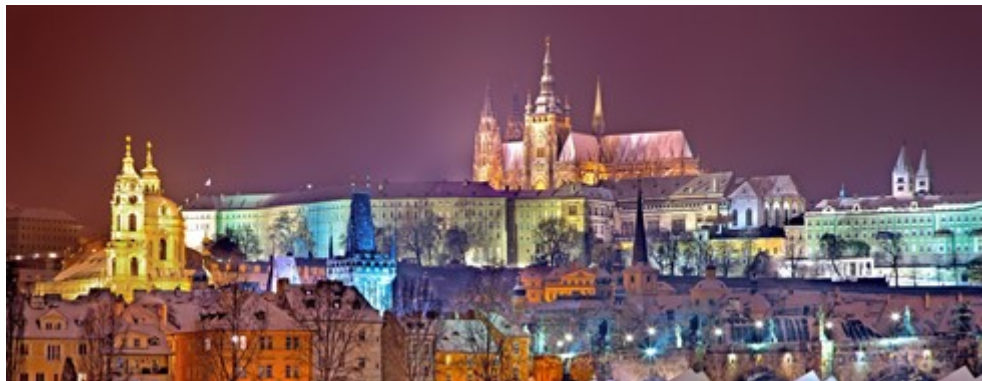


Czechia Watch: CNB chooses the cautious path, cuts rates by 50bps

In line with our forecast, interest rates were cut by 50bps at Wednesday's CNB meeting, taking the key rate to 5.75%. Five of the seven board members voted in favour of the decision. We expect the cuts to continue, with a further 50bps cut at the May meeting.

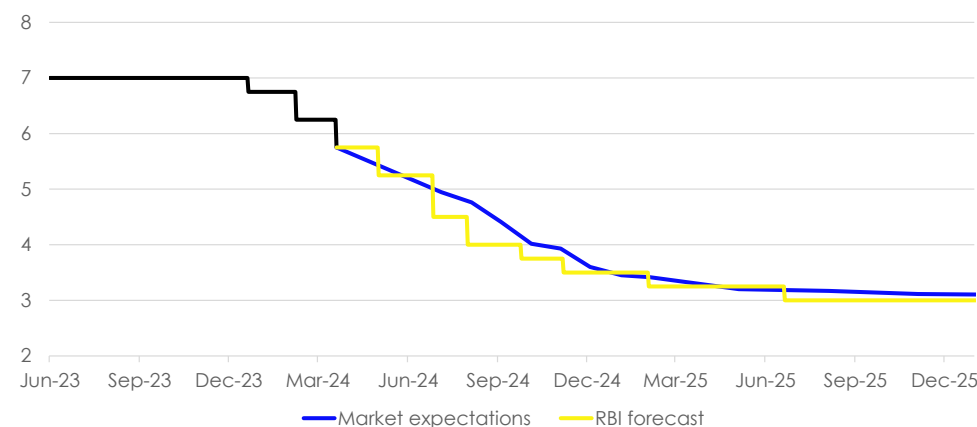
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Analyst **7**



The press conference did not offer any major surprises. However, the slight appreciation of the koruna to 25.20 EUR/CZK during the conference suggests that the market was probably expecting an even tighter voting ratio. Five of the seven board members voted in favour of the 50bps cut, while the remaining two votes were for a 75bps rate cut. **The bank board continues to assess the risks as slightly pro-inflationary**, with particular concerns about a slower unwinding of elevated inflation expectations, higher services price growth and a negative impact from a weaker koruna. In the longer term, according to Governor Michl, an acceleration of money creation in the event of a stronger recovery in credit activity also poses a risk. On the other hand, the CNB is aware of weaker economic development, both domestically and in the euro area, especially in the case of Germany.

Expectations regarding the future development of CNB's key rate in %



Market expectations based on the FRA rates
Source: Bloomberg, RBI/Raiffeisen Research

Overall, today's decision confirms a more cautious approach since the market started to expect a 75bp rate cut after the publication of the February inflation result (2.0%), but these expectations were corrected by comments from some board members last week, and analysts as well as investors included a 50bp cut in their estimates. At the moment, **it seems that the bank board will want to proceed at this pace in future meetings**, although we still do not rule out the possibility of an accelerated pace once the ECB starts

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cutting rates. For the end of the year, we expect the CNB to lower the key rate to 3.5%, and any further action will then be influenced by the upcoming CNB discussion on the level of neutral interest rates. For the next meeting, the bank board should have materials on this topic to indicate to the market its view on the terminal rate. Our forecast assumes a decline in the key rate to 3.0% by the end of 2025 and then remaining at that level afterwards.

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Symbol	Date	Recommendation	Company
CZ	25.09.2023	Under Revision	Czech Republic

History of long term recommendations			
Symbol	Date	Recommendation	Company
CZ	25.09.2023	Not rated	Czech Republic

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	Column A	Column B
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Hold recommendations	27.9%	27.9%
Sell recommendations	15.0%	17.4%

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	Column A	Column B
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