

Czechia Watch: CNB left rates stable, but added rather hawkish comments

The CNB kept the key rate at 7% and left itself a possibility to intervene on the FX market. The new forecast assumes higher inflation this year but lower next year. At the press conference, Governor Michl said that he expects rates to remain higher than the market anticipates.



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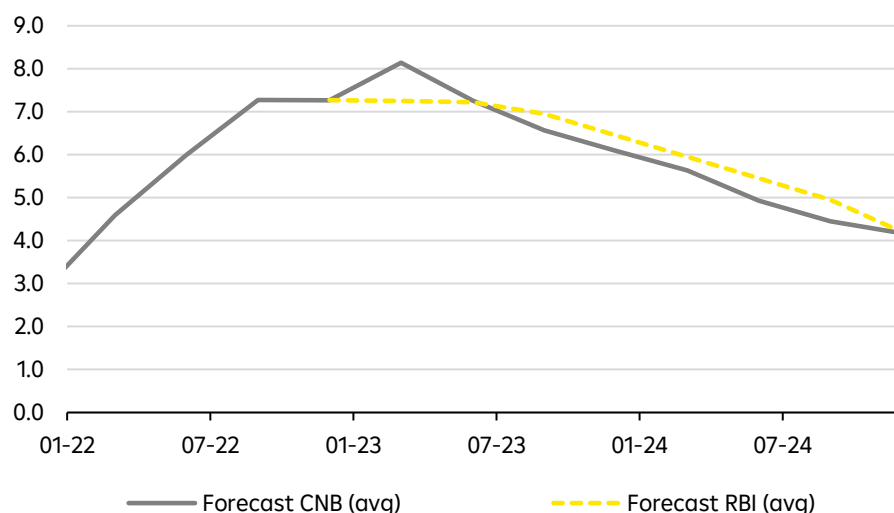
The chances of this year's hike are low

The Board's decision itself did not come as a surprise, and as in previous meetings, the vote was split 5-2 in favour of rate stability. Two of the members voted for a 50bp hike. **The next meeting is scheduled for the end of March and, according to Governor Michl, the Board will decide between stability and a rate hike.** The Governor has made the same statement at the last few meetings, and in our view the chances of a monetary policy tightening are relatively low. Some members cited higher January inflation as a possibility for further rate hikes. However, the latest CNB forecast sees a 17.6% year-on-year price growth in January, while we expect growth of around 16%. Thus, despite the January volatility, we see relatively little scope for an upside surprise here.

The CNB's model assumes a short-term rate increase, however, same as at the November meeting, the bank board opted for an alternative scenario that assumes that rates will remain stable for a longer period of time instead of increasing and then decreasing soon afterwards.

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Bank board decided again not to follow the baseline scenario in %



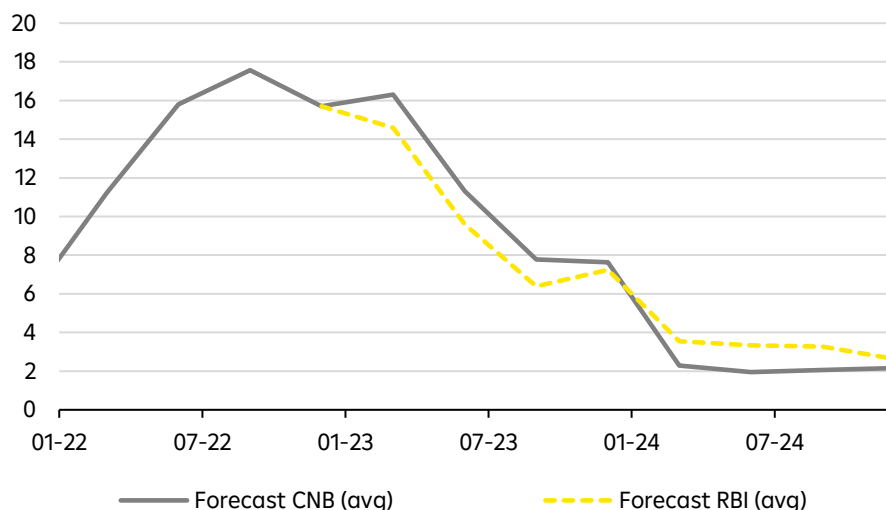
Source: CNB, Raiffeisen Research/RBI

CNB expects inflation to retreat rapidly and reach the target in a year

While the November forecast assumed that inflation would reach 8.9% this year, the new forecast foresees a 10.6% rise in the price level. Interestingly, on the other hand, inflation expectations are lower for 2024 — according to the CNB forecast, inflation should reach 2.1% (the previous forecast assumed 2.4%). **The CNB therefore expects a return to the inflation target within one year.** We expect the decline to be more gradual and inflation to return under 3% only by the end of 2024.

We expect inflation to retreat more slowly than the CNB

Year-on-year inflation, in %



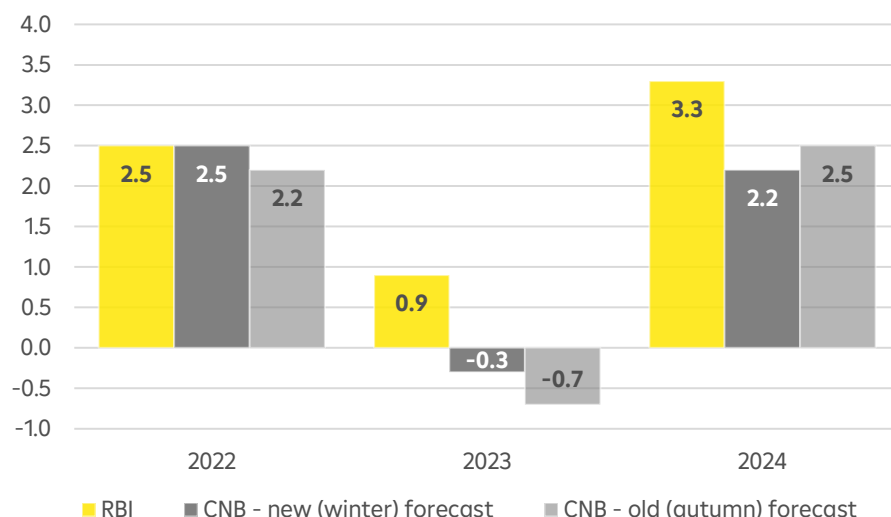
Source: CNB, Raiffeisen Research/RBI

GDP estimate improved, koruna in line with our forecast

The central bank expects **GDP growth** this year to be in red, although the forecast has been revised slightly to the upside (-0.3% vs. the original -0.7%). **For the koruna**, the CNB expects the exchange rate to depreciate to 24.7 EUR/CZK by the end of this year, the same as our forecast.

Economic outlook for this year has improved slightly

Year-on-year change, in %

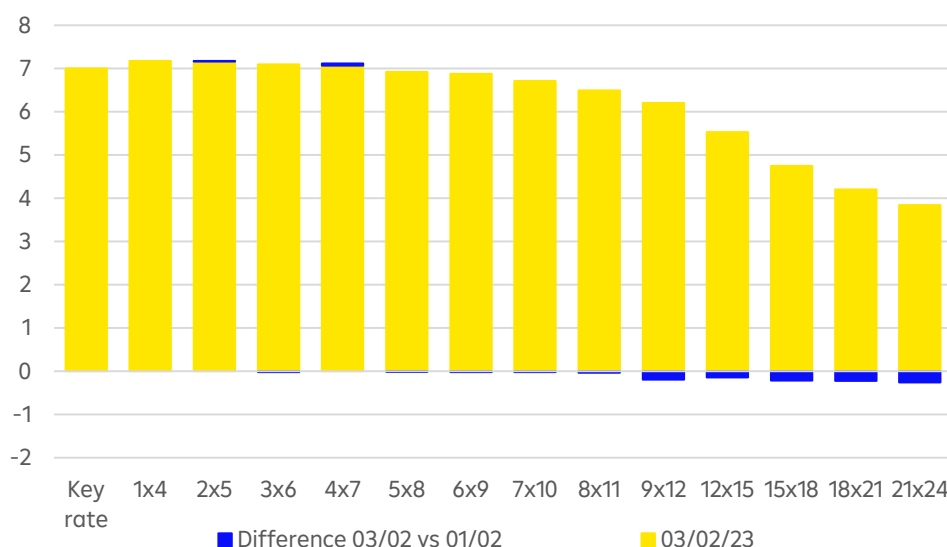


Source: CNB, Raiffeisen Research/RBI

Governor's hawkish comment in relation to market pricing

At the press conference, maybe the most interesting question was about **current market pricing of the future CNB path**, which before the meeting implied expectations of rate cuts of about 100-150bps by the end of this year. Governor Michl indicated in his response that he believes the **interest rates should remain higher than the market currently anticipates**. However, there was no significant movement on FRA rates after the comments, and so, pricing remains similar going forward.

Governor's comment did not change market expectations in %



Source: Bloomberg, Raiffeisen Research/RBI

Our forecast stays unchanged = first cut in Q3'23

Today's meeting was in a similar pace to the last few meetings. Despite Governor Michl's hawkish-sounding statements, **nothing changes in our forecast, which expects the first cuts in the second half of this year**. We expect rates to fall by 100bps this year, taking the key rate to 6.00% by the end of 2023.

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CZ	07.06.2022	Under Revision	Czech Republic
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Symbol	Date	Recommendation	Company
CZ	30.12.2022	Not rated	Czech Republic
CZ	07.06.2022	Not rated	Czech Republic

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