

## The Czech central bank keeps rates on hold

The Czech National Bank (CNB) keeps rates unchanged, as broadly expected. The vote was unanimous. New forecasts see rate stability until mid-2021 and then a modest increase



CNB governor, Jiří Rusnok

### The new CNB forecast

- The new CNB forecasts pencils in for this year similar economic contraction like the previous one (-8% YoY), but become less optimistic about 2021 (+3.6 vs 4%) as the economic shock is deep, uneven, and recovery will not be easy, according to Governor Rusnok.
- Inflation has been revised upwards to 3.4% vs. 2.8 % in the lastest forecast, but the CNB is willing to tolerate higher inflation now, as inflationary pressures will ease gradually and inflation should be close to the 2% target in the monetary policy horizon.
- The koruna strengthened due to a more positive global sentiment, and the new forecasts revised it to stronger levels, though it remains above the 26 EUR/CZK border this and next year.
- The new forecast expects interest rate stability till mid-2021, and then a slight increase in

2H 2021. However, Governor Rusnok mentioned elevated uncertainty related to the Covid-19 situation, as you can see in the table below.

## New vs. older CNB forecast

	New forecast		Older forecast	
	2020	2021	2020	2021
GDP (% YoY)	-8.1	3.6	-8.0	4.0
Inflation (% average)	3.4	2.4	2.8	2.1
Inflation (% end of year)	3.3	2.2	2.4	2.3
3M Pribor (% average)	0.82	0.42	0.93	0.58
3M Pribor (% end of year)	0.26	0.63	0.47	0.64
EUR/CZK (average)	26.5	26.4	26.9	27.5
EUR/CZK (end of year)	26.7	26.2	27.5	27.5

Source: CNB, ING

## Risk to the forecasts remain significant due to Covid-19

The CNB Board assessed the risks of the forecast as significant, but not biased in either direction. One of the highest uncertainties is the speed of both the European and domestic economic recovery. The development of the exchange rate may be an anti-inflationary risk, while fiscal policy in the coming years may be stronger than expected, thus pro-inflationary. Governor Rusnok mentioned the uncertainties associated with the political cycle due to upcoming elections, which may lead to higher fiscal spending.

**0.25%**

The main CNB repo rate

unchanged as expected

## Stability of rates as the most likely scenario

Today's CNB decision was unanimous and the Board seems to be satisfied with the current monetary policy stance. As we stated earlier, we currently expect rates stability and their possible growth in the second half of next year. This is also the current CNB baseline scenario, however, the risks to these developments remain high, which was highlighted a few times during the press conference by Governor Rusnok.

The tone of today's news conference and Q&A session should be rather neutral for the market, as there were no big surprises. Also, Governor Rusnok did not indicate that the CNB is anyway concerned by a stronger exchange rate approaching the 26 EUR/CZK border, which some market players could have feared before the conference. As such, no surprise from the CNB today, either in the policy setting nor in the revised macroeconomic forecast.