

CEE: No hiding from the slower growth pace

Restrictions are back as Covid cases rise. But as measures will be less draconian than in 1H20, we look for a slower pace of recovery in the fourth-quarter without dipping back into recession. We think Polish authorities will be least concerned about FX weakness while CEE asset prices are primarily driven by shifting perceptions on global growth



Source: Shutterstock

Slower pace of recovery but no recession

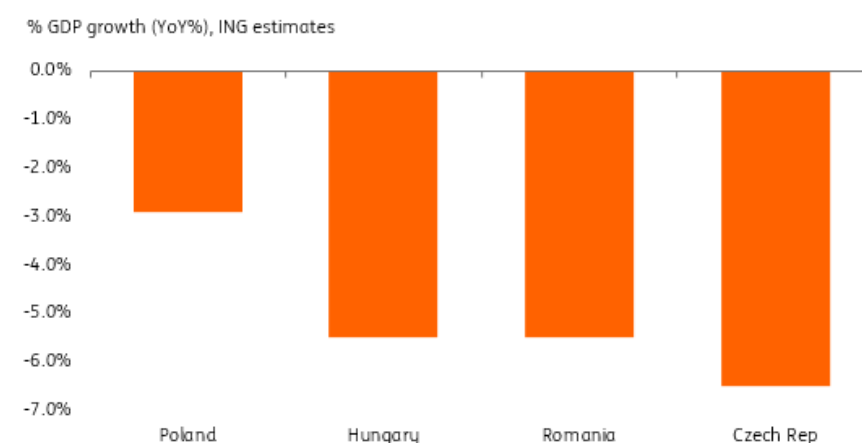
Growth dynamics in Central and Eastern Europe are not dissimilar to those seen in developed markets in Europe. After the poor first and second quarters, we have seen a meaningful rebound in the third quarter. Within the region, Poland stands out, as a strong fiscal and monetary response helped to soften the blow, allowing the country to contract 'by 'only' 3% this year. This contrasts to around a 6% decline for the other CEE countries (Fig 1).

As is the case in the EU, after the calm summer, the rise in Covid-19 cases is now taking centre stage and CEE governments have re-introduced restrictive measures. Compared to the first half of the year, we see a differentiation in the Covid dynamics in relative terms, with the Czech

Republic being hit particularly hard (the worst country in the EU, in terms of new cases per 100,000 people) largely because of the full easing of restrictions in summer and the failure to pre-emptively respond.

While restrictive measures are on the rise in the CEE (Hungary closed its borders except to V4 countries), these are not and should not be as draconian as during the first lockdown, which should soften the blow. But nonetheless, we expect a slowdown in the pace of the recovery in 4Q as restrictions dampen confidence and consumer spending. However, the slowdown should not equate to a recession.

Figure 1: Poland weathered the Covid crisis better



Source: ING

The two inflation laggards – the Czech Republic and Hungary

Within the CEE region and Europe, both the Czech Republic and Hungary have both been outliers in terms of inflation, generally with price pressures just peaking / about to peak.

The former has been the case in Hungary, but the latest correction in price pressures lower (September CPI surprised meaningfully on the downside) came one month too late, with the National Bank of Hungary being forced, in the meantime, to deliver a 15 basis point hike in the 1-week deposit rate late last month to end the forint's underperformance (which threatened the inflation outlook).

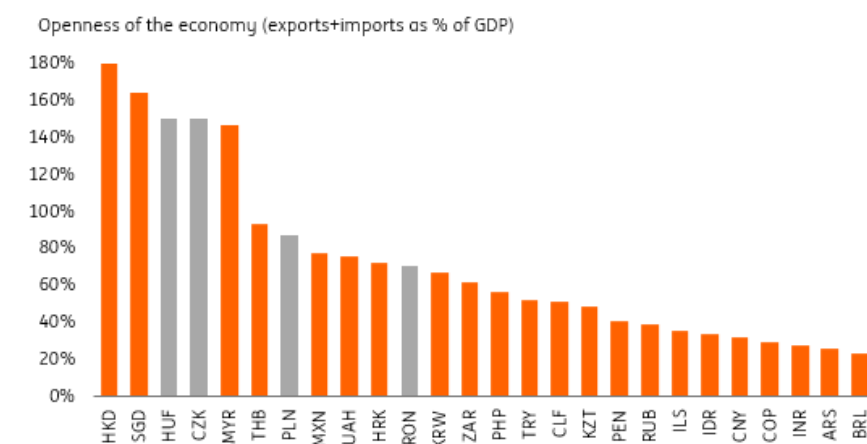
As the worst is behind us, the Hungarian central bank should now stay cautiously on hold. As for the Czech Republic, the peak should be the September CPI reading due on Monday, but with koruna weakness seen by the Czech National Bank more as an automatic stabiliser for monetary conditions rather than a threat to the CPI outlook, the CNB should remain firmly on hold.

Varying tolerance levels for currency weakness

The extent to which local authorities are willing to tolerate further currency weakness is one of the regional themes emerging for the coming months. In Hungary, the NBH is now clearly leaning against the wind, in Romania, FX intervention is the daily bread and butter and in the Czech Republic, the CNB's Governor has been clear that the central bank is not willing to tolerate meaningful koruna weakness. In contrast, the Polish authorities appear the least concerned about currency weakness at this point.

In its last statement, the National Bank of Poland mentioned that the pace of economic recovery could be limited by the lack of a marked adjustment in the PLN exchange rate despite the global shock caused by the pandemic and a loosening of NBP monetary policy. This underlines our view that the zloty currently looks like the least attractive currency in the region (particularly since the NBH has stabilised the forint and more quantitative easing from the National Bank of Poland is on cards for 2021).

Figure 2: CEE defined by small open economies



Source: IMF

CEE asset prices primarily driven by global factors

In general, as the CEE region is defined by small open economies levered to global (Fig 2) and European growth, and this is the way many investors form their expectations, external factors have clearly been spilling over into local asset markets. The rise in FX volatility among local currencies since the re-rating of the global growth outlook last month and the evident underperformance of local currencies provides a case in point, as well as the flattening of local curves.

Global factors are heavily determining local markets at this point with only limited domestic idiosyncratic drivers. We thus prefer relative value positions rather than outright bets.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist
+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM
+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com