

26 March 2020
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 Thursday, 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.

Jakub Seidler

Chief Economist, Czech Republic

+420 257 47 4432

jakub.seidler@ing.com

Petr Krpata, CFA

Chief EMEA FX and IR Strategist

+44 20 7767 6561

petr.krpata@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 NV 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. The producing legal entity 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 subject to limited regulation by the Financial Conduct Authority (FCA). 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.