

Snap | 2 May 2019

CZECH REPUBLIC

## Czech Republic: The CNB delivered dovish hike as expected

The Czech National Bank delivered a 25bp hike as broadly expected by the market. While the CNB staff forecast still shows one more hike for 2019, Gov Rusnok clearly signalled no more hikes this year as a base case. Any further hike this year is only likely if there is a significant improvement in foreign developments. This does not seem very likely at this point



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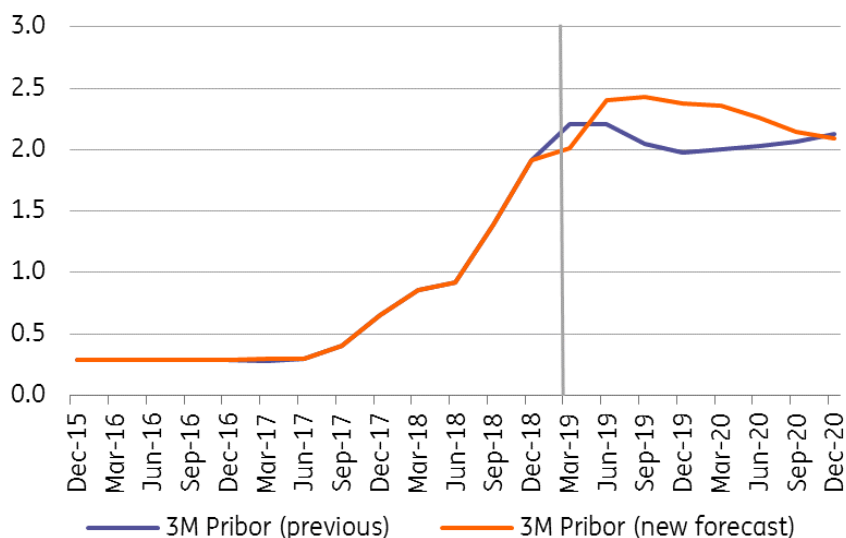
### Here are some bullet points summarizing our view on today's CNB press conference:

- While the CNB delivered a unanimous hike today and 2-week repo get to 2%, the forward guidance points to the approaching end of the tightening cycle.
- Although the new CNB staff macroeconomic forecast indicates a possible rate hike this year (as 3M Pribor reaches 2.42% in 3Q19), **Governor Rusnok was clear that he expected stability of interest rates this year. As such, the CNB will stay on hold for some time, in our view. Any further hike this year is only likely if there is a significant**

**improvement in foreign developments. This does not seem very likely at this point.**

- We observe a non-negligible change in the CNB reaction function as the CNB staff forecast (for interest rates) now matters less and the expert judgement of the board members matters more. This is a significant shift from the 2016-2018 state of affairs.
- **GDP growth was revised downwards in the new forecast for this year and next** from 2.9% and 3% to 2.5% and 2.7%, respectively. On the other hand, average inflation was revised upwards from 2.2% and 2.0% to 2.6% and 2.1%, respectively. The CNB, as well as analysts, expects inflation to gradually slow from May onwards.
- **Koruna's exchange rate was revised towards weaker values in the new forecast**, and the CNB expects EUR/CZK 24.94 in 4Q19, while in the previous forecast it anticipated EUR/CZK 24.5 at the end of this year.
- **With the CNB likely reaching the end of the tightening cycle, the main factor holding the overbought CZK together (hawkish CNB) has now vanished.** Coupled with the slowing Czech economy and the maturing global economic cycle, we now see CZK upside as exhausted and look for a permanent trend in EUR/CZK higher, mainly from 2H19 onwards.

### The CNB's 3M Pribor rate (%)



Source: CNB, ING

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