

Key events in EMEA next week

Look out for rate hikes in Poland and Russia, as well as key inflation readings in Hungary



Hungary's price cap on fuel, first introduced in November 2021, has become effective at elevating oil prices

✓ Poland: wage price spiral contributes to a hawkish shift

National Bank of Poland (NBP) Governor Adam Glapinski has made another hawkish pivot since the Monetary Policy Committee (MPC) meeting in January. Back then he said rates should rise to 3% or 4% should the economy keep growing fast. Recently he said hikes would reach a level of rates above market expectations and added that a stronger Polish złoty (PLN) would be consistent with the ongoing monetary tightening. We think this change of rhetoric and verbal intervention on PLN reflect the upside inflation risk NBP recognises due to the consumer price index (CPI) development recently and very strong activity data for 4Q21.

Also, the 4Q21 gross domestic product (GDP) data present sound GDP, and high-frequency indicators for January rather point to households' smooth consumption, which raises the odds of second-round effects. Also, NBP surveys actually point out that the wage-price spiral already started with 60% of companies recognising wage hikes due to high CPI, and plans to hike wages grew to a ten-year high. Despite the hikes NBP has delivered so far, and anti-inflation shields launched by the government, we see CPI breaking 10% year-on-year in January 2022 and staying elevated. That is why the NBP has become more hawkish recently.

In the baseline scenario, we see a 50bp hike in February, but we have changed our previous

forecast as we are now expecting more hikes to occur in 2022 and a 4.5% terminal rate should be reached this year, not 2023 as we forecasted before.

✓ Hungary: inflation figures to reflect second-round supply shocks and commodity price surge

We see the budget starting the year with a relatively small deficit as the significantly-increasing wages and the booming consumption on the year-end one-off payments will provide a boost to revenues, counterbalancing some of the discretionary budgetary spending in January. The focus of the next week will undoubtedly be on the January inflation data. The almost 1% month-on-month headline inflation will translate into another 7.4% year-on-year reading. This will show the second-round effects of supply shocks (start of the year repricing) as well as the surge in commodity prices. The latter is impacting fuel as the price cap, first introduced in November 2021, has become effective at elevating oil prices. The government also introduced a price cap on food this month, but it is too early for this to be reflected in next week's data.

Core inflation is expected to reach 6.8% year-on-year, continuing its surge. After the upside surprises all across Europe, we wouldn't be shocked if the Hungarian inflation reading will do the same, thus we see risks tilted to the upside.

✓ Russia: central bank to give new assessment of inflationary risks

Bank of Russia is likely to make a 50-100 basis point increase in the key rate to 9.0-9.5%, reiterate the hawkish signal to some extent, and increase its [forecasts](#) of the average annual key rate and year-end CPI from the currently optimistic 7.3-8.3% and 4.0-4.5%, respectively. The arguments in favour of the higher-than-standard 25bp increase in the key rate include continued acceleration in the current CPI from 8.4% year-on-year in December to 8.8-9.0% year-on-year in January, the recent ruble weakness that may have added to inflationary concerns, continued growth in corporate inflationary expectations to 14-year highs, outperformance of local lending vs. deposit growth in 2021, faster-than-expected economic growth in 4Q21 thanks to the year-end spending splurge by the government, as well as persistent upward price pressure on a global level, including in key agri commodities.

During the press conference, the CBR governor will most certainly be asked about the timeframe for the return of market foreign exchange (FX) purchases that were [suspended](#) on 24 January in response to the foreign policy-driven ruble sell-off. This week, the ruble has returned to levels seen right before the suspension, but it still remains c. 2 RUB/USD weaker than at the end of 2021, when the current round of foreign policy tensions started. Unless the market FX purchases restart this month, the CBR will end February with almost \$13bn in FX purchases backlog that will need to be addressed later during the year.

EMEA Economic Calendar

Country	Time Data/event	ING	Survey	Prev.
Monday 7 February				
Czech Rep	0800 Dec Industrial Output (YoY%)	-		1.6
	0800 Dec Trade Balance	-		5.7
Tuesday 8 February				
Poland	- Feb NBP Base Rate	2.75	2.75	2.25
Czech Rep	0800 Dec Retail Sales (YoY%)	-		13.2
	0900 Jan Unemployment Rate	-		3.5
Hungary	1000 Jan Budget Balance	-150		-1171
Wednesday 9 February				
Russia	1600 Jan CPI (MoM%/YoY%)	1.2/8.9	1.1/8.8	0.8/8.4
	1600 Dec Retail Sales (YoY%)	3.0	3.4	3.1
	1600 Dec Unemployment Rate	4.3	4.3	4.3
Ukraine	- Jan CPI (MoM%/YoY%)	-/-		0.6/10
Romania	1300 Monetary Policy Rate	2.5		2.00
Brazil	1200 Dec Retail sales (MoM%/YoY%)	-/-		0.6/-4.2
	- Jan IPCA Inflation Index (MoM%/YoY%)	-/-		0.73/10.06
Mexico	1200 Jan Headline Inflation	-		0.36
	1200 Jan Core inflation	-		0.8
Thursday 10 February				
Kazakhstan	- Jan Industrial Production (YoY%)	-		3.8
Turkey	0700 Dec Unemployment Rate	-		10.9
Serbia	1100 Feb Benchmark Interest rate	1.00		1.00
Mexico	1900 Jan Interest Rate	-		5.5
Friday 11 February				
Russia	1030 Feb Central Bank Key Rate	9.5	9.5	8.5
Turkey	700 Dec Current Account Balance	-3.6		-2.7
Hungary	0800 Jan Core CPI (YoY%)	7.0		6.4
	0800 Jan CPI (MoM%/YoY%)	1.1/7.6		0.3/7.4
Mexico	1200 Dec Industrial Output (MoM%/YoY%)	-		-0.1/1.6

Source: Refinitiv, ING, *GMT

Authors

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group*

(being for this purpose ING Group N.V. and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.