

## CEE Market Insights

### Central banks meetings in Czechia and Hungary

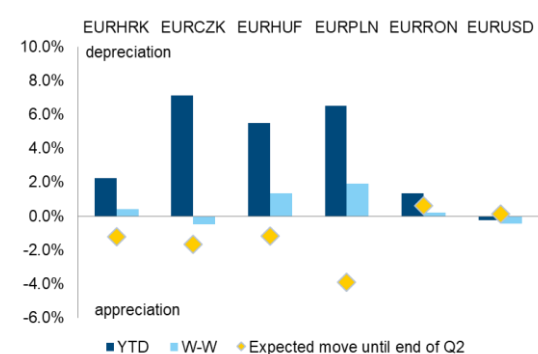
#### This week in CEE

All discussion is focused on the impact of the coronavirus on the economic activity. We have revised our CEE growth forecast down (Slovakia to contract 1% in 2020, Czechia 0.5%), but downside risks prevail. The adverse scenario, which assumes an extended period of lockdown and production breaks (with growth diving deeper into negative territory toward -3%) slowly becomes reality as countries begin to prolong preventive measures. Releases of economic data that come with at least a monthly delay say little about the current situation. Leading indicators in the Eurozone will thus be in focus this week. Locally, Czech and Hungarian central banks are to hold rate-setting meetings. In the case of Czechia, another 50bp cut seems to be only a matter of time, as there may still be a preference to wait until May and the new inflation and growth projection. As far as Hungary is concerned, the central bank is expected to announce liquidity-supporting measures and present the new forecasts.

Monday	Tuesday	Wednesday	Thursday	Friday
<b>HU:</b> Current Account	<b>HU:</b> Central bank	<b>RS:</b> Wages	<b>CZ:</b> Central bank	<b>HU:</b> Unemployment rate
	<b>PL:</b> Unemployment rate			<b>SK:</b> Current Account
	<b>SK:</b> Current Account			
<b>SK:</b> Bills, 2022 Bonds	<b>HR:</b> Bills	<b>CZ:</b> 2031, 2025 Bonds	<b>HU:</b> Bonds	
	<b>RS:</b> Bonds			

#### FX market

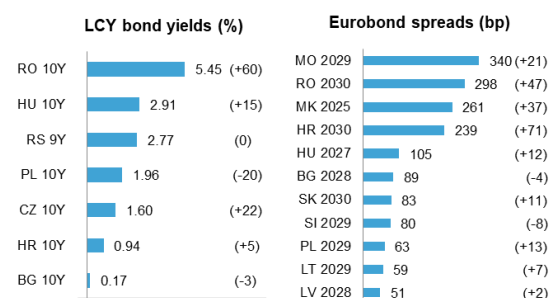
#### FX market developments



Source: Bloomberg, Erste Group Research

Currency moves were extremely hectic last week, but by the end of Friday, w/w changes in the CZK, PLN and HUF were very close to each other. Moves in the Croatian kuna is muted by the central bank, intervening EUR 1.6bn since pressures started to mount. Still, as the CNB has had firepower equivalent to 40% of GDP at the beginning of March, the current situation seems sustainable for now. In Romania, the NBR is also likely standing there to tame pressures. Elsewhere in the region, central banks are not that activist with interventions. Therefore, high volatility is expected in other regional currencies, depending on actual news with regards to the coronavirus outbreak.

## LCY yields, Eurobonds spreads Bond market developments



Source: Bloomberg, Erste Group Research

Bond markets experienced a drastic drop in trading volumes last week which was accompanied by major yield increases and hectic moves in most cases. Eurobond markets saw similar (or even more severe) decline in liquidity. Yield levels may therefore be less reliable than usual. An important feature is the increasing activity of local central banks on bond markets too, besides providing liquidity. In Croatia, the CNB purchased HRK 4.3bn, while the NBP also bought a total of PLN 2.6bn in 2Y, 5Y and 10Y paper. The Czech CNB has not announced bond purchases yet, likely due to the very high liquidity already present on the market. The Hungarian central bank also did not opt for purchases, but continues to provide liquidity in 1-week FX-swap tenders on a daily basis. These could see different allocation volumes, depending on the HUF exchange rate.

## In case you missed

CEE: [Coronavirus brings recession to CEE.](#)

CZ: Government announced [program worth 18% of GDP](#) to support economy.

HR: [Inflation eased to 1.5%](#) in February.

PL: [Solid industrial output](#) growth and [robust retail sales](#) in February. Government proposed [support measures worth 9% of GDP](#), including 2.7% of GDP cash component, while [central bank eased monetary conditions](#).

RO: [National Bank of Romania cut rates](#) and announced other liquidity supporting measures.

## Upcoming releases in CEE

Date	Time	Country	Indicator	Period	Survey	Erste Est.	Prev.	Comment
23. Mar	8:30	HU	Current Account Balance (quarterly)	4Q		-36.00	-230.1	Preliminary monthly figures showed tiny deficit on balance in 4Q19.
24. Mar	10:00	PL	Unemployment Rate	Feb	5.5%	5.5%	5.5%	Unemployment rate to increase in February.
	14:00	HU	Central Bank Rate	Mar	0.9%	0.9%	0.9%	No change in rates expected. MNB to reinforce continuation of liquidity-providing measures and might decide on Self-Financing or QE program. New economic forecasts could also
	14:30	SK	Current Account Balance (monthly)	Jan			-328	
25. Mar	12:00	RS	Wages (y/y)	Jan			11.9%	
26. Mar	13:00	CZ	Central Bank Rate	Mar	1.25%		1.75%	50bp rate cut is possible scenario.
27. Mar	9:00	HU	Unemployment Rate	Feb	3.4%	3.4%	3.4%	
	9:00	SK	PPI (y/y)	Feb			2.4%	

Source: Erste Group Research

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Note: Past performance is not necessarily indicative of future results

## Forecasts

### Government bond yields

	current	2020Q2	2020Q3	2020Q4	2021Q1
<b>Croatia 10Y</b>	0.9	1.0	0.9	0.8	0.7
spread (bps)	128	150	130	100	80
<b>Czechia 10Y</b>	1.5	1.7	1.8	1.9	2.0
spread (bps)	182	218	224	211	206
<b>Hungary 10Y</b>	2.9	2.7	2.6	2.6	2.7
spread (bps)	329	320	295	280	280
<b>Poland 10Y</b>	2.0	1.9	1.9	1.9	2.0
spread (bps)	231	240	225	210	205
<b>Romania 10Y</b>	5.4	3.8	3.7	3.5	3.6
spread (bps)	580	430	405	370	370
<b>Slovakia 10Y</b>	0.5	0.6	0.7	0.7	-
spread (bps)	81	110	105	85	-
<b>Slovenia 10Y</b>	0.44	0.30	0.30	0.20	0.20
spread (bps)	79	80	70	40	30
<b>Serbia 5Y</b>	2.3	2.2	2.0	1.8	1.7
spread (bps)	267	270	240	200	180
<b>DE10Y</b>	-0.3	-0.5	-0.4	-0.2	-0.1

### 3M Money Market Rate

	current	2020Q2	2020Q3	2020Q4	2021Q1
<b>Czechia</b>	1.78	1.98	1.88	1.89	1.88
<b>Hungary</b>	0.59	0.60	0.55	0.50	0.55
<b>Poland</b>	1.18	1.69	1.69	1.69	1.69
<b>Romania</b>	3.24	1.75	1.25	1.25	1.50
<b>Serbia</b>	1.34	1.09	1.09	0.82	0.82
<b>Eurozone</b>	-0.37	-0.50	-0.50	-0.50	-0.50

### Real GDP growth (%)

	2018	2019f	2020f	2021f
<b>Croatia</b>	2.7	2.9	0.0	2.2
<b>Czechia</b>	2.9	2.4	-0.5	1.7
<b>Hungary</b>	5.1	4.9	1.1	2.7
<b>Poland</b>	5.1	4.1	1.2	1.4
<b>Romania</b>	4.4	4.1	1.8	2.2
<b>Serbia</b>	4.4	4.2	1.5	4.2
<b>Slovakia</b>	4.0	2.3	-1.0	3.5
<b>Slovenia</b>	4.1	2.4	0.8	2.3
<b>CEE8 avg</b>	4.4	3.7	0.8	2.0

### Public debt (% of GDP)

	2018	2019f	2020f	2021f
<b>Croatia</b>	74.7	71.5	72.6	70.3
<b>Czechia</b>	32.5	30.8	33.1	32.6
<b>Hungary</b>	70.2	66.4	65.8	64.3
<b>Poland</b>	48.9	46.5	47.0	45.0
<b>Romania</b>	34.7	35.4	39.5	40.4
<b>Serbia</b>	53.7	52.0	54.4	53.6
<b>Slovakia</b>	49.4	48.2	51.3	50.2
<b>Slovenia</b>	70.4	66.7	66.0	63.7
<b>CEE8 avg</b>	48.3	46.3	47.8	46.6

### FX

	current	2020Q2	2020Q3	2020Q4	2021Q1
<b>EURHRK</b>	7.61	7.52	7.52	7.55	7.55
forwards		7.61	7.61	7.61	7.61
<b>EURCZK</b>	27.35	26.80	26.43	25.80	25.47
forwards		27.44	27.45	27.46	27.44
<b>EURHUF</b>	354.23	345.00	345.00	340.00	335.00
forwards		354.97	355.77	356.83	357.86
<b>EURPLN</b>	4.57	4.36	4.35	4.33	4.33
forwards		4.59	4.60	4.61	4.62
<b>EURRON</b>	4.85	4.88	4.88	4.90	4.92
forwards		4.90	4.95	4.99	5.04
<b>EURRSD</b>	117.49	117.60	117.50	117.60	117.40
forwards		-	-	-	-
<b>EURUSD</b>	1.07	1.13	1.15	1.15	1.15

### Key Interest Rate

	current	2020Q2	2020Q3	2020Q4	2021Q1
<b>Croatia</b>	0.30	0.30	0.30	0.30	-
<b>Czechia</b>	1.75	1.25	1.25	1.25	1.50
<b>Hungary</b>	0.90	0.90	0.90	0.90	0.90
<b>Poland</b>	1.00	1.00	1.00	1.00	1.00
<b>Romania</b>	2.00	1.50	1.00	1.00	1.25
<b>Serbia</b>	1.75	1.75	1.75	1.50	1.50
<b>Eurozone</b>	0.00	0.00	0.00	0.00	0.00

### Average inflation (%)

	2018	2019f	2020f	2021f
<b>Croatia</b>	1.5	0.8	0.8	1.2
<b>Czechia</b>	2.2	2.8	2.6	1.8
<b>Hungary</b>	2.8	3.4	3.5	3.2
<b>Poland</b>	1.6	2.3	3.6	2.2
<b>Romania</b>	4.6	3.8	3.4	3.4
<b>Serbia</b>	2.0	1.9	1.0	1.7
<b>Slovakia</b>	2.5	2.7	2.3	2.0
<b>Slovenia</b>	1.7	1.6	1.3	1.5
<b>CEE8 avg</b>	2.4	2.7	3.0	2.3

### C/A (%GDP)

	2018	2019f	2020f	2021f
<b>Croatia</b>	1.9	2.7	0.2	1.5
<b>Czechia</b>	0.3	-0.1	-0.2	0.1
<b>Hungary</b>	-0.5	-0.2	-0.8	-0.8
<b>Poland</b>	-1.0	1.1	0.3	0.2
<b>Romania</b>	-4.4	-4.7	-4.2	-3.8
<b>Serbia</b>	-4.8	-6.9	-6.8	-7.2
<b>Slovakia</b>	-2.6	-2.9	-3.6	-1.6
<b>Slovenia</b>	5.7	6.6	3.6	2.4
<b>CEE8 avg</b>	-1.2	-0.5	-1.0	-0.8

### Unemployment (%)

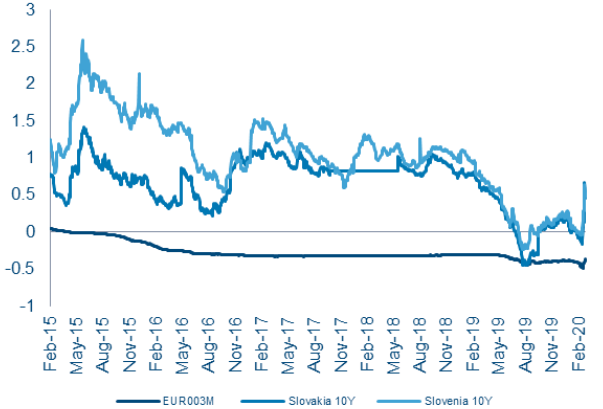
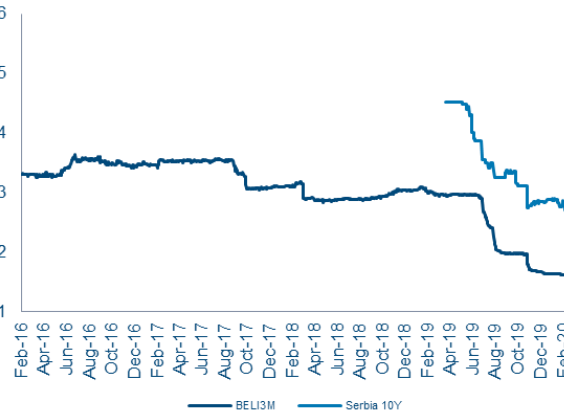
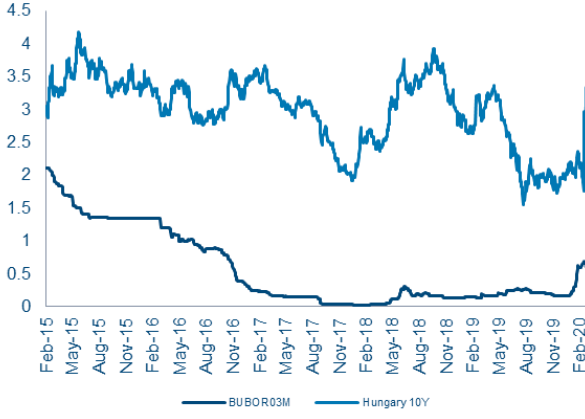
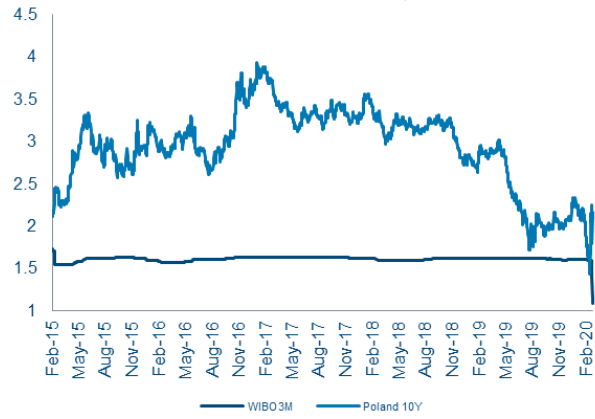
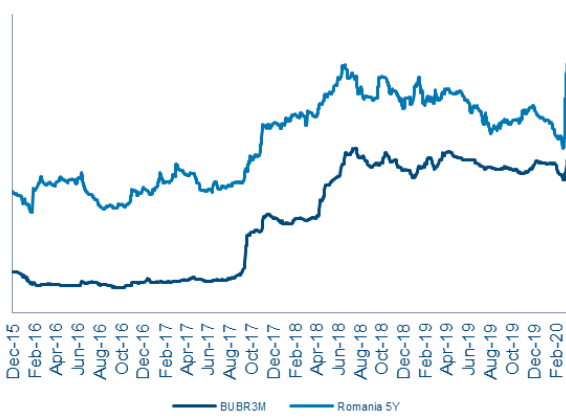
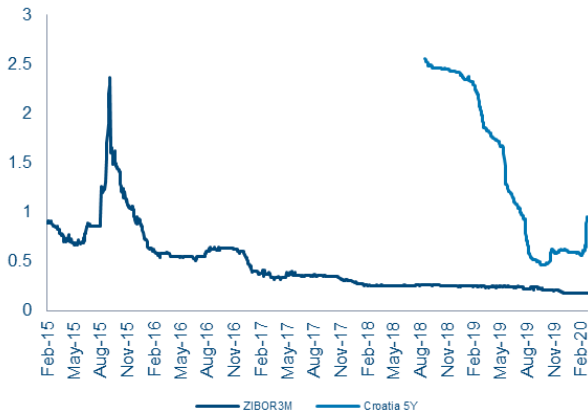
	2018	2019f	2020f	2021f
<b>Croatia</b>	8.4	6.8	7.2	7.5
<b>Czechia</b>	2.3	2.1	2.6	3.2
<b>Hungary</b>	3.7	3.4	3.8	3.6
<b>Poland</b>	6.1	5.4	5.6	5.7
<b>Romania</b>	4.2	3.9	5.8	6.2
<b>Serbia</b>	12.7	10.4	10.5	9.0
<b>Slovakia</b>	6.6	5.8	6.5	6.3
<b>Slovenia</b>	5.2	4.5	4.5	3.6
<b>CEE8 avg</b>	5.2	4.6	5.2	5.3

### Budget Balance (%GDP)

	2018	2019f	2020f	2021f
<b>Croatia</b>	0.3	0.0	-2.0	-0.5
<b>Czechia</b>	1.1	0.6	-1.2	-0.3
<b>Hungary</b>	-2.3	-2.0	-2.6	-1.8
<b>Poland</b>	-0.2	-0.7	-2.4	-2.0
<b>Romania</b>	-2.9	-4.6	-6.0	-3.5
<b>Serbia</b>	0.6	-0.2	-2.0	-0.5
<b>Slovakia</b>	-1.1	-1.1	-4.0	-2.0
<b>Slovenia</b>	0.8	0.0	-0.5	0.5
<b>CEE8 avg</b>	-0.6	-1.2	-2.8	-1.8

Source: Bloomberg, Erste Group Research

## Appendix



Source: Bloomberg, Erste Group Research

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