

Aleš Michl: Imagine a world where algorithms and technology assist us, but our values keep us firmly grounded

Speech by Mr Aleš Michl, Governor of the Czech National Bank, at the Czech National Bank (CNB) Discussion Forum 2025, organised by the University of West Bohemia, Plzeň, 29 April 2025.

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The CNB's mandate is low inflation and financial stability.

Since the appointment of the new Bank Board, we have delivered the following results:

(1) Inflation was brought down from 17.5% in July 2022 to exactly 2% – the CNB's inflation target, which was hit in February, March and June 2024. Headline inflation for 2024 stood at 2.4%, the lowest level since 2018, remaining within the CNB's tolerance band throughout the year (see Michl 2022, 2023a, 2023b, 2023c). Stable inflation means that Czech citizens can better plan for their future. If we lower interest rates further, we will do so very cautiously – the outlook still shows higher core inflation. We will definitely stay hawkish, guarding inflation and not allowing a long period of zero interest rates as in the past.

(2) Clients of the failed Sberbank got their money back thanks to the CNB team's active role and oversight of the process in the creditors' committee. It was the largest and most successful bank insolvency in Czech history. Clients have so far recovered 95% of their deposits. The remainder will be paid once legal issues are resolved. The financial sector remains stable.

Other partial results of the work are:

(3) The CNB is now halfway towards restoring its gold reserve. The Czech National Bank was established in 1993. At that time, it held 60.7 tonnes of gold in its vaults. By 2019, it had 8 tonnes, the lowest in its history. The gold had been sold off. By the end of 2024, we had increased our gold reserves to 51.2 tonnes. Gold is good for asset diversification. Our goal is to have 100 tonnes of gold in the reserves and to keep this treasure for future generations.

(4) Ninety-nine per cent of banks on the Czech market use instant payments – a system the CNB developed, enabled and coordinates. Before, clients' transactions took up to two days to clear. Now they go through in a matter of seconds (for details, see Karhánek, Malovaná, Michl and Trubelík, 2025).

(5) At the end of 2022, the CNB recorded a cumulative loss of CZK 487 billion (the highest in history), inherited from the previous Bank Board. The loss was the result of mismanagement of assets and liabilities on the CNB's balance sheet. The reason was that the expected return on assets, i.e. international reserves, was low compared to the cost of liabilities. We have changed that considerably. We have significantly increased the long-term expected return on assets, especially on international reserves. We hold more equities and gold. At the same time, we have reduced the cost of liabilities – we

increased banks' required minimum reserves and stopped remunerating them. We removed the root cause. The last two years have been profitable. But we cannot expect the CNB to be profitable every year. There will be periods when the CNB posts a loss. That may happen in 2025 or it could be another year. For example, if there's a sharp drop in equity or bond prices. Or if the koruna appreciates significantly against the euro or the dollar. This is because our assets are in foreign currencies, but our accounting is in koruna. Importantly, the CNB's assets are now structured in such a way that their long-term expected return exceeds the anticipated cost of liabilities (see Adam, Škoda, Michl, 2023).

These results are due to thousands of hours of hard work and difficult decisions made by our staff, as well as an improvement in our corporate or institutional culture. Culture is about how people work every day. The principles they apply when solving problems. And that determines whether or not an institution delivers results. Culture within an institution is crucial because it greatly affects how the organisation works, how its employees conduct themselves and how it is seen from outside.

At the start of our term, the Bank Board agreed that we needed to build a culture of openness and accountability, cut red tape, speed up decision-making, and make use of the ideas of our clever people.

We started with ourselves – the management. At that time, the country had the highest inflation in its history, and we knew we had to set an example for the public. In 2022 and 2023, we as the management had our salaries and bonuses frozen. The salaries of other employees increased only very slightly. I also said that bonuses for the management would only increase once results had been delivered. In 2023, we carried out the first comprehensive streamlining of the Bank's operations in ten years. We cut the number of positions by 5% compared to 2022. The number of managers reporting directly to the Bank Board was reduced from 17 to 14. During 2023 and 2024, we also completely reviewed all the areas and processes to reduce bureaucracy in the CNB's dealings both with the market and internally. Our aim was and is to stand out from other public sector organisations, which are often overstaffed and bound up in red tape (for details, see Michl, 2024, and Jeffery, 2024).

The values we follow at the bank have developed gradually. They continue to take shape through discussions and seminars held across the CNB (Holas, 2025). These values are not just words on paper, but a daily reality – a guide for decision-making and for tackling the complex situations the CNB faces.

Our values at the Czech National Bank, as they have emerged from more than a year of discussions within the bank, are:

1. Expertise
2. Credibility
3. Openness
4. Independence
5. Professionalism and hard work
6. Creativity and innovativeness
7. Morality and ethics
8. Responsibility

9. Reliability and teamwork
10. Stability and continuity

We have also moved the bank towards technology. We have hired IT experts, while staff from branch operations have left, keeping the overall number of positions at the bank unchanged.

One great idea for using artificial intelligence was born during one of my breakfast meetings with bank employees. Since then, we've launched pilot AI projects at the bank. And I don't just mean the now-common ChatGPT from OpenAI. The bank will soon fully adopt Microsoft Copilot in the cloud. We're also testing Grok from xAI. But the key lies in programming with AI – we are testing, for example, Claude from Anthropic, and the use of the RAG artificial intelligence system. This is a system that first retrieves information from documents and then generates a response based on it. Unlike standard language models, it can process hundreds of pages of text at once and provide accurate answers.

You, the students, are the generation that will work with technologies that now seem distant. My goal is for the CNB to be a place where you come to bring your ideas to life. A place where you can change things for the better. And a place where every smart idea will have the support of management. I want us to build an institution together – one that goes beyond its own boundaries. An institution where "that's impossible" doesn't exist and where problems are tackled by asking "how do we do this as a team?"

Let me give you an example: every year I give employees a Christmas gift. At the end of 2022 – just after Covid – it was a box of vitamins. At the end of 2023, as we began shaping our values, it was the book *Winners Never Cheat*. And at the end of 2024, each employee received the card game *The Mind: Let's Become One*. The game comes with a deck of cards numbered from one to one hundred. A few cards are dealt, and the players have to place them in the centre of the table in ascending order. If you're holding a twenty, you need to play it before someone with a fifty, but nobody can see each other's cards. So the game requires mental alignment and an intuitive sense of when to play which card. This game is just a small symbol of our transformation – of our ability to become one, to think as a true team.

Soon, the Czech National Bank will be an institution that uses artificial intelligence – and perhaps even blockchain – for better financial market supervision. It will use real-time data (Adam, Michálek, Michl, Slezáková, 2021) and machine learning to predict crises (Adam, Michl, Švéda, 2025). The CNB will systematically apply AI in its supervisory process not only for analysis but also for automated decision-making in selected areas. The next generation of bankers will think completely differently – working with real-time data, algorithms and systems that will be better decision-making partners than our previous models were.

The vision is a bank that helps people dream of a future without the fear of inflation. A bank that ensures financial stability through the use of data and technology. And an institution where employees uphold strong ethics. The internal culture of the institution matters deeply to me. It's not a soft topic – it's a hard tool for delivering results. The results I spoke to you about at the beginning. Just imagine a world where algorithms and technologies assist us, but our values keep us firmly grounded.

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