

Solid 1Q21 GDP growth despite restrictions

Flash 1Q21 GDP growth will be the key release this week. We expect it to land at -1.4% y/y but an upward surprise cannot be ruled out. The Supreme Court decision on CHF loans could affect the zloty. Central bank will hold the first out of the two scheduled QE operations this month.

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Watch this week

May 14 | Solid 1Q21 GDP despite restrictions

We expect 1Q21 GDP growth to arrive at -1.4% y/y (+1.1% q/q s.a.), in line with market expectations. Surprisingly strong March real economy data lifted the average quarterly industrial production and retail sales growth visibly up. Despite restrictions being in place for most of the 1Q21, that mainly affected retail and services sectors, retail sales accelerated to 2.8% y/y from -2.7% y/y observed in 4Q20. On the other hand, average industrial production came in at 7.4% y/y in 1Q21 compared to 5.8% y/y in 4Q20. All in all, Polish economy became much more resilient to the containment measures and we expect 1Q21 to be the last quarter with negative annual growth dynamics. However, a positive surprise cannot be ruled out - it might come from higher contribution from inventories and/or the trade balance. For the time being, we see FY21 GDP growth at 3.4%, but likely after the 1Q21 GDP growth flash release we will revise our forecast upwards.

Last week's highlights

- [National Bank of Poland](#) kept policy rate unchanged at 0.1%.
- Governor Glapinski held a press conference. In his view, rates will most likely remain unchanged until mid-2022 but if needed the central bank could react earlier. The governor said that the NBP will firstly withdraw from the QE program and increase rates only afterwards. He reiterated that inflation will likely stay above the upper bound of the central bank's target in the coming months; but it is driven by non-core items that are outside of the monetary policy scope.
- The Supreme Court released its ruling on CHF loans. In the court's view the claims of the banks and consumers do not automatically lead to mutual compensation.
- According to the initial data, unemployment rate went down by 0.1pp to 6.3% in April.

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

Market developments

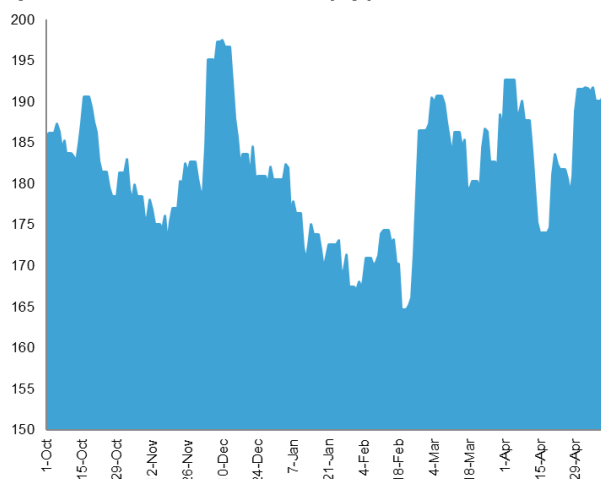
Bond market drivers | 10Y yield moved close to 1.7%

Following the strong yield increase at the end of April, the 10Y LCY yield stabilized and moved in a narrow range between 1.65-1.7% last week, mirroring the core market development. As a result, the spread against the 10Y Bund remained unchanged at around 190bp. According to the MinFin, Poland has already covered 67% of this year's borrowing needs after last week's switch auction. A regular auction is scheduled for May, 21. Today, state development bank BGK sold papers worth around PLN 4.4bn within the first auction this month. So far this year BGK issued paper worth close to PLN 18.5bn, while the maximum issuance for this year is planned to reach PLN 33.2bn. This week, NBP will hold the first this month QE operation. During last week's press conference, Governor Glapinski said that the central bank would firstly withdraw from asset purchases program and would consider interest rate hikes only afterwards. Thus, we think that the NBP will likely continue the bond buying program until the end of this year and will begin policy normalization in 3Q22.

FX market drivers | Increased volatility of the zloty

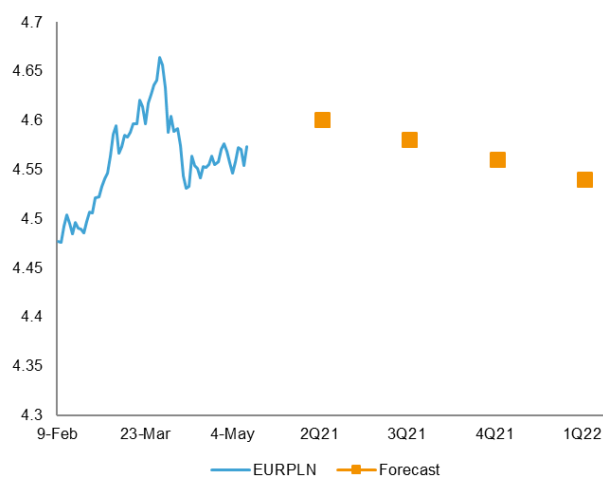
Over the course of the week, the zloty has been characterized by increased volatility which might prevail also this week. Stronger US dollar in the first half of the week and uncertainty about the Supreme Court ruling on CHF loans pushed EURPLN toward 4.58. However, weaker than expected April labor market data in the US were negative for the USD, which depreciated sharply on Friday. Dollar development coupled with the Supreme Court decision on CHF loans, which can be seen as favorable for the banking sector, were positive for the zloty as EURPLN moved towards 4.55 at the end of the week. The Supreme Court stood by its previous opinion that the claims of the banks and consumers do not automatically lead to mutual compensation. In the court's view, the bank may demand repayment of the benefit from the moment the loan agreement has become permanently ineffective, which determines the running of the statute of limitations. This week, zloty might stay volatile as another Supreme Court ruling on May, 11 could provide further guidance on the FX mortgage issue.

Spread vs. German Bund (bp)



Source: Bloomberg, Erste Group Research

EURPLN



Source: Bloomberg, Erste Group Research

Upcoming in CEE

| Date | Time | Country | Indicator | Period | Survey | Erste Est. | Prev. | Comment |
|---------|-------|---------|-----------------------------------|--------|--------|---------------|--------|---|
| 11. May | 9:00 | CZ | CPI (y/y) | Apr | 2.80% | 2.60% | 2.30% | High y/y growth of energy prices is main factor behind increase in headline inflation. Although prices of services are still relatively low, we expect them to start increasing from May, and thus to become another pro-inflationary factor. |
| | 9:00 | HU | CPI (y/y) | Apr | 4.80% | 4.80% | 3.70% | Unsupportive base effect from last year and further excise tax increase on tobacco are main reasons for expected acceleration. |
| 12. May | | RO | Central Bank Rate | May 12 | 1.25% | 1.25% | 1.25% | NBR governor does not 'see reason for further reductions of the policy rate'. NBR is ready to ensure flexibility of its inflation target, which suggests, in our view, that it is likely to tolerate higher supply-driven inflation. |
| | 8:00 | RO | Industrial Production (y/y) | Mar | | 15.30% | -2.60% | Favorable base effect, improved confidence and external demand, despite some disruptions from chip shortages. |
| | 9:00 | SK | Wages (y/y) | Mar | | | 0.30% | |
| | 12:00 | RS | CPI (y/y) | Apr | | 2.20% | 1.80% | We expect further monthly acceleration (0.5% m/m), implying 2.2% y/y growth. Prices likely to peak in May and hover around 2% mark for rest of year. |
| 13. May | 8:00 | RO | CPI (y/y) | Apr | 3.20% | 3.16% | 3.05% | After first three months of year, there were few signs of consumers changing their electricity providing contracts to competitive prices. If low consumer sensitivity to higher electricity bills persists, we might have to revise upwards our 3.1% year-end forecast. |
| | 8:00 | RO | Wages (y/y) | Mar | | 2.70% | 5.09% | Real wages likely to remain unchanged this year. Labor market expected to adjust, as government should gradually unwind its job support schemes and companies adapt to changed consumer behavior. |
| | 9:00 | SK | CPI (y/y) | Apr | | | 1.40% | |
| | 12:00 | RS | Central Bank Rate | May 13 | | 1.00% | 1.00% | We expect NBS to hold steady throughout 2021. |
| 14. May | | RO | Current Account Balance (monthly) | Mar | | | -1627 | |
| | 10:00 | PL | CPI (y/y) | Apr F | | 4.30% | 4.30% | We expect flash reading to be confirmed at 4.3% y/y in April. Core inflation likely marginally eased to 3.8% y/y. |
| | 10:00 | PL | GDP (y/y) | 1Q P | -1.40% | -1.40% | -2.70% | Although strict restrictions affecting retail and services sector were in place for most of 1Q21, economy likely expanded on quarterly basis (+1.1% q/q s.a.). Strong real economy data for March suggest solid growth in 1Q21. Positive surprise cannot be ruled out. |
| | 11:00 | HR | CPI (y/y) | Apr | | 1.80% | 1.20% | Higher fuel prices and base effects will push inflation higher. |
| | 14:00 | PL | Trade Balance | Mar | 786.5 | | 883 | |

Source: Bloomberg, Erste Group Research

Forecasts

Government bond yields

| | current | 2021Q2 | 2021Q3 | 2021Q4 | 2022Q1 |
|---------------------|---------|--------|--------|--------|--------|
| Croatia 10Y | 0.5 | 0.0 | 0.5 | 0.5 | 0.6 |
| spread (bps) | 72 | 26 | 72 | 66 | 70 |
| Czechia 10Y | 1.8 | 1.8 | 1.8 | 1.9 | 2.0 |
| spread (bps) | 199 | 201 | 202 | 203 | 205 |
| Hungary 10Y | 2.8 | 2.7 | 2.7 | 2.7 | 2.8 |
| spread (bps) | 296 | 291 | 290 | 289 | 294 |
| Poland 10Y | 1.7 | 1.80 | 1.90 | 1.90 | 1.95 |
| spread (bps) | 191 | 206 | 212 | 206 | 205 |
| Romania 10Y | 3.0 | 2.9 | 2.8 | 2.8 | 2.9 |
| spread (bps) | 322 | 316 | 302 | 291 | 300 |
| Slovakia 10Y | -0.1 | 0.0 | 0.2 | 0.3 | 0.4 |
| spread (bps) | 14 | 26 | 37 | 46 | 45 |
| Slovenia 10Y | 0.16 | 0.10 | 0.10 | 0.10 | 0.20 |
| spread (bps) | 37 | 36 | 32 | 26 | 30 |
| Serbia 5Y | 2.3 | 2.2 | 2.2 | 2.2 | 2.1 |
| spread (bps) | 255 | 246 | 242 | 236 | 220 |
| DE10Y* | -0.2 | -0.3 | -0.2 | -0.2 | -0.1 |

* Spreads based on Bloomberg consensus forecast

FX

| | current | 2021Q2 | 2021Q3 | 2021Q4 | 2022Q1 |
|---------------|---------|--------|--------|--------|--------|
| EURHRK | 7.54 | 7.53 | 7.53 | 7.53 | 7.53 |
| EURCZK | 25.58 | 25.62 | 25.54 | 25.36 | 25.08 |
| EURHUF | 357.83 | 360.00 | 360.00 | 360.00 | 360.00 |
| EURPLN | 4.56 | 4.60 | 4.58 | 4.56 | 4.54 |
| EURRON | 4.93 | 4.93 | 4.94 | 4.95 | 5.01 |
| EURRSD | 117.58 | 117.50 | 117.40 | 117.50 | 117.50 |
| EURUSD | 1.22 | 1.16 | 1.16 | 1.18 | 1.20 |

3M Money Market Rate

| | current | 2021Q2 | 2021Q3 | 2021Q4 | 2022Q1 |
|-----------------|---------|--------|--------|--------|--------|
| Czechia | 0.36 | 0.44 | 0.67 | 0.83 | 0.92 |
| Hungary | 0.79 | 0.78 | 0.78 | 0.79 | 0.80 |
| Poland | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 |
| Romania | 1.59 | 1.55 | 1.50 | 1.40 | 1.50 |
| Serbia | 0.87 | 0.87 | 0.85 | 0.83 | 0.83 |
| Eurozone | -0.53 | -0.54 | -0.54 | -0.54 | -0.54 |

Key Interest Rate

| | current | 2021Q2 | 2021Q3 | 2021Q4 | 2022Q1 |
|-----------------|---------|--------|--------|--------|--------|
| Croatia | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| Czechia | 0.25 | 0.25 | 0.50 | 0.75 | 0.75 |
| Hungary | 0.60 | 0.60 | 0.60 | 0.60 | 0.75 |
| Poland | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| Romania | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 |
| Serbia | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Eurozone | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

Real GDP growth (%)

| | 2019 | 2020 | 2021f | 2022f |
|-----------------|------|------|-------|-------|
| Croatia | 2.9 | -8.0 | 4.5 | 4.0 |
| Czechia | 2.2 | -5.6 | 3.3 | 4.3 |
| Hungary | 4.6 | -5.0 | 4.4 | 4.7 |
| Poland | 4.7 | -2.7 | 3.4 | 4.7 |
| Romania | 4.1 | -3.9 | 4.2 | 4.5 |
| Serbia | 4.2 | -1.0 | 6.0 | 4.0 |
| Slovakia | 2.5 | -4.8 | 4.0 | 4.8 |
| Slovenia | 3.2 | -5.5 | 4.4 | 4.1 |
| CEE8 avg | 3.9 | -4.0 | 3.8 | 4.5 |

Average inflation (%)

| | 2019 | 2020 | 2021f | 2022f |
|-----------------|------|------|-------|-------|
| Croatia | 0.8 | 0.1 | 1.2 | 1.5 |
| Czechia | 2.8 | 3.2 | 2.5 | 2.3 |
| Hungary | 3.4 | 3.3 | 3.9 | 3.2 |
| Poland | 2.3 | 3.4 | 4.0 | 3.1 |
| Romania | 3.8 | 2.7 | 3.2 | 2.4 |
| Serbia | 1.9 | 1.6 | 2.0 | 1.9 |
| Slovakia | 2.7 | 1.9 | 1.3 | 1.9 |
| Slovenia | 1.6 | 0.0 | 0.8 | 1.7 |
| CEE8 avg | 2.7 | 2.8 | 3.1 | 2.6 |

Unemployment (%)

| | 2019 | 2020 | 2021f | 2022f |
|-----------------|------|------|-------|-------|
| Croatia | 6.6 | 7.5 | 8.0 | 6.9 |
| Czechia | 2.0 | 2.6 | 3.4 | 2.8 |
| Hungary | 3.4 | 4.2 | 4.5 | 3.8 |
| Poland | 5.4 | 5.9 | 6.2 | 5.9 |
| Romania | 3.9 | 4.9 | 5.9 | 6.1 |
| Serbia | 10.4 | 9.0 | 8.9 | 8.5 |
| Slovakia | 5.8 | 6.7 | 7.0 | 6.0 |
| Slovenia | 4.4 | 5.1 | 5.2 | 4.9 |
| CEE8 avg | 4.6 | 5.2 | 5.7 | 5.3 |

Public debt (% of GDP)

| | 2019 | 2020 | 2021f | 2022f |
|-----------------|------|------|-------|-------|
| Croatia | 72.8 | 88.7 | 88.1 | 86.4 |
| Czechia | 31.2 | 38.4 | 45.0 | 48.1 |
| Hungary | 65.5 | 80.4 | 78.6 | 76.9 |
| Poland | 45.6 | 57.5 | 58.3 | 57.4 |
| Romania | 35.3 | 47.3 | 50.8 | 52.0 |
| Serbia | 52.1 | 57.4 | 59.5 | 57.8 |
| Slovakia | 48.2 | 60.3 | 63.5 | 63.5 |
| Slovenia | 65.6 | 78.1 | 76.9 | 74.5 |
| CEE8 avg | 45.9 | 57.3 | 59.2 | 59.1 |

C/A (%GDP)

| | 2019 | 2020 | 2021f | 2022f |
|-----------------|------|------|-------|-------|
| Croatia | 2.8 | -0.8 | 0.5 | 0.4 |
| Czechia | -0.3 | 3.2 | 0.2 | 0.3 |
| Hungary | -0.5 | 0.1 | -0.2 | -0.3 |
| Poland | 0.5 | 3.6 | 2.1 | 1.2 |
| Romania | -4.9 | -5.2 | -4.8 | -4.2 |
| Serbia | -6.9 | -4.3 | -3.6 | -3.7 |
| Slovakia | -2.7 | -2.7 | -1.6 | -0.9 |
| Slovenia | 5.6 | 7.3 | 6.7 | 5.6 |
| CEE8 avg | -0.8 | 1.0 | 0.1 | -0.2 |

Budget Balance (%GDP)

| | 2019 | 2020 | 2021f | 2022f |
|-----------------|------|------|-------|-------|
| Croatia | 0.3 | -7.4 | -4.2 | -3.0 |
| Czechia | 0.3 | -6.1 | -7.0 | -2.7 |
| Hungary | -2.1 | -8.1 | -7.4 | -5.0 |
| Poland | -0.7 | -7.0 | -5.3 | -3.2 |
| Romania | -4.4 | -9.2 | -7.8 | -5.4 |
| Serbia | -0.2 | -8.0 | -6.5 | -1.6 |
| Slovakia | -1.3 | -6.1 | -6.0 | -4.0 |
| Slovenia | 0.5 | -9.5 | -6.0 | -4.0 |
| CEE8 avg | -1.2 | -7.4 | -6.3 | -3.7 |

Source: Bloomberg, Erste Group Research

Erste Group Research
CEE Country Update | Poland | Weekly Focus
10. May 2021

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