

Czech Republic: Preparing for a February hike

The Czech National Bank decided against distorting the Christmas festive period and kept rates on hold. However, Governor Rusnok indicated gradual tightening is on the way



Source: Shutterstock

On hold as expected

Although a very close call, the Czech National Bank kept rates on hold today, in line with our expectations. As such, more prudent approach towards monetary tightening prevailed.

However, in our view, more rate hikes are ahead, and the first one is most likely to occur at the next CNB meeting at the beginning of February. Two board members (Hampl and Benda in our view) dissented voted for a rate hike

Practical reasons for waiting

Today's decision to keep rates unchanged was certainly not caused by any concerns regarding the shape of the Czech economy and were rather more practical.

For example, hiking during the end of December is not popular because of end-of-year effects and

lower liquidity on the market, which is probably why the CNB has never hiked in December in the last 20 years.

Also, the CNB board will have a new forecast in hand during the next meeting in February along with a new Inflation report which will enable the CNB to communicate better.

0.5% 2-week repo rate
Hike expected in February

Expect the first hike in February

But the economy continues to develop favourably as GDP growth accelerated by 5% YoY in 3Q17, wages increased by 6.8% and inflation despite a slight slowdown remained safely above the 2% threshold and seems to remain on track for the monetary policy horizon.

The labor market has been performing exceptionally well, breaking its records in recent months, both in terms of low unemployment rates and high job vacancies.

This means that further monetary tightening is desirable and the CNB will continue its hiking cycle next year.

We expect another hike at the beginning of February, and for the entirety of 2018, we look for 3-4 hikes. This could bring the 2-week repo rate to 1.5% at the end of 2018.

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