

Czech National Bank

# CNB Focus

## CNB unexpectedly increases rates



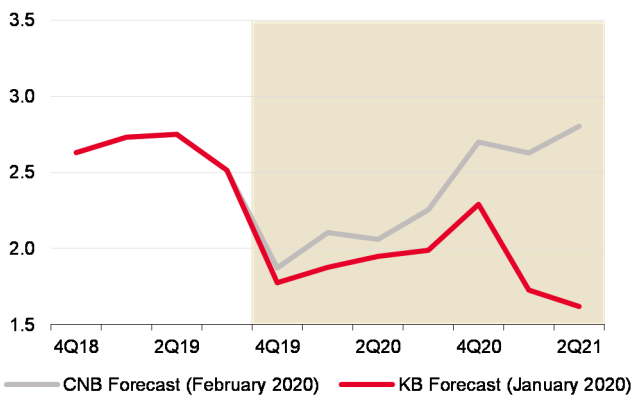
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**The Czech National Bank unexpectedly raised interest rates at today's meeting by 25bp to 2.25%, with four of the seven board members voting for the hike. We expect the key rate to remain unchanged now before a cut at the turn of the year.**

The Czech National Bank (CNB) increased the key repo rate by 25bp to 2.25% today. The market widely expected no change. The governor admitted that it was a close call, with the vote 4:3 in favour. Vojtech Benda and Tomas Holub probably again voted for a hike, but we will know for sure when the minutes from the meeting are released on 14 February. **Judging by Governor Rusnok's speech, he himself voted to keep rates unchanged. The decision was not surprising when taking into account previous CNB forecasts but was surprising given recent comments by several board members that apparently suggested key rate stability.**

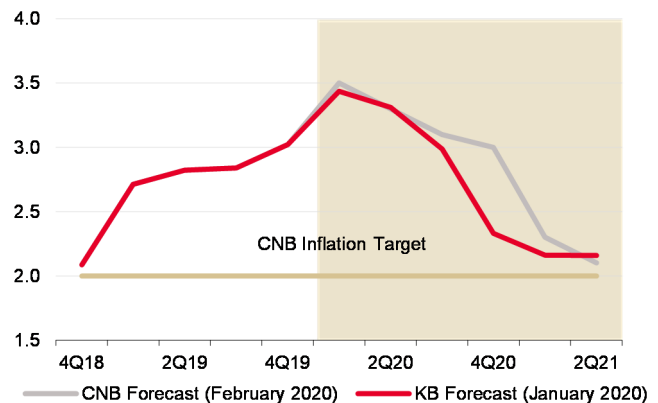
As we expected, the main factor influencing the CNB's forecasts and decision-making was the higher-than-expected inflation rate. The board members who according to the governor argued about the domestic inflationary environment were afraid of inflation being close to the upper bound of the tolerance band in the forecast, putting credibility at stake. On the other hand, the governor mentioned that part of the dilemma was the recession in the industrial sector and the postponement of the expected rebound in the global economy.

We expect a weaker economy (GDP growth, %)



Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka

Inflation will likely remain elevated in the short term (%)



Source: CNB, Macrobond, Economic & Strategy Research, Komerční banka

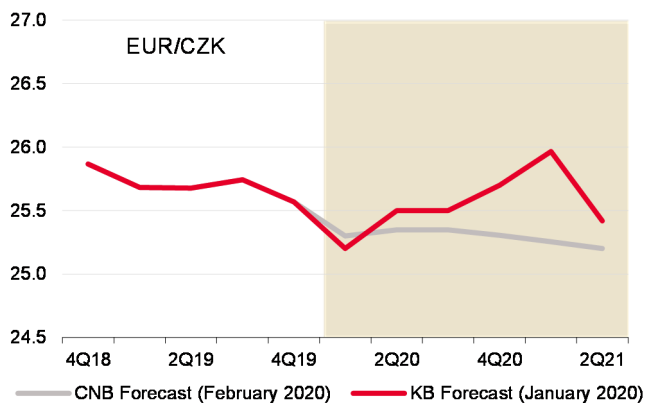
With inflation well above the tolerance band, the CNB could keep its tightening bias. **But at the press conference, the governor virtually excluded the possibility of more rate hikes. The new CNB forecast sees little technical upward movement in the key rate now but rather a small decline already in 2Q. The CNB expects the key rate to decline by c.47 bps by 1Q21.**

In the first half of this year, the CNB will see rising inflation and a chance for economic stabilization after the manufacturing output decline last year. Unless the koruna surprises, the CNB will likely keep

rates on hold. In the second half of the year, the CNB should see subsiding inflation but insufficient rebound in global demand. In this case, the CNB bias might turn to the downside.

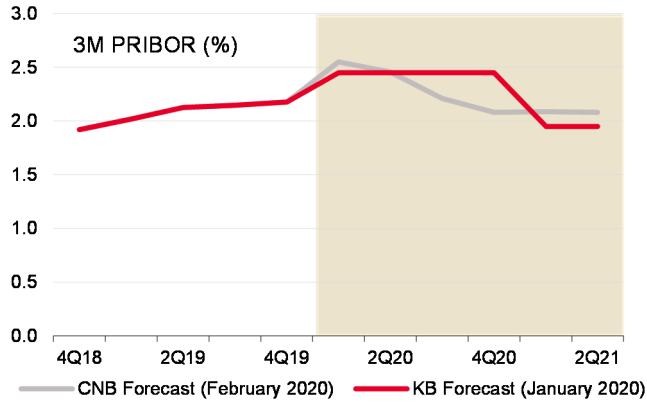
**We expect no further change in rates this year. The economic slowdown and decelerating inflation, along with a likely weak external economy, should lead to lower economic growth expectations for 2021. We therefore expect a CNB rate cut of 50bp in 2021.**

**We still forecast CZK depreciation**



Source: CNB, Bloomberg, Economic & Strategy Research, Komerční banka

**We expect stable key interest rates in the short term**



Source: CNB, Bloomberg, Economic & Strategy Research, Komerční banka

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