

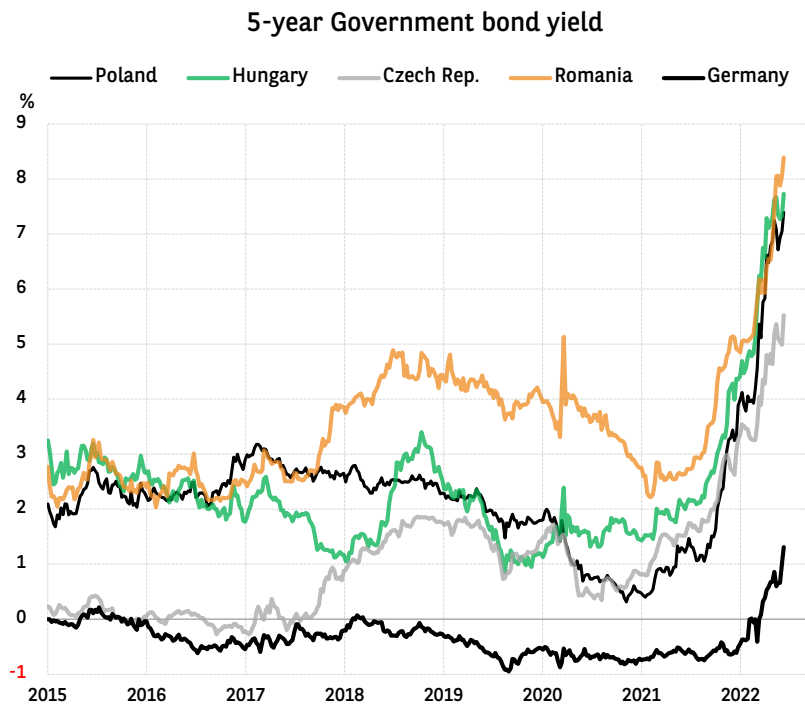
# CHART OF THE WEEK



15 June 2022

## CENTRAL EUROPE: HIGHER FUNDING COSTS IN BOND MARKETS

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Source: Refinitiv, BNP Paribas

Over the past few weeks, Central Europe has experienced a spike in Government bond yields. Five-year yields have surged respectively by 338 bp in Poland, 331 bp in Hungary, 350 bp in Romania and 216 bp in Czech Republic since January 2022 and are at present similar to 2008 levels. The trend is also the same for 10-year yields. The recent move can be explained to some extent by markets' overreaction as regards to the relatively high exposure of Central European countries to Russia in terms of exports and energy supply. Moreover, their geographical proximity with Ukraine and Russia have contributed to markets' perception of higher geopolitical risk. In the meantime, monetary policy tightening, a consequence of higher inflationary pressures (respectively +16.0 % YoY in May in Czech Republic, +14.5 % in Romania, +10.7 % in Hungary), has also pushed up yields.

The magnitude of the increase in Poland's bond yields is puzzling. The country stands out in the region, showing better resilience to the macroeconomic consequences of the war in Ukraine. Besides, Poland is well prepared to a cut-off from Russian gas owing to past investments, geared towards diversifying its suppliers. The country could also benefit from the unblocking of EU funds under certain conditions.

The cost of Government funding in local bond markets has increased markedly for all countries. Some of them could therefore prefer to tap international markets to cover their funding needs. This situation would entail a rise in governments' foreign currency debt and a higher exposure to currency risk. Currently, the share of public foreign currency debt to GDP is moderate for Central European countries overall.

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