Czech National Bank review: One step closer to a rate cut

The central bank formally ended the FX intervention regime and presented a new forecast. The board is delaying the rate cut from the baseline forecast but it seems certain that it is coming. Our forecast remains unchanged, with the first cut in November

The Czech National Bank in Prague

CNB formally ends the FX intervention regime

At today's meeting of the Czech National Bank, rates remained unchanged, as expected. However, the main surprise came from the decision statement itself, which announced the formal end of the FX commitment. Although the CNB last intervened in October 2022 and the charges were still very high, the board felt it was no longer necessary to raise the possibility of FX intervention any further. Technically, this decision does not change anything, as the Czech koruna is a managed float regime, so the central bank can intervene at any time, which was confirmed by Governor Michl later during the press conference. At the same time, the central bank has resumed the programme of selling FX reserve proceeds, which is meant to prevent further growth of the central bank's balance sheet, which has been criticized in the past as a legacy of the previous board. However, volumes under this programme have commonly reached EUR100-200m per month, which should not have a visible effect on the market. Although the governor reiterated that FX remains an important tool in the fight against inflation, it seems that the board wanted to test the market before the actual rate cut and also perhaps work off some monetary easing before the actual rate cut.

7.00%

CNB 2W repo rate

No change

As expected

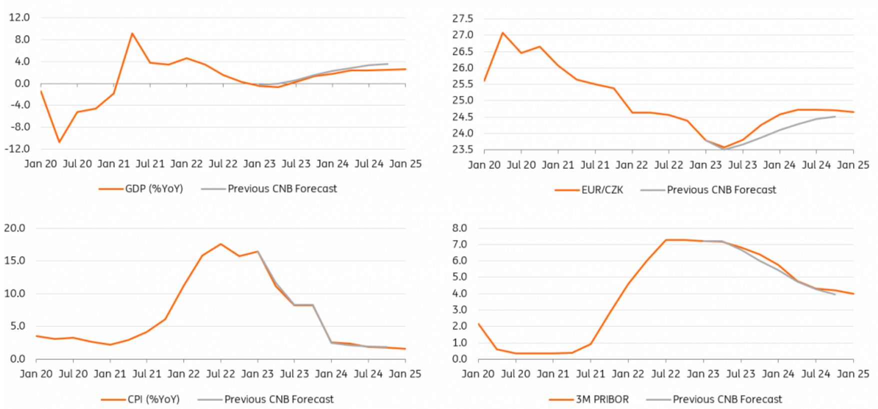
New forecast implies 75bp in rate cuts this year, but the board prefers higher rates

The governor also presented the new CNB forecast, which did not bring too many surprises compared to our preview. The GDP outlook has been revised down slightly for this year and significantly for next year. Inflation has been revised down for this year and the biggest change is in EUR/CZK where the average for next year has moved from 24.30 to 24.70. The 3M PRIBOR forecast has been raised by 0.1pp to 6.9% this year and 0.2pp to 4.8% next year.

Thus, in its baseline, the CNB now expects roughly 75bp of rate cuts this year – it was 120bp in the May forecast. Regarding the governor, the board prefers higher rates compared to the baseline. Alternative scenarios will be published next week but some data may be ready tomorrow. We would expect one or two cuts in alternative scenarios for this year.

As expected, the new forecast has also been extended to 2025. Interesting here is that the CNB sees the end of first quarter 2025 PRIBOR at 4.00%, implying a repo rate of 3.75-4.00%. This is our forecast but the CNB traditionally ends up in equilibrium in its long-horizon forecasts from the basis of the DSGE model, i.e. 3%.

CNB: New forecasts



Source: CNB, ING

Our forecast remains unchanged, first cut in November

Our view remains unchanged after today's meeting. We expect the CNB to cut rates for the first time in November by 25bp and to continue slowly in the coming months. Today's decision to lift the FX regime shows that the board is preparing the ground but does not want to rush the rate cut. We will see a few more inflation numbers and more details on the key January energy repricing before the November meeting, which should give the CNB confidence about inflation returning to target. However, there remains a risk that the CNB may want to wait for January inflation and stay on the safe side.

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