

Czech National Bank Preview: Playing it cool

The Czech National Bank should not challenge the current status quo on Thursday, repeating again that Czech monetary policy is calibrated adequately at this point. As such, an on-hold decision is expected



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New forecast published

The CNB will publish a new set of forecasts on Thursday. Despite the new Covid wave and new economic restrictions, we do not expect the CNB's 2020 GDP outlook to be revised significantly lower. Indeed in August, the CNB forecast an 8.2% contraction this year, while being more conservative about a recovery in the third quarter. The forecast pencilled in 2.8% quarter-on-quarter growth in 3Q while the flash estimate came out at 6.2% QoQ growth.

This means that (a) taking into account the assumed 4Q contraction due to new economic restrictions but (b) better-than-expected figures in 2Q and 3Q, in particular, the revision to the full-2020 GDP should not be significant.

Inflation above the 3% target

Inflation remains above the 3% tolerance band. CPI decelerated in September to 3.2%, driven mainly by volatile food prices while core inflation, in the CNB definition, further accelerated to 3.7% from 3.6% in August. Prices of services stagnated at 2.7% in September.

Although inflation is likely to decelerate next year, we expect (similar to the market consensus) that it will remain close to 2% next year. This underlines the limited need for further easing of monetary policy due to inflationary considerations.

0.25% Main CNB rate
likely unchanged this Thursday

Weaker koruna eases monetary conditions

The weak exchange rate delivered an easing of monetary conditions as EUR/CZK reached the 27.2 average level in October. This contrasts with the last CNB forecast of 26.7 in 4Q on average. The 2% difference is broadly equivalent to two 25bp cuts in the CNB's model. This also limits the need for imminent rate cuts.

On hold expected

All in all, we expect on hold decision this Thursday, given the factors cited above. This supports recent media comments from CNB Board members, who have signalled that monetary policy is set correctly for the time being.