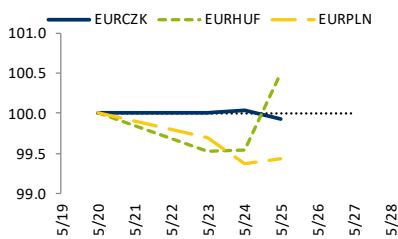




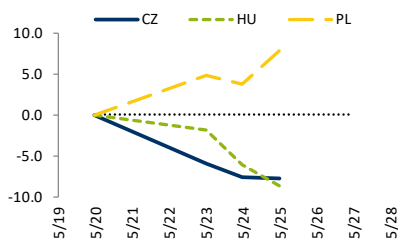
Wednesday, 25 May 2022

Forex markets (index)



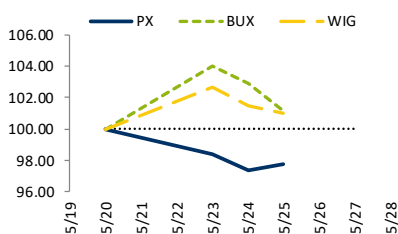
	LAST	PREVIOUS	CHANGE (%)
EURCZK	24.62	24.64	-0.11
EURHUF	385.9	382.2	0.97
EURPLN	4,599	4,596	0.06

Gov. bonds 10 Y (bps change)



	LAST	PREVIOUS	CHANGE (bps)
CZGB 10Y	4.569	4.571	-0.2
HUGB 10Y	6.82	6.84	-0.4
PLGB 10Y	6.53	6.49	0.6

Equity indices (index)



	LAST	PREVIOUS	CHANGE (%)
PX	1313.3	1308.6	0.36
BUX	42283	42978	-1.62
WIG	56270	56515	-0.43

Our regional insights:

New fiscal policy will influence NBH's hiking cycle

Hungarian average wages increased by 17.5% YoY in March, well above expectations of around 13-14% YoY rise. It increases the risk of a wage inflation spiral. The 20% minimum wage and guaranteed wage minimum rise is one of the biggest drivers of the fast increase of salaries, but also the tight labor market pushes up wage dynamics. Salaries filtered from premium payments went up by 15.5% YoY, which is slightly above the 14.5% YoY February figure.

Taking into account the above mentioned, it looks like that the domestic driven part of inflation may remain with us in the coming months, confirming the view that the NBH may have to continue its monetary tightening policy. The main question is what will be the size of the steps in the upcoming period.

It is clear that NBH would like to adjust its monetary policy only once a month and based on the latest statements of vice-governor, Mr. Virag, the pace of tightening cycle may slow. **We expected previously that the gap between the one-week deposit (6.45%) and the base rate (5.4%) might be closed by the end of June at around 7%, but it looks like that it may happen only in August or September as the NBH may increase the base rate by 50bps monthly.**

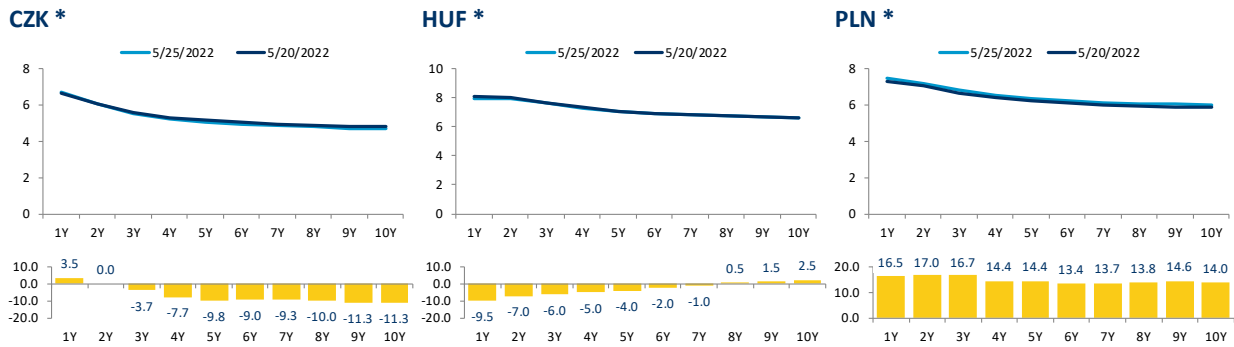
Although the new Hungarian government has been formed officially only yesterday, some main messages were already delivered. The government promised that the budget deficit will be moderated from 6.8% of GDP in 2021 to below 5% of GDP by the end of 2022 and they want to maintain price controls. The price caps moderated inflation by around 4.5%pt in April, but despite these measures **headline inflation may still peak above 10% YoY in 3Q22** and so the average inflation may be around 9.5% YoY in 2022.

Regarding the fiscal adjustment there are plenty of open questions. What will be the structure of fiscal tightening (cut back of public investments and corporate subsidies, increase of taxes for corporates etc.), what kind of agreement will be done with European Commission about the EU funds, how big of a fiscal tightening may come in next years, will the tax cut levied on labor force paid by the employers be continued? Future monetary policy might depend on the new fiscal policy and the NBH has already published a document about the necessary changes of economic policy.

We 100 percent agree with the NBH that there is a need of a fiscal policy shift immediately, and we highlighted before the election that the fiscal policy was too loose, which fuels inflations and without a change Hungary can find itself in a situation similar to what we have seen during mid-2000s, when central bank had to maintain high interest rates, while fiscal policy was supportive.

It is still very difficult to exactly see the end of the rate hike cycle, but **we think that the NBH may continue to raise the one-week deposit rate by 30bps monthly and would like to stop the cycle at a level between 7.5% and 8% in September.**

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	05/25	10:00	Unemployment rate	% 04/01/2022			5.2		5.3		5.4	
CZ	05/25	12:00	CZ bond auction 2022-2024, floating rate	CZK B 05/01/2022					4			
CZ	05/25	12:00	CZ bond auction 2022-2026, 6.00%	CZK B 05/01/2022					6			
CZ	05/25	12:00	CZ bond auction 2022-2035, 2.50%	CZK B 05/01/2022					2			
HU	05/26	9:00	Unemployment rate	% 04/01/2022					3.6		3.6	
HU	05/26	9:00	One week deposit rate	% 05/01/2022					6.45		6.45	
CZ	05/31	9:00	GDP	% 1Q/2022 *P							0.7	4.6
HU	05/31	9:00	PPI	% 04/01/2022							4.8	25.9
PL	05/31	10:00	GDP	% 1Q/2022 *F							2.4	8.5

Contacts

Brussels Research (KBC)			Global Sales Force		
Mathias van der Jeugt	+32 2 417 51 94		Brussels		
Peter Wuyts	+32 2 417 32 35		Corporate Desk		+32 2 417 45 82
Mathias Janssens	+32 2 417 51 95		Institutional Desk		+32 2 417 46 25
Dublin Research			France		+32 2 417 32 65
Austin Hughes	+353 1 664 6889		London		+44 207 256 4848
Shawn Britton	+353 1 664 6892		Singapore		+65 533 34 10
Prague Research (CSOB)			Prague		
Jan Čermák	+420 2 6135 3578		Prague (Equities)		+420 2 2142 4216
Jan Bureš	+420 2 6135 3574				
Bratislava Research (CSOB)			Bratislava		
Marek Gabris	+421 2 5966 8809				
Budapest Research			Budapest		
David Nemeth	+36 1 328 9989				

DISCOVER MORE ECONOMIC INSIGHTS AT WWW.KBCECONOMICS.COM

This non-exhaustive information is based on short-term forecasts for expected developments on the financial markets. KBC Bank cannot guarantee that these forecasts will materialize and cannot be held liable in any way for direct or consequential loss arising from any use of this document or its content. The document is not intended as personalized investment advice and does not constitute a recommendation to buy, sell or hold investments described herein. Although information has been obtained from and is based upon sources KBC believes to be reliable, KBC does not guarantee the accuracy of this information, which may be incomplete or condensed. All opinions and estimates constitute a KBC judgment as of the data of the report and are subject to change without notice.

