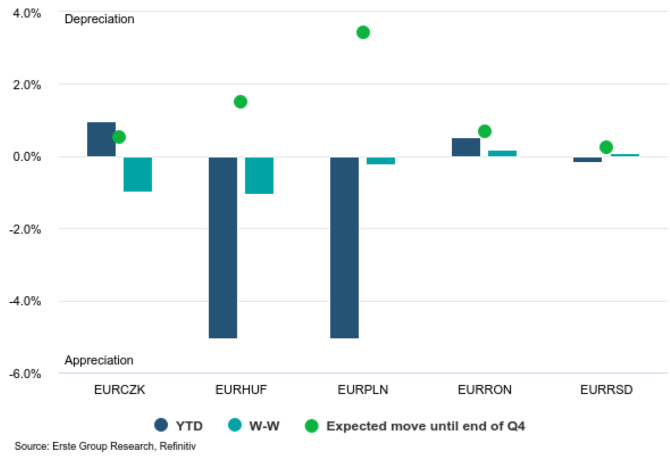
Monday	Tuesday	Wednesday	Thursday	Friday
CZ: Industry Trade	**HU: Industry**	**PL RO: Central bank**	**RS: Central bank**	**CZ HU: CPI**
	RS: PPI	**RO HU SK: Retail**	**RO SK: Trade**	**SK SI: Industry**
		HR: PPI		**SK: Wages**
RO: 2031 Bonds, Bills	**HU: Bills**	**CZ: Bonds**	**CZ: Bills**	
			RO: 2033 Bonds	

FX market

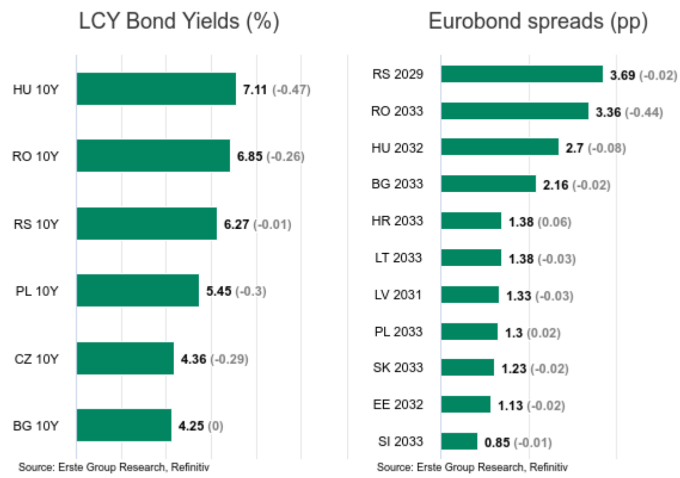


Source: Bloomberg, Erste Group Research

FX market developments

The CEE currencies gained against the euro throughout the week. The EURCZK moved more visibly down after the Czech National Bank's decision to keep the policy rate unchanged at 7.0% at the last meeting. Global developments, in particular the FOMC keeping the benchmark rate stable in the US, also supported the currencies in the region. This week, there are three central bank meetings scheduled. The Polish and Romanian national banks will decide on interest rates on Wednesday, the Serbian central bank on Thursday. We incline towards a stability of rates scenario for all of them. In Poland, however, the market expects another 25 basis point cut. On one hand, inflation declined visibly in October to 6.5%; on the other hand, new inflation and growth projections may provide the impetus for MPC members to hold off with further monetary easing. Recent interest rate cuts may slow the pace of the inflation rate coming back to the target and the recent increase in the oil price is a source of upside risks.

LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

Bond market developments

CEE bond markets reacted positively to the FOMC's decision to leave its benchmark rate unchanged, followed by relatively dovish comments from the FED chairman. 10Y LCY government bond yields dropped 10-40bp w/w in CEE, with the largest decline observed in 10Y HGBs. Relief on major bond markets is especially supportive of further monetary easing in Hungary, which can be clearly seen in falling FRAs. Demand in auctions of government bonds was also affected by events from overseas. While the Romanian MinFin raised only RON 303mn vs. RON 400mn planned in the auction of ROMGBs 2036, in the aftermath of the FED comments, the MinFin enjoyed strong demand in the auction of 5Y ROMGBs and borrowed RON 1.6bn vs. RON 700m planned. Romania's MinFin also updated its issuance plan, according to which it seeks to borrow RON 5bn in November. T-bills worth RON 500mn will be offered already this week together with ROMGBs 2031 and 2033, both with targeted volumes of RON 600mn each. Hungary and Czechia will offer a combination of T-bills and T-bonds.

In case you missed

CEE: To what extent is CEE resilient to German slowdown?
CZ: CNB Bank Board remains hawkish
CZ: GDP negatively affected by foreign demand
HR: Retail trade grew 5.5% y/y in September
HR: September industrial production up by 1.6% y/y
RS: Real GDP rises 3.5% y/y in 3Q
PL: Another big drop of inflation in Poland
RO: Romania's rating was affirmed at Baa3 by Moody's on Friday

Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Pre Comment
06. Nov		**CZ**	Industrial Production (y/y)	Sep		-3.70%	-1.70%	A decline in industrial production is affected by the slowdown in foreign demand and renewed problems with supply-side chains within the automotive industry.
		CZ	Trade Balance	Sep		-2.00	16.30	Weakening foreign demand together with problems within the automotive sector stand behind an expected deficit in foreign trade.
07. Nov	**8:30**	**HU**	Industrial Production (y/y)	Sep		-5.90%	-6.10%	After the regular summer shutdowns in automotive sector in addition with the opening new battery capacities we expect improvement on monthly basis.
	12:00	**RS**	PPI (y/y)	Oct			2.20%	
08. Nov		**PL**	Central Bank Rate	Nov-23	5.5%		5.75%	
		RO	Central Bank Rate	Nov-23		7.00%	7.00%	We expect the NBR to keep monetary policy rate unchanged at 7.00%. The inflation outlook should be revised lower in the short-term and higher over the medium-term horizon due to fiscal changes enacted since the previous forecasting exercise
	8:00	**RO**	Retail Sales (y/y)	Sep		3.00%	1.10%	Strong recovery in economic confidence reported by the managers in retail sector and ongoing advance in real wage growth support the rebound in retail sales in September with the m/m growth expected at 1.1%.
	8:30	**HU**	Retail Sales (y/y)	Sep		-6.90%	-7.10%	The break out in consumption is still yet to come.
	9:00	**SK**	Retail Sales (y/y)	Sep		-0.50%	-2.10%	Official registration system indicates a slight growth on a monthly basis, however, year-on-year performance is expected to land in the negative territory.
	11:00	**HR**	PPI (y/y)	Oct			1.20%	
09. Nov	**8:00**	**RO**	Trade Balance	Sep			-2632.60	
	9:00	**SK**	Trade Balance	Sep		600.00	482.70	A high positive trade balance is anticipated, even despite the forecasted faster growth of imports.
	12:00	**RS**	Central Bank Rate	Nov-23		6.50%	6.50%	With inflation on a downward trajectory and growth recovering in 3Q, we see no reason for the NBS to change the key rate
10. Nov	**8:30**	**HU**	CPI (y/y)	Oct		10.10%	12.20%	Disinflation process continued in October and the headline figure could be on the verge of single digit territory.
	8:30	**HU**	CPI (m/m)	Oct		-0.20%	0.40%	Monthly dynamics could be negative this time on the back of moderated fuel prices.
	9:00	**SK**	Industrial Production (y/y)	Sep		4.40%	4.60%	The growth of the automotive industry should be a driver again.
	9:00	**CZ**	CPI (y/y)	Oct		8.40%	6.90%	Inflation will be effected by the last year's Saving Tariff. The cyclical part of inflation has been quickly weakening.
	9:00	**CZ**	CPI (m/m)	Oct		0.00%	-0.70%	Stability of price level is expected. Demand-side inflationary pressures are currently relatively low, du to subdued households\' demand.
	9:00	**SK**	Wages (y/y)	Sep			0.90%	
	10:30	**SI**	Industrial Production (y/y)	Sep		-9.00%	-12.40%	Negative pattern seen extending also in September, wrapping up weak 3Q performance

Source: Erste Group Resarch

Note: Past performance is not necessarily indicative of future results

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Forecasts

LCY Government bond yields	Friday's close	2023Q4	2024Q1	2024Q2	2024Q3
Czechia 10Y	4.36	4.39	4.19	3.89	3.65
Hungary 10Y	7.11	7.38	6.95	6.54	6.21
Poland 10Y	5.45	5.70	5.60	5.30	5.10
Romania10Y	6.85	7.30	7.10	7.00	6.80
Serbia 10Y	6.27	6.10	6.00	5.80	5.60

FX	Friday's close	2023Q4	2024Q1	2024Q2	2024Q3
EURCZK	24.37	24.50	24.38	24.31	24.25
EURHUF	379.25	385.00	385.00	385.00	385.00
EURPLN	4.45	4.60	4.50	4.50	4.50
EURRON	4.97	5.00	5.02	5.05	5.07
EURRSD	117.02	117.30	117.40	117.40	117.40
EURUSD	1.07	1.08	1.12	1.15	1.16

Spreads vs. German Bunds (bps)					
Croatia 10Y	138.00	130.00	130.00	120.00	120.00
Slovakia 10Y	123.00	125.00	120.00	120.00	120.00
Slovenia 10Y	85.00	90.00	90.00	90.00	90.00
DE10Y yields	2.66	2.60	2.40	2.40	2.40

3M Money Market Rate	Friday's close	2023Q4	2024Q1	2024Q2	2024Q3
Czechia	7.03	6.81	5.90	5.05	4.39
Hungary	11.35	10.38	8.70	7.48	6.95
Poland	5.64	5.60	5.60	5.50	5.30
Romania	6.33	6.50	6.25	6.00	5.50
Serbia	5.71	5.75	5.42	5.04	4.82
Eurozone	3.96	3.99	4.02	3.79	3.57

Key Interest Rate	Friday's close	2023Q4	2024Q1	2024Q2	2024Q3
Czechia	7.00	6.75	5.75	5.00	4.25
Hungary	12.25	10.75	8.75	7.50	6.75
Poland	5.75	5.50	5.50	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

Real GDP growth (%)	2022	2023e	2024f	2025f
Croatia	6.3	2.2	2.4	2.6
Czechia	2.4	-0.1	2.6	3.1
Hungary	4.6	-0.6	3.2	3.4
Poland	4.9	0.2	2.3	3.4
Romania	4.6	2.1	3.3	4.8
Serbia	2.3	1.6	3.5	3.8
Slovakia	1.7	1.5	2.5	2.7
Slovenia	2.5	1.5	2.2	2.3
CEE8 avg	4.1	0.6	2.7	3.5

Average inflation (%)	2022	2023e	2024f	2025f
Croatia	10.8	8.1	4.2	2.7
Czechia	15.1	10.9	2.2	2.0
Hungary	14.5	17.8	5.5	3.8
Poland	14.3	12.1	6.0	4.0
Romania	13.7	10.4	6.5	4.3
Serbia	11.9	12.7	5.1	4.3
Slovakia	12.8	10.7	5.5	4.0
Slovenia	8.8	7.8	4.1	2.5
CEE8 avg	13.8	11.8	5.3	3.6

Unemployment (%)	2022	2023e	2024f	2025f
Croatia	7.0	6.3	5.9	5.6
Czechia	2.2	2.7	3.3	3.7
Hungary	3.6	3.8	3.5	3.4
Poland	5.1	5.2	5.0	5.0
Romania	5.6	5.6	5.7	5.6
Serbia	9.4	9.5	9.0	8.6
Slovakia	6.1	6.0	6.0	5.7
Slovenia	4.0	3.7	3.6	3.5
CEE8 avg	4.8	4.9	4.9	4.9

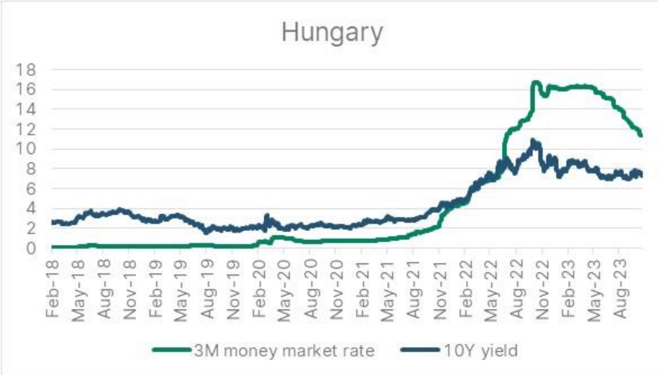
Public debt (% of GDP)	2022	2023e	2024f	2025f
Croatia	68.2	62.1	60.2	58.6
Czechia	44.2	45.3	45.8	45.9
Hungary	73.3	71.6	69.9	68.7
Poland	49.1	50.0	53.0	54.0
Romania	47.3	47.8	47.7	46.4
Serbia	55.1	53.7	51.6	50.6
Slovakia	57.8	57.7	57.3	56.8
Slovenia	72.3	70.6	70.1	69.7
CEE8 avg	52.8	52.8	53.8	53.7

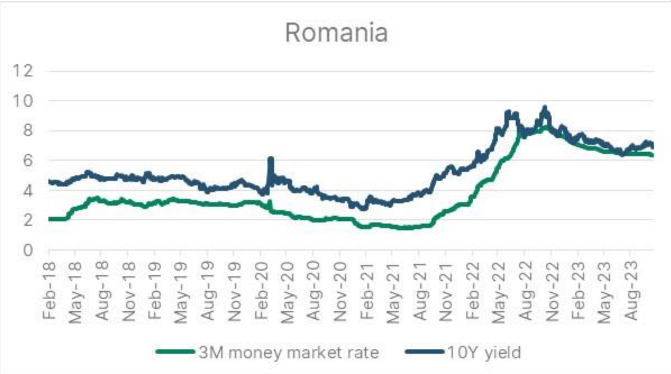
C/A (%GDP)	2022	2023e	2024f	2025f
Croatia	-2.8	-0.2	-0.7	-0.3
Czechia	-5.6	0.8	1.0	0.5
Hungary	-8.1	-0.5	0.3	1.4
Poland	-3.3	2.5	1.0	-0.5
Romania	-9.3	-6.9	-6.5	-6.6
Serbia	-6.9	-2.1	-2.4	-3.0
Slovakia	-6.0	0.0	-2.0	-3.0
Slovenia	-1.0	3.0	2.8	2.4
CEE8 avg	-5.4	-0.1	-0.7	-1.3

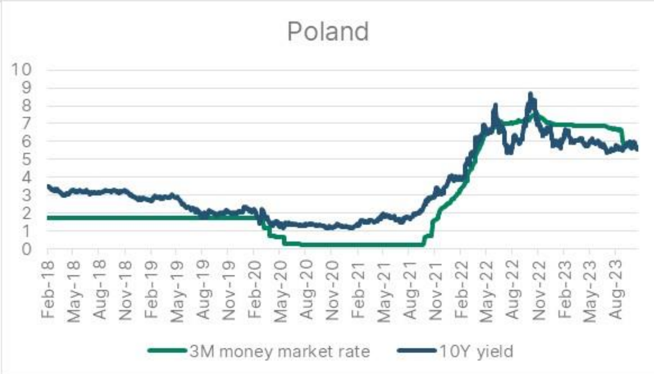
Budget Balance (%GDP)	2022	2023e	2024f	2025f
Croatia	0.4	-0.5	-2.0	-1.5
Czechia	-3.6	-4.0	-2.8	-2.4
Hungary	-6.2	-5.2	-3.8	-3.0
Poland	-3.4	-5.4	-4.5	-3.0
Romania	-6.2	-6.0	-4.8	-3.5
Serbia	-3.1	-2.8	-2.5	-2.3
Slovakia	-2.0	-5.5	-4.3	
Slovenia	-3.0	-4.5	-3.5	-2.5
CEE8 avg	-3.9	-5.0	-4.0	-2.7

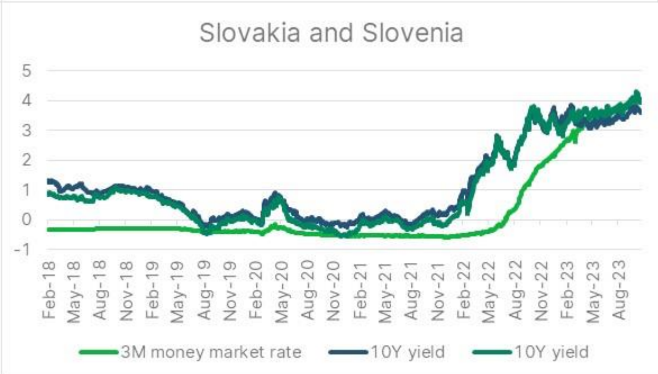
Source: Bloomberg, Erste Group Research

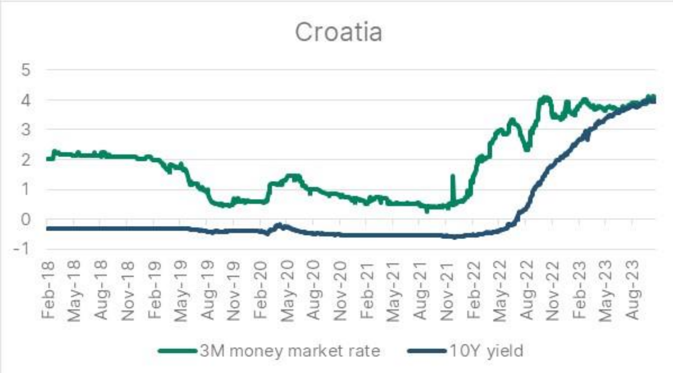
Appendix











Source: Bloomberg, Erste Group Research

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