

CNB Preview: With eyes on the (tightening) price

The Czech National Bank (CNB) is expected to stay on hold next week, but the new forecast should provide a more optimistic 2021 growth outlook and stick to assumptions of 2H21 tightening



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New CNB outlook for 2021 should improve

Despite the slower pace of vaccination and new coronavirus mutations (both delaying the timing of a potential recovery), the outlook for 2021 Czech GDP growth should still be revised higher than the November CNB forecast. The CNB might revise GDP closer to 3% for 2021 (vs 1.7% previously). This should be driven by the fact that 3Q20 GDP accelerated by 6.9% QoQ (higher than the CNB forecast), while 4Q also seems to be better compared to the CNB forecast (-8.8% YoY).

Fiscal package vs stronger koruna

The recent tax-package approval (increasing the 2021 deficit by CZK100bn) will boost household consumption, in turn providing some pro-growth and pro-inflation dynamics. This was not yet taken into account in the November forecast, but was captured in the alternative fiscal scenario – which pencilled in 0.7 percentage points higher 3M Pribor in 4Q21 compared to the baseline (2-3

hikes). Yet, EUR/CZK reached 26.15 in January, more than 3% stronger than the CNB's 1Q21 assumption, and is equivalent to 3 hikes. Hence, a stronger CZK should be offset by the fiscal impulse. However, November CNB forecast pencilled in 3 hikes in 2021.

0.25% Main CNB rate
no change expected

CNB baseline should signal hikes in 2H21

The vaccine-related more optimistic outlook for the 2H21 recovery, fiscal easing, but also stronger CZK should translate into the CNB signalling 2-3 hikes in 2H21. CPI might temporarily fall below 2% in the coming months due to the high base from the last year. But as mentioned by Vice Governor Mora, a temporary decline in CPI won't prevent the CNB from hiking if the Covid situation allows. Still, and in line with recent CNB board member comments, the May CNB forecast will be of higher importance in terms of the strength of conviction about the signalled tightening – the board wants to first see the green shoots of any post Covid recovery.

We expect 2 hikes this year

All in all, we believe the CNB will overlook weaker CPI in 1H21 as 2020 inflation (at 3.2%) was the highest of the last 8 years. Once the post-Covid recovery begins (at the end of 2Q, in our view), this will enable the CNB to tighten monetary policy. We expect 50bp worth of hikes to be delivered in 2H21, most likely during the November and December meetings, but we can also envisage one 50bp hike.