

## MNI Czech National Bank Preview: August 2025

### Details:

<b>Monetary Policy Decision</b>	<b>August 7<sup>th</sup></b>	<b>13:30BST/14:30CEST</b>
<b>Press Conference</b>	<b>August 7<sup>th</sup></b>	<b>14:00BST/15:00CEST</b>
<b>Intro Section of the New MPR</b>	<b>August 8<sup>th</sup></b>	<b>08:00BST/09:00CEST</b>
<b>Full Monetary Policy Report</b>	<b>August 15<sup>th</sup></b>	<b>08:00BST/09:00CEST</b>
<b>Minutes</b>	<b>August 15<sup>th</sup></b>	<b>08:00BST/09:00CEST</b>

### MNI Point of View: Is Easing Cycle Over?

The call for a stand-pat rate decision from the Czech National Bank (CNB) this week is virtually unanimous as the continuation of the current monetary easing cycle hangs in the balance. Several policymakers have recently floated the idea of terminating the cycle as they ruled out an imminent cut. Czechia's property market is running hot, while domestic demand picks up, creating upside risks to core inflation outlook. Meanwhile, the two-week repo rate is already at the upper bound of its estimated neutral range. All this considered, we expect the Bank Board to decide to keep the policy rate on hold, most likely by consensus. The risks are related to the tone of Governor Aleš Michl's already hawkish rhetoric, with CNB watchers on the lookout for more formal and direct cues that the rate-cutting cycle could be over.

In the grand scheme of things, the inflation picture is a far cry from the era of post-pandemic shocks. Consumer inflation is contained within the +/-1pp tolerance band around the +2% Y/Y target and is expected to stay there through the CNB's monetary policy horizon. The uptick in headline CPI to +2.9% Y/Y in June was widely expected on the back of base effects, but according to preliminary data released earlier this week was followed by a moderation to +2.7% in July, with sell-side analysts leaning towards a view that the gradual cooling will continue. It is the structure of inflation that is more of a concern, with stubborn services inflation (down to +4.8% Y/Y in July from +5.0% in June) adding fuel to overall price growth.

There are several factors that keep Czech central bankers on their toes. Relatively tight labour market coupled with wage growth outpacing productivity growth fuel services inflation through the demand channel. The robust property market is a growing part of the inflation story, with CZSO data showing that apartment asking prices rose by 17.0% Y/Y in Q2, accelerating from +15.2% in Q1, compared to +5.1% in 2024. Finally, fiscal risk is coming to the fore ahead of the upcoming parliamentary elections, amid an understanding that front-runner Andrej Babiš could do away with austerity measures enacted by the incumbent coalition government. Meanwhile, core inflation momentum is already trending higher (see below), which prompted a shift in inflation risks assessment at the previous meeting. At the time, the Governor operationalised it as 'the six-month moving averages of core inflation' and said they were 'tending to show a slight upward trend', which remains the case.

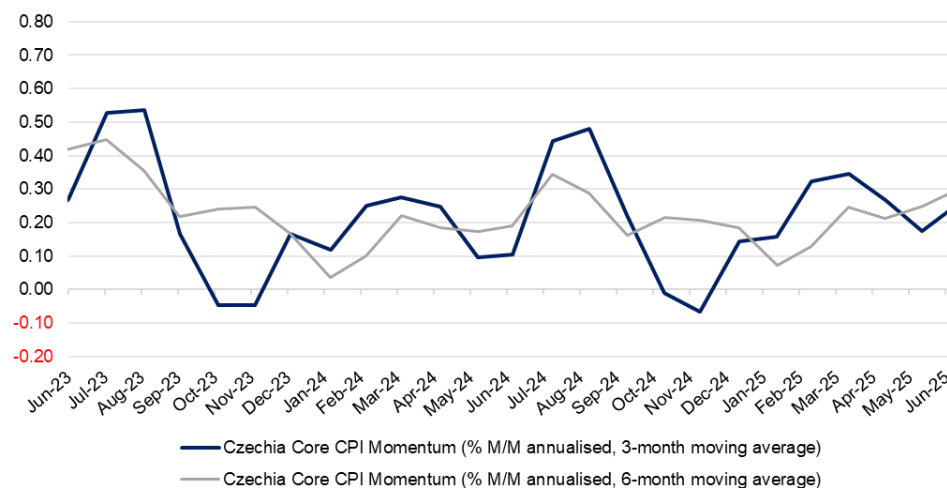


Figure 1. Czechia Core CPI Momentum (3-month & 6-month moving averages of annualised monthly CPI growth).

On the other hand, the koruna's outperformance is already tightening monetary conditions. Conservative guidance from Czech policymakers has led to a continued CZK appreciation, taking EUR/CZK as low as to 24.6 compared to the CNB's forecasts of 25.1 in 2Q25 and 25.2 in 3Q25. While the significantly stronger-than-expected exchange rate will not necessarily prompt the Bank Board to extend its rate-cutting cycle at this meeting, it gives the panel some comfort to wait and watch how things pan out in response to monetary easing delivered to date.

Last-minute pre-blackout communications from Czech central bankers left no doubt that an on-hold decision this week is almost a done deal. Jakub Seidler said that current conditions may mean that there will be no more interest-rate cuts this year and 'it is even possible that we are done' with monetary easing. According to Eva Zamrazilová, rate cuts are 'almost certainly over' as rising property prices, recovering consumer spending and an improving economic outlook create inflationary risks. This came after Governor Michl said in June that it looked like rates would stay at their current levels 'for some time'.

Aligning with unanimous consensus, we expect the CNB to stand pat on rates this week and consider it likely that Governor Michl could sharpen the hawkish tone of his rhetoric at the margin. We are not quite sure about the exact form his messaging might take, given that it has already been rather cautious. After the June meeting, Michl pointed to rising inflationary risks and delivered ambiguous forward guidance, saying that all options (cut, hike, hold) were on the table for future meetings. Perhaps slightly more forceful signalling of the expectation that rates will remain stable for some time could be a way of reaffirming hawkish credentials. The monetary easing cycle is at an indeterminate stage, with the jury still out on whether the final 'fine-tuning' phase has been effectively terminated. The statement, Governor Michl's press conference and updated forecasts will all be used as hints helping the market cast a verdict.

## Sell-Side Views

### BNY Mellon: Focus Will Be On Updated Forecasts

- They write that the Czech National Bank is expected to keep its key interest rate on hold at 3.50% at its August monetary policy meeting.
- This follows June's headline inflation slowing to +2.9% Y/Y, near the top of the bank's +2% ± 1% tolerance band, while services inflation remained sticky at 5.0%, driven by rising real estate costs and strong domestic demand.
- Markets have priced in no change, reflecting board member comments emphasizing limited scope for further easing as the economy surprised to the upside with +2.4% annual GDP growth in Q2.

- The bank is likely to maintain a cautious stance, noting that disinflation is progressing too slowly in services and wage pressures persist, and it has signalled that the rate-cutting cycle may be over barring unforeseen shocks.
- In their view, attention will focus on the updated inflation and growth forecasts accompanying the decision, which will guide any potential policy shifts.

#### **BofA: CNB To Keep Policy Rate Stable Through 2026**

- Their economist expects the Czech National Bank (CNB) to remain on hold at 3.50% on August 7.
- They removed their expectations for rate cuts by the CNB following their recent visit to Prague, and now see the base rate stable at 3.50% through 2026.
- Their view is that the CNB board will take its time before considering rates hikes, notwithstanding the likely looser fiscal stance by the next government.

#### **ČBA: Probability Of Hold Is Virtually 100%**

- Their Chief Economist Jaromír Šindel notes that an on-hold decision is almost a done deal, while a more hawkish tone of communications and a revision of the CNB's inflation and interest rate outlook for this year can also be expected.
- Šindel writes that higher core inflation is driven by weak productivity growth, which fails to offset wage pressure from a tight labour market. In addition, strong house price growth, aided by previous rate cuts, continues.
- In his view, CNB communications will be more hawkish (also because of election-related fiscal risks) but should not guide towards future rate hikes, because of surprisingly weak Q2 GDP growth, strong koruna and the risks associated with US tariffs.

#### **Česká spořitelna: Stable Rates Widely Expected**

- Česká spořitelna expect interest rates to remain unchanged for the remainder of this year as stronger inflationary pressure in May and June may necessitate keeping policy settings restrictive for the next few meetings.
- The deal between the US and EU should not in itself imply the need to quickly lower rates, although in their opinion it may mean slightly worse growth in the Czech economy – but this factor should not be so significant as to dampen inflationary pressures. In their view, the ratification of the US-EU trade deal would lower Czechia's growth outlook by 0.3pp to +1.9% Y/Y, which is not something that would prompt immediate reaction from the central bank.

#### **ČSOB: Degree Of Hawkishness Under Scrutiny**

- They write that markets and analysts are in unison when it comes to the call for stable rates, but the accompanying rhetoric (and the degree of its hawkishness) will be closely monitored.

#### **Goldman Sachs: CNB To Remain On Hold, Guidance To Turn More Hawkish**

- They expect the CNB to leave the repo rate unchanged at 3.50% and note that the hurdle for further monetary easing remains elevated, as many CNB Board members consider 3.50% to be the neutral rate level for Czechia.
- Following the June meeting where rates were held steady, the CNB's guidance shifted more hawkish, with Governor Michl indicating that rates will likely remain at current levels for some time. Subsequent developments, on balance, reinforced this hawkish bias, in Goldman's view.
- Although momentum in imputed rent – which had driven core inflation higher in recent months – continued to weaken sequentially in June, actual rental inflation strengthened. Global oil prices have started to rise again in recent weeks. Market-implied policy paths for both the Fed and ECB have turned incrementally hawkish.
- Goldman's assessment aligns more closely with the minority view on the Board highlighting disinflationary pressures. Despite the recent hawkish shift in data, they believe underlying pressures remain fundamentally anti-inflationary both domestically in Czechia and globally.
- Goldman think that core inflation should decline more substantially in the remainder of the year, reflecting improved inflation expectations and subdued goods inflation. Therefore, they maintain their forecast for

falling core inflation to ultimately drive Czech rates to a below-neutral level of 2.75%, with risks to the upside from a more hawkish ECB.

**ING: No More Cuts Likely**

- They expect headline inflation to hover in the upper tier of the Czech National Bank's tolerance band for the remainder of the year, provided that restrictive monetary policy conditions persist. This means no further rate reductions when looking ahead, consistent with their base-case scenario.
- ING note that the CNB spring forecast assumes noticeable softening in the pace of economic expansion, along with inflation starting to ease toward the +2% Y/Y target. Several new factors have emerged recently that support the economy's continued upward trajectory: 1) The German infrastructure and defence package may trickle down to the real economy sooner than expected, and 2) the recent trade deals - not limited to the EU - may significantly reduce uncertainty and promote global growth.
- Both would imply stronger Czech economic growth amid a relatively tight labour market. That said, the unemployment rate typically adjusts with a considerable lag to changes in economic performance, especially across Europe. Stronger economic expansion would imply upward pressure on wages, given the general scarcity of skilled and experienced workers, which in turn, would potentially halt any further disinflationary trend in the services segment.
- ING note that alongside the buoyant housing market, which affects core inflation via increasing rents, this yields a picture of a broad-based set of domestic inflationary pressures when looking ahead. All in all, ING see the new CNB forecast as painting a picture of both stronger GDP growth and more potent inflation - and yes, the price tag includes higher interest rates and a stronger koruna.

**JP Morgan: Central Bank May Signal Rates On Hold For Foreseeable Future**

- They expect CNB to keep rates unchanged at 3.5%.
- The new macro projection should revise upward both inflation and growth forecasts, and on that basis, they expect the central bank will signal rates on hold for the foreseeable future.

**Komerční banka: Expecting 25bp Cuts In November & February**

- They note that unanimous consensus calls for an on-hold decision and a cut defying Governor Michl's hawkish guidance would likely trigger a correction of recent koruna gains.
- They continue to believe that the increase in US tariffs, the fading of the US stockpiling effect, and the impact of tight monetary policy will result in a gradual cooling of domestic price pressures.
- Komerční banka expect a further 25bp rate reduction in November, followed by the final cut in the current cycle in February 2026, bringing the repo rate to a neutral level of 3%.
- They think that the risks to their baseline forecast are tilted towards the economy's continued resilience to tariff shocks and hence higher rates.

**Raiffeisenbank: Next 25bp Cut Expected Only In February 2026**

- They expect the CNB to keep rates unchanged for the second time in a row.
- They do not expect any further rate cuts this year and pencil in the next one only for February 2026.
- Raiffeisen remind that Governor Michl believes that above-2% inflation requires strict monetary policy.

**UniCredit: Seeing Risks To Call For September Cut**

- They expect the CNB to keep its policy rate at 3.50%.
- Lower inflation later in the year might open the window for a rate cut, but recent hawkish comments by some executive board members have led us to see some risk to their call for easing in September.