Czech National Bank review: Still not enough to accelerate the pace of rate cuts

The CNB is cutting rates further but an acceleration in the pace is not on the table for now. We believe the economic data and further decline in inflation will keep the same discussion between a 50bp and 75bp move for the next meeting in May alive. However, given the hawkish communication, we slightly prefer a 50bp rate cut looking ahead

Czech National Bank headquarters in Prague

No acceleration in the pace of rate cuts, at least for now

The Czech National Bank cut rates by 50bp to 5.75% today. Five members voted for the decision, while two members voted for a 75bp rate cut. This is in line with our expectations, with one more vote for a 75bp step than in February. The CNB minutes next week should confirm the dovish camp of Frait and Holub, however, we will be curious to see the discussion within the board following headline inflation falling to the central bank's 2% target.

This means that after an acceleration in the pace of rate cuts in February, the pace remains unchanged in March. The CNB press conference brought nothing new compared to past meetings, but conditions in the economy have moved in a dovish direction in meantime, making today's tone more hawkish than last time. Despite the significant downside inflation surprise, the board wants to remain on the hawkish side and an acceleration in the pace of rate cuts is not on the table at the moment. The main reason seems to be the weaker CZK and still too high services inflation.

50-75bp rate cut discussion remains on the table

For the next meeting in May, the board will have a new forecast and analysis of where the neutral rate is for the Czech economy. In the meantime, we should get the March inflation reading, which we estimate is heading below the central bank's 2% target, at around 1.8%. Given the CNB's current hawkish communication, it is safer to assume a 50bp rate cut for the next meeting as well. However, we believe the numbers from the economy will continue to support the dovish voices within the board, keeping the 50-75bp rate cut discussion on the table. Looking ahead, our forecast for the 2W repo rate remains unchanged at 3.5% at the end of this year.

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