

## Czech National Bank surprises on the dovish side

As expected, the central bank raised rates, however, its dovish tone surprised us and we see its rate forecast as unrealistic



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As expected, the Czech National Bank (CNB) raised its key interest rate by 0.25ppt today. However, the press conference surprised on the dovish side as no board member officially voted for a 50bp hike and the pace of projected rate hikes in the new forecast was rather modest - only one hike in 2018 and both are in clear contrast to the recent CNB communication.

We see the CNB rate forecast as unrealistic (a repetition of the overly dovish forecast in August) and expect three hikes next year.

Although the central bank's new forecast is more pro-inflationary given the higher GDP outlook and stronger CPI developments, the press conference itself had a dovish tone. Governor Rusnok suggested the ECB's policy will reduce CNB room for further hikes until mid-2018. This is also reflected in the new interest rate forecast, which was slightly revised upwards but looks for the next full 25bp hike only in 4Q18.

*We see the new CNB interest rate forecast as highly unrealistic and somewhat confusing following the recent hawkish comments of some board members*

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In our view, this is not adequate, as we believe current Czech economic developments require tighter monetary conditions. Also, Czech Koruna 'overboughtness' offers the CNB some independence from the ECB policy (a factor again not reflected in CNB forecasts). The new forecast is inconsistent with some recent comments by CNB board members (who have indicated plenty of room to increase interest rates) and adds to a general confusion with regards to its communication.

It is possible that the CNB doesn't want to pre-commit to a hawkish interest rate trajectory and influence market expectations too much (hence the conservative forecast) or the newly revised (yet not publicly available) CNB's EUR/CZK forecast assumes stronger CZK. However, given the current economic developments, we still assume three hikes in 2018 given the pro-inflationary risks and signs of overheating in the Czech economy.