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Revaluation Rusnok



The Czech National Bank is expected to raise its benchmark interest rate today by 50 basis points, to 1.25%. Gov. Jiří Rusnok is keen on [returning rates to a "normal" level](#) as a way to curb inflation, but with price inflation of 4.1% in Aug., it's not yet clear what the CNB's new interest-rate target will be. Assume for a moment that it is 3.0% as of the fourth quarter of 2023, by which time the CNB expects the crown to [appreciate to Kč 24.10/euro](#). What would this mean for Czech borrowers? Compared to the end of June, when the CNB's key rate was still 0.25%, they would pay Kč 2,300 more per month for every Kč 1m of debt. Likewise, a creditor would earn Kč 2,300 more per month per Kč 1m. However, if a creditor had bought crowns in June at Kč 25.40/euro to purchase a Czech-denominated debt instrument, it would also pocket a nice profit on the appreciation. By design, [Rusnok's revaluation of the crown through interest rates](#) hurts Czech borrowers and benefits foreign-currency creditors.

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