MNI Czech National Bank Preview: May 2025

Details:

Monetary Policy Decision	**May 7th**	**13:30BST/14:30CEST**
Press Conference	**May 7th**	**14:00BST/15:00CEST**
Intro Section of the New MPR	**May 9th**	**08:00BST/09:00CEST**
Full Monetary Policy Report	**May 16th**	**08:00BST/09:00CEST**
Minutes	**May 16th**	**08:00BST/09:00CEST**

MNI Point of View: Close Call

The Czech National Bank (CNB) may be nearing the end of its rate-cutting cycle, but fine-tuning the repo rate by another 25bp to 3.50% is on the table, even though it would likely be framed as a "hawkish cut". Below-target inflation reported on the eve of the meeting supports the case for an imminent cut, but the underlying structure of inflationary pressures may strengthen the Bank Board's determination to turn more cautious going forward. Recent communications pointed to the intention to remain conservative and keep interest rates above their historical levels. Meanwhile, the new macroeconomic forecast will provide fresh insights on the interest-rate outlook.

The Bank Board convenes right after preliminary data from the CZSO showed that headline inflation eased to +1.8% Y/Y in April, undershooting both the +2.0% target and the +2.1% consensus forecast. With this week's meeting seen as a "live" one, this may have some psychological impact on Czech officials, opening a window of opportunity to cut the two-week repo rate to 3.50%, the upper end of a range where they see its neutral level. Coupled with a continued spill-over from Germany's economic slowdown, this may result in a decision to loosen monetary policy again.

On the other hand, the structure of the inflation data may cement existing concerns of some policymakers. First, the dovish surprise was largely driven by the volatile food component. Second, despite the significant 1.4pp drop in annual goods inflation, annual services inflation accelerated by 0.2pp, likely keeping core inflation above the +2.0% target (albeit within the tolerance band). In a recent interview, Governor Aleš Michl reaffirmed his message on underlying price pressures, noting that "core inflation above two is a risk and requires strict hawkish policy."

Official communications from the central bank's senior management have amounted to a message of caution. The Governor said that if the Board lowers rates, it "will do so very carefully". Deputy Governor Jan Frait pointed to continued tension in the labour market, despite some early signs of potential relaxation, and noted that the policy rate will likely be brought to 3.50% before further consideration. Meanwhile, Deputy Governor Eva Zamrazilová said that she was "leaving the decision open for the next meeting" but the next cut might be "the last one in this cycle."

That being said, most Bank Board members appear to still see some room for further monetary easing before taking time for a deeper reflection on the outlook for monetary policy. The recent publication of a benign inflation outturn for April, the imminent release of a new macroeconomic forecast, and decent performance from the koruna provide an opportunity to front-load the cut and bring the repo rate to the 3.50% level, at which point the Bank Board could switch to tactical rate adjustments rather than a continued progression of the easing cycle.

For these reasons, we are leaning towards forecasting a 25bp cut, but it is a low-conviction call. Core inflation dynamics remain unsatisfactory, from the CNB's perspective, while. If the CNB does reduce rates, we expect the move to be framed as a "hawkish cut," with all options open for the subsequent meetings, including a hike. Governor Michl will also likely remind about the intention to keep interest rates above their historical averages.

Sell-Side Views

BNY Mellon: Central Bank To Continue Rate Cuts

- They expect the CNB to continue its rate-cutting cycle at its May 7 meeting.
- March inflation remained at +2.7% Y/Y, right on target, but GDP growth remains subdued and consumer sentiment weak.
- Markets see another 25bp cut, although more dovish members could push for a deeper move if downside risks to growth in Germany and Europe in general materialize.

Česká spořitelna: Close Call, Leaning Towards Hold

- They note that the CNB will decide between a hold and a 25bp cut. They currently expect the Bank Board to stand pat in May and lower rates in August but see the probability of a hold this week as only slightly higher than that of a 25bp cut. In their view, it is a very close call ("roughly 50:50").
- They write that recent statements by some members of the Bank Board indicate that they are considering a possible rate decrease, which raises the probability of this scenario. This also reflects the current market estimate, which has shifted in the direction of a possible rate decrease.

ČSOB: Expecting Conservative Cut

- They expect a 25bp rate cut coupled with cautious, conservative rhetoric indicating potential for a longer period of interest-rate stability.

Goldman Sachs: CNB To Vut By 25bp But Guidance To Turn More Cautious

- They expect the CNB to cut rates by 25bp to 3.50% in a 6-1 vote split, with Kubíček voting for a hold.
- Given that 3.50% is considered the neutral rate level by many CNB Board members, Goldman expect the Board's guidance to be much more cautious beyond this point and that they will require a higher "burden of proof" before implementing any further easing. In this sense, they expect next week's meeting to provide a "hawkish cut".
- Looking further ahead, they think that both fiscal and inflation risks are much smaller in the Czech Republic compared with other CEE countries. While the CNB Board is likely to be extra cautious in the near term, ultimately, they expect that weak Czech inflation dynamics and a dovish external environment – with the ECB cutting rates below neutral – will compel the CNB to cut rates to 2.75%.

JP Morgan: Hold Likely But 25bp Cut Possible

- Prior to the release of inflation data, they wrote that the CNB decision is not clear, and that probably the flash CPI for April published in the preceding days will play a role.
- They noted that communication from Board members was rather vague and it is not obvious for now what preference the board has. It was a near 50/50 call between on hold and a 25bp cut, but they were calling for on hold, as they believed 3.5% was a good estimate of neutral, and inflation was running in trend around +2.5-2.6%, Y/Y which demanded a slightly restrictive stance.
- Nonetheless, some in the Board expressed views in the past that they see still some space to cut, so there is a high chance the timing of the temporary decline in April CPI will be used to close the cycle.

Komerční banka: CNB To Keep Cutting Rates This Year

- They expect the CNB to lower the two-week repo rate by 25bp as headline inflation approaches the +2% Y/Y target and is set to stabilise near that level.
- Considering the benign inflation outlook, for the rest of the year, they expect a couple more 25bp cuts (one per quarter) to a terminal level of 3.00%.

PKO: Minutes Of March Meeting Showed Potential For Another Cut

- They expect the CNB to reduce the repo rate by 25bp to 3.50%, arguing that the minutes of the previous meeting pointed to the room for such a move.

Raiffeisenbank: 25bp Cut, Then Stop

- They expect interest rates to be reduced by 25bp due to a possible drop of headline inflation towards the +2.0% Y/Y target.
- In their view, the monetary easing cycle will be paused afterwards, as indicated by Deputy Governors Frait and Zamrazilová.