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Aug 11, 2022 at 2:16 p.m | Likes: 1x | Read: 69 times

The Czech National Bank left interest rates unchanged after a series of increases

At first glance, the surprising "stop" of the long sequence of rate increases was surprising. The CNB is trying not to strangle the economy too much

 **Jozo Peric**
Blogger

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DISCUSSION (0)

For the first time in over a year, the Banking Council of the Czech National Bank (ČNB) left interest rates unchanged. Thus, the discount rate in the Czech Republic remains at the level of 6%, the Lombard rate at the level of 8% and the two-week repo rate at the level of 7%.

This decision, which deviates from the entire series of increases in the basic interest rate from the level of 0.25% (which was valid in the Czech Republic until July 2021) to today's 7%, can be read as an attempt by the CNB to reduce restrictions on domestic demand. At the same time, the growth of loans provided to individuals and businesses is reduced, which also reduces the amount of money in circulation. The Bank Council agreed that a prudent budgetary policy and adequate wage requirements are necessary for long-term price stability. At the same time, it is clearly written in the statement that the bank board will review the development of the situation at the next meeting and decide whether to increase interest rates or leave them at today's level.

Inflation in the Czech Republic could reach up to 20%

According to the CNB's forecast, inflation in the Czech Republic should increase even more in the next three months. The main reason for the increase will be rising gas and electricity prices. Inflation is forecast to peak at around 20% in the fall and average 16.5% for the year (we at CapitalPanda expected 13.1% in our spring forecast). In a year and a half, according to estimates, inflation will drop to around 2%.

Although I rarely comment on central bank policy, I think this is a smart move. And that the additional impact on taxpayers as a result of already relatively high interest rates would damage the export-oriented economy.

The weakening of the Czech crown could end

It is interesting to look at the development of the currency pair dollar/crown (USD/CZK). Since the beginning of the year, the Czech crown has weakened by a little more than 11.5%. What is interesting, however, is that this development forms a pattern in the shape of a rising wedge on the chart. However, its curves show that it is gradually closing, and thus we could witness its breakdown and reversal of the trend.



At the same time, the divergence between the rising rate and the falling RSI indicator is visible. We thus have at our disposal two relatively strong signs that indicate a possible change in the value trend of this currency pair.

If during retesting there is no breaking of the so-called pivot zone, investors will be able to open a short position. Their first target in the expected change of trend and re-strengthening of the Czech koruna could be the area of support zone 1, and the second target subsequently the area of support zone 2.

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I graduated from the University of Zagreb and after my master's degree I stayed at the university as a data analyst. Since 2015, I have been professionally engaged in trading on the capital markets. Since 2019, I have been working as the chief analyst of the CapitalPanda broker. I prepare analyzes for clients with a focus on financial markets, commodities and trading currency pairs. **List of author categories:** Uncategorized , Private

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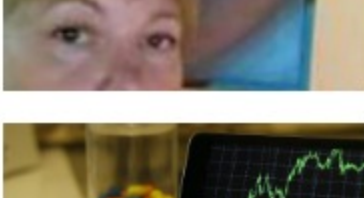
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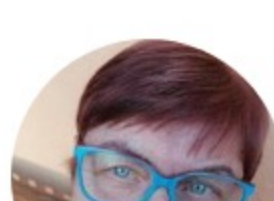
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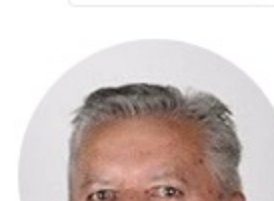
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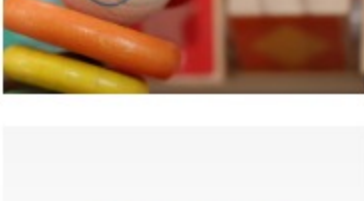
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