

## Czech National Bank's minutes less hawkish than expected

Czech National Bank's minutes, published yesterday are less convincing about the forthcoming rate hike.



We think the CNB could be set to cut rates once more before pausing to assess incoming data

### Less hawkish signals

Compared to the press conference with Governor Rusnok after the monetary policy meeting, yesterday's minutes were a lot less hawkish. The minutes did not contain strong enough arguments to support an imminent rate hike versus arguments for a more patient approach. This led to the market reading it as more dovish than the latest Czech National Bank's (CNB) press conference. According to the board, current developments are in line with their forecasts, which assumes a hike in 3Q17. However, they also mentioned that the costs of a premature hike would be higher than a delayed reaction. The board also discussed financial stability considerations in detail concerning the current monetary policy setting and suggested that an increase in the interest rate would help to mitigate risk related to the recent housing credit dynamics.

### Our view

In our view, arguments for further monetary tightening are rising. Economic activity is developing well, and we believe that the CNB should use this situation to escape from the zero-bound trap as

soon as possible. Inflationary pressures are robust and are supported by accelerating wages, a historically low unemployment rate and strong household confidence. In May, there was almost a 10% YoY increase in average wages in industrial companies, creating a further positive signal that wage pressures are mounting. Despite stricter loan-to-value limits, recommended by the CNB in April, credit dynamics remain strong for both the housing and consumer loans segments, with new credit dynamics picking up by 20% YoY YTD.

The only relevant anti-inflationary factor is concentrated in lower oil prices, however, for the Czech economy, it only represents a pure positive supply shock, which monetary policy should not respond to. Therefore, we see an interest rate hike coming in the August or September meetings as very likely, and unlikely to be changed by today's inflation figure, which might decelerate due to a fall in fuel prices.