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Snap

Czech National Bank Review: The big winner is the koruna

The Czech National Bank cut rates by 75bp today but the total package of measures disappointed. After the latest MinFin comments, the CNB planning on quantitative easing appeared as a done deal. But the CNB indicated it is not on the table now. All this is positive for the koruna but less positive for Czech Government bonds

Given the high market expectations, the CNB's unwillingness to embark on quantitative easing (QE) delivered a disappointment. Even more, the CNB interprets the current law as allowing it to do full QE (though limited via commercial banks), so the latest trouble to act by the CNB, which was not approved on Thusday, was not the obstacle.

Our understanding from the press conference is that the CNB Board sees QE as a financial stability tool which would be in place to provide liquidity when markets are broken and thus prevent spread widening (ie, a "soft" QE), but not as a big scale measure to support the economy or government via bond issuance, at this point.

Given the reluctance to do QE now, it is likely the CNB will continue cutting rates aggressively, but this is already reflected in the market (the policy rate priced in is around 0.25% in 3 months). However, it was mentioned during the press conference, that it is premature to assess, whether rates will return to zero now.

1.0%

Main CNB rate

0.75% lower today

Lower than expected

Counter-cyclical capital buffer also lowered

Apart from lowering the main interest rate, the CNB reduced further the countercyclical capital buffer (CCyB) rate from 1.75% to 1%, which is effective from April. This should support lending activity of the Czech banking sector to the real economy. The CNB is ready to further reduce the CCyB rate if the banking sector experiences losses. Apart from that, the CNB enlarged its recommendation to postpone dividend payments from banks, and also to insurance companies and pension funds.

The CNB ready to support CZK, if needed

The limited prospects of imminent QE, and if QE then “soft” QE (with a focus on financial stability goals) is supportive for CZK as the liquidity increase is unlikely to be material. Moreover, with the CNB standing ready to intervene in EUR/CZK (and having a credible firepower to do so), the previous CZK underperformance vs its CEE peers should stop. Indeed, the mix of a low CNB bar for FX interventions but and high bar for the full-scale QE is positive for the koruna vs CEE peers.

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