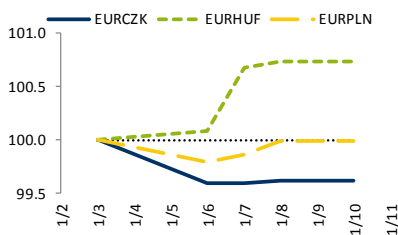




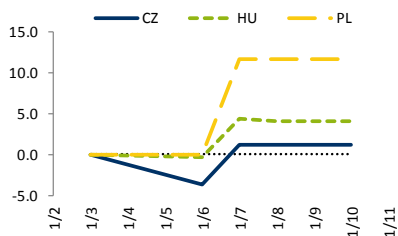
Friday, 10 January 2020

## Forex markets (index)



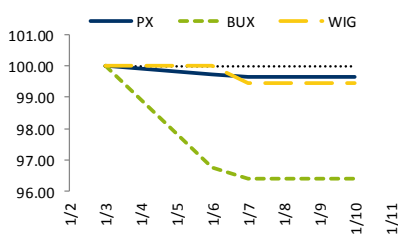
	LAST	PREVIOUS	CHANGE (%)
EURCZK	25.24	25.24	0.00
EURHUF	331.8	331.8	0.00
EURPLN	4.242	4.242	0.00

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	1.568	1.568	0.0
HUGB 10Y	1.98	1.98	0.0
PLGB 10Y	2.18	2.18	0.0

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1117.6	1117.6	0.00
BUX	44491	44491	0.00
WIG	58283	58283	0.00

## Regional insights

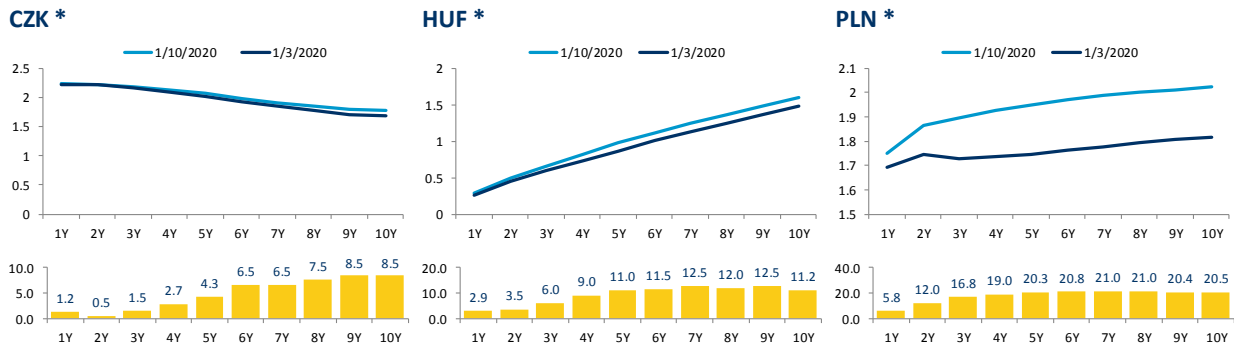
## Hungarian budget is OK, but inflation goes to 4%

The Hungarian Central Public Budget finished the full year with HUF1219bn or 2.7% of GDP in 2019, which is HUF226bn or 0.5% of GDP lower than in 2018. This figure is cash flow based so it will be adjusted with many items, like local municipalities, EU funds projects etc. and the first read of the official budget balance based on EU standard methodology will be published at the end of March. As the revenues were substantially higher than it was planned for example 0.5% of GDP more from VAT and around 0.4% of GDP more from the next three biggest taxes (social contribution fees, personal income tax and excise duties), we expect that the 1.8% of GDP state deficit was met in 2019, moreover it could be slightly better as well. Although in the second half of the year the EU funds money started to flow into the budget (which was pre-financed), there was still a financing hole of HUF88bn or 0.2% of GDP at the end of the year.

Regarding this year's budget performance we think that the original plan of the budget is enough conservative and the 1% of GDP deficit target could be met, but the question is that what kind of economy boosting program will be announced in the coming months and how successful the government is able to whiten further the economy. Taking in account the uncertain economic outlook we rather see upside risk for 2020. The quite impressive economic growth of around 5% YoY in 2019 and the around 2% of GDP state deficit means that the public debt level might moderate to around 67.5% of GDP in 2019 from 70.2% of GDP in 2018 and might decrease further to around 64% of GDP in 2020. It could mean that the public debt may get quite close to 60% of GDP at the end of 2022.

Although the budget and debt figures are quite nice it was not reflected in EURHUF, which started to weaken fast in the last days. One reason is definitely the geopolitical risks, but the higher than expect Polish inflation might push HUF upward as well especially the Hungarian figure (the December one will be published on 14th January) is on an upward trend. The November reading of inflation was 3.4% YoY, which might move to 4% YoY in December, which is the upper edge of the tolerance range of the National Bank of Hungary. Additionally the 4% YoY level of inflation might remain in the first two months of 2020 as well. Beside of the base effect and energy price developments that main drivers of the Hungarian inflation are domestic driven like wage increase, which might be around 8% YoY in 2020, households consumption up by around 5% YoY and continuously weakening HUF. Although we see the average inflation around 3.5% YoY for this year we don't expect any move from the NBH in order to push down CPI. We think that both in case of the government and the NBH the main focus is on economic growth, so NBH may maintain its loose condition in order to boost further the domestic driven growth, because they would like to counterbalance the negative European economic environment. The NBH may find himself in a more comfortable situation in 2Q20, because in that period of the year the inflation may moderate close to 3%, but it may be followed by some acceleration to around or even above 3.5% YoY consumer price index.

## 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	01/10	9:00	Construction output	% 11/01/2019		2.8		4.5				-0.3
CZ	01/10	9:00	Industrial output	% 11/01/2019		-1.4		-5.7		-4.0		-3
CZ	01/10	9:00	GDP	% 3Q/2019 *F	0.4	2.5	0.4	2.5	0.4	2.5	0.4	2.5

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