

Czech National Bank to stay on hold this week

We expect the Czech National Bank to stay on hold this Thursday, not least due to recent comments from CNB Board members. New forecasts will fine-tune some variables, bringing perhaps a higher inflationary outlook or a revised CZK path, but the big-picture should remain the same



The headquarters of the Czech Central Bank (CNB) in Prague

Inflation above expectations in recent months

The Czech average inflation rate in the second quarter of this year reached 3.1% and was above the CNB's estimate from May's forecast of 2.9%. Moreover, the CNB-defined core inflation number reached 3.2% on average in 2Q while the Bank estimated an average of 2.2%. It was partially due to a VAT decline in May which has yet to be seen in final prices and that pushed the core measure higher.

Despite some uncertainty as to what extent prices are correctly measured during these extraordinary times in 2Q, domestic inflation remains somewhat elevated and above the upper limit of the central bank's tolerance band. As such, the risk of deflation seems to be relatively distant which, at least for now, would limit any need for the Czech central bank to introduce unconventional monetary steps as interest rates are close to zero-lower bound.

Inflation should moderate in the coming months

On the other hand, the CNB is not concerned about inflation being above the upper tolerance band as this is most likely a temporary effect; that's suggested by decelerating producer prices which came in below the CNB forecast in 2Q (industrial producers -0.6% YoY vs +0.6% YoY, agricultural prices -3.2% YoY vs. -1.8% YoY expected in the forecast).

Also, households' worries about inflation somewhat eased in recent months after its peak in May, though they remain close to historical highs. As such, some easing of inflation is likely and, as Board Member Tomas Holub put it in an interview for Bloomberg, *'the stagflation trend is temporary and inflation may land quite softly on target in the medium-term'*.

0.25%

The main CNB interest rate

We're expecting no change on Thursday

Stronger CZK not a problem for the CNB right now

The Czech koruna appreciated below 26.3 EUR/CZK at the end of July, being broadly 4% stronger compared to the CNB 3Q average forecast of 27.4. Still, the average July rate was at 26.5, around 3% stronger compared to the CNB 3Q expectations. Though FX delivered some monetary tightening, given the recent CPI numbers being above the CNB tolerance band, some FX-tightening which could gradually tame above-target inflation might be considered as the CNB is a particularly strict inflation targeter.

New forecast keeping the same big picture

The CNB will also publish a new macroeconomic forecast and some changes are likely, for instance on the higher inflationary outlook (from 2.8% in 2020) given higher-than-expected numbers in the previous months. There will also be a EUR/CZK trajectory change, which was assumed to remain above the 27 EUR/CZK target until the end of the year and even into 2021. But from the big-picture perspective, the direction of the Czech economy should remain similar in the new forecast, with a contraction being in-between current analysts' estimates ranging from 5 to 10 %. The latest 2Q flash GDP number which showed a 10.7% YoY decline was very close to the CNB forecast from May (-11.6).

Longer term stability of rates most likely

As the current situation remains highly uncertain due to the global Covid-19 developments, the CNB does not want to officially exclude any possible unconventional monetary tools in case of any emergency need. But we believe the CNB will try to avoid these measures. This was also suggested by the vice-governor Tomáš Nidetzký in an interview for Reuters when he inferred that possible unconventional tools will remain only part of "academic" debate. All in all, unless the Czech economy deteriorates more significantly (contraction above 10 %) and deflationary risks become more tangible, unconventional measures will not be delivered by the CNB, in our view. For now, the longer-term stability of rates seems the most likely scenario.

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research
+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com