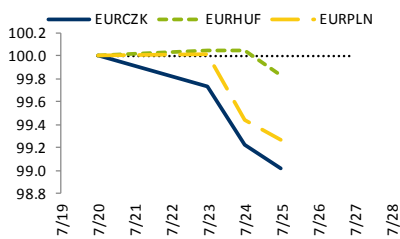
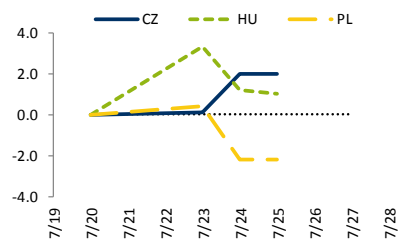




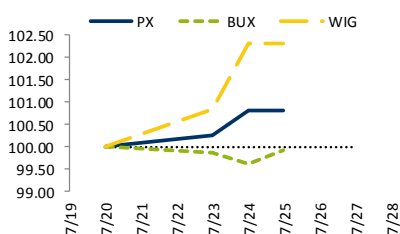
Wednesday, 25 July 2018

**Forex markets (index)**

	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.64	25.69	-0.21
EURHUF	325.3	326.0	-0.21
EURPLN	4.296	4.304	-0.18

**Gov. bonds 10 Y (bps change)**

	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	2.076	2.076	0.0
HUGB 10Y	3.37	3.38	-0.1
PLGB 10Y	3.15	3.15	0.0

**Equity indices (index)**

	LAST	PREVIOUS	CHANGE (%)
PX	1093.9	1093.9	0.00
BUX	35164	35050	0.32
WIG	58630	58630	0.00

**Our regional insights:****NBH keeps rates on hold as expected**

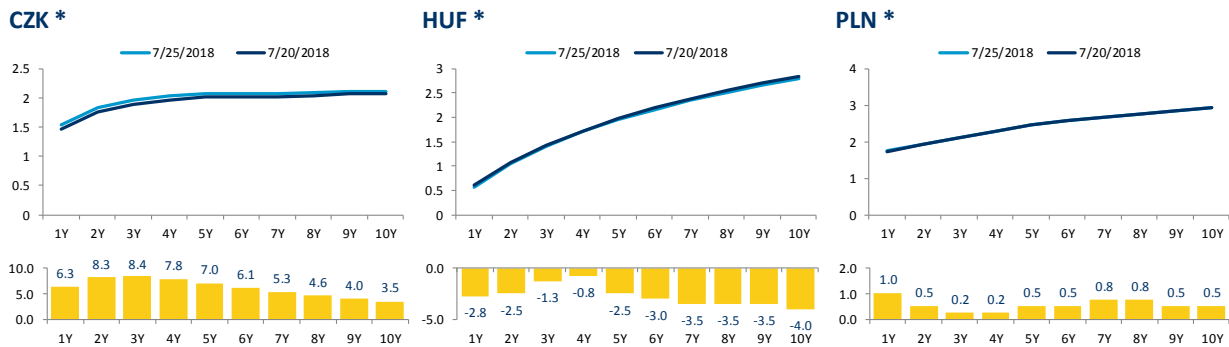
The National Bank of Hungary left its interest rates unchanged on yesterday's meeting. As expected, the NBH reiterated its dovish stance - ignoring the recent forint's losses - by maintaining loose monetary policy necessary to achieve the inflation target of 3% y/y in "a sustainable manner". This points only towards very gradual normalization of monetary policy, which is quite likely to follow the course of the ECB. The Hungarian forint was left unmoved by the central bank decision at 326 EUR/HUF.

**Czech government debt increases despite a solid growth**

The benefits of the brisk growth of the Czech economy has not only been felt by the labour offices, which have drastically reduced their clients, but also by the state budget. Thanks to record employment and faster wage growth, social security contributions have increased considerably, which is by a large the biggest income item, having added more than CZK32 billion this year. Coincidentally, this is half of the overall increase in tax collection. Only the second is VAT with an increase of less than CZK15 billion, which by the way roughly corresponds to the growing (taxed) consumption in the economy.

However, it is not just collected taxes that are growing at the treasury. Expenditure is rising (up to now CZK64 billion in total) and the state debt is rapidly increasing ...despite the strong growth of the economy. In the first six months of the year, the government debt increased by almost CZK89 billion. After several years of government debt reduction with the help of previously accumulated reserves and a surplus from 2016, the Czech Republic seems to be reversing the course. Although the Czech Republic remains one of the least indebted EU countries, however, due to the deficit management of good years and the continuous strengthening of mandatory expenditures, it is generating a potential problem for the future. The period of record low unemployment may not last forever, and the end of it will most likely cause a slump in the biggest income item of the budget - social security contributions, while spending will remain inviolable. The exception maybe be investments, however, they are not a large part of the budget and even that is far from being successfully managed when it comes to transport infrastructure investments this year. Thus, the currently achieved deficit cannot be justified even by increased investment activity.

## Interest-rate Swap Curves



\* upper plot in each panel shows interest swap curve (%), lower plot shows change in interest rates in basis points (against previous Friday).

## Calendar

Country	Date	Time	Indicator	Period	Forecast		Actual		Consensus		Previous	
					m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
CZ	07/25	12:00	CZ bond auction 2011-2023, floating rate	CZK B 07/01/2018					4			
CZ	07/25	12:00	CZ bond auction 2018-29, 2,75%	CZK B 07/01/2018					4			
HU	07/27	9:00	Unemployment rate	% 06/01/2018								3.7

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