

Czech National Bank not too dovish despite present risks

The Czech National Bank (CNB) remains on hold. While the CNB underscored the uncertainty stemming from the domestic Covid situation, the bias was not overly dovish given the circumstances. It still indirectly signals a first hike between 2Q and the beginning of 4Q. As such, the case for tightening in 2021 is intact



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More cautious approach vs. latest forecast

The CNB stated during the press conference that domestic inflation was higher than expected earlier in the year, mainly due to food prices. Core inflation was also slightly above the forecast. The latest winter CNB forecast has generally been met despite higher risks. The main surprise came from wage growth affected by one-offs.

Governor Rusnok mentioned that the most significant risk remains the slow improvement of the pandemic situation and the opening of domestic/European economies. As such, the board will rather err on side of caution and rather hike later than sooner. Asked about the possible delay of the rate hikes compared to the last CNB forecast (which assumes a first hike in 2Q21), Governor

Rusnok mentioned that the possible timing of the first hike lies somewhere between what the current CNB forecast suggests versus the current market pricing (turn of 3Q/4Q).

0.25%

As expected

Main rate unchanged

2 hikes expected in 4Q21

Hikes in 2H21 on table

Such comments clearly underscore the inherent hawkish nature of the CNB and given the circumstances, this was a relatively hawkish statement. Once we see an economic recovery from late 2Q onwards and the vaccination gains pace, the debate on hikes should gain traction.

While the unfavourable pandemic situation in 1Q21 delays the start of the recovery, the recent signals from the CNB Board members suggest that rate hikes in the second half of this year remain on the table. We continue to expect two 25bp hikes in 4Q21. An earlier hike (in August) is still possible given the Governor's comments, but only if the pandemic situation improves significantly in the second quarter, accompanied by a strong pace of vaccination.