

Czech National Bank Preview: Caution but the case for hikes in Q4 intact

The Czech National Bank is set to stay on hold this Thursday and should reiterate its plan to start normalizing policy rates in 2H21. The new forecast should signal a weaker pace of rate hikes as economic developments in 1H21 should be softer than expected in the February forecast. Still, the CNB is set to point to hikes in 2H21 and we look for two hikes in Q4



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The CNB might revise its below-consensus GDP further lower

- Although 4Q20 GDP developments was somewhat better compared to the CNB February forecast (+0.6 QoQ vs. stagnation), 1H21 was impacted more severely by Covid-19 and subsequent economic restrictions.
- Gov. Rusnok indicated that he expects 2021 GDP growth below the 2.2% of the last CNB forecast. He added that the forecast was pessimistic and should stay in this mode. This explains why the CNB forecast has been below market consensus as current GDP

expectations are hovering around 3% (this is also the latest MinFin projection). Despite weaker GDP growth, Rusnok confirmed that a plan to start rates normalization in 2H21 remains in place, with the August meeting (ie the new forecast meeting) being the first realistic point to start the debate about rate hikes.

- The CPI outlook remains more pro-inflationary due to commodity price increases. 2021 average inflation is heading towards 2.5% (vs. 2.0% in the last CNB forecast), confirmed also by Gov. Rusnok. Still, inflation uncertainty remains high due to the pandemic situation and lockdown effects. March CPI accelerated to 2.3% YoY and we expect further acceleration in the months to come due to a low-base in oil/fuel prices, which will push YoY dynamics higher.

We continue to expect 2 hikes in 4Q 2021

Although the worsened pandemic situation in 1Q21 has delayed the start of the recovery, recent signals from CNB Board members suggest that rate hikes in 2H21 remain very likely. As such, we continue to expect two 25bp hikes in 4Q21 as the most likely scenario. We also don't rule out a one-off 50bp hike - most likely in November. An earlier hike (in August) is still possible, but only if the pandemic situation improves significantly in 2Q, accompanied by a strong pace of vaccination.