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Inflation and Central Banks: What Would Change Membership in the Eurozone

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Summary

Membership in the eurozone does not necessarily guarantee protection against inflation. Central banks responded very differently in reaction to the recent inflation crisis. Had the Czech Republic been part of the eurozone in 2022–2023, it would have been subject to the ECB's single monetary policy—one based on the average inflation of all member states rather than on member states' domestic conditions. Lower interest rates would have likely prolonged price increases during an already high-inflation period.

Key Takeaways

- Within a single year, the CNB raised its key interest rate nine times, from 0.25% to 7.00%.
- By mid-2022, the CNB was already maintaining this 7.00% rate, while the ECB's main rate remained at zero.
- The CNB's independent monetary policy allowed it to adopt much more aggressive policies during the crisis, which were better suited to Czech economic conditions.

We all remember it: when the Czech Republic went through a period of intense inflation. In 2022 and 2023, price levels rose to heights that were unprecedented throughout the entire post-transition era. This surge in prices significantly affected household living standards, strained public finances, and forced businesses to adjust their economic decisions. Double-digit inflation has wide-ranging effects: it reduces households' purchasing power, redistributes wealth between creditors and debtors, changes investor behavior, and more generally shapes the state's economic policy. In the Czech Republic, primary responsibility for monetary policy rests with the Czech National Bank, which, as an independent central bank, responded rather forcefully during this inflationary period.

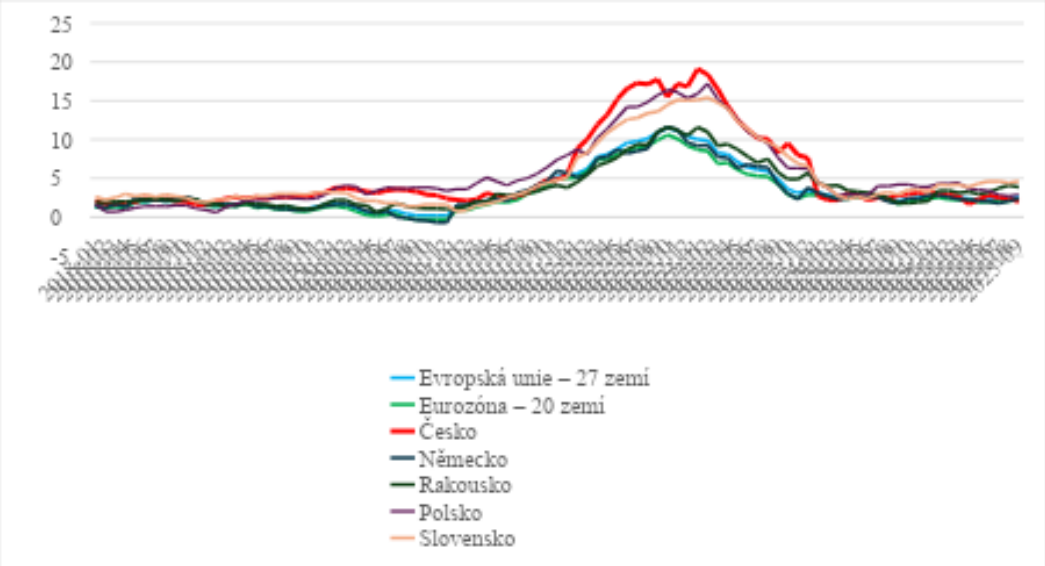
The issue of adopting the euro has once again moved to the forefront of the current debate in the Czech Republic. This raises a question worth considering: would the euro have helped the Czech Republic reduce inflation during this period? In this text, we will attempt to assess whether—and to what extent—hypothetical membership in the eurozone would have influenced the Czech Republic's inflation dynamics during the recent years of double-digit inflation.

Across the European Union, the Czech Republic was among the countries with the highest inflation rates for a sustained duration. The state was hit hard with rising prices due to an interplay of domestic circumstances and global factors. At the European level, several transnational shocks played a major role: post-pandemic supply-chain disruptions, spikes in energy prices intensified due to Russia's invasion of Ukraine, expansionary fiscal and monetary policies, and additional pressures such as surging fertilizer and grain prices that drove food inflation. Domestic factors that amplified inflation included persistently low unemployment, developments in the real estate market, geographical proximity to Ukraine, various administrative measures, and rising demand driven by a significant migration wave.

Price Growth in the Czech Republic and the CNB's Response

The sharp rise in prices in the Czech Republic began at the turn of 2021 and 2022, when inflation first reached double-digit levels—which is something the country had not experienced since the 1990s. According to Eurostat data (the Czech Statistical Office reports slightly different figures), inflation peaked in March 2023 at 16.4 percent.

Chart 1: Year-on-year Consumer Price Developments, in %



Source: Eurostat, 2025.

This dramatic development required a response from the Czech National Bank, the state-level institution responsible for maintaining price stability. The CNB began raising its key interest rate in mid-2021. Over the span of a single year, it increased the two-week repo rate nine times—moving from 0.25% to 7.00%. It then held this exceptionally high rate in place for nearly a year and a half, until its forecasts indicated a gradual easing of inflationary pressures and a return toward the inflation target. During this period, the CNB pursued one of the strictest monetary policy stances in Europe.

For many people, the link between rising interest rates and lower inflation is not immediately obvious. Monetary tightening works through transmission mechanisms: when the central bank raises its base rate, interest rates on loans and deposits in commercial banks rise as well. More expensive borrowing reduces investment and consumption, while higher deposit rates encourage saving. Together, these effects cool economic activity. In a slower economy, demand grows more gradually, which leads to a slowdown of price increases.

Another important channel through which higher CNB rates curbed inflation was by strengthening the koruna. The Czech currency appreciated significantly during the period of high interest rates, which made imports of energy, fuel, and food cheaper. This exchange-rate channel helped reduce price pressures more quickly than would have been possible inside the eurozone. In the eurozone, this stabilizing mechanism would not exist because member states no longer have control over their own exchange rates.

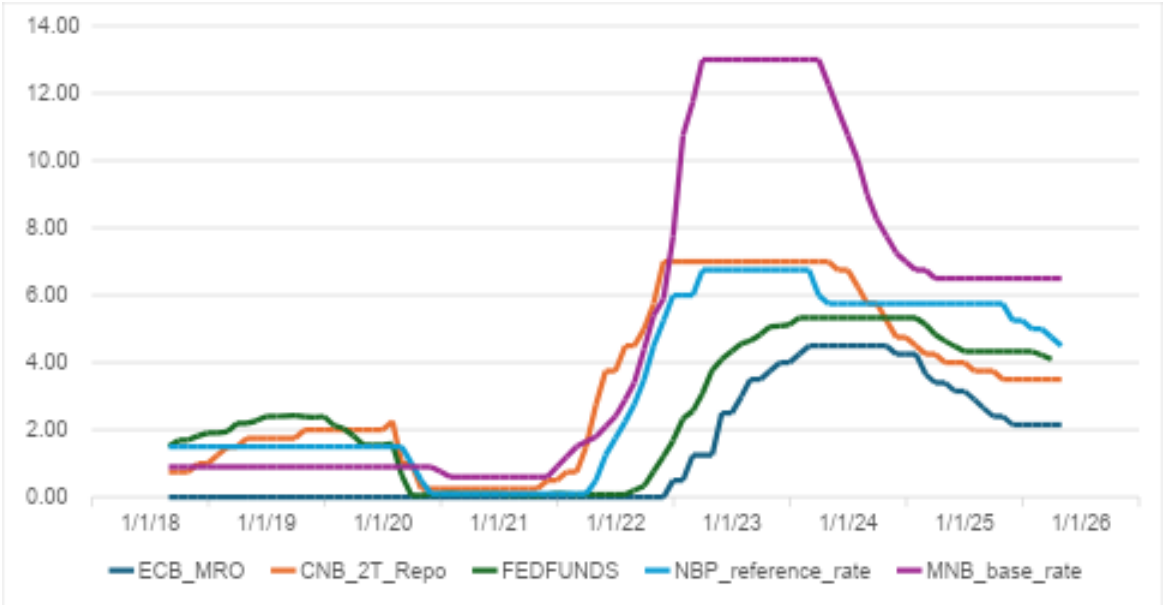
This strategy, in combination with other measures to stabilize inflation, eventually brought inflation back toward the Czech National Bank's tolerance band (the target is 2%, with a tolerance of +/- 1 percentage point). Independent monetary policy thus succeeded in restoring medium-term price stability. To assess whether the Czech Republic would have experienced lower inflation as a eurozone member, we can compare the Czech National Bank's monetary policy during this period to that of the European Central Bank.

ECB's Response to the Inflation Wave

It is important to point out that by joining the eurozone, the Czech Republic would gain the ability to participate in shaping the European Central Bank's monetary policy. Decisions are made by the ECB's Governing Council, made up of twenty members. If the Czech Republic possessed membership, the Czech Republic would have its own CNB Governor seated at the decision-making table alongside the others. While it is impossible to predict the specific influence a Czech representative might have on the Council's decisions, it is reasonable to assume that the ECB's overall monetary-policy stance during the inflationary surge would not have differed substantially from the course of action it ultimately pursued.

The European Central Bank was clearly delayed in reacting to the inflation surge. By mid-2022, the Czech National Bank was already holding its base rate at 7.00%, while the ECB's main rate remained at zero. Had the Czech Republic been part of the eurozone during this period, such low rates would have continued to stimulate demand and investment, prolonging the period of high inflation and elevated inflation expectations. It is therefore evident that the ECB's monetary policy stance during a time of double-digit inflation would not have met the needs of Czech economic development.

Chart 2: Basic interest rates of individual economies, in %



Source: CNB (2025), ECB (2025), FRED (2025), NBP (2025), MNB (2025), own processing.

This approach by the ECB was understandable from the broader perspective of the eurozone. Inflation differed markedly across member states. While Hungary recorded inflation of 26.2% in January 2023, conditions in Southern Europe were far calmer. For example, Italy's inflation rate was 10.7% during the same period. Therefore, the Governing Council had to weigh very different economic realities when shaping its policy. In contrast, the Czech National Bank's independent monetary policy allowed it to focus exclusively on domestic conditions. This made it possible for the CNB to take a more aggressive approach during the crisis—one that better reflected the needs of the Czech economy.

Therefore, the decision to adopt the euro should be guided by economic logic, not by emotions or impressions. The current structure of the Czech economy is not sufficiently aligned with that of the eurozone, and the inflation episode of 2022–2023 clearly exposes this. For this reason, a debate on euro adoption is not timely at present. The Czech Republic faces several far more urgent problems that require attention, and adopting the euro does not rank among them.

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