ČESKÁ NÁRODNÍ BANKA

MONETARY POLICY REPORT SPRING 2025

This Monetary Policy Report was approved by the CNB Bank Board on 15 May 2025 and (with some exceptions) contains the information available as of 25 April 2025. By means of this document, the CNB fulfils its statutory duty to regularly inform constitutional officials and the public about monetary developments. Unless stated otherwise, the sources of the data are the CZSO or the CNB. All the reports published to date, along with the underlying data, are available on our website. A large part of the data we evaluate in our monetary policy decision-making can be found in the Chartbook, which is a parallel publication to the Monetary Policy Report.

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We maintain price stability

Under the Constitution of the Czech Republic and in accordance with primary EU law, the primary objective of the Czech National Bank is to maintain price stability. The central bank contributes to sustainable economic growth by maintaining a low-inflation environment. We have been pursuing price stability in an inflation targeting regime since 1998.

We are transparent

Our monetary policy is based on a publicly announced inflation target of 2% and open communication with the public. We believe that by being transparent and predictable, the central bank assists households and companies in their economic decision-making.

We look to the future

A decision made by the CNB Bank Board today will affect inflation 12–18 months ahead. The CNB's forecast describes the most likely future path of the economy as seen by our Monetary Department's economists. The Bank Board is continuously informed about the forecast under preparation, discusses the outline of the emerging baseline scenario and asks for potential additional forecasting scenarios to be drawn up. The forecast is produced four times a year and, along with a discussion of related risks and uncertainties, is the key, but not the only, input to the CNB Bank Board's monetary policy decisions.

We decide on rates

The CNB's main monetary policy instrument is the two-week repo rate. The decision on the level of this rate sends an impulse through the financial market to the whole economy, ultimately affecting inflation in such a way as to keep it close to the target. The Bank Board meets eight times a year to discuss monetary policy issues. When making rate decisions, the members of the Bank Board discuss the current forecast and assess the newly available information and the risks and uncertainties of the forecast.

GOVERNOR'S FOREWORD

Dear Readers,

It is my pleasure to present the spring Monetary Policy Report. The Report is one of the main inputs to the Bank Board's decision-making on CNB monetary policy.

At our May meeting, my Bank Board colleagues and I lowered the two-week repo rate by 0.25 percentage point to 3.5%. We also lowered the other key interest rates by the same amount. This rate cut, which is more moderate compared to the new spring forecast, reflects the Bank Board's cautious approach to cutting rates and a modestly inflationary balance of risks of the outlook for the fulfilment of the inflation target.

Monetary policy nonetheless remains tight. Real interest rates are distinctly positive and are dampening lending activity, and hence the creation of money in the economy, and, in turn, long-term inflation.

Inflation has been inside the tolerance band around the CNB's target since January 2024. Global commodity prices have declined substantially this year and international institutions have lowered their forecasts for global economic growth. However, services inflation in the domestic economy remains elevated. Wage growth is also above average. Property prices have also increased significantly. These factors pose risks to long-term price stability. In other words, persisting stronger inflation pressures from the domestic economy are limiting room for further rate cuts.

Developments in international trade are surrounded by uncertainty regarding the introduction of tariffs by the USA and potential retaliatory measures by the EU and other economies. This uncertainty is reflected in financial market volatility and a tightening of global financial conditions.

The impacts of the changes to international trade barriers alone cannot be reliably assessed at the moment, above all because the specific form of these changes is unknown. Their effects on economic growth and inflation in the medium and long term also remain uncertain. The future reaction of fiscal policy and major central banks is not known either. However, the Bank Board's considerations involve various possible scenarios. Two of them, illustrating the possible impacts of tariffs, are presented in this Report.

To conclude this foreword, I would like to assure the public on behalf of the Bank Board that the CNB's actions will be sufficient to maintain price stability in accordance with its statutory mandate. In addition, the Bank Board is ready to react appropriately to any materialisation of the risks of the outlook for the fulfilment of the inflation target.

On behalf of the Czech National Bank

Aleš Michl
Governor

THE DECISION, THE OUTLOOK AND ASSOCIATED RISKS

At its May meeting, the Bank Board lowered the two-week repo rate by 0.25 pp. Inflation was above the 2% target at the start of 2025 and then dropped to a seven-year low of 1.8% in April. Core inflation remained virtually flat but is expected to edge up to 3% by the middle of the year on the back of growth in imputed rent due to rising house prices. Inflation will remain in the upper half of the tolerance band around the target for the rest of this year. Next year, it will decline very close to the target due to an easing of cost growth. Trade wars and related uncertainty will drag on the economic recovery this year, adversely affecting the trade balance and corporate investment. Economic growth will be driven this year and next year by household consumption expenditure, supported by buoyant real wage growth and a gradual drop in the saving rate. Consistent with the forecast is a decline in short-term interest rates in 2025 Q2. The Bank Board assessed the risks and uncertainties of the outlook for the fulfilment of the inflation target as modestly inflationary overall. The cautious easing keeps monetary policy slightly restrictive, ensuring that the inflation target is achieved even if domestic inflation risks materialise. The trade wars may have both downward and upward effects on inflation. The CNB is ready to react flexibly to the changing economic situation.

Inflation dropped to 1.8% in April. In the consumer basket, higher growth in food prices due to rising agricultural commodity prices had an upward effect, whereas lower world oil prices pushed fuel prices down at the pump. Core inflation reached 2.6%. Within core inflation, services prices are still rising substantially faster than goods prices. Buoyant growth in wages and salaries and rising housing costs continue to translate into high price growth in labour-intensive service industries.

Inflation will go up again in the months ahead, driven by rising food prices and a modest rise in core inflation. This will be connected with growth in the cost of owner-occupied housing, driven mainly by prices of new property. Demand on the housing market has been recovering for a number of quarters now, leading both asking prices and transaction prices of apartments to go up by about 15% year on year in late 2024 and early 2025. According to the baseline scenario, food price inflation and core inflation will remain elevated throughout 2025. They will slow next year and headline inflation will thus return close to the target.

Strong demand persists for new mortgage loans, which in real terms are at levels comparable with historical periods in which the housing market overheated. The price imbalance on the housing market is an upside risk to inflation, due to its possible prolonged duration and potential stronger second-round impacts, as the rising house prices may have a lagged impact on other parts of the consumer basket on top of the forecasted increase in imputed rent.

The tariff policy of the US administration developed very dynamically in early spring. The baseline scenario of the forecast now contains 25% tariffs on steel, aluminium and auto imports into the USA and a 10% blanket tariff on other imports into the USA. A higher, 25% blanket tariff against the EU has been postponed until early July, as have retaliatory measures.

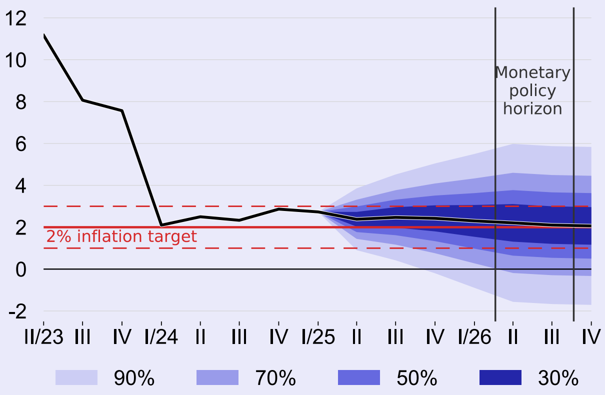
After the quarterly negotiation period ends, however, there is a danger of the tariff wars escalating further. This could hit the Czech economy through opposing channels. The first is deglobalisation tendencies causing disruptions to current supply chains. Fragmentation of international trade would reduce productivity on a global scale. Restriction of the growth potential of the economy would lead to a need for a more gradual rate reduction than in the baseline scenario.

By contrast, an anti-inflationary effect would be global demand problems caused by higher uncertainty reflected in higher risk premia. The Czech economy would be hit by a slump in foreign trade and related weak investment demand. In this scenario, a depreciation of the koruna and a deeper decline in rates would jointly dampen the anti-inflationary pressures.

According to the baseline scenario of the forecast, the Czech economy will continue to recover gradually. The growth should be driven mainly by household consumption. Following a period of relative caution, domestic households' shopping appetite increased in late 2024. It will be further supported by a sizeable increase in real wages and a gradual decrease in the saving rate. The increased uncertainty regarding economic developments in the first half of this year is being reflected in a drop in private fixed investment, the shortfall in which is being offset by a positive contribution of government investment and inventories. Concerns about supply chain disruptions are motivating firms to stock up on key production components. The large positive contribution of inventories is also due to a base effect, as previously accumulated

Inflation will be in the upper half of the tolerance band around the 2% target this year and very close to it over the monetary policy horizon

headline inflation; y-o-y in %; confidence intervals in colours



The growth of the Czech economy will accelerate this year and remain around 2% next year

y-o-y changes in % (unless otherwise indicated); changes in pp compared to previous forecast in brackets

	2024	2025	2026
Headline inflation (%)	**2.4**	**2.5**	**2.2**
	(0.0)	(0.1)	(0.1)
GDP	**1.0**	**2.0**	**2.1**
	(0.1)	(0.0)	(-0.3)
Average nominal wage	**7.1**	**6.1**	**4.9**
	(0.1)	(0.0)	(-0.1)
3M PRIBOR (%)	**5.0**	**3.2**	**2.8**
	(0.0)	(-0.1)	(-0.1)
Exchange rate (CZK/EUR)	**25.1**	**25.2**	**25.3**
	(0.0)	(-0.1)	(0.0)

Green indicates a shift of the forecast to higher levels, or to a weaker koruna exchange rate, compared with the previous forecast. Red indicates a shift in the opposite direction.

inventories were released on a large scale last year. From the end of 2025 onwards, the forecast expects fixed investment to recover on the back of growth in the economic activity of the Czech Republic's trading partners, a decline in domestic and foreign interest rates, and absorption of EU funds and money from the National Recovery and Resilience Plan.

General government consumption growth will slow this year as extraordinary spending on post-flood reconstruction fades out. Fiscal consolidation will also contribute to this slowdown. Other fiscal measures will have a roughly neutral effect on economic activity. However, the Inflation and Monetary Policy Risks Scoreboard indicates a risk stemming from the wider structural deficit. As shown in Appendix 1, the latter is significantly contributing to money growth and has the potential to create long-term inflation pressures in the domestic economy. The general government deficit is widening slightly over the outlook horizon, driven by higher defence spending. Appendix 2 also shows that general government consumption has also recently tended to be higher.

Goods and services exports will grow only modestly, due to problems in global trade. However, as shown in Box 1, the impacts will only be short-lived. This is because Czech firms seem to have caught the trend of focusing on sectors with bright prospects and on growing markets outside traditional partners in the euro area. As a result, net exports will dampen GDP growth overall this year and next year because of solid growth in import-intensive investment and consumer demand.

The tightness in the labour market is expected to weaken gradually in 2025 and 2026. A modest rise in the unemployment rate this year will be offset by a continued shift of the labour force from industry to services. Given the persisting labour market tightness, wage growth in market sectors will remain elevated this year. This will be joined this year by a larger increase in public sector pay, which may be expanded further.

The exchange rate has been around CZK 25 to the euro since the start of the year. It has been stable despite rising uncertainty connected with the tariff wars. A slightly weaker koruna will be fostered over the forecast horizon by subdued labour productivity growth and a further moderate outflow of investment capital, which will outweigh the current and capital account surplus.

The increase in uncertainty related to the expected weakening of global demand has led to a decrease in cost factors, such as energy commodity prices. The depreciation of the dollar is also a contributing factor. The uncertainty alone is making planning difficult and dragging on investment activity. This is creating room and a need for an additional slight rate decrease despite the persisting strength of domestic demand. Consistent with the forecast is thus a decline in interest rates in 2025 Q2.

The Bank Board assessed the risks and uncertainties of the outlook for the fulfilment of the inflation target as modestly inflationary overall. As regards domestic inflationary risks, the risk of higher-than-expected inertia in services and food inflation persists. Potential additional growth in total public sector spending would lead to a risk of fiscal policy having an inflationary effect. Increased wage demands in the private and public sector are an additional upside risk. An inflationary risk in the longer term is a potential acceleration of money creation in the economy stemming from a further stronger recovery in lending activity, especially on the property market. Increasing barriers to international trade are a downside risk to global economic activity. However, the impact on inflation is not clear cut, especially in the longer term. The risk of markedly weaker German economic output is partly offset by the planned fiscal stimulus of the new German government.

Extension of the g3+ model

Starting with the *Spring 2025 Monetary Policy Report*, the CNB's macroeconomic forecast is prepared using an extended version of the g3+ core forecasting model. The g3+ model is the key analytical and forecasting tool of the economists of the CNB's Monetary Department. The refinements made to the core model represent another step forward in forecasting practice at the CNB. The main changes include the extension of the foreign block of g3+ to include short-term US interest rates, a modification of the schemes for forming foreign expectations, and the inclusion of longer-term interest rates in the domestic part of the model. The refinements and the motivation for them were described in detail in Appendix 1 to the Winter 2025 Monetary Policy Report, in which a shadow forecast prepared using the extended model was also presented.

1 ECONOMIC DEVELOPMENTS ABROAD

Growing trade barriers and ensuing uncertainty are adversely affecting sentiment, as well as weighing on the real economy, prices and financial markets. Growth in real income is having a favourable effect on the consumption of European households, but concerns about the future and possible unemployment persist, preventing consumption from accelerating. The performance of European industry remains fragile, as the tariff wars are disrupting trade links in a situation where industry is facing further structural challenges. Inflation in the euro area is slowing gradually. Both headline and core inflation are going down and growth in services prices is also weakening. The ECB's interest rate cuts, which the market expects to continue, are providing support to the economy. The relaxation of the fiscal rules in Germany and other economies may also be a growth impulse.

The global economy is facing increased uncertainty as a result of unpredictable changes in US trade policy

The situation regarding the import tariffs imposed by the US president's administration is worsening sentiment in the real economy in most countries, and also in financial markets. Global economic growth continues to be driven by China and India (see Table 1.1), but leading indicators point to a slowdown. A slight recovery occurred in manufacturing at the start of the year, driven by stockpiling due to the expected introduction of import tariffs, but it largely dissipated in March. Corporations above all in the USA and the UK are facing strong growth in input prices,[1] which may lead to higher producer prices. No improvement can be expected in the next few months because of worsening sentiment. The global economy thus continues to be driven by services, although worse sentiment is also apparent there.

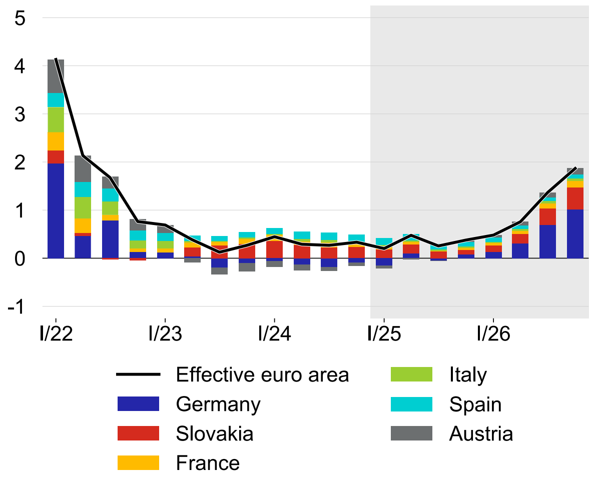
The actions of the US administration are having a strong impact on the American economy. Although businesses welcome the lower administrative burden, they are complaining that contradictory signals from the government are causing uncertainty, which is reducing investor confidence, hampering investment planning and increasing funding costs. There are also concerns about inflation this year, which is expected to be pushed up by a markedly weakening dollar in addition to the import tariffs. Consumer sentiment is deteriorating, but the labour market remains resilient for now and inflation fell in March, aided by declining fuel prices.

The Chinese economy has been showing further signs of recovery since the start of the year, with year-on-year GDP growth maintaining the strong pace recorded in late 2024 (5.4%). The government stimulus measures, which will probably be stepped up further due to the trade war with the USA, are having an effect. Industrial activity has

Table 1.1
The Indian economy will grow the fastest; growth in the USA will slow
real GDP; y-o-y changes in %; source: CF, Oxford Economics

	2023	2024 Q3	2024 Q4	2024	2025	2026
Euro area	0.5	1.0	1.2	0.8	0.9	1.2
USA	2.9	2.7	2.5	2.8	1.4	1.7
United Kingdom	0.4	1.2	1.5	1.1	0.7	1.1
China	5.4	4.6	5.4	5.0	4.5	4.2
India	8.8	5.6	6.2	6.7	6.5	6.6

Chart 1.1
GDP growth in the Czech Republic's main trading partners will recover gradually
annual GDP growth in %; contributions in pp; seasonally adjusted



[1] In the euro area, by contrast, lower energy prices have led to a decline in input prices.

picked up. Unlike in most other countries, car production is doing particularly well. Inflation remains close to zero and producer prices are still falling. The impact of the trade war on Chinese exports is a risk going forward.

Economic growth in the euro area will be hit by US protectionist measures this year, but it could be boosted by a significant increase in defence and infrastructure spending

GDP growth in the euro area slowed as expected at the end of last year (see Chart 1.1)[2] due to weaker domestic demand. The growth was driven solely by services, above all public administration, education and health care. By contrast, industry dragged on quarter-on-quarter growth in gross value added.

The pace of growth in euro area economic activity will remain modest in the first half of this year.[3] Industry recorded the first signs of stabilisation at the start of the year. Production rose month on month in January and February, but the situation remains fragile and it is uncertain whether industry has indeed bottomed out. Retail sales rose only slightly. Growth in the euro area in Q1 is also suggested by the composite PMI, which moved above 50 points thanks to an improvement in industry. Worse economic sentiment remains a risk to growth despite record-low unemployment.

The trade war waged by the USA can be expected to impact on the euro area economies in the second half of the year.[4] The impacts differ across countries. Moreover, a broad-based 10% tariff on all other goods has applied since April.[5] In addition, euro area growth will be dampened indirectly by higher US tariffs on other world economies, leading to a loss of efficiency in the international division of labour. The full impact can be expected to hit the real economy with a slight lag due to legacy contracts and will thus tend to be felt in the second half of the year. Future developments remain surrounded by exceptionally high uncertainty.

The initial effects of the higher tariffs will start to fade next year. At the same time, the growth effects of fiscal easing will be felt in a number of euro area countries, most of all Germany. The euro area economy will thus start to grow again, with GDP temporarily rising at an above-

[2] Euro area GDP rose by 0.2% quarter on quarter and 1.2% year on year in 2024 Q4.

[3] According to Eurostat's flash estimate, GDP in the euro area grew by 0.4% quarter on quarter and rose by 1.2% year on year in 2025 Q1. This figure was published on 30 April 2025, i.e. after the closing date of the forecast.

[4] The 25% tariffs on steel and aluminium imports have affected the euro area only marginally, as this category accounts for just 0.3% of its exports to the USA. The higher tariffs on car imports (also 25%) are having a bigger effect, even though European manufacturers are covering part of the demand by producing in the USA and other countries. Cars and car parts accounted for 1.5% of euro area exports to the USA last year.

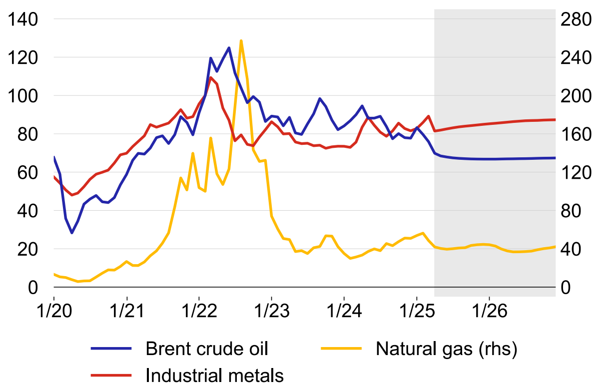
[5] The effect of the 20% tariffs on imports from the EU has been postponed by 90 days.

*Economic growth in Europe will be boosted in the years ahead by fiscal policy easing. The **lifting of the debt brake in Germany** is the most important step. The German constitution caps the structural public budget deficit at 0.35% of GDP. From now on, all defence spending exceeding 1% of GDP will be exempted from these limits. A dedicated fund of EUR 500 billion will be created, funded using new bonds. It will also be excluded from the debt brake calculation. Over the next 12 years, the fund will be available for investment in transport, energy, digitalisation, health care and research, with one-fifth earmarked for green transition. The changes will thus enable the German government to raise investment in defence, infrastructure and modernisation of the economy to a degree not possible under the original wording of the constitution.*

*Other European countries have also announced **increases in defence spending**. The European Commission has introduced its own plan as well. By lifting the debt brake, Germany is abandoning its previous policy of budgetary restraint in favour of large-scale public investment, from which its trading partners will also benefit. However, the actual size and timing of the investment is uncertain. Its impact on growth also remains unclear, as German industry has spare capacity, but the labour market is tight. As regards defence spending, the impact will depend on whether the orders stay in Europe or are won by suppliers from elsewhere, as military hardware has often been imported from the USA and other parts of the world.*

Chart 1.2
Prices of Brent crude oil and natural gas fell markedly in April

prices of selected commodities; index: February 2022 = 100; source: Bloomberg, CNB calculation



equilibrium pace. The fiscal turnaround in Germany following the February snap election is a reaction to a stagnant economy, rising geopolitical tensions and a need to bolster Europe's defence capacity.

Lower prices of oil and other energy commodities will continue to dampen industrial producer price inflation

The Brent crude oil price fell from a 2025 high of USD 82 a barrel in mid-January to USD 66 a barrel in the second half of April, mainly on concerns that the tariff policy of the new US administration would slow global growth and hence also demand for oil. Moreover, OPEC+ decided to raise production quotas unexpectedly strongly with effect from May, amplifying concerns about a glut of oil in the market. European gas saw an even greater drop, losing around 45% of its value between its February peak and the end of April. The industrial metals price index fell to roughly its December level in April (see Chart 1.2). Industrial producer prices will thus start to drop again year on year in the second half of this year, owing mainly to the energy component. By contrast, core producer prices will continue to rise year on year in both 2025 and 2026 on the back of expansionary fiscal policy (especially in Germany) and the impacts of US tariffs. A rising outlook for industrial metals prices will act in the same direction.

Consumer price inflation in the euro area slowed in early 2025. The contributions of food prices and, above all, services prices are still elevated (see Chart 1.3), although the pressure on services prices is now easing gradually after more than a year. Euro area inflation will fall overall from 2.4% in 2024 towards the ECB's inflation target (to 2.2% in 2025 as a whole). It will stay at this level in 2026. Among the Czech Republic's major trading partners, Slovakia will record the highest inflation this year and France the lowest (see Chart 1.4). The impacts of the US tariffs and, in the longer term, the expected changes in German fiscal policy are uncertainties regarding inflation abroad.

As expected, the ECB lowered its key rates in April; the market expects it to cut them further

The ECB cut interest rates by 0.25 pp at its April meeting, as expected by the market and analysts. It no longer refers to its rates as restrictive. President Lagarde said that geopolitical risks were the main source of uncertainty and that trade disruptions posed a risk to inflation. The market outlook assumes that rates will fall further to less than 2% in the second half of 2025 (see Chart 1.5).

The dollar weakened significantly in Q2 (not only against the euro) due to the actions of the US administration and related uncertainty regarding the performance of the US economy. Markets saw concurrent sales of US shares and bonds, referred to as "sell America". The dollar was thus losing the position of a safe asset. The US Fed has

Chart 1.3
The only very slow decline in inflation in the euro area is due mainly to services prices
components of euro area HICP inflation; y-o-y change in %; contributions in pp; source: Eurostat

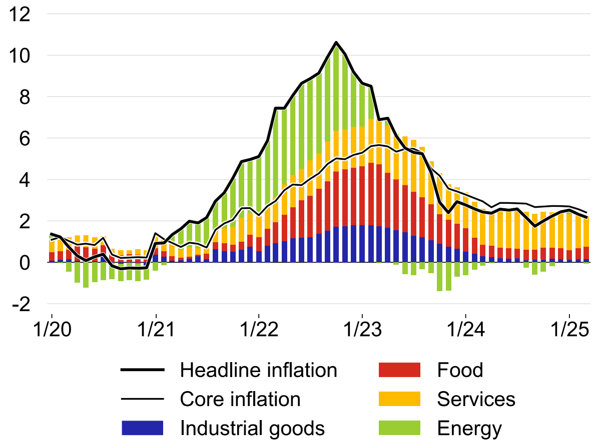


Chart 1.4
Among the euro area countries significant for the Czech Republic, consumer price inflation remains the highest in Slovakia
HICP in selected euro area countries; year-on-year change in %; source: Eurostat

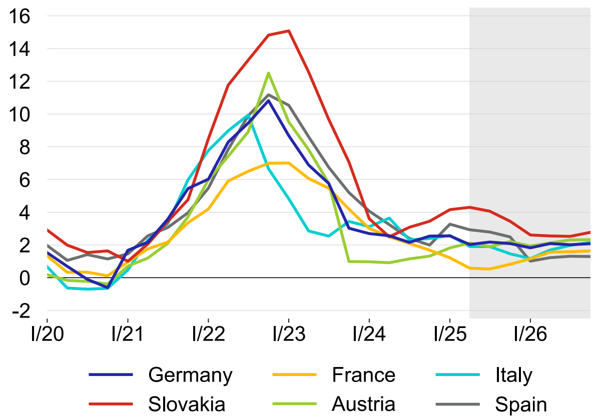
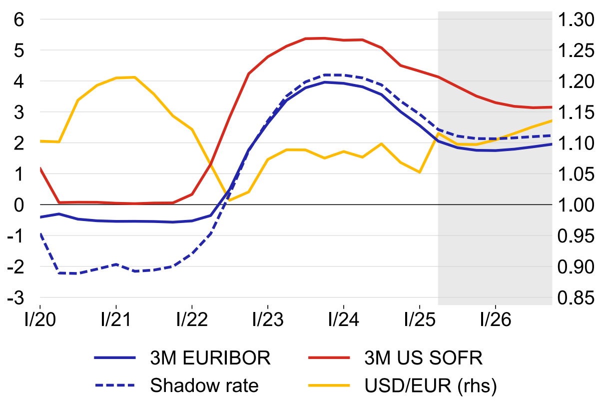


Chart 1.5
Euro area interest rates continue to decline
3M EURIBOR, shadow interest rate and 3M SOFR in %; nominal USD/EUR rate



been cautious in its statements so far, pointing out the inflationary risks of the new tariffs.

Comparison with the previous forecast: economic developments abroad

		2024	2025	2026	
GDP (in the effective EA)	y-o-y changes in % pp	**0.3** (0.0)	**0.3** (-0.3)	**1.1** (-0.1)	The growth outlook for the Czech Republic's major trading partners is lower due to the new tariffs introduced by the US administration.
Consumer prices (in the effective EA)	y-o-y changes in % pp	**2.5** (0.0)	**2.4** (-0.1)	**2.0** (0.1)	The consumer price inflation outlook is almost unchanged for this year and next year.
Industrial prod. prices (in the effective EA)	y-o-y changes in % pp	**-5.5** (0.0)	**-0.1** (-1.7)	**0.0** (-0.2)	The forecast for industrial producer prices is much lower this year, due mainly to a lower outlook for energy commodity prices.
Brent crude oil price	USD/barrel	**79.8** (0.0)	**66.4** (-7.8)	**63.1** (-7.9)	The oil price path is markedly lower than in the previous forecast due to the announcement of higher production by OPEC+ and geopolitical risks.
3M EURIBOR	% pp	**3.6** (0.0)	**2.1** (-0.3)	**1.8** (-0.4)	The decreasing market outlook for interest rates reflects the ongoing decline in inflation pressures in the euro area and rising risks to the real economy.
Exchange rate	USD/EUR	**1.08** (0.00)	**1.09** (0.04)	**1.12** (0.06)	The euro is expected to be stronger against the dollar compared with the previous forecast due to expectations that the tariffs will have a significant adverse effect on the US economy.

Note: Changes compared to the previous forecast in brackets (a green label indicates an increase in value or a shift to a weaker dollar, while a red label indicates a decrease in value or a shift to a stronger dollar)

2 THE REAL ECONOMY AND THE LABOUR MARKET

The growth of the Czech economy will accelerate to 2% this year. It will continue to be driven by household consumption, supported by above-average growth in real income amid a continued decline in interest rates. Growth in economic activity will also be fostered by renewed additions to inventories and, in late 2025, by a recovery in fixed investment. Continued public finance consolidation will lead to slower growth in general government consumption. By contrast, net exports will drag on economic growth this year. Besides robust growth in domestic demand, this will be due to the negative effects of the new tariffs on goods imports to the USA. Growth will edge up in 2026 as the negative contribution of net exports fades partly and as fixed investment grows. Household consumption will again be the biggest contributor to GDP growth. The labour market tightness will ease, while the still high nominal wage growth will gradually decline. However, the growth forecast is surrounded by unprecedented uncertainty, pertaining both to the future course of the trade wars and their impact on the domestic economy, and to the nature of the economic recovery in Germany following the relaxation of its fiscal rules.

Economic growth will accelerate visibly this year

According to the forecast, quarterly GDP growth continued to rise at a solid rate of 0.6% in 2025 Q1[6] (see Chart 2.1). In terms of gross value added, the growth was driven mainly by services, but industry and construction also fared well for the first time in a long time. However, industry in particular will record a downturn for the rest of the year due to the blanket tariffs imposed on imports to the USA in April. Services will thus remain the main driver of gross value added growth. On the expenditure side, this will be reflected in a dominant contribution of household consumption to GDP growth. Fixed investment will remain subdued owing to weak external demand. However, additions to inventories will increase. The contribution of net exports will be negative due to brisk growth in domestic demand and the negative effect of tariffs on international commerce. Overall, GDP will rise by 2% this year (see Chart 2.2). It will grow at a similar pace in 2026, with external demand recovering and domestic demand conversely slowing slightly.

Household consumption will grow this year on the back of swift growth in real wages

Household consumption will continue to support economic growth strongly in the near future. Retail and services leading indicators also point to continued growth in household consumption. However, consumer sentiment has deteriorated again. Growth in consumer spending will therefore slow slightly further in 2025. This

[6] According to the CZSO's flash estimate, Czech GDP increased by 0.5% quarter on quarter and by 2% year on year in 2025 Q1. This is broadly in line with the CNB forecast. This figure was published on 30 April 2025, i.e. after the closing date of the forecast.

Chart 2.1
Over the outlook horizon, GDP will be driven mainly by household consumption and gross capital formation

y-o-y changes in %; contributions in pp; prices of 2020 (chain-linked); seasonally adjusted

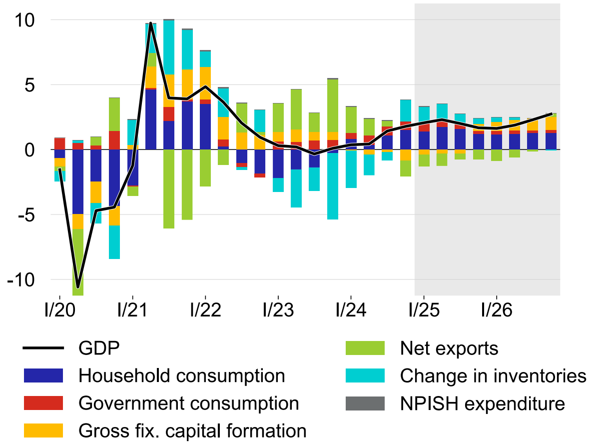
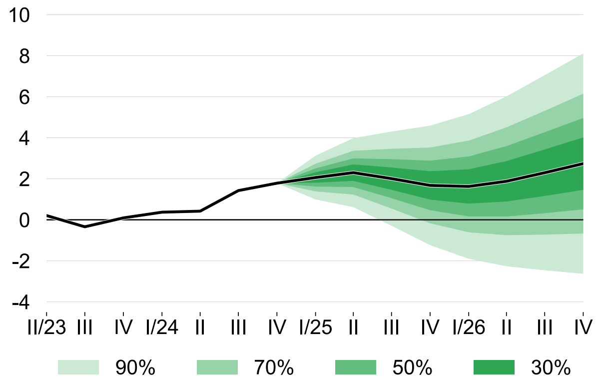


Chart 2.2
Growth in domestic economic activity will be around 2%

y-o-y changes in %; prices of 2020 (chain-linked); seasonally adjusted; confidence interval



will be due to still fragile confidence,[7] fuelled by rising global uncertainty linked with the actions of the US president's administration. By contrast, a decrease in interest rates will slightly support household consumption, which will grow by 3.4% in 2025 as a whole (see Chart 2.3).

Growth in households' real income will slow towards the long-term average next year, fostering a slowdown in household consumption growth to 2.6%. Conversely, improved consumer sentiment in connection with the continued economic recovery and the fade-out of the initial shock following the introduction of US tariffs will have a positive impact.

Year-on-year growth in households' nominal gross disposable income will slow gradually this year and next year. This will be due mainly to a shrinking contribution of wages and salaries (see Chart 2.4). Social benefits and other current transfers will contribute significantly to the growth over the entire forecast horizon. The contribution of entrepreneurs' income will weaken gradually as their profit margins normalise. The negative contribution of taxes will be amplified by the consolidation package. Property income will have a broadly neutral effect.

The saving rate will decrease gradually over the next few years

The saving rate has been elevated for several years now (see Chart 2.5). This is due to consumers' still limited spending appetite, reflecting concerns about their future economic and financial situation. The precautionary motive – amplified by trade war-related uncertainty – is likely to continue to affect savings over the coming quarters. However, this will be gradually outweighed by the effect of lower interest rates and next year also by the fade-out of negative sentiment. However, the saving rate will come down only slowly, as the 20% of households with the highest income, who generally have a lower propensity to consume, drive the creation of savings. In addition, households have recently been investing increasingly in less liquid financial assets and in property. Households may also be saving partially in order to buy property in the future.

Export growth will remain subdued this year due to weak external demand stemming from US tariff policy

Domestic export activity[8] has recently slowed less than proportionately to the slowdown in growth in the Czech Republic's main trading partners in the euro area, as it has been increasingly driven by demand from countries outside the euro area. The forecast expects this

__The confidence intervals__ of the forecasts for key macroeconomic variables reflect the predictive power of past forecasts. They are symmetric and linearly widening.

Chart 2.3
Household consumption will grow at a solid pace over the entire forecast horizon, while general government consumption will slow gradually
household and general government consumption; y-o-y changes in %; prices of 2020 (chain-linked); seasonally adjusted

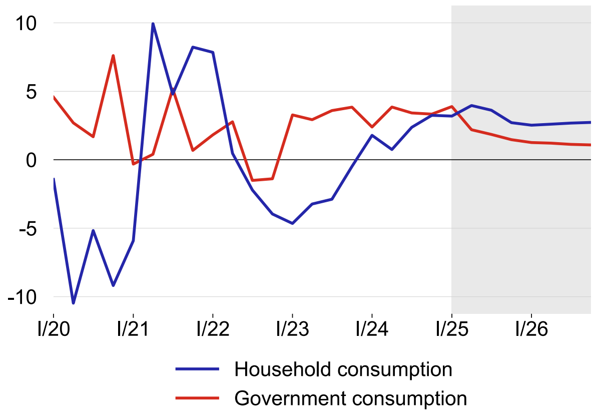
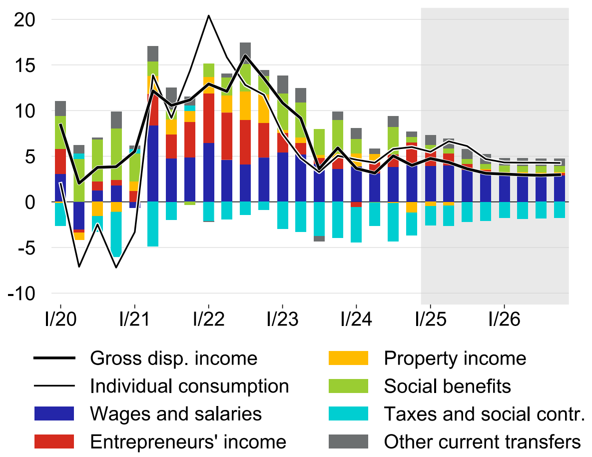


Chart 2.4
Growth in nominal disposable income will slow this year and next year, due to slower growth in wages and salaries
household consumption and gross disposable income; y-o-y changes in %; contributions in pp; current prices; seasonally unadjusted



[7] According to April business survey data, overall confidence in the economy declined, owing to worse consumer sentiment and, in particular, to a deterioration in business sentiment.

[8] Czech exports are discussed in Box 1 at the end of this section.

favourable effect to continue in the near future. However, the Czech Republic's main trading partners inside and outside the euro area will be significantly affected by the US import tariffs, which will cause their economic activity to be weak this year. Besides general economic uncertainty connected with tariff policy, a high share of firms reporting a shortage of demand can now be observed (see Chart 2.6). Exports will thus grow by just 1.2% in 2025 as a whole. Trade relations with the USA are a significant uncertainty of the forecast for the Czech economy. Demand from the Czech Republic's main trading partners in the euro area will rebound next year after the initial effects of the introduction of tariffs unwind. It should also be supported by the relaxation of the debt brake rules in Germany, the effect of which on the Czech economy (in terms of both timing and intensity) is also subject to considerable uncertainty. This fiscal stimulus should support Czech exports, which the forecast expects to grow by 3.5% next year (see Chart 2.7).

The import intensity of Czech exports will also be reflected in import growth. Imports will continue to rise faster than exports, due to continued swift growth in domestic demand driven mainly by household consumption and also by renewed additions to inventories. Imports will grow by 2.6% in 2025 as a whole. Net exports will thus make a negative contribution to GDP growth. Next year, the pick-up in export growth will outweigh the slowdown in domestic demand growth. Import growth will thus go up to 4.3%. The negative contribution of net exports will decrease compared to this year.

Fixed investment will fall slightly this year

Gross fixed capital formation decreased markedly in both quarter-on-quarter and year-on-year terms in late 2024, especially the private component. Along with the repercussions of tight monetary policy and weak external demand, this was also due to a falling profit rate of non-financial corporations. Private investment will rebound in the first half of this year, but its growth will be very gradual. Firms' sentiment initially improved slightly, even in industry, as evidenced by an improving PMI index. However, it deteriorated again in April due to trade war-related uncertainty. Private investment could return to year-on-year growth at the end of the year, as also suggested by the results of a statistical survey conducted by the Confederation of Industry of the Czech Republic and the CNB. However, private fixed investment will still decline in 2025 as a whole. By contrast, real general government investment, which fell slightly last year, will start to grow again this year. This will be aided by expected faster absorption of European funds and money from the National Recovery and Resilience Plan. Total gross fixed capital formation will fall by 0.3% this year (see Chart 2.8). General government investment will continue to grow at a solid pace next year. It will be joined by private investment, which will react to a recovery abroad after the initial uncertainty regarding trade wars recedes,

Chart 2.5
The saving rate will decline gradually from its current elevated level due to falling interest rates and later also an expected improvement in consumer sentiment

households' saving rate in %; seasonally adjusted

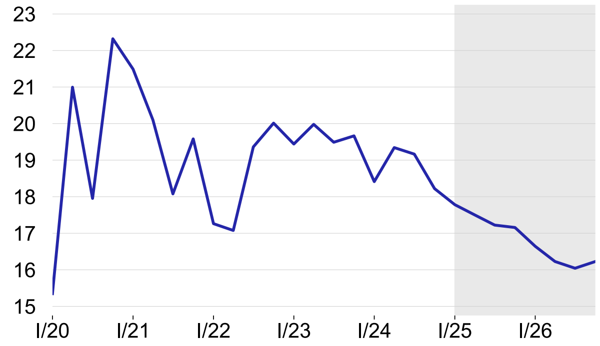


Chart 2.6
The share of industrial firms reporting a shortage of demand remains high

share of domestic industrial firms in % reporting shortages of materials or equipment and insufficient demand as factor limiting production; series smoothed by HP filter (lambda = 1); source: CZSO business survey

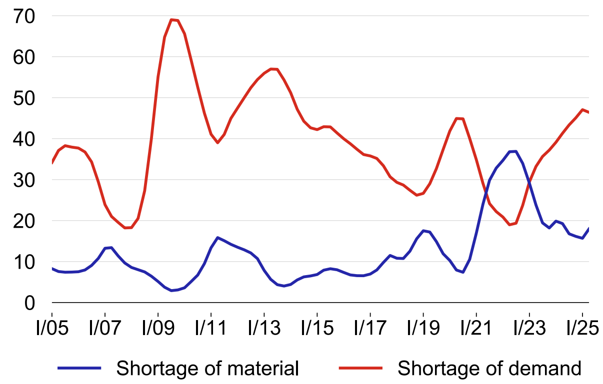
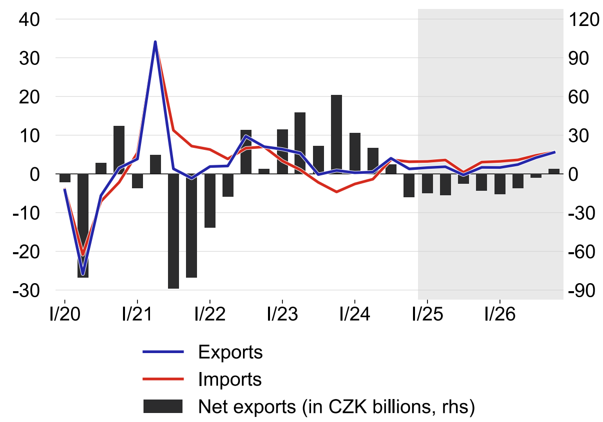


Chart 2.7
Export growth will be subdued this year due to trade wars, while imports will record solid growth due to swift growth in domestic demand

real exports and imports of goods and services; y-o-y changes in % for exports and imports and in CZK billions for net exports; seasonally adjusted



and to a fiscal stimulus-related recovery in Germany. Gross fixed capital formation will grow by 3.4% next year.

Last year, firms released a large part of the inventories they had accumulated in 2021–2023. This year, they are beginning to go back to making slightly positive additions to inventories (see Chart 2.9). In addition, firms seem to be stockpiling again to a greater extent, as the share of firms reporting a shortage of material as a factor limiting production is increasing. Inventories in the form of finished products may also rise due to a short-term drop in external demand. Owing to the trade wars, the forecast does not expect firms to cut production substantially. As a result, change in inventories will make a significantly positive contribution to year-on-year growth in gross capital formation this year. Next year, its contribution will be roughly neutral. Gross capital formation growth will reach 3.3% this year and rise towards 4% next year.

Fiscal policy will have a broadly neutral effect on GDP growth this year

Real government consumption growth will slow this year (see Chart 2.3) due to additional savings stemming from the government's consolidation package. The forecast for nominal general government consumption in 2025 also takes into account renewed growth in public sector pay. Despite higher expected defence spending, growth in nominal government consumption will slow next year, due mainly to cuts in operating expenditure and the declining effect of extraordinary post-flood expenditure.

Fiscal policy will have a broadly neutral effect on GDP growth this year (see Chart 2.10), as the additional slightly dampening effect of the consolidation package[9] will be offset by expected faster absorption of EU funds and growth in government subsidies for renewable resources. The forecast assumes that fiscal policy will have a neutral effect next year as well, as the effect of increases in some taxes[10] is expected to be offset by faster general government investment, which will be supported, among other factors, by higher planned defence spending.[11]

The negative output gap of the Czech economy will gradually close

The output gap has turned negative in recent years due to weak economic growth. It started narrowing at the end of 2023, but the pace of closure is only very slow.

Chart 2.8

The contribution of additions to inventories will drive growth in gross capital formation this year, joined by fixed investment next year

investment activity; y-o-y changes in %; contributions in pp; prices of 2020 (chain-linked); seasonally adjusted

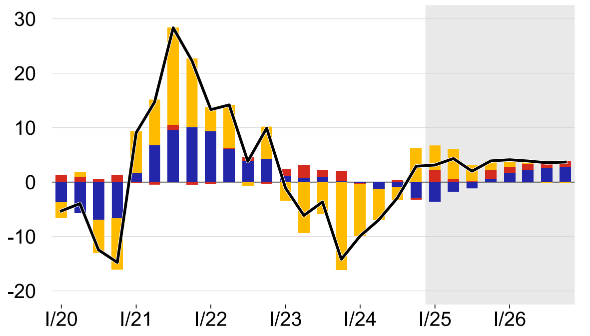


Chart 2.9

Change in inventories will be positive over the entire forecast horizon, with industry making a significant positive contribution

change in inventories in CZK billions; prices of 2020 (chain-linked); seasonally adjusted

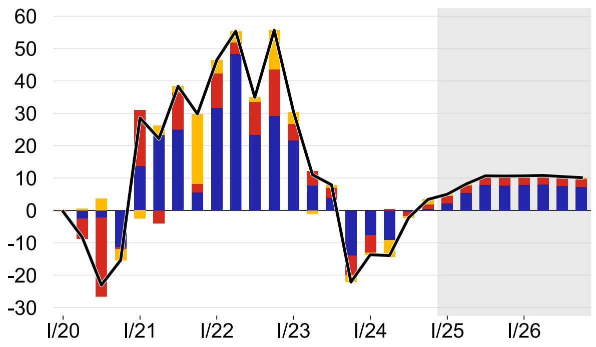
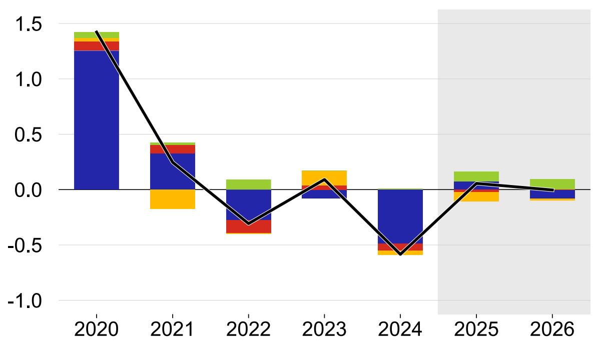


Chart 2.10

Following a restrictive effect last year, fiscal policy will make a neutral contribution to GDP growth

fiscal impulse; contributions to GDP growth in pp



[9] This year, the fiscal effect of the package will be an additional −0.2% of GDP. On the revenue side, the consolidation package includes a further increase in excise duties, an increase in contributions for the self-employed and the additional impact of certain consolidation measures introduced last year. On the expenditure side, it includes cuts in subsidies for entrepreneurs and in operating and other expenditure.

[10] A further increase in excise duties and an increase in contributions for the self-employed.

[11] The CNB's fiscal forecast takes into account all the discretionary measures on both the revenue and expenditure sides contained in the draft state budget for 2025, including budgetary documentation.

Domestic demand is now improving, but the narrowing of the output gap will be slowed in the course of this year by trade wars, which will be reflected mainly in weak external demand. Given the expected recovery in demand (in Germany, among other countries), the output gap should start to narrow again next year (see Chart 2.11). These factors will push GDP close to its potential at the forecast horizon. Growth in potential output itself will pick up slightly towards its medium-term rate (2.5%) due to gradually recovering trend growth in labour productivity.

The labour market tightness will continue to decrease

From the perspective of the LUCI, the steady cooling of the Czech labour market is continuing (see Chart 2.12). This is a response to the lacklustre performance of the domestic economy over the past two years, worse sentiment and increased uncertainty about global developments. Employment continues to contribute to persisting labour market tightness, as firms have not yet started to lay off staff significantly despite the subdued economic activity. However, the contribution of employment will decrease rapidly in the future. Corporate recruitment will remain moderate, mainly because of increased caution amid considerable uncertainty and reduced external demand, which is complicating a major recovery of economic activity in industry. The observed and expected steady increase in unemployment indicators is leading to a gradual reduction in the contribution of unemployment in the LUCI. This reflects the usual delay in the response of the labour market to an economic contraction. By contrast, growth in wages and costs will make a positive contribution to the LUCI over the forecast horizon.

Year-on-year wage growth will remain elevated from the long-term perspective

The real wage increased at an above-average pace in year-on-year terms throughout 2024. This was due to high nominal wage growth amid a sharp drop in inflation to close to the CNB's 2% inflation target at the start of last year. Wage growth will slow in both nominal and real terms until the end of the forecast horizon but will remain above its long-term average.

Year-on-year average nominal wage growth in market sectors will also remain above-average from a historical perspective this year (see Chart 2.13). This will be due mainly to the economic situation in services, which are being supported by household demand. The gradual compensation for lost purchasing power after the previous high-inflation period will thus continue. Next year, wage growth will also be fostered by a recovery in external demand and hence a better situation in industry. However, the growth will gradually slow to close to its long-term average. In addition, the minimum wage was increased by CZK 1,900 to CZK 20,800, i.e. by 9.5%, in January 2025. The forecast assumes a gradual increase

Chart 2.11

The economy will be only slightly below its potential next year

output gap in % of potential output

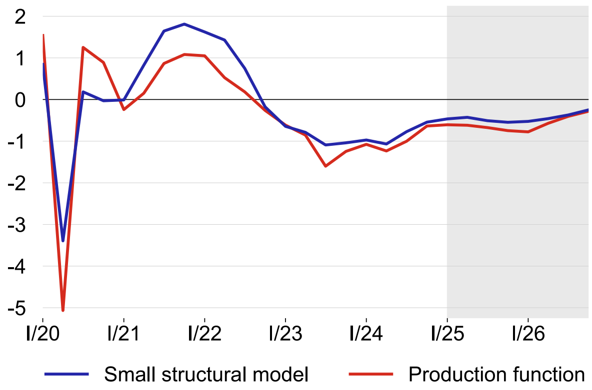


Chart 2.12

From the perspective of the LUCI, the tightness in the labour market will ease

LUCI; vertical axis shows standard deviations

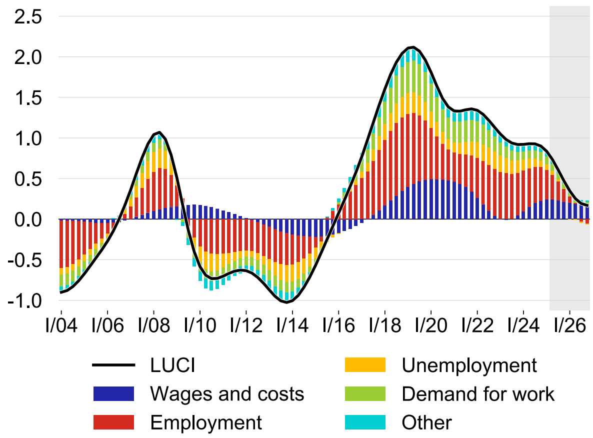
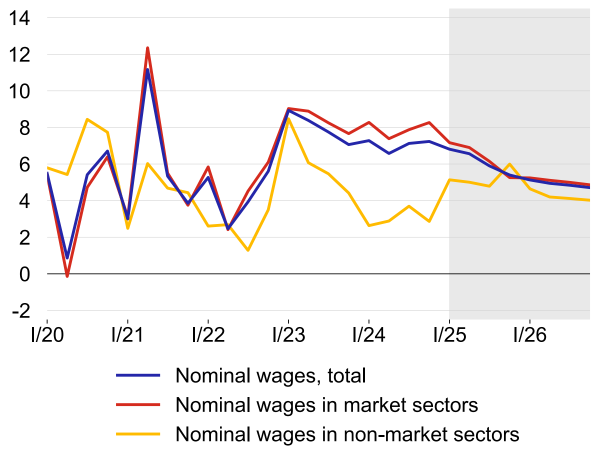


Chart 2.13

Despite slowing, nominal wage growth will remain solid from the long-term perspective

nominal wages; y-o-y changes in %; seasonally adjusted

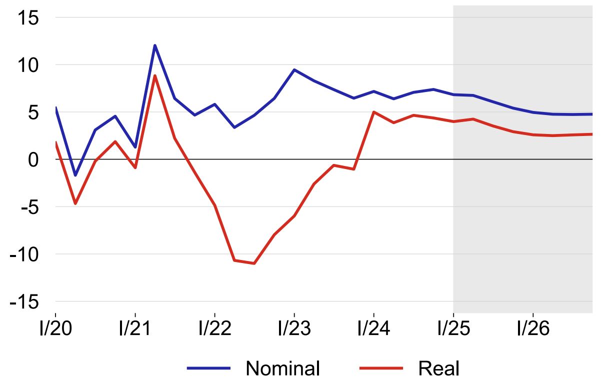


in the minimum wage in subsequent years to 47% of the average wage in 2029. After a period of subdued growth, wage growth in non-market sectors will increase markedly this year as a result of a significant rise in public sector pay in January this year, as well as legislative changes to the cascade of guaranteed salaries.[12]

Until the end of the forecast horizon, growth in the nominal wage bill will be affected mainly by growth in the average wage, as employment will be broadly flat. In real terms, the wage bill will also keep rising year on year due to above-average nominal wage growth and low inflation. Growth in the real wage bill will remain positive above 2.5% until the end of the forecast horizon (see Chart 2.14).

Chart 2.14
Growth in the real wage bill will remain elevated this year and will thus support household consumption growth

wage bill; y-o-y changes in %



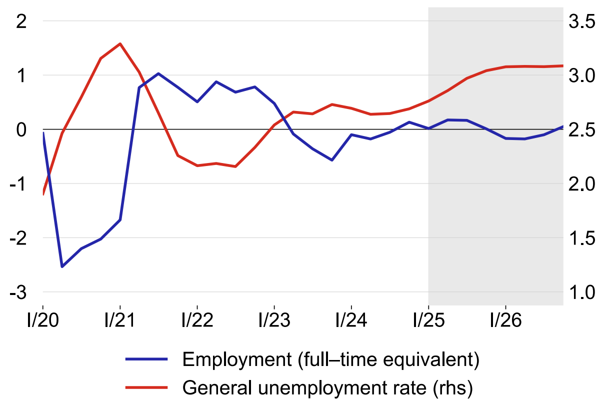
The number of full-time equivalent employees will be broadly flat; unemployment will grow very slightly

Employment expressed in terms of the number of full-time equivalent employees will remain broadly flat (see Chart 2.15). Faster growth will be prevented mainly by increased uncertainty and weak foreign demand, which is dampening industrial activity. By contrast, growth in employment in market services, which are being supported by strengthening household consumption, will remain significant. The European Commission survey expects total employment to decline over the next three months and unemployment to grow in the following year. The index of expected employment indicates still positive, but slowing demand for labour.[13] The overall message of leading indicators thus implies an easing of tightness in the labour market.

The general unemployment rate will continue to rise modestly, due mainly to a worsening situation in industry (see Chart 2.15). However, it will stay low by both historical and international standards. The forecast expects a similar trend in the share of unemployed persons, which saw a gradual moderate increase throughout 2024. This growth accelerated further at the start of this year.

Chart 2.15
The number of full-time equivalent employees will be broadly flat; unemployment will increase gradually

employment (full-time equivalent); y-o-y changes in %; general unemployment rate in %; seasonally adjusted



[12] The cascade of guaranteed wages was abolished in the wage sector at the start of this year, and unlike in the salary sector, only the minimum wage remains mandatory for the wage sector. In the salary sector, the cascade of guaranteed wages was replaced by a cascade of guaranteed salaries, and the number of guaranteed salary classes (formerly wage classes) was reduced from eight to four.

[13] For 2025 Q2, the Manpower Group index of expected employment is signalling continued, albeit slowing growth in the number of employees. The Google Trends scores for "unemployment" and "unemployment benefit" have in recent weeks been the highest since the start of the Covid-19 pandemic (although this might reflect legislative changes made as part of the recently passed "flexi-amendment" to the Labour Code).

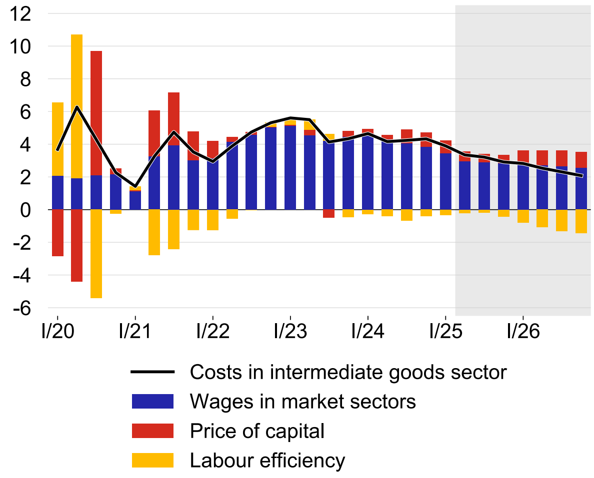
Domestic cost pressures will ease due to slowing wage growth and gradually recovering growth in labour efficiency

Growth in domestic costs remained elevated in 2025 Q1 (see Chart 2.16). This was due predominantly to buoyant wage growth in market sectors, where the previous year's solid trend continued. The repercussions of the previous high inflation are reflected in a noticeable, albeit gradually decreasing, contribution of wages for the rest of this year, amid a continued cooling of the labour market. The only slightly positive contributions of the price of capital to growth in domestic costs will reflect subdued growth in domestic economic output and demand for production capacity. The continued growth in economic activity will be accompanied for most of this year by only a sluggish improvement in labour efficiency. The latter will reflect the low investment activity in 2024, the impacts of trade wars and related uncertainty. The forecast expects this uncertainty to reduce production capacity utilisation via weaker exports. This will put downward pressure on labour efficiency amid an only gradual rise in the unemployment rate. Labour efficiency will thus dampen growth in costs hardly at all this year. It will increase next year as growth in fixed investment recovers gradually. Together with slowing wage growth, this will lead to a gradual decline in domestic cost pressures to close to levels consistent with price stability.

Chart 2.16

A continued slowdown in wage growth and, later on, an improvement in labour efficiency next year will ease domestic cost pressures

costs in intermediate goods sector; q-o-q changes in %; contributions in pp; current prices; annualised



Comparison with the previous forecast: The real economy and the labour market

		2024	2025	2026	
GDP	y-o-y changes in % pp	**1.0** (0.1)	**2.0** (0.0)	**2.1** (-0.3)	The GDP outlook for this year is unchanged; the outlook for next year is lower due to the lingering negative effect of trade wars, which the fiscal stimulus in Germany will only partly offset.
Household consumption	y-o-y changes in % pp	**2.0** (0.4)	**3.4** (0.8)	**2.6** (0.0)	The household consumption forecast for this year is slightly higher due to better observed data and slightly higher growth in real wages and salaries.
Government consumption	y-o-y changes in % pp	**3.3** (-0.3)	**2.3** (1.0)	**1.2** (0.3)	The faster government consumption growth both this year and next year reflects higher observations at the end of 2024 and expected growth in defence spending.
Gross fixed capital formation	y-o-y changes in % pp	**-1.4** (-1.1)	**-0.3** (-2.5)	**3.4** (0.5)	Growth in fixed investment is lower in 2025 due to both the latest observed data for 2024 Q4 and weaker external demand.
Net exports	contr. to GDP growth pp	**0.6** (0.0)	**-0.8** (0.0)	**-0.3** (-0.3)	The change in the contribution of net exports to GDP growth compared to the winter forecast is negligible this year; next year, it will reflect the lingering negative effect of trade wars.
Employment (full-time equivalent)	y-o-y changes in % pp	**-0.1** (-0.1)	**0.1** (0.0)	**-0.1** (-0.3)	The forecast for growth in the number of FTE employees this year is unchanged; next year the forecast is lower due to slower economic growth.
Unemployment (ILO)	% pp	**2.7** (0.0)	**2.9** (0.1)	**3.1** (0.1)	The outlook for the general unemployment rate is only slightly higher than in the previous forecast due to slower economic growth.
Average monthly nominal wage	y-o-y changes in % pp	**7.1** (0.1)	**6.1** (0.0)	**4.9** (-0.1)	The wage growth forecast for this year is unchanged; the forecast for 2026 is slightly lower, reflecting a faster easing of labour market tightness.

Note: Changes compared to the previous forecast in brackets (a green label indicates an increase in value and a red label a decrease)

Box 1: Czech exports holding course amid a storm of uncertainty

The Czech Republic's product concentration has long been increasing and markedly exceeds the averages for the EU and other advanced countries. Motor vehicles and parts thereof alone accounted for more than one-quarter of Czech goods exports last year. An even bigger share – about one-third of exports – was made up of electrical equipment and machinery. Moreover, in terms of destination, more than half of exports go to just four countries – Germany, Slovakia, Poland and France. This high product and geographical concentration makes the Czech export industry highly vulnerable to changes in demand for only a few product categories from only a few countries. Could Czech foreign trade be at risk in an environment of economic headwinds in Germany, tariff wars and low interest in new cars?

Subdued demand for motor vehicles was already apparent last year, when the number of new registrations on the European market went up by just 0.8% year on year. Moreover, new registrations have been falling since the start of this year. Despite this, Czech motor vehicle exports have shown unprecedented resilience by international standards, and not only last year (see Chart 1). The success of Czech cars on the European market is also indicated by data on new car registrations in Europe, where all Czech carmakers have jumped up a few places since 2019, with two of them even ranking second and fourth in the number of registrations. However, this result may reflect not only the success of the brands as such, but also, for example, greater popularity of the segments that Czech carmakers specialise in. The share of SUVs in total registrations in the EU rose from 38% in 2019 to more than 50% last year, mainly at the expense of luxury, small and multi-purpose vehicles not typically included in Czech producers' model portfolio. In addition, the impact of lower European demand for motor vehicles has been softened in recent months by higher prices of exported cars. Nominal exports are thus still growing despite lower domestic production.[1]

Chart 1

Czech car exports were the only car exports in Europe to record growth last year

passenger car exports from 14 largest global exporters; y-o-y change in %; source: UN Comtrade database, CNB calculations; colour scaling shows negative values in red and positive values in green

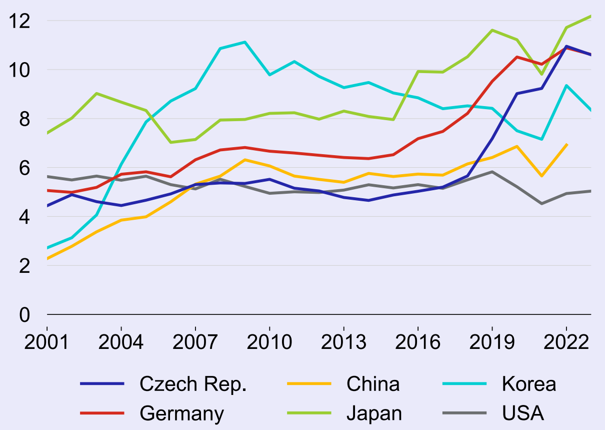
	2020	2021	2022	2023	2024
Germany	-14.6	14.3	12.1	13.3	-1.6
Japan	-17.4	5.7	1.2	27.8	-3.5
Korea	-11.9	24.4	16.6	32.1	0.1
Mexico	-20.5	-0.8	17.6	22.2	7.2
USA	-18.7	19.8	5.8	9.0	-6.1
Spain	-8.3	7.7	-3.1	23.4	-4.3
United Kingdom	-31.2	13.7	-2.7	25.8	-3.0
Czech Republic	-7.8	13.3	7.6	26.9	7.5
Canada	-21.4	-9.0	1.1	28.6	-15.9
Slovakia	5.0	9.6	-1.7	26.7	-7.1
Belgium	-10.0	4.2	-0.3	24.2	-0.5
Italy	-2.7	10.8	-0.7	26.1	-21.1
Hungary	-10.8	6.2	1.4	28.0	-3.9
Sweden	-4.5	10.8	-4.0	26.2	-2.2

Note: Data for France and China are not available yet.

Chart 2

The Czech Republic has caught up with the largest low-carbon technology exporters

share of low-carbon products in individual countries' exports in %; source: UN Comtrade database, CNB calculations



The speed and success of the ongoing electric transformation is also making the Czech car industry more competitive. While in 2017 the share of electric cars in total vehicle exports from the Czech Republic was only 0.8%, last year it reached 33% and almost caught up with the average of the 12 largest global car exporters (36%). The fact that the Czech Republic did not miss the boat on joining the electric transformation will play an important role in the future, as data on European registrations reveal the growing popularity of alternative fuel vehicles, whose role will increase further after combustion engines in new cars are banned completely in 2035. Although total European demand for cars dropped by 3% year on year at the start of this year, interest in electric and hybrid cars rose by 28% and 19% respectively. These vehicles together now account for more than half of new registrations in Europe.[2] In addition, the decline in Tesla's sales on European markets has created an opportunity for electric car manufacturers. Tesla recorded a dramatic, 49% year-on-year drop in new registrations in the EU in the first two months of this year, and sales data indicate that the decline continued during March.

An expansion of Chinese car brands to European markets and the uncertainty about the potential escalation of trade wars remain risks for the car industry. In this respect, the resilience of the Czech auto industry is also enhanced by several factors: its growing share of the European market, its high level of production localisation (around half of the value added is created in the Czech Republic and the rest mostly in Germany, China and Poland) and its ability to diversify its exports outside the US market. Moreover, key car brands have long been building up a stable customer base in Europe and Asia.

The shift from carbon-intensive products to low-carbon technology (LCT)[3] is also yielding benefits in the form of a promising and fast-growing sector with high value added. Diversifying the trade portfolio in favour of LCT is beneficial, as carbon-intensive goods are increasingly subject to regulations, taxes, tariffs and changing consumer demand. As Chart 2 shows, the share of these products in the Czech Republic's total exports has increased greatly in recent years, reaching the shares of the largest global exporters in this area. The dramatic rise in recent years is due to electrical vehicles and, to a lesser extent, to electric accumulators, engines, generators and other equipment for managing, protecting or distributing electricity. The Czech Republic's export strength in this segment is also evidenced by the index of revealed comparative advantage (RCA). The RCA index measures the size of a country's specialisation in the export of a specific product or product category in global comparison. In the case of the Czech Republic, the share of LCT products in exports is 2.3 times higher than the global average.

Another vulnerability of Czech exports lies in their high geographical concentration. As almost 30% of total exports go to Germany, weaker performance of the German economy is directly reflected in Czech export growth.[4] The dependence of Czech exports is additionally increased by its structure, as Germany is the destination for a large proportion of specific intermediate goods that have no alternative market. Any drop in demand for these goods would thus leave very little room for a change in geographical focus.[5]

However, data suggest that Czech exports suffer less from economic stagnations in Germany than exports from other countries do, as the strong ownership links between Czech and German companies[6] act as a stabiliser. During crises, German firms tend to reduce their demand for goods from firms they do not own, hence the Czech Republic gains market share in Germany. This increases the Czech Republic's importance as a supplier to Germany, although from the Czech perspective, a gradual geographical diversification of exports is underway (see Chart 3).[7] Looking ahead, Czech exports may also be affected by the expected fiscal expansion and lifting of the debt brake in Germany, which would create opportunities for Czech arms producers and sub-contractors. In addition to direct export opportunities, the economy may reflect secondary effects in the form of increased demand for Czech goods due to an overall economic recovery in the region.

From the perspective of geographical vulnerability, tariff wars currently constitute the greatest uncertainty for Czech foreign trade. The USA is the Czech Republic's tenth largest export partner, and direct exposure to the US market is rather low (2.9% of total Czech exports). The latter increases slightly if the domestic value added[8] of goods shipped to the USA is factored in, but it remains one of the lowest among the countries under review (see Chart 4). However, the effect of a transmitted decline in external demand should not be underestimated, especially given the Czech economy's close links

Chart 3

The Czech Republic gains market share in Germany mainly during downturns there

Czech share of German imports in %; Germany's share of Czech exports in % (right-hand scale); downturns in Germany marked in grey; source: UN Comtrade database, CZSO, CNB calculations

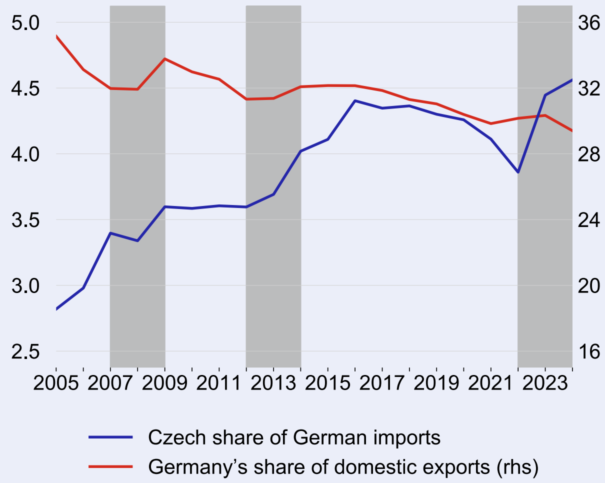
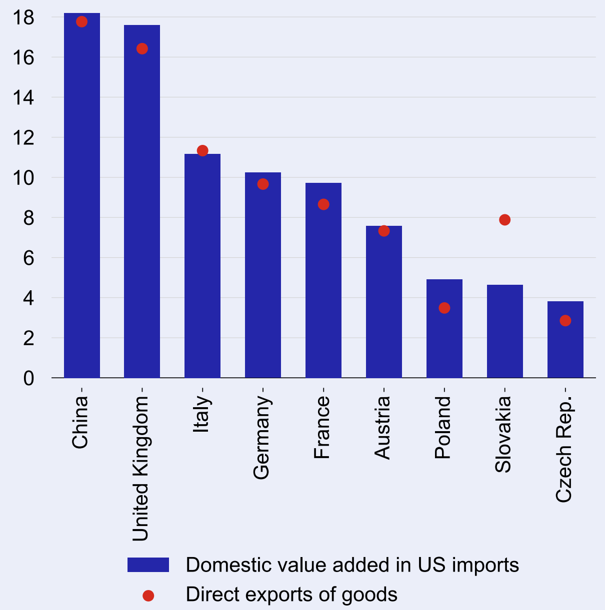


Chart 4

The Czech Republic's exposure to the USA is low, but secondary effects via its main trading partners persist

direct goods exports to USA and domestic value added of goods contained in US imports; share in % of individual countries' total exports; data for 2019; source: TiVA OECD, CNB calculations



to global supply chains and high exposures to the USA among its key trading partners, most notably Germany, China and the UK.

Current global developments are clearly having a negative overall effect on Czech goods exports. However, the adverse impacts can be expected to be largely dampened by domestic exporters reorienting towards sectors with bright prospects – such as LCT – and by Czech vehicles becoming increasingly competitive. Paradoxically, the Czech Republic's dependence on the German economy is reduced by its close ownership links, as intra-company imports are hit less hard by the economic situation. The above factors give cause for cautious optimism about the outlook for Czech exports.

[1] According to Czech Automotive Industry Association statistics, production dropped by 14% year on year in January and a further 7.8% in February.

[2] Despite these favourable trends, interest in electric vehicles is not yet sufficient to meet the emission limits requirements. As a result, carmakers recently succeeded in negotiating a change softening the system of penalties for carmakers that fail to comply with emission targets.

[3] The methodology and the full list of LCT products can be found in Trade in low carbon technology products, IMF, 2021.

[4] This topic was discussed in more detail in the box Territorial changes in Czech exports in the Winter 2025 MPR.

[5] This topic was discussed in more detail in the box The dependence of Czech exports on Germany in the Autumn 2023 MPR.

[6] In terms of ultimate ownership, Germany is by far the largest investor in Czech markets (21% of all foreign-owned Czech companies).

[7] By contrast, although the importance of Poland as a trading partner of the Czech Republic is increasing, Czech exports are lagging behind the growth in Polish demand. As a result, the Czech Republic's market share in Poland has decreased by 3.8% compared to 2019.

[8] The indicator of domestic value added in US imports takes into account value created in the Czech Republic and exported indirectly to the USA, for example as part of exports through other countries.

3 INFLATION

Inflation slowed slightly at the start of 2025 and was just below the upper boundary of the tolerance band around the inflation target. After falling to the target in April, inflation will accelerate again. This volatility will be due mainly to food prices. Inflation will be dampened by a deepening decline in fuel prices, while core inflation will go up moderately, mostly due to an increasing contribution of imputed rent. Both headline and monetary policy-relevant inflation will thus be slightly above the CNB's 2% target this year. They will decrease to the 2% target next year, aided by a gradual decline in cost pressures and a continued reduction in firms' profit margins in an environment of still tight monetary policy.

Inflation will be volatile in the spring months due to food prices

Inflation slowed slightly at the start of this year, due mainly to a sharp drop in administered price inflation. It will slow slightly further on average in 2025 Q2 (see Chart 3.1), but will fluctuate from month to month. Both the April slowdown in inflation[14] to close to the inflation target and its subsequent acceleration will be driven by volatile food prices. During the spring, the contribution of core inflation will increase modestly, while the decline in fuel prices will deepen further (see Chart 3.2).

Moderate administered price inflation will dampen headline inflation

Annual administered price inflation slowed sharply in Q1, mainly due to electricity prices switching from year-on-year growth to a year-on-year decline (see Chart 3.3). A further slowdown then occurred in March, as last year's sharp rise in the price of the road toll vignette was not repeated.[15] Administered price inflation will remain below 2% throughout 2025, due mainly to a year-on-year decrease in electricity and gas prices, counteracted by a rise in water supply and sewerage collection charges and heat prices and, from May, by an increase in licence fees.[16]

Market price inflation will stay slightly above 2% this year

Market price inflation, i.e. all price categories except administered prices, rose slightly at the start of this year (see Chart 3.4), as the persisting elevated cost pressures were decreasingly offset by shrinking profit margins. The still tight monetary policy also aided their decline.

Chart 3.1
Inflation will be slightly above the 2% target in 2025 and very close to it over the monetary policy horizon
headline inflation; y-o-y in %; confidence interval

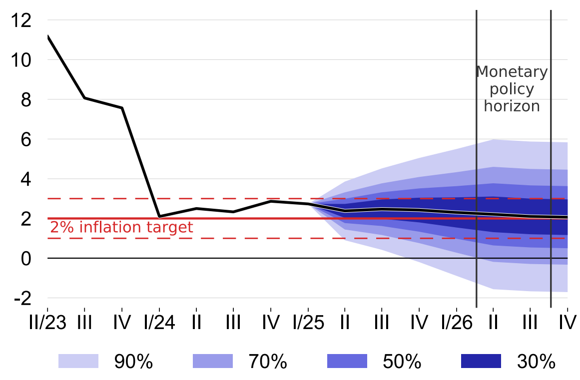
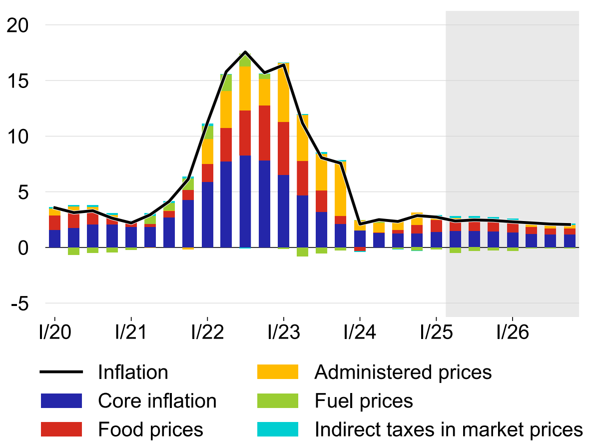


Chart 3.2
A decline in fuel prices will dampen headline inflation over the entire forecast horizon
structure of inflation; y-o-y changes in %; contributions in pp



[14] CPI inflation reached 1.8% in April 2025.

[15] The price of an annual road toll vignette rose by more than 50% in March 2024. It went up by around 6% in January 2025 following the introduction of a regular indexation scheme.

[16] The television licence fee was increased from CZK 135 to CZK 150 and the radio licence fee from CZK 45 to CZK 55 (from May 2025). These fees were last increased in 2008 and 2005 respectively. The range of payers of these fees was also expanded.

However, the downward pressure on profit margins will decrease and their anti-inflationary effect will lessen as household sentiment gradually recovers. Inflation will be driven in the next few quarters by continued slightly elevated growth in costs, which will prevail this year. Market price inflation will thus remain just above its usual level in 2025. As the above-average wage growth slackens and labour efficiency in the domestic economy improves, the contribution of costs will fall next year and market price inflation will thus approach 2%.

The elevated overall cost pressures will ease only gradually

Growth in total costs remained elevated in 2025 Q1 (see Chart 3.5) due mostly to a continued inflationary effect of the domestic economy. Growth in total costs will slow further in the spring due to the already observed drop in energy import prices stemming, among other things, from heightened uncertainty about global demand. The excessive cost pressures from the domestic economy will ease gradually over the entire outlook. These stem from only gradually slowing strong nominal wage growth in market sectors, which will not be offset this year by corresponding productivity growth. Domestic cost pressures will weaken next year owing to a cooling labour market. This will enable them to return gradually to close to their steady-state level of 2%. This will not be prevented by a slightly increasing contribution of core import prices, reflecting the expected inflationary effects of the lifting of the debt brake in Germany. Ongoing price convergence, which will lead to traditionally higher services inflation than goods inflation within core inflation, will also foster growth in costs.

Core inflation will pick up moderately due to imputed rent

Core inflation was flat at 2.5% throughout Q1. Growth in non-tradables prices stood slightly above 4%, while growth in tradables prices was only marginally positive. However, the momentum[17] of core inflation – and of services prices in particular – started to rise (see Chart 3.6). Nonetheless, the momentum of services prices adjusted for imputed rent slowed at the start of 2025. The rise in the momentum of services as a whole was thus due mainly to increasing growth in imputed rent, driven in particular by accelerating growth in prices of new property. A larger-than-expected increase in house prices due to a faster recovery of the housing market represents one of the risks of the forecast. Growth in imputed rent will continue into 2025 Q2. This will be one of the reasons for core inflation increasing to 3%. Core inflation will also be just below 3% in the subsequent quarters of this year. This will be fostered by pressures from the domestic economy, in particular continued relatively buoyant wage

[17] The three-month moving average of the annualised seasonally adjusted month-on-month changes.

Chart 3.3
Administered price inflation will be subdued this year due to a fall in energy prices

administered prices; y-o-y changes in %; contributions in pp; including taxes

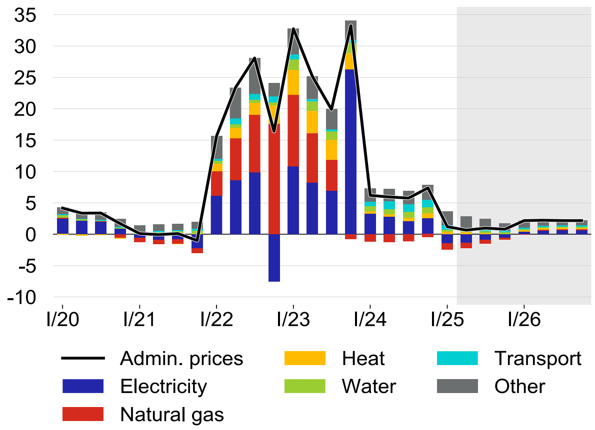
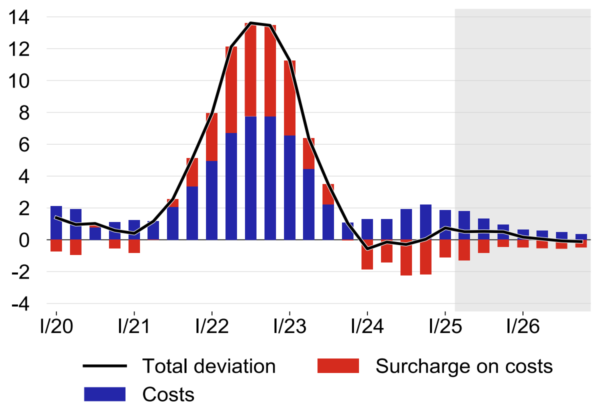


Chart 3.4
Elevated growth in costs will foster further price growth, while a decreasing surcharge on costs will dampen it

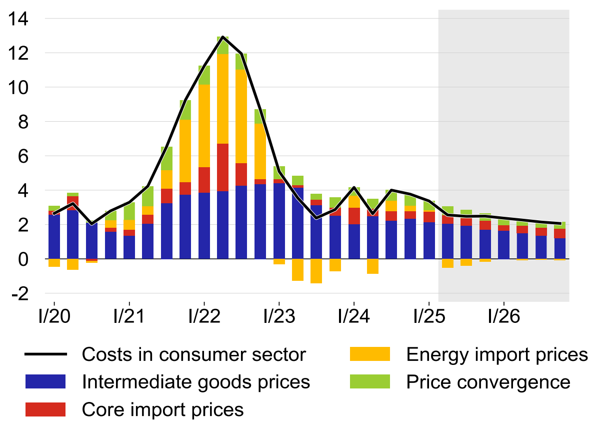
deviation from steady-state 2% y-o-y growth; contributions in pp



Note: The contribution of the surcharge on costs contains the gap in mark-ups in the sectors of consumer and intermediate goods and services.

Chart 3.5
The elevated growth in total costs will gradually decrease, aided by a drop in energy import prices this year

costs in consumer sector; q-o-q changes in %; contributions in pp; current prices; annualised



growth, in addition to an increased contribution of imputed rent[18] (see Chart 3.7).

Food price inflation will remain elevated in the coming quarters

Year-on-year growth in food, beverage and tobacco prices rose to more than 5% at the end of Q1. It will remain elevated (averaging around 4%) in the coming quarters due to both increased growth in agricultural producer prices and a continued rise in prices of some imported food commodities. Persisting elevated growth in food prices, and also in services prices, is another risk of the forecast.

The year-on-year decline in fuel prices will deepen further in Q2

Annual fuel price inflation was in negative territory in Q1 and will stay there throughout 2025 and 2026. This will be due to both a substantial decrease in oil prices and appreciation of the koruna against the dollar.

Headline inflation will be slightly above monetary policy-relevant inflation

Changes to indirect taxes[19] will increase headline inflation somewhat. Excise duty on tobacco and alcohol was raised by 5% and 10% respectively at the start of 2025. This was reflected in growth in the relevant prices in the first few months of this year. Excise duty on tobacco and alcohol will go up by a further 5% at the start of 2026. Headline inflation will therefore be slightly above monetary policy-relevant inflation over the entire outlook horizon (see Chart 3.8).

Like headline inflation, monetary policy-relevant inflation will be close to the central bank's 2% target over the monetary policy horizon,[20] i.e. in 2026 Q2 and Q3 (see Chart 3.8).

Chart 3.6
The momentum of core inflation increased at the start of 2025

annualised seasonally adjusted month-on-month changes in %; three-month moving averages

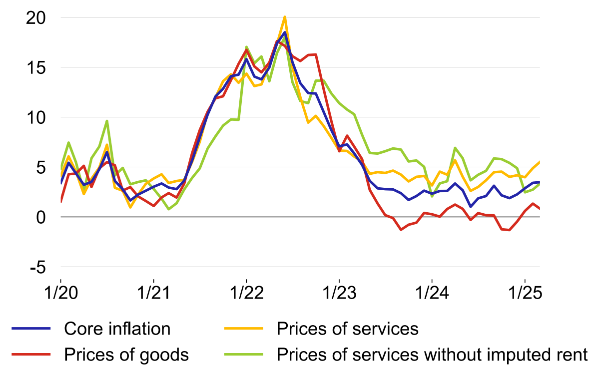


Chart 3.7
Core inflation will be just below 3% for most of the year amid an increased contribution of imputed rent

y-o-y changes in %; contributions in pp

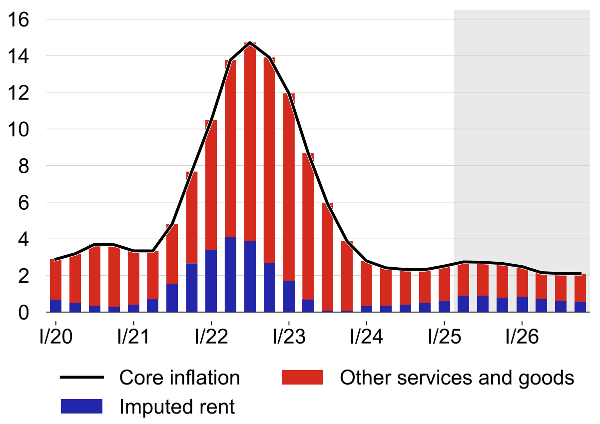
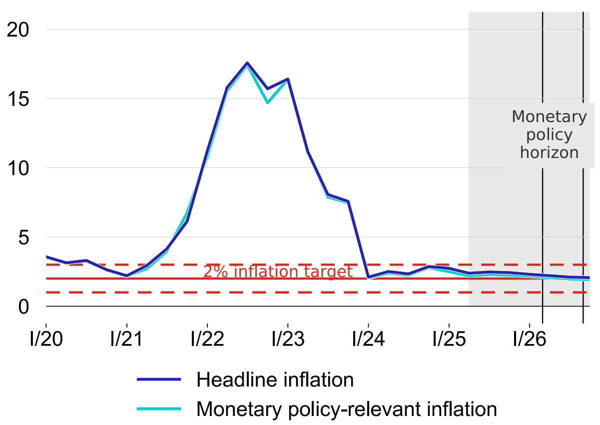


Chart 3.8
Headline and monetary policy-relevant inflation will both be very close to the 2% target at the monetary policy horizon

headline and monetary policy-relevant inflation; in %



[18] The forecast meanwhile assumes that growth in imputed rent will rise to 5% in 2025 Q2. It will remain elevated in the subsequent quarters and will slow to 3% during next year.

[19] We distinguish two types of direct effects on prices in relation to changes to indirect taxes – first-round effects (or accounting effects in the items concerned) and second-round effects (going beyond accounting effects in the items concerned). The first-round effects are the calculated price changes due to the indirect tax changes implied by full (accounting) pass-through of the tax changes to prices of the relevant items of the consumer basket. The second-round effects capture the immediate price changes going beyond the first-round effects and may be positive or negative. The second-round effects affect both monetary policy-relevant inflation and headline inflation. The CNB applies escape clauses to the first-round effects of indirect tax changes and in its forecast sets interest rates with regard to the outlook for monetary policy-relevant inflation.

[20] The monetary policy horizon (normally 12–18 months ahead) is the future time period which the CNB focuses on when making its monetary policy decisions. It reflects the length of the transmission of monetary policy. By targeting inflation at this horizon, the central bank also abstracts from short-term inflation shocks, whose impact monetary policy can control to only a minimal extent.

Comparison with the previous forecast: price developments

		2024	2025	2026	
Consumer prices	y-o-y changes in %	**2.4**	**2.5**	**2.2**	The inflation forecast has shifted slightly upwards because of higher food price inflation and core inflation.
	pp	(0.0)	(0.1)	(0.1)	
Administered prices	y-o-y changes in %	**6.3**	**0.9**	**2.2**	The administered price outlook for this year is slightly lower due to a less significant impact of the rise in licence fees and a somewhat deeper decline in gas prices.
	pp	(0.0)	(-0.2)	(-0.1)	
Core inflation	%	**2.5**	**2.7**	**2.2**	The core inflation forecast is slightly higher mainly as a result of expected stronger growth in imputed rent.
	pp	(0.0)	(0.2)	(0.1)	
Food prices (incl. alc. bev. and tobacco)	y-o-y changes in %	**0.7**	**4.1**	**2.3**	Food price inflation will be higher this year than in the winter forecast due to the observed outcomes and to expected brisker growth in agricultural producer prices.
	pp	(0.0)	(1.3)	(0.2)	
Fuel prices	y-o-y changes in %	**-0.8**	**-8.4**	**-4.1**	The fuel price forecast for this year is noticeably lower due mainly to a sharp decrease in oil prices and appreciation of the koruna against the dollar.
	pp	(0.0)	(-7.2)	(-0.8)	

Note: Changes compared to the previous forecast in brackets (a green label indicates an increase in value and a red label a decrease)

4 MONETARY POLICY

At its May monetary policy meeting, the CNB Bank Board lowered the two-week repo rate to 3.5%, the discount rate to 2.5% and the Lombard rate to 4.5%. The Bank Board assessed the risks and uncertainties of the outlook for the fulfilment of the inflation target as modestly inflationary overall. Consistent with the baseline scenario of the spring forecast is a decline in interest rates in 2025 Q2. As regards domestic inflationary risks, the risk of higher-than-expected inertia in services and food inflation persists. Potential additional growth in total public sector spending would lead to a risk of fiscal policy having an inflationary effect. Increased wage demands in the private and public sector are an additional upside risk. An inflationary risk in the longer term is a potential acceleration of money creation in the economy stemming from a further stronger recovery in lending activity, especially on the property market. Increasing barriers to international trade are a downside risk to global economic activity. However, the impact on inflation is not clear cut, especially in the longer term. The risk of markedly weaker German economic output is partly offset by the planned fiscal stimulus of the new German government.

Consistent with the baseline scenario of the spring forecast is a decline in interest rates in 2025 Q2

The forecast implies a further decline in short-term market interest rates in 2025 Q2 (see Chart 4.1). Interest rates will then approach the long-run neutral level of 3% and stay close to it in 2026. A drop in oil and gas prices owing to global trade uncertainty and related monetary easing by the ECB and the Fed are creating room for a decline in domestic interest rates. At the same time, inflation will be dampened by a continued fall in firms' profit mark-ups.

The three-year government bond yield will decrease slightly further during 2025 (see Chart 4.2) due to a continued decline in short-term rates.[21] In the spring, long-term rates will be higher than the more rapidly declining short-term rates for the first time in several years,[22] as the central bank may lower short-term rates to the policy-neutral level in its forecast after the inflation wave subsides. This makes the slope of the yield curve positive again, taking into account the risk and term premia linked to longer maturities.

Chart 4.1
Consistent with the forecast is a decline in interest rates in 2025 Q2
3M PRIBOR in %; confidence interval

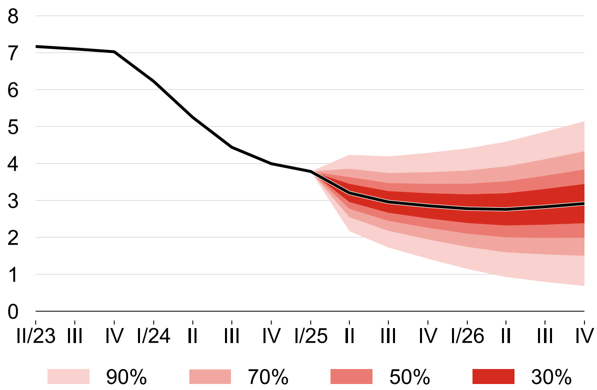
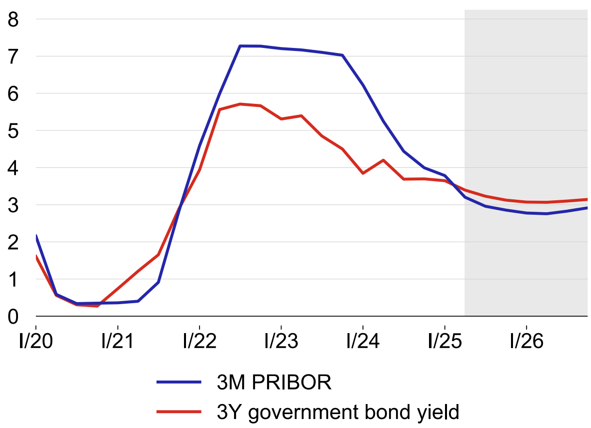


Chart 4.2
According to the forecast, the three-year government bond yield will decrease slightly further
3M PRIBOR in %; 3Y government bond yield in %



[21] The new extended g3+ model (presented in Appendix 1 to the Winter 2025 Monetary Policy Report), which is the CNB's core forecasting model from this Situation Report onwards, now includes the path of longer interest rates with a maturity of three years in its structural relationships.

[22] In previous years, the three-year government bond yield was conversely lower than short-term rates, as at that time the market expected short term interest rates to go down in the future after the end of the inflation wave caused by the post-Covid economic recovery, the disruption of supply chains and the energy crisis.

The relative stability of the koruna was temporarily disrupted by the announcement of an increase in tariffs on US imports

The outflow of equity capital and the repatriation of profits on foreign investment continued at the start of this year. The resulting depreciation pressures were largely offset by current account surpluses, which reflected a trade surplus. The latter was due mainly to continued growth in car exports. The koruna exchange rate was thus relatively stable in the first few months of this year, showing a slight appreciation trend (see Chart 4.3). The average exchange rate in 2025 Q1 as a whole was CZK 25.1 to the euro, representing year-on-year stability.

The koruna did not react strongly to the reduction of the CNB's key interest rate in February or to the published data on inflation. It depreciated modestly in early April in response to the announcement of new protectionist measures – specifically planned prohibitive tariffs – by the US president. However, the weakening of the koruna reversed in the following days after the rhetoric was toned down. While the koruna returned to its previous level against the euro, the US dollar weakened substantially in response to the developments in the USA. This resulted in the koruna strengthening against this world currency.

The koruna will be slightly above CZK 25 to the euro over the outlook horizon

The baseline scenario of the spring forecast expects the koruna to average CZK 25.1 to the euro in 2025 Q2. The koruna will then weaken slightly to close to CZK 25.3 to the euro (see Chart 4.3). This weakening stems from an only marginal improvement in labour productivity amid a narrowing interest rate differential vis-à-vis the euro area (see Chart 4.4). At the same time, the koruna appreciation pressures stemming from trade surpluses ease over the outlook horizon, as net exports will be adversely affected by global trade uncertainty.

The market interest rate outlook is slightly above the CNB forecast

The market outlook for short-term FRA rates did not respond much to communications by the CNB around the time of the Bank Board's February and March meetings. Both of the Bank Board's decisions (to lower key interest rates by 0.25 pp and then to leave them unchanged) had been widely anticipated. The outlook moved lower in early April in response to global events. The market thus expects the 3M PRIBOR to decline gradually at the one-year horizon (see Chart 4.5). This outlook is slightly above the interest rate path in the baseline scenario of the CNB's spring forecast. Most of the respondents (11) in the FMIE survey were expecting the 2W repo rate to be reduced by 0.25 pp at the May monetary policy meeting. A minority of the respondents (6) were expecting rates to be left unchanged. The analysts expect the CNB's key interest

Chart 4.3
The koruna is depreciating slightly over the outlook horizon

CZK/EUR exchange rate; confidence interval

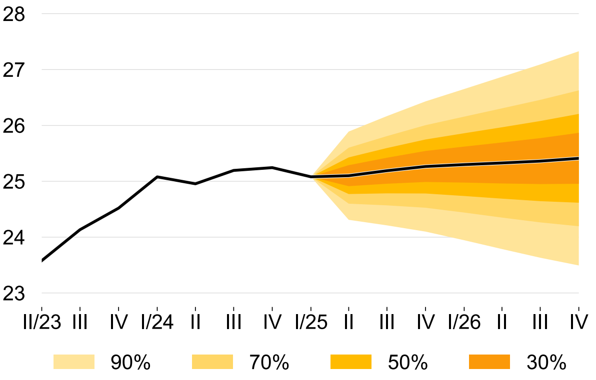


Chart 4.4
The interest rate differential has stabilised at slightly positive levels vis-à-vis euro rates and has been negative vis-à-vis dollar rates

pp; differential of Czech money market rates vis-à-vis EUR and USD rates

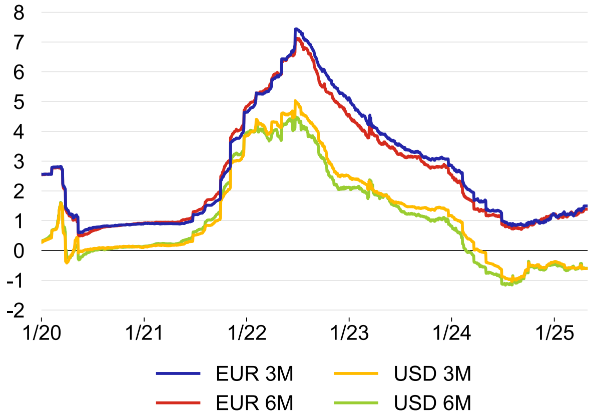
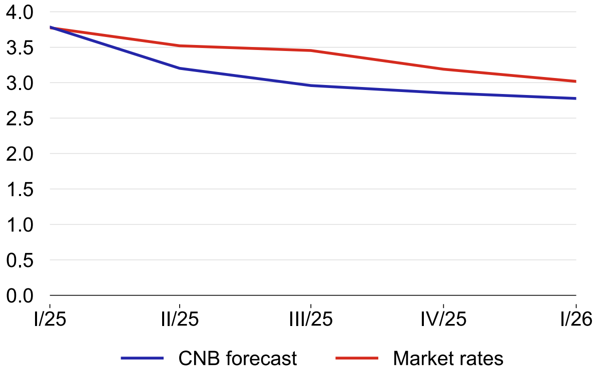


Chart 4.5
Most of the market was expecting rates to be lowered at the May meeting; the market outlook for this year is slightly above the CNB forecast

3M PRIBOR; FRA in %



Note: Market rates represent for 2025 Q1 the 3M PRIBOR and for 2025 Q2–2026 Q1 the average values of the FRA 1*4, 3*6, 6*9 and 9*12 rates for the last 10 trading days as of 30 April 2025.

rate to be in the range of 2.75%–3.50% at the one-year horizon.

On average, the analysts in the FMIE survey expect the koruna to be slightly below CZK 25 to the euro one year ahead, while those in the FECF survey expect it to be close to this level (see Table 4.1). Their forecasts thus expect the exchange rate to be rather stronger than in the central bank's outlook. The analysts believe the koruna will be very sensitive to global developments as well as domestic fundamentals. In their view, in addition to the rate of reduction of the CNB's key interest rates, the exchange rate will thus reflect the monetary policy stance of the Fed, the performance of the European (and especially the German) economy and the ECB's related interest rate settings. From the long-term convergence perspective, the koruna is expected to appreciate very slowly. The difference between the minimum and maximum expected exchange rate one year ahead in the two surveys is almost CZK 2 to the euro.

In its communications, the Bank Board expressed caution about lowering rates

Bank Board members devoted a large part of their communications to the high uncertainty in the global economy related to the US administration's trade policy. For their monetary policy decision-making in May, however, they saw domestic inflationary risks – the tight labour market (including relatively briskly rising wages), the still elevated services inflation, higher core inflation (driven mainly by imputed rent) and long-running public finance deficits – as particularly important. Caution about lowering rates further was expressed in interviews. One Bank Board member said she would decide between cutting rates by 0.25 pp and leaving them unchanged at the May meeting. But even if rates are lowered, she added, this may be the last cut in this cycle. The Bank Board member also said that market expectations seeing interest rates at 3% within the next 12 months are probably not very realistic.

*The **3M PRIBOR market interest rate** is a money market reference rate with a maturity of three months which is closely linked to the CNB's monetary policy rates. The CNB's key rate is the **two-week (2W) repo rate**, paid on commercial banks' excess liquidity as absorbed by the CNB in repo operations. The difference between the 3M PRIBOR and the 2W repo rate fluctuates over time and reflects, among other things, expectations regarding the nearest path of monetary policy interest rates. This difference currently (before the CNB Bank Board's May monetary policy meeting) stands at −0.1 pp.*

*The forecast for the **3Y government bond yield** reflects the expected 3M PRIBOR, which, however, it can deviate from due to a term premium. This long-term interest rate then passes through to the other parts of the forecast via interest rates for households and firms.*

Comparison with the previous forecast: interest rates and the exchange rate

Chart 4.6
The interest rate path is slightly lower than in the winter forecast
decomposition of changes in 3M PRIBOR forecast in pp

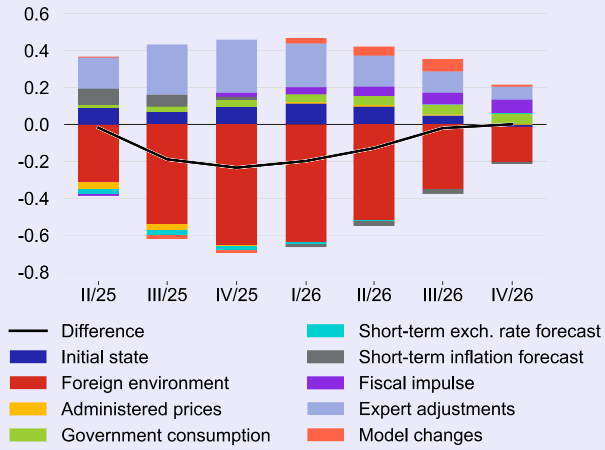
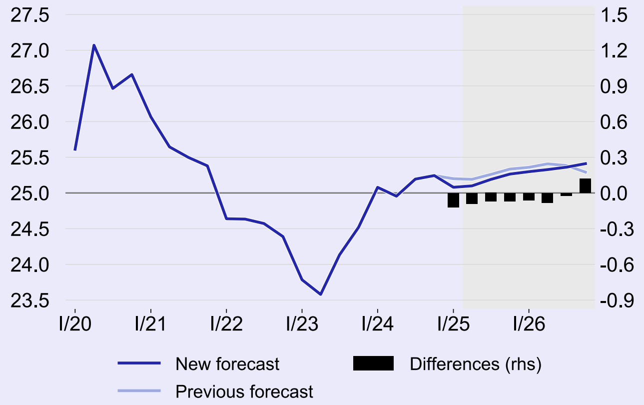


Chart 4.7
The exchange rate forecast has shifted to marginally stronger values
change in CZK/EUR exchange rate forecast; differences in CZK – right-hand scale



Comparison of the interest rate path with the previous forecast (see Chart 4.6)

- The **initial state** fosters slightly higher rates. This is due to a stronger recovery of the domestic economy at the end of last year.
- **Expert adjustments** contribute to slightly higher rates. Compared with the winter forecast, the inflationary adjustments have been upscaled towards worse labour efficiency due to trade wars. At the same time, they take into account the expected buoyant wage growth despite worse productivity. This also fosters higher rates.
- The dominant negative contribution of the **foreign environment** reflects a deeper expected economic downturn in the euro area in response to global trade uncertainty. This manifests itself in a lower outlook for ECB interest rates compared with the assumptions of the winter forecast.[23] Concerns about a global economic downturn were also reflected in a lower outlook for global energy prices and a shift in the outlook for the exchange rate of the euro against the dollar to stronger levels.
- Higher **general government consumption** due to expected higher defence spending next year and a larger **fiscal impulse** reflecting an increase in state subsidies for renewable resources are reflected in slightly positive contributions.
- The **short-term inflation forecast** for 2025 Q2 fosters slightly higher rates.
- **Model changes** foster marginally higher rates next year. They capture the difference between the winter forecast and the shadow forecast produced at that time by the extended model, which is used to prepare the baseline scenario from this forecast onwards.
- The effect of the **short-term exchange rate forecast** is negligible, as are the impacts of the revised outlook for **administered prices**.

Comparison of the koruna exchange rate with the previous forecast (see Chart 4.7)

- The koruna is marginally stronger than in the winter forecast due mainly to a wider interest rate differential vis-à-vis the euro area compared to the previous forecast and stronger observations at the start of this year.

[23] The spring forecast is based on the market outlook for foreign interest rates. The expert adjustment reducing the decline in rates in the winter forecast was removed.

Money market rates declined, while rates with longer maturities fluctuated strongly due to exceptionally high uncertainty

PRIBOR rates fell in response to the lowering of the CNB's key interest rates in February. The slope of the money market yield curve is slightly negative, due to expectations that monetary conditions will ease further in this way. Domestic rates with longer maturities (over one year) have largely followed rates on foreign markets (see Chart 4.8) and the slope of the curve in this segment has been positive for several months now.

The financial market was dominated by rapid geopolitical developments, including tariff wars, political statements on the war in Ukraine, the expected increase in defence spending in Europe and efforts to lift the debt brake in Germany. This was reflected in high volatility overall.

Overall, domestic IRS rates have declined by as much as 0.4 pp at individual maturities since the start of this year. Government bond yields have dropped by roughly the same amount. Long-term financing conditions have thus eased autonomously. At the end of April, the domestic IRS and government bond yield curves were slightly convex with a minimum at 2Y maturity (see Chart 4.9).

Client interest rates declined further in response to the decline in the CNB's key interest rates and market rates

The interest rate on corporate loans responds to a decline in short-term market rates quickly and with no lag. This rate has dropped by 3.3 pp to 5.4% since the CNB started lowering its key rates at the end of 2023 (see Chart 4.10). The difference compared to the rate on euro-denominated corporate loans is around 1 pp. This makes euro loans less attractive than they used to be. The interest rate on new loans for house purchase also declined slightly further in Q1. The rate on genuinely new loans has decreased by 1 pp to 4.8% since the end of 2023. This reflects a drop in IRS market rates with longer maturities, which mirror both expected changes in domestic monetary policy and developments on foreign markets. Real interest rates on loans adjusted for inflation expected one year ahead remain positive with a slightly restrictive effect. However, they are now close to their neutral levels.

Interest rates on deposits are also responding to the decline in monetary policy and market rates – the rate on new deposits with agreed maturity has fallen by around 3 pp to 3.1% since the end of 2023.

Growth in loans to corporations and households picked up

Growth in corporate loans accelerated slightly to 4.3% in 2025 Q1. The growth in corporate loans was due to both koruna and foreign currency loans and, in terms of sectors, mainly to loans in services (especially in professional, scientific, administrative and information activities) and real estate activities. The share of foreign

Chart 4.8
Domestic interest rates with longer maturities have mostly been decreasing since the start of this year

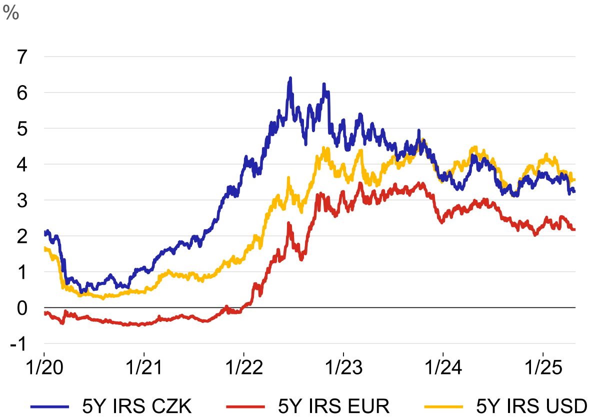


Chart 4.9
The Czech government bond yield curve has moved a little lower; it remains slightly rising

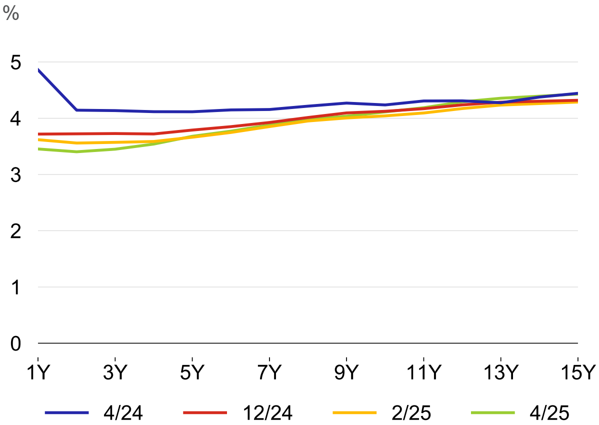
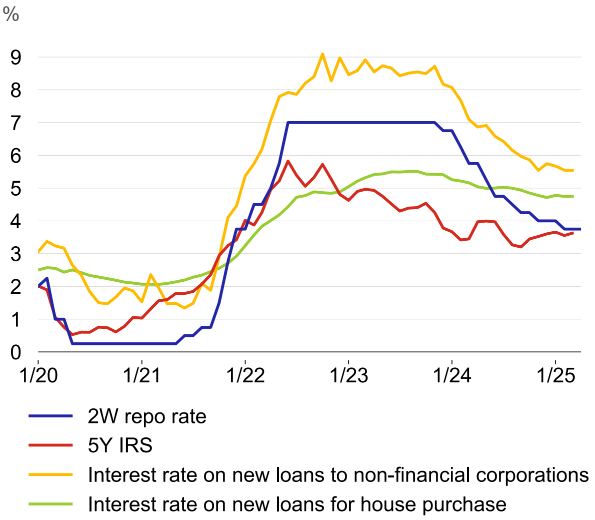


Chart 4.10
Interest rates on loans to corporations and loans for house purchase are gradually decreasing further



currency loans in total loans to corporations has stayed close to 52% for a year now. According to the Bank Lending Survey, the stronger demand for loans in Q1 reflected higher financing of fixed investment (especially property and new energy-saving technologies), working capital, mergers and acquisitions and corporate restructuring. A decline in interest rates also contributed to higher demand for loans. However, according to some banks, firms remain cautious about investing, mainly due to increased uncertainty related to the economic outlook, new orders, external demand and the introduction of tariffs by the USA. According to the forecast, growth in loans to corporations will rise in the second half of this year and in 2026 in response to gradually increasing economic growth and lower interest rates (see Chart 4.11).

The annual growth rate of housing loans to households has risen by almost 3 pp in the last year or so, reaching 5.8% in 2025 Q1. This reflects a large amount of genuinely new mortgages, which, with the exception of August 2024, are at their highest levels since the start of 2022 after seasonal adjustment (see Chart 4.12). In real terms (adjusted for inflation/change in property prices), genuinely new mortgages are at pre-Covid levels. The growth in demand for housing loans is due to expectations of continued growth in residential property prices and a slight drop in mortgage interest rates. However, banks have recently left their credit standards unchanged. According to the forecast, growth in housing loans will rise further both this year and next year due to growing demand for property.

Growth in consumer credit went up slightly in 2025 Q1, remaining high close to 10%. Demand for consumer credit rose due to an increase in consumption expenditure and a higher price level than in the past. According to the forecast, growth in consumer credit will start to slow during 2025.

Growth in the quantity of money in the economy slowed at the start of 2025

The annual growth rate of M3 slowed to 4.3% in 2025 Q1 (see Chart 4.13). This was due to a slight decrease in the positive contribution of general government financing, although it remains well above its long-term average. The contribution of net external assets fell markedly owing to an outflow of capital. By contrast, the contribution of loans to the private sector to growth in the quantity of money in the economy increased, and a similar trend can also be expected in the period ahead. The highly liquid money aggregate M1, consisting mainly of overnight deposits of households and firms, continued to grow rapidly amid declining interest rates.

Inflation expectations of firms fell but remain above the 2% target

According to a joint survey conducted by the Confederation of Industry and the CNB, the inflation expectations of non-financial corporations one year

Chart 4.11
Growth in loans to households and corporations will pick up further
annual rates of growth in %

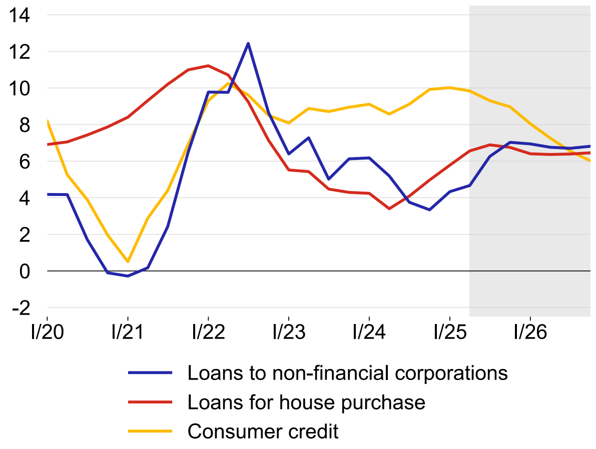


Chart 4.12
The volumes of new mortgages are increasing further
genuinely new mortgages, including increases; CZK billions

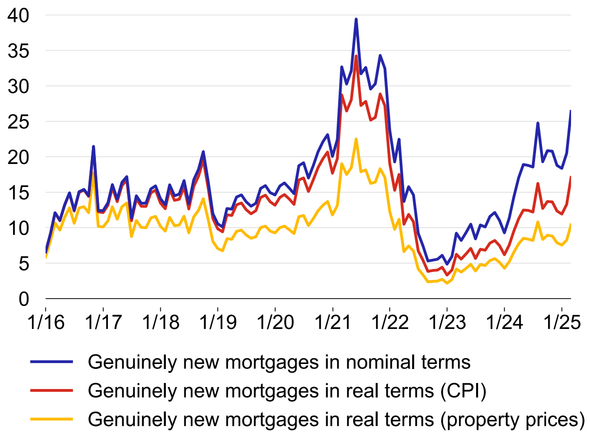
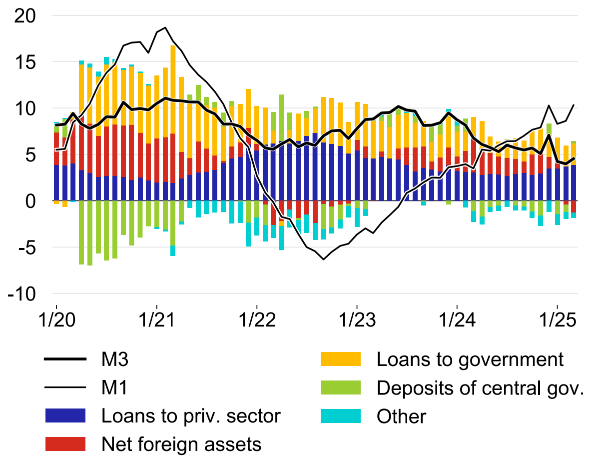


Chart 4.13
M3 growth slowed at the start of 2025
annual rates of growth in %



ahead declined below 3% in March (see Table 4.1). They are slightly higher three years ahead (see Chart 4.14). Firms are also asked about the prices of their main inputs (commodities, materials, energy, etc.) one year ahead. This forward-looking indicator fell to 3.5% in March. In the case of prices of firms' main outputs (final products), it stood at 2.4%.

Concerns about growth in the price level persisted among Czech households. The gradual (roughly two year-long) decline in inflation perceived by domestic households in the European Commission survey from all-time highs came to a halt in mid-2024. Perceived inflation has been almost unchanged since then. The inflation rate expected one year ahead rose slightly during 2024 but remains low relative to previous years (see Chart 4.15). According to the CZSO's April business survey, too, consumers' concerns about rising prices increased.

Inflation expected by financial market analysts is just above the CNB's 2% target at both the one-year and three-year horizons.

Real monetary conditions will have a moderately easy effect over the forecast horizon

The deviations of ex ante real interest rates and the real exchange rate from their equilibrium levels enter the real monetary conditions index (RMCI).

The real monetary conditions have a roughly neutral effect in 2025 Q2. They will remain roughly neutral in the later part of the forecast horizon; only the exchange rate component will be slightly easy (see Chart 4.16). The RMCI is based on the rates in the baseline scenario of the forecast. Given the decision taken, the rates will thus have a restrictive effect.

The risks of the outlook for the fulfilment of the inflation target are modestly inflationary

Greater disruption of global production chains due to trade wars is an inflationary risk. The domestic environment contains an upside risk to inflation arising from the impact of continued unbalanced growth in property prices on the overall price level, along with an inflationary risk of services and food price inflation staying higher for longer. The Inflation and Monetary Policy Risks Scoreboard continues to indicate a risk stemming from the high general government deficits, which may foster an increase in inflation in the longer term. By contrast, a stronger downturn in global demand caused by trade war-related uncertainty is a slight downside risk to inflation.

The spring forecast was prepared at a time of significantly increased uncertainty regarding protectionist measures by the USA. While customs barriers themselves act as a supply shock, leading to higher inflation and lower GDP growth, the increase in trade war-related uncertainty may result in a downturn in international demand. The effects

Table 4.1

Analysts' inflation expectations at the three-year horizon are slightly above the 2% target; those of firms are above 3%

sample of approximately 18 analysts and 150 corporations; 1Y horizon; annual percentage changes unless otherwise indicated

	12/24	1/25	2/25	3/25	4/25
FMIE:					
CPI	2.3	2.3	2.2	2.3	2.2
CPI, 3Y horizon	2.2	2.1	2.1	2.2	2.1
Real GDP in 2025	2.0	2.1	2.0	2.0	1.8
Real GDP in 2026		2.4	2.3	2.3	2.1
Nominal wages in 2025	5.7	5.8	5.8	5.8	5.8
Nominal wages in 2026		5.1	5.1	5.1	5.1
CZK/EUR exchange rate (level)	24.8	25.0	24.9	24.7	24.9
2W repo rate (%)	3.3	3.2	3.2	3.3	3.1
1Y PRIBOR (%)	3.3	3.4	3.3	3.3	3.3
Corporations:					
CPI	3.0			2.9	
CPI, 3Y horizon	3.4			3.2	
CF:					
Real GDP in 2025	2.3	2.2	2.1	2.0	1.9
Real GDP in 2026		2.6	2.5	2.4	2.2
Nominal wages in 2025	5.5	5.6	5.6	5.7	5.8
Nominal wages in 2026		5.0	4.8	4.9	4.8
CZK/EUR exchange rate (level)	24.9	25.4	25.4	25.4	25.1
3M PRIBOR (%)	3.3	3.3	3.2	3.2	3.2

Chart 4.14

Inflation expectations declined further among non-financial corporations at the three-year horizon but remain above the 2% target

sample of approximately 18 analysts and 150 corporations; %

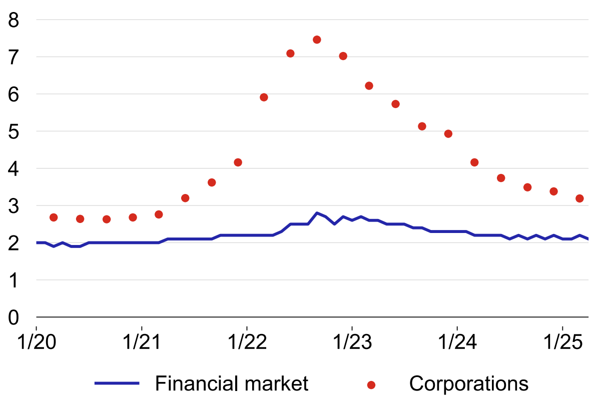
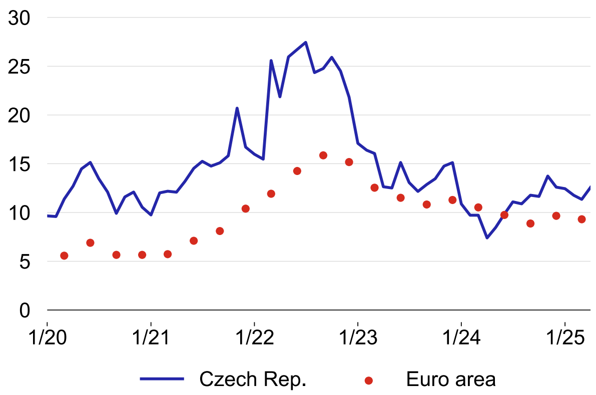


Chart 4.15

The inflation expectations of Czech and euro area households remain elevated

households' inflation expectations in next 12 months according to European Commission Business and Consumer Survey; sample of approximately 1,000 households for Czech Republic; %



of trade wars on the Czech economy are thus uncertain. Taken together with the domestic risks, the overall balance of risks is modestly inflationary.

The uncertainties of the forecast relate to the impact of the lifting of the debt brake in Germany and the future course of the war in Ukraine.

The duration and impact of the unbalanced growth in residential property prices on the overall price level is a domestic upside risk to inflation

The past year has seen a growing imbalance between supply and demand on the property market, which is being reflected in rising growth in prices of both new and older property (see Chart 4.17). In recent months, the volume of genuinely new mortgages in real terms has been around that in the pre-Covid period, which was characterised by an overheating of the housing market. All this is going on amid only slowly falling, still elevated mortgage interest rates. Any sharper decline in these rates could further increase demand for property. The Inflation and Monetary Policy Risks Scoreboard is also indicating an inflationary risk relating to house prices.

The baseline scenario of the forecast mainly incorporates the impact of property prices on imputed rent in the consumer basket. However, second-round effects on other categories (market rents, household equipment, etc.) may amplify this effect, especially next year.[24]

Besides the risk of a higher pass-through of property prices to headline inflation, another risk is that their excessive growth may last for longer than assumed in the baseline scenario. Moreover, the increased concentration of loans in the property segment may lead to inefficient capital allocation and thus will not support productivity growth.[25]

Continued higher services and food price inflation is an additional domestic upside risk

Services prices are maintaining higher growth this year due mainly to imputed rent, which reflects the above-mentioned high growth in property prices. The elevated price growth in other services categories is easing gradually but remains a risk in the context of buoyant wage growth.

Continued elevated food price inflation still cannot be ruled out. This reflects rapid growth in some food commodity prices, resulting in persisting high growth in

Chart 4.16
Monetary conditions will be broadly neutral at the forecast horizon
real monetary conditions index (RMCI); positive (negative) values correspond to easy (tight) monetary conditions

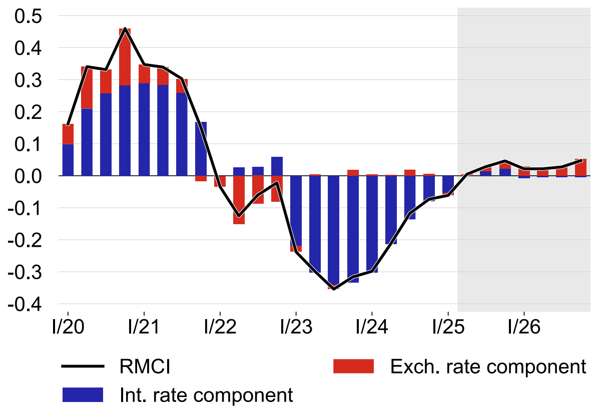
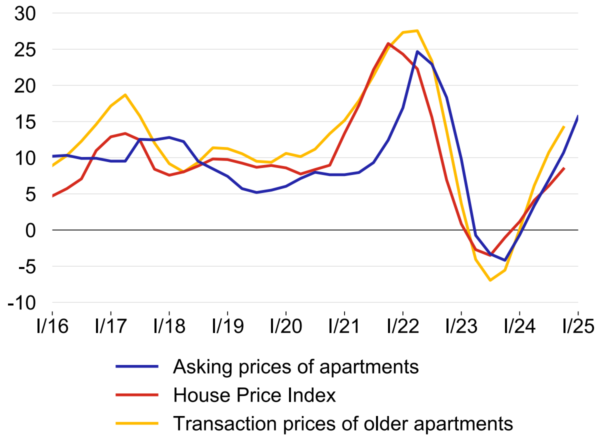


Chart 4.17
Growth in residential property transaction prices rose significantly further
y-o-y changes in %



[24] See Hromádková, E., Kubicová, I., Pikhart, Z.: Růst cen nemovitostí a jeho dopad do spotřebitelské inflace (Property price growth and its impact on consumer inflation, in Czech only) cnBlog, April 2025.

[25] See Kubicová, I., Matějů, J.: Úvěry jako motor produktivity? Jak které úvěry… (Loans as a driver of productivity? Well, that depends on the loan…, in Czech only), cnBlog, October 2024.

domestic agricultural producer prices (of 8.2% year on year in March).

Disruption of global production chains due to increasing tariffs is an inflationary risk

Modern production is highly globalised for the sake of efficiency, with firms using suppliers from various countries. The trade wars and related growing barriers are increasing the cost of imports and limiting the availability of certain inputs. Firms will thus have to switch to less efficient and more expensive resources, which may slow technological development and innovation. Productivity may fall and the world economy may slow as a result.[26]

Global supply chain disruptions would affect the domestic economy not only via worse domestic productivity, but also through weaker external demand. It can be assumed that industrial sectors, which account for a large share of GDP formation in the Czech Republic, would be hit particularly hard. Retailers would try to pass on the higher production costs caused by the fall in productivity and weaker koruna to end prices for customers. The CNB would have to react by cutting rates more slowly. A disruption of global production chains scenario was developed to illustrate this risk.

The tariffs are now the subject of negotiations, so it is not certain how strongly they will ultimately hit global trade. However, the current situation can be expected to have long-term effects on the world economy. The introduction of tariffs is leading to a loss of international confidence and changing the behaviour of governments and firms. The latter may stop preferring cheaper suppliers and favour certainty of supplies ("nearshoring" or "friendshoring"). These deglobalisation tendencies could foster a long-term increase in inflation pressures and are therefore reason for the central bank to be cautious.

[26] In this regard, the Covid-19 experience, which involved a sharp rise in inflation pressures due to supply chain disruptions, is salutary.

Disruption of global production chains scenario

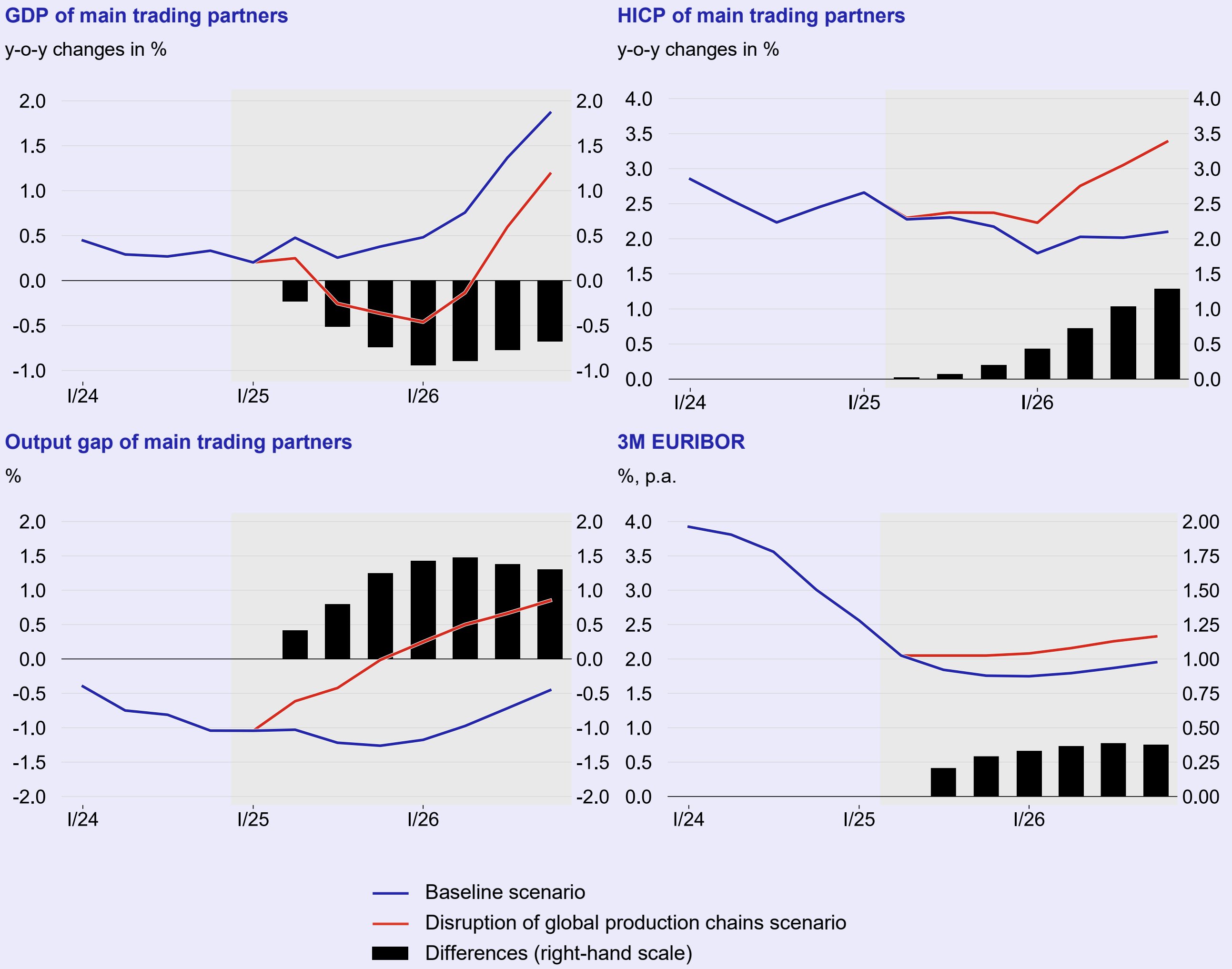
This scenario assumes greater disruption of global production chains. The projection of a worse situation abroad is constructed using the NIGEM global economic model by reducing the global productivity level this year and next year by 3.5% on average compared to the baseline scenario.

The decline in productivity in this scenario causes euro area real GDP to stagnate this year and increase only slightly next year. Given that the lower economic growth is caused mainly by a drop in potential output, reflecting, among other things, lower productivity, the negative output gap closes faster than in the baseline scenario. The gap turns positive at the start of 2026 and stays there over the remainder of the forecast horizon. Significant supply-side constraints generate inflationary pressures, leading to a higher ECB interest rate path[27] than in the baseline scenario over the entire forecast horizon, i.e. interest rates stay at 2% until the end of this year and go up slightly next year (see Chart 4.18).

Chart 4.18

Slower growth in the euro area due to reduced potential output generates inflationary pressures

comparison of baseline scenario with disruption of global production chains scenario



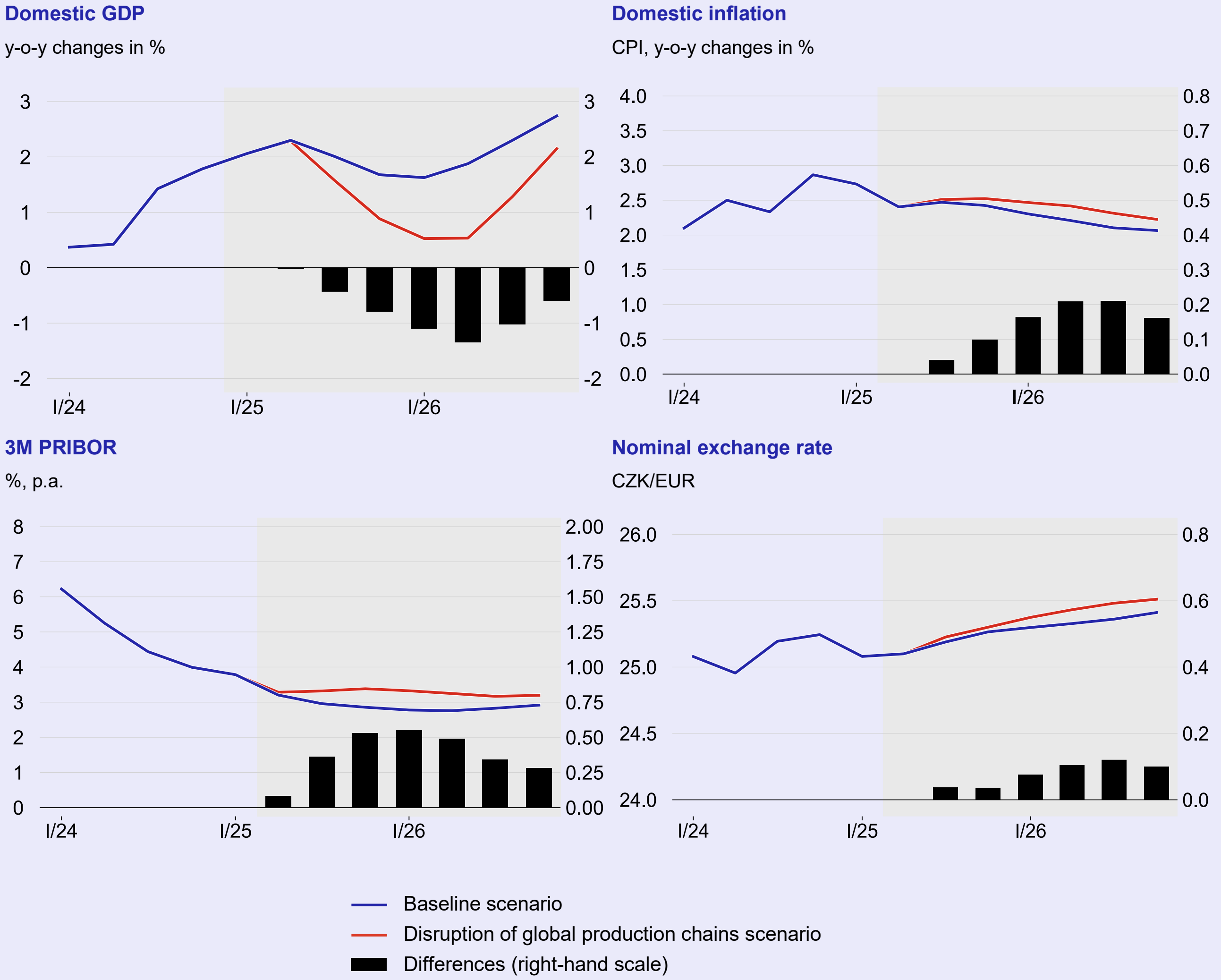
[27] Given the ECB's current communications, its rates are assumed to remain unchanged over the next few quarters, with a slight tightening not expected until 2026.

The worse productivity hits the Czech economy somewhat harder, as it negatively affects industrial sectors in particular, which traditionally have an above-average presence in the Czech Republic. More muted external demand also has an impact. These effects are reflected in slower economic growth than in the baseline scenario (approaching stagnation in 2026 Q1). The worse condition of the Czech economy compared to the foreign economy leads to a slightly weaker koruna than in the baseline scenario. Retailers try to pass on the higher production costs caused by the fall in productivity and the higher prices of imported inputs to end prices for customers. The central bank reacts to these stronger inflation pressures by leaving interest rates at higher levels both this year and next year. Interest rates are thus above 3% over the entire outlook. Despite the slower decline in interest rates, inflation comes down rather more slowly overall than in the baseline scenario (see Chart 4.19).

Chart 4.19

Faster domestic price growth amid a weaker exchange rate leads to a need for a tighter domestic monetary policy stance

comparison of baseline scenario with disruption of global production chains scenario



Trade wars also involve the risk of a downturn in global demand, which would conversely have an anti-inflationary effect on the Czech economy

As recent developments on global financial markets have shown, a rise in trade war-related uncertainty and concerns about economies becoming more indebted may lead investors to demand higher yields (risk premia) as compensation for holding long-term bonds. Yields on long-term bonds would thus increase and their prices would decline. This tightening of global financial conditions would foster a slowdown in economic growth and lower inflation.

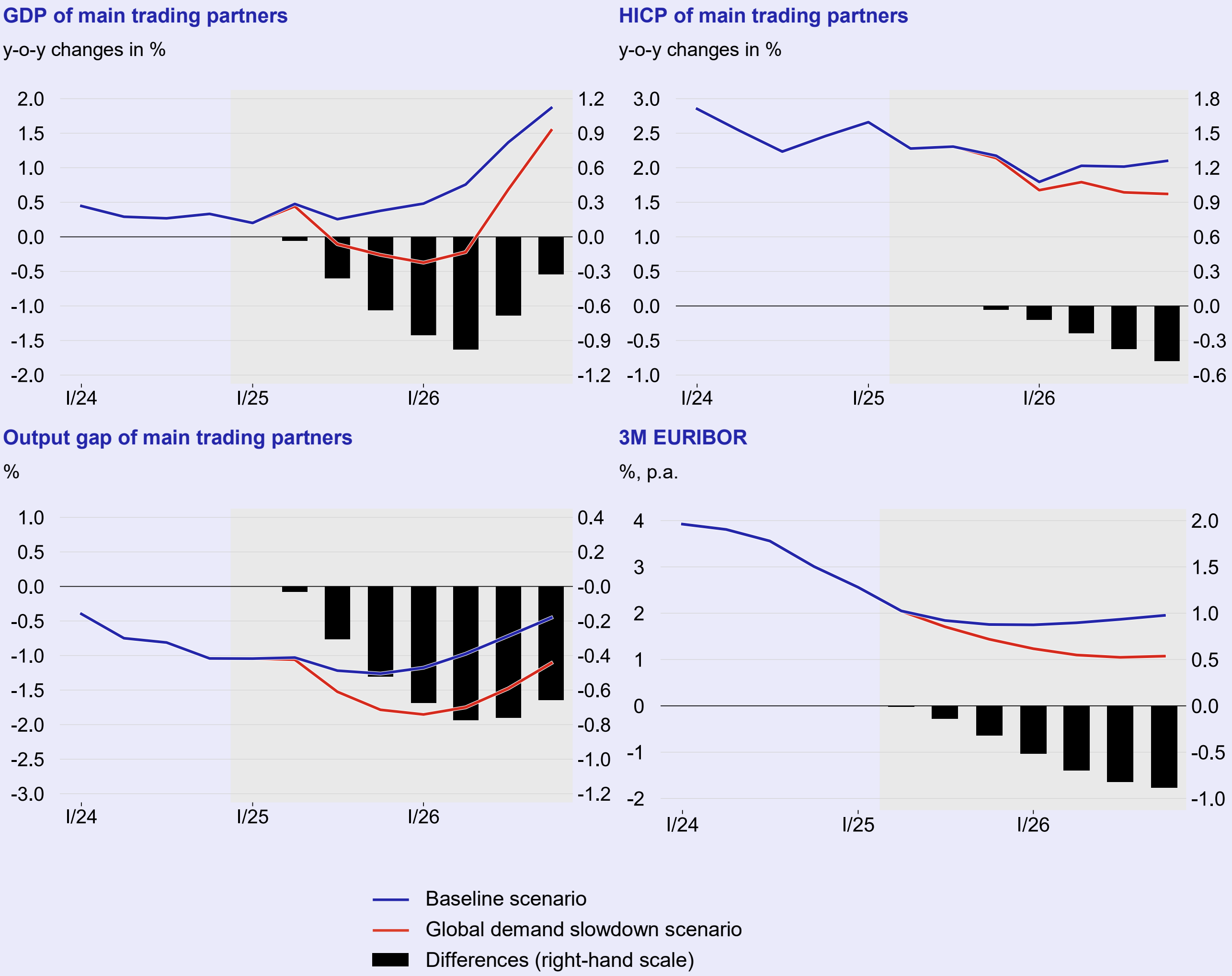
Higher corporate investment costs and a downturn in global demand would also be reflected in slower domestic economic activity. Lower external demand would lead to a weaker koruna, which would help the economy to recover and partly offset the anti-inflationary pressures in the Czech economy. This would also be supported by an easier monetary policy rate stance. The described situation is captured by a global demand slowdown scenario.

Global demand slowdown scenario

Following the recent turbulence in the bond market, this scenario illustrates the effects of a more pronounced tightening of global financial conditions. The NiGEM global economic model was used to draw up an external scenario. This assumes a 100 basis point increase in risk premia on global long-term interest rates for the next four quarters, i.e. from 2025 Q2 to 2026 Q1, with the shock completely fading out by the end of 2026.

The higher long-term interest rates increase the cost of financing for firms (for example, for new investments) and households (for example, mortgages). This dampens economic growth abroad, which implies a decrease in the GDP of the Czech Republic's main trading partners in the quarters ahead. These negative demand effects are reflected in lower inflation through a more negative output gap than in the baseline scenario. The ECB reacts to the more subdued price pressures by cutting interest rates more quickly (see Chart 4.20).

Chart 4.20
A tightening of global financial conditions leads to an economic slowdown and lower inflation abroad
comparison of baseline scenario with global demand slowdown scenario

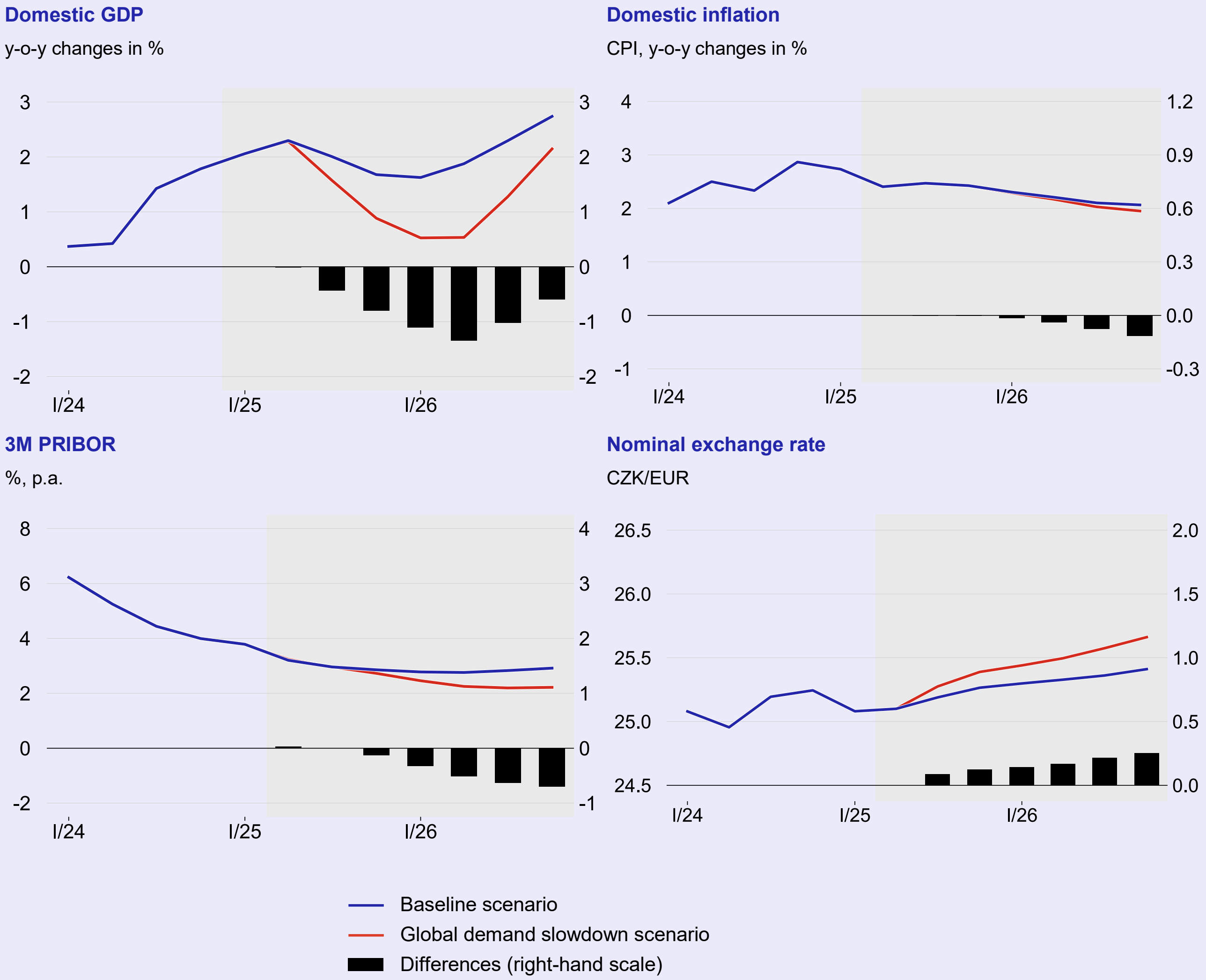


The increased uncertainty in global trade affects the domestic economy in two ways. First, domestic long-term interest rates increase, making corporate investment financing more expensive. Second, the downturn in global demand affects the domestic economy through lower net exports. Both effects result in slower economic growth than in the baseline scenario. The decline in external demand for domestic exports is reflected in a weakening of the koruna. The more subdued cost pressures stemming from the external environment and from the weaker demand lead to a need for a larger reduction in interest rates compared to the forecast. This ensures that the deviation of inflation is only marginal (see Chart 4.21).

Chart 4.21

A slowdown in global demand translates into slower GDP growth and lower inflationary pressures in the domestic economy

comparison of baseline scenario with global demand slowdown scenario



The impacts of the lifting of the debt brake in Germany and the future course of the war in Ukraine are uncertainties of the forecast

A constitutional reform was approved in Germany in March 2025. It lifts the debt brake for expenditure on defence and infrastructure. The baseline scenario of the forecast assumes that this fiscal stimulus will also have moderately positive effects on the Czech economy. However, their size and the speed of the onset of the stimulus are uncertain.

The future course of the war in Ukraine remains a general uncertainty of the forecast. The future course of the conflict is hard to predict at the moment and an escalation cannot be ruled out despite efforts to negotiate a ceasefire. This could also affect the Czech economy.

Persisting wide general government deficits are the main upside risk in the Scoreboard

Last year, the effects of the consolidation package were offset by higher flood-related spending. However, the deficit of 2.2% of GDP was safely below the reference value of 3% of GDP for the Maastricht convergence criterion. The deficit will widen somewhat in structural terms this year and next year. A structural deficit of 2% of GDP is expected in 2025. The upper limit of 2.25% of GDP set for this year in the Act on Budget Responsibility will thus be met. The persisting deficit also implies a still elevated contribution of general government financing to money growth (see Chart 4.13 above), which could foster an underlying inflationary environment in the domestic economy.[28] General government deficits may become entrenched in the Czech economy for longer in connection with the planned increase in defence spending of at least 0.2% of GDP a year (see Appendix 1). This risk is also intensified by the currently discussed pay increase for selected state employees (security forces and the army) this year. The other risks indicated by the Scoreboard match the issues described above.

The modestly inflationary assessment of the risks in a situation of unfinished disinflation is reason to be cautious about easing monetary policy

The baseline scenario of the spring forecast implies a 0.50 pp reduction of the 2W repo rate at the May meeting. However, the modestly inflationary balance of risks justifies the central bank leaving interest rates more restrictive than implied by the baseline scenario.

Domestic inflation is still above the 2% target. According to the baseline scenario of the forecast, it will not return to the target until the monetary policy horizon. Any materialisation of the upside risks could thus

[28] The contribution of general government debt, including the release of central government deposits, to M3 growth averaged 1.8 pp from January to March 2025, as against 0.2 pp in 2010–2019.

complicate the return of inflation to the target. Therefore, in a situation of significant uncertainty surrounding the spring forecast, including the onset of deglobalisation tendencies with potential inflationary effects, it is still appropriate to be cautious about easing monetary policy.

Equilibrium levels are uncertain

It still holds true that the level of the nominal neutral rate is uncertain. Estimates currently range between 2.75% and 3.5%. Even after the Bank Board's May decision to lower interest rates by 0.25 pp, the monetary policy stance will remain slightly restrictive, even if the neutral rate is close to the upper bound of the estimates.

Appendix 1: Monetary effects of the general government deficit in the context of rising defence expenditure

In 2019, Czech public budgets were close to being balanced and general government debt was below 30% of GDP. Since then, however, the preparedness of public finances has been tested first by the Covid crisis and then by the energy crisis, in response to which governments generated wide structural deficits. The fiscal imbalance was effectively reduced by a consolidation package, which lowered the general government deficit to close to 2% of GDP last year. Since the pre-Covid years, however, the share of monetary financial institutions (MFIs) in public debt financing has risen appreciably. Despite the decline in the deficit, this has made a significant contribution to growth of money in the economy, with a potentially inflationary impact. In the years ahead, public budgets will face new challenges due to growth in defence spending. Demographic trends should not be overlooked either. This appendix thus examines the monetary implications of fiscal deficits, with an emphasis on increased defence expenditure and its possible financing, which is changing rapidly in the context of a relaxation of the fiscal rules and changes in EU funding.

The general government deficit is funded primarily by issuing government bonds. The amount of government bonds issued has almost doubled over the last five years and was close to CZK 3 trillion – or 38% of GDP – in 2024. The total general government debt reached 43.4% of GDP in this period. MFIs have been the main contributors to financing the general government deficit in recent years (see Chart 1). They thus currently hold about half of the total amount of government bonds in their portfolios. This represents a sizeable increase compared to previous years. Non-residents account for almost one-third and non-monetary financial institutions for most of the rest.

Chart 2 shows that bank financing of general government is roughly correlated with the general government budget balance. Despite the consolidation package, general government has recorded elevated deficits over the last year. This represents an upside risk to inflation, one that the Monetary Policy Risks Scoreboard has also long been indicating. The structural deficit will widen modestly in 2025 and 2026. This year, it will be close to the cap set out in the Act on Budget Responsibility. The persisting deficit thus implies an additional contribution of general government financing to growth in the quantity of money in the economy. Future growth in defence spending and relaxation of the fiscal rules may thus cause general government deficits to stay higher for longer.

Chart 1
MFIs have increased their government bond holdings in recent years
CZK billions; end-of-period positions

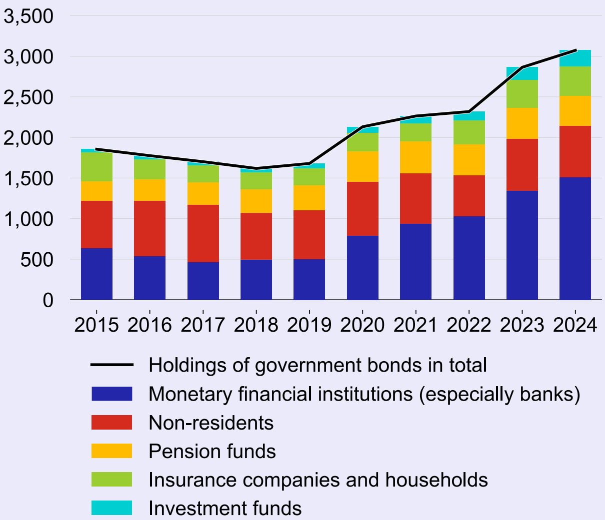
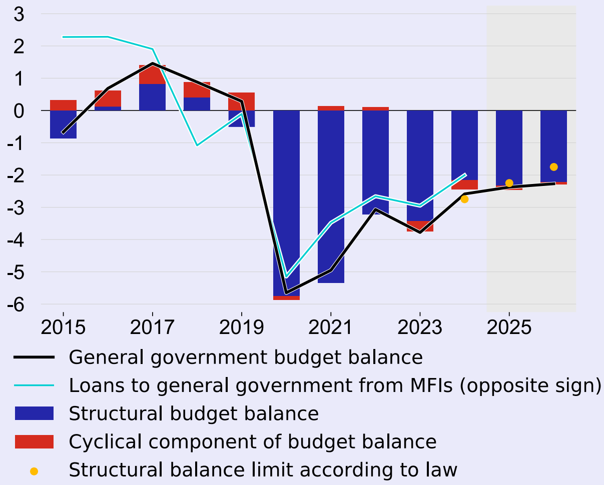
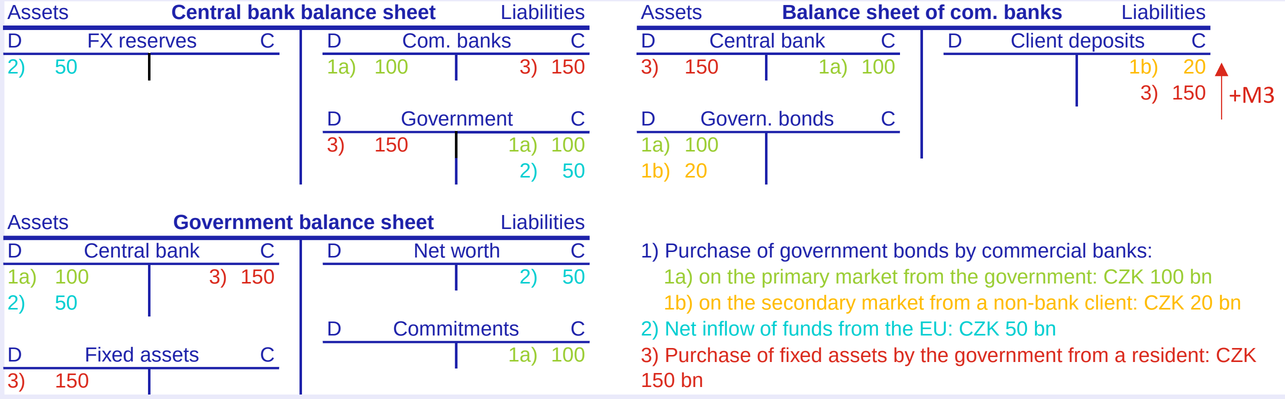


Chart 2
The general government structural deficit has been funded most of all by banks in recent years
% of GDP



The accounting scheme below illustrates the money growth mechanism when the general government deficit is funded by commercial banks or when there is a net inflow of funds from the EU. Banks finance purchases of government bonds on the primary market (case 1a, for illustration, e.g. CZK 100 billion) from an asset account containing liquidity deposited with the central bank. The government, for which the central bank keeps an account as part of its liabilities, gains (non-monetary aggregate) liquidity, against which a new liability arises. So far, this operation is within the financial system. A net inflow from the EU also increases the amount of government liquidity held in the central bank's balance sheet liabilities (case 2, e.g. CZK 50 billion). The central bank's international reserves rise at the same time. The central bank then converts the liquidity from euros to korunas off the foreign exchange market with no effect on the exchange rate. In both cases, it is only when government expenditure is realised from a resident (case 3, e.g. CZK 150 billion in total) that the liquidity is transferred back to commercial banks on the asset side of their balance sheet and the deposits of non-bank clients increase on the liability side. At this moment, there is an increase in the quantity of money in the economy as defined by M3. Purchases of government bonds by banks from non-banks on the secondary market also have a monetary impact.[1] This does not change the total liability of the government, but the change in bond holdings towards banks increases the deposits of these non-bank entities, which originally owned the bonds (case 1b, e.g. CZK 20 billion), and these are now part of the M3 money supply.

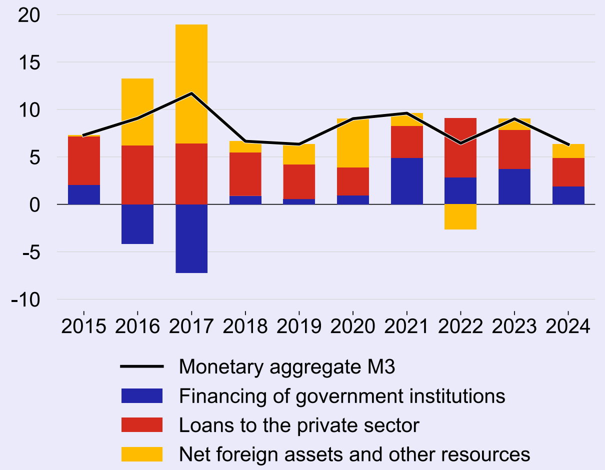
Scheme
Government bond purchases by banks and the subsequent realisation of public expenditure increase the money supply



Note: For illustration, the scheme gives the example of government investment expenditure, but any other type of expenditure or a reduction in the tax burden could be used. Initial balance on the "Debit" side (D) for asset accounts and on the "Credit" side (C) for liability accounts.

The recent elevated financing of fiscal deficits is creating an additional exogenous money growth factor (see Chart 3).[2] The contribution of general government financing by banks to M3 growth was 1.9 pp (about CZK 123 billion) on average in 2024, well above the long-term average (0.2 pp in 2010–2019), despite recording a modest year-on-year decrease. General government also obtains financing from abroad. This is reflected in growth in the quantity of money in the economy via a change in net foreign assets. The net debt of general government abroad went up slightly by CZK 12.3 billion in 2024. Debt financing of future defence spending would lead to additional growth in the quantity of money in the economy. Other things being equal, the latter is also increased by a net inflow of EU funds, although this would no longer involve additional money growth relative to the original allocation if the allocation were redirected from civilian projects to defence spending.

Chart 3
Fiscal deficits have been a big contributor to money growth in recent years
annual rates of growth in %; contributions in pp

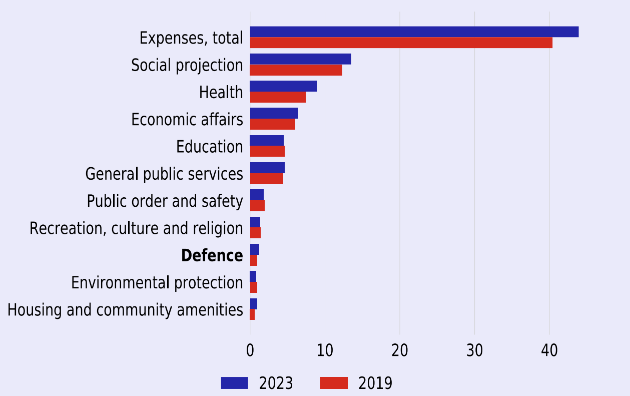


The relationship between the quantity of money in circulation and inflation shows considerable volatility. Earlier studies, such as the meta-analysis by Gertler and Hoffmann (2018),[3] documented an inverse relationship between money growth and inflation since the mid-1980s. However, a stronger link between money and inflation was identified in economies with higher inflation. Berger, Karlsson and Österholm (2023),[4] inspired by the surge in money growth and the rise in inflation after 2020, assessed the relation between these two variables using data for the euro area and the USA. Their results confirm the previous study's finding that the impact that a shock to money growth has on inflation varies considerably over time depending on the initial state of the economy and inflation. Borio, Hofmann and Zakrajšek (2023)[5] also confirm this non-linearity. The strength of the link between money growth and inflation depends on the level of inflation: it is one-to-one when inflation is high and virtually non-existent when it is low. In a high-inflation environment, looking at money growth can help to improve inflation forecasts. Additional money creation due to fiscal policy could thus have an inflationary effect especially in times of inflationary shocks in an environment of elevated inflation expectations.

Defence expenditure as a possible factor of general government deficits staying higher for longer

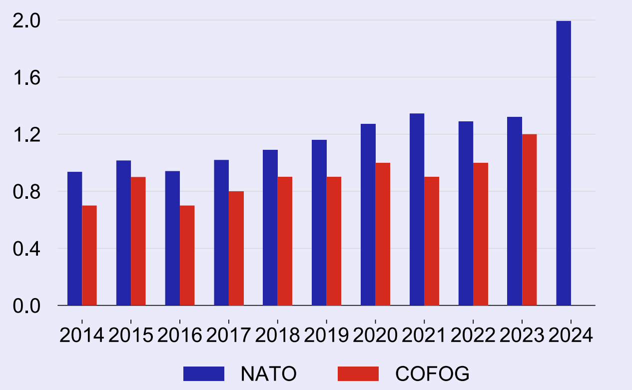
The current average EU defence spending of around 1.3% of GDP (data for 2023 according to the Classification of the Functions of Government, COFOG) seems insufficient in the context of the current geopolitical changes. For this reason, at the beginning of March 2025, the European Commission proposed new ways of financing additional defence spending, including a relaxation of the fiscal rules. This may cause a deterioration in public finances in EU Member States in the coming years. Some European countries neighbouring Russia (most notably the Baltic States and Poland) have sharply increased their defence spending since the outbreak of war in Ukraine in February 2022, but most other EU Member States have not. This is the case in the Czech Republic, where, as in the EU as a whole, general government spending is dominated by social spending, while defence funding is among the lowest items (see Chart 4). Growth in defence spending was not apparent in the Czech Republic until 2024, when it reached the required NATO minimum of 2% of GDP (see Chart 5). The present government, whose mandate ends in autumn 2025, has announced a plan to increase defence spending in NATO accounting terms. Defence expenditure is set to reach at least 2.2% of GDP by 2026 and go up by 0.2% of GDP annually and reach to 3.0% of GDP in 2030.

Chart 4
Defence spending in the Czech Republic is among the categories with the lowest funding
% of GDP; COFOG methodology



Note: The three largest COFOG expenditure items cover social expenditure (all social benefits and pension insurance benefits), public health system funding and government subsidy policy. Changes in legislation during the Covid-19 pandemic and the energy crisis caused them to increase, strengthening the role of government in terms of the share of redistributed funds in relation to GDP. A return to their original level could thus provide room for growth in defence spending.

Chart 5
Defence spending in the Czech Republic has mostly been rising since Russia annexed Crimea in 2014
% of GDP



Note: The NATO indicator captures defence spending according to actual, i.e. cash, expenditure. By contrast, the COFOG indicator is based on the accrual of expenditure flows (according to ESA 2010 national accounts methodology). In addition to different methods of recording defence spending, these indicators differ partly in terms of substance. The COFOG indicator is published with a lag of more than one year (t+15).

The European Commission is currently working on the legislative form of the proposals it presented in March 2025 as part of the ReArm Europe Plan. The Plan aims to support a massive long-term ramp-up of public and private[6] investment in defence. This will involve expanding the range of credit instruments (a new SAFE instrument[7] and a new area of European Investment Bank loans[8]) and more flexible use of the existing 2021–2027 cohesion policy funds. Given the growth in defence spending, the Commission envisages activating the national escape clauses of the Stability and Growth Pact, which will allow EU Member States to deviate by up to 1.5% of GDP from the annual net expenditure paths contained in their medium-term fiscal structural plans.[9] This deviation will include SAFE loans.

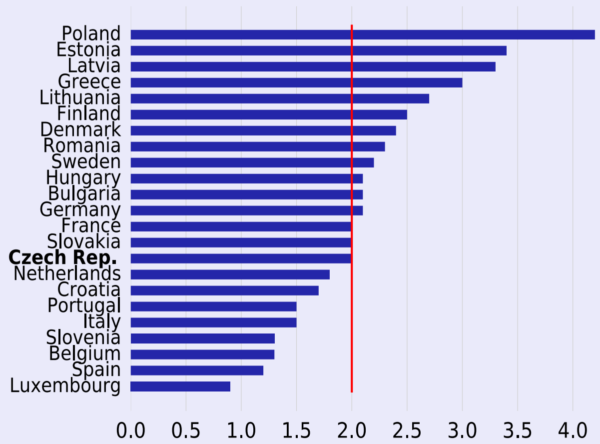
In this context, a proposal to amend the Law on Budgetary Rules has been passed in the Chamber of Deputies of the Czech Parliament extending the budget expenditure framework over the next eight years to include additional defence spending. Under this proposal, the difference between actual defence spending and 2% of GDP is not included in the expenditure limits. For example, with a 0.2% of GDP increase in defence spending next year, the effective cap on the structural deficit would shift to 1.95% of GDP in 2026 (from 1.75% of GDP). The amendment should take effect as soon as possible so that it can be used in the preparation of next year's budget. Owing to the rising defence spending, the Czech Fiscal Council recommended a temporary relaxation of the rules of budgetary responsibility in its quarterly opinion of March 2025. However, it adds that, given the fiscal space, non-military spending will need to be reduced in the medium term.

The Czech Republic, along with Slovakia and Germany, has the lowest defence spending in the group of countries for which Russia represents a security threat (either countries directly neighbouring it or countries without a common border with it but with a political representation that considers the Russian threat to be real; see Chart 6). However, in the event of a sustained increase in defence spending in the EU, the European arms industry can be expected to see a revival in production. In its measures, the European Commission aims to support the domestic EU arms industry. This should lead to shorter delivery times and, in turn, faster spending on military contracts. In addition to the new EU loan sources, it will be possible to draw on existing unused cohesion policy funds, which, in the Czech Republic, amounted to 46% of the 2021–2027 cohesion policy allocation (i.e. CZK 241 billion) at the end of February 2025, and with no impact on the general government balance. A reallocation to defence in the existing operational programmes is already envisaged in the mid-term review of the 2021–2027 programming period, which should be approved in the coming months.

Chart 6

A narrow majority of the EU Member States in NATO exceeded the NATO minimum of 2% of GDP in 2024

% of GDP



To sum up, in terms of monetary policy, the current public finance setup creates a creeping upside risk to inflation. In view of the changing security situation, which requires an increase in defence expenditure, and of the adverse demographic trends, the general government deficit is likely to remain elevated in the years ahead. A considerable amount of additional money will thus continue to be created in the economy. Its inflationary effects may be felt particularly acutely in fragile times when other inflationary shocks occur. This vulnerability stemming from elevated public finance deficits is cause for a cautious approach in the shape of a more restrictive monetary policy stance.

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[1] This category also includes portfolio shifts between banks and non-banks (insurance companies and pension funds).

[2] The relatively low contribution of general government financing in net terms to M3 growth in 2020 reflected a sizeable accumulation of central government deposits, which were released into the economy only later. Debt financing of general government expenditure crowds out other private expenditure if the economy is close to, or above, its potential.

[3] See Gertler, P., and Hofmann, B. (2018): Monetary facts revisited, Journal of International Money and Finance.

[4] See Berger, H., Karlsson, S., and Österholm, P. (2023): A note of caution on the relation between money growth and inflation, IMF Working Paper.

[5] See Borio, C., Hofmann, B., and Zakrajšek, E. (2023): Does money growth help explain the recent inflation surge?, BIS.

[6] In mid-March 2025, the European Commission adopted a strategy for a Savings and Investments Union to channel more private investment into defence, among other things. However, some of the internally declared targets of financial institutions limit the access of investors in the defence industry to credit sources. The Commission believes that the regulation on sustainability-related disclosures in the financial services sector does not prevent the financing of defence expenditure, but an additional explanation of the correct application of this regulation could help the finance and defence sectors to function better. In this context, the Commission is considering making defence an explicit EU investment objective.

[7] The European Commission is proposing a new SAFE (Security Action for Europe) regulation aimed at providing up to EUR 150 billion of loans backed by the EU budget. The new instrument would support common procurement of defence products by at least two partner countries, at least one of which must be an EU Member State. EEA/EFTA countries and Ukraine can also participate.

[8] EIB shareholders have adopted an Action Plan to improve access to EIB financing for European security and defence firms. A proposal to double annual investments in the security and defence sector to EUR 2 billion and to change the EIB's criteria for providing loans to this area is currently under preparation.

[9] Eurostat will introduce a data collection process in cooperation with the national statistical authorities. This will build on the COFOG category of "Defence", while also considering the NATO definition.

Appendix 2: Assessment of the fulfilment of the 2023 forecasts

__The CNB's macroeconomic forecast__ serves as an important guide for the Bank Board when setting interest rates. The unifying element used to create the forecast is the g3+ core forecasting model. The forecast predicts the most probable future evolution of the domestic economy and the domestic interest rate path consistent with this which ensures the achievement of the CNB's inflation target at the monetary policy horizon.

Reviewing the fulfilment of past forecasts is part of the CNB's forecasting and analytical system. This provides feedback on the use of the g3+ core forecasting model, which is the basic unifying element used in preparing the CNB's macroeconomic forecasts. The conclusions of these analyses are used to verify the model's current settings and to consider potential adjustments to them. This is also the case for the extended g3+ model, which will be the CNB's core forecasting model from this MPR onwards.[1]

In this appendix, we first compare the CNB's 2023 forecasts with the outputs of other analytical institutions. We then assess the fulfilment of the CNB's 2023 forecasts, starting with a comparison of their assumptions at the time (the exogenous inputs of the forecast) and the observed developments. We then compare the forecasted paths of the main domestic variables with the data observed now. The final passage is devoted to a hypothetical model simulation. It shows roughly what the forecast in the Autumn 2023 MPR would have looked like had the subsequently observed, but then unknown, future paths of all the assumptions entering the forecast been known at the time it was prepared.

The 2023 forecasts compared to other institutions

This first section compares the CNB's 2023 forecasts with other analytical institutions' contemporaneous outputs.[2] Chart 1 compares the CNB's forecasts for the full-year data of the main variables under review with the average forecasts of the other institutions and the subsequently observed outcomes for 2023 and 2024.

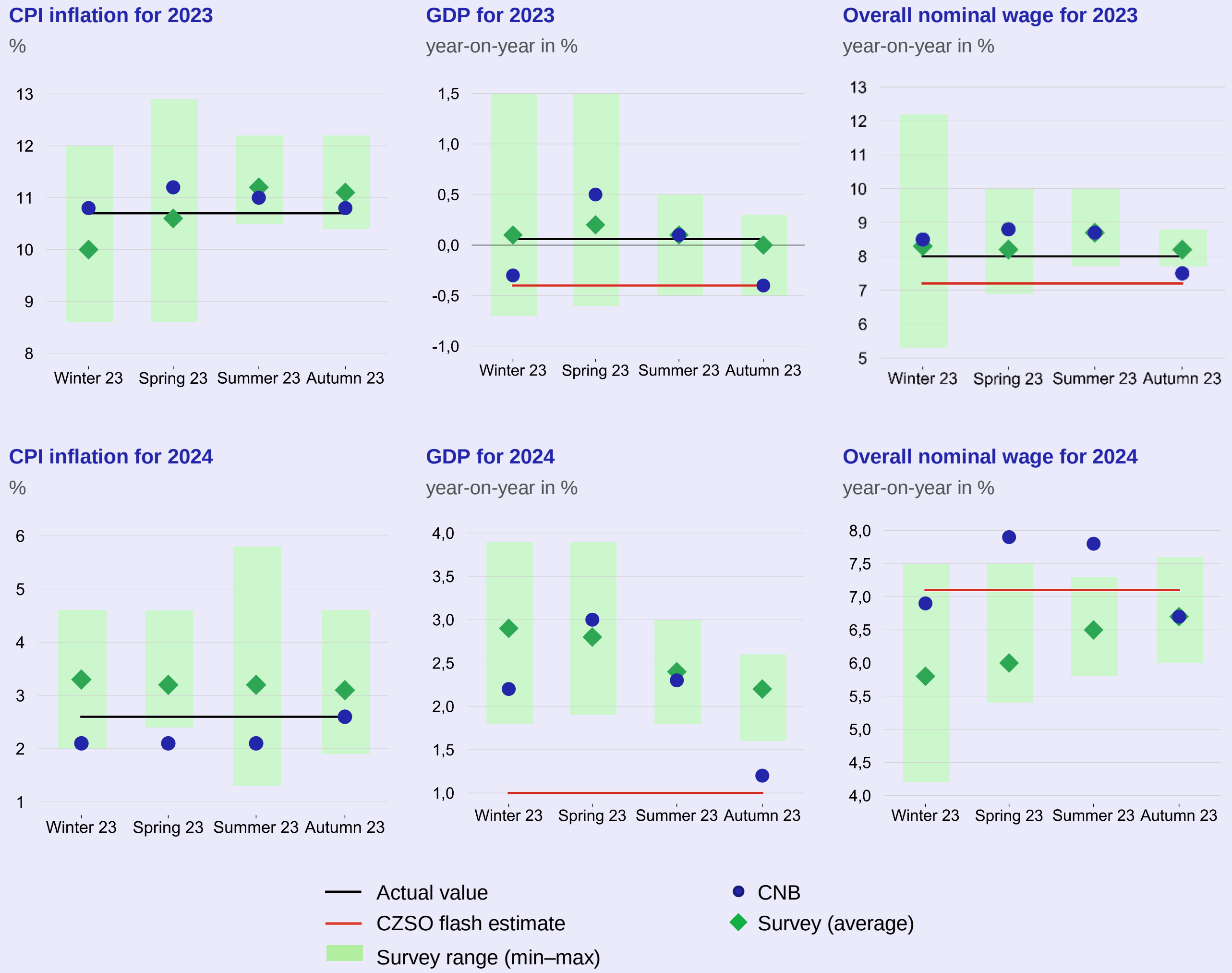
In 2023, the Czech economy continued to suffer from exceptionally high, albeit easing, **inflation**, accompanied by **economic stagnation** linked with the previous tightening of monetary policy at home and abroad. The purchasing power of households fell owing to lower **nominal wage growth** compared to inflation. However, the CNB's autumn and winter forecasts for inflation in 2023 were closer to what transpired than the average for the other institutions. In the case of GDP and wages, conversely, the CNB's autumn and winter forecasts were less accurate, as they assumed that the tighter monetary policy would have larger impacts, as was also indicated by the CZSO data at the time[3] (see Chart 1, line 1). By contrast, the spring forecast underestimated the depth of the economic downturn associated with the above-average high saving rate of households in an environment of global uncertainty, and with the problems in the industrial sectors of the Czech Republic's main trading partners, especially Germany. This inaccuracy was also consistently reflected in higher inflation and wage forecasts compared to the data observed later. The spring forecast was significantly less accurate than the average for the other institutions, and the summer forecast was almost equally accurate.

The CNB's spring and summer forecasts for **GDP** and **wage growth** in 2024 were not very accurate, although both the GDP and wage growth forecasts were comparably accurate to the average forecasts of the other analytical institutions (see Chart 1, line 2). GDP growth fell far behind expectations and the CNB's forecast did not correspond to the outcomes until the autumn 2023 forecast, while the other institutions remained too optimistic even towards the end of the year.[4] The saving rate also stayed at unusually high levels in 2024, and the decline in the industrial sectors of the Czech Republic's main trading partners continued. This was not anticipated by the winter, spring or summer forecast. Similarly, the spring and summer wage growth forecasts were also over-optimistic, while the other institutions systematically underestimated wage growth in 2024 on average. In 2024, **inflation** returned close to the inflation target and fluctuated in the upper half of the tolerance band. The slightly positive deviation of inflation from the target was driven mainly by above-average growth in administered prices caused by an increase in the administered component of energy prices. Unlike the CNB, the other institutions systematically overestimated inflation in 2024.

To sum up, the CNB's forecasts for 2023 were of similar quality to those of the other analytical institutions. By contrast, the CNB's forecasts for 2024 were more accurate.

Chart 1
Comparison of the CNB's 2023 forecasts with those of other institutions (full-year data for 2023 and 2024)

Example: the blue CNB dot corresponding to "Spring 2023" in the "GDP for 2023" chart shows the full-year GDP growth estimate for 2023 from the forecast published in spring 2023 (i.e. the Spring 2023 MPR).



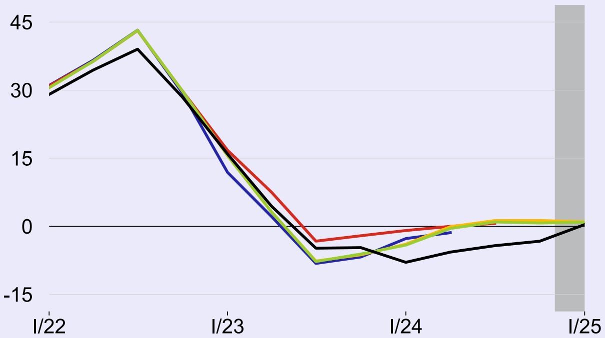
Assessment of the fulfilment of the 2023 forecasts – assumptions

The input assumptions of the CNB's macroeconomic forecast are industrial producer prices in the effective euro area (broken down into their core and energy components), foreign economic activity (the GDP trend and the output gap), the USD/EUR cross rate and the 3M EURIBOR interest rate and its shadow component capturing the ECB's unconventional monetary policy measures (asset purchases); see Chart 2. The domestic assumptions include the outlook for administered prices and nominal government consumption along with its deflator and the fiscal impulse.

Chart 2
Selected forecast assumptions

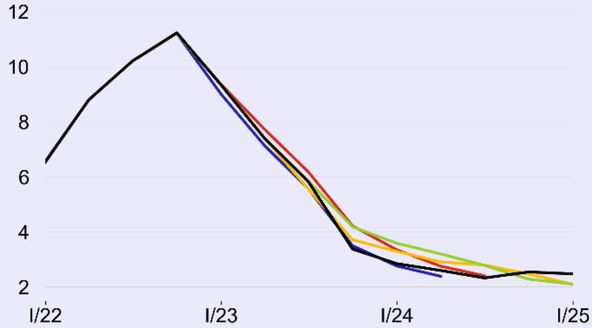
PPI in the effective euro area

y-o-y changes in %



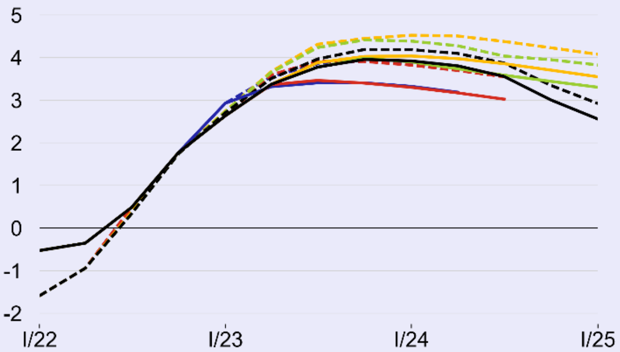
HICP in the effective euro area

y-o-y changes in %



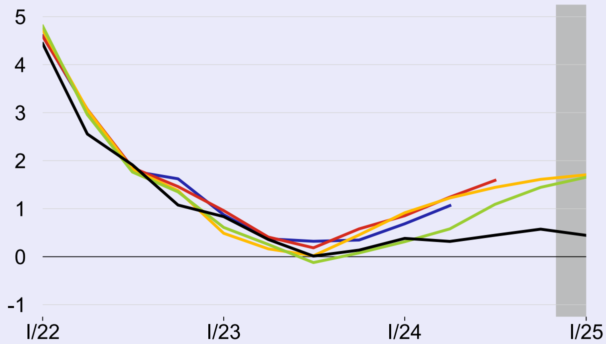
3M EURIBOR and shadow rate

%; shadow rate displayed in dashed lines



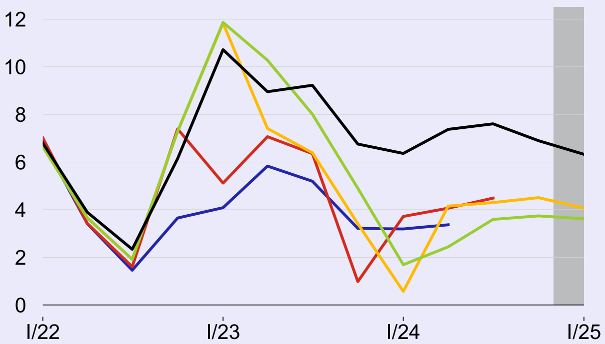
GDP in the effective euro area

y-o-y changes in %



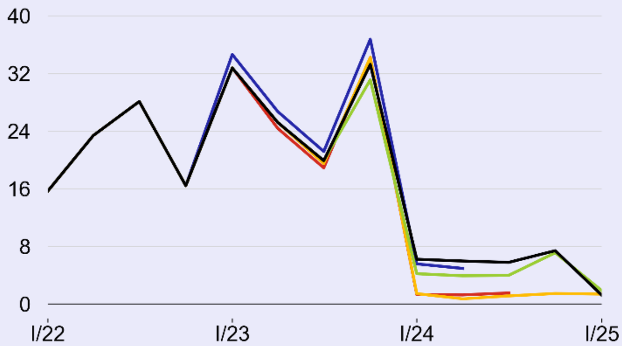
Domestic nominal general government consumption

y-o-y changes in %



Domestic administered prices

y-o-y changes in %



Compared to the assumptions of the 2023 forecasts, the observed developments in the **external environment** had a largely anti-inflationary effect, because – from the point of view of inflation – foreign industrial producer prices saw a larger correction. This was reflected in external consumer price inflation, which fell to normal levels faster. This was also partly due to the tighter monetary policy of the ECB, whose rates were higher than in the winter and spring forecasts. Conversely, the summer and autumn forecasts had assumed that the ECB would start the rate-cutting cycle somewhat later than it ultimately decided, as they had expected a stronger and faster rebound in economic activity. The latter was weaker than in all the 2023 forecasts. The strength of the effects of the unprecedentedly high energy prices on the industrial sectors of our main trading partners (especially Germany) came as a surprise for the 2023 forecasts, prompting the CNB to reflect on its forecasting system and to revise the external relationships involving energy prices.[5]

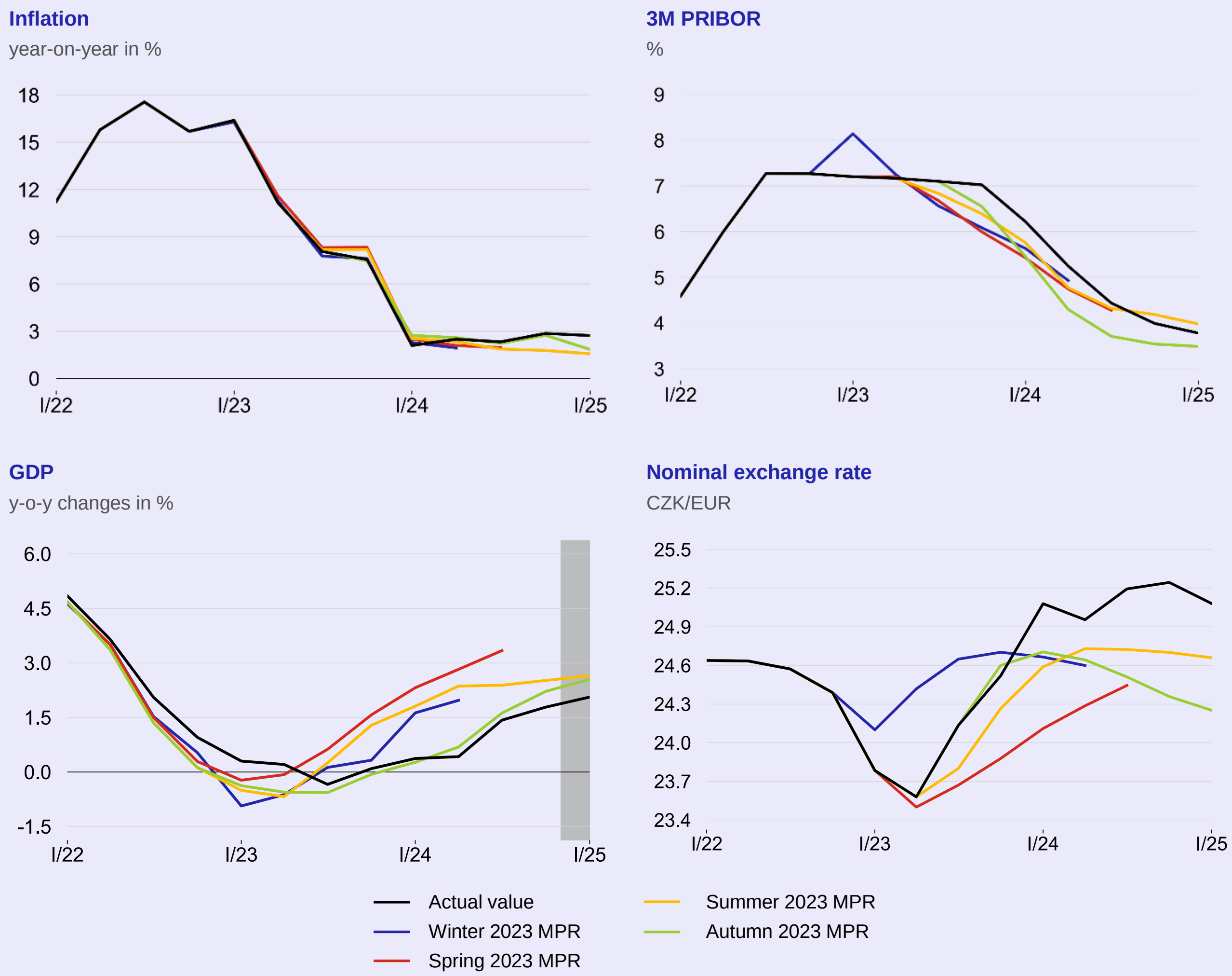
The domestic assumptions of the forecasts under assessment turned out to be off the mark mainly because of a more inflationary effect of fiscal policy last year. In the course of 2023, the forecasts progressively reduced the **government expenditure** outlook for 2024 as the effects of the announced consolidation measures were revised, either with a direct impact on general government consumption or through the fiscal impulse. The autumn 2023 forecast was the furthest off the mark, as it had expected growth in nominal general government consumption to slow noticeably and GDP growth to be additionally dampened through the fiscal impulse. In reality, the consolidation of public budgets was much more moderate. The pace of growth in nominal general government consumption slowed only slightly, and the impact of the negative fiscal impulse on economic growth was less than half compared to the autumn 2023 forecast assumption.

In addition, **administered price inflation** in early 2024 did not fall to the extent expected in 2023. At that time, the administered component of energy prices became more expensive due to the abolition of government energy distribution subsidies and the reintroduction of fees for renewable sources. The extent of the administrative changes was not known until autumn 2023, so the previous forecasts could not have taken them into account. By contrast, a faster correction of energy prices on commodity exchanges contributed – via a cheaper commodity component of energy prices – to administered prices not rising even more sharply.

Assessment of the fulfilment of the 2023 forecasts – key domestic variables

The deviations of the forecasts from the observed values were due mainly to weaker-than-assumed foreign economic activity, reflected in lower exports and gross fixed capital formation. At the same time, observed economic growth was lower relative to the forecasts under assessment, also due to household consumption. This reflected unfavourable consumer sentiment. Despite renewed growth in real income, households increased their consumption expenditure only gradually from the start of 2024 onwards. This was also reflected in a surprisingly high saving rate. These effects were partly offset by persistently higher-than-assumed growth in general government consumption.

Chart 3
Forecasts of key domestic variables



Consumer price inflation declined from initial double figures in 2023 in the context of a receding wave of inflation caused mainly by the previous overloading of global production chains and soaring energy prices. Price stability was subsequently restored at the start of 2024 and annual inflation reached exactly 2%. In the second half of 2023 and early 2024, however, inflation fell at a faster rate than the forecasts under assessment had foreseen. This was due to surprisingly low food price inflation. Leaving interest rates higher for longer also helped to return inflation to the target more quickly. Inflation has been in the upper half of the tolerance band since 2024 Q2, at levels slightly higher than the 2023 forecasts. This is due to a marked year-on-year weakening of the koruna against the euro, as well as higher administered prices and only gradually slowing general government consumption growth.

The winter 2023 forecast indicated a need for a further temporary increase in **interest rates** followed by a gradual reduction. However, the Bank Board decided to leave rates higher for longer. The subsequent forecasts identified a need to gradually ease monetary policy in the context of receding inflation pressures from the external environment over the monetary policy horizon.[6] In reality, interest rates remained unchanged for most of 2023, reflecting the Bank Board's determination to anchor inflation expectations firmly to the 2% target. Therefore, the rate-cutting cycle was not started until December 2023. Subsequently, interest rates continued to decline over the course of 2024, approaching the 2023 forecast levels in mid-2024.

The forecasts under assessment successfully predicted that the **koruna** would weaken over the outlook due to a narrowing interest rate differential vis-à-vis euro area rates. However, they underestimated the degree of depreciation. The winter forecast underestimated both the initial appreciation of the koruna in the first half of 2023, which was caused by unexpectedly favourable foreign trade in goods and services, and its subsequent depreciation. The subsequent forecasts, in which the pass-through of the narrowing interest rate differential vis-à-vis euro rates into the exchange rate was reduced based on expert judgement, also underestimated the degree of weakening of the koruna in 2023 and early 2024. With the benefit of hindsight, therefore, these interventions fostering a stronger koruna seem excessive. Since the start of 2024, the exchange rate has been close to CZK 25 to the euro (weaker than in the forecasts under assessment), partly due to growing global uncertainty.

Hypothetical Autumn 2023 MPR forecast incorporating knowledge of the actual evolution of the assumptions

Comparing the hypothetical factors-known simulation with the Autumn 2023 MPR forecast, headline inflation is slightly below the original forecast for most of the period under review (see Chart 4). The difference is due to a faster correction of industrial producer prices abroad and weaker demand from selected trading partners. However, this effect is partly offset by higher administered price inflation and the inflationary effect of faster growth in nominal general government consumption. The central bank reacts to the outlook for persistently higher growth in general government consumption by cutting interest rates more gradually so that inflation returns to the 2% target at the end of the period under review in the hypothetical simulation, while the weaker external demand leads to easier monetary conditions in the exchange rate components. The higher predicted GDP growth in the hypothetical factors-known simulation is due to a less significant consolidation of public budgets. By contrast, weaker economic output abroad leads to lower demand for domestic exports. However, this is not reflected in a commensurate reduction of the investment forecast.[7]

Comparing the hypothetical factors-known simulation with the historical outcome, observed inflation differed significantly only at the start of this year, when there was an unexpectedly rapid increase in food prices while core inflation remained slightly elevated. The fact that the difference in consumer price inflation is minimal throughout 2024 reflects similar overall monetary conditions, but the effects of their components differ (see Chart 4). In reality, nominal interest rates stayed higher for longer to stamp out the remaining pockets of inflation and to anchor inflation expectations. Conversely, the observed exchange rate of the koruna was weaker on average due to the lower economic output of European countries, which was also relatively weak compared to the USA, making the dollar more attractive than the euro. Domestic economic growth was below the hypothetical forecast over the entire period under review, due mainly to lower consumer appetite, which reflected slowly improving but still fragile household sentiment.

***A factors-known simulation** is a conditional simulation of the g3+ model representing a hypothetical version of the forecast incorporating knowledge of the actual evolution of the exogenous factors (assumptions) of the forecast. The simulation reflects the observed data (the ex-post known paths of the foreign environment, administered prices and government consumption). It thus tells us what the hypothetical forecast would have looked like if the observed evolution of its assumptions had been used in its preparation. However, the simulation is not a fully fledged forecast, as it does not contain additional expert adjustments.*

Overall, the factors-known simulation is closer to the historical outcomes than in the autumn 2023 forecast. At the same time, however, the hypothetical simulation reveals some imperfections in the use of new information in the forecast. These have partly been taken into account in the aforementioned model modifications.

Chart 4
Comparison of the forecast and the factors-known simulation (hypothetical forecast) in the Autumn 2023 MPR with the observed outcomes

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[1] The extended g3+ core forecasting model was described in more detail in [an appendix to the Winter 2025 MPR](#).

[2] The data sources are the CNB's forecasts and the Ministry of Finance (MoF) survey published in the 2023 Macroeconomic Forecast of the Czech Republic. The MoF survey is based on the publicly available forecasts of 11 institutions, seven of them domestic (CNB, Czech Banking Association, MLSA and domestic commercial banks) and the others foreign (e.g. European Commission, OECD, IMF). For the purposes of this document, the CNB's forecasts are excluded from the survey and the MoF's forecasts are included.

[3] The winter and autumn GDP forecasts were almost in line with the CZSO's flash estimate and the data at the time, which the forecasts anticipated during the year. The CZSO revised this data upwards in a later revision.

[4] The GDP and wage growth forecasts for 2024 can only be compared with the CZSO's flash estimate for now. The upper line in Chart 1 shows that these flash estimates are usually revised later on.

[5] See the [appendix to the Winter 2024 MPR](#), which presented the updated g3+ core forecasting model.

[6] The monetary policy horizon is the future time period which the CNB focuses on when making its monetary policy decisions and which reflects the lag in the transmission of monetary policy. By concentrating on inflation at this horizon, the central bank also abstracts from short-term inflation shocks, whose impact monetary policy can control to only a minimal extent.

[7] In the model used to prepare the forecast under review, investment was linked to potential growth, which was revised only slightly downwards compared to the assumptions of the autumn 2023 forecast, while the cyclical position of our trading partners deteriorated markedly faster than the forecast under review. This minor shortcoming of the effect of external demand on investment was therefore eliminated during the switch to the updated core forecasting model in spring 2024; since then, domestic investment activity has been linked to the foreign output gap.

ABBREVIATIONS

AEIS	Average Earnings Information System
BoE	Bank of England
BoJ	Bank of Japan
CF	Consensus Forecasts
CNB	Czech National Bank
CPI	consumer price index
CPIH	experimental consumer price index incorporating prices of older properties
CZK	Czech koruna
CZSO	Czech Statistical Office
DSTI	debt service-to-income
DTI	debt-to-income
ECB	European Central Bank
EIA	US Energy Information Administration
EIA	Environmental Impact Assessment
ESA	European System of Accounts
ESCB	European System of Central Banks
ESI	Economic Sentiment Indicator
ESR	electronic sales registration
EU	European Union
EUR	euro
EURIBOR	Euro Interbank Offered Rate
FDI	foreign direct investment
FECF	Foreign Exchange Consensus Forecasts
Fed	US central bank
FMIE	Financial Market Inflation Expectations
FOMC	Federal Open Market Committee
FRA	forward rate agreement
GDP	gross domestic product
GNP	gross national product
GVA	gross value added
GVCs	global value chains
HP filter	Hodrick-Prescott filter
HPI	house price index
ICT	information and communications technology
IEA	International Energy Agency
Ifo	index of economic confidence in Germany
ILO	International Labour Organization
IMF	International Monetary Fund
IR	Inflation Report
IRI	Institute for Regional Information
IRS	interest rate swap
JPY	Japanese yen
LFS	Labour Force Survey
LIBOR	London Interbank Offered Rate
LTV	loan-to-value
LUCI	Labour Utilisation Composite Index
M1, M3	monetary aggregates
MFIs	monetary financial institutions
MLSA	Ministry of Labour and Social Affairs
m-o-m	month-on-month
MPR	Monetary Policy Report
NAIRU	non-accelerating inflation rate of unemployment
NBS	National Bank of Slovakia
OECD	Organisation for Economic Co-operation and Development
OPEC+	The OPEC member countries and another ten oil-exporting countries (the most important being Russia, Mexico and Kazakhstan)
PMI	Purchasing Managers Index
pp	percentage points
PPI	producer price index
PRIBOR	Prague Interbank Offered Rate
q-o-q	quarter-on-quarter
repo rate	repurchase agreement rate
rhs	right-hand scale
SOFR	Secured Overnight Financing Rate
USD	US dollar
VAT	value added tax
y-o-y	year-on-year

KEY MACROECONOMIC INDICATORS

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
DEMAND AND SUPPLY												
Gross domestic product												
GDP (CZK bn, current p., seas. adjusted)	4653.8	4841.1	5185.3	5481.3	5891.4	5830.0	6306.1	7048.5	7626.5	8008.9	**8328.5**	**8680.2**
GDP (%, y-o-y, real terms, seas. adjusted)	5.0	2.5	5.3	2.8	3.5	-5.3	4.0	2.9	0.1	1.0	**2.0**	**2.1**
GDP (%, q-o-q, real terms, seas. adjusted)	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Household consumption (%, y-o-y, real terms, seas. adjusted)	3.7	3.5	4.5	3.4	3.0	-6.6	4.1	0.4	-2.8	2.0	**3.4**	**2.6**
Government consumption (%, y-o-y, real terms, seas. adjusted)	1.8	2.4	1.7	3.5	2.6	4.1	1.5	0.4	3.4	3.3	**2.3**	**1.2**
Gross capital formation (%, y-o-y, real terms, seas. adjusted)	11.7	-3.8	5.6	6.3	5.6	-9.3	18.4	10.2	-6.3	-4.4	**3.3**	**3.8**
Gross fixed capital formation (%, y-o-y, real terms, seas. adjusted)	8.9	-2.1	3.1	8.9	7.4	-4.8	6.7	6.3	2.7	-1.4	**-0.3**	**3.4**
Exports of goods and services (%, y-o-y, real terms, seas. adjusted)	6.1	3.9	7.5	3.5	1.2	-8.6	8.0	5.2	3.1	1.5	**1.2**	**3.5**
Imports of goods and services (%, y-o-y, real terms, seas. adjusted)	6.7	2.4	6.3	5.5	1.2	-8.5	13.6	6.0	-0.6	0.7	**2.6**	**4.3**
Net exports (percentage points, contributions to GDP growth)	-0.1	1.4	1.4	-1.1	0.1	-0.6	-2.8	-0.3	2.7	0.6	**-0.8**	**-0.3**
PRICES												
Main price indicators												
Consumer Price Index (%, y-o-y, average)	0.3	0.7	2.5	2.1	2.8	3.2	3.8	15.1	10.7	2.4	**2.5**	**2.2**
Administered prices (%, y-o-y, average, 14.59%*)	0.0	0.2	0.0	1.8	4.4	3.1	-0.2	20.9	27.8	6.3	**0.9**	**2.2**
Food prices (incl. alcoholic beverages and tobacco, %, y-o-y, average, 26.21%*)	0.1	0.2	3.7	1.6	2.6	4.2	2.1	12.9	10.0	0.7	**4.1**	**2.3**
Core inflation (%, y-o-y, average, 55.70%*)	1.2	1.2	2.4	2.1	2.7	3.3	4.8	13.2	7.6	2.5	**2.7**	**2.2**
Fuel prices (%, y-o-y, average, 3.51%*)	-13.5	-8.5	6.7	6.3	-0.4	-11.4	16.7	33.6	-12.1	-0.8	**-8.4**	**-4.1**
Monetary policy-relevant inflation (%, y-o-y, average)	0.2	0.5	2.5	2.1	2.9	3.2	3.9	14.6	10.6	2.3	**2.3**	**2.0**
Partial price indicators												
Industrial producer prices (%, y-o-y, average)	-3.2	-3.3	1.8	2.0	2.6	0.1	7.1	24.3	5.0	0.8	**0.0**	**0.7**
Agricultural prices (%, y-o-y, average)	-5.9	-5.8	7.4	-0.1	5.4	-3.8	7.4	31.8	-5.5	-6.6	**9.6**	**-1.3**
GDP deflator (%, y-o-y, seas. adjusted)	1.2	1.5	1.7	2.8	3.8	4.5	4.0	8.7	8.1	4.0	**1.9**	**2.0**
LABOUR MARKET												
Average monthly wage (%, y-o-y, nominal terms)	3.2	4.4	6.7	8.2	7.9	4.6	5.8	4.3	8.0	7.1	**6.1**	**4.9**
Average monthly wage in market sectors (%, y-o-y, nominal terms)	3.2	4.3	6.7	7.7	7.6	4.1	6.1	4.7	8.4	8.0	**6.3**	**5.1**
Average monthly wage in non-market sectors (%, y-o-y, nominal terms)	3.3	4.8	7.1	10.2	9.2	6.9	4.4	2.6	6.0	3.0	**5.3**	**4.2**
Average monthly wage (%, y-o-y, real terms)	2.9	3.8	4.2	5.9	5.0	1.4	2.0	-9.3	-2.4	4.5	**3.6**	**2.7**
Unit labour costs (%, y-o-y)	0.1	3.0	3.8	6.5	4.2	5.9	3.1	6.1	7.8	5.2	**4.2**	**2.6**
Aggregate labour productivity (%, y-o-y)	3.5	1.5	3.8	1.7	3.7	-3.0	3.0	1.8	-1.1	0.8	**1.6**	**1.5**
ILO general unemployment rate (%, average, age 15–64, seas. adjusted)	5.1	4.0	2.9	2.2	2.0	2.6	2.8	2.2	2.6	2.7	**2.9**	**3.1**
Share of unemployed persons (MLSA, %, average, seas. adjusted)	6.5	5.5	4.2	3.2	2.8	3.6	3.8	3.4	3.6	3.8	**4.2**	**4.4**
Employment (ILO, %, y-o-y)	1.3	1.8	1.5	-1.4	0.1	-1.4	0.3	-1.6	1.5	2.6	**0.6**	**0.6**
Full-time employment (%, y-o-y)	2.1	1.8	2.2	1.5	-0.3	-1.7	0.2	0.7	-0.1	-0.1	**0.1**	**-0.1**
PUBLIC FINANCE												
Government budget balance (ESA2010, CZK bn, current prices)	-31.0	33.2	75.6	48.3	16.7	-329.3	-312.3	-216.3	-286.1	-177.2	**-171.2**	**-203.2**
Government budget balance/GDP** (%, nominal terms)	-0.7	0.7	1.5	0.9	0.3	-5.6	-5.0	-3.1	-3.8	-2.2	**-2.1**	**-2.3**
Structural balance/GDP (%, nominal terms)	-0.9	0.1	0.8	0.4	-0.5	-5.8	-5.4	-3.2	-3.4	-1.8	**-2.0**	**-2.2**
Government debt (ESA2010, CZK bn, current prices)	1836.0	1754.7	1749.7	1734.6	1740.3	2149.7	2566.8	2997.6	3234.1	3491.9	**3690.0**	**3920.1**
Government debt/GDP** (%, nominal terms)	39.5	36.2	33.8	31.7	29.6	36.9	40.7	42.5	42.5	43.6	**44.3**	**45.2**
EXTERNAL RELATIONS												
Current account												
Goods and services, net (CZK bn, current prices)	274.3	365.1	394.2	332.6	358.4	388.8	232.2	75.9	377.6	522.5	**472.5**	**496.8**
Current account (CZK bn, current prices)	20.7	85.2	79.8	21.5	19.6	102.5	-129.7	-330.3	-8.5	140.5	**88.6**	**95.8**
Current account/GDP (%, nominal terms)	0.4	1.8	1.5	0.4	0.3	1.8	-2.1	-4.7	-0.1	1.8	**1.1**	**1.1**
Foreign direct investment												
Direct investment (CZK bn, current prices)	49.7	-186.5	-45.9	-51.0	-137.1	-149.1	-28.5	-83.5	-76.5	-42.9	**-35.8**	**-25.4**
Exchange rates												
CZK/USD (average)	24.6	24.4	23.4	21.7	22.9	23.2	21.7	23.4	22.2	23.2	**23.1**	**22.6**
CZK/EUR (average)	27.3	27.0	26.3	25.6	25.7	26.5	25.6	24.6	24.0	25.1	**25.2**	**25.3**
MONEY AND INTEREST RATES												
M3 (%, y-o-y, average)	7.3	9.1	11.7	6.6	6.3	9.0	9.6	6.4	9.0	6.3	**5.5**	**8.2**
2W repo rate (%, average)	0.1	0.1	0.2	1.1	1.9	0.8	0.9	5.9	7.0	5.1	**3.2**	**2.7**
3M PRIBOR (%, average)	0.3	0.3	0.4	1.3	2.1	0.9	1.1	6.3	7.1	5.0	**3.2**	**2.8**
EXTERNAL ASSUMPTIONS												
Foreign GDP (%, y-o-y, real terms, seas. adjusted, effective EA)	2.0	2.0	2.8	1.7	1.4	-5.3	4.8	2.2	0.4	0.3	**0.3**	**1.1**
Foreign GDP (%, q-o-q, real terms, seas. adjusted, effective EA)	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Foreign HICP (%, y-o-y, seas. adjusted, effective EA)	0.4	0.2	1.6	2.0	1.5	0.6	2.9	8.9	6.7	2.5	**2.4**	**2.0**
Foreign PPI (%, y-o-y, seas. adjusted, effective EA)	-2.3	-2.2	2.4	3.1	1.1	-1.3	9.6	32.8	2.8	-5.5	**-0.1**	**0.0**
Brent crude oil (in USD/barrel, average)	53.6	45.0	54.8	71.5	64.2	43.2	70.8	98.9	82.2	79.8	**66.4**	**63.1**
3M EURIBOR (%, average)	0.0	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	0.3	3.4	3.6	**2.1**	**1.8**
USD/EUR (average)	1.11	1.11	1.13	1.18	1.12	1.14	1.18	1.05	1.08	1.08	**1.09**	**1.12**

* constant weights in current consumer basket
** CNB calculation
- data not available/forecasted/released
data in bold = CNB forecast

KEY MACROECONOMIC INDICATORS

	QI	QII	QIII	QIV	QI	QII	QIII	QIV	QI	QII	QIII	QIV
DEMAND AND SUPPLY												
Gross domestic product												
GDP (CZK bn, current p., seas. adjusted)	1964.0	1994.4	2016.2	2034.2	**2058.8**	**2074.2**	**2089.4**	**2106.1**	**2129.0**	**2156.0**	**2183.9**	**2211.4**
GDP (%, y-o-y, real terms, seas. adjusted)	0.4	0.4	1.4	1.8	**2.1**	**2.3**	**2.0**	**1.7**	**1.6**	**1.9**	**2.3**	**2.7**
GDP (%, q-o-q, real terms, seas. adjusted)	0.3	0.2	0.6	0.7	**0.6**	**0.4**	**0.3**	**0.3**	**0.5**	**0.7**	**0.7**	**0.8**
Household consumption (%, y-o-y, real terms, seas. adjusted)	1.8	0.7	2.4	3.2	**3.2**	**4.0**	**3.6**	**2.7**	**2.5**	**2.6**	**2.7**	**2.7**
Government consumption (%, y-o-y, real terms, seas. adjusted)	2.4	3.9	3.4	3.3	**3.9**	**2.2**	**1.8**	**1.5**	**1.3**	**1.2**	**1.1**	**1.1**
Gross capital formation (%, y-o-y, real terms, seas. adjusted)	-9.9	-7.0	-2.9	2.9	**3.1**	**4.3**	**2.0**	**3.9**	**4.1**	**3.9**	**3.6**	**3.7**
Gross fixed capital formation (%, y-o-y, real terms, seas. adjusted)	-0.4	-1.4	-0.6	-3.1	**-1.3**	**-1.0**	**-1.0**	**2.2**	**2.8**	**3.3**	**3.7**	**3.9**
Exports of goods and services (%, y-o-y, real terms, seas. adjusted)	0.3	0.5	4.0	1.3	**1.6**	**1.9**	**-0.3**	**1.7**	**1.7**	**2.4**	**4.2**	**5.6**
Imports of goods and services (%, y-o-y, real terms, seas. adjusted)	-2.6	-1.3	3.7	3.1	**3.2**	**3.6**	**0.4**	**3.0**	**3.2**	**3.6**	**4.8**	**5.7**
Net exports (percentage points, contributions to GDP growth)	2.0	1.2	0.4	-1.2	**-0.9**	**-1.0**	**-0.5**	**-0.7**	**-0.9**	**-0.6**	**-0.1**	**0.2**
PRICES												
Main price indicators												
Consumer Price Index (%, y-o-y, average)	2.1	2.5	2.3	2.9	2.7	**2.4**	**2.5**	**2.4**	**2.3**	**2.2**	**2.1**	**2.1**
Administered prices (%, y-o-y, average, 14.59%*)	6.2	5.9	5.8	7.4	1.2	**0.7**	**1.0**	**0.8**	**2.2**	**2.2**	**2.2**	**2.2**
Food prices (incl. alcoholic beverages and tobacco, %, y-o-y, average, 26.21%*)	-1.1	0.1	1.2	2.8	4.2	**4.1**	**4.1**	**3.9**	**2.9**	**2.4**	**2.1**	**2.0**
Core inflation (%, y-o-y, average, 55.70%*)	2.8	2.4	2.3	2.3	2.5	**2.7**	**2.7**	**2.7**	**2.5**	**2.2**	**2.1**	**2.1**
Fuel prices (%, y-o-y, average, 3.51%*)	0.4	7.4	-3.6	-7.3	-4.3	**-12.8**	**-9.1**	**-7.3**	**-9.1**	**-2.6**	**-2.3**	**-2.5**
Monetary policy-relevant inflation (%, y-o-y, average)	2.1	2.4	2.2	2.8	2.5	**2.2**	**2.3**	**2.2**	**2.2**	**2.1**	**2.0**	**1.9**
Partial price indicators												
Industrial producer prices (%, y-o-y, average)	-0.9	1.1	1.2	1.8	0.0	**-0.2**	**0.2**	**0.0**	**-0.1**	**0.8**	**1.1**	**1.1**
Agricultural prices (%, y-o-y, average)	-17.3	-10.4	-1.5	5.3	8.9	**13.5**	**12.3**	**4.2**	**0.8**	**-2.1**	**-2.2**	**-1.8**
GDP deflator (%, y-o-y, seas. adjusted)	4.2	4.1	3.9	3.7	**2.7**	**1.7**	**1.6**	**1.8**	**1.8**	**2.0**	**2.2**	**2.2**
LABOUR MARKET												
Average monthly wage (%, y-o-y, nominal terms)	7.3	6.6	7.1	7.2	**6.8**	**6.6**	**5.9**	**5.4**	**5.1**	**4.9**	**4.8**	**4.7**
Average monthly wage in market sectors (%, y-o-y, nominal terms)	8.3	7.4	7.9	8.3	**7.2**	**6.9**	**6.1**	**5.3**	**5.2**	**5.1**	**5.0**	**4.9**
Average monthly wage in non-market sectors (%, y-o-y, nominal terms)	2.6	2.9	3.7	2.9	**5.1**	**5.0**	**4.8**	**6.0**	**4.6**	**4.2**	**4.1**	**4.0**
Average monthly wage (%, y-o-y, real terms)	5.1	4.0	4.7	4.2	**4.0**	**4.1**	**3.3**	**2.9**	**2.8**	**2.7**	**2.7**	**2.6**
Unit labour costs (%, y-o-y)	6.5	4.9	4.4	5.0	**4.7**	**4.3**	**4.0**	**3.7**	**3.3**	**2.8**	**2.4**	**2.0**
Aggregate labour productivity (%, y-o-y)	-0.4	0.4	1.6	1.5	**1.2**	**2.1**	**1.8**	**1.3**	**1.5**	**1.3**	**1.4**	**1.8**
ILO general unemployment rate (%, average, age 15–64, seas. adjusted)	2.7	2.6	2.6	2.7	**2.8**	**2.9**	**3.0**	**3.0**	**3.1**	**3.1**	**3.1**	**3.1**
Share of unemployed persons (MLSA, %, average, seas. adjusted)	3.7	3.8	3.9	4.0	**4.1**	**4.2**	**4.3**	**4.3**	**4.4**	**4.4**	**4.4**	**4.4**
Employment (ILO, %, y-o-y)	3.8	2.0	2.3	2.3	**0.3**	**0.9**	**0.7**	**0.4**	**0.1**	**0.6**	**0.9**	**0.9**
Full-time employment (%, y-o-y)	-0.1	-0.2	-0.1	0.1	**0.0**	**0.2**	**0.2**	**0.0**	**-0.2**	**-0.2**	**-0.1**	**0.0**
PUBLIC FINANCE												
Government budget balance (ESA2010, CZK bn, current prices)	-	-	-	-	-	-	-	-	-	-	-	-
Government budget balance/GDP** (%, nominal terms)	-	-	-	-	-	-	-	-	-	-	-	-
Structural balance/GDP (%, nominal terms)	-	-	-	-	-	-	-	-	-	-	-	-
Government debt (ESA2010, CZK bn, current prices)	-	-	-	-	-	-	-	-	-	-	-	-
Government debt/GDP** (%, nominal terms)	-	-	-	-	-	-	-	-	-	-	-	-
EXTERNAL RELATIONS												
Current account												
Goods and services, net (CZK bn, current prices)	161.5	153.8	98.3	109.0	**157.2**	**134.4**	**91.6**	**89.3**	**155.3**	**136.5**	**101.7**	**103.3**
Current account (CZK bn, current prices)	113.7	-6.7	-1.8	35.3	**102.7**	**19.7**	**-43.9**	**10.1**	**102.6**	**2.8**	**-36.5**	**26.8**
Current account/GDP (%, nominal terms)	6.2	-0.3	-0.1	1.7	**5.3**	**0.9**	**-2.1**	**0.5**	**5.1**	**0.1**	**-1.6**	**1.2**
Foreign direct investment												
Direct investment (CZK bn, current prices)	-48.8	25.9	-24.1	4.0	**-9.0**	**-9.0**	**-9.0**	**-9.0**	**-6.4**	**-6.4**	**-6.4**	**-6.4**
Exchange rates												
CZK/USD (average)	23.1	23.2	22.9	23.7	23.8	**22.5**	**23.0**	**23.0**	**22.9**	**22.7**	**22.5**	**22.4**
CZK/EUR (average)	25.1	25.0	25.2	25.2	25.1	**25.1**	**25.2**	**25.3**	**25.3**	**25.3**	**25.4**	**25.4**
MONEY AND INTEREST RATES												
M3 (%, y-o-y, average)	7.9	5.8	5.8	5.8	4.3	**4.9**	**6.1**	**6.7**	**8.8**	**8.8**	**7.9**	**7.3**
2W repo rate (%, average)	6.4	5.4	4.6	4.1	3.9	**3.3**	**3.0**	**2.9**	**2.7**	**2.7**	**2.7**	**2.8**
3M PRIBOR (%, average)	6.2	5.2	4.4	4.0	3.8	**3.2**	**3.0**	**2.9**	**2.8**	**2.8**	**2.8**	**2.9**
EXTERNAL ASSUMPTIONS												
Foreign GDP (%, y-o-y, real terms, seas. adjusted, effective EA)	0.4	0.3	0.3	0.3	**0.2**	**0.5**	**0.3**	**0.4**	**0.5**	**0.8**	**1.4**	**1.9**
Foreign GDP (%, q-o-q, real terms, seas. adjusted, effective EA)	0.3	-0.1	0.2	0.0	**0.2**	**0.2**	**-0.1**	**0.1**	**0.3**	**0.4**	**0.5**	**0.6**
Foreign HICP (%, y-o-y, seas. adjusted, effective EA)	2.9	2.5	2.2	2.5	**2.7**	**2.3**	**2.3**	**2.2**	**1.8**	**2.0**	**2.0**	**2.1**
Foreign PPI (%, y-o-y, seas. adjusted, effective EA)	-7.8	-6.1	-4.5	-3.5	**0.9**	**0.4**	**-0.7**	**-0.9**	**-1.2**	**0.1**	**0.5**	**0.6**
Brent crude oil (in USD/barrel, average)	81.8	85.0	78.7	74.0	75.0	**64.6**	**63.3**	**62.9**	**62.9**	**63.0**	**63.2**	**63.4**
3M EURIBOR (%, average)	3.9	3.8	3.6	3.0	2.6	**2.0**	**1.8**	**1.8**	**1.7**	**1.8**	**1.9**	**2.0**
USD/EUR (average)	1.09	1.08	1.10	1.07	1.05	**1.12**	**1.10**	**1.10**	**1.10**	**1.12**	**1.13**	**1.14**

* constant weights in current consumer basket
** CNB calculation
\- data not available/forecasted/released
data in bold = CNB forecast

Issued by:

CZECH NATIONAL BANK

Na Příkopě 28

115 03 Praha 1

Czech Republic

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COMMUNICATIONS DIVISION
GENERAL SECRETARIAT

Tel.: +420 224 411 111

www.cnb.cz

ISSN 2695-1177 (Print)

ISSN 2695-1185 (Online)

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