


## Currency shock of 2019



When Gov. Jiří Rusnok spoke in Aug. 2018 of a "[currency shock](#)," the crown had weakened to as low as Kč 26.10 to the euro, which represented a depreciation off the high for the year of about 3%. We wrote at the time that this [hardly constituted a "currency shock"](#) and that Rusnok was exaggerating the issue as part of his effort to revalue the crown through interest-rate hikes. Rusnok used the situation at the time to justify a 25-basis-point increase in the CNB's key interest rate, to 1.25%, and he predicted that the higher interest-rate differential with the eurozone would push the crown beyond Kč 25/euro by the beginning of 2019. One year later, the crown is instead close to crossing the Kč 26/euro barrier. Despite a near-doubling of the interest-rate differential with the eurozone, the crown is approaching a post-devaluation record low. And the global trend is toward lower interest rates, which spells double trouble for the crown. A real "currency shock" could now be on the horizon.

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