

What drove inflation in May?

Flash inflation for May to be confirmed at 4.8% y/y. Core inflation to remain stable close to 4.0% y/y. Labor market statistics to be strongly affected by base effect from last year. Central bank to hold QE auction.

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Watch this week

June 15 | Flash reading to be confirmed

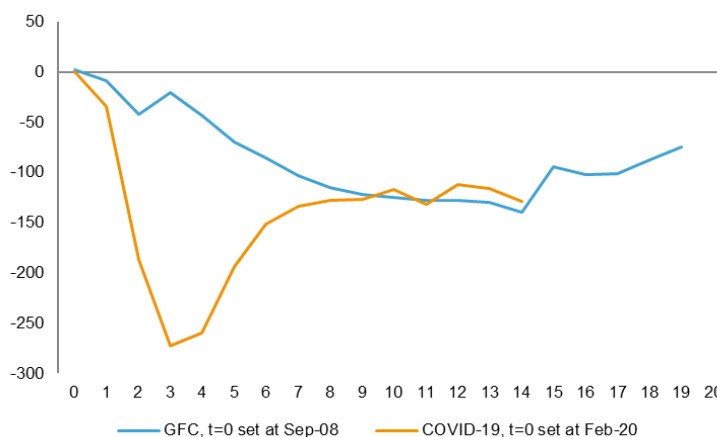
We expect the flash inflation reading to be confirmed at 4.8% y/y (0.3% m/m) in May. Headline CPI remains in an upward trend since the beginning of the year and in May reached the highest level since November 2008. Inflation continues to be driven by rising fuel and food prices as well as increases in administered prices, which were introduced at the start of the year. Moreover, core inflation for May will be released on June 16 and we expect it to remain stable at 3.9% y/y. All in all, we see headline CPI averaging 4.0% this year, with risks to the upside stemming from the reopening of the economy and supply-side bottlenecks. Next year, inflation should lose some of its momentum, but will remain above the central bank's target. Despite recent comments from Governor Glapinski and his pledge to dovish rhetoric, we think that the NBP could deliver a 15bp hike after the November projection is out, in order to anchor inflation expectations.

June 18 | Base effect to strongly affect labor market data in May

The impact of pandemic restrictions and subsequently introduced short-time work ('Kurzarbeit') schemes was the most visible in labor market statistics in May-June 2020. Thus, the May wage and employment growth data will be strongly influenced by the base effect. We expect wage growth to reach 10.4% y/y, while employment growth could jump by 2.5% y/y in May. Despite solid growth rates, there are still around 130tsd job positions less on the market compared to February 2020. Finally, initial data suggests further improvement in the unemployment rate, as it likely dropped by 0.2pp to 6.1% in May.

Cumulative monthly employment compared to pre-pandemic level

Cumulative employment in thousands (February 2020 = 0)



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

Source: Statistical Office, Erste Group Research

Last week's highlights

- We published a new [Macro Outlook](#) for Poland. We expect the economy to strongly rebound and expand by 4.8% this year with risks to the upside. Inflation will remain outside the tolerance band. Thus, the central bank could react and increase the key rate in 4Q21.
- The [National Bank of Poland](#) kept the policy rate unchanged. According to the NBP, the recent inflation surge is temporary and driven by factors outside of the scope of monetary policy.
- Export and import growth rates were strongly affected by the base effect in April, as it jumped by 69.2% y/y and 59.8% y/y, respectively.

Market developments

Bond market drivers | 10Y yield moved toward 1.7%

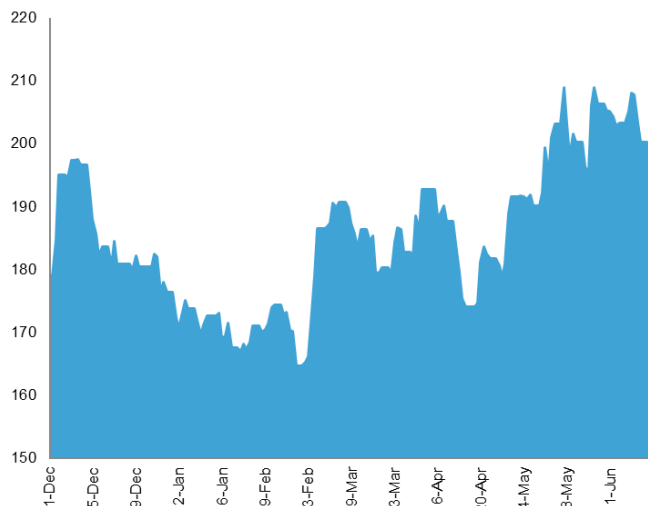
Over the course of the week, the 10Y yield followed core market development, where the 10Y German Bund dropped by 5bp to -0.27%. The 10Y Polish yield decreased by around 10bp to 1.72%. As a result, the spread against the 10Y Bund narrowed further to below 200bp. Last week, the MinFin bought back papers worth PLN 6.4bn and sold PLN 6.8bn in bonds within the first switch auction planned for this month. A second auction is scheduled for June 24. Separately, state-development bank BGK sold securities worth around PLN 2.3bn. BGK is set to hold another auction this month on June 30. Last week's MPC meeting and press conference of Governor Glapinski did not bring any material change in the dovish stance of monetary policy. According to the MPC, the recent inflation surge is temporary and driven by exogenous factors that are outside the scope of monetary policy. Moreover, Governor Glapinski said during the press conference that the recently observed recovery is not equal between the sectors and the current monetary policy setup supports the rebound. Furthermore, the unemployment rate is still above pre-pandemic levels. In the governor's view, there is no point in delivering a small interest rate hike as that would not 'make any difference'. The governor also addressed the rejection of the bids at the second QE auction in May and market speculations about a possible end to the asset purchases program. The central bank did not accept the offered bids as the prices offered by the banks were too high. Glapinski reiterated that the QE program is flexible and depends on the market situation. The NBP will hold one QE tender this month on June 16.

FX market drivers | EURPLN back at 4.50

Last week, the zloty pared back some of its recent gains and depreciated as the EURPLN returned to 4.50. The stronger US dollar and more dovish press conference of the National Bank of Poland's governor weighed on the zloty. The USD appreciated and moved to 1.21 vs. the EUR despite inflation surging to 5% y/y in May. At Friday's press conference, Governor Glapinski pledged loose monetary policy and ruled out any material change to the policy setup in a near future. In his view, July growth and inflation projections will be crucial for the interest rate outlook in Poland. We expect the NBP to deliver a 15bp hike in 4Q21 after new forecasts are out in November. Expected tightening would be positive for the zloty, which

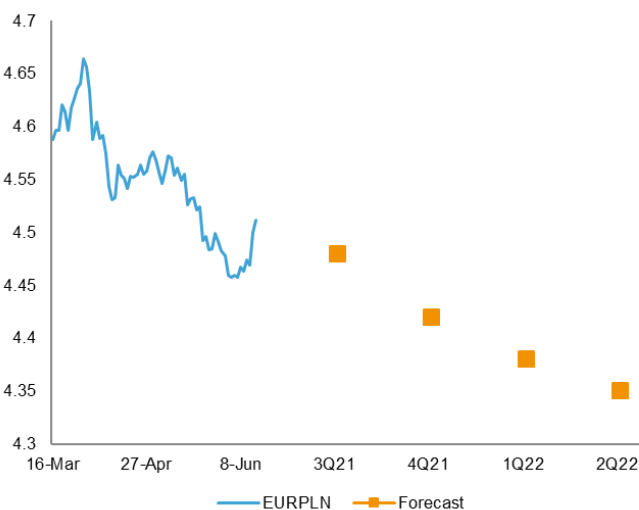
should, in our view, move toward 4.40 vs. the EUR by year-end. This week, the Fed policy meeting and new FOMC meeting participants' forecasts will be in focus. It will be interesting to observe how recent higher than expected CPI prints affected staff inflation and interest rate forecasts.

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
15.Jun	9:00	SK	CPI (y/y)	May		1.8%	1.60%	Growth y/y affected by regulated prices of energy and higher excise taxes on tobacco.
	9:00	SK	CPI (m/m)	May		0.40%	0.20%	Compared to April, we expect food prices and some services to contribute to inflation rate.
	10:00	PL	CPI (y/y)	May F		4.80%	4.80%	We expect flash reading to be confirmed.
	10:00	PL	CPI (m/m)	May F			0.30%	
16.Jun	9:00	CZ	PPI (y/y)	May	4.60%	4.70%	4.60%	Higher oil prices are most important driver behind current development of PPI; however, lack of some components and increasing labor costs play important roles.
	11:00	HR	CPI (y/y)	May		2.20%	2.10%	Inflation in May seen remaining around 2% mark.
	11:00	HR	CPI (m/m)	May			0.7%	
18.Jun		RS	Current Account Balance (monthly)	Apr			-45.6	
		SK	Unemployment Rate	May		7.8%	8.00%	Lifting of restrictions underpinned business activity in services.
	10:00	PL	Wages (y/y)	May	10.40%	10.40%	9.90%	Base effect to affect wage growth dynamics in May.
	11:00	HR	Unemployment Rate	May		8.3%	8.90%	Unemployment rate expected to maintain downward trajectory in May.
	11:00	HR	Wages (y/y)	Apr			3.4%	

Source: Bloomberg, Erste Group Research

Forecasts

Government bond yields

	current	2021Q3	2021Q4	2022Q1	2022Q2
Croatia 10Y	0.5	0.5	0.5	0.6	0.6
spread (bps)	80	68	66	68	63
Czechia 10Y	1.6	1.8	1.9	2.0	2.1
spread (bps)	190	199	207	210	215
Hungary 10Y	2.7	2.9	2.9	3.0	3.1
spread (bps)	298	306	306	308	312
Poland 10Y	1.7	2.00	2.20	2.30	2.40
spread (bps)	200	218	236	238	243
Romania10Y	3.2	3.5	3.5	3.5	3.6
spread (bps)	352	363	361	358	358
Slovakia 10Y	0.1	0.2	0.3	0.4	0.5
spread (bps)	38	33	46	43	53
Slovenia 10Y	0.09	0.15	0.15	0.25	0.35
spread (bps)	37	33	31	33	38
Serbia 5Y	2.4	2.3	2.2	2.1	2.1
spread (bps)	267	248	236	218	213
DE10Y*	-0.3	-0.2	-0.2	-0.1	0.0

* Spreads based on Bloomberg consensus forecast

3M Money Market Rate

	current	2021Q3	2021Q4	2022Q1	2022Q2
Czechia	0.42	0.59	0.86	1.13	1.39
Hungary	0.93	1.05	1.20	1.35	1.35
Poland	0.21	0.21	0.35	0.35	0.60
Romania	1.49	1.60	1.60	1.65	1.65
Serbia	0.88	0.85	0.83	0.83	0.83
Eurozone	-0.55	-0.54	-0.54	-0.54	-0.54

Real GDP growth (%)

	2019	2020	2021f	2022f
Croatia	2.9	-8.0	5.0	5.5
Czechia	2.2	-5.6	3.7	4.3
Hungary	4.6	-5.0	6.9	4.1
Poland	4.7	-2.7	4.8	5.4
Romania	4.1	-3.9	6.7	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	5.0	4.8
CEE8 avg	3.9	-4.0	5.1	4.8

Public debt (% of GDP)

	2019	2020	2021f	2022f
Croatia	72.8	88.7	87.2	84.3
Czechia	31.2	38.1	44.4	46.8
Hungary	65.5	80.4	77.5	75.9
Poland	45.6	57.5	57.0	55.0
Romania	35.3	47.3	49.6	50.8
Serbia	52.1	57.4	59.1	58.4
Slovakia	48.2	60.3	63.5	63.5
Slovenia	65.6	80.8	79.7	76.3
CEE8 avg	45.9	57.4	58.3	57.7

Source: Bloomberg, Erste Group Research

FX

	current	2021Q3	2021Q4	2022Q1	2022Q2
EURHRK	7.49	7.53	7.53	7.53	7.48
EURCZK	25.41	25.35	25.25	25.14	24.98
EURHUF	348.08	350.00	350.00	350.00	350.00
EURPLN	4.50	4.48	4.42	4.38	4.35
EURRON	4.92	4.96	4.98	4.99	5.03
EURRSD	117.56	117.50	117.60	117.55	117.50
EURUSD	1.21	1.18	1.20	1.20	1.22

Key Interest Rate

	current	2021Q3	2021Q4	2022Q1	2022Q2
Croatia	0.05	0.05	0.05	0.05	0.05
Czechia	0.25	0.50	0.75	1.00	1.25
Hungary	0.60	1.05	1.20	1.35	1.35
Poland	0.10	0.10	0.25	0.25	0.50
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

Average inflation (%)

	2019	2020	2021f	2022f
Croatia	0.8	0.1	1.7	1.6
Czechia	2.8	3.2	3.1	2.4
Hungary	3.4	3.3	4.2	3.2
Poland	2.3	3.4	4.0	3.5
Romania	3.8	2.7	3.7	3.0
Serbia	1.9	1.6	2.5	2.7
Slovakia	2.7	1.9	1.6	1.8
Slovenia	1.6	0.0	1.3	1.5
CEE8 avg	2.7	2.8	3.4	2.9

C/A (%GDP)

	2019	2020	2021f	2022f
Croatia	2.8	-0.8	0.6	0.4
Czechia	-0.3	3.2	0.7	0.3
Hungary	-0.5	0.1	-0.2	-0.1
Poland	0.5	3.5	2.1	1.2
Romania	-4.9	-5.2	-5.9	-5.4
Serbia	-6.9	-4.3	-3.5	-3.6
Slovakia	-2.7	-2.7	-1.6	-0.9
Slovenia	5.6	7.1	6.3	5.5
CEE8 avg	-0.8	0.9	0.0	-0.4

Unemployment (%)

	2019	2020	2021f	2022f
Croatia	6.6	7.5	7.5	6.7
Czechia	2.0	2.6	3.3	2.7
Hungary	3.4	4.2	4.2	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	5.0	5.0	4.8
CEE8 avg	4.6	5.2	5.6	5.3

Budget Balance (%GDP)

	2019	2020	2021f	2022f
Croatia	0.3	-7.4	-4.2	-3.0
Czechia	0.3	-6.2	-7.2	-3.5
Hungary	-2.1	-8.1	-7.1	-5.5
Poland	-0.7	-7.0	-4.5	-3.2
Romania	-4.4	-9.2	-7.8	-5.4
Serbia	-0.2	-8.0	-6.5	-3.0
Slovakia	-1.3	-6.1	-6.0	-4.0
Slovenia	0.5	-8.4	-7.0	-4.5
CEE8 avg	-1.2	-7.4	-6.0	-3.9

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CEE Country Update | Poland | Weekly Focus
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