

## CNB Preview: Caution to prevail and the central bank to stay on hold

Despite the relatively hawkish bias in the September meeting, we expect the Czech National Bank to stick to its wait-and-see stance. External uncertainties remain elevated and continue offsetting domestic reasons to hike rates



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### Hike needed from the narrow perspective of the domestic economy

The domestic economy itself would require tighter monetary conditions as: i) inflationary pressures are remaining high with CPI being close to the 3% tolerance band, ii) the labour market is overheated, iii) households' consumption maintains a solid pace iv) and CZK – despite firming in last 2 weeks – is averaging around 25.7 EUR/CZK (vs CNB forecast of 25.4 in 3Q and 25.16 in 4Q19). This is the reason why the CNB model pencilled in a hike in the last two CNB meetings, but the CNB board decided to wait and see due to persistent risks abroad.

## Foreign risks remain elevated, impacting Czech economy sooner or later

Still, we expect more of the same from the 7 November CNB meeting, as the CNB Board will still need to take into consideration uncertainty abroad (ie, Brexit risk being not fully resolved). Compared to the August CNB forecast, consensus for 2020 GDP growth in Germany was revised down by 0.5 percentage points to 0.7%, and also growth for the Eurozone was revised downwards in last few months. As such, the recent CNB forecast seeing 2.9% Czech GDP growth in 2020 seems quite optimistic, mainly as consensus forecasts shifted towards 2.2% GDP growth next year.

**2.0%** Main CNB repo rate  
unchanged in our view

## The CNB model likely remains hawkish

However, the new CNB forecast will very likely remain overly optimistic as the newly adopted CNB model still needs some fine-tuning. Recall the CNB forecast of 6.6% YoY export growth in 2020 in the last Quarterly Inflation Report, even revised upwards compared to the May forecast, despite the slowdown in the global economy. Potential optimism of the new forecast is indicated by the latest comments by Board member T. Holub, who admitted a 50% chance he will back a hike this week. He would hardly support a hike if the new CNB forecast would revise 2020 GDP growth from 2.9% towards 2%. As such, T. Holub's statement suggests that debate about a hike might be even more serious than during the last monetary meeting.

## Majority will back an on hold decision in our view

However, M. Mora, who voted for a hike last meeting, is already more cautious and sees fewer reasons for a hike. In a similar vein, CNB Board member O. Dedek also supports rates stability. Preference for interest rate stability was also signalled by Governor Rusnok. As such, we expect an on hold decision after considering all the pros and cons on Thursday.