

# Short Note

CNB– March 2014

March 27, 2014

## ■ Czech Republic: no change of monetary policy

As widely expected the Czech National Bank (CNB) announced after today's regular MPC meeting that it remains comfortable with the current intervention regime (launched last November to meet deflation risks), i.e. the EUR/CZK 27.0 floor. At the same time the 2 week repo rate (policy rate) was left unchanged for the 16th consecutive month at its historical low of 0.05%.

According to the available indicators for the beginning of 2014, the Czech economy seems to stand on a stronger footing than initially expected. However, consumer price inflation remains at historically low levels. Any change in the monetary policy stance would not make much change to the expected inflation path: We expect that the inflation rate will gradually increase towards 2.0% until Q4-2014, while the CNB's forecasts foresee a further rise. In line with this rate hike speculations are likely to intensify that time around, which leads us to expect the start of monetary tightening already in Q1 2015.

We do not expect any significant market reaction following today's press conference at 14:15 CET.

Our recommendation to sell Czech local currency government bonds with maturities of 5 years and longer remains intact.

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