

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

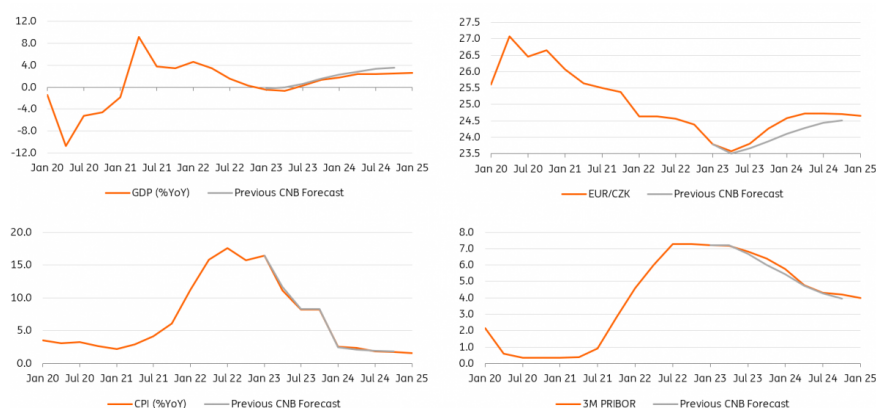
New forecast implies 75bp in rate cuts this year, but the board prefers higher rates

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.

Author

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.