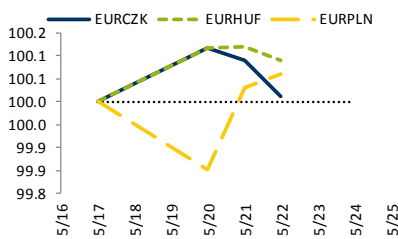




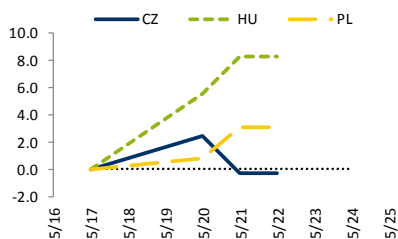
Wednesday, 22 May 2019

## Forex markets (index)



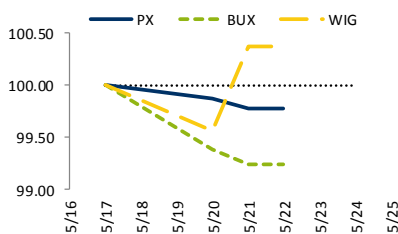
|        | LAST  | PREVIOUS | CHANGE (%) |
|--------|-------|----------|------------|
| EURCZK | 25.77 | 25.79    | -0.08      |
| EURHUF | 326.4 | 326.5    | -0.03      |
| EURPLN | 4.308 | 4.307    | 0.03       |

## Gov. bonds 10 Y (bps change)



|          | LAST  | PREVIOUS | CHANGE (bps) |
|----------|-------|----------|--------------|
| CZGB 10Y | 1.809 | 1.809    | 0.0          |
| HUGB 10Y | 3.23  | 3.23     | 0.0          |
| PLGB 10Y | 2.91  | 2.91     | 0.0          |

## Equity indices (index)



|     | LAST   | PREVIOUS | CHANGE (%) |
|-----|--------|----------|------------|
| PX  | 1048.3 | 1048.3   | 0.00       |
| BUX | 39576  | 39576    | 0.00       |
| WIG | 56772  | 56772    | 0.00       |

## Our regional insights:

## The Czech budget in a deficit despite robust growth

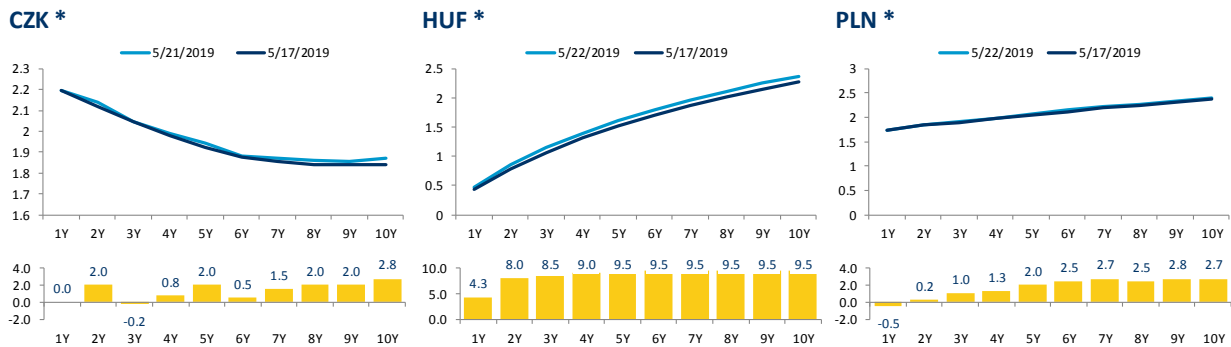
Four months into the year, the Czech state budget has recorded a deficit of almost CZK 30bn, including the extra CZK 18bn revenue from privatisation. Yet the targeted deficit for the whole year should only amount to ten billion more. Let us point out that as a rule, the second half of the calendar year tends to be less favourable for the state budget than the beginning of the year, so at the moment, the approved deficit seems hardly likely to be achieved. Although, of course, it is premature to draw far-reaching conclusions from one third of the year, it is clear that the economic deceleration goes hand in hand with lower tax revenue growth. Contrastingly, public spending increases rapidly.

Both income and excise taxes lag behind the original plans this year. The saviours of the Czech state budget balance are the non-tax revenues, including the aforementioned transfer from the privatisation. After a considerable period, the deficit will probably come true this year; for the time being, there are no hints that the Czech state should be doing significantly better any time soon.

Let us add that despite the high economic growth, a deficit of CZK 40bn is expected even for 2020, mainly as a result of further increases in social benefits, namely old-age pensions and the parent benefits. The Czech state demonstrates hereby that even in good times, it is unable to deliver a balanced budget or even budget surplus; it even seems unwilling to adopt the much needed reforms responding to long-term negative demographic trends that will place high demands on any future budgets.

Looking at the Czech yield curve, or the government bond yields, we can only say that the market does not pay much attention to the fiscal situation; it is rather interested in the evolution of the business cycle in the Czech Republic and the euro area, on which it bases its expectations regarding the CNB's future monetary policy steps. These act as the main determinant not only of the CZK swap rates, but now as well as the government bond yields. Recall that the Czech bond yields now much more reflect expectations of the CNB policy than market liquidity, which had been heavily distorted by FX interventions against the Czech currency.

## 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         | Unit | Period     | Forecast |     | Actual |     | Consensus |      | Previous |     |
|---------|-------|-------|-------------------|------|------------|----------|-----|--------|-----|-----------|------|----------|-----|
|         |       |       |                   |      |            | m/m      | y/y | m/m    | y/y | m/m       | y/y  | m/m      | y/y |
| PL      | 05/22 | 10:00 | Industrial output | %    | 04/01/2019 |          |     |        |     | -4.0      | 9    | 9.8      | 5.6 |
| PL      | 05/22 | 10:00 | PPI               | %    | 04/01/2019 |          |     |        |     | 0.3       | 2.4  | 0.2      | 2.5 |
| PL      | 05/23 | 10:00 | Retail sales      | %    | 04/01/2019 |          |     |        |     | 1.0       | 9.6  | 14.1     | 3.1 |
| PL      | 05/24 | 14:00 | Money supply M3   | %    | 04/01/2019 |          |     |        |     | 0.4       | 10.1 | 0.9      | 9.9 |

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