MNI Czech National Bank Review: September 2025

Executive Summary:

- **The Bank Board unanimously decided to keep interest rates on hold.**
- **Risk balance was inflationary, but CZK strength provided some counterweight.**
- **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: Holding Pattern

The Czech National Bank (CNB) kept the two-week repo rate unchanged at 3.50% in a well-telegraphed, unanimous decision, citing concern about ongoing domestic inflation pressures. The outcome was guided by a situation report, which showed that inflation was poised to hover above the central bank's +2% Y/Y point-target for the remainder of this year amid continued core price stickiness. The tone of the press conference was broadly familiar, with Governor Michl leaving all options open for future meetings and refusing to provide clear forward guidance. Strong koruna appreciation was identified as one of the reasons for leaving both cuts and hikes on the table, with the Governor denying the existence of any pain threshold.

The outcome of this week's Bank Board uneventful meeting was widely anticipated, with members voting in unison to extend the pause in monetary easing and keep the two-week repo rate unchanged at 3.50%. Justifying the decision, they referred to a fresh situation report provided by central bank staff which showed that headline CPI inflation was likely to remain above the +2.0% Y/Y point-target (albeit within the +/-1pp tolerance band) through the rest of this year amid lingering inflationary risks. Unsurprisingly, the balance of risks to the fulfilment of the target was assessed as 'inflationary overall', with the Bank Board providing a familiar list of factors, including persistent inertia in services and food prices, accelerating property market, more expansive fiscal policy, and robust wage growth. From a longer-term perspective, the introduction of ETS2 in 2027 was again pointed out as an inflationary risk.

The only anti-inflationary factor listed by the CNB was the stronger koruna exchange rate. Despite the adjustments to the Summer Forecast, the koruna continued to appreciate in subsequent weeks, comfortably outperforming the central bank's projections. During the Q&A session, Governor Michl noted that koruna strength was 'one of the reasons why we're keeping all options open'. The implicit admission that exchange-rate developments alone are sufficient to preclude a hawkish shift in forward guidance, despite a long list of inflationary risks, may suggest that the Bank Board still attaches considerable weight to this factor – which may have come as a marginal surprise. At the same time, the Governor said that there is no 'specific threshold' beyond which koruna appreciation could outweigh inflationary risks and trigger a rate cut.

Furthermore, Governor Michl signalled preference for avoiding rushed interest-rate moves and described the current monetary policy stance as 'relatively tight' (rather than just 'slightly tight'). He went on to point to the mix of positive real interest rates coupled with a strong koruna as countering the effect of elevated services prices. The designation of current policy settings as 'relatively tight', despite the repo rate sitting very close to the estimated neutral level (3.0-3.5%), combined with the lack of shift in forward guidance (e.g. in the form of declaring an end to the rate-cutting cycle) can be interpreted as a modest dovish surprise, considering speculation that the next move could be a rate hike and a gradual hawkish shift in market pricing.

We take the Governor's forward guidance at face value and believe that all options are open for the CNB, with the central bank set to decide on monetary policy based on incoming data and materialisation of risks. The probability of a resumption of cuts this year is low, unless inflation surprises significantly to the downside and settles around the target in the coming months. However, should the exchange rate remain strong and residual price pressures relax, the central bank could lower the repo rate by another 25bp further down the road.

Analyst Views (Alphabetical Order)

Commerzbank: Rate Cut Could Come In March, Depending On Fiscal Situation

- Commerzbank write that the CNB board meeting was as-expected and brought no surprises.
- The central bank's hawkish tone and forward-guidance remained intact. Probably the only additional clarification was that board members still see pro-inflationary risks on balance. Another signal was that Governor Michl does not mind the strong koruna exchange rate.
- Michl repeated that all options remain open at forthcoming meetings – although Commerzbank see the likelihood of a rate hike in the new year to be much less than that of a rate cut.
- In their view, the first meeting of the next year (February 5) will likely pass without any rate change. Thereafter, the incoming new government will rewrite the budget bill in late February – and at the time, if there is no tendency towards an even wider fiscal deficit, a rate cut could follow in March.
- In the meantime, CNB's hawkish rhetoric will continue to support the exchange rate.

CBA: Less Hawkish Tone Provides Surprise

- Although the CNB delivered an as-expected rate decision, Czech Banking Association's Chief Economist writes that the statement was slightly surprising in being less hawkish than anticipated.
- The CNB left all options open for future meetings and said that inflationary pressures *currently* preclude further rate cuts. The list of inflationary risks was broadly unchanged.
- In their view, the second week of October will be crucial ahead of the CNB's November meeting, as it will offer a snapshot of September core inflation, as well as post-election clarity, August economic activity data, and Q3 housing prices.
- The CBA think that latest communications partially resuscitates the earlier scenario, which assumed one more interest-rate cut to 3.25% in 1Q26, but pre-election trends and strong wage growth weigh on its probability.

Česká spořitelna: Rates To Remain Stable Until Around Mid-2027

- They note that the communication at the press conference remained similar to that after the August meeting. In their view, it was a slight surprise when some of the recent comments by CNB representatives sounded a bit more hawkish. The reason for this may have been the absence of a new forecast, and possibly also the strong koruna.
- Česká spořitelna see no reason to change their rate forecast. They continue to expect rates to remain stable until around mid-2027 and then to be reduced. However, uncertainty remains high, on both sides.
- Domestic inflationary pressures should slow next year, and inflation should move closer to the inflation target. This could allow for a possible rate cut. The risk of a possible deterioration in global macro developments, if it were to materialize, also points in the same direction.
- However, this will be offset by the expected increase in inflation in 2027 due to ETS2 and the possible increase in fiscal expansion after this year's elections.

ČSOB: Expecting Long-Term Rate Stability, Bar For Cuts Is Lower Than For Hikes

- They write that the unanimous decision reflects broad consensus in the Bank Board that there is currently no need to change rates. The Bank Board has repeatedly assessed inflation risks as pro-inflationary, and it is therefore not surprising that it is satisfied with the current level of interest rates.
- The CNB's August forecast has been more or less fulfilled, with two exceptions – faster wage growth and stronger exchange rate. The Czech National Bank would probably perceive a wage growth rate of between +4-5% Y/Y as sustainable, but the latest figures do not indicate a slowdown.
- In addition to the tight labour market and strong wage dynamics, the main pro-inflation risk is persistently high service inflation. And, like ČSOB, the central bank has begun to worry about food prices – the decline in food inflation may ultimately be slower due to pressures from agricultural production.

- On the other hand, Aleš Michl has refrained from saying that the easing of monetary policy is "over". In ČSOB's view, this is precisely because of the strength of the koruna, which exceeds the August forecast (for the EUR/CZK pair) by more than 2%. Although Aleš Michl refused to specify the 'pain threshold' for the koruna that central bankers are willing to bear, it is clear that the Bank Board would not like further significant gains.
- ČSOB continue to assume long-term stability of interest rates at 3.5%. The bar for a possible further rate decrease in the next six months is set much lower than for any consideration of rate increases. The CNB considers the current rate level to be 'relatively tight' and if pro-inflation risks subsided, it would probably see the equilibrium rate slightly lower.

Goldman Sachs: Bar For Adjusting Rates Is High, But Cuts Will Eventually Resume

- The CNB Board kept its policy rate unchanged at 3.50%, in line with Goldman's forecast and consensus expectations. All seven Board members voted in favour of the decision (also in line with Goldman's expectations). The accompanying press release was mostly unchanged.
- With rates hovering near what most CNB board members consider neutral, the bar for adjusting rates – either up or down – remains high, in Goldman's view. For the CNB to resume easing, they believe one of several potential developments would be necessary: a drop in core inflation below +2% Y/Y, significant further appreciation of the koruna, or a marked rise in unemployment.
- Equally, the CNB will be reluctant to reverse course and tighten monetary policy, given its view that its policy stance is still slightly restrictive. The most likely trigger of such a move, in Goldman's opinion, would be a sharp reversal of CZK strength.
- That said, they believe the fundamentally disinflationary external 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: CNB To Step Up Hawkish Rhetoric

- They write that the Czech National Bank (CNB) left rates unchanged at 3.50% yesterday. Forward guidance remained largely unchanged, with the Governor repeating his August statement that all options remain open – both a rate cut and a rate hike.
- At the same time, however, the discussion focused mainly on inflationary risks, with the labour market and real estate prices now appearing to be the most pressing issues for the central bank. Nevertheless, the CNB's communication has not changed much overall, and the central bank is likely waiting for further data to show the direction of inflation.
- ING believe that inflationary pressures will push headline and core inflation up once again and that the central bank will step up its hawkish rhetoric. Although their baseline remains unchanged for the time being, they believe that the risks are clearly pointing upwards.

JP Morgan: Expecting Rates On Hold Through End-2026

- They describe the CNB policy meeting as likely one of the most uneventful in years, as the central bank decided to keep the policy rate unchanged at 3.5%, as universally expected, in a decision that had the backing of all seven board members, also as expected.
- The statement retains a hawkish bias, classifying risks to the forecast as overall inflationary. The only novelty in the text is the introduction of a mention of the new EU Emissions Trading System 2 (ETS2) as an upside risk for 2027 and beyond.
- The press conference was not too different: Governor Michl highlighted once again that there is no space for cuts here, but also affirmed that all options are kept open. For the market, the main point of interest was the potential mention of any arguments or any discussion, ongoing or upcoming, over the possibility of rate hikes. But other than Michl's open-ended "all options are open", there was nothing in that direction.
- JP Morgan expect the CNB to keep rates unchanged at 3.5% until the end of 2026.

J&T Banka: Repo Rate On Hold For At Least One More Year

- J&T Banka write that the main reason for keeping rates on hold was the continued rapid growth in service prices, which is driven by rapid wage growth, as well as the increasing contribution of rising real estate prices to overall inflation.
- They expect rates to remain at the current level of 3.50% for at least a year.

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Komerční banka: 25bp Cuts Possible At November & February Meetings

- They note that among the reasons that support the stability of rates and the slightly hawkish tone of communications, the central bank mentioned elevated services inflation, the dynamic growth of real estate prices, as well as the risks associated with fiscal policy. In the context of persistent inflationary pressures in the services sector, members also mentioned the pro-inflationary risk of continued robust wage growth combined with weaker productivity growth.
- There has been no fundamental shift in this list of factors since the last August meeting, or rather, no moderation of inflation risk assessment or clarification of the situation regarding the economic impacts of tariffs. Governor Michl's rhetoric has thus remained more or less unchanged, and the balance of risks has also not changed fundamentally compared to the previous meeting.
- Komerční banka think that incoming data will show a slowdown in the Czech economy and a gradual return of overall inflation to the +2% Y/Y target by the end of the year. This should open the door to further easing of monetary policy.
- In their baseline scenario, they forecast 25bp cuts at the November and February meetings. However, they see uncertainty as to whether incoming data will be sufficient to convince the central bank to cut rates already at the November meeting. They therefore see a risk that the key repo rate will remain at 3.50% for a longer period.
- Overall, however, they still think that further rate movements are to a growing extent more likely to be downwards than upwards, given their expectations for the domestic economy. On the other hand, the koruna money market is now more inclined to the view that further easing of monetary conditions will not occur and that the next step will be an increase in interest rates.
- Komerční banka write that the continued resilience of the domestic economy, the persistence of inflation at higher levels, for example due to limited disinflation in services or faster growth in real estate prices, may act in the direction of keeping the key interest rate at 3.50% for a longer period. The extension of the pause and only cosmetic changes in the CNB's rhetoric do not bring much new information and, in their opinion, do not shift expectations towards lower or higher rates.

Reiffeisenbank: No Surprises From CNB

- They write that any other decision than leaving the repo rate unchanged would be shocking, given the recent comments from Bank Board members. The decision was underpinned by an updated inflation forecast, which is in line with their projections.
- They note that the press conference did not bring much new information, with the Governor listing all the ‘usual suspects’ in his discussion of inflationary risks. Perhaps the most interesting part of the presser was a denial of the existence of a potential FX pain threshold.
- They expect the CNB to deliver its final interest-rate cut in this cycle in February 2026, bringing the repo rate to 3.25%, before stabilising it at this level for longer. However, this depends on how date line up in the coming months.

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