MNI Czech National Bank Review: August 2025

Executive Summary:

- **The Bank Board unanimously decided to keep interest rates on hold.**
- **Domestic inflation pressures were assessed to preclude a further decrease in rates.**
- **Forecast revisions were hawkish, with 3-month PRIBOR path adjusted higher.**

Key Links:

- **Bank Board Statement**
- **Governor Michl's Presentation**
- **Q&A with Governor Michl**

Key Takeaways: Easing Cycle Virtually Over, But

The Bank Board's meeting yielded a widely expected unanimous decision to keep interest rates on hold amid resurging inflationary pressures from the domestic economy, breaking with its stop-and-go approach to monetary easing. Although Governor Aleš Michl left all options on the table for future meetings, he explicitly described his message as 'hawkish', while the Board's guidance emphasised that current conditions preclude any further rate cuts. The decision was accompanied by notably hawkish forecast revisions, reflecting the incorporation of materialising risks and expert adjustments into the model. We expect the CNB to remain wary of further monetary easing going forward and think that near-term rate stability is quite likely.

The CNB's consensus-matching decision was delivered alongside forward guidance noting that the 'ongoing inflation pressures from the domestic economy currently preclude a further decrease in interest rates.' The remainder of the statement referenced the various inflationary risks mentioned by policymakers in recent communications. The initial justification of the rate decision cited growing household demand, elevated services inflation and core inflation momentum, as well as rising property prices. The subsequent discussion of risks added *potential* additional growth in public spending and continued rapid wage growth to the list. In addition, the Board warned that the launch of the EU Emissions Trading System 2 (ETS 2) was an inflationary risk in 2027 and onwards. On the other hand, koruna strength was seen as dampening price pressures and representing a downside risk – albeit the only one of note. All in all, the balance of risks to the outlook for meeting the inflation target was assessed as 'inflationary overall'.

A major hawkish surprise was hidden in the Summer Forecast, which featured bullish revisions across the board. CNB staff adjusted inflation forecasts a touch higher (by 0.1pp across 2025 and 2026) and turned considerably more upbeat on GDP growth, but it was the outlook for the 3-month PRIBOR rate that underwent the largest change. The terminal level of the benchmark rate is now seen at around 3.50% versus 2.80% previously, despite a projected dip in 2H25. We saw a couple of sell-side desks speculate that CNB staff may have adjusted their neutral-rate estimate higher, bringing it into line with the views of some Bank Board members. The subsequent presentation for analysts[1] clarified that this was not the case and CNB staff continue to plug the 3% value into the model, but they have lowered the steady-state estimate for ECB neutral rate to 2.25% from 2.50%, which implied an increase in the koruna risk premium, acting 'in the direction of higher domestic interest rates.' This expert adjustment was coupled with the incorporation (i.e. materialisation) of some previous forecast risks into the model.

As part of its forward guidance, the Bank Board provided a laundry list of the factors that will determine future monetary policy decisions: (1) the persistence of low-inflation environment, (2) koruna exchange rate developments, (3) the effect of fiscal policy on the economy, (4) an analysis of the tightness in the labour market, and (5) changes in domestic and external demand. In addition, (6) the actions of core central banks, (7) geopolitical and trade developments, and (8) the transmission of earlier rate cuts to the real economy will also play a role. The length of the

[1] For the record, the briefing for analysts was scrutinised a tad more closely than usual, as the Summer Forecast was prepared under the leadership of new Monetary Department Executive Director Petr Sklenář. CNB watchers were willing to learn if the change of guard would lead to any notable model adjustments.

list and a failure to assign priority to any of the factors render the list of little use as a monetary policy guide. Likewise, the Bank Board historically demonstrated that it is not religious about the exact shape of the 3-month PRIBOR path and is ready to override staff recommendations if they conflict with the Board's own strategic assessment.

At the same time, we think that communications out of this week's monetary policy meeting among to a fairly clear message: the easing cycle is over, unless a change in circumstances forces the Board's hand. The statement and Governor Michl stressed that the *current* state of the economy precludes further cuts, with the Governor adding that all options are on the table. Bank Board's Jakub Seidler subsequently noted that many Board members believed that we are probably already at the end of the easing cycle as rates are close to or at neutral levels. However, he promptly added that the Board decided not to formally call an end to the rate-cutting cycle in order to preserve some flexibility amid 'huge uncertainty' related to ongoing global trade wars. In our view, interest-rate stability represents the most likely scenario for the coming months, but this call is conditional on the evolution of risks.

Key Parameters Of Summer Forecast

	2025	2026	2027
Inflation (%)	2.6	2.3	2.5
Gross domestic product (annual changes in %)	2.6	2.6	2.9
3M PRIBOR interest rates (%)	3.4	3.4	3.6
CZK/EUR exchange rate	24.9	24.9	24.8

Source: CNB

Analyst Views (Alphabetical Order)

Commerzbank: Hawkish Guidance Supports Koruna

- Commerzbank write that it is true that the CNB's remarks were hawkish, but they are not sure what was surprising about that, given that Deputy Governor Eva Zamrazilová had recently publicly hinted that pro-inflationary developments meant that the rate cutting cycle was fully over probably. Further to that, the July CPI print sealed this outcome.
- Perhaps one new information was that CNB has upgraded its GDP growth and inflation forecasts: CNB now forecasts a decent +2.6% growth for both 2025 and 2026 (an increase from previous +2.0-2.1%). Simultaneously, the headline inflation forecast was revised up to +2.6% for 2025 and +2.3% for 2026. The central bank attributes these revisions to low unemployment and robust wage growth, which are fuelling service price inflation.

Česká spořitelna: Expecting Medium-Term Rate Stability

- At the press conference, the CNB reiterated that there is still a need to keep rates at a restrictive level, especially due to inflationary pressures from the domestic economy, which do not allow for further interest rate cuts. The Bank Board also reiterated that it sees the current risks to the forecast as pro-inflationary.
- In their view, the updated forecasts represented a significant hawkish surprise, which was the first one under the new Monetary Department Executive Director and brought a completely different view of the future development of interest rates.

- They note that the different 3-month PRIBOR path was arrived at by incorporating new information and adjusting the model. In their view, it cannot be ruled out that there may have been a change in the setting of the neutral (equilibrium) rate value upwards.
- The new CNB forecast no longer includes any rate cuts for the next two and a half years. They see this, together with the current communication from the Bank Board, as a clear signal that the Bank Board is probably not planning any further rate cuts at the moment.
- They adjust their interest-rate forecast to medium-term stability and consider scrapping a call for a cut in February 2026.

ČSOB: CNB Surprises With Hawkish Forecast

- They note that the Governor's rhetoric was hawkish and the main argument for rate stability was the prevalence of inflationary risks.
- Forecast revisions were hawkish and the implied interest rate trajectory is also higher, with end-2026 level of 3-month PRIBOR adjusted 0.6pp higher to 3.50%.
- ČSOB are not ruling out another rate cut towards the end of this year but believe that its probability is decreasing over time.
- As a result, in their view, unless there is a material slowdown in the heightened core inflation momentum, we may be looking at a longer period of stable rates.

Goldman Sachs: Strong Koruna To Drive Inflation & Rates Lower

- Goldman note that the CNB's messaging was relatively hawkish, especially given its updated staff forecasts. In its press statement, the Board continued to assess risks to its forecast as overall inflationary and emphasised that ongoing domestic pressures (rising demand, property prices and services inflation) currently preclude a rate cut. However, at the post-meeting press conference, Governor Michl left all options open for the next meeting, and explicitly characterised both his comments and the policy statement as hawkish.
- The updated staff forecast continues to show a modest rate cut (~25bp) in Q3. However, the overall interest rate trajectory was revised notably higher, partly due to the Bank's decision to hold rates steady in June (against its previous staff forecast of -25bp) and partly due to an additional rate hike expected now in 2026. These revisions imply a new terminal policy rate of 3.50% (previously 2.75%). One important element of the new forecast is that the policy rate converges in the long run to 3.50% rather than 3.00%, implying that the CNB staff has revised its estimate of the neutral rate higher.
- Goldman's views are more dovish than those of both the CNB Board and the market, largely because they believe that the strength of the Czech koruna, combined with easing external inflationary pressures, will help drive Czech inflation and interest rates lower over time. Paradoxically, the hawkishness of the CNB adds fuel to this argument: the koruna is already trading nearly 2% stronger than the CNB has assumed in its revised forecasts, and it has gained 5.5% on a trade-weighted basis this year. With this appreciation, Goldman anticipate core inflation will fall more sharply through the rest of the year, and they continue to forecast that Czech interest rates will eventually decline to 2.75%.

ING: Rate Stability Is Central Scenario

- They write that all members were in favour of maintaining the CNB base rate at 3.5%, while a cut was perhaps not even a point for discussion. Governor Ales Michl delivered a distinctly hawkish message at the press conference, explicitly stating his intent to be perceived that way. The reasons for such an assurance are obvious: inflation in the service sector remains stubborn, robust wage growth is driving consumption, and inflation is going to remain above the target for an extended period.
- At the same time, there are clear pro-inflationary risks already brewing or appearing on the horizon, such as the overheating housing market that is driving imputed rents and core inflation, and more buoyant real growth performance, which is set to propel wage growth, support household budgets, and underscore the appetite to spend.
- The CNB upgraded its outlook, projecting stronger economic growth across all key macroeconomic indicators. Such a rebound should contribute to more pronounced labour market tightness, robust wage dynamics, and more potent inflation of +2.6% this year and +2.3% the next. This is an interesting twist, as the CNB's workhorse projection model usually converges rather swiftly towards its target, suggesting that inflation expectations may actually be entering a zone of concern.

- ING don't see any space for further rate reductions, should price stability be at the heart of one's concerns. Still, the CNB summer forecast paints a picture of declining rates in 2H25, so indeed, anything can happen. When the Governor was asked whether the Bank Board would smooth out the down-and-up rates trajectory, he answered that he is not there to smooth things out, but to fight inflation. His final wish for inflation to remain tamed may have had some element of a sinister prophecy. And indeed, inflationary pressures are not kept at bay by wishes, but rather by clear forward guidance and an appropriate level of monetary policy tightness.

JP Morgan: Rates To Stay Unchanged This Year And Next

- They note that the new staff projections revised both growth and inflation somewhat higher. Economic growth is now expected at +2.6% Y/Y in both 2025 and 2026, up from +2% and +2.1% previously. The cutoff date for the forecast missed the latest batch of weak data, so otherwise JP Morgan would expect the revision to have been smaller. Inflation was also lifted marginally, despite a sharp offset from strong FX vs the euro.
- Altogether, the more pronounced and persistent deviation from the target results in a somewhat higher 3-month PRIBOR path. End-2025 rates were lifted by 0.33pp to 3.19% and end-2026 was raised 0.62pp to 3.54%. The curve has a bit of a kink, with some marginal near-term decline neutralized by an increase later on. They think this is a technical outcome, likely exacerbated by the sharp adjustment in FX projection, which the Board will not take literally.
- The tone of the message was clearly hawkish as expected, with the statement classifying risks to the inflation forecast as "inflationary overall", which is remarkable, in JP Morgan's view, considering it is a brand-new projection, so risks should tend to stay balanced. The text also argues that "ongoing inflation pressures from the domestic economy currently preclude a further decrease in interest rates" a message which was then echoed by Governor Michl in the press conference. If any doubts remained, the Governor also said that the CNB's communication should rightly be perceived as hawkish.
- They expect inflation to remain relatively high, with core trending closer to +3% Y/Y than to +2%, thus allowing no space for the CNB to ease its stance. They therefore see rates remaining unchanged at 3.5% this year and the next.

Komerční banka: Still Expecting Cuts In November & February But Hawkish Risks Remain

- In their view, it is not surprising that the central bank's communication remains hawkish. They note that the Governor's statements at the press conference were still dominated by inflationary risks, including the rapid growth of prices for services and real estate, as well as risks associated with the development of fiscal policy. He said that the current state of the domestic economy and the associated inflationary pressures do not currently allow for further interest rate cuts. He emphasized the word "current" when he did not want to commit to any further steps. This contrasts with a strong statement made by Deputy Governor Zamrazilová before the meeting, when she said that interest rate cuts are almost certainly over.
- They note that the new CNB forecast is very optimistic about economic growth and does not seem to be counting on the negative impacts of US tariffs. They are more pessimistic, as they expect the Czech economy to weaken in 2H25 due to the fading effect of stockpiling and the negative impact of US tariffs. Furthermore, they expect overall annual inflation to fall close to the two percent target by the end of the year and remain there next year.
- Komerční banka believe that the central bank will remain in wait-and-see mode for some time and will evaluate the data coming from the economy. Governor Michl once again emphasized that the central bank's next steps are conditional on newly published data. They therefore expect another 25bp interest rate cut at the November and then at the February meeting. The CNB forecast assumes a drop in the policy rate to 3% already in 3Q25.
- According to their forecast, inflation should reach the central bank's +2% Y/Y target over the monetary policy horizon, which currently extends to around 2H26. Stabilizing inflation near the target, together with the weakening of the economy due to US tariffs, which we expect to occur in both cases in the second half of this year, should then prompt the Bank Board to resume interest rate cuts at its November meeting.
- They think that the risks to this forecast are tilted towards higher CNB rates in the coming months. If the economy remains resilient to the effects of US tariffs and inflation remains at a higher level, perhaps due to the still rapid growth of real estate prices, interest rates could remain unchanged until the end of the year. On the other hand, they cannot rule out the need to lower the repo rate below 3% for next year, if pessimistic scenarios of a strong economic downturn due to US tariffs materialize.

PKO: Stable Rates More Likely

- They note that the CNB left interest rates unchanged for the second time in a row, while the tone of the statement and the press conference did not change too much.
- In their view, hawkish revisions to GDP and CPI forecasts, and the Governor's assurances on determination to keep inflation in check support a scenario involving stable rates until the end of the year.