

Czech National Bank on hold next week

We expect the Czech National Bank to remain on hold next Thursday. And while a rate hike in the first half of the year is still on the table- given that inflation is approaching 3.5%- it will be dependent on improving data from abroad

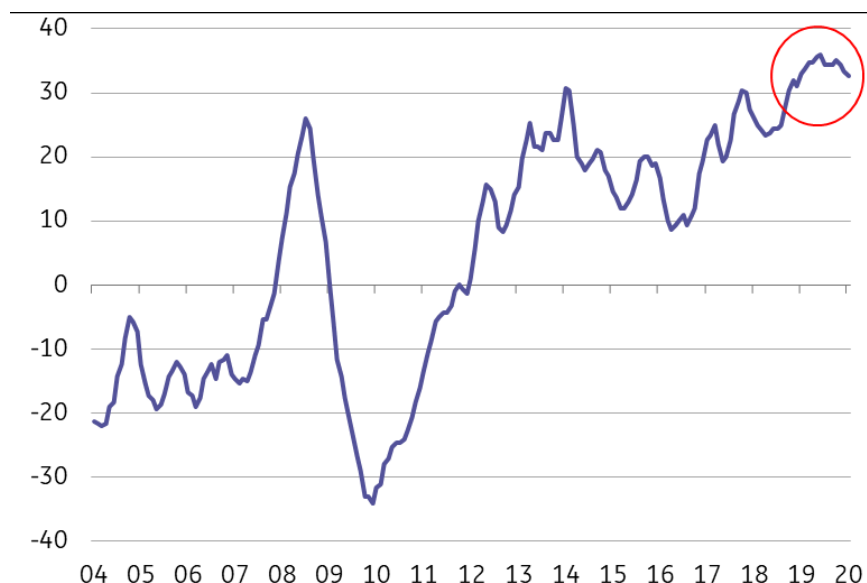


Source: Shutterstock

- While Czech economic activity continues to slow somewhat as a result of weaker external growth in 2019, inflationary pressures are mounting due to a tight labour market and rising wage growth. The CPI reached 3.2% in December and will likely accelerate close to, or even slightly above, 3.5% in the first quarter, supported by tax hikes. Last year, consumer concerns about inflation hit their highest average level in the near 20-year history of this time series (see the chart).
- GDP growth in the new forecast might see minor changes. Also the CPI path is likely to remain broadly the same, with higher-than-forecast inflation in the fourth quarter driven mainly by food prices, which the central bank might assume to be an aberration that will eventually correct.
- The interest rate trajectory in the new CNB forecast might become flatter: (1) still signalling that tightening is needed, but less so than in previous forecasts as some tightening was delivered by the Czech koruna, which has been 1% stronger than forecast (EUR/CZK 25.47) in the first quarter; and (2) no longer pencilling in a full reversal of the projected hikes in the

second half of the year, in line with building inflation pressures.

Consumers concern about inflation (3-month average)



Source: CZSO, ING

On hold next Thursday, but not necessary in 1H20

We expect an on hold decision next Thursday, as foreign data has not improved sufficiently to persuade some of the more cautious board members to back a rate hike. However, if global economic activity improves and inflation remains above expectations, one rate hike remains on the cards in the first half of the year. And urgency for this action could grow if inflation heads above 3.5% year-on-year in coming months, thus further increasing the concerns of some board members that the CNB is neglecting its price-stability objective. However, a necessary condition for a hike is some tangible improvement in the foreign economic activity.