MNI Czech National Bank Review: November 2025

Executive Summary:

- **The Bank Board left interest rates unchanged in a unanimous vote.**
- **The CNB revised inflation and growth projections marginally lower.**
- **Governor Michl left all options open for future meetings.**

Key Links:

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

Key Takeaways: Steady Course

The Czech National Bank (CNB) left the two-week repo rate unchanged at 3.50% in a widely anticipated unanimous decision supported by a fresh macroeconomic forecast. The rhetoric accompanying the decision sounded very familiar, with very modest adjustments. The central bank kicked the can down the road on adjusting its fiscal policy assumptions, citing the need to gain more certainty about the incoming government’s plans. Governor Aleš Michl left all options open for the coming meetings as the statement signalled a continued need to keep monetary policy relatively restrictive. We expect the CNB to keep interest rates stable for the foreseeable future but may change this view as fiscal outlook becomes clearer.

All members of the Bank Board voted in favour of keeping the two-week repo rate unchanged at 3.50% amid continued concern about inflationary pressures from the domestic economy, which preclude monetary easing for now. The balance of risks was assessed as ‘inflationary overall’, with the Bank Board reaffirming a familiar list of risk factors and concluding that current and expected developments warrant sticking with relatively tight monetary policy. Forward guidance was virtually absent from the statement, with the Board signalling data-dependence and indicating that further decisions will be conditioned mainly on ‘the persistence of the low-inflation environment, koruna exchange rate developments, the effect of fiscal policy on the economy, an analysis of the tightness in the labour market, and changes in domestic and external demand’.

The rate decision was supported by a fresh macroeconomic forecast, which showed that inflation should remain slightly above the +2% Y/Y point-target through end-2026, while core inflation will be elevated in the coming quarters. Tweaks to the forecast were marginal, with the Monetary Department charting slightly lower inflation and growth paths than in summer. It should be noted that the forecast was blind to the upside surprises in GDP and CPI data released after the October 24 cut-off point, and both releases triggered hawkish repricing in local money markets. The endogenous 3-month PRIBOR path was revised slightly lower into the year-end, before rising again through 2026, resulting in a negligible overall adjustment.

Some of the assumptions behind the new forecast raised questions. First, the CNB effectively carried over the assumptions on the EU Emissions Trading System (ETS2) from the summer forecast, despite the news that its implementation will be delayed at least until 2028. While accounting for this postponement would have resulted in a lower inflation profile for 2027, Governor Michl played down its significance, arguing that it merely delays the resultant inflationary shock. Second, the forecast ignored the expected adjustments to fiscal policy by the incoming coalition government. The Governor said that the CNB prefers to wait for the final version of the incoming government policy statement before estimating the impact of specific measures on inflation.

We expect the CNB to stand pat on interest rates for the foreseeable future but will reconsider this view once the new government takes office and offers more clarity on medium-term fiscal plans, both in terms of the scale and structure of expansion. In the meantime, calendar effects should discourage immediate interest-rate action, amid heightened uncertainty around annual administered price adjustments in January. If concerns about fiscal expansion prove excessive, the CNB could lower interest rates again at some point in 2026.

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Key Parameters of Autumn Forecast

	2025	2026	2027
Inflation (%)	2.5	2.2	2.5
Gross domestic product (annual changes in %)	2.3	2.4	2.8
3M PRIBOR interest rates (%)	3.5	3.5	3.8
CZK/EUR exchange rate	24.7	24.6	24.6

Source: CNB

Analyst Views (Alphabetical Order)

Česká spořitelna: Expecting Stable Rates Until Mid-2027

- The CNB delivered the expected on-hold decision and Governor Michl reiterated that elevated domestic inflationary risks preclude a reduction in rates.
- The Governor said that the Bank Board is currently evaluating the policy statement of the new coalition and cannot comment on the matter yet, while the postponement of ETS2 merely delays this inflationary factor. Česká spořitelna think that the delay to the implementation of the system had no impact on the decision.
- They still expect interest-rate stability until around mid-2027, followed by a cut, but concede that two-sided uncertainty remains elevated.
- In their view, inflationary pressures should moderate next year, while the global economy may slow, raising the possibility of a rate cut. On the other hand, this is offset by the eventual implementation of ETS2 and the prospect of more expansionary fiscal policy.

ČSOB: CNB To Keep Rates On Hold, Fiscal Policy Stokes Uncertainty

- In their view, the decision and the accompanying communication suggests that we may expect interest-rate stability for the coming months.
- They note that the downward revision to the growth outlook brings the CNB closer to the prevailing market view. At the same time, the downward revision to the inflation outlook was not surprising either.
- What they found slightly surprising was the upward shift in the 3-Month PRIBOR trajectory, especially in 2027, despite the assumption of a stronger exchange rate.
- In ČSOB's view, the latest forecast seems to dictate relatively clearly to central bankers that rates will be stable for the coming months.
- Future budgetary policy is one of the main sources of uncertainty. The new coalition may relax fiscal discipline, but some of the proposed measures (POZE fee waiver) could have short-term anti-inflationary impact.
- In their baseline scenario, ČSOB assume longer-term interest-rate stability.

Goldman Sachs: Policy Rate Could Reach Terminal Level Of 2.75% Next Year

- They write that the rate decision fell in line with expectations, while the language of the press release and the press conference was mostly unchanged.
- Goldman note that the latest inflation print (+2.5% Y/Y) surprised the CNB's expectations from this forecast (+2.2% Y/Y) to the upside.
- They remain less concerned than the CNB and consensus on the Czech inflation outlook – given the openness of Czechia's economy, they believe external factors typically dominate domestic factors in driving inflation dynamics.

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- Year to date, the koruna has appreciated by ~6% on a trade-weighted basis and the CNB's relatively hawkish stance is continuing to contribute to further appreciation pressure. Furthermore, the external inflationary environment remains benign, in particular relatively weak global commodity prices.
- Goldman believe these factors will contribute to a decline in both headline and core inflation throughout the rest of the year and, reflecting this, they expect the CNB eventually to continue its cutting cycle, with the policy rate reaching a terminal rate of 2.75% next year.

ING: Potent Core Inflation To Underpin Stable Policy

- ING think that the bounce back of September's headline inflation to 2.5% might have provided some reassurance that monetary policy still needs to be restrictive, despite the recent news about lower energy prices in 2026 - driven by price cuts from major distributors - and further relief expected in 2027 following the postponement of the second phase of the European Emissions Trading System.
- Still, there are more fundamental reasons to keep a somewhat tight monetary policy setup, mainly persistent price pressures in the service sector, a recovering economy, and solid nominal and real wage growth.
- Although today's decision was unanimous, the Governor suggested that no Board member has ruled out any options when looking ahead. It was acknowledged that fuel prices warrant close monitoring, as they pose a potential upside risk to price stability. Meanwhile, the continued weakness in the German economy is typically viewed as a risk to growth and, potentially, to inflation.
- Indeed, energy prices are set to fall early next year, bringing headline inflation close to the target. Large energy distributors plan for end-price reductions of around 10% in January 2026. Such a move would remove approximately 0.2ppt from headline inflation, bringing the rate down to around 2.2% in ING's forecast. Should the new government proceed with a reduction in the regulated share of energy prices, headline inflation could slide below the target in early 2026. However, this does not automatically imply the requirement of a more relaxed monetary policy stance, in their view.
- Core inflation is set to remain potent, providing solid ground for a hawkish CNB. Wage growth will likely remain solid and stands as the most likely source of an upside surprise in the year ahead. Add a bit more fiscal spending, and you end up with a recipe for a booming economy with a re-tightened labour market. ING anticipate the output gap to turn positive in the first half of next year, making the broader environment more pro-inflationary. Lower energy prices will leave more resources available for discretionary spending, providing support to core inflation. Policymakers will not be keen to reduce rates when core inflation remains elevated, unless risks to growth start to materialise.

JP Morgan: Rates On Hold Through 2026 Is Most Likely Outcome

- They note that concrete guidance was limited, but the statement did specify that, given the current inflation pressures, there was no space to consider further cuts to interest rates.
- In their view, revisions to the outlook were quite dependent on the October 24 forecast cut-off time, having missed the recent upside surprises in CPI and GDP.
- Considering the usual spread between 3M-PRIBOR and the two-week repo policy rate, the slightly higher PRIBOR forecast is consistent with rates on hold but with some bias for higher rather than lower policy.
- Core inflation remains too high versus the +2% Y/Y target, GDP growth has surprised to the upside in 3Q26, wage growth is elevated and although fiscal risks have receded, the bias is for a looser fiscal stance.
- Energy prices pose some downside risks to CPI, due to potential government intervention and in addition some energy providers announcing tariff cuts in early 2026.
- JP Morgan think that more benign energy prices would not change the bigger picture for the CNB. If anything, price discounts in inelastic demand items such as energy would release disposable income to increase demand for core categories.
- If core CPI stays elevated, at some point the CNB should conclude that the policy stance is insufficient to bring CPI lower to target on a sustained basis and consider raising rates. However, after having cut them to 3.5%, there will be strong resistance to going back up, so JP Morgan see rates on hold throughout 2026 as the most likely outcome.

J&T Banka: Rates Unchanged For At Least Another Year

- Pro-inflation risks for the CNB are mainly the inertia of service price growth, money growth in the economy due to credit activity, higher government spending, rapidly growing real estate prices and brisk wage growth.

- On the other hand, the risk arising from the introduction of the emission allowance system has been pushed beyond the forecast horizon. Furthermore, the Bank Board sees the anti-inflation risk in a stronger-than-expected exchange rate of the koruna and the weak performance of foreign economies.
- J&T Banka interpret the CNB's rhetoric as confirming their expectation that that rates can remain at the current level of 3.50% for at least a year.

Komerční banka: Repo Rate To Stay Unchanged For Longer

- Komerční banka describe the latest monetary policy meeting as unsurprising, both in terms of the rate decision and in terms of accompanying rhetoric.
- Governor Michl continued to emphasise inflationary risks, especially those stemming from the domestic economy, including the rapid growth of the prices of services, real estate, and labour.
- He also warned of the risks stemming from expansionary fiscal policy but noted that the CNB will only take into consideration measures included in the new government's policy statement.
- Komerční banka predict a significantly lower inflation rate of +1.5% Y/Y in 2026 against the CNB's forecast of +2.4%. They are also less optimistic about the growth outlook.
- They change their call and no longer expect further rate reductions amid the prospect of more expansionary fiscal policy.
- However, they still think that the risks to their forecast are skewed toward a cut rather than a hike. They add that around the turn of the year, it should be clear if the expectation of more expansionary fiscal policy is being fulfilled.

Raiffeisenbank: No Longer Expecting Another Cut

- They write that the decision fell in line with expectations and the press conference did not offer too much new information, with the Governor leaving all options open for future meetings.
- Governor Michl said that it is necessary to wait for the final version of the incoming government's fiscal plans and did not want to comment on the matter yet.
- The CNB's forecast for 2027 assumed the implementation of ETS2, which was postponed by a year on the eve of the meeting, but the Governor said it merely shifts the problem in time.
- The new forecast suggests that the 3-month PRIBOR should fall this year and rise next year, but this Bank Board has already demonstrated its readiness to ignore staff recommendations.
- Raiffeisen no longer expect a rate cut this year and think that interest rates will remain on hold through 2026.

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