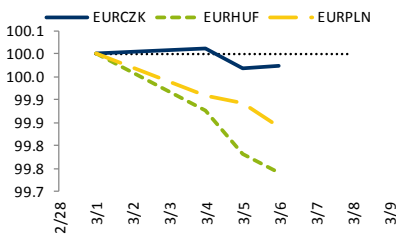




**Central Europe**  
Wednesday

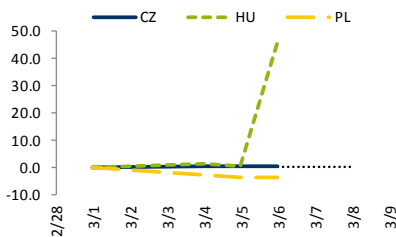
Wednesday, 06 March 2019

**Forex markets (index)**



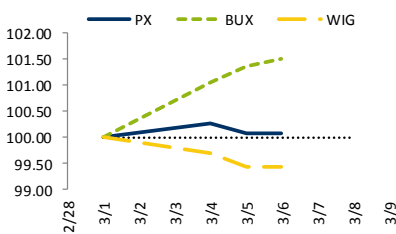
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.63	25.63	0.00
EURHUF	315.5	315.6	-0.04
EURPLN	4.299	4.301	-0.05

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



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.924	1.925	-0.1
HUGB 10Y	3.22	2.76	16.5
PLGB 10Y	2.92	2.92	0.0

**Equity indices (index)**



	LAST	PREVIOUS	CHANGE (%)
PX	1076.6	1076.6	0.00
BUX	40770	40719	0.13
WIG	59743	59743	0.00

**Our regional insights:**

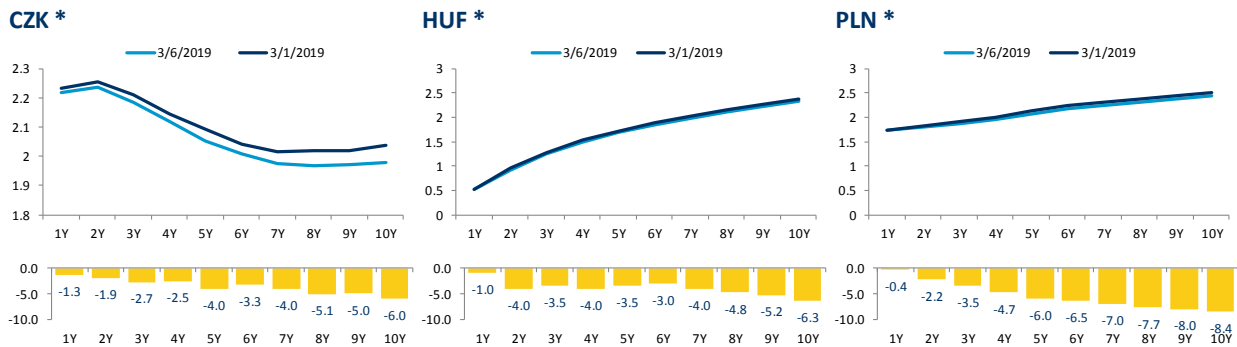
**While the NBP hugely downgrades inflation projection, its reaction to proposed fiscal expansion could be tame**

Another meeting of the Polish central bank (NBP) is finishing this afternoon. Although it is rather certain that the Monetary Council (MPC) is going to leave the monetary policy unchanged, the outcome of the NBP meeting can be very interesting. On top of the NBP publishing the baseline outputs of the new quarterly macroeconomic forecast, the MPC will have to comment on two government interventions that may visibly influence the development of the Polish economy over the medium term.

First and foremost, the headline inflation rate will be significantly lower this year than the NBP's estimate in its November projection. The main reason behind the downward revision of the inflation will be a far tamer increase in regulated energy prices than originally assumed. The NBP's November forecast envisaged a 12% rise in energy prices, and the price hickup was supposed to push the total inflation figure to 3 % in 2019. However, there will be no such increase (energy prices are not too likely to change) and the inflation will remain just above 1 % – well below the NBP target. This moderate inflation outlook gives the NBP's Governor Glapinsky a chance to reiterate his personal opinion that the NBP's official interest rates are to be on hold for another two years.

However, the government's decision to launch another fiscal expansion which could worsen the public budget balance by as much as 2 % GDP (PLN 40bn) before the autumn parliamentary elections, should have the opposite effect on the NBP's rhetoric. The NBP's new forecast is rather likely not to include the proposed budget stimuli (mostly higher social spending plus lower personal income taxes), but the central bankers attending the NBP press conference could comment on the new budgetary measures. Under standard circumstances, in a situation with such tight labour market, the central bank should respond to an additional fiscal expansion by tightening the monetary conditions. However, it is hard to expect the current MPC members, whom have been appointed by the current ruling party, to take any hawkish steps just before the upcoming elections.

## 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	03/06	12:00	CZ bond auction 2015-2026, 1.00%	CZK B 03/01/2019					5			
CZ	03/06	12:00	CZ bond auction 2017-2033, 2.00%	CZK B 03/01/2019					5			
CZ	03/06	12:00	CZ bond auction 2007-2057, 4.85%	CZK B 03/01/2019					0.5		1.5	
PL	03/06	14:00	NBP meeting	% 03/01/2019	1.5				1.5		1.5	
HU	03/07	9:00	Industrial output	% 01/01/2019						3.2	2.5	5.7
CZ	03/07	10:00	FX reserves of the CNB	EUR B 02/01/2019							124.8	
CZ	03/08	9:00	Real wages	% 4Q/2018		5.3				5.9		6
CZ	03/08	9:00	Unemployment rate 15-64	% 02/01/2019	3.2					3.2	3.3	
HU	03/08	9:00	CPI	% 02/01/2019						0.4	2.9	0.3 2.7

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