

## Czech central bank gives a lesson in transparency

In line with our call, the Czech central bank raised rates today as the required monetary tightening was not delivered through a stronger koruna. But as pro-inflationary pressures continue to mount, we see at least one more hike in 2H18 as the currency is likely to struggle to appreciate given the external environment



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In line with our non-consensus call, the Czech National Bank (CNB) raised rates by 25bp today due to a significantly weaker koruna and pro-inflationary risks stemming from strong wage dynamics and an overheated labour market.

In recent months, the CNB mentioned many times that a weaker than forecasted koruna opens room for an earlier hike. Therefore we see today's CNB decision as transparent and in-line with the previous communication. That's why the vote was unanimous today. The central bank was confident that all necessary data is available and there is no need to wait for new forecasts, i.e. for the early August meeting.

## Next CNB steps will be data dependent

Governor Rusnok admitted that further policy steps would be highly data and koruna dependent. The CNB is aware of global risks and some signals of the slowdown of the Czech economy in 1H18, but wants to continue interest rates normalisation and will do so if the situation allows. The CNB also admitted that some parts of the economy are operating above its potential.

**1%** 2-week repo rate  
increased from 0.75%

Higher than expected

### Next hike most likely in November, but don't write-off a September one just yet

Given the current state of the economy and the lower sensitivity of the koruna to the interest rate differential vs the eurozone, we expect the CNB to deliver another hike in the second half of the year.

For the time being, the November meeting remains our base case as the new forecast becomes available. However, the risk of the koruna remaining weak or becoming, even more, weaker, together with strong labour data, might push the CNB to act earlier. Indeed, inflationary risks are mounting, and CPI will most likely hit 2.5% in June. If EUR/CZK remains at current levels, inflation might temporarily hit the 3% level in 1Q19, unless oil and food prices don't fall.

As such, we cannot rule out that the next hike may come already in September (in the same way we didn't exclude the June hike in early April). The August CNB rate hike seems unlikely now, but we can imagine this scenario in the situation if EUR/CZK goes above the 26 level in the coming weeks.