

Czech National Bank on hold as expected

The Czech central bank remained on hold as broadly expected, but the press conference was relatively hawkish. Based on Governor Rusnok's comments, the odds of a hike next year have increased



Source: Czech National Bank

The dilemma in monetary policy decision continues

According to Governor Rusnok, today's debate was similar to the previous two CNB meetings. Those advocating for rates stability underscored the uncertainty about the domestic economic outlook. There is evidence of weakening economic growth and it is now clearly visible in the domestic industry.

In contrast, supporters of a hike focused on monetary-inflationary considerations. Inflation is above the target and the CNB's task is primarily to take this into account. Inflationary pressures might be more permanent and stronger. At the same time, there is a belief that a slight increase in interest rates cannot be a major threat to the real economy.

2.0%

The main CNB rate

without change after the December meeting

As expected

The CNB waiting for now, but preferences are shifting towards a hike

According to Governor Rusnok, the majority of the board members considered as desirable to wait for further information. Although inflation above the target is “unpleasant”, it should not have a major negative impact on the Czech economy. However, before a potential rate hike, the Bank Board wants to be sure that it will be a sustainable increase, ie, it will not be followed by a cut soon thereafter.

Not a done deal yet, but a hike is back on the table

All in all, today's press conferece supports our view that if the situation abroad improves slightly (as the market now believes after the US-China trade deal) and domestic economic activity won't deteriorate further, a rate hike next year is becoming a quite likely scenario (though it is not a done deal yet as it will depend on how new data both from abroad and domestically will evolve).