

## CEE Market Insights

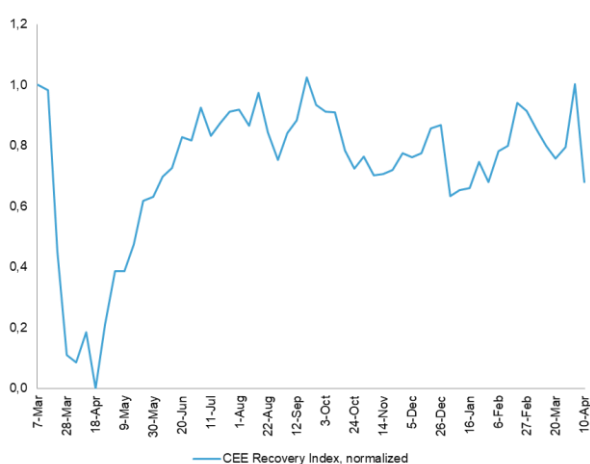
State of the Polish real economy in March to be revealed

### This week in CEE

This week's calendar is dominated by March data releases in Poland. Industrial production growth is likely to have accelerated above 8% y/y, due to the low base from last year as strict lockdown measures were enacted in mid-March 2020. Positive calendar effect as well as improving sentiment should have pushed industrial production growth up, too. Polish wage growth likely kept a similar dynamic than before, not yet affected by the base effect. March retail sales in Poland were strongly affected by the base effect from a year ago, although part of this could have been offset by the re-introduction of lockdown measures and closure of the majority of retail stores in mid-March. On the other hand, improvement of consumer sentiment should bode well for retail trade. Slovakia's unemployment rate in March likely saw a slight increase, influenced by the restrictive measures in place. In Croatia, on the other hand, we expect the unemployment rate to have declined from 9.7% to 9.3%. Producer prices in Czechia, Poland and Slovenia could see an increase due to the base effect associated with low oil prices last year. Moreover, Romania is scheduled for a rating review by Fitch – with no rating changes expected.

Monday	Tuesday	Wednesday	Thursday	Friday
<b>RS: Current account</b>	<b>CZ: PPI</b>	<b>PL: Industrial production, PPI, Wages</b>	<b>PL: Retail sales</b>	
<b>SK: Unemployment</b>	<b>HR: Unemployment, Wages</b>	<b>SI: PPI</b>		
<b>SK: 2024, 2030, 2047 Bonds</b>	<b>RS: 2032 Bonds</b>	<b>CZ: 2024, 2032 Bonds</b>	<b>CZ: T-Bills</b>	<b>PL: Bonds</b>
<b>RO: 2027 Bonds</b>	<b>HR, HU: T-Bills</b>		<b>RO: 2034 Bonds</b>	

### Recovery Index plummets after Easter

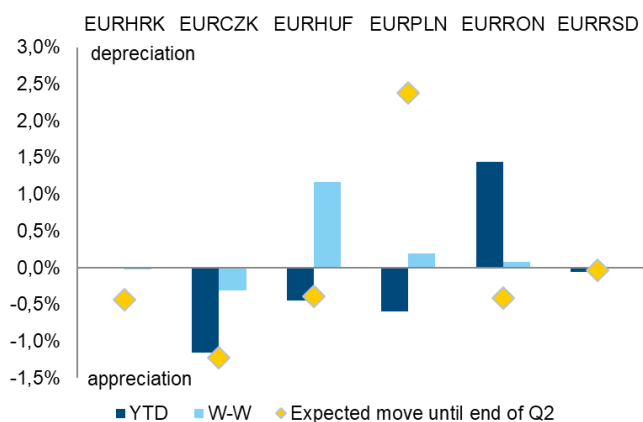


The CEE Recovery Index plunged in the second week of April, following the notable pre-Easter surge. Strict containment measures remain in place across much of the region. Mobility to grocery stores fell sharply, as the Easter effect dissipated, while mobility to retail stores decreased less markedly. Moreover, given the ongoing lockdown measures and Easter Monday bank holiday, workplace mobility went down further. Air pollution halved compared to the preceding week, adding to the overall visible decrease of the Recovery Index. Electricity consumption was lower, as well.

For more details, please check our [website](#).

Source: Erste Group Research

## FX market

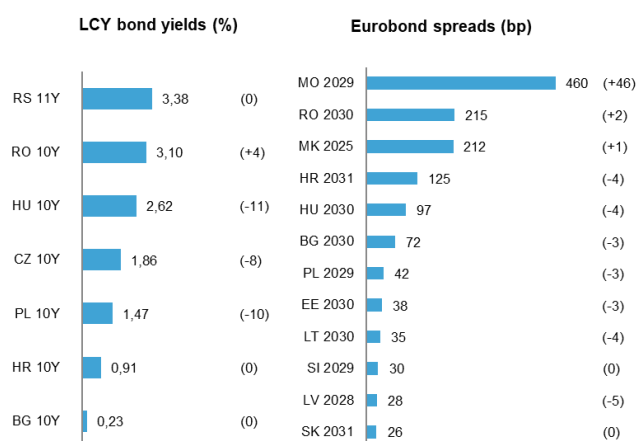


Source: Bloomberg, Erste Group Research

## FX market developments

The performance of CEE currencies was a mixed bag last week. The Czech koruna outperformed its peer currencies; it appreciated against the euro, with the EURCZK moving close to the 25.9 level. The reaction of the Romanian leu to political jitters in the ruling coalition was rather muted. Hungary and Poland are going to intensify their government purchases, adding extra PLN and HUF liquidity to the market. This may have a negative impact on their currencies. The Hungarian forint underperformed last week, losing about 1% y/y, with the EURHUF moving above 361.

## LCY yields, Eurobond spreads



Source: Bloomberg, Erste Group Research

## Bond market developments

CEE bond yield curves moved down a bit last week, except ROMGBs, where yields inched up due to a new round of political tension. The strongest yield decline was seen in HGBs, especially on the mid-part of the curve (5Y about -15bp), which may benefit from the anticipated increase of bond purchases, likely the central topic at next week's MPC meeting. Poland's central bank already intensified its government bond purchases last week with the largest amount (PLN 5.4bn) since July 2020. This week will be busy in terms of bond issuance in CEE. Slovakia will re-open four issues (2024, 2029, 2030, 2047), Romania two (2027, 2023), Czechia two (2024, 2032), and Serbia one (2032). Poland and Hungary will hold their regular auctions. Czechia, Croatia and Hungary will issue some T-bills. Hungary should also place its 30Y green bond this week, which the country's central bank has already committed to buying via its QE. Spreads on Montenegro's Eurobonds rose 80bp w/w, on concerns about the repayment of a USD 1bn road loan to China.

## In case you missed

- RO: [February industrial production](#) was weaker than expected; while [March inflation](#) came in line with the call
- CZ: [Inflation in March](#) rose slightly more than expected, affected by fuel prices
- SK: [March inflation](#) rose more than expected, driven by higher tobacco prices
- PL: March inflation confirmed inflationary pressures (3.2% y/y); [National Bank of Poland intensified bond purchases](#)
- RS: [Central bank left key rate at 1%](#) and stability of rates seems the most likely scenario for 2021
- RO: S&P revised Romania's rating outlook to stable from negative

Our new reports: the latest [Bond Market Report](#) and a special report on the [vaccine rollout in CEE](#)

## Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
19.Apr		RS	Current Account Balance (monthly)	Feb			249.00	
		SK	Unemployment Rate	Mar		7.90%	7.90%	We expect a marginal increase due to the restrictions, but with a better outlook regarding economic activity and easing of measures.
20.Apr	9:00	CZ	PPI (y/y)	Mar	2.58%	2.60%	1.4%	A significant increase in PPI influenced by a base effect associated with low oil prices during the last year's first pandemic wave.
	11:00	HR	Unemployment Rate	Mar		9.3%	9.7%	
	11:00	HR	Wages (y/y)	Feb			1.50%	
21.Apr	10:00	PL	Industrial Production (y/y)	Mar	12.60%	8.40%	2.70%	Low base from last year (strict lockdown has been introduced in mid-March 2020), positive calendar effect (+1VVD) as well as improving sentiment will push industrial production growth strongly up.
	10:00	PL	PPI (y/y)	Mar	3.30%	2.90%	2.00%	Rising commodity prices will push PPI up.
	10:00	PL	Wages (y/y)	Mar	5.60%	4.30%	4.50%	Wage growth to keep recent dynamics in March, not yet affected by the base effect.
	10:30	SI	PPI (y/y)	Mar			1.00%	
22.Apr	10:00	PL	Retail Sales (y/y)	Mar	13.70%	12.50%	-2.70%	The base effect from last year could be partially off-set by the re-introduction of lockdown measures in mid-March and closure of majority of retail stores. On the other hand, consumer sentiment improved further in March.

Source: Erste Group Research

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Note: Past performance is not necessarily indicative of future results

## Forecasts

### Government bond yields

	current	2021Q2	2021Q3	2021Q4	2022Q1
<b>Croatia 10Y</b>	0,6	0,0	0,5	0,5	0,6
spread (bps)	83	29	72	68	73
<b>Czechia 10Y</b>	1,9	1,8	1,8	1,9	2,0
spread (bps)	212	209	202	205	208
<b>Hungary 10Y</b>	2,6	2,7	2,7	2,7	2,8
spread (bps)	289	294	290	291	297
<b>Poland 10Y</b>	1,5	1,6	1,6	1,7	1,7
spread (bps)	174	189	182	183	183
<b>Romania 10Y</b>	3,1	2,9	2,8	2,8	2,9
spread (bps)	336	319	302	293	303
<b>Slovakia 10Y</b>	-0,1	0,0	0,2	0,3	0,4
spread (bps)	18	29	37	48	48
<b>Slovenia 10Y</b>	0,07	0,10	0,10	0,10	0,20
spread (bps)	33	39	32	28	33
<b>Serbia 5Y</b>	2,3	2,2	2,2	2,2	2,1
spread (bps)	254	249	242	238	223
<b>DE10Y*</b>	-0,3	-0,3	-0,2	-0,2	-0,1

\* Spreads based on Bloomberg consensus forecast

### 3M Money Market Rate

	current	2021Q2	2021Q3	2021Q4	2022Q1
<b>Czechia</b>	0,36	0,44	0,67	0,83	0,92
<b>Hungary</b>	0,79	0,77	0,77	0,77	0,80
<b>Poland</b>	0,21	0,21	0,21	0,21	0,21
<b>Romania</b>	1,59	1,55	1,50	1,40	1,50
<b>Serbia</b>	0,88	0,86	0,86	0,86	0,86
<b>Eurozone</b>	-0,54	-0,54	-0,54	-0,54	-0,54

### Real GDP growth (%)

	2019	2020f	2021f	2022f
<b>Croatia</b>	2,9	-8,4	4,5	4,0
<b>Czechia</b>	2,2	-5,6	3,3	4,3
<b>Hungary</b>	4,6	-5,0	4,4	4,7
<b>Poland</b>	4,5	-2,7	3,4	4,7
<b>Romania</b>	4,1	-3,9	4,2	4,5
<b>Serbia</b>	4,2	-1,0	5,0	4,0
<b>Slovakia</b>	2,3	-5,2	4,0	4,8
<b>Slovenia</b>	3,2	-5,5	4,4	4,1
<b>CEE8 avg</b>	3,8	-4,0	3,8	4,5

### Public debt (% of GDP)

	2019	2020f	2021f	2022f
<b>Croatia</b>	72,8	89,1	87,8	86,1
<b>Czechia</b>	31,2	38,4	45,0	48,1
<b>Hungary</b>	65,5	80,4	79,7	76,9
<b>Poland</b>	45,7	57,7	58,3	57,4
<b>Romania</b>	35,3	47,3	50,8	52,0
<b>Serbia</b>	52,0	57,4	57,0	55,5
<b>Slovakia</b>	48,5	59,9	63,2	63,2
<b>Slovenia</b>	65,6	78,1	76,9	74,5
<b>CEE8 avg</b>	46,0	57,4	59,2	59,0

Source: Bloomberg, Erste Group Research

### FX

	current	2021Q2	2021Q3	2021Q4	2022Q1
<b>EURHRK</b>	7,57	7,53	7,53	7,53	7,53
<b>EURCZK</b>	25,92	25,62	25,54	25,36	25,08
<b>EURHUF</b>	361,36	360,00	360,00	360,00	360,00
<b>EURPLN</b>	4,55	4,65	4,63	4,61	4,58
<b>EURRON</b>	4,93	4,90	4,92	4,95	5,01
<b>EURRSD</b>	117,63	117,50	117,40	117,50	117,50
<b>EURUSD</b>	1,20	1,16	1,16	1,18	1,20

### Key Interest Rate

	current	2021Q2	2021Q3	2021Q4	2022Q1
<b>Croatia</b>	0,05	0,05	0,05	0,05	0,05
<b>Czechia</b>	0,25	0,25	0,50	0,75	0,75
<b>Hungary</b>	0,60	0,60	0,60	0,60	0,75
<b>Poland</b>	0,10	0,10	0,10	0,10	0,10
<b>Romania</b>	1,25	1,25	1,25	1,25	1,25
<b>Serbia</b>	1,00	1,00	1,00	1,00	1,00
<b>Eurozone</b>	0,00	0,00	0,00	0,00	0,00

### Average inflation (%)

	2019	2020f	2021f	2022f
<b>Croatia</b>	0,8	0,1	1,2	1,5
<b>Czechia</b>	2,8	3,2	2,5	2,3
<b>Hungary</b>	3,4	3,3	3,8	3,2
<b>Poland</b>	2,3	3,4	3,0	2,3
<b>Romania</b>	3,8	2,7	3,2	2,4
<b>Serbia</b>	1,9	1,6	2,0	1,9
<b>Slovakia</b>	2,7	1,9	0,9	1,9
<b>Slovenia</b>	1,6	0,0	0,8	1,7
<b>CEE8 avg</b>	2,7	2,8	2,7	2,3

### C/A (%GDP)

	2019	2020f	2021f	2022f
<b>Croatia</b>	2,8	-0,8	0,6	0,5
<b>Czechia</b>	-0,3	3,2	0,2	0,3
<b>Hungary</b>	-0,5	0,1	-0,2	-0,3
<b>Poland</b>	0,5	3,5	2,1	1,2
<b>Romania</b>	-4,9	-5,2	-4,8	-4,2
<b>Serbia</b>	-6,9	-4,3	-5,3	-5,5
<b>Slovakia</b>	-2,7	-2,7	-1,6	-0,9
<b>Slovenia</b>	5,6	7,3	6,7	5,6
<b>CEE8 avg</b>	-0,8	1,0	0,0	-0,3

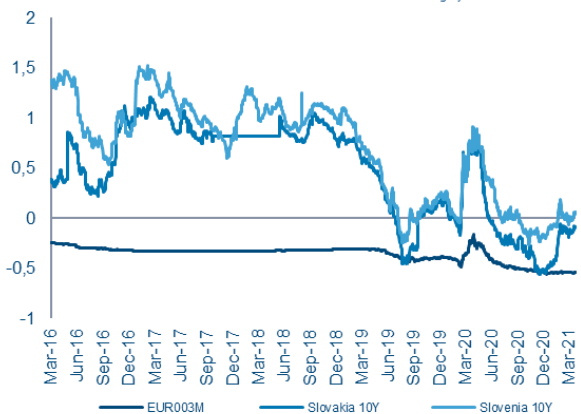
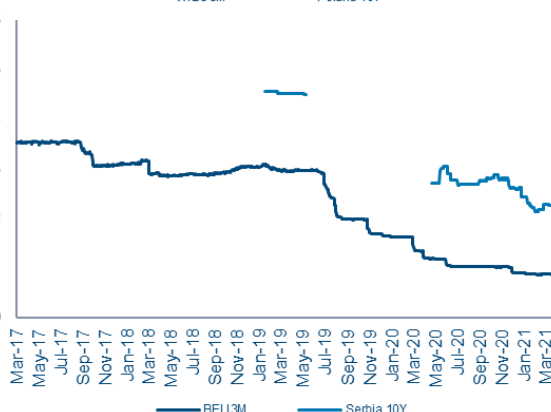
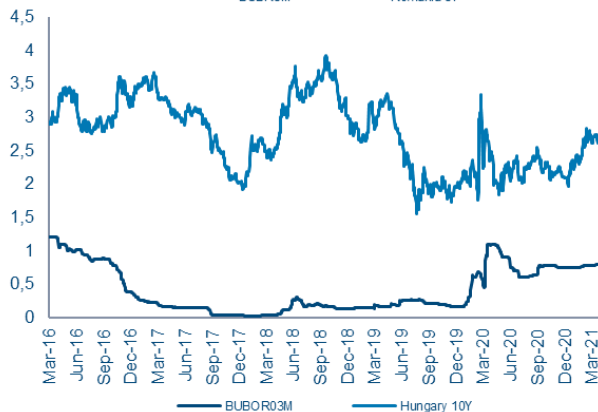
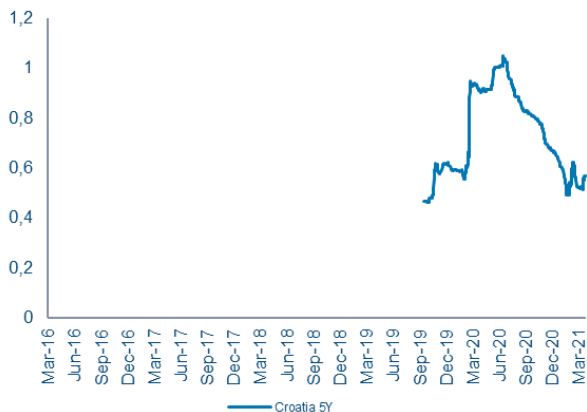
### Unemployment (%)

	2019	2020f	2021f	2022f
<b>Croatia</b>	6,6	7,5	8,0	6,9
<b>Czechia</b>	2,0	2,6	3,4	2,8
<b>Hungary</b>	3,4	4,2	4,5	3,8
<b>Poland</b>	5,4	5,9	6,2	5,9
<b>Romania</b>	3,9	4,9	5,9	6,1
<b>Serbia</b>	10,4	9,0	8,9	8,5
<b>Slovakia</b>	5,8	6,7	7,3	6,3
<b>Slovenia</b>	4,4	5,1	5,2	4,9
<b>CEE8 avg</b>	4,6	5,2	5,7	5,3

### Budget Balance (%GDP)

	2019	2020f	2021f	2022f
<b>Croatia</b>	0,4	-8,0	-3,5	-3,0
<b>Czechia</b>	0,3	-6,1	-7,0	-2,7
<b>Hungary</b>	-2,0	-8,1	-7,4	-5,0
<b>Poland</b>	-0,7	-8,8	-5,3	-3,2
<b>Romania</b>	-4,3	-9,1	-7,8	-5,4
<b>Serbia</b>	-0,2	-8,1	-3,5	-1,7
<b>Slovakia</b>	-1,4	-8,0	-6,0	-4,0
<b>Slovenia</b>	0,5	-9,5	-6,0	-4,0
<b>CEE8 avg</b>	-1,2	-8,2	-6,1	-3,7

## Appendix



Source: Bloomberg, Erste Group Research

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**19 April 2021**

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