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NEW KIDS ON THE CNB BLOCK. WILL ANYTHING CHANGE?

MARTIN LOBOTKA, (+420) 777 027 165, MLobotka@42fs.com, Research@42fs.com

Two new Board members will soon be appointed to CNB Board in what are last replacements for next 3 ½ years.

Aleš Michl is a riddle when it comes to monetary policy beliefs, but seems to be cautiously headed towards the hawkish & pro-CZK camp.

Tomáš Holub seems to be without ideological preconceptions regarding the monetary policy, his monetary policy stance to be dictated by full trust in the models.

The terms of office of two longest-serving members of the Czech Banking Board are about to expire at the end of November. These two members, vice-governor Vladimír Tomšík and vice-governor Mojmir Hampl, have originally been appointed back in December 2006 (at the age of 32 and 31, respectively) by then-President Klaus and subsequently re-appointed again in December 2012. Since law limits the terms of office of members of the CNB Board to two, they will soon depart and be replaced. And since the time of departure of Hampl and Tomšík from the Board is just a few weeks out, let us look at their replacements. These are, after all, last replacements until end of June of 2022 when terms of office for Vojtech Benda, Tomas Nidetzky and Governor Rusnok expire. In other words, the Board as it will look like on December 1, 2018 will be in place, barring unexpected circumstances, for next 3 ½ years.

So, who will replace Tomšík and Hampl?

New Board members, to be appointed in late November for the 6-year terms of office commencing on December 1, 2018 are **Aleš Michl** and **Tomáš Holub**. These two members are thus the only ones to see their terms expire when

someone else will be President than the current President Zeman (i.e., Zeman will still choose most of the Board members that will be in CNB by 2025).

Are the two new names surprise?

The de-facto chief economist Tomáš Holub was rumored to be slated for Board membership during last two rounds of replacements (in June 2016 and in March 2017) so his name does not come as a surprise, although by itself the appointment of the insider (= employee of the Bank) is far from usual. Most of the previous members were outsiders (Hampl does not qualify as insider either despite the short stint as CNB analyst at the end of 1990s). The appointment of Aleš Michl, though a bit more surprising when it comes to the particular name, is well in line with tradition of Czech Presidents to appoint not based on merit, but based on “closeness”, however defined: Tomsik co-wrote a book with Klaus, Rusnok was minister of finance in Zeman’s government, Benda was Rusnok’s advisor etc. Michl was an advisor to Minister of Finance Babis with whom Zeman tries to keep good relations. The easier way to CNB has always been to find a rabbi in the upper echelons of the politics...

So, where do they come from?

Aleš Michl started the career as journalist in local daily Hospodarske noviny, then was an advisor to the Deputy Prime Minister, after that Raiffeisenbank analyst and then again the advisor to minister of finance (=Babiš). He is also a 35% co-owner of investment fund QUANT in Czech republic so one thing of interest will be to see how this conflict of interests is resolved, more so since one departing Board member – Tomsik – oversees the area of financial stability and financial market supervision at CNB. Michl comes across as straight-talking

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eccentric who likes to be the center of the attention. He is a self-proclaimed popularizer of the economics with the aim of bringing the “dismal science” closer to the masses, which sometimes, I feel, comes at the expense of the rigorosity of the analysis or consistency of the views.

Tomáš Holub is a veteran of CNB. He started as a macro analyst 20 years ago at local commercial bank, but since 2000 he’s been at central bank, most of the time, if not all the time, in charge of its monetary department, i.e. in charge of forecasting and thus de-facto chief economist of the CNB (if such a title existed). If anyone qualifies as an insider and veteran of Czech monetary policy making, it’s him. He’s methodological, refined economist, an antipole to the less rigorously anchored and, for the lack of better words, more “chaotic” Aleš Michl.

Ok, what about their monetary policy views?

Surprisingly little is known regarding their views of the monetary policy, despite the eloquence of the former and the long stay at the CNB of the latter. The former is more of an enigma, though.

That is, at least partially - in my view - due to the fact that **Aleš Michl** is more preoccupied with coming up with a catchy headline than with a rigorous analysis, one consequence being that he comments on a range of disparate topics ↗, the other being the time-inconsistency, so to speak, of his views.

For example of the latter, see evolution of his views on FX interventions of the CNB (or, on exchange-rate commitment, in CNB-speak). They were clearly a divisive issue, with some economists (like myself) saying throughout (and I am still of the view) that interventions will (did) not help, and some others saying they’re exactly what is needed. **Michl seems to have moved from the former to the latter in less than two years.**

Aleš Michl, HN, February 17, 2014 ↗ : *“Yes, (interventions) are not ideal policy, they are emergency policy. (...) From the macro point of view, however, interventions are a positive support to growth and the defense against the deflation.”*

Aleš Michl, HN, September 11, 2015 ↗ : *“Stop the interventions, they harm the economy” (...) CNB is too pragmatic about interventions, pursuing its goal with no regard for anything else. (...) If we look at the problem from the perspective of the national economy, we cannot come to different conclusion than to demand speedy end of the interventions – the sooner, the better.”*

Aleš Michl, Radio talk at ČRo Plus, February 22, 2017 ↗ : *“You cannot fight the deflation with exchange rate, or at least I think so, because if we were to fight deflation with the exchange rate, we can weaken [the exchange rate of CZK against EUR] to 50. If it weakened to 50, we would have inflation, and, on the contrary, if it strengthened, we would not have inflation. I find it strange to fight deflation with the exchange rate”.*

So, go figure. Michl then, at some point when he was already firmly in the “interventions are evil” camp, supported his anti-interventionist view by the argument that interventions made us all unnecessarily poorer because average wage fell when computed in EUR - as if all of us spent our money in Eurozone, not here. But, for what it is worth, he seems to be the advocate of stronger CZK – for now:

Aleš Michl, idnes.cz, February 20, 2017 ↗ : *“CZK should, once CNB stops interventions, go the gym. To become refine itself after the period of idleness.”*

His writings on monetary are scarce: I could only find two articles ↗ on IDEAS Repec, one on Frankel’s Exchange rate model from 2005 and one on criteria

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of Eurozone accession from 2016. By the way, he is fairly Eurosceptic: back in 2007 ↗, he said “euro can wait” as Czech economy should focus on solving other problems that plagued it at the time (budget, lack of workers etc.). In 2017 ↗ it’s the “unsolved problems of Eurozone” and the need for “strong exchange rate that will move our wages closer to German ones” that should stop us from “rushing into Eurozone”. In this respect, he certainly won’t stick out at the CNB.

As you see, then, it is hard to put a dove/hawk label on him as there doesn’t seem to be (or I couldn’t find it) the consistent monetary policy belief set. He will probably, at the beginning at least, be in the hawks’ camp – not firmly, but there. But, as I wrote – the lack of common monetary policy thread makes this a very hard call.

Tomáš Holub, on the other hand, is much easier to decipher – as he is more consistent too. As evidenced by quick search on IDEAS Repec ↗, he’s a much more prolific academic writer on inflation, central banking and policy, i.e. on topics of utmost importance for the central bank policymaking. Having for years been, inter alia, in charge of “preparing comprehensive analyses and forecasts of monetary and economic developments, including Inflation Reports”, he is without exaggeration the architect – and, unsurprisingly, the staunch advocate - of the monetary policy, i.e. of the interventions as well as of the recent tightening. He clearly thinks the “deflation was a threat” ↗ endangering the economy to such point that interventions were necessary, has always been steadfastly in favor of FX interventions policy ↗↗ (and we disagreed on it ↗). But his arguments have always been strong, well-researched, well-grounded in data and well-presented. He is the guy you want to disagree and discuss with, if you are to disagree and discuss with somebody.

The policy he’s not a fan of is that of negative interest rates ↗. He also thinks that the long-term equilibrium level of 3M

PRIBOR is about 3% = 2% is the CNB inflation target, 1% is the expected long-term equilibrium real interest rate. **From that it follows that he’ll likely vote for tightening if economy continues to perform.**

But I don’t think he’ll be dogmatic hawk of Eva Zamrazilova variety. As soon as economy slows, he’ll have no problem backing cuts. The best summary of his stance is thus probably this: **in forecast of Division 412 ↗, he’ll completely trust.**

To sum, while Aleš Michl is going to be the most-interviewed member of the Board and his stance will probably be moderately hawkish, Tomáš Holub is very likely to be the swing voter of CNB, influenced in his monetary policymaking not by preconceptions, prejudgments, prejudices, but by models and analysis.

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