# MNI Czech National Bank Preview: June 2025

## Details:

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| **Monetary Policy Decision** | **June 25th** | **13:30BST/14:30CEST** |
| **Press Conference** | **June 25th** | **14:00BST/15:00CEST** |
| **Minutes** | **July 4th** | **08:00BST/09:00CEST** |

## MNI Point of View: Keeping Policy Restrictive

**Unanimous consensus is for the Czech National Bank (CNB) to leave the two-week repo rate unchanged this week as persistent inflationary pressure in the services sector calls for caution, while tensions in the Middle East raise the risks of turbulence in commodity markets. Against this backdrop, with the key interest rate (3.50%) nearing the neutral zone, the Bank Board is set to postpone potential further fine-tuning at least until later this year. Recent communications from Board members reinforced these expectations as several officials expressed their preference for near-term interest-rate stability.**

The Czech National Bank (CNB) is likely to leave the two-week repo rate unchanged after a 25bp ‘fine-tuning’ in May, delivered in a split 6-1 vote, where one dissenter (Jan Kubíček) called for an on-hold decision. During the subsequent Q&A session, Governor Aleš Michl refused to commit to any future moves and merely remarked that the ‘space for cutting interest rates is limited,’ while the ‘level of interest rates is still restrictive’. This suggests that in the absence of any significant disinflationary developments, the Board may prefer to keep policy mildly restrictive and make sure that inflation gets anchored at levels consistent with the target.

Bearing this in mind, note that the latest data from the CZSO showed that headline inflation accelerated above the +2% Y/Y target in May, despite staying within the +/-1pp tolerance band, which should be an argument for continued caution. Inflation came in at +2.4% Y/Y, exceeding the consensus forecast of +2.0% and the CNB’s forecast of +2.3%. Admittedly, an upswing in volatile food prices was a significant contributor to the increase in overall inflation, but core prices added to the upward pressure. Services price inflation quickened to +4.9% Y/Y, driving core inflation higher to +2.8% Y/Y, amid a growing tightness in the housing market. Facing persistent pressure in the services sector, the CNB has an incentive to keep monetary policy restrictive.

Admittedly, the local industry continues to underperform and external boosters (Germany’s spending spree, increased defence spending across Europe) will take time to filter through into Czechia’s real economy and the eventual impact remains uncertain. More immediately, Q1 wage growth was only marginally softer than expected by the central bank, the housing market is running hot, inflationary pressure in the services sector refuses to abate, while food price volatility adds to the uncertainty around the inflation outlook. These factors will probably outweigh any disinflationary implications of the current condition of the Czech industry.

Recent communications from Bank Board members indicated that the panel is in no rush to resume monetary easing. Governor Michl said that the repo rate may remain at the current level (3.50%) ‘for some time’ in order to prevent a resurgence in inflation. He also flagged the need to keep real interest rates positive. Elsewhere, Jan Kubíček suggested that ‘the room [for cuts] that [he] saw before has been exhausted’ and he no longer sees ‘the need to stimulate the economy further with monetary policy.’ Jan Procházka explicitly guided that no change in rates is the most likely outcome of this meeting, and a discussion on whether to ease policy further will probably take place in August. Meanwhile, none of the members openly called for an immediate cut, which draws us to the conclusion that the decision to keep rates on hold could be unanimous.

The latest escalation in geopolitical tensions in the Middle East increase the odds of a pause. The decline in global commodity prices, alongside a stronger-than-expected koruna exchange rate, has helped keep inflation in check this year. A partial reversal of these dynamics would risk adding to existing inflationary pressures. While the initial supply-side shock could hardly be addressed by monetary policy action, the CNB might want to stay on the lookout for second-round effects that could knock headline CPI above the +/-1pp tolerance band around the +2% Y/Y target. Granted, the hours before the Bank Board's meeting brought some apparent reprieve amid the news that Israel and Iran reached a ceasefire, but the sustainability of the truce remains an open question.

With the two-week repo rate already at/near neutral levels, official communications indicating no rush to ease policy further, services inflation showing continued persistence, and tensions in the Middle East still brewing, our call is for the CNB to sit on its hands this week. We expect Governor Michl to deploy his on-brand hawkish rhetoric, stressing the need to keep policy restrictive in the current conditions and signalling an intention to stick with a hawkish strategic posture. Looking further afield, the Bank Board will likely monitor the situation and make decisions on a meeting-by-meeting basis. Depending on the evolution of risks, there may still be room for some incremental easing, but the cycle is clearly in a very mature phase.

## Sell-Side Views

**Česká spořitelna: CNB To Cut In November But Hawkish Risks Intensify**

- They expect the CNB to keep the repo rate unchanged until November, when it could deliver a 25bp reduction. In their view, the risks remain elevated and two-sided, but have recently shifted to the pro-inflationary side and hence towards a scenario involving a longer period of stable rates, possibly until the beginning of next year.
- Česká spořitelna note that services price inflation reached +4.9% Y/Y in May and will probably ease only gradually through the remainder of this year. In addition, data from the real economy and tensions in the Middle East raise the risk of an increase in price pressures.

**ČSOB: Rates, Rhetoric To Stay Unchanged**

- In their view, the CNB will not change rates or its slightly hawkish rhetoric this week.

**Goldman Sachs: CNB To Stand Pat, Guidance To Turn More Hawkish**

- They expect the CNB to keep its policy rate unchanged at 3.50%. Many CNB Board members consider 3.50% to be the neutral rate level in Czechia, implying that policy easing beyond this point will likely require a higher burden of proof.
- Geopolitical uncertainty and energy prices have also risen sharply since the last policy meeting in May, which is likely to lead to a more cautious CNB. Recent comments from the Board members imply that the majority prefer rates to remain stable in June, though there appears to be more division regarding the rate trajectory after June.
- In their view, while recent developments have been hawkish, the underlying pressures remain anti-inflationary both in Czechia and globally. Goldman therefore continue to forecast falling core inflation to ultimately drive Czech rates to a below-neutral level of 2.75%, despite a cautious CNB in the near term.

**ING: No Space For Cuts Due To Inflationary Environment**

- They write that the CNB made clear over recent months that the cutting cycle was coming to an end. Meanwhile, the recent domestic data indicates more upward price pressures in the pipeline for the Czech economy, which are tangible in all sectors except industry. Moreover, foreign price pressures have gained fundamental momentum, whether due to already higher global oil prices linked to the recent escalation of the Middle Eastern crisis or the increased risk of disruption to global supply chains.
- Taking into account the recent data and developments, ING foresee faster price growth in almost all components of the consumer basket, whether it be fuel and food prices on the one hand, or services prices and imputed rents on the other, implying more potent core inflation. The labour market remains tight, wage growth lofty, and real retail sales are flying high. Nominal wage growth was only a tick below the CNB's expectations in the first quarter, yet monthly data and the booming residential sector suggest that a meaningful deceleration is likely not in sight. With all this on the table, ING see no further rate reductions as our base case scenario.

- That said, industry's underwhelming performance and lukewarm fixed investment remain an open wound. Still, the CNB's mandate is to maintain price stability, so the accumulated inflation risks take the upper hand in the decision function.

**JP Morgan: On-Hold Decision Seems To Be Close To Done Deal**

- They write that core inflation has accelerated closer to +3% Y/Y than to +2%, eroding any remaining appetite to ease that may have still existed at the CNB.
- JP Morgan remind that in recent weeks we have had public commentary by the Governor and other key members of the Board stating there is no space to further lower rates, so it seems as close to a done deal as it gets that the CNB keeps the policy rate unchanged at 3.5% this week.
- It's true that some members still voice openness for reducing rates, but at a later part of the year, assuming inflation slows to target, something JP Morgan are sceptical about.

**Komerční banka: Expecting Cuts In August & November**

- Komerční banka think that the CNB will leave interest rates unchanged this week, while sticking to its hawkish communications, which will be supported by the latest inflation data.
- They remind that headline inflation topped the CNB's forecast by 0.1pp in May and core inflation remains persistent, especially when it comes to the services sector.
- From their point of view, pro-inflation risks have been offset by the stronger koruna combined with interest rates sitting above the level implied by the CNB's baseline scenario (3% by mid-year).
- Komerční banka expect two more 25bp rate cuts this year, in August and November, to the terminal level of 3% - but also think that their timing is relatively uncertain and easing could be delayed.

**Raiffeisenbank: No Change Expected This Week**

- Raiffeisen expect the CNB not to resume its easing cycle and leave the repo rate unchanged at 3.50% this week.