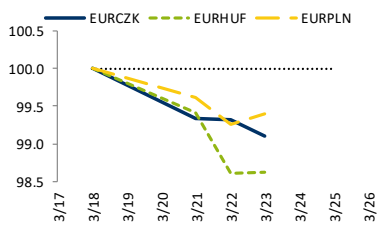




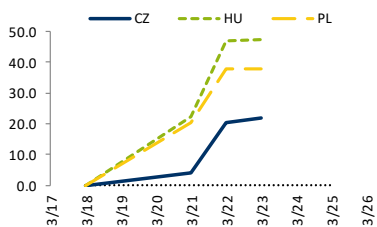
Wednesday, 23 March 2022

## Forex markets (index)



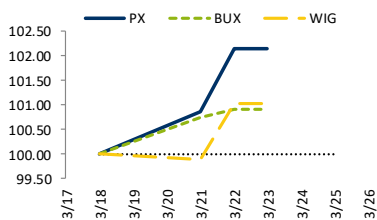
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.64	24.70	-0.21
EURHUF	370.5	370.4	0.03
EURPLN	4.684	4.678	0.14

## Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	3.728	3.711	1.7
HUGB 10Y	6.24	6.23	0.0
PLGB 10Y	5.05	5.05	0.0

## Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1355.2	1355.2	0.00
BUX	44338	44338	0.00
WIG	64319	64319	0.00

## Our regional insights:

## The NBH policy stance remains hawkish

The National Bank of Hungary hiked the base rate by 100 bps from 3.4% to 4.4%, in line with expectations. The overnight lending and deposit rates were increased by 100 bps as well to 7.4% and 4.4% respectively. The increase of the overnight lending rate was important because it created room for a further rise of the one-week deposit rate – currently 5.85% – if required.

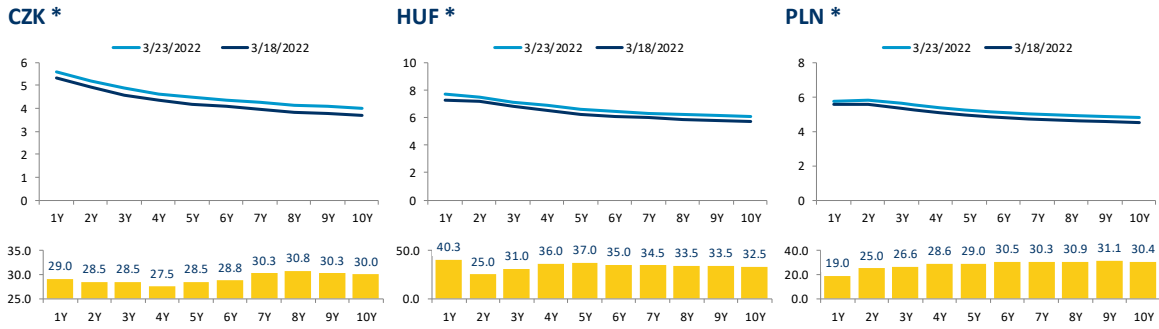
The NBH's new inflation and economic forecasts deteriorated substantially compared to December. The consumer price index is expected to peak during the summer. Average inflation is forecast in the range of 7.5-9.8% YoY in 2022 and 3.3-5% YoY in 2023. It shows that NBH may not reach the inflation target in a sustainable manner before the end of next year. The GDP outlook was downgraded to 2.5-4.5% YoY for this year, but it was upgraded to 4-5% YoY for next year. The main reason of the outlook change was the supply shock partly due to the Russian-Ukraine war. The new forecasts are surrounded by much bigger uncertainty than normally, which is reflected in the wide forecast range the NBH provided.

The new inflation forecast is quite in line with our expectations, as we see the inflation peak in the third quarter close to 10% and the average inflation around 9% for 2022. Besides the international environment, the inflation orbit highly depends on the governments' actions after the election as we think that the current low level of fuel and consumer energy prices is unsustainable in the medium term. We expect that the fuel price might be increased gradually already from the middle of May, while in case of the energy prices we may see some increase in September.

We agree with the NBH that the economic outlook has deteriorated during the last weeks. Not only the supply shock, but also the high inflation pulls back the economic performance, which might have a negative effect on next year's growth outlook as well. We are slightly less optimistic on 2023 GDP growth than the NBH.

The Council repeated its message that they will use all tools available in order to push inflation back to target. They rephrased the monetary policy forward guidance, highlighting that maintaining tighter monetary conditions for a longer period is warranted to manage increasing second-round inflation risks resulting from persistently negative supply effects. **The stance of the statement remained hawkish, suggesting that inflation is a much bigger risk now than the possible slowdown of the economy. We nevertheless expect the NBH to stop or at least slow down the rate hike cycle in the following months.** Vice-governor Virag didn't want to suggest any specific peak policy rate level. Moreover he said that the uncertainty is big and that the MPC will react on future developments in a flexible way, just like in the previous months. In normal circumstances, the MPC plans to change the one-week deposit rate level only once a month after the rate setting meeting. He confirmed the previous message that the gap between the base rate and the one-week deposit rate will gradual close during the next months. Based on the latest moves of the EUR/HUF, **we expect that the NBH may increase the one-week deposit rate by 30bp, from 5.85% to 6.15%, this Thursday.**

## 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
PL	03/23	10:00	Unemployment rate	% 02/01/2022			5.5		5.5		5.5	
CZ	03/23	12:00	CZ bond auction 2021-2032, 1.75%	CZK B 03/01/2022					4			
CZ	03/23	12:00	CZ bond auction 2022-2035, 2.50%	CZK B 03/01/2022					8			
CZ	03/23	12:00	CZ bond auction 2021-2037, 1.95%	CZK B 03/01/2022					2			
HU	03/24	9:00	One week deposit rate	% 03/01/2022					6.18		5.85	
HU	03/25	9:00	Unemployment rate	% 02/01/2022					4.1		4.2	
HU	03/28	9:00	Wages	%, ytd. 01/01/2022								9.7
HU	03/31	9:00	PPI	% 02/01/2022							0.6	22.3
CZ	03/31	9:00	GDP	% 4Q/2021 *F							0.9	3.6

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