

Czech National Bank review: The rate-cutting strategy is ready

The bank board has prepared a strategy for cutting rates and is signalling its readiness. Each subsequent meeting is live now, but the CNB obviously does not want to commit too much to the next steps. All options remain open and will depend on incoming data. We believe that the new economic forecasts will be a sufficient reason for a rate cut in November



The Czech National Bank headquarters in Prague, Czech Republic

CNB signals readiness to discuss rate cuts

The Czech National Bank meeting did not bring too many surprises today. Interest rates remained unchanged as expected, with all board members voting in favour of the decision. More interesting was the press conference, during which the governor mentioned that the strategy for cutting rates is ready, however, cutting rates was not discussed today. This confirms earlier indications and makes it clear that from November onwards all meetings are live for rate cuts. As expected, the board is keeping all options open and does not want to over-commit to specific actions.

7.00%

CNB 2W Repo Rate

No change

As expected

The new economic forecasts should open the way for rate cuts

Although the market reaction was rather hawkish, we see two main dovish clues today. Governor Michl confirmed the readiness of the rate-cutting strategy and for the first time in a long time did not fight "excessive market expectations that may not materialise". Our forecast thus remains unchanged – the first rate cut in November.

The CNB's new economic forecasts will be released in November and is expected to show lower GDP growth both domestically and abroad and lower inflation compared to the August forecast. This should be enough for a rate cut. And on top of that, we see downside risks to inflation in the coming months in food and energy prices, which are being repriced earlier than expected to some extent.

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