



Weekly Briefing

**Czech Republic economy briefing:
Changes in the Czech National Bank: Revolution or Continuity?
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Changes in the Czech National Bank: Revolution or Continuity?

Summary

President Miloš Zeman has appointed a new Governor of the Czech National Bank. Aleš Michl is an unorthodox, forward-looking economist with experiences both in the private and public spheres. Over the last years, Michl supported a more dynamic investment strategy including the buying of Chinese assets. The new Governor is close to the former Prime Minister Andrej Babiš which serves as one of the pretexts for criticism from the liberal camp. In July, three new members were appointed to the Bank Board so the revision of the „hawkish“ monetary policy conducted by the CNB is generally expected.

Introduction

The Czech National Bank (CNB) will be headed by a new Governor. The incumbent Governor Jiří Rusnok, who also served as a Prime Minister from 2013 to 2014, is going to be replaced by Aleš Michl, a progressive, forward-looking economist and the current member of the Bank Board since 2018 who is known for frequent dissent attitudes among the members of the highest body of the central bank. Michl's appointment in May provoked controversies. Some politicians and experts believe that the decision can destabilise both the Czech National Bank as well as monetary policy and the economic situation as a whole.

Antipode to the ruling cabinet?

Aleš Michl will assume office on July 01, becoming the fifth regular Governor after Josef Tošovský (1993–1997, 1998–2000), Zdeněk Tůma (2000–2010), Miroslav Singer (2010–2016) and Jiří Rusnok (2016–2022). The central bank is managed by the Bank Board consisting of 7 members, including the Governor and two Deputy Governors. All members are appointed for a 6-year tenure. The specific feature of the appointment mechanism is that the exclusive power to choose, appoint and dismiss the members belongs to the President while the overwhelming majority of the presidential powers are conditioned by consent from the Prime Minister. All current central bankers have been appointed by President Miloš Zeman who is, moreover, authorised to choose five new members before his own tenure ends next year. Theoretically, therefore, Miloš Zeman can influence significantly the national monetary policy for many years

to follow. That is the reason why so many politicians are afraid of the President's upcoming steps.

Their uneasiness has been strengthened by the recent decision to appoint Aleš Michl since the new Governor has adopted different stances compared to his colleagues for a long time. As such, Michl can undermine the economic policies of the Government. Given the present rare constellation when the liberal forces have dominated or have control over the decisive state bodies including the Government, both chambers of the Parliament as well as security agencies (while the possibility of the takeover of the presidential office not being excluded), the Czech National Bank remains one of the last bodies, where the liberals' influence can be limited or reduced to the minimum due to President's exclusive power and the concurrent expiration of the tenure of the majority of the members of the Bank Board. It is not surprising at all that Miloš Zeman's intentions and steps have come under scrutiny, being accompanied by concerns. All the more that Aleš Michl is considered to be close to the former PM Andrej Babiš for whom the future Governor worked as an external economic advisor, focusing on macroeconomic analyses and government debt stabilisation.

Under certain conditions, the altered Bank Board may become an antipode to Petr Fiala's liberal cabinet, the base of the opposition pragmatic camp and representative of different monetary policy in comparison with the hitherto „hawkish“ tendency. In the case that the liberal forces fail to win the presidential office new year, their dominant position can start to weaken. At the same time, however, it should be added that the Bank Board is a collective body. The Governor's power over the Bank Board is rather a matter of informal authority since all decisions are taken by a simple majority. The Governor's role is crucial only in the case of stalemate for it is him whose opinion becomes decisive. In this regard, Aleš Michl's position can be complicated if he aspires to carry out an innovative policy.

Innovative ideas and pragmatism

In the past, the new Governor worked both in the private and public sectors. Besides the consultancy provided to the then Minister of Finance and PM Andrej Babiš, Michl served as an advisor to Deputy PM Martin Jahn and worked as an economic and investment strategist in one of the biggest banks in the country.¹ He is an author of several books – the last one titled „The Reset of Economics“, published in 2021, draws attention also to China's development and

¹ Fišerová, M. (2022, May 11). *Aleš Michl appointed new CNB Governor*. Czech National Bank. <https://www.cnb.cz/en/cnb-news/press-releases/Ales-Michl-appointed-new-CNB-Governor/>.

prospects. It is the interest in emerging markets and especially in China's model which differs Michl from a great deal of the mainstream economists in the Czech Republic. Aleš Michl has repeatedly emphasised the need for cooperation with China, giving credit to the economic and social dynamics of Chinese modernisation and reformism. In connection with President Xi Jinping's visit to the Czech Republic in 2016, Michl – unlike many liberals – expressed full support for the Chinese investment in the country stating that this did not pose any security threat. The economist appreciated the Belt and Road Initiative and Beijing's interest in the development of infrastructure and connectivity. Last but not least, according to the then statements should the Czech authorities separate the human rights agenda from the economic issues, not overemphasising the question of human rights that had happened repeatedly to the detriment of the Czech national interests.² Such a pragmatic perspective and focus on the economic diplomacy coincided with the strengthening tendencies towards multivector foreign policy which were represented particularly with President Miloš Zeman. However, the pandemic crisis and especially the redefinition of the Czech foreign policy which is nowadays underway and consists in the radical moralist pivot to human rights and acceptance of the dominant Western (or the US) discourse, has led to the abandonment of pragmatism and economic cooperation with countries with „different value orientation“.

Nevertheless, Aleš Michl's position in 2016 was not an isolated case related to the great expectations emerging from Czech-Chinese relations and the establishment of a mutual strategic partnership. Since being appointed a member of the CNB Bank Board in 2018, he has been in favour of a change in the administration of international reserves which was typical of high conservativeness. In 2020, the Czech central bank started to buy the Chinese bonds for the first time in history and this trend was perceived positively by Michl as a part of greater diversification and a more dynamic investment strategy.³ Last year, the economist supported the idea of further acquisition of the Chinese bonds, whose value amounted to 500 million USD by April 2021, and focus on the Asian Infrastructure Investment Bank (AIIB).⁴ By the end of the last year, the position of the Chinese bonds increased to 11.8 billion CNY, which was subjected to criticism from some experts.⁵ Aleš Michl's progressive and bold way of thinking

² Veselovský, M. (2016, March 30). *Michl: Čínské peníze potřebujeme, nebezpečí nevidím, lidská práva musí zvládnout diplomacie*. Aktuálně.cz. <https://video.aktualne.cz/dtv/cina-se-mi-libi-jejich-penize-potrebujeme-zbytek-musi-zvladn/r~ac56341ef68111e59214002590604f2e/>.

³ Rojíček, M. (2020, May 28). *Aleš Michl: Data jsou základem pro dobré rozhodování*. Statistika&My. <https://www.statistikaamy.cz/2020/05/28/data-jsou-zakladem-pro-dobre-rozhodovani/>.

⁴ Bukovský, J. (2021, April 01). *Aleš Michl: ČNB potřebuje více zlata i čínského dluhu*. E15.cz. <https://www.e15.cz/rozhovory/ales-michl-cnb-potrebuje-vice-zlata-i-cinskeho-dluhu-1379243>.

⁵ Dohnal, R. (2022, April 25). *Čínské dluhopisy v portfoliu ČNB, nejkratší cesta Česka do chřtánu draka*. HlídacíPes.org. <https://hlidacipes.org/radim-dohnal-nakup-cinskych-dluhopisu-cnb-je-nejkratsi-cestou-ceska-do-chrtanu-draka/>.

can be limited because of his new role, nevertheless, it does not seem so yet. In January, the central banker admitted that he went against the European mainstream and expressed the belief that both China and Russia had many positive features, rejecting black-and-white interpretations that are widespread in the Czech and European public discourse.⁶ The question is how the future Governor will resist pressures and attacks that appeared as early as after his May appointment.

President Zeman's decision to appoint Aleš Michl was surprising for many experts including those who are close to President himself. It is no secret that the incumbent Governor Jiří Rusnok did not prefer Michl as his successor and that one of Zeman's advisors Vladimír Dlouhý had the ambition to take charge of the central bank. Economist Dlouhý served as a deputy, multiple minister, being President of the Czech Chamber of Commerce since 2014. His activities over the last months aimed at gaining support for getting the position, however, did not bring fruits. As a result, Vladimír Dlouhý terminated cooperation with President.⁷ The bet on Aleš Michl, nevertheless, can be positive in the longer term. Even though he is controversial, the new Governor may bring transparency, intelligibility, a new communication style as well as a new image of the central bank. Aleš Michl has good prerequisites for making the CNB more credible and popular. The point is that this important state body has been often criticised for being detached from reality and unable to address the major problems that the central bankers are to deal with properly.⁸

Conclusion

Aleš Michl as a new Governor has declared that the Czech National Bank will remain a conservative institution concerned with maintaining price and financial stability. The Bank Board under his leadership will likely stop the increase in basic interest rates which is connected with a perspective, according to which the galloping inflation – that reached 16.0 per cent in May – is predominantly caused by external factors. Instead of the rapid increase in the interest rates throughout the economy, the new Bank Board will accentuate the need for decreasing the

⁶ Michl, A. (2022, January 17). *I Rusko a Čína mohou být krásné*. Česká národní banka. <https://www.cnb.cz/cs/verejnost/servis-pro-media/autorske-clanky-rozhovory-s-predstaviteli-cnb/I-Rusko-a-Cina-mohou-byt-krasne>.

⁷ Slonková, S. (2022, May 25). *Kdo protlačil Michla jako guvernéra a proč Dlouhý rezignoval*. Neovlivní.cz. <https://neovlivni.cz/kdo-protlacil-michla-jako-guvernera-a-proc-dlouhy-rezignoval/>.

⁸ Stuchlík, P. (2022, May 09). *Konec nesrozumitelnosti ČNB? Proč může Michl přinést tolik důležitou změnu*. Finmag. <https://finmag.penize.cz/politika/433984-konec-nesrozumitelnosti-cnb-proc-muze-michl-prinest-tolik-dulezitou-zmenu>.

level of indebtedness.⁹ This course was confirmed by an appointment of three new members in June.¹⁰

⁹ *Projev Aleše Michla při jmenování guvernérem* (2022, May 11). Česká národní banka. <https://www.cnb.cz/cs/verejnost/servis-pro-media/vystoupeni-konference-seminare/prezentace-a-vystoupeni/Projev-Alese-Michla-pri-jmenovani-guvernerem/>.

¹⁰ Fišerová, M. (2022, June 08). *President appoints three new Bank Board members*. Česká národní banka. <https://www.cnb.cz/en/cnb-news/press-releases/President-appoints-three-new-Bank-Board-members/>.