

Czechia Watch: CNB cuts rates by 50bp again, koruna below 25 EUR/CZK

The CNB Bank Board cut interest rates by 50bp for the third time in a row, which was the consensus among analysts ahead of the meeting. All 7 members of the Bank Board were in favour of the move.

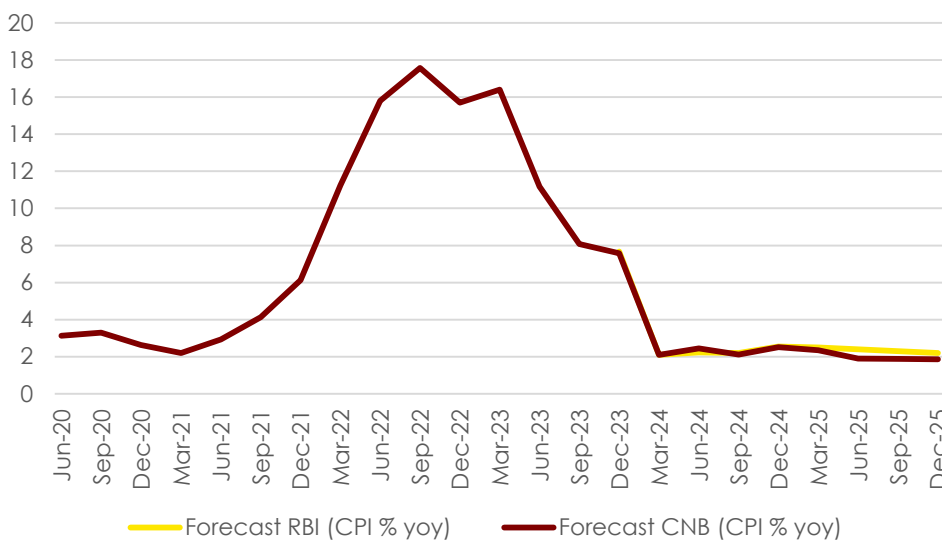
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Inflation has developed very favourably at the beginning of this year, but the Bank Board still identifies upside risks to inflation. At the **press conference** after the rate setting meeting, CNB Governor Ales Michl said that today's decision was unanimous, which was rather surprising since at the previous meeting Deputy Governor Jan Frait and Board member Tomas Holub voted for a more decisive move of 75bp. However, the Bank Board finds inflation risks related to faster price growth in services, higher inflation expectations, a weaker koruna or the impact of a recovery in credit activity.

CPI to remain favourable, yet rise slightly over the course of 2024 (in % yoy)



Source: CNB, RBI/Raiffeisen Research

At the same time, a new **macroeconomic forecast** was presented, according to which the **growth of the Czech economy** this year was revised significantly upwards from 0.6% to 1.4%. Next year, an acceleration to 2.7% is projected. The CNB also expects **average inflation** to land at 2.3% this year, similar to our forecast. However, it may rise slightly towards the upper end of the tolerance zone over the course of the year thanks to rising fuel prices and a halt in the downward trend in food prices. Core inflation is expected

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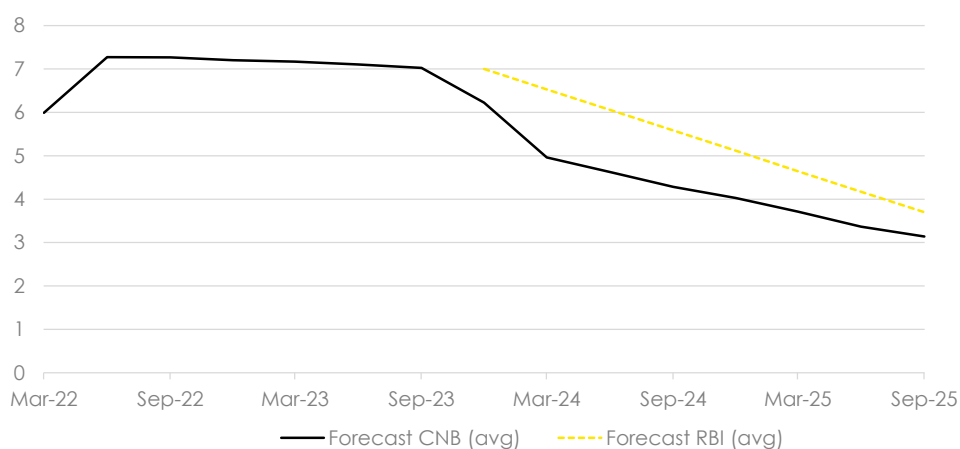
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to average at 2.6% and it is the core component that the Bank Board intends to monitor very closely.

The very favourable inflation trend gives the Board room for further rate cuts, but the analytical department has significantly reduced its winter forecast for the path of further rate cuts. The current forecast for 3M PRIBOR suggests a **key rate** of around 4% at the end of this year, which would suggest that the Bank Board will cut rates by only 25bp at each of the remaining five meetings. However, when asked about this, Ales Michl replied that the Bank Board would be guided by incoming data. He also commented on the discussion regarding the equilibrium interest rate, saying that the Board saw it higher than was customary. This is implied even by the above-mentioned 3M PRIBOR at the end of next year, which suggests that the key rate could stop at 3% or even slightly higher. In response to this announcement, the **koruna** immediately strengthened vs the euro and broke through the 25.00 level, at which the analytical department expects it to be at the end of the year.

3M Pribor on a sustained downtrend (in %)



Source: CNB, RBI/Raiffeisen Research

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