



Friday, 05 May 2023

Regional insights

Public budget and wages key for next CNB's meeting

As expected, the CNB left rates unchanged on Wednesday, but the hawkish voices on the Bank Board are visibly growing. This time, three board members raised their hands in favour of a 25bp rate hike. At the same time, the Governor Aleš Michl stressed that rate hikes may occur at subsequent meetings and markets may be surprised by both the later timing of the first rate cut and the higher peak in rates in coming months.

Behind the decision was the central bank's new staff forecast, which envisages faster GDP growth (for both 2023 and 2024) and higher inflation (for 2023) than in the February forecast. Somewhat paradoxically, however, the new forecast implies a lower level of interest rates - or rather their stability at 7% and a gradual decline from the third quarter of this year. However, this is due to the assumption of a significantly stronger koruna (compared with the winter). By bringing the exchange rate outlook closer to reality, the Czech central bank has lost one anti-inflationary risk (which it had as an argument in the fight against inflation). Still, a number of inflationary risks have undoubtedly intensified in recent months, which eventually led the three board members to support further interest rate hikes.

In addition to concerns about unanchored inflation expectations, **Aleš Michl highlighted faster wage growth and significantly faster government borrowing among the key pro-inflation risks.** It will still be important to wait for the Minutes (to be released next Monday) to find out more about the ongoing internal debate in the Board. However, it seems that it will ultimately be wage dynamics and the further development of public finances and the government's plans to consolidate them that will determine whether rates rise or remain stable.

It is worth noting that **based on the available data, we estimate that we will see a significant acceleration in wage growth (close to double digits in year-on-year terms) before the June meeting. Moreover - at the same time, we will have another relatively poor state budget result for May (a deficit of CZK 230-240bn) and still relatively high inflation (close to 13%). All this will point to the fact that the debate over a possible rate hike could be serious in June.**

However, we consider continued stability in Czech official rates to be slightly more likely – hence, it is still our baseline scenario for now. This is also suggested by the presented alternative scenarios that the CNB staff had to prepare - one of them assumes unanchored inflation expectations in the economy and in this case, (according to the Governor Michl), it should be just "sufficient" to leave CNB rates "higher for longer". So **for the time being, we continue to assume that the CNB will stay on hold until Q4 2023 and then it will start a gradual easing cycle. However, the risks are clearly skewed towards a later start of the cutting cycle - perhaps in 2024.**

Calendar

Country	Date	Time	Indicator		Period	Forecast		Actual		Consensus		Previous	
						m/m	y/y	m/m	y/y	m/m	y/y	m/m	y/y
HU	05/05	8:30	Industrial output	%	03/01/2023			0.2	-4.0	-2.7		0.3	-4.6
HU	05/05	8:30	Retail sales	%	03/01/2023				-13.1	-13.0			-10.1
CZ	05/05	9:00	Retail sales ex autos	%	03/01/2023				-8.1	-6.6			-6.4
HU	05/09	8:30	Trade balance	EUR M	03/2023 *P							581	
CZ	05/09	9:00	Construction output	%	03/01/2023								-4.3
CZ	05/09	9:00	Industrial output	%	03/01/2023								2.0
CZ	05/09	9:00	Trade balance (national)	CZK B	03/01/2023							14.3	
HU	05/09	11:00	Budget balance	HUF B	04/01/2023							-2089.7	
HU	05/10	8:30	CPI	%	04/01/2023							0.8	25.2
CZ	05/10	9:00	Unemployment rate 15-64	%	04/01/2023							3.7	
CZ	05/10	10:00	FX reserves of the CNB	EUR B	04/01/2023							129.3	
CZ	05/10	12:00	CZ bond auction 2022-2030, 5.00%	CZK B	05/01/2023					6			
CZ	05/10	12:00	CZ bond auction 2021-2031, floating rate	CZK B	05/01/2023					6			
CZ	05/10	12:00	CZ bond auction 2022-2035, 2.50%	CZK B	05/01/2023					2			
HU	05/10	14:00	NBH minutes		04/01/2023								

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