

MNI Czech National Bank Preview: May 2026

Details:

Monetary Policy Decision	May 7th	13:30BST/14:30CEST
Press Conference	May 7th	14:00BST/15:00CEST
Intro to Monetary Policy Report	May 11th	08:00BST/09:00CEST
Minutes	May 15^h	08:00BST/09:00CEST
Full Monetary Policy Report	May 15th	08:00BST/09:00CEST

MNI Point of View: Using Inflation Buffer To Wait And See

There is little doubt that the Czech National Bank (CNB) will leave interest rates unchanged this week, likely in a unanimous decision, taking advantage of the ‘inflation buffer’ built earlier this year to better assess the implications of the conflict in the Middle East. Policymakers have been vocal about their preference for looking through the initial impact of the war and focusing on potential second-round effects instead. We expect the CNB to keep the two-week repo rate unchanged at 3.5% in the coming months, but the highly uncertain outlook will likely encourage the Governor to repeat that all options are on the table.

The CNB has remained relatively calm amidst the current energy crisis, following monetary policy textbooks in looking through the initial shock and staying alert to second-round effects. Bank Board members have been putting much effort into hammering this message home over the past few weeks, taking turns to play down the odds of rushing into monetary tightening, in spite of the rise in fuel prices. Whilst the prevailing sentiment seems to be that the easing cycle is effectively over and the next adjustment in rates will be to the upside, there is no appetite to lean against inflationary pressures through a rate hike either. Just ahead of the start of the central bank’s media blackout, Deputy Governor Eva Zamrazilová told Bloomberg that the central bank is in a ‘comfortable situation’, while Jakub Seidler told MNI that was inclined to back a hold on May 7 and could ‘still imagine looking through the situation.’

The rationale for this cautious wait-and-see approach has been explicated in numerous public engagements of Czech central bankers. Abating domestic price pressures and the government’s decision to waive the renewable energy sources fee pushed headline inflation to the bottom half of the tolerance range at the beginning of the year, creating a buffer against potential supply-side shocks. The CNB is now using this buffer to better assess the impact of the Iran war, which remains shrouded in uncertainty. For one, the inflationary impact of higher oil prices raises the risk of de-anchoring inflation expectations but is also bound to weigh on economic growth and constrain domestic demand. Furthermore, forward-looking market wagers have led to a tightening of lending conditions without the CNB having to force the process mechanically through an interest-rate adjustment, which according to Zamrazilová reduced the urgency for monetary policy reaction. Finally, the koruna has been relatively resilient amidst the ongoing crisis, failing to amplify imported inflation, while the policy rate stays at a slightly restrictive 3.5% level.

Nevertheless, the risks from the Iran conflict are hard to ignore. Preliminary April CPI data showed that headline inflation accelerated to +2.5% Y/Y on the back of higher fuel prices, with sell-side analysts warning of further increases. In an alarming development, services inflation edged higher from already elevated levels to +4.8% Y/Y. The risk of gradual spillover into other segments of the CPI basket looms large. Overall, this should be reflected in the CNB’s updated macroeconomic forecasts, with the main parameters set to accompany the rate decision. Over the medium term, concerns about fiscal policy under the new government are resurfacing amidst the ruling coalition’s push to relax strict budget rules and introduce exemptions for some of the spending on defence and critical infrastructure projects. In addition, fuel relief measures rolled out by the government reduce inflation today but create

a low comparative base for future readings, while generating additional fiscal burden. The Bank Board will have to take these factors into account while it studies the new forecasts prepared by the staff.

Although the risks to meeting the inflation target are tilted to the hawkish side, and there is a chance that the Board formalises this concern in the statement, Czech rate-setters are unlikely to adjust rates in the coming months. They have been vocal about the need to look through the immediate shock from the Iran war and focus on medium-term developments, monitoring any possible signs of second-round effects. Given the uncertain nature of the conflict in the Middle East, there is a risk that reality will force the CNB to react. For now, however, we expect the Bank Board to keep using up the inflation buffer built earlier this year and keep interest rates flat over the coming period.

Sell-Side Views

Sell-side analysts broadly agree that the Bank Board will leave the two-week repo rate unchanged at 3.50% this week as it monitors the impact of the Iran war, while economic forecasts is bound to undergo hawkish revisions.

BNY Mellon: No Change Expected

- They write that no change is expected from the CNB, and the country's inflation outlook is broadly well-contained.
- March CPI came in below 2% on a headline basis, though from a very low base, given that prices were deeply contractionary at both the consumer and producer level.
- Business confidence is holding well, so a 'wait and see' approach is apt, though the ECB's signalled direction makes future tightening a live possibility.

Česká spořitelna: Press Conference May Be Tad More Hawkish

- They expect the CNB to leave rates unchanged but note that the tone at the press conference may be a bit more hawkish, as policymakers may again mention the possibility of a future rate increase if the current inflation shock starts to spill over into core inflation and inflation expectations.
- At the moment, the situation around the future setting of rates remains uncertain. In Česká spořitelna's opinion, the CNB will not necessarily react to the primary price shock that hit oil and gas prices and will probably also be reflected in rising food prices. However, the longer the prices of these commodities remain high, the longer they may start to be transmitted to other sectors of the economy due to rising costs and affect the development of demand-pull inflation and inflation expectations.
- In addition, a scenario cannot be ruled out where a number of companies, similar to the period 2022-23, will take advantage of the pro-inflationary development in the economy and increase prices more than would correspond to purely higher costs. Strong consumer demand may make this possible. And the CNB will probably want to avoid an increase in core (demand) inflation. In other words, the longer the conflict (including the temporary ceasefire) lasts, the greater the likelihood of a need to tighten monetary policy.

ČSOB: Hawkish Forecasts, Mild Rhetoric

- They expect flat rates and hawkish forecasts this week, combined with relatively mild rhetoric from the bank board members calling for a cautious approach.
- In their view, the CNB will leave interest rates unchanged in the coming months.

Czech Banking Association: CNB To Keep Its Hawkish Wait-And-See Attitude

- Their Chief Economist writes that the Czech National Bank's Bank Council is likely to leave its interest rate unchanged at 3.5% at its meeting on May 7, and the tone of its communication will likely be hawkish.
- In the meantime, long-term market rates are rising, pricing in not only the unresolved Iran conflict, but also the inflationary risks that may allow the effects of the energy shock to seep through. This is reflected in a further increase in the long-term equilibrium interest rate, which is at its 2023 levels, when the key interest rate was double what it is now, which is bad news for long-term investments.
- CBA note that how long the central bank will tolerate the energy shock depends not only on developments in the Strait of Hormuz, but also on incoming economic data and the government's fiscal reaction. Both of

these have been evolving in the hawkish direction amid a recovery in core inflation momentum in March and the government's proposal to relax fiscal rules.

Goldman Sachs: CNB To Sound More Attentive To Upside Inflation Risks

- Goldman Sachs align and consensus and expect the CNB to keep its key policy rate unchanged at +3.50%.
- So far, the CNB's view of the ongoing energy price shock has been that the favourable disinflationary conditions going into the shock give it the opportunity to keep its policy rate on hold for now, and only react if there are further adverse energy price developments, or concrete evidence of 'second order' effects from higher energy prices (such as rising inflation expectations).
- As of now, neither of these factors have arguably come to pass, which suggests that the Bank will remain on hold and strike a cautious stance in its guidance.
- In light of the persistence of the energy price shock and the uncertainty regarding its duration, Goldman expect the CNB to sound somewhat more attentive to upside inflation risks compared to the March MPC, and they do not expect it to reiterate that inflation risks are 'balanced'.

ING: CNB Likely To Look Through External Supply Shock

- ING think that Czech policymakers will likely keep the policy rate unchanged at 3.5% at next Thursday's meeting, though inflation has picked up and is set to increase further.
- The current turmoil in the Middle East will have twofold implications: higher prices on the one hand and weaker global economic performance on the other. The CNB knows the basic macroeconomic business rather well and finds itself in a relatively comfortable situation vis-à-vis the negative external supply shock, which allows it to wait things out as long as it can to see how the various effects compound.
- After updating their Czech inflation path, ING now assume that the conflict in the Middle East lasts until June in the baseline scenario, with Brent crude monthly average prices remaining at \$104/bbl until that time. This assumes the conflict lasts two months longer than in their previous forecast, pushing average headline inflation to +2.4% Y/Y this year and +2.6% Y/Y next year.
- They assume that the CNB would do the right thing and refrain from touching rates, given this is a negative external supply shock, and pressure for economic activity will follow suit.

JP Morgan: Message To Remain Hawkish With Emphasis On Keeping Options Open

- In their view, the day after the flash CPI is released, the CNB likely will decide unanimously to keep rates unchanged at 3.5%.
- Recent commentary by board members suggest the preference is to wait for more information, but that the next move is more likely to be a hike than a cut.
- The message is therefore likely to remain hawkish, with emphasis on keeping all options on the table, while being ready to act if need be.

J&T Banka: CNB To Leave Rates Unchanged This Week

- The Czech National Bank, like other central banks, will probably leave rates unchanged.
- However, the central bank's communication regarding its possible willingness to increase rates will be closely watched.
- In addition to the decision and subsequent press conference, the new forecast from the Czech National Bank's analytical staff will also be interesting.

Komerční banka: Geopolitics & Fiscal Policy Are Key Hawkish Risks

- They note that the current level of the base repo rate of 3.5% is still slightly restrictive. The tightening of credit conditions was also due to the recent sharp increase in koruna market interest rates, which is reflected in interest rates on bank loans. Another advantage in the current situation of increased inflation risks is the persistent strength of the Czech koruna, which has not weakened significantly compared to previous external shocks.
- The relatively restrictive monetary conditions and the low initial inflation rate thus put the central bank in a favourable position. In the current situation, it is likely that the central bank will look through the impact of higher wholesale energy prices on inflation for the time being and will rather focus on core inflation, which, according to KB's forecast, should remain within the central bank's tolerance band in 2026 and 2027.

- However, the risks are tilted to the hawkish side. The main inflation risk is associated with higher energy prices. However, the central bank will be primarily interested in their second-order effects on other prices in the economy. KB see another significant pro-inflationary risk in the development of domestic fiscal policy. There is a real risk that the new domestic fiscal rules will allow public finance deficits above 3% of GDP.

Raiffeisenbank: Rate Hike Off Table This Week

- In their view, raising interest rates will not be on the table during this week's monetary policy meeting, after Bank Board members repeatedly emphasised that they are not under pressure to make hasty decisions.
- The focus will be on the updated macroeconomic forecasts, especially the outlook for the future trajectory of interest rates. The forecast and presser will likely be more hawkish.
- They note that the financial market continues to bet on two rate increases by the end of the year, but even if the projected rate trajectory signals a possible increase, Raiffeisen do not expect this to happen.

UniCredit: Two 25bp Hikes Likely In 4Q26

- The CNB is likely to keep its key rate at 3.50%.
- Communication from the CNB is clear: the next likely step is a hike, but there is no need to rush.
- With a positive real rate, the central bank is in a comfortable position, much stronger than during the inflation wave after the war in Ukraine.
- Policymakers will monitor the situation closely. In UniCredit's baseline scenario, they expect two 25bp hikes in 4Q26.