ČNB ČESKÁ NÁRODNÍ BANKA

MONETARY POLICY REPORT SUMMER 2025

This Monetary Policy Report was approved by the CNB Bank Board on 14 August 2025 and (with some exceptions) contains the information available as of 25 July 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 evaluated in the monetary policy decision-making process 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 summer Monetary Policy Report. The Report is one of the main inputs to the Bank Board's decision-making on CNB monetary policy.

At our August meeting, my Bank Board colleagues and I kept key interest rates unchanged. The 2W repo rate thus remains at 3.5%.

According to the Monetary Department's new forecast, inflation will be above 2% for the rest of this year. Core inflation will remain elevated over the next few quarters. The ongoing inflation pressures from the domestic economy currently preclude a further decrease in interest rates.

The Czech economy is gradually recovering. Growth is being driven mainly by household consumption, which is being supported by solid real income growth and moderation of monetary policy restriction. The labour market remains tight. On the other hand, external demand remains subdued, mainly due to the stagnation of European industry. The latter is facing high energy prices, structural problems and uncertainty relating to US trade policy. Although this uncertainty is decreasing gradually due to agreements between the USA and its trading partners, the impact of the tariffs on the European economy remains unclear.

Inflation has been close to the 2% inflation target since January 2024. However, tight monetary policy is still needed. The quantity of money in the economy is rising at a rate of 4.1%, but credit growth is gradually increasing. Households' demand continues to grow. Services inflation remains elevated. Rising property prices are also a risk to inflation. The momentum of core inflation currently remains elevated.

Monetary policy therefore remains relatively tight. We aim to stabilise headline inflation close to the 2% inflation target in the long run. This requires growth in the quantity of money in the economy not to accelerate excessively and credit growth to remain moderate. By ensuring this, monetary policy will help keep inflation low.

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 August meeting, the Bank Board left interest rates unchanged. The 2W repo rate remains at 3.5%. The Bank Board assessed the risks and uncertainties of the outlook for the fulfilment of the inflation target as inflationary overall.
- Inflation will stay in the upper half of the tolerance band for the rest of this year. It is expected to fall gradually towards 2%.
- The economy is expected to grow by 2.6% this year and next year. This year, the recovery in economic activity will be driven by domestic demand, in particular households' consumption expenditure.
- Consistent with the forecast is a modest decline in short-term market interest rates initially, followed by a slight increase in rates next year. A restrictive effect of interest rates and the koruna exchange rate will ensure the fulfilment of the inflation target at the monetary policy horizon, i.e. in the second half of 2026.

As expected, inflation increased towards the upper boundary of the tolerance band in June, due to growth in food prices and also to higher core inflation. The latter increasingly reflects higher prices in housing-related services. Within core inflation, however, goods prices (e.g. prices of household equipment and cars) have now started to accelerate, too. Firms' margins may rise slightly amid falling energy prices. The still unfinished disinflation process is evidenced by the unfavourable structure of inflation (see Box 2 for more details), and also by the persisting sensitive perception of inflation by households.

The inflation pressures are expected to weaken marginally in the months ahead, but inflation will remain elevated, due, among other factors, to house prices. The housing market situation is discussed in the Appendix. The baseline scenario of the forecast thus does not expect inflation to return very close to the 2% target until the second half of next year. This will be aided by gradually slowing house price growth, along with diminishing tightness in the labour market, reflected in declining growth in wage costs. The forecast expects inflation to rise slightly in 2027 as a result of the one-off primary effect of the introduction of the EU ETS 2 emissions trading system, which is discussed in more detail in Box 1. As the resulting price effect is surrounded by uncertainty, a scenario in which the introduction of the ETS 2 has double the effect on inflation relative to the baseline scenario has also been prepared.

The Czech economy is expected to continue recovering in the quarters ahead. The growth is expected to be due mainly to household consumption, driven by sizeable growth in real wages and a gradual decrease in the saving rate. Investment activity is also expected to grow, driven initially by additions to inventories and later by accelerating fixed investment. The latter will be supported by a recovery abroad and absorption of EU funds. The tariffs imposed on European imports to the USA will dampen growth in external demand this year. In the following years, however, exports will gain momentum, due among other factors to the release of the debt brake in Germany.

The exchange rate was close to CZK 24.6 to the euro in July. So far, the koruna has thus proved highly resilient to the uncertainty connected with the rise in protectionism in global trade. The forecast expects the exchange rate to weaken slightly by the end of the year, owing to muted growth in labour productivity and an expected decline in koruna interest rates. The koruna should strengthen slightly next year due to an improving economic situation.

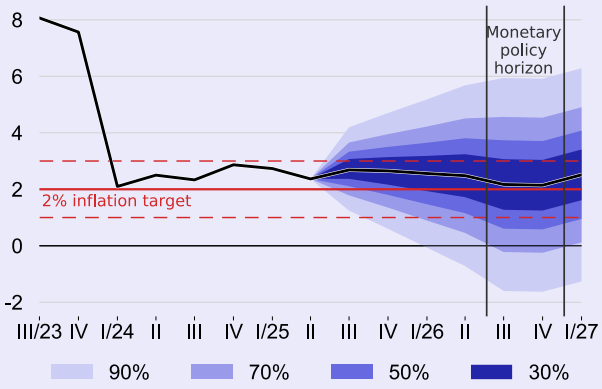
Consistent with the forecast is a modest decline in short-term market interest rates initially, followed by a slight increase in rates next year. The decision adopted maintains tight monetary conditions with regard to the inflationary balance of risks, returning inflation very close to the target at the monetary policy horizon.

The Bank Board assessed the risks and uncertainties of the outlook for the fulfilment of the inflation target as inflationary overall. As regards domestic inflationary risks, the risk of inertia in services inflation, including imputed rent, and in food inflation persists. A potential acceleration of money creation in the economy stemming from a further stronger recovery in lending activity, especially on the property market, is also an inflationary risk. Potential additional growth in total public sector spending would lead to a risk of fiscal policy having an even greater inflationary effect. Continued rapid wage growth related to persistent tightness in the labour market is an additional inflationary risk. By contrast, inflation could be dampened by a stronger koruna exchange rate. The launch of the EU ETS 2 is a risk to inflation in 2027 and the subsequent

years. 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. The development of the wars in Ukraine and the Middle East represents an uncertainty.

Inflation will be slightly above 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 confidence intervals of the headline inflation forecast reflect the predictive power of past forecasts and are symmetric. They are linearly widening for the first five quarters and then stay constant. This is consistent with both the past predictive power and the stabilising role of monetary policy.

Growth in domestic economic activity will be around 2.5% this year and next year

y-o-y changes in % (unless otherwise indicated); changes in pp (and in CZK/EUR for exchange rate) compared to previous forecast in brackets

	2025	2026	2027
Headline inflation (%)	**2.6**	**2.3**	**2.5**
	(0.1)	(0.2)	-
GDP	**2.6**	**2.6**	**2.9**
	(0.6)	(0.5)	-
Average nominal wage	**6.6**	**5.5**	**4.9**
	(0.4)	(0.6)	-
3M PRIBOR (%)	**3.4**	**3.4**	**3.6**
	(0.2)	(0.6)	-
Exchange rate (CZK/EUR)	**24.9**	**24.9**	**24.8**
	(-0.2)	(-0.4)	-

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.

1 ECONOMIC DEVELOPMENTS ABROAD

- The global economy is maintaining solid growth. The recovery in the euro area is also continuing. However, uncertainty persists in the form of the impacts of US protectionist measures.
- Headline inflation in the euro area has slowed to the ECB's inflation target.
- Energy commodity prices remain volatile as a result of geopolitical tensions and changes on the supply side. Industrial producer prices continue to decline.
- Financial markets expect only one more rate cut from the ECB this year – at the year-end. The Fed will start to lower rates again in the autumn. The euro has strengthened to a four-year high against the dollar.

The global economy continued to grow at a solid pace in Q2, but the outlook remains clouded by substantial uncertainty

Growth in India and China exceeded expectations in 2025 Q1, while the euro area maintained the recovery that started last year (see Table 1.1). Leading indicators suggest continued growth in Q2; manufacturing has picked up, whereas the services sector has weakened slightly. US trade policy is an uncertainty.[1] The impacts of rising American protectionism on economic activity and inflation are very limited for now, demonstrating the resilience of the global economy. World trade growth slowed from 6.6% in March to 3.8% in April. Global price pressures remain low, except in the USA.

The quarter-on-quarter decline in US GDP at the start of this year was caused by a sharp increase in imports (see Chart 1.1) due to stockpiling ahead of the expected introduction of import tariffs. GDP growth returned to positive territory in Q2 and repeated the year-on-year result of 2% recorded at the start of the year. The economy is expected to recover gradually next year, thanks to fiscal stimuli. Inflation rose from 2.4% in May to 2.7% in June. The PMI indices suggest stronger price pressures in industry and services than in the rest of the world. This may lead to a temporary rise in inflation. The Fed therefore left its interest rates at 4.25–4.50% in July. It did not rule out cutting them before the end of this year.

Economic growth in China remained robust in the first half of the year, on the back of still strong exports, a housing market recovery and government support for household consumption. Any negative impact of US tariffs on Chinese exports could be offset by further government stimuli and export market diversification. Inflation in China is still around zero. At the end of May, the Chinese central bank lowered the one-year and five-year rates (by 0.1 pp to 3% and 3.5% respectively) and reduced the reserve

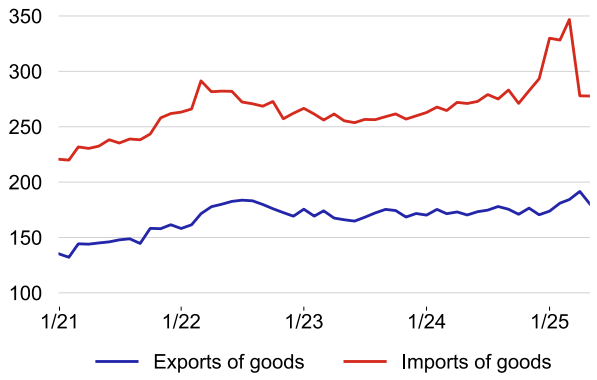
Table 1.1
Global economic growth is still being driven mainly by India and China

real GDP; y-o-y changes in %; source: CNB, CF, Oxford Economics

	2024	2024 Q4	2025 Q1	2025	2026	2027
Euro area	0.9	1.2	1.5	1.4	1.1	1.7
USA	2.8	2.5	2.0	1.5	1.7	2.5
United Kingdom	1.1	1.5	1.3	1.0	1.0	1.3
China	5.0	5.4	5.4	4.6	4.2	3.9
India	6.3	6.4	7.4	6.6	6.7	6.5

Chart 1.1
Goods imports to the USA rose sharply in early 2025 due to stockpiling

USD billions; source: Datastream



[1] At the end of July 2025, the USA concluded or announced agreements with the UK, Vietnam, Japan, South Korea, Indonesia, the Philippines, the European Union and (provisionally) China. Relatively high tariffs were imposed on imports from India and Brazil.

requirement. A further (albeit cautious) easing of monetary policy is expected in the future.

The German economy will be hit by US tariffs this year but will subsequently be supported by a marked rise in government expenditure

The German economy recorded surprisingly high quarter-on-quarter growth at the start of the year. This was due mainly to a recovery in industry and exports as US customers stockpiled in expectation of tariffs. Industry thus became the main driver of value added growth. The recovery was supported by household consumption. By contrast, the Slovak economy slowed due to government consolidation measures, the impact of which was intensified by past stockpiling. Spain was another euro area country to do well, even though its growth slowed as expected. The euro area as a whole recorded unusually high quarter-on-quarter GDP growth in 2025 Q1 (0.6%).[2]

Quarterly economic growth slowed visibly[3] in Q2 and will remain moderate for the rest of this year. The average tariff rate on imports from the EU to the US has risen significantly since Donald Trump became president,[4] adversely affecting mainly export-oriented euro area economies with strong links to the US. Moreover, the euro area's international trade competitiveness has long been lacklustre. The dampening effect of a stronger euro-dollar exchange rate is now also playing a role. Against this background, domestic demand continues to recover and will contribute to GDP growth again next year.

The forecast expects very modest growth of the German economy this year, as in the case of France (see Chart 1.2). The Slovak economy will achieve slightly higher growth. Growth in the euro area[5] will accelerate next year, thanks mainly to fiscal easing in Germany. A higher pace of investment is expected, especially in infrastructure and defence. Other euro area countries, such as France, are also increasing defence spending. The EU has allowed exemptions from its budgetary rules to finance this investment. NATO plans to increase defence spending to 5% of GDP in the long term. However, the actual scope, timing and impact of this investment remain uncertain.

Chart 1.2

GDP growth in the Czech Republic's major export partner countries within the euro area will surge next year

annual GDP growth in %; contributions in pp; seasonally adjusted

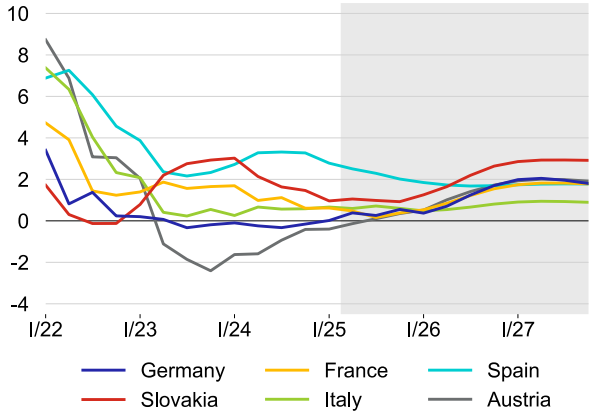


Chart 1.3

Energy prices were volatile in Q2 owing to tariff measures and tensions in the Middle East

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

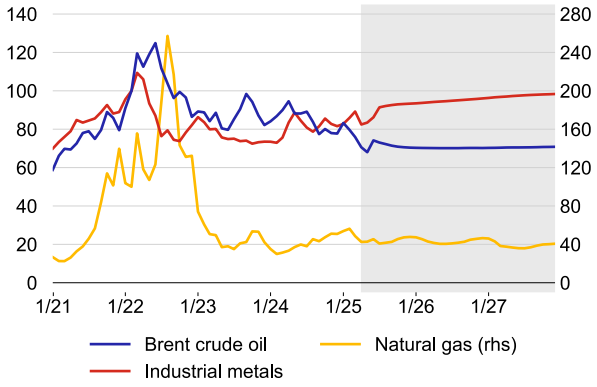
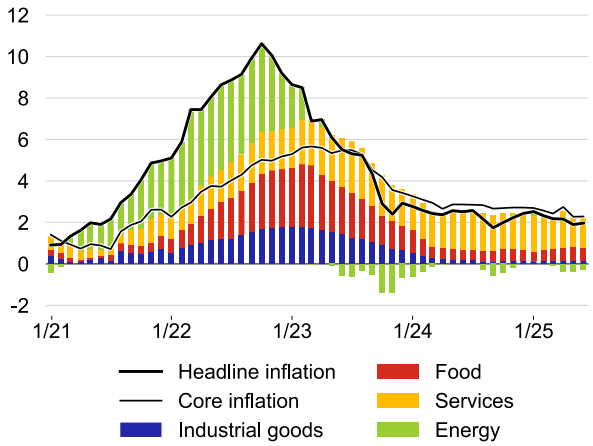


Chart 1.4

Consumer price inflation in the euro area is still being driven mainly by services prices

components of euro area HICP inflation; y-o-y changes in %; contributions in pp; source: Eurostat



[2] This was aided in particular by high growth in Ireland. Euro area GDP rose by 1.5% year on year in 2025 Q1.

[3] According to Eurostat's flash estimate, GDP in the euro area grew by 0.1% quarter on quarter and by 1.4% year on year in 2025 Q2. This figure was published on 30 July 2025, i.e. after the closing date of the forecast.

[4] According to the Bruegel think tank, for example, the average tariff rate on imports from the EU to the USA rose from 1.5% to 15% in April 2025. The Capital Economics estimate of late July 2025 was 17%.

[5] Growth expressed in quarter-on-quarter terms.

Industrial producer prices will fall further this year, due to energy prices

The Brent crude oil price was highly volatile in Q2. It fell in early April following the announcement of US tariffs and an increase in OPEC+ production. There was a similar decline in early May, when the oil price reached this year's low of USD 60 a barrel. In mid-June, by contrast, it rose sharply as the conflict between Israel and Iran escalated. After a ceasefire was agreed, however, it fell back below USD 70 a barrel, where it remained in late July (see Chart 1.3). Industrial producer prices started to decline again in year-on-year terms in Q2. The decline will persist until the start of next year, owing mainly to a drop in energy prices caused by exceptionally high production from renewable sources in part of the euro area and to a drop in the Brent crude oil price. Core producer prices have had the opposite effect since mid-2024. Their growth will rise next year on the back of recovering economic activity. The same will hold in 2027, when core prices will ensure a return to growth in industrial producer prices.

Consumer price inflation in the euro area slowed to the ECB's 2% target in the first half of this year. Services prices are still the biggest contributor to inflation (see Chart 1.4). Euro area inflation will average 2.1% this year. Inflation will drop slightly below the target next year, due among other things to fiscal measures in the German energy sector (the government plans to reduce energy prices by decreasing the taxation of electricity and lowering network fees). In Germany alone, the inflation rate will be just 1.6% (see Chart 1.5). Euro area inflation will rise to 2.5% in 2027, partly reflecting the EU's new emissions trading system ETS 2[6] and a recovery in euro area economic activity.

As expected, the ECB left its key rates unchanged in July; further cuts are uncertain

The ECB lowered the deposit rate to 2% in June, when it also substantially reduced its inflation outlook for 2026 because of energy prices. It kept rates unchanged in July. For the rest of this year, the market has priced in a maximum of one more rate cut, expected at the very end of the year (see Chart 1.6). Opinions on the further course of monetary policy differ among ECB representatives. Some of them have communicated that the room for further rate cuts has been exhausted.

The US dollar continued to weaken against the euro and other currencies in Q2. It is thus losing the position of a safe asset. The euro is appreciating against the dollar over the outlook horizon as well. The US Fed has been cautious in its statements so far, and market expectations of a rate cut have been postponed until September.

[6] Its expected impact is 0.2 pp. The size of the impact is dampened by the carbon tariffs introduced in some euro area economies in the past, which will be replaced by the ETS 2.

Chart 1.5

Following a temporary slowdown next year, inflation will rise again in 2027

HICP in selected euro area countries; year-on-year changes in %; source: Eurostat

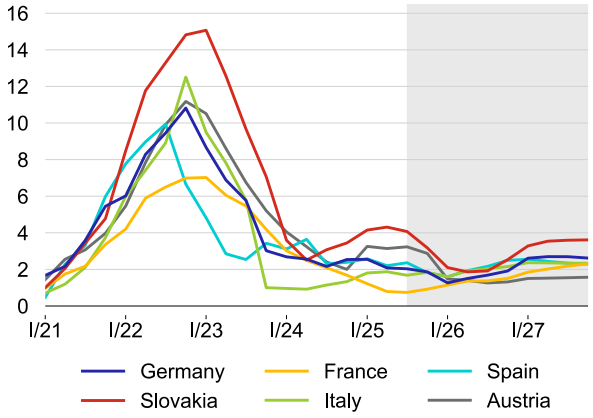
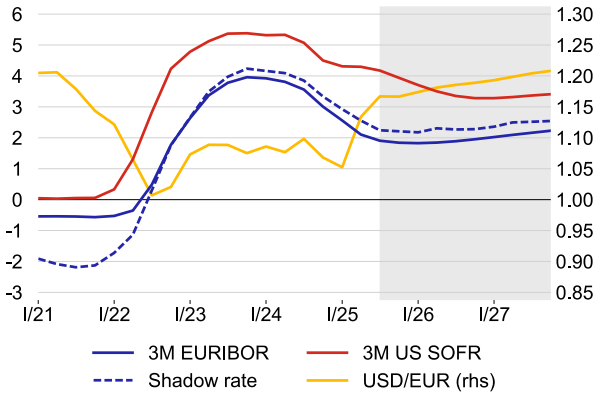


Chart 1.6

The market outlook expects rates to be broadly flat in the euro area; the rate cut in the USA is postponed to the autumn

3M EURIBOR, shadow interest rate and 3M SOFR in %; nominal USD/EUR rate



*Starting with the summer forecast, the **steady-state level of the nominal 3M EURIBOR rate** since 2019 in the model has been lowered from 2.5% to 2.25%. The historical average rate for the previous two decades is well below the previously assumed level. Even now, after the high inflation episode, rates are below that average. The ECB has communicated that rates of around 2% have a neutral effect on the euro area economy. Long-term market outlooks are not suggesting that rates are set to increase to 2.5% either. This adjustment is consistent with ECB estimates (Natural rate estimates for the euro area: insights, uncertainties and shortcomings, C. Brand, N. Lisack and F. Mazelis, ECB Economic Bulletin, Issue 1/2025).*

An only gradual easing of monetary policy should follow, as reflected in the 3M SOFR outlook.

The forecast is based on the assumption of 10% blanket tariffs on imports from the EU to the USA and higher tariffs on some specific sectors (automotive, aluminium and steel). An agreement on 15% tariffs on imports of most goods from the EU to the USA, including cars, was announced in late July. This is close to the assumptions of the forecast in quantitative terms.

Comparison with the previous forecast: economic developments abroad

		2025	2026	2027	
GDP (in the effective EA)	y-o-y changes in %	**0.5**	**1.2**	**2.0**	The GDP growth outlook for the effective euro area this year has been revised slightly upwards, due mainly to better developments in Germany at the start of this year.
	pp	(0.2)	(0.0)	-	
Consumer prices (in the effective EA)	y-o-y changes in %	**2.3**	**1.7**	**2.6**	The consumer price outlook is unchanged this year; the decrease next year is due to developments in Germany connected with planned fiscal measures in the energy sector.
	pp	(0.0)	(-0.3)	-	
Industrial prod. prices (in the effective EA)	y-o-y changes in %	**-0.7**	**-0.2**	**1.4**	The forecast for industrial producer prices is lower this year due to a larger decline in energy prices owing to exceptionally high production from renewable energy sources.
	pp	(-0.6)	(-0.2)	-	
Brent crude oil price	USD/barrel	**69.0**	**66.1**	**66.4**	The Brent crude oil price outlook is higher than in the spring forecast; among other things, concerns about the negative impact of US import tariffs on oil demand have eased.
		(2.6)	(2.9)	-	
3M EURIBOR	%	**2.1**	**1.9**	**2.1**	The market outlook for interest rates reflects the inflation outlook and the ECB's cautious communications; it is almost unchanged from the previous forecast.
	pp	(0.1)	(0.0)	-	
3M US SOFR	%	**4.2**	**3.5**	**3.3**	The degree of uncertainty regarding tariffs and potential inflationary effects have shifted the market rate outlook slightly higher in reaction to statements by Fed representatives.
	pp	(0.2)	(0.3)	-	
Exchange rate	USD/EUR	**1.13**	**1.18**	**1.20**	The dollar's retreat from the position of a safe asset is causing it to be weaker against the euro over the entire forecast horizon.
		(0.04)	(0.06)	-	

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)

Effective euro area indicators are used in the external assumptions of the forecast for foreign GDP, consumer price inflation and industrial producer prices. These indicators cover the Czech Republic's six major trading partners in the euro area. Germany has the highest weight (59%), followed by Slovakia (14%), France (8%), Italy (7%), Austria (7%) and Spain (5%). The effective euro area indicators may differ from the commonly used euro area ones. However, they better capture the effect of economic developments abroad on the Czech economy.

2 THE REAL ECONOMY AND THE LABOUR MARKET

- The Czech economy will pick up markedly to 2.6% this year and maintain the same rate of growth in 2026. GDP will grow by almost 3% in 2027.
- The growth will continue to be driven by household consumption, supported by rising incomes. It will gradually be joined by fixed investment and external demand.
- The labour market tightness will decrease further and nominal wage growth will be above the long-term average, despite moderating gradually.

Economic growth will accelerate visibly this year

According to the forecast, GDP rose by 2.7% year on year in Q2.[7] In terms of gross value added, services continued to grow, as did industry to some extent. After a few unconvincing quarters, industry is showing signs of recovery. Employment in industry recorded the smallest decrease in almost three years in Q1. Business sentiment is improving and the PMI index even entered the expansion band in June, where it had last been in May 2022. The strong start to 2025 is reflected in a broadly neutral contribution of net exports, despite muted growth in demand from the Czech Republic's main trading partners. Household consumption will be the dominant contributor to GDP growth (see Chart 2.1). Fixed investment will be subdued, owing to weak external demand. However, additions to inventories will increase. Overall, GDP will rise by 2.6% this year and next year (see Chart 2.2). In 2027, the growth rate will accelerate towards 3%, thanks mainly to higher external demand.

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. Consumer sentiment also improved during Q2,[8] thanks mainly to better perceptions of the economic situation. This was accompanied by still swift growth in nominal and real income. According to the forecast, consumption growth thus went up to 0.8% quarter on quarter in Q2. The forecast expects sentiment to improve slightly further over the rest of this year. Wage growth will slow somewhat, but household consumption will remain strong overall, rising by 3% in 2025 as a whole (see Chart 2.3).

Chart 2.1
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

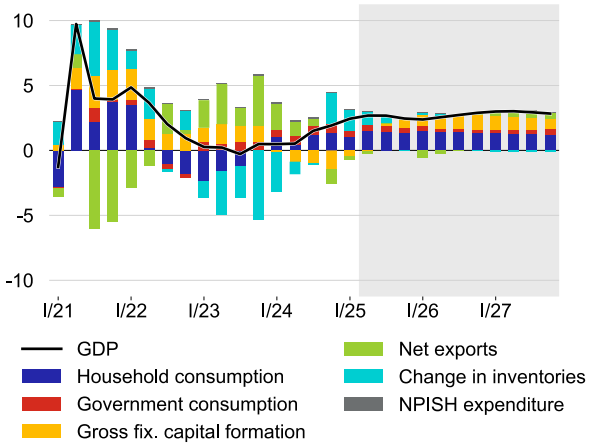
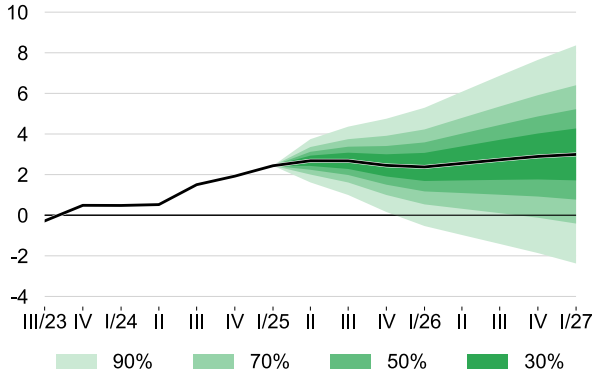


Chart 2.2
Growth in domestic economic activity will be around 2.5% this year and next year

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



***The confidence intervals** of the forecasts for key macroeconomic variables reflect the predictive power of past forecasts. They are symmetric and linearly widening.*

[7] According to the CZSO's flash estimate, Czech GDP rose by 0.2% quarter on quarter and by 2.4% year on year in 2025 Q2. These are lower figures than in the CNB forecast. This information was published on 30 July 2025, i.e. after the closing date of the forecast.

[8] According to July business survey data, overall confidence in the economy declined somewhat, owing solely to business sentiment, whereas consumer sentiment increased markedly.

Growth in households' real income will start to slow to close to the long-term average next year. By contrast, consumer sentiment will continue to improve as solid domestic demand is joined by a recovery in external demand. Household consumption growth will stay at around 3%, slowing slightly in 2027 because of weaker wage growth.

Year-on-year growth in households' 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). By contrast, an increase in pensions will have a positive effect. The contribution of entrepreneurs' income will weaken gradually. 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). Although household sentiment is gradually improving, consumers' spending appetite remains limited, as a heightened precautionary motive continues to affect savings. By contrast, real household income is still increasing at a solid pace, supporting household consumption. The saving rate will thus come down gradually, albeit at a slower pace than in late 2024 and early 2025 and towards higher levels than before 2020, as the 20% of households with the highest income, who generally have a lower propensity to consume and benefited the most from tax changes in 2021, drive the creation of savings. In addition, households have been investing more in other types of financial assets in recent years.

Fixed investment will be subdued this year

Private investment rebounded in the first half of this year, but its growth will be very gradual owing to subdued external demand. Firms' sentiment improved in the first half of 2025, even in industry, as evidenced by an improving PMI index. Private investment could thus return to year-on-year growth in the second half 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. Private fixed investment will be broadly flat in 2025 as a whole. By contrast, real general government investment, which fell slightly last year, will start to grow again this year (see Chart 2.6). This will be aided by faster expected absorption of European funds and money from the National Recovery and Resilience Plan. Total gross fixed capital formation will grow by 0.3% this year. General government investment will continue to rise 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, and to a fiscal stimulus-related recovery in Germany. Gross fixed capital formation will grow by

Chart 2.3

Household consumption will grow at a solid pace over the entire forecast horizon, while general government consumption will initially slow and then start rising in 2027

household and general government consumption; y-o-y changes in %; prices of 2020 (chain-linked); seasonally adjusted

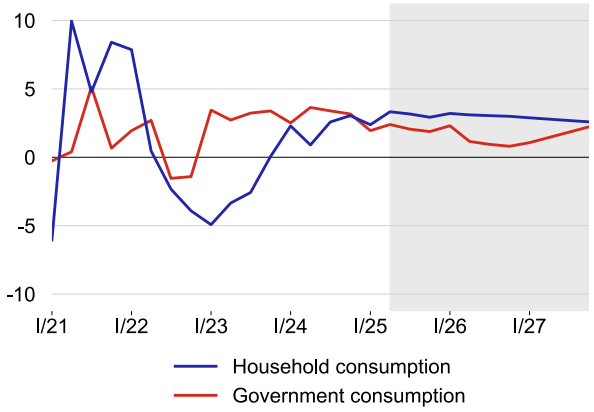


Chart 2.4

Growth in nominal disposable income will slow due to falling growth in wages and salaries and entrepreneurs' income

household consumption and gross disposable income; y-o-y changes in %; contributions in pp; current prices; seasonally unadjusted

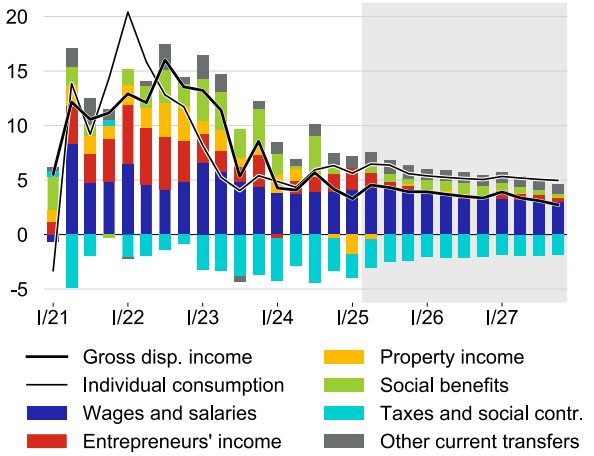
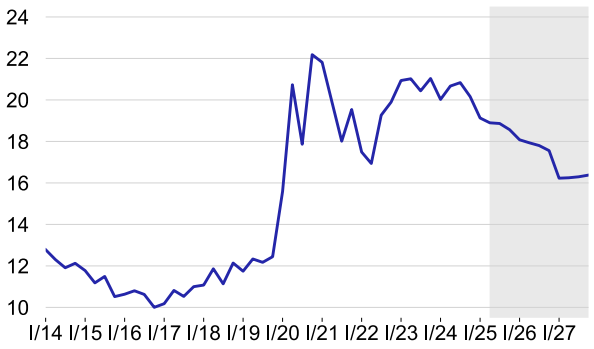


Chart 2.5

The saving rate will decline from its current elevated level due to a gradual improvement in consumer sentiment

households' saving rate in %; seasonally adjusted



almost 4% next year. In 2027, investment growth will slow only slightly, with general government investment making a much smaller contribution, while private investment will accelerate further.

This year, firms are beginning to go back to making slightly positive additions to inventories (see Chart 2.7). The share of firms reporting a shortage of material as a factor limiting production has meanwhile fallen (see Chart 2.8). Even so, change in inventories will make a significantly positive contribution to year-on-year growth in gross capital formation this year, due mainly to base effects. Its contribution will be broadly neutral in 2026 and 2027. Gross capital formation growth will be 3.2% this year, rise to 4.2% next year and slow back to 3.2% in 2027.

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 this year and next year 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 fading effect of extraordinary post-flood expenditure. The forecast expects government consumption growth to accelerate slightly in 2027.

Fiscal policy will have a roughly neutral effect on GDP growth this year (see Chart 2.9), as the additional slightly dampening effect of the consolidation package[9] will be offset by faster expected absorption of EU funds and growth in government subsidies for renewable resources. The forecast assumes that fiscal policy will have a slightly expansionary effect next year due to continued faster absorption of EU funds and higher planned defence spending.[10] It is assumed to be slightly restrictive in 2027 owing to the end of NGEU funding in 2026.

Export growth will remain subdued this year due to weak external demand

Export activity has recently risen by more than would be consistent with 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. Exports surged in 2025 Q1, driven

Chart 2.6

Inventories will drive 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

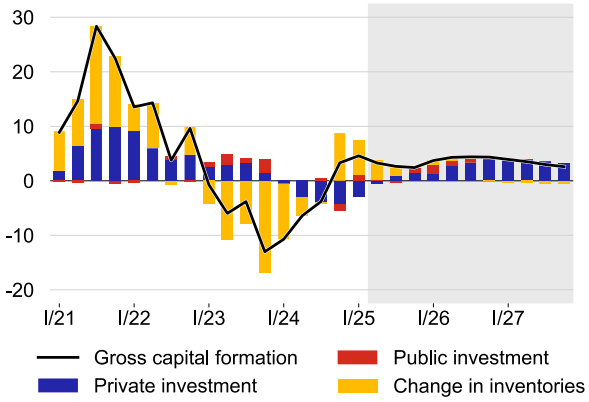


Chart 2.7

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

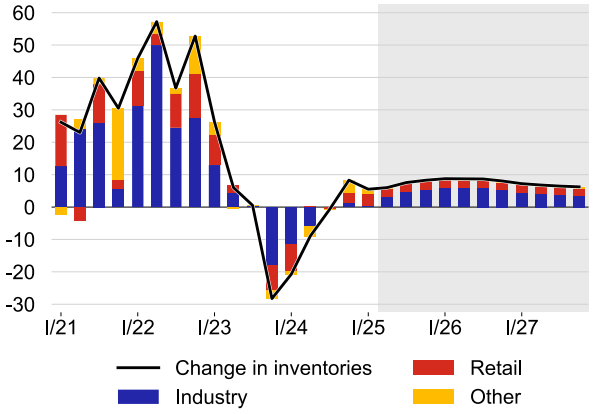
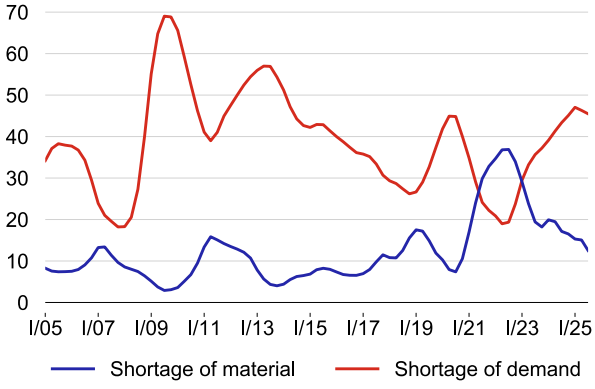


Chart 2.8

The share of industrial firms reporting a shortage of demand remains high but has started to fall slightly

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



[9] This year, the fiscal effect of the package will be an additional −0.1% 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] 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.

mainly by exports to these countries. The forecast expects this favourable effect to continue in the quarters ahead. However, the Czech Republic's main trading partners inside and outside the euro area will be affected by US import tariffs, which will cause their economic activity to be weak for the rest of this year. Export growth thus slowed following an excellent Q1 and will grow by 2.7% in 2025 as a whole. The EU's 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 tariffs unwind (exports will grow by 3.6%). It should also be supported by the relaxation of the debt brake rules in Germany. This fiscal stimulus should support Czech exports in 2027, when the forecast expects them to grow by 6.2% (see Chart 2.10).

The import intensity of Czech exports will also be reflected in import growth. Imports will continue to rise faster than exports this year and next year due to continued buoyant growth in domestic demand. Imports will grow by 3.2% in 2025 as a whole, rising to 4.3% next year and 6% in 2027. Net exports will make a roughly neutral contribution to GDP growth this year, due mainly to their solid performance at the start of this year. Next year, the effect of net exports will be slightly negative. It will turn positive in 2027 as growth in domestic demand starts to slow.

The economy is close to its potential

The negative output gap has been closing gradually since 2023, due mainly to domestic demand. It will almost close this year and, aided by growing external demand, turn positive during 2026 (see Chart 2.11). Growth in potential output itself will pick up slightly and will fluctuate around its long-term average (2.5%) from 2026 onwards due to gradually recovering trend growth in labour productivity.

The labour market tightness will gradually decrease

From the perspective of the LUCI, the domestic labour market will continue to cool gradually, although it will stay tight over the entire forecast horizon (see Chart 2.12). Employment will rise as the economy recovers, remaining the biggest contributor to the persisting labour market tightness this year. The contribution of employment will decrease gradually in the future. Owing to sustained high observed and expected wage growth, the contribution of wages and costs to the LUCI will be positive over the entire forecast horizon and will be the dominant component of the indicator at its end. Demand for labour will also continue to have a slightly positive effect.

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

Year-on-year average real wage growth remained above-average at 3.9% in Q1. The forecast expects a slightly higher figure in Q2, owing to the slight observed decline

Chart 2.9

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

fiscal impulse; contributions to GDP growth in pp

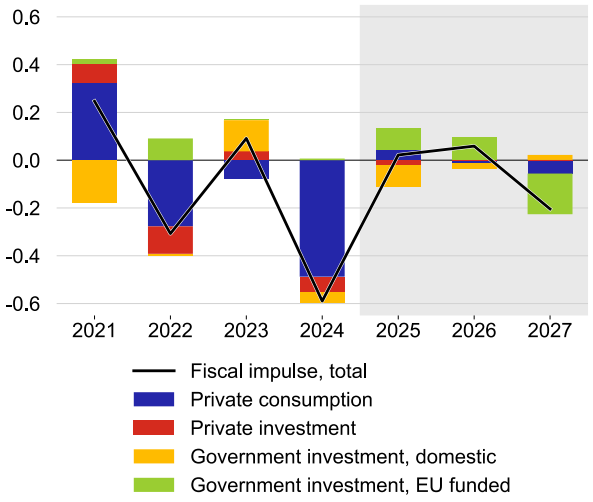


Chart 2.10

Export growth will be subdued this year, while imports will record solid growth due to buoyant 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

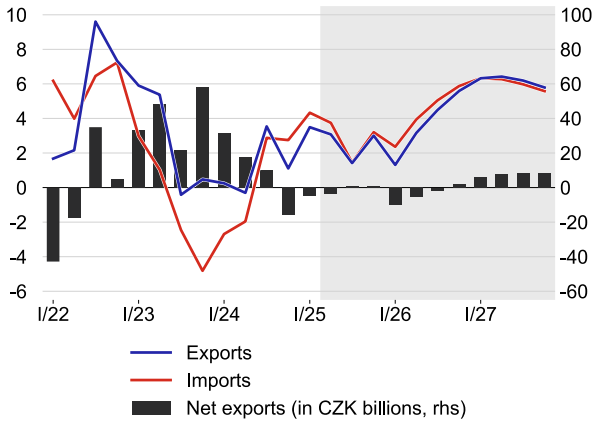
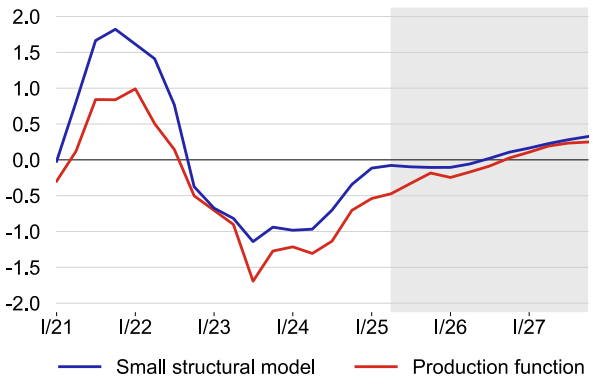


Chart 2.11

The negative output gap will close next year

output gap in % of potential output



in inflation. The growth will subsequently slow gradually but will remain elevated until around mid-2027.

Year-on-year average nominal wage growth in market sectors will also remain above-average from a historical perspective this year and in the years ahead (see Chart 2.13). This will be due to the economic situation in market services, which are being supported by rising household consumption, and to an improvement in the economic performance of industry, which will be aided by a recovery in external demand next year. Wage growth will thus decrease only slowly, staying above 5% until mid-2027. 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 at the start of the year and an increase in the salaries of the security forces in July this year.[11]

Growth in the nominal wage bill will be fostered by growth in both the average wage and employment until the end of the forecast horizon. With inflation inside the target tolerance band, the wage bill will also rise apace in real terms. Its growth will slow only gradually (see Chart 2.14).

The number of full-time equivalent employees will increase; unemployment will stabilise after a modest rise

Employment expressed in terms of the number of full-time equivalent employees, which started to go up in 2025 Q1, will keep growing as the economy recovers. The growth will be driven mainly by market services, which are being supported by household demand. The decline in the number of full-time equivalent employees in industry will meanwhile slow on the back of a recovery in this sector, and will flatten out at the end of this year.[12] In the European Commission survey, expectations about changes in employment and unemployment are close to their long-term averages. In recent months, they have moved towards higher employment and lower unemployment. The index of expected employment indicates an increase in demand for labour in Q3.[13] Leading indicators thus do not imply a significant cooling of the labour market overall.

Chart 2.12

From the perspective of the LUCI, the tightness in the labour market will gradually decrease

LUCI; vertical axis shows standard deviations

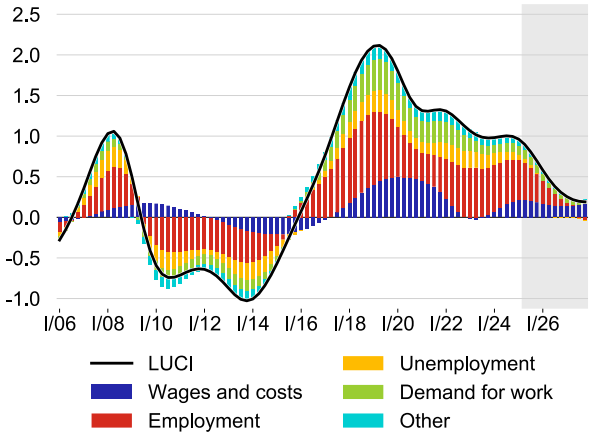


Chart 2.13

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

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

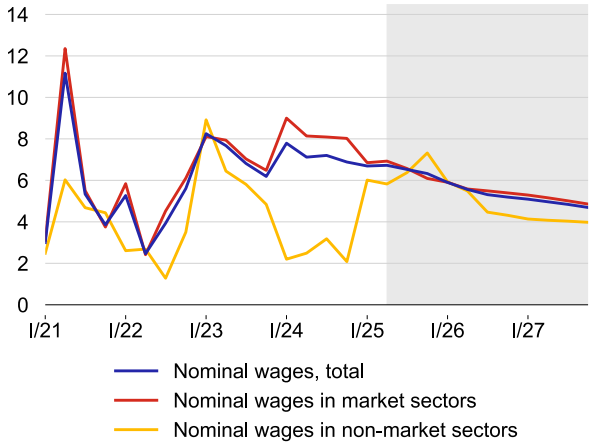
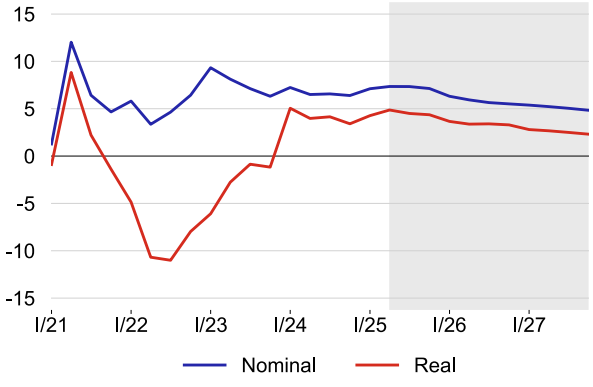


Chart 2.14

Growth in the real wage bill will remain elevated over the forecast horizon and will thus support household consumption growth

wage bill; y-o-y changes in %



[11] The gradual increase in the minimum wage is also contributing slightly to wage growth in the market and non-market sectors. In the non-market sector, a legislative change to the cascade of guaranteed salaries, in effect since the start of this year, is also fostering higher wage growth this year to a small extent.

[12] This phenomenon is already partially visible in the data. Although the number of full-time equivalent employees in industry declined in 2025 Q1, this was the smallest quarter-on-quarter drop since mid-2022 (after seasonal adjustment).

[13] For 2025 Q3, the Manpower Group index of expected employment is signalling continued growth in the number of employees. Moreover, the index increased in both year-on-year and quarter-on-quarter terms. The Google Trends scores for "unemployment" and "unemployment benefit" decreased in Q2. The score for the former was close to the average for the previous five years, while that for the latter was above-average (although this might reflect legislative changes made as part of the recently passed "flexi-amendment" to the Labour Code).

Unemployment indicators moved in opposite directions in Q1. The general unemployment rate declined (see Chart 2.15), while the share of unemployed persons (registered with labour offices) increased and continued to go up in Q2. The forecast expects the decline in the general unemployment rate to reverse in Q2. The growth in registered unemployment reflects ongoing structural changes in the economy. The further rise in the two unemployment indicators in the second half of this year is expected to be only modest. Unemployment will then stabilise amid an ongoing economic recovery, staying low by both historical and international standards.

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

Growth in domestic costs slowed in 2025 Q2 but stayed elevated (see Chart 2.16). Still buoyant wage growth in market sectors remains the driver of growth in costs. It will continue to reflect the high inflation of previous years and the still tight labour market situation over the forecast horizon. Growth in costs will also be fostered by solid performance of the domestic economy and related demand for production capacity, which will cause the price of capital to rise steadily. Labour efficiency will dampen cost pressures only slightly this year amid growth in employment. Its growth will accelerate markedly over the forecast horizon due to a recovery in fixed investment by firms. Coupled with slower wage growth, this will help bring down growth in domestic costs to normal levels.

Chart 2.15

The number of full-time equivalent employees will rise as the economy recovers; unemployment will be broadly flat after a modest rise

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

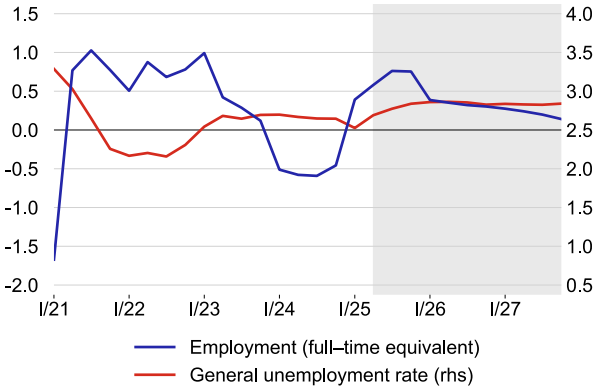
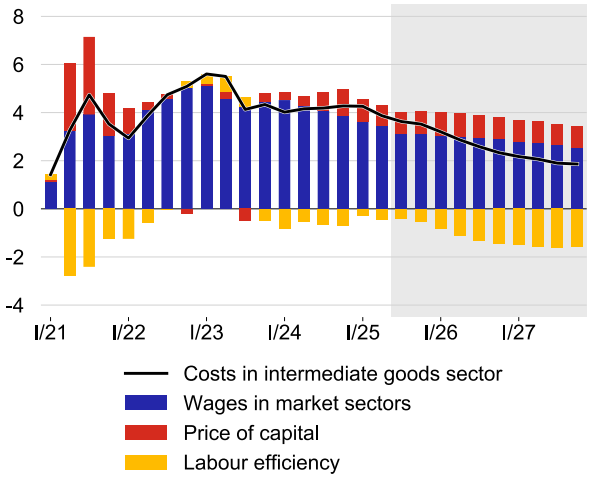


Chart 2.16

A continued slowdown in wage growth and improving labour efficiency 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

		2025	2026	2027	
GDP	y-o-y changes in %	**2.6**	**2.6**	**2.9**	The GDP outlook for this year is higher owing to a less negative contribution of net exports due to observed data; the outlook for 2026 is higher due to household consumption and net exports.
	pp	(0.6)	(0.5)	-	
Household consumption	y-o-y changes in %	**3.0**	**3.1**	**2.7**	The household consumption forecast for this year is slightly lower due to a revision of its growth at the end of 2024; the forecast for 2026 is higher due to higher real wages and salaries.
	pp	(-0.4)	(0.5)	-	
Government consumption	y-o-y changes in %	**2.1**	**1.3**	**1.6**	The government consumption forecast for this year is lower due to observations; the forecast for next year is little changed.
	pp	(-0.3)	(0.1)	-	
Gross fixed capital formation	y-o-y changes in %	**0.3**	**3.9**	**3.7**	Growth in fixed investment will be slightly higher this year due to a data revision and also to slightly better external demand, which will support investment next year too.
	pp	(0.6)	(0.4)	-	
Net exports	contr. to GDP growth	**-0.1**	**-0.2**	**0.5**	Net exports will dampen GDP growth less this year due to better observations at the start of the year and a slightly more favourable external demand outlook.
	pp	(0.7)	(0.2)	-	
Employment (full-time equivalent)	y-o-y changes in %	**0.6**	**0.3**	**0.2**	The forecast for growth in the number of FTE employees is higher due to the observations in Q1 and higher economic growth, and also due to a data revision.
	pp	(0.5)	(0.4)	-	
Unemployment (ILO)	%	**2.7**	**2.9**	**2.8**	The outlook for the general unemployment rate is slightly lower than in the previous forecast due to the drop in the rate observed in Q1 and higher GDP growth.
	pp	(-0.2)	(-0.2)	-	
Average monthly nominal wage	y-o-y changes in %	**6.6**	**5.5**	**4.9**	The wage growth forecast is higher than in the previous forecast, reflecting better expected performance of the Czech economy and the incorporation of the risk of faster wage growth.
	pp	(0.4)	(0.6)	-	

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

3 INFLATION

- Inflation will fluctuate in the upper half of the tolerance band around the CNB's 2% target this year due to elevated core inflation and rapid growth in food prices. It will continue to be dampened by fuel prices and administered prices.
- Inflation will be very close to the 2% target at the monetary policy horizon.
- Inflation will increase slightly at the start of 2027 due to the launch of the ETS 2 emissions trading system.

Inflation will fall gradually during the summer

Inflation fell in 2025 Q2 (see Chart 3.1). However, it was volatile, first dropping to 1.8% in April and then rising to 2.9% in June. According to the forecast, inflation will fall gradually in 2025 Q3,[14] owing to both slower year-on-year growth in food prices and a slight slowdown in core inflation. However, their contributions will remain elevated from a historical perspective. In the coming quarters, inflation is expected to be dampened by a continued drop in fuel prices and moderate administered price inflation (see Chart 3.2). According to the forecast, headline inflation will fall very close to the inflation target in the second half of next year, i.e. at the monetary policy horizon. In 2027 it will be above the target due to the launch of the ETS 2 emissions trading system, which is discussed in Box 1 at the end of this chapter.

Annual administered price inflation will decline further at the end of this year, but will increase in the following years

The moderate growth in administered prices observed in Q2 is expected to continue for the rest of this year (see Chart 3.3). It may even decline in the autumn owing to a further reduction in retail energy prices. Administered price inflation will rise slightly next year as the year-on-year decline in electricity and gas prices fades out. In 2027, it will increase further, driven mainly by a rise in gas prices associated with the launch of the ETS 2.

Market price inflation will stay slightly above 2%

Market price inflation, covering all price categories except administered prices, was elevated in the first half of this year due to strong past cost pressures (see Chart 3.4). Their effect will gradually lessen over the forecast horizon. However, shrinking excessive profit margins will offset it only marginally this year compared to previous quarters, as, given solid domestic demand, retailers will have little incentive to reduce their mark-ups to usual levels. This will change next year, when they will start to lower their profit margins again due to generally tight monetary conditions. This will cause real household income growth to slow and

Chart 3.1
Inflation will be above the 2% target in 2025 and very close to it over the monetary policy horizon

headline inflation; y-o-y in %; confidence interval

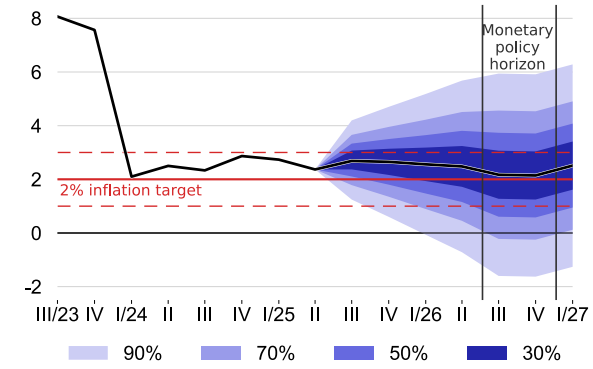
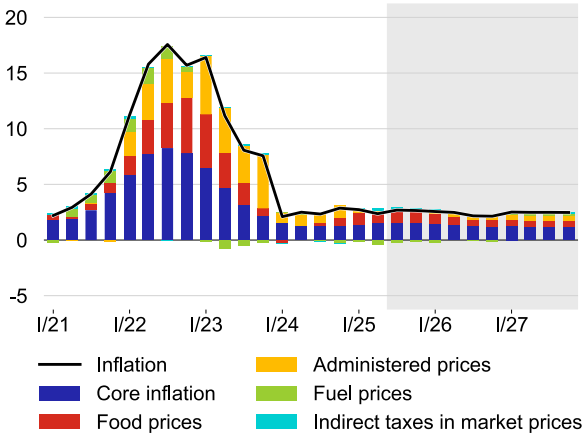


Chart 3.2
The contribution of core inflation will remain slightly elevated in the coming quarters

structure of inflation; y-o-y changes in %; contributions in pp



[14] Inflation reached 2.7% in July 2025.

demand pressures in the economy to weaken. Market price inflation will rise temporarily in 2027 due to the introduction of the ETS 2. Owing to the administrative nature of this measure, the central bank does not respond to its primary effects by making interest rate changes in the baseline scenario.

The overall cost pressures will rise at a broadly steady rate over almost the entire outlook

Growth in total costs declined towards its steady-state level in 2025 Q2 for the first time in a long time (see Chart 3.5). This was driven mainly by a significant decline in energy import prices, reflecting a sharp drop in oil prices and appreciation of the koruna. The pace of growth of core prices abroad will start to increase in 2026, but this will be dampened by appreciation of the koruna. Overall, core import prices will thus contribute only moderately to growth in corporate costs. Cost pressures will temporarily edge up at the start of 2027 due to the introduction of emission allowances, which will increase energy costs not only for households, but also for SMEs in the sectors affected. Despite higher import prices, overall cost pressures will remain close to their usual levels, aided by a decline in the growth of domestic input prices. Ongoing price convergence, which will lead to traditionally higher services inflation than goods inflation within core inflation, will also continue to foster growth in costs.

Core inflation will remain elevated over the next few quarters

Core inflation picked up gradually in 2025 Q2, reaching 3% in June. Growth in non-tradables prices rose to 4.6%, while growth in tradables prices rebounded from zero to 0.7%. The momentum[15] of core inflation was broadly stable in Q2. However, the momentum of services prices and of services prices adjusted for imputed rent started to slow at the end of the quarter, while that of goods prices picked up visibly (see Chart 3.6). Year-on-year growth in imputed rent alone continued to increase in Q2, driven in particular by accelerating growth in prices of new property.[16] The assumptions were therefore changed – the forecast now assumes that growth in house prices will ease only gradually, so the contribution of imputed rent will remain elevated in the coming quarters. As a result, core inflation will be just below 3%. This will be fostered by pressures from the domestic economy, in particular continued relatively buoyant wage growth, in addition to imputed rent (see Chart 3.7). The unfavourable structure of inflation is discussed in Box 2 at the end of this section.

Chart 3.3

Administered price inflation will remain subdued in the second half of 2025, but will gradually increase in the coming years

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

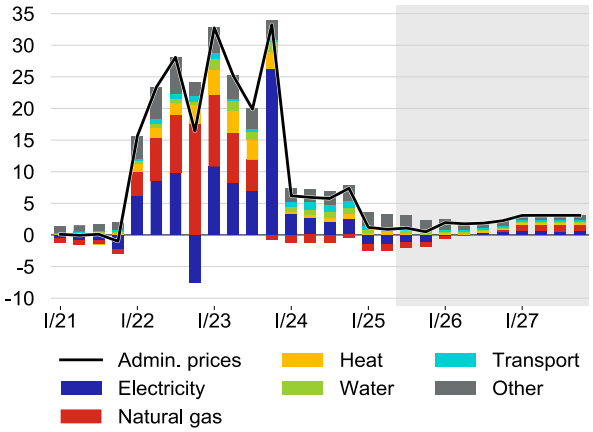
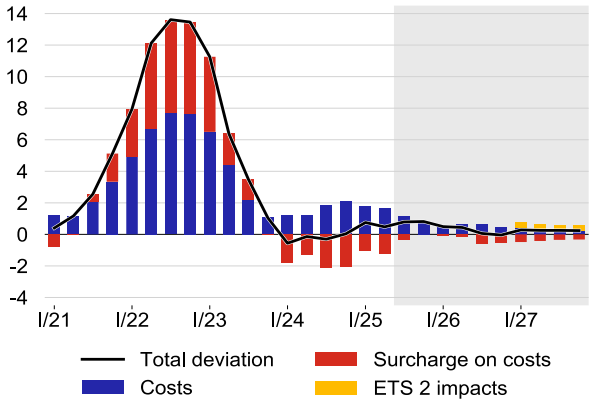


Chart 3.4

The repercussions of the elevated growth in costs will foster further price growth in the coming quarters

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

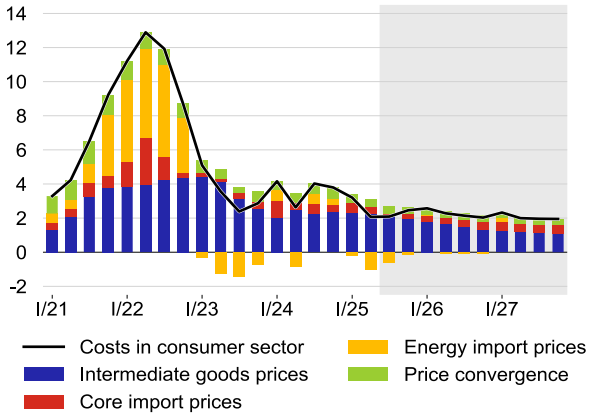


Note: The contribution of the surcharge on costs contains the gap in mark-ups in the sectors of consumer and intermediate goods and services.

Chart 3.5

Growth in total costs will be only slightly elevated over the outlook horizon

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



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

[16] The topic of property is examined in more detail in the appendix The Czech housing market in the upward phase of the cycle at the end of this Report.

Food price inflation will remain elevated in the coming quarters

Year-on-year growth in food, beverage and tobacco prices was highly volatile in Q2. In April, it slowed to 2.6%, but in June it rose again to almost 5%, making it the main driver of the volatility in headline inflation as well. It will remain elevated (averaging around 4%) in the coming quarters due to both swift growth in agricultural producer prices and a continued rise in prices of some imported food commodities.

The year-on-year decline in fuel prices will slow in the second half of this year

The year-on-year decline in prices at the pump deepened further in Q2. In the coming quarters, it will moderate gradually. In 2027, the launch of the ETS 2 will push annual fuel price inflation to a higher (positive) level.

Headline inflation will be slightly above monetary policy-relevant inflation

Changes to indirect taxes[17] 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. Excise duty on tobacco and alcohol will go up by a further 5% at the start of 2026, while excise duty on tobacco only will increase by a further 5% in 2027. 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 very close to the central bank's 2% target over the monetary policy horizon,[18] i.e. in the second half of 2026 (see Chart 3.8).

Inflation will increase above 2% in 2027 due to the introduction of the ETS 2. The baseline scenario of the forecast assumes a primary effect of about 0.4 pp.

Chart 3.6

The momentum of goods prices increased and that of services prices slowed at the end of the first half of this year

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

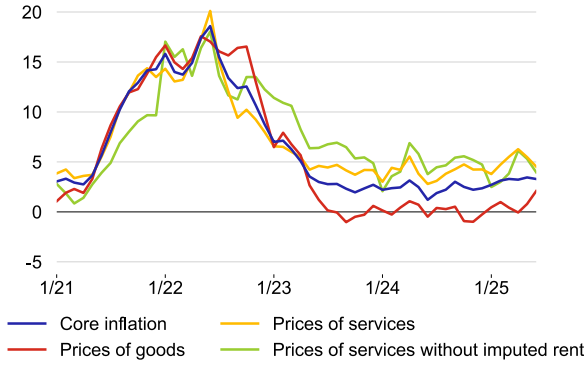


Chart 3.7

Core inflation will be just below 3% in the second half of this year amid an increased contribution of imputed rent

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

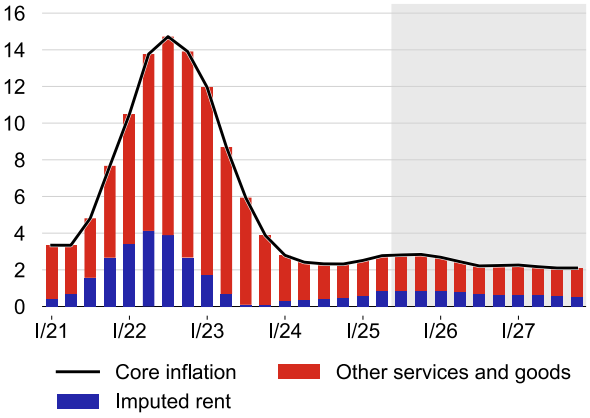
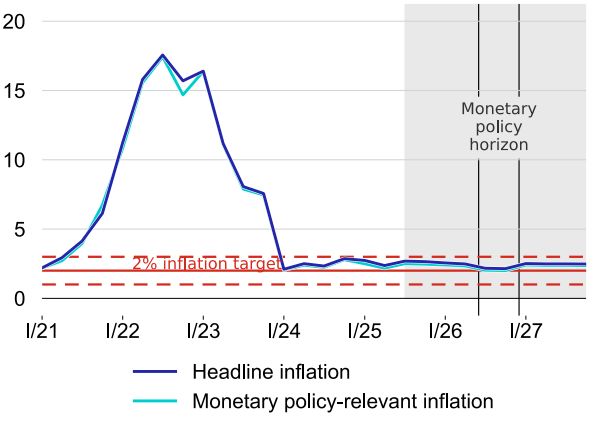


Chart 3.8

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 %



[17] 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 does not respond to them with interest rates in the forecast.

[18] The monetary policy horizon (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

		2025	2026	2027	
Consumer prices	y-o-y changes in %	**2.6**	**2.3**	**2.5**	The inflation forecast has shifted slightly upwards because of stronger core inflation and a smaller decline in fuel prices.
	pp	(0.1)	(0.2)	-	
Administered prices	y-o-y changes in %	**0.9**	**2.0**	**3.1**	The outlook for administered prices is unchanged for this year and slightly lower for 2026 due an expected larger reduction in energy prices for households.
	pp	(0.0)	(-0.2)	-	
Core inflation	%	**2.7**	**2.4**	**2.2**	The core inflation forecast is slightly higher mainly as a result of an expected more gradual decrease in growth of imputed rent.
	pp	(0.1)	(0.2)	-	
Food prices (incl. alc. bev. and tobacco)	y-o-y changes in %	**4.0**	**2.6**	**2.0**	Food price inflation will be slightly higher next year than in the spring forecast due to slightly higher growth in agricultural producer prices.
	pp	(-0.1)	(0.2)	-	
Fuel prices	y-o-y changes in %	**-6.4**	**-2.9**	**5.3**	The fuel price forecast has shifted upwards due to the observed outcomes and to a higher oil price outlook.
	pp	(2.0)	(1.2)	-	

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: Impacts of the introduction of the ETS 2 emissions trading system

The EU Emissions Trading System 2 (ETS 2) is scheduled to be launched at the start of 2027. Its aim is to impose a charge on greenhouse gas emissions at the EU level from road transport, building heating and small-scale energy and industrial production through emission allowances. It builds on the EU ETS 1[1] introduced in 2005, which applies to large emitters, particularly in the energy sector and heavy industry. From 2027, the combined system is expected to cover up to 85% of greenhouse gas emissions in Europe, with only agriculture and waste management remaining outside its scope. The aim of this box is to estimate the potential impacts of the ETS 2, although any quantification is currently subject to considerable uncertainty.

The ETS 2 – including the setting of the allowance price – will operate independently of the ETS 1. Under current EU legislation, if the average price of an emission allowance exceeds EUR 45 per tonne of CO_2 (in constant 2020 prices), additional allowances will be released into circulation with a time lag to prevent excessive price growth. Allowances will not be bought directly by households or firms, but by major fuel suppliers, who will then pass the costs on to consumers and end users through higher prices. Similar to the ETS 1, the volume of allowances in circulation is expected to decline each year. If energy prices in the market are exceptionally high in the first half of 2026, the launch of the ETS 2 will be postponed until 2028.[2]

To estimate the impacts of the ETS 2 on domestic inflation, we assume a maximum allowance price of EUR 45 in 2020 prices. However, it is gradually increased by the average HICP inflation rate in the EU27, which was 22.6% in 2024 compared to 2020. Assuming 2% inflation in the coming years, the resulting limit for emission allowances at the start of 2027 would be roughly 28% higher than in 2020, i.e. around EUR 57.

If the allowance price were to reach the limit of EUR 57 per tonne of CO_2 in 2027, domestic consumer prices could increase by 0.9 pp due to higher prices of natural gas, fuel and coal. However, there is considerable uncertainty associated with this estimate. EU Member States are currently calling on the European Commission to introduce fundamental changes to emission allowance trading rules under the ETS 2. Further uncertainty surrounds potential compensation measures by the Czech government and the extent to which these would be reflected in consumer prices. The forecast therefore assumes a primary impact of half the size (0.4 pp) and a secondary impact of 0.2 pp. In the baseline scenario, monetary policy reacts to the secondary impact only. Alternative scenarios involve monetary policy responding to the overall impact of the introduction of emission allowances and a potential larger impact corresponding to an allowance price of EUR 57 per tonne of CO_2 with no additional compensation, with the central bank reacting to the secondary impacts only.

Additional uncertainty relates to the commercial and pricing strategies of fuel suppliers. In the Czech Republic, there is currently no legal framework governing how fuel suppliers will trade emission allowances and incorporate them into their end-user prices. As a result, gas suppliers have recently been limiting the conclusion of fixed-price contracts for periods longer than two years, or have introduced contractual clauses that take into account future allowance prices.

The Czech Republic will receive additional funds from the auctioning of emission allowances, which will be used for as-yet unspecified compensation measures for the economic agents affected. In addition, one year before the launch of the ETS 2, a Social Climate Fund will be established at the EU level, to which a portion of emission allowances will be allocated. The funds earned from their sales will be used to offset the adverse effects of rising fuel prices. To access this EU financial resource, Member States will be required to prepare a Social Climate Plan. They must contribute at least 25% of the fund's expenditures from their own resources. A plan is currently being prepared in the Czech Republic. However, it will only be approved by the European Commission once the ETS 2 Directive is fully transposed into national legislation, which has not yet happened.

The configuration and timing of compensation mechanisms, along with the price of emission allowances, will play a key role in determining how the introduction of the ETS 2 will affect the financial situation of Czech households. The impact on households will be uneven, depending on their use of energy-efficient housing and reliance on public or private transport.

[1] In the ETS 1, one emission allowance (European Emission Allowance, EUA) entitles the holder to emit one tonne of carbon dioxide, or an equivalent amount of nitrous oxide or perfluorocarbons. Each year, the EU issues a set quantity of allowances, with the emissions cap steadily decreasing over time. Firms participating in the system acquire allowances either through auctions (and may subsequently trade them on the exchange) or bilaterally, or receive a certain amount free of charge.

[2] However, a postponement of the ETS 2 would require the TTF (Title Transfer Facility, a virtual trading point in the Netherlands) gas price to exceed roughly EUR 107/MWh or the Brent crude oil price to rise above around USD 160 per barrel, which currently seems unlikely. The ETS 2 allows for exemptions for firms and households if they are subject to a national carbon tax that exceeds the price of the emission allowance. No such carbon tax is currently in place in the Czech Republic.

Box 2: The unfavourable structure of inflation

The CNB has repeatedly drawn attention to the incomplete nature of the disinflation process and the risks stemming from the structure of inflation. Inflation hotspots have persisted in services prices, recently in the form of a rising cost of owner-occupied housing in particular. These are items with greater persistence in the consumer basket, and their growth is likely to subside only gradually. By contrast, inflation has been dampened by more volatile items such as fuel, energy and – last year – food. This year's surge in food prices illustrates how easily such developments can reverse.

This box offers an alternative perspective on the structure of inflation and shows that price instability is a broader issue extending beyond the aforementioned services prices. With stable price developments, the distribution of price growth in the consumer basket should be roughly symmetrical around the 2% target. At present, however, more than half of the consumer basket is increasing at a rate of over 3% (see Chart 1).

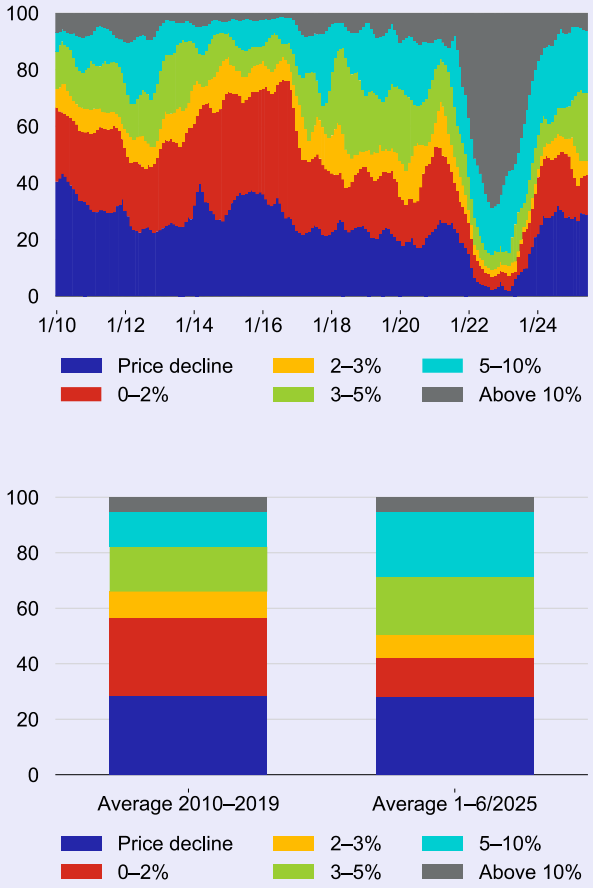
The issue does not lie in extreme price growth. The weighted share of items rising at a rate of more than 10% is very close to the historical average (see Chart 2). Likewise, the share of items showing a decline is not out of the ordinary. However, significant changes are apparent in the very low share of items growing at a modest pace of 0–2%. Between 2010 and 2019,[1] they accounted for 28% of the total on average, whereas in the year to date in 2025, they represent just 14%. A shift in the opposite direction is evident in the share of items rising by 5–10%, which averaged 13% prior to the pandemic but has been a significant 23% since the start of this year. In recent months, part of this group has moved into the 3–5% growth band. However, the combined share of these two groups showing excessive price growth (44%) remains well above the historical average (29%).

This indicates that inflation is not yet fully stabilised in terms of its distribution and is elevated in terms of its structure and simultaneously sensitive to external shocks. Overall year-on-year inflation is being moderated by several high-weight items with falling prices, notably retail energy prices (electricity and gas) and fuel prices. These are benefiting from the globally favourable trend in energy prices – a trend, however, that could reverse unexpectedly. By contrast, the price core – whether represented by core inflation as defined by the CNB (3% in June 2025), the median net inflation rate (3.8%) or (as described above) the share of the consumer basket showing excessive price growth (52% of the basket rose at a rate of more than 3% in 2025 Q2) – indicates that inflationary risks persist in the structure of inflation.

Charts 1 and 2

More than half of the consumer basket is currently increasing at a rate of over 3%

shares of consumer basket items in % growing at given rate



[1] This is the period from the introduction of the 2% inflation target to the period of extraordinary shocks (COVID-19, energy crisis, war in Ukraine). During this period, average inflation was 1.7%.

4 MONETARY POLICY

- At its August monetary policy meeting, the Bank Board kept interest rates unchanged. The two-week repo rate thus remains at 3.50%, the discount rate at 2.50% and the Lombard rate at 4.50%.
- The Bank Board assessed the risks and uncertainties of the outlook for the fulfilment of the inflation target as inflationary overall.
- Consistent with the forecast is a modest decline in short-term market interest rates initially, followed by a slight increase in rates next year.

Consistent with the baseline scenario of the summer forecast is a modest decline in short-term market interest rates initially, followed by a slight increase in rates next year

The forecast implies a further modest decline in short-term market interest rates in the second half of this year (see Chart 4.1) on the back of a falling outlook for ECB and Fed rates and the drop in energy prices seen in the spring. At the start of 2026, domestic rates will start rising slightly again, reflecting persisting domestic inflation pressures.

The 3Y government bond yield will follow a similar path to 3M market interest rates but will be marginally higher, mainly due to the risk and term premia (see Chart 4.2).

The koruna will be broadly stable over the outlook horizon

The koruna weakened slightly to CZK 25.2 to the euro at the start of Q2 in response to global uncertainty associated with US tariff policy and geopolitical tensions. In late April, it started to correct its losses in reaction to global developments. The appreciation of the koruna was also fostered by higher demand due to a foreign trade surplus, which was partly offset by seasonal demand for foreign currency driven by dividend payments and the onset of the tourist season. Israel's attack on Iran in June temporarily disrupted the koruna's strengthening trend. However, the appreciation resumed after the situation calmed. This was aided by the publication of the June inflation figures and CNB communications suggesting rate stability. In July, the koruna averaged CZK 24.6 to the euro, its strongest level since December 2023.

The baseline scenario of the summer forecast expects the koruna to average CZK 24.8 to the euro in 2025 Q3, a slight weakening from its current level due to the predicted decline in interest rates. The koruna will be broadly stable over the outlook horizon (see Chart 4.3). Further appreciation in the subsequent quarters will be prevented by only slowly recovering productivity in the domestic economy. A slightly narrower interest rate differential vis-à-vis the euro area will emerge in 2027, when the koruna will weaken slightly due to a rising outlook for ECB rates.

Chart 4.1
Consistent with the forecast is a modest decline in short-term market interest rates initially, followed by a slight increase in rates next year

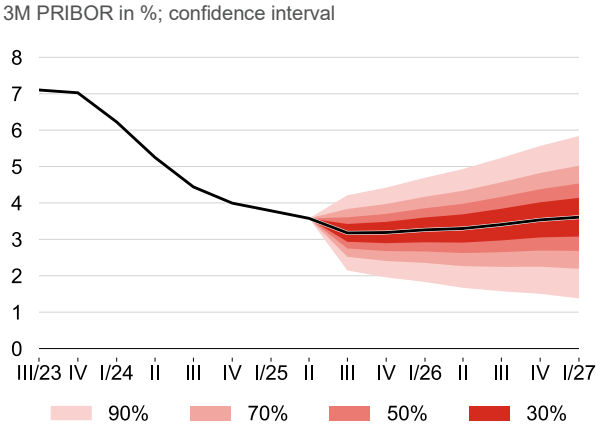
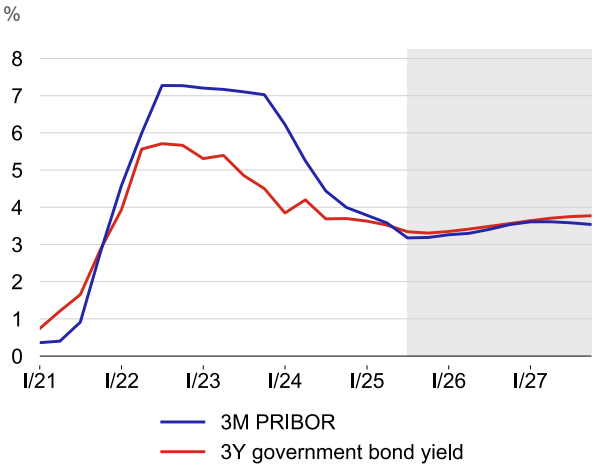


Chart 4.2
The three-year government bond yield will increase slightly next year in connection with the rise in short-term rates



The market interest rate outlook is slightly above the CNB's summer forecast

Both of the Bank Board's decisions (to lower key interest rates by 0.25 pp in May and then to leave them unchanged in June) had been widely anticipated. However, the market outlook for short-term FRA rates moved higher in reaction to the CNB's communications about persisting inflationary risks and limited scope for further monetary policy easing. In late July, the market was thus expecting the 3M PRIBOR to be broadly stable at the one-year horizon (see Chart 4.4). This outlook is slightly above the interest rate path in the baseline scenario of the CNB's summer forecast.

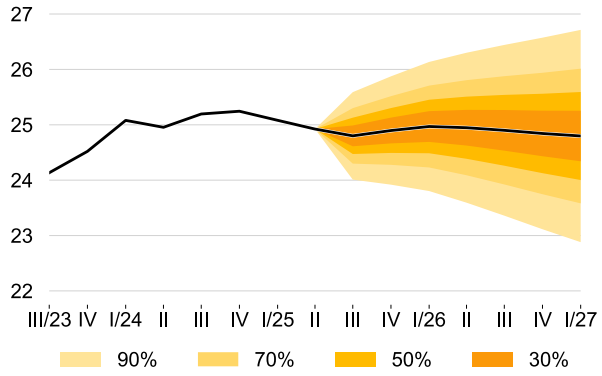
The Bank Board emphasised persisting domestic inflationary risks

In their public communications before the August monetary policy meeting, Bank Board members repeatedly pointed out persisting domestic inflationary risks. In particular, they emphasised continued rapid growth in services prices, driven by robust wage growth and strong domestic demand, as well as growth in house prices, reflected in imputed rent. Some Bank Board members also said it would be necessary to keep monetary conditions tighter for longer. According to one member, the current rate-cutting cycle was almost certainly over. In her opinion, rate increases were a tool with limited effectiveness on the housing market – one which would also generate significant side effects – and she therefore did not currently regard it as suitable. Another Bank Board member also considered the scope for another rate cut to be limited and was expecting interest rates to remain steady for a time.

Chart 4.3

The koruna will be broadly stable over the outlook horizon

CZK/EUR exchange rate; confidence interval

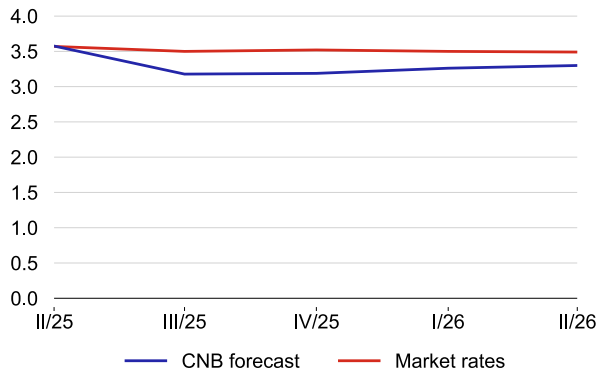


*The **3M PRIBOR market interest rate** is a money market reference rate with a maturity of three months which is closely linked to the CNB's monetary policy rates. The CNB's key rate is the **two-week (2W) repo rate**, paid on commercial banks' excess liquidity as absorbed by the CNB in repo operations. 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 August monetary policy meeting) stands at zero. The forecast for the **3Y government bond yield** reflects the expected 3M PRIBOR, which, however, it can deviate from due to the term and risk premia. This long-term interest rate then passes through to the other parts of the forecast via interest rates for households and firms.*

Chart 4.4

Most of the market was expecting rates to stay unchanged at the August meeting; the market outlook is slightly above the CNB forecast

3M PRIBOR, FRA in %



Note: Market rates represent for 2025 Q2 the 3M PRIBOR and for 2025 Q3–2026 Q2 the average values of the FRA 1*4, 3*6, 6*9 and 9*12 rates for the last 10 trading days as of 31 July 2025.

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

Chart 4.5
The interest rate path is significantly higher than in the spring forecast

decomposition of changes in 3M PRIBOR forecast in pp

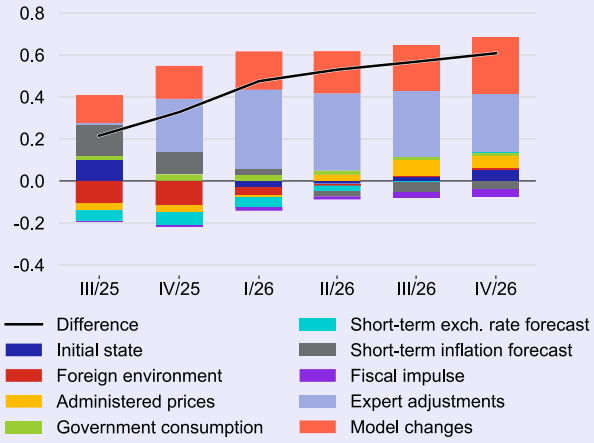
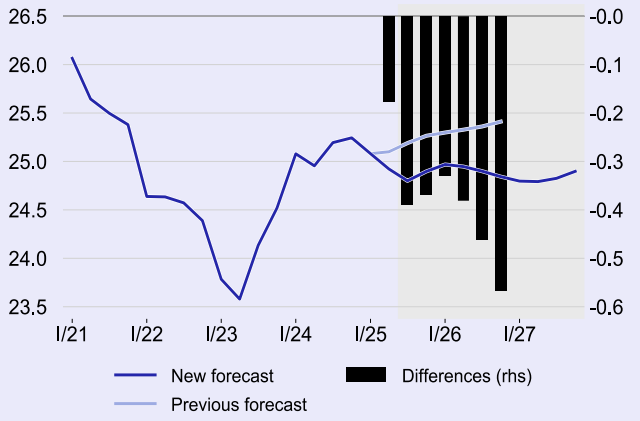


Chart 4.6
The koruna exchange rate forecast has shifted to considerably stronger values

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 4.5)

- **Expert adjustments** contribute to significantly higher rates. In the baseline scenario, the forecast now incorporates the inflationary risks from the previous forecasts, specifically elevated house price growth, persisting elevated margins of firms and above-average expected wage growth in services and trade. As the forecast horizon has been extended until the end of 2027, the secondary effects of the introduction of the ETS 2 emissions trading system are also included, with monetary policy reacting in advance in 2026.
- The negative contribution of the **foreign environment** mainly reflects a stronger euro-dollar exchange rate and worse sentiment regarding the US economy due to the uncertainty surrounding US tariff policy.
- The **short-term inflation forecast** for 2025 Q3 fosters slightly higher rates.
- **Model changes** lead to slightly higher rates, reflecting a decrease in the steady-state level of nominal ECB rates from 2.5% to 2.25% from 2019 and an implicit increase in the koruna's risk premium to 0.75 pp.

  Assuming an unchanged outlook for foreign rates, ECB monetary policy has a more restrictive effect, making the euro more attractive vis-à-vis the koruna. Higher domestic rates stop the exchange rate from weakening and avert an increase in import prices and, in turn, inflation.

  The model now also incorporates the effects of the fiscal impulse in the historical data. This change fosters slightly higher rates, especially this year. The inflationary effect of fiscal support measures during the Covid and energy crises is now captured more accurately.
- The effect of the **short-term exchange rate forecast**, the **initial state**, the revised outlook for **administered prices** as well as **general government consumption** and the **fiscal impulse** is negligible.

Comparison of the koruna exchange rate with the previous forecast (Chart 4.6)

- The koruna is stronger than in the spring forecast, due mainly to a wider interest rate differential vis-à-vis the euro area compared to the previous forecast, a higher foreign trade surplus and the level observed in 2025 Q2.

Analysts predict a modest decline in CNB key interest rates and broad stability of the CZK/EUR exchange rate at the one-year horizon

Almost all the respondents in the FMIE survey were expecting the 2W repo rate to be left unchanged at the August monetary policy meeting. One respondent was expecting it to be cut by 0.25 pp. The analysts expect the CNB's key interest rate to be in the range of 2.75%–3.50% (median 3.25%) one year ahead.

On average, the analysts in the FMIE and FECF surveys expect the koruna to be slightly below CZK 25 to the euro one year ahead (see Table 4.1). Their forecasts expect the exchange rate to be rather stronger than in the central bank's outlook. The analysts believe the koruna will appreciate very gradually due to the recovery of the Czech economy and a positive interest rate differential vis-à-vis euro rates. Geopolitical developments – in particular trade wars and ongoing military conflicts, which are causing greater risk aversion – may have the opposite effect.

Inflation expected by financial market analysts is just above the CNB's 2% target at both the one-year and three-year horizons (see Chart 4.7).

Inflation expectations of firms fell marginally further 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 ahead remained slightly below 3% in June (see Table 4.1). Firms are also asked about the prices of their main inputs (commodities, materials, energy, etc.) one year ahead. This forward-looking indicator fell markedly from 2.9% in March to 2.4% in June. In the case of prices of firms' main outputs (final products), it stood at 2.1%.

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 risen slightly since then. The inflation rate expected one year ahead also rose slightly during 2024 but remains low relative to previous years (see Chart 4.7). The share of households expecting an improvement in their financial situation in the next 12 months increased as well.

Money market rates declined, while rates with longer maturities fluctuated due to heightened uncertainty

PRIBOR rates fell in response to the lowering of the CNB's key interest rates in May. However, expectations that monetary conditions will ease further in this way are weakening, so the money market yield curve is almost flat. Domestic rates with longer maturities (over one year) have largely followed rates on foreign markets (see Chart 4.8). Important factors have included trade wars,

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

	3/25	4/25	5/25	6/25	7/25
FMIE:					
CPI	2.3	2.2	2.1	2.1	2.2
CPI, 3Y horizon	2.2	2.1	2.1	2.1	2.1
Real GDP in 2025	2.0	1.8	1.8	1.9	2.0
Real GDP in 2026	2.3	2.1	2.0	2.0	1.9
Nominal wages in 2025	5.8	5.8	5.7	6.1	6.2
Nominal wages in 2026	5.1	5.1	4.9	5.1	5.1
CZK/EUR exchange rate (level)	24.7	24.9	24.8	24.8	24.6
2W repo rate (%)	3.3	3.1	3.1	3.1	3.2
1Y PRIBOR (%)	3.3	3.3	3.2	3.2	3.3
Corporations:					
CPI	2.9			2.8	
CPI, 3Y horizon	3.2			3.1	
CF:					
Real GDP in 2025	2.0	1.9	1.9	2.0	2.0
Real GDP in 2026	2.4	2.2	2.1	2.1	2.0
Nominal wages in 2025	5.7	5.8	5.6	6.0	6.2
Nominal wages in 2026	4.9	4.8	4.7	4.9	4.9
CZK/EUR exchange rate (level)	25.4	25.1	25.1	25.1	24.7
3M PRIBOR (%)	3.2	3.2	3.2	3.2	3.3

Chart 4.7

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

sample of approximately 18 analysts, 150 corporations and 1,000 households; %

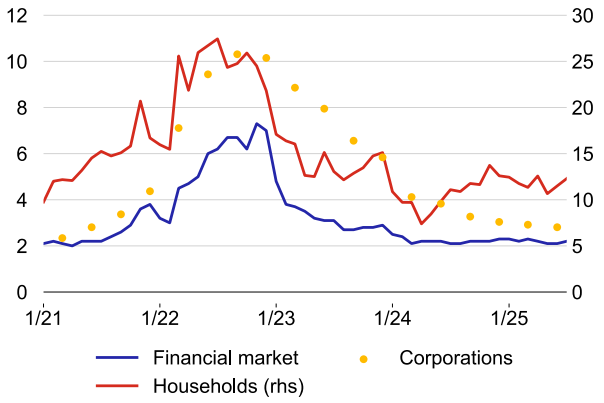
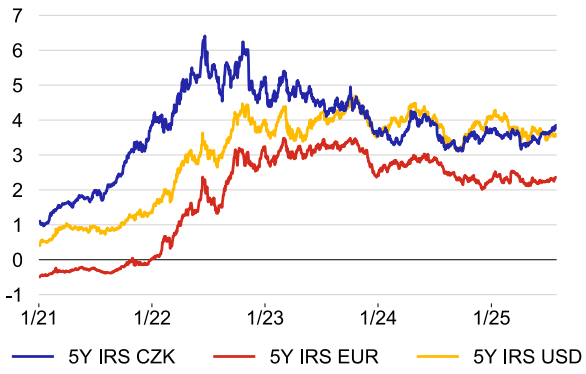


Chart 4.8

Domestic interest rates with longer maturities have been fluctuating with no clear trend since the start of this year

%



geopolitical tensions in the Middle East and the expected monetary policy stance in the USA. Overall, domestic IRS rates have declined only at their shortest ends at individual maturities since the start of this year. At maturities of three years or more, they have risen by up to 0.3 pp. Government bond yields have increased by roughly the same amount. Long-term financing conditions have thus slightly tightened autonomously. The slope of the curve in this segment has been positive for several months now (see Chart 4.9).

Client interest rates declined further in response to the reduction of the CNB's key interest rates

The transmission of monetary policy rate cuts is fastest in the segment of loans to non-financial corporations. This rate has dropped by 3.9 pp to 4.8% since the CNB started lowering its key rates at the end of 2023 (see Chart 4.10). The rate on euro-denominated corporate loans has also decreased markedly, leading to a slight increase in the interest rate differential to 1.4 pp. The interest rate on new loans for house purchase declined only very slightly in Q2. It has thus dropped by 0.8 pp to 4.7% since the end of 2023. This reflects the previous decline in IRS market rates with longer maturities. This year, however, the rates have been broadly flat.

Growth in loans to non-financial corporations picked up

Growth in corporate loans accelerated to 5.5% in 2025 Q2. The growth in corporate loans was due to both koruna and foreign currency loans and, in terms of sectors, mainly to loans in services and real estate activities. The share of foreign currency loans in total loans to corporations dropped towards 50%. According to the Bank Lending Survey, demand in the SME and short-term loans segments increased in Q2. By contrast, demand for long-term loans decreased, due mainly to a reduced need to finance fixed investment. 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).

Growth in loans to households for house purchase has been rising, while growth in consumer credit remains high

The annual growth rate of housing loans to households rose to 6.5% in 2025 Q2. This reflects a large amount of genuinely new mortgages (see Chart 4.12). In real terms (adjusted for inflation/change in asking prices of apartments), genuinely new mortgages are at levels seen in the pre-Covid period, which was characterised by brisk house price growth. According to banks, the growth in demand for housing loans is being driven by expectations of further growth in residential property prices and a slight drop in mortgage interest rates. According to the forecast, growth in housing loans will remain high both this year and next year due to growing demand for property.

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

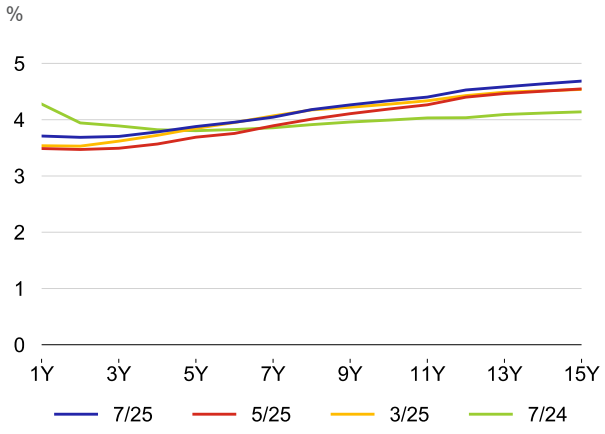


Chart 4.10
Interest rates on loans to corporations and loans for house purchase are gradually decreasing further

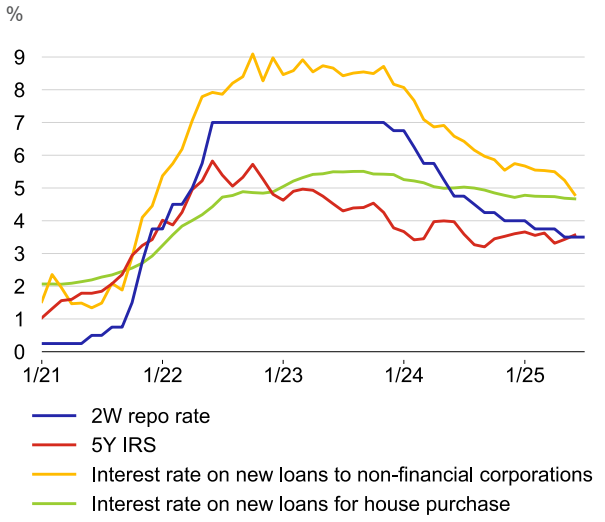
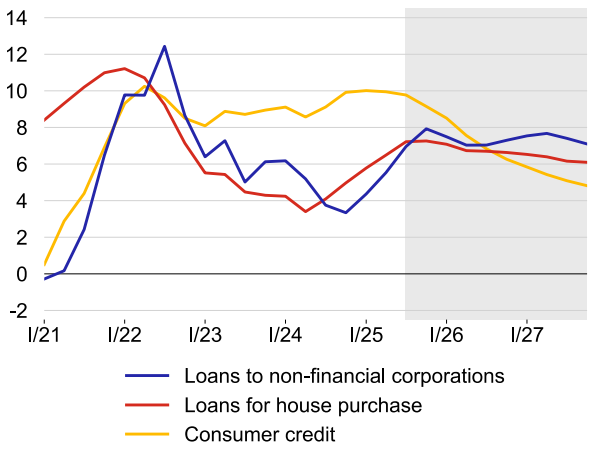


Chart 4.11
Growth in loans to households and corporations will remain high in the period ahead

annual rates of growth in %



Growth in consumer credit stayed high at 9.9% in Q2. According to banks, demand for consumer credit rose due to an improvement in consumer confidence and a related increase in consumption expenditure. According to the forecast, growth in consumer credit will continue to slow in the second half of this year.

Growth in the quantity of money in the economy slowed in the first half of 2025

The annual growth rate of M3 slowed slightly to 4.1% in Q2 (see Chart 4.13). This reflects a negative contribution of net external assets resulting from 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 be expected in the period ahead. The positive contribution of general government financing remains above its long-term average. Growth in M1, consisting mainly of overnight deposits of households and firms, is still high as a result of interest rate cuts.

Real monetary conditions will have a roughly neutral effect this year and next year

The exchange rate component of the real monetary conditions remains neutral over almost the entire forecast horizon. The interest rate component has a roughly neutral effect until the end of 2026. It is expected to be restrictive later in 2027.

Overall, the real monetary conditions index (RMCI) is thus at a neutral level this year and next year. From the start of 2027 onwards, monetary conditions are slightly restrictive (see Chart 4.14).

The RMCI is based on the rates in the baseline scenario of the forecast, which implies a modest decline in interest rates in Q3. The interest rate component will thus have a slightly restrictive effect given that interest rates are kept at their current levels.

Potential longer persistence of the adverse structure of inflation is an inflationary risk to the forecast

As indicated by the analysis in Box 2, prices of more than half of the consumer basket items are rising at rates of more than 3% this year. Between 2010 and 2019, by contrast, more than half of the consumer price index consisted of items whose prices were either decreasing or were increasing at only a modest pace of no more than 2% year on year. The structure of the consumer basket was therefore more evenly distributed close to the inflation target. The current situation has resulted in average inflation being almost 1 pp higher than the 2010–2019 average so far this year. An adverse trend can now also be observed for goods prices, whose growth has been rising in recent months, keeping the momentum of core inflation above 3%.

Chart 4.12

The volumes of new mortgages are increasing further

genuinely new mortgages, including increases; CZK billions

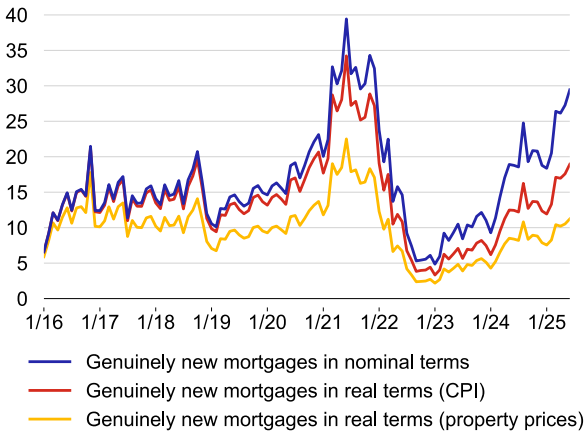


Chart 4.13

M3 growth slowed in the first half of this year

annual rates of growth in %

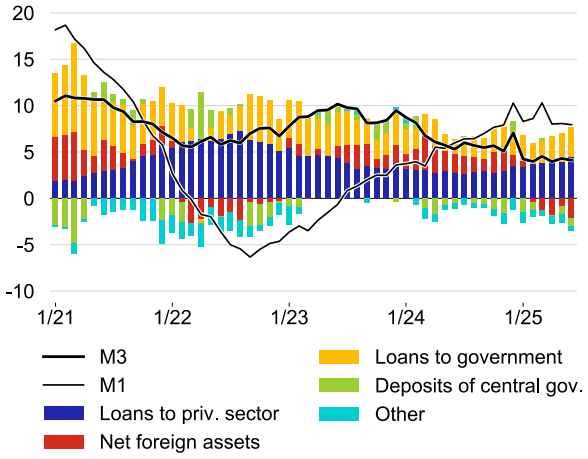
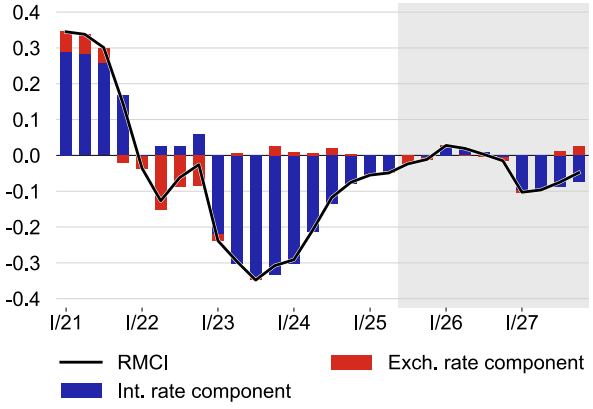


Chart 4.14

Real monetary conditions will be broadly neutral this year and next year

real monetary conditions index (RMCI); positive (negative) values correspond to easy (tight) monetary conditions



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

Overall, the structure of inflation has so far been inconsistent with the sustainable fulfilment of the 2% inflation target. In an environment of still elevated inflation expectations of households, there is the risk that this unfavourable situation will persist into the periods ahead.

Stronger-than-expected price impacts of the introduction of the ETS 2 emissions trading system is an additional upside risk to inflation in the longer term

Given the ongoing political negotiations in the EU and other uncertainties linked with the introduction of the ETS 2, there is still uncertainty over the final form of the system (see Box 2 at the end of section 3 for details). The baseline scenario of the forecast therefore assumes that the introduction of the ETS 2 will have a primary effect of 0.4 pp and a secondary effect of 0.2 pp in 2027. In reality, however, there is a risk of the emission allowance price being higher. A scenario assuming a maximum allowance price of EUR 57 per tonne of CO_2 in 2027 prices for 2027 was prepared to illustrate such a situation. The impact of this price would be roughly twice as strong as in the baseline scenario. As in the baseline scenario, monetary policy only responds to the secondary effects.

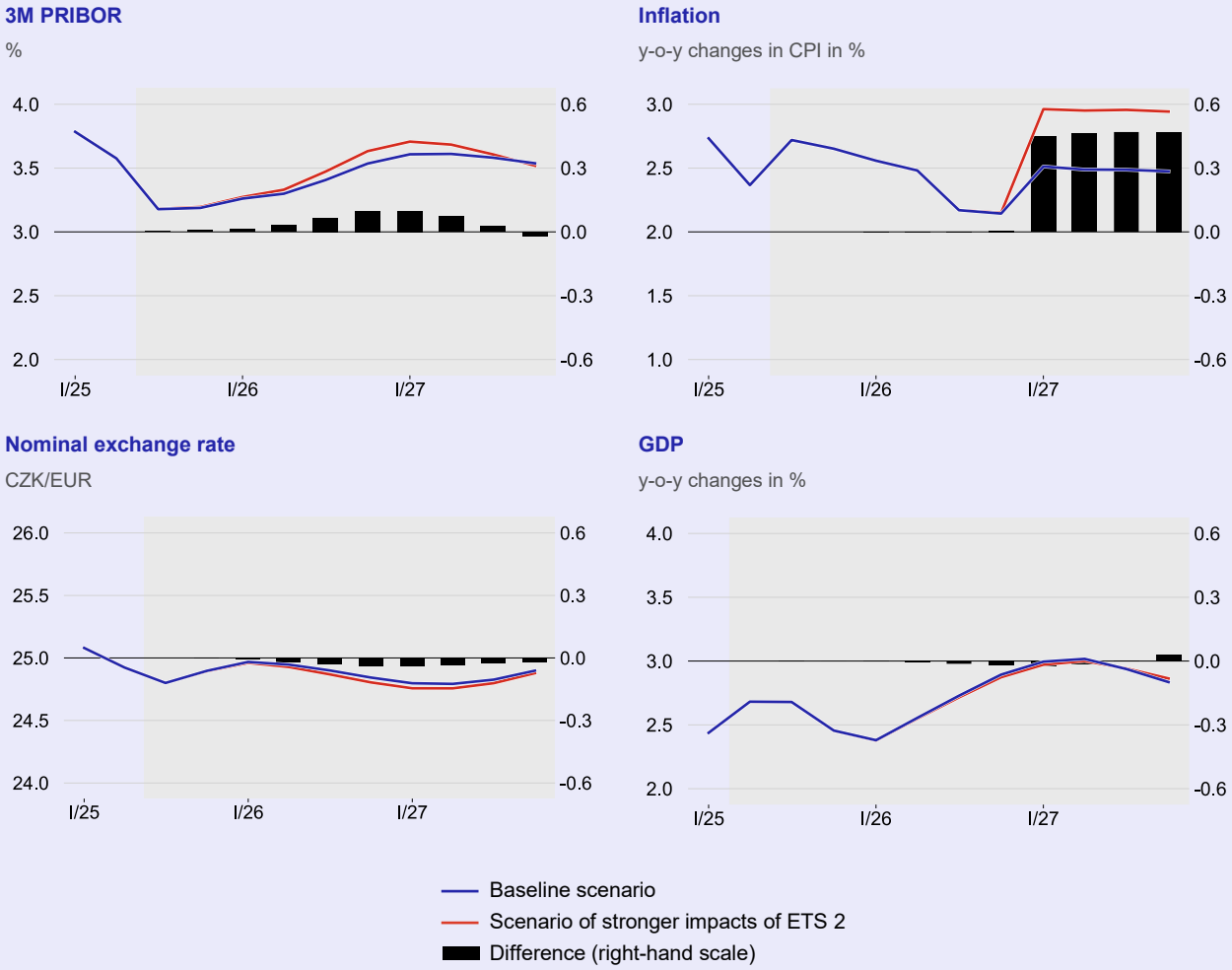
Scenario of stronger impacts of the ETS 2

This scenario takes into account the impacts of the introduction of the ETS 2, assuming that emission allowances will be traded at their price limit of EUR 57 per tonne of CO_2, so the impacts will be twice as strong as in the baseline scenario. As in the baseline scenario, the central bank abstracts from the primary price impacts of this administrative measure and only responds to its secondary effects. These are twice as strong, requiring slightly higher rates than in the baseline scenario assuming that inflation expectations are firmly anchored. The higher rates will be reflected in a slightly stronger koruna and will not have much effect on economic growth. Owing to the stronger primary effects of the ETS 2, from which the central bank abstracts, inflation will approach the upper boundary of the tolerance band around the inflation target in 2027 (see Chart 4.15).

Chart 4.15

Higher price growth leads to slightly tighter monetary policy next year

comparison of baseline scenario with scenario of stronger impacts of ETS 2



A stronger-than-expected koruna is a downside risk to inflation

The euro has strengthened against the dollar by more than 10% since the start of this year. This constitutes a historically significant movement in this major currency pair. The Czech koruna is also benefiting from the global weakening of the dollar. Despite the turbulence in recent months, it is appreciating not only against the dollar, but also against the euro. In view of the slight drop in interest rates in 2025 Q3 assumed in the baseline scenario, the short-term exchange rate forecast is at CZK 24.8 to the euro. The koruna is expected to remain close to this level until the start of 2026. A stronger-than-forecasted exchange rate is an anti-inflationary risk of the forecast.

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

The general government deficit will fall to 1.9% of GDP this year, rising to 2.2% of GDP in 2026 due in part to higher defence spending. A structural deficit of 1.9% of GDP is expected in 2025. The upper limit set in the Act on Budget Responsibility (2.25% of GDP for 2025) will thus be met. The forecast expects the structural deficit to rise to 2.2% next year. However, following an amendment of the Act on Budgetary Rules, the statutory limit is higher, as it is increased by the difference between actual defence spending and 2% of GDP.[19]

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.[20] General government deficits may also 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. Uncertainty in this area stems in particular from the future government's stance on raising defence spending, as well as from any further increases in public sector pay in 2026.[21] The other risks indicated by the Scoreboard match the other issues described in this section.

[19] Under the latest revision to the budgetary rules, the government will be able to take into account increased defence spending above the current 2% of GDP when preparing the state budgets for 2026–2033. The difference between actual defence spending and 2% of GDP will not be included in the expenditure limits set by the Act on Budgetary Responsibility. In the case of, say, a 0.2% of GDP increase in defence spending in 2026, the statutory limit for the structural deficit in the same year would move to 1.95% of GDP.

[20] The contribution of general government debt, including the release of central government deposits, to M3 growth averaged 2.1 pp from January to June 2025, as against 0.2 pp in 2010–2019.

[21] The Ministry of Labour and Social Affairs proposes increasing the wage scales for public sector employees by 5% or 7% from January 2026. The government is expected to decide on specific pay increases at the end of August. Trade unions are demanding a rise in wage scales of 9–10%. The CNB's forecast expects annual growth in compensation of employees in the general government sector of 5.2% in 2026.

The future course of the trade wars is an uncertainty of the forecast

A trade deal was announced between the USA and the EU at the end of July. Most EU goods are to be subject to a 15% tariff, down from the 30% originally proposed at the start of July. Tariffs on cars are to be reduced from 25% to 15%. The EU will not introduce any reciprocal measures. The deal includes the purchase of US energy commodities (LNG) and military equipment worth hundreds of billions of dollars.

The baseline scenario of the forecast assumes the application of the previously announced US tariffs of 10% and 25% on selected sectors of the European economy, while not taking into account reciprocal tariffs by the EU. The impact of the announced 15% tariff on most European goods is broadly in line with the baseline scenario. The likelihood that trade wars would cause a negative demand shock and lead to disinflationary pressures in the European and domestic economy is lessening in light of the announcement of the trade deal.

The future evolution of house prices and services prices is a source of uncertainty from the domestic economy

This previously discussed risk of the forecast is now incorporated into the baseline scenario. However, its magnitude is uncertain. The housing market is currently in the upward phase of the cycle, with high year-on-year growth in house prices being driven by brisk growth in genuinely new mortgages (see the Appendix at the end of this Report). The baseline scenario of the forecast assumes that house price growth will slow gradually in the quarters ahead. What remains uncertain, however, is when this reversal in trend on the housing market will actually occur and how strong it will turn out to be.

The outlook for services prices within core inflation is similarly uncertain. It is currently being driven mainly by imputed rent – the evolution of which is closely linked to the uncertain trend in house prices mentioned above – and by holiday prices. However, adjusted for these two areas, a downward trend in month-on-month services inflation is apparent. Growth in prices in this segment can therefore be expected to slow, although here too, the pace of the slowdown remains uncertain.

The impacts of the rise in public spending on defence in Europe is another uncertainty of the forecast

A constitutional reform was approved in Germany in March 2025. It lifts the debt brake for expenditure on defence and infrastructure. Later, in June, NATO member states committed to increasing defence spending to 5% of GDP by 2035, with 3.5% to be allocated to direct defence costs and the remaining 1.5% to defence-related expenditure (such as infrastructure). The baseline scenario of the forecast assumes that this fiscal stimulus across European countries will have pro-growth effects on

the Czech economy as well. However, it is still unclear to what extent and when the previously announced government spending will actually be implemented, and what the resulting impact on European and domestic economic activity will be. Heightened geopolitical tensions related to the ongoing war in Ukraine and the situation in the Middle East remain a general uncertainty of the forecast.

In an environment of uncertainty, the inflationary balance of risks is grounds for keeping interest rates at the current level

The baseline scenario of the summer forecast for 2025 Q3 implies a modest decline in short-term market interest rates. Given the inflationary balance of risks and uncertainties, it is appropriate to remain cautious in setting monetary policy and to keep interest rates higher than assumed in the baseline scenario.

If the central bank were to react to the primary and secondary effects of the ETS 2, there would be a need for tighter monetary policy next year than in the baseline scenario

This situation is illustrated in the scenario below.

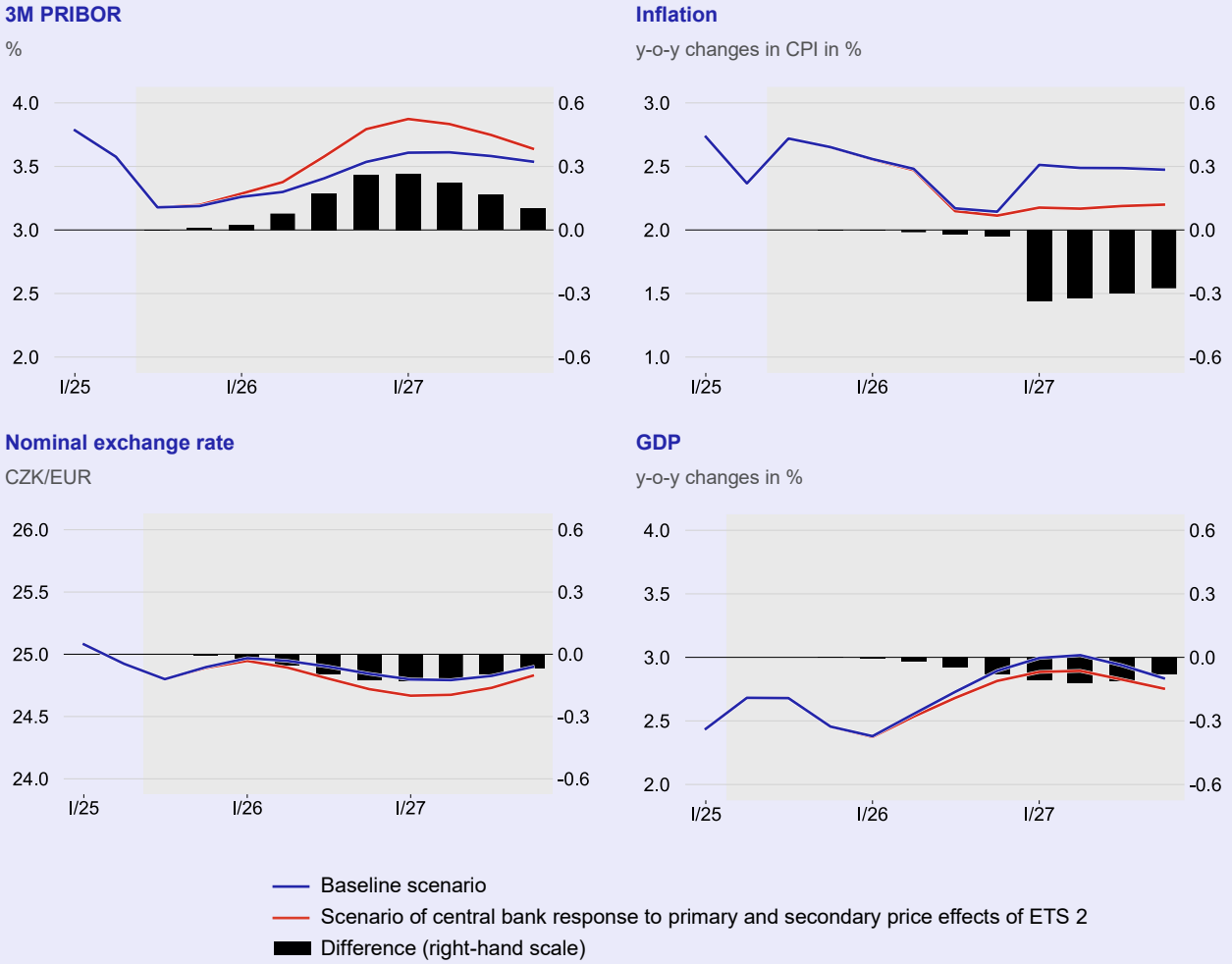
Scenario of a central bank response to the primary and secondary price effects of the ETS 2

The scenario assumes the impact of the introduction of the ETS 2 to be the same as in the baseline scenario. However, in this case the central bank responds not only to its secondary effects, but also to its primary effects. The aim of this response is to maintain headline inflation close to the target in 2027 as well. This requires tighter interest rates from 2026 onwards. A marked increase in interest rates next year leads to a stronger koruna than assumed in the baseline scenario. The tighter monetary conditions in both components will reduce inflation by around 0.3 pp in 2027, at the cost of only a slight slowdown in GDP growth (see Chart 4.16).

Chart 4.16

Tighter monetary conditions suppress the inflation pressures stemming from the introduction of the ETS 2

comparison of baseline scenario with scenario of central bank response to primary and secondary price effects of ETS 2



Appendix: The Czech housing market in the upward phase of the cycle

The housing market plays an important role in the economy. Monetary policy influences house prices primarily through the cost of debt financing,[1] which reflects both the current and expected future levels of the CNB's key interest rates.

House prices have risen sharply over the past year and are feeding into headline inflation via imputed rent. The residential property price index rose by 10% year on year in 2025 Q1, with prices of new apartments increasing by 13% and older ones by 9.3%. Other price indices are also showing strong growth (see Chart 1). A similar trend is visible across the EU. However, the Czech Republic ranks among the third of countries with the fastest house price growth.[2] The outlook for house prices is subject to considerable uncertainty.

Real apartment prices, which fell in 2023 due in part to high inflation, surged during 2024 and early 2025, surpassing the highs seen in 2022 (see Chart 2). Faster growth in apartment prices than in household income has made housing less affordable. House prices are rising unusually fast in relation to income and price levels, and are visibly above long-term trends. House prices are also outpacing market rents, which recorded year-on-year growth of around 6% in 2025 Q2.

Chart 1

Residential property prices are surging

y-o-y changes in %; source: CZSO

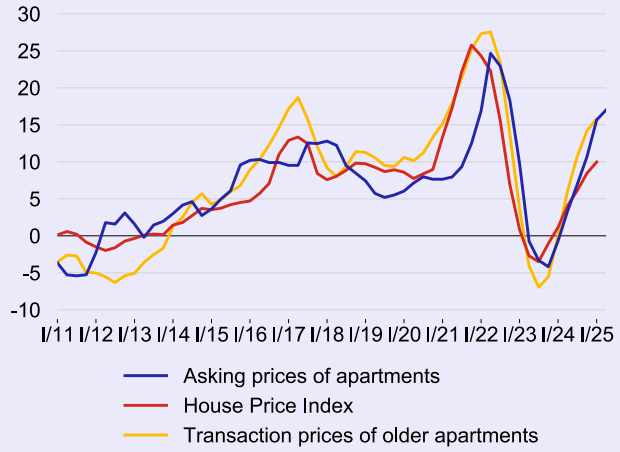
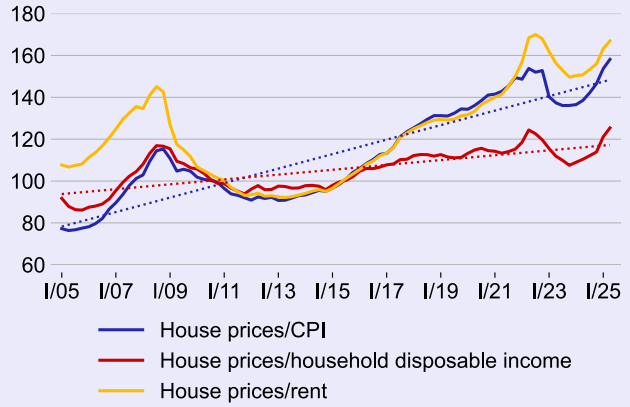


Chart 2

Real apartment prices have surpassed their 2022 highs; housing affordability has recently deteriorated

indices (2015 = 100); long-term trends shown as dotted lines; source: CZSO



The correlation between the housing market and the economic cycle is assessed using house prices and the output gap. Calculations indicate that house price growth leads the output gap in terms of timing (see Chart 3). The highest correlations, exceeding 0.7, are observed when house price growth precedes growth in economic activity by three quarters. By contrast, consumer price inflation shows the strongest correlation with the output gap with a lag of more than two years. The strength of the correlation between house price growth and the output gap not only differs in terms of timing, but also depends on the prevailing economic environment and is therefore variable over time. Chart 4 shows that the strength of the correlation is lower (and in some cases even negative) following adverse economic shocks, such as the Global Financial Crisis in 2008 and the period associated with the Covid pandemic. A stronger positive correlation, by contrast, can be observed at times of economic expansion.

Analyses of the persistence of house price growth suggest that current growth in prices is strongly correlated with their movement over the previous three quarters. However, this correlation does not differ significantly from the evolution of consumer prices or other price indices.

Chart 3

House prices respond to the economic cycle with a lead

cross-correlations of apartment price growth and inflation with output gap (reference variable); x-axis: lag and lead in quarters; CNB calculation

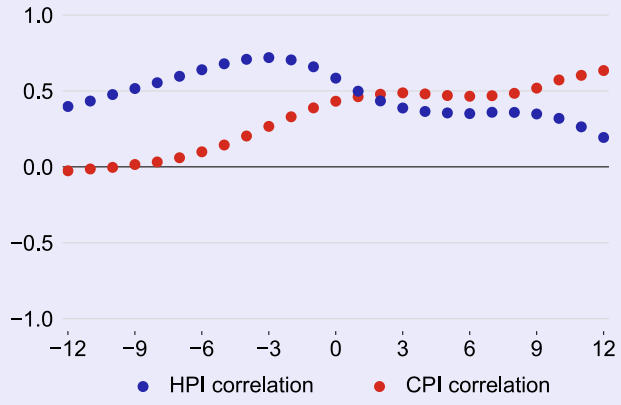
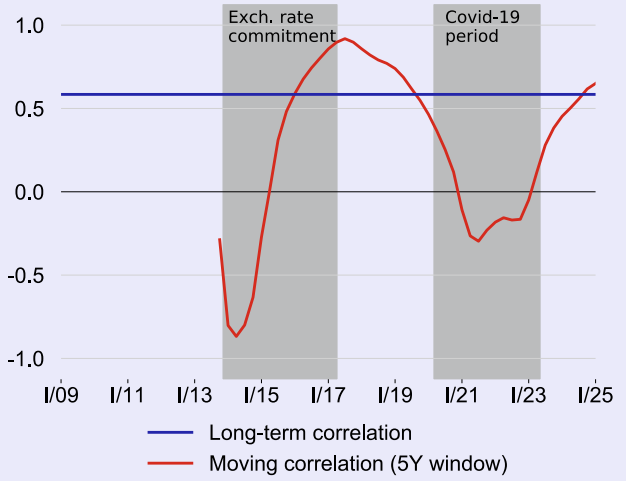


Chart 4

The positive correlation between house price growth and the output gap strengthens during economic upswings

correlation between house price growth and output gap; CNB calculation



On the demand side, the house price growth reflects increasing transaction activity in the housing market, accompanied by a rigid supply of completed residential properties (see Chart 5). Purchases of new apartments in the primary market (including future contracted sales) are rising sharply both in Prague and in the rest of the Czech Republic. Household investment in housing also increased quarter on quarter in 2025 Q1. Its share in gross disposable income stands at 10%, roughly in line with the pre-Covid average. According to a European Commission survey, the share of households intending to buy a property in the next 12 months has also risen. This points to persisting strong demand-side pressures in the housing market, accompanied by brisk income growth. On the other hand, supply is very rigid; the number of new apartments available on the market is falling, apartment completions are below the long-term average, and a similar trend is evident for building permits – both in Prague and across the Czech Republic. Although new construction starts have begun to pick up gradually following a previous downturn, they remain relatively low from the long-term perspective. Rising demand coupled with rigid supply is thus pushing house prices up.

Chart 5

Sales of new apartments continue to rise, while the supply of completed apartments is rigid

numbers of transactions involving purchases of new apartments and apartment completions in given period; source: Flat Zone, Dataligence, CZSO

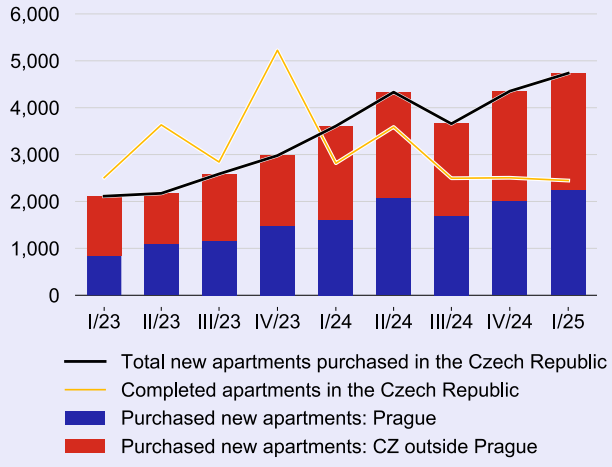
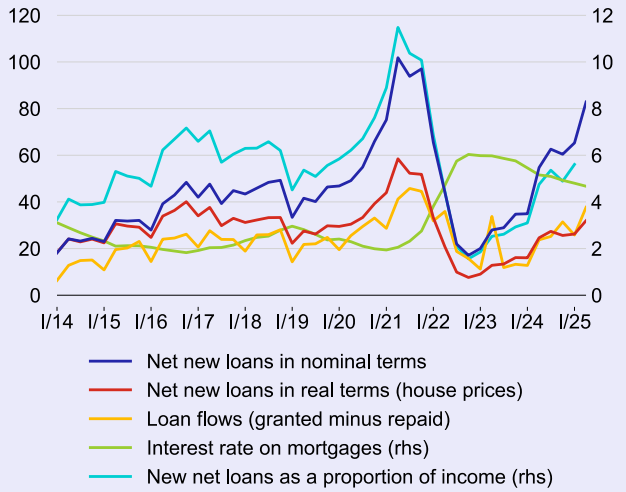


Chart 6

Demand for mortgages is rising briskly, with volumes the second highest on record this year; relative to income, they are at the pre-Covid level

mortgage loan volumes in CZK billions; ratios to gross disposable income; mortgage interest rate in % (right-hand scale)



The recovery in housing demand is linked with rising lending activity in the mortgage market (see Chart 6), which can be regarded as a cyclical factor. According to the latest Bank Lending Survey, demand for housing loans has continued to increase. In real terms (adjusted for inflation and house prices) and relative to households' gross disposable income, mortgage volumes are approaching levels seen in the pre-Covid period, which was characterised by brisk house price growth. The growing demand for mortgages is due to a decline in mortgage interest rates and expectations of a continued recovery in the housing market accompanied by rising house prices.

Demographic factors are one of the structural drivers of the growth in demand for residential property. Between 2011 and 2019, average population growth was accompanied by a roughly corresponding number of newly completed apartments, although a mismatch was evident in Prague and its surroundings. Increased migration in recent years has meanwhile contributed to marked growth in the population, which has exceeded apartment completions across the Czech Republic (see Chart 7). In certain circumstances, this trend may drive up demand for housing. The number of apartments owned by persons with permanent residence outside the Czech Republic has gone up, but their share in the housing market remains low and has not changed greatly compared to 2019, as is also evident from the number of house purchase transactions (see Chart 8). However, this is partly because official entries in the Land Register only record the owners' permanent residence and not their citizenship. According to information from property developers and estate agencies, foreign nationals nonetheless account for roughly 25% of property purchases.[3] Although the current surge in house prices is being driven primarily by domestic demand-side factors in an environment of rigid supply, the increased migration seen in recent years may also be playing a role.

Chart 7

Population growth has significantly outpaced apartment completions in recent years

numbers of persons and apartments in thousands; source: CZSO

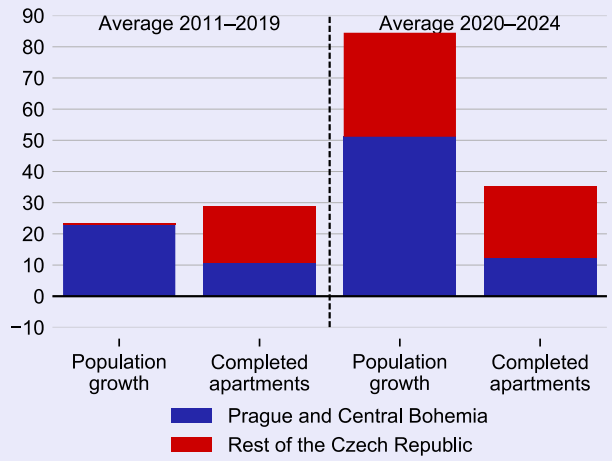
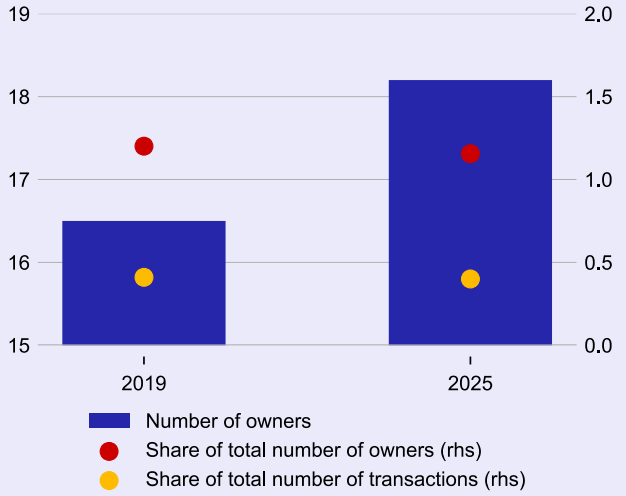


Chart 8

The number of apartments owned by persons with permanent residence outside the Czech Republic has increased, but their share of the overall market is low

number of apartments (in thousands) in CZ owned by persons with permanent residence outside CZ; shares in %; source: Flat Zone; Dataligence; Czech Office for Surveying, Mapping and Cadastre



From the supply-side perspective, the construction sector plays quite a significant role in the economy. Its share in gross value added of the Czech economy has hovered just below 6% over the past ten years, while its share in total employment has been around 2 pp higher[4] (see Chart 9). This indicates that the sector is highly labour intensive. One reason for the decline in residential construction may be the adverse level and trend in labour productivity in the construction industry, which has fallen sharply in recent years, lagging behind productivity in the economy as a whole (see Chart 10). Between 2019 and 2024, labour productivity dropped cumulatively by 22% in construction and 33% in real estate activities. The fall in labour productivity reflected an increase in hours worked amid falling real gross value added, accompanied by rising construction work prices. On the other hand, the decline in the average real compensation of employees over the same period was significantly smaller than the drop in productivity. Between 2019 and 2024, the real hourly compensation of employees fell by 4.3% in construction and 9.1% in real estate activities (compared with a 3.5% decline in the economy as a whole). As a result, real unit labour costs rose by 25% in construction and by as much as 39% in real estate activities over the same period.

Chart 9

Construction is a significant sector of the economy, with relatively high labour intensity

shares in %; source: CZSO national accounts

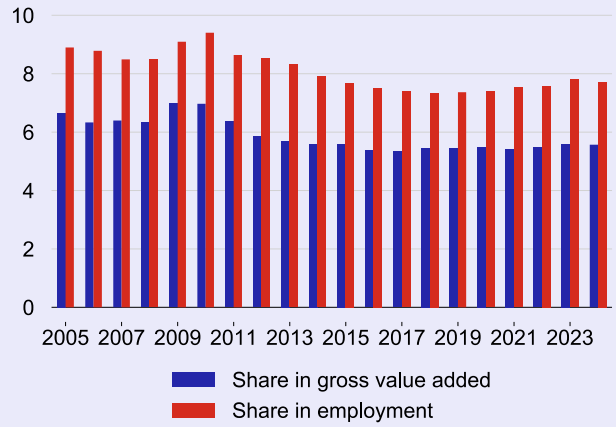
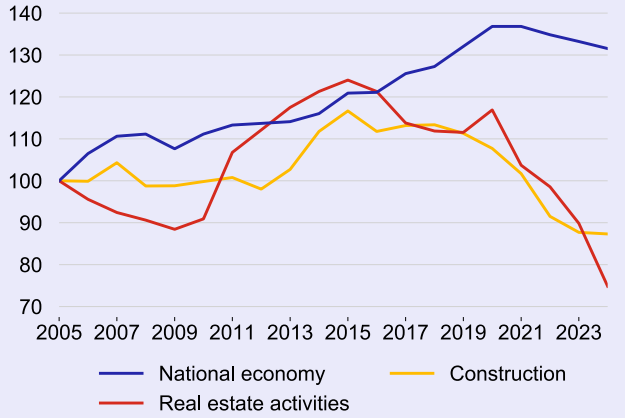


Chart 10

Labour productivity in construction has long lagged behind that in the national economy and has declined in recent years

indices (2015 = 100); gross value added at constant prices per hour worked; source: CZSO national accounts



The low labour productivity in construction firms, which may reflect, among other things, slow building permit procedures and insufficient consideration of housing needs in land-use planning, is being accompanied by relatively subdued residential construction activity. In 2024, the number of apartment completions per thousand inhabitants in the Czech Republic was close to the European average (see Chart 11). According to an ECB document,[5] however, most countries have recently been facing supply-side issues in the residential property market. Between 2021 and 2024, apartment completions in selected European countries fell by 13% on average. This reflected a range of factors, including rising interest rates and higher construction costs.[6] Poland stands out in within Central Europe, with around one-third more apartments built than the EU average. The Czech Republic is slightly below the average in terms of building permits. In most countries, the number of permits is lower than in 2019.

Chart 11

Apartment completions in the Czech Republic are close to the international average

apartment completions per thousand inhabitants; data for 2024; source: Euroconstruct, Eurostat

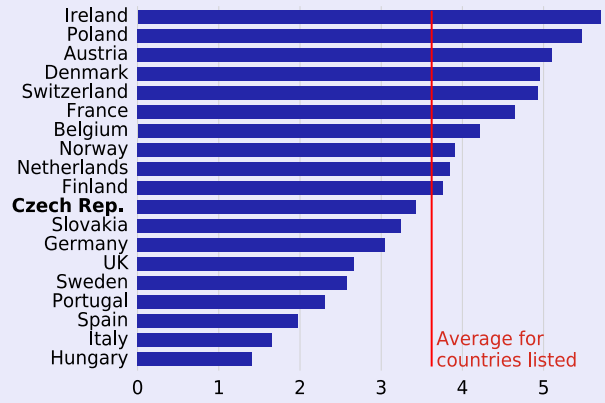
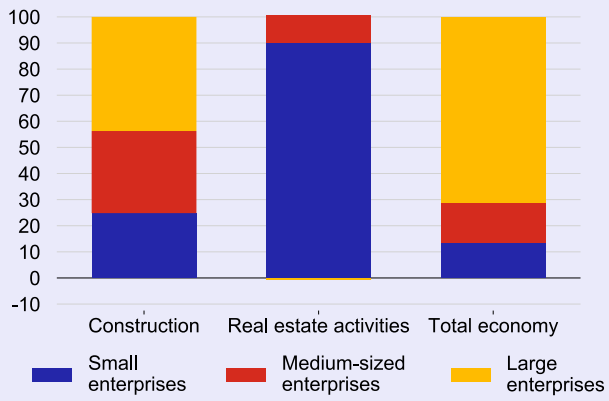


Chart 12

The share of SMEs in profits is above-average in the housing market

shares in pre-tax profit in given sector and in total in %; averages for 2023 Q1–2025 Q1; sample of 2,000 largest companies in terms of assets; source: CZSO



The relatively low labour productivity in construction and real estate activities may also be due to the structure of the firms operating in these sectors.[7] Compared with the economy as a whole, these sectors have a significantly higher proportion of SMEs in terms of both number and share in the sector's profits (see Chart 12). On the one hand, this may indicate a healthy level of competition, but on the other, it may lead to fragmentation on the supply side, with small firms having limited capacity to realise economies of scale or implement innovations to increase the capital intensity of labour.

Overall, residential property prices are currently in the upward phase of the cycle. Their brisk growth reflects rising demand for housing accompanied by a relatively rigid supply side. In terms of timing, house prices tend to lead the output gap, so to some extent they are now indicating that the economy may be in an expansionary phase. The CNB

monitors house prices closely and takes their long-term impact on inflation into account in its monetary policy decisions.

[1] This topic was explored in more detail in the appendix The housing market and house prices in the Czech Republic in the Autumn 2024 Monetary Policy Report.

[2] See also Developments in the recent euro area house price cycle, Economic Bulletin Issue 2, ECB, 2025.

[3] Information from selected property developers and estate agencies (Central Group, Svoboda & Williams). For details, see, for example, Až čtvrtinu klientů tvoří cizinci, hlásí makléři (*Up to a quarter of clients are foreigners, brokers report*, in Czech only). Demand is focused on smaller apartments (including buy-to-let properties and older housing), primarily in Prague. Increases are also visible in Brno and other regional capitals.

[4] In the real estate activities sector, the share in gross value added in the economy as a whole is around 12%, while the share in employment is just under 3%. In the national accounts, however, this sector also includes imputed rent, which in 2024 amounted to CZK 681 billion, or around 9% of total gross value added. After adjusting for imputed rent, the share of real estate activities in both the economy and employment is therefore approximately 3%.

[5] See Developments in the recent euro area house price cycle, Economic Bulletin Issue 2, ECB, 2025.

[6] For details, see Housing under pressure: How politics, policy, and investment are shaping Europe's housing future, Euroconstruct, April 2025.

[7] For details, see D'Amico, L., Glaeser, E. L., Gyourko, J., Kerr, W. R., Ponzetto, G. A. M.: Why has construction productivity stagnated? The role of land-use regulation, Working Paper 33188, National Bureau of Economic Research, November 2024.

ABBREVIATIONS

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
ESA	European System of Accounts
ESCB	European System of Central Banks
ESI	Economic Sentiment Indicator
ETS	emissions trading system
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
Ifo	index of economic confidence in Germany
ILO	International Labour Organization
IMF	International Monetary Fund
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
m-o-m	month-on-month
MPR	Monetary Policy Report
NAIRU	non-accelerating inflation rate of unemployment
NBS	National Bank of Slovakia
NGEU	NextGenerationEU (a plan to boost Europe's economy)
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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
DEMAND AND SUPPLY												
Gross domestic product												
GDP (CZK bn, current p., seas. adjusted)	4841.1	5185.4	5481.4	5891.5	5830.0	6306.0	7048.4	7667.9	8055.3	**8478.8**	**8919.7**	**9394.7**
GDP (%, y-o-y, real terms, seas. adjusted)	2.5	5.3	2.8	3.5	-5.3	4.0	2.9	0.2	1.1	**2.6**	**2.6**	**2.9**
GDP (%, q-o-q, real terms, seas. adjusted)	-	-	-	-	-	-	-	-	-	-	-	-
Household consumption (%, y-o-y, real terms, seas. adjusted)	3.5	4.5	3.4	3.0	-6.6	4.1	0.4	-2.7	2.2	**3.0**	**3.1**	**2.7**
Government consumption (%, y-o-y, real terms, seas. adjusted)	2.4	1.7	3.5	2.6	4.1	1.5	0.4	3.2	3.2	**2.1**	**1.3**	**1.6**
Gross capital formation (%, y-o-y, real terms, seas. adjusted)	-3.8	5.7	6.3	5.6	-9.2	18.4	10.2	-5.9	-4.6	**3.2**	**4.2**	**3.2**
Gross fixed capital formation (%, y-o-y, real terms, seas. adjusted)	-2.2	3.2	8.9	7.3	-4.8	6.6	6.3	4.5	-3.1	**0.3**	**3.9**	**3.7**
Exports of goods and services (%, y-o-y, real terms, seas. adjusted)	3.9	7.6	3.5	1.1	-8.6	8.0	5.2	2.8	1.1	**2.7**	**3.6**	**6.2**
Imports of goods and services (%, y-o-y, real terms, seas. adjusted)	2.4	6.4	5.5	1.1	-8.5	13.5	6.0	-0.9	0.2	**3.2**	**4.3**	**6.0**
Net exports (percentage points, contributions to GDP growth)	1.3	1.4	-1.1	0.1	-0.6	-2.8	-0.3	2.6	0.6	**-0.1**	**-0.2**	**0.5**
PRICES												
Main price indicators												
Consumer Price Index (%, y-o-y, average)	0.7	2.5	2.1	2.8	3.2	3.8	15.1	10.7	2.4	**2.6**	**2.3**	**2.5**
Administered prices (%, y-o-y, average, 14.59%*)	0.2	0.0	1.8	4.4	3.1	-0.2	20.9	27.8	6.3	**0.9**	**2.0**	**3.1**
Food prices (incl. alcoholic beverages and tobacco, %, y-o-y, average, 26.21%*)	0.2	3.7	1.6	2.6	4.2	2.1	12.9	10.0	0.7	**4.0**	**2.6**	**2.0**
Core inflation (%, y-o-y, average, 55.70%*)	1.2	2.4	2.1	2.7	3.3	4.8	13.2	7.6	2.5	**2.7**	**2.4**	**2.2**
Fuel prices (%, y-o-y, average, 3.51%*)	-8.5	6.7	6.3	-0.4	-11.4	16.7	33.6	-12.1	-0.8	**-6.4**	**-2.9**	**5.3**
Monetary policy-relevant inflation (%, y-o-y, average)	0.5	2.5	2.1	2.9	3.2	3.9	14.6	10.6	2.3	**2.4**	**2.2**	**2.4**
Other price indicators												
Industrial producer prices (%, y-o-y, average)	-3.3	1.8	2.0	2.6	0.1	7.1	24.3	5.0	0.8	**-0.5**	**0.6**	**1.6**
Agricultural prices (%, y-o-y, average)	-5.8	7.4	-0.1	5.4	-3.8	7.4	31.8	-5.5	-6.6	**10.9**	**-0.8**	**-1.7**
Prices of new property (%, y-o-y, average)	5.8	14.0	11.8	7.9	9.1	18.3	19.0	-1.4	5.1	**11.3**	**7.7**	**5.8**
GDP deflator (%, y-o-y, seas. adjusted)	1.5	1.7	2.8	3.8	4.5	4.0	8.7	8.6	3.9	**2.6**	**2.5**	**2.3**
LABOUR MARKET												
Average monthly wage (%, y-o-y, nominal terms)	4.4	6.7	8.2	7.9	4.6	5.8	4.3	7.2	7.2	**6.6**	**5.5**	**4.9**
Average monthly wage in market sectors (%, y-o-y, nominal terms)	4.3	6.7	7.7	7.6	4.1	6.1	4.7	7.4	8.3	**6.6**	**5.6**	**5.1**
Average monthly wage in non-market sectors (%, y-o-y, nominal terms)	4.8	7.1	10.2	9.2	6.9	4.4	2.6	6.4	2.5	**6.4**	**5.0**	**4.1**
Average monthly wage (%, y-o-y, real terms)	3.8	4.2	5.9	5.0	1.4	2.0	-9.3	-3.1	4.7	**3.9**	**3.1**	**2.4**
Unit labour costs (%, y-o-y)	3.0	3.8	6.5	4.2	5.9	3.1	6.1	8.8	5.5	**4.5**	**3.1**	**2.1**
Aggregate labour productivity (%, y-o-y)	1.5	3.8	1.7	3.7	-3.0	3.0	1.8	-1.5	0.6	**1.7**	**2.2**	**2.7**
ILO general unemployment rate (%, average, age 15–64, seas. adjusted)	4.0	2.9	2.2	2.0	2.6	2.8	2.2	2.6	2.7	**2.7**	**2.9**	**2.8**
Share of unemployed persons (MLSA, %, average, seas. adjusted)	5.5	4.2	3.2	2.8	3.6	3.8	3.4	3.6	3.8	**4.4**	**4.5**	**4.5**
Full-time employment (%, y-o-y)	1.8	2.2	1.5	-0.3	-1.7	0.2	0.7	0.5	-0.5	**0.6**	**0.3**	**0.2**
PUBLIC FINANCE												
Government budget balance (ESA2010, CZK bn, current prices)	33.2	75.6	48.3	16.7	-329.3	-312.3	-216.3	-286.1	-177.2	**-160.4**	**-194.7**	**-212.9**
Government budget balance/GDP** (%, nominal terms)	0.7	1.5	0.9	0.3	-5.6	-5.0	-3.1	-3.7	-2.2	**-1.9**	**-2.2**	**-2.3**
Structural balance/GDP (%, nominal terms)	0.1	0.8	0.4	-0.5	-5.7	-5.3	-3.2	-3.4	-1.7	**-1.9**	**-2.2**	**-2.2**
Government debt (ESA2010, CZK bn, current prices)	1754.7	1749.7	1734.6	1740.3	2149.7	2566.8	2997.6	3234.1	3491.9	**3692.4**	**3941.1**	**4209.7**
Government debt/GDP** (%, nominal terms)	36.2	33.8	31.7	29.6	36.9	40.7	42.5	42.2	43.3	**43.5**	**44.2**	**44.8**
MONEY, INTEREST RATES AND EXCHANGE RATES												
M3 (%, y-o-y, average)	9.1	11.7	6.6	6.3	9.0	9.6	6.4	9.0	6.3	**4.4**	**7.8**	**8.1**
2W repo rate (%, average)	0.1	0.2	1.1	1.9	0.8	0.9	5.9	7.0	5.1	**3.5**	**3.3**	**3.5**
3M PRIBOR (%, average)	0.3	0.4	1.3	2.1	0.9	1.1	6.3	7.1	5.0	**3.4**	**3.4**	**3.6**
CZK/USD (average)	24.4	23.4	21.7	22.9	23.2	21.7	23.4	22.2	23.2	**22.1**	**21.1**	**20.7**
CZK/EUR (average)	27.0	26.3	25.6	25.7	26.5	25.6	24.6	24.0	25.1	**24.9**	**24.9**	**24.8**
EXTERNAL RELATIONS												
Current account												
Goods and services, net (CZK bn, current prices)	365.1	394.2	332.6	358.4	388.8	232.2	75.9	377.6	522.5	**506.6**	**517.1**	**551.7**
Current account (CZK bn, current prices)	85.2	79.8	21.5	19.6	102.5	-129.7	-330.3	-8.5	140.5	**125.7**	**102.0**	**125.4**
Current account/GDP (%, nominal terms)	1.8	1.5	0.4	0.3	1.8	-2.1	-4.7	-0.1	1.7	**1.5**	**1.1**	**1.3**
Foreign direct investment												
Direct investment (CZK bn, current prices)	-186.5	-45.9	-51.0	-137.1	-149.1	-28.5	-83.5	-76.5	-42.9	**-55.0**	**-25.0**	**-10.0**
EXTERNAL ASSUMPTIONS												
3M EURIBOR (%, average)	-0.3	-0.3	-0.3	-0.4	-0.4	-0.5	0.3	3.4	3.6	**2.1**	**1.9**	**2.1**
USD/EUR (average)	1.11	1.13	1.18	1.12	1.14	1.18	1.05	1.08	1.08	**1.13**	**1.18**	**1.20**
Foreign GDP (%, y-o-y, real terms, seas. adjusted, effective EA)	2.0	2.8	1.7	1.4	-5.3	4.8	2.2	0.5	0.4	**0.5**	**1.2**	**2.0**
Foreign GDP (%, q-o-q, real terms, seas. adjusted, effective EA)	-	-	-	-	-	-	-	-	-	-	-	-
Foreign HICP (%, y-o-y, seas. adjusted, effective EA)	0.2	1.6	2.0	1.5	0.6	2.9	8.9	6.7	2.5	**2.3**	**1.7**	**2.6**
Foreign PPI (%, y-o-y, seas. adjusted, effective EA)	-2.2	2.4	3.1	1.1	-1.3	9.6	32.8	2.8	-5.5	**-0.7**	**-0.2**	**1.4**
Brent crude oil (in USD/barrel, average)	45.0	54.8	71.5	64.2	43.2	70.8	98.9	82.2	79.8	**69.0**	**66.1**	**66.4**

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

KEY MACROECONOMIC INDICATORS

	2025				2026				2027			
	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)	2085.5	**2103.1**	**2132.0**	**2158.3**	**2184.2**	**2214.3**	**2245.6**	**2275.5**	**2306.9**	**2335.7**	**2363.1**	**2389.0**
GDP (%, y-o-y, real terms, seas. adjusted)	2.4	**2.7**	**2.7**	**2.5**	**2.4**	**2.6**	**2.7**	**2.9**	**3.0**	**3.0**	**2.9**	**2.8**
GDP (%, q-o-q, real terms, seas. adjusted)	0.7	**0.5**	**0.6**	**0.6**	**0.6**	**0.7**	**0.8**	**0.8**	**0.7**	**0.7**	**0.7**	**0.7**
Household consumption (%, y-o-y, real terms, seas. adjusted)	2.4	**3.3**	**3.2**	**2.9**	**3.2**	**3.1**	**3.0**	**3.0**	**2.9**	**2.8**	**2.7**	**2.6**
Government consumption (%, y-o-y, real terms, seas. adjusted)	1.9	**2.4**	**2.1**	**1.9**	**2.3**	**1.2**	**0.9**	**0.8**	**1.1**	**1.5**	**1.8**	**2.2**
Gross capital formation (%, y-o-y, real terms, seas. adjusted)	4.6	**3.3**	**2.7**	**2.4**	**3.7**	**4.3**	**4.4**	**4.3**	**3.9**	**3.5**	**3.0**	**2.6**
Gross fixed capital formation (%, y-o-y, real terms, seas. adjusted)	-1.7	**-0.3**	**0.7**	**2.5**	**3.0**	**3.7**	**4.2**	**4.5**	**4.3**	**4.0**	**3.5**	**3.0**
Exports of goods and services (%, y-o-y, real terms, seas. adjusted)	3.5	**3.1**	**1.4**	**3.0**	**1.3**	**3.2**	**4.5**	**5.6**	**6.3**	**6.4**	**6.2**	**5.8**
Imports of goods and services (%, y-o-y, real terms, seas. adjusted)	4.3	**3.7**	**1.5**	**3.2**	**2.4**	**3.9**	**5.0**	**5.9**	**6.3**	**6.3**	**6.0**	**5.6**
Net exports (percentage points, contributions to GDP growth)	-0.3	**-0.2**	**0.1**	**0.1**	**-0.6**	**-0.3**	**-0.1**	**0.2**	**0.4**	**0.5**	**0.5**	**0.5**
PRICES												
Main price indicators												
Consumer Price Index (%, y-o-y, average)	2.7	2.4	**2.7**	**2.7**	**2.6**	**2.5**	**2.2**	**2.1**	**2.5**	**2.5**	**2.5**	**2.5**
Administered prices (%, y-o-y, average, 14.59%*)	1.2	0.9	**1.1**	**0.5**	**2.0**	**1.8**	**1.9**	**2.2**	**3.1**	**3.1**	**3.1**	**3.1**
Food prices (incl. alcoholic beverages and tobacco, %, y-o-y, average, 26.21%*)	4.2	3.9	**3.9**	**4.1**	**3.4**	**2.7**	**2.3**	**2.0**	**2.0**	**1.9**	**2.0**	**2.0**
Core inflation (%, y-o-y, average, 55.70%*)	2.5	2.8	**2.8**	**2.8**	**2.7**	**2.4**	**2.2**	**2.2**	**2.3**	**2.2**	**2.1**	**2.1**
Fuel prices (%, y-o-y, average, 3.51%*)	-4.3	-12.1	**-6.6**	**-2.5**	**-6.1**	**0.3**	**-2.3**	**-3.5**	**4.3**	**5.2**	**5.8**	**5.9**
Monetary policy-relevant inflation (%, y-o-y, average)	2.5	2.2	**2.5**	**2.5**	**2.4**	**2.3**	**2.0**	**2.0**	**2.4**	**2.4**	**2.4**	**2.4**
Other price indicators												
Industrial producer prices (%, y-o-y, average)	0.0	-0.9	**-0.6**	**-0.7**	**-0.8**	**0.8**	**1.1**	**1.1**	**1.3**	**1.5**	**1.7**	**1.8**
Agricultural prices (%, y-o-y, average)	8.9	15.0	**13.9**	**6.2**	**2.4**	**-1.8**	**-1.9**	**-2.0**	**-1.7**	**-1.8**	**-1.7**	**-1.5**
Prices of new property (%, y-o-y, average)	13.0	**11.3**	**11.1**	**9.6**	**8.7**	**8.0**	**7.4**	**6.8**	**6.6**	**6.0**	**5.5**	**5.0**
GDP deflator (%, y-o-y, seas. adjusted)	3.0	**2.3**	**2.5**	**2.7**	**2.3**	**2.7**	**2.5**	**2.5**	**2.5**	**2.4**	**2.2**	**2.1**
LABOUR MARKET												
Average monthly wage (%, y-o-y, nominal terms)	6.7	**6.7**	**6.5**	**6.3**	**5.9**	**5.6**	**5.3**	**5.2**	**5.1**	**5.0**	**4.8**	**4.7**
Average monthly wage in market sectors (%, y-o-y, nominal terms)	6.9	**6.9**	**6.6**	**6.1**	**5.9**	**5.6**	**5.5**	**5.4**	**5.3**	**5.2**	**5.0**	**4.9**
Average monthly wage in non-market sectors (%, y-o-y, nominal terms)	6.0	**5.8**	**6.4**	**7.3**	**5.9**	**5.5**	**4.5**	**4.3**	**4.1**	**4.1**	**4.0**	**4.0**
Average monthly wage (%, y-o-y, real terms)	3.9	**4.3**	**3.7**	**3.6**	**3.3**	**3.0**	**3.1**	**3.0**	**2.5**	**2.4**	**2.3**	**2.2**
Unit labour costs (%, y-o-y)	4.5	**4.5**	**4.5**	**4.6**	**3.8**	**3.3**	**2.8**	**2.5**	**2.3**	**2.1**	**2.1**	**2.0**
Aggregate labour productivity (%, y-o-y)	1.3	**2.0**	**1.9**	**1.5**	**1.8**	**2.1**	**2.3**	**2.5**	**2.7**	**2.8**	**2.7**	**2.6**
ILO general unemployment rate (%, average, age 15–64, seas. adjusted)	2.5	**2.7**	**2.8**	**2.8**	**2.9**	**2.9**	**2.9**	**2.8**	**2.8**	**2.8**	**2.8**	**2.8**
Share of unemployed persons (MLSA, %, average, seas. adjusted)	4.1	**4.4**	**4.5**	**4.6**	**4.6**	**4.6**	**4.5**	**4.5**	**4.5**	**4.5**	**4.5**	**4.5**
Full-time employment (%, y-o-y)	0.4	**0.6**	**0.8**	**0.8**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.2**	**0.2**	**0.1**
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)	-	-	-	-	-	-	-	-	-	-	-	-
MONEY, INTEREST RATES AND EXCHANGE RATES												
M3 (%, y-o-y, average)	4.3	4.2	**4.1**	**4.8**	**7.0**	**7.9**	**8.5**	**8.0**	**8.1**	**8.0**	**8.0**	**8.2**
2W repo rate (%, average)	3.9	3.6	**3.2**	**3.2**	**3.3**	**3.3**	**3.3**	**3.4**	**3.5**	**3.5**	**3.5**	**3.4**
3M PRIBOR (%, average)	3.8	3.6	**3.2**	**3.2**	**3.3**	**3.3**	**3.4**	**3.5**	**3.6**	**3.6**	**3.6**	**3.5**
CZK/USD (average)	23.8	22.0	**21.3**	**21.3**	**21.3**	**21.1**	**21.0**	**20.9**	**20.8**	**20.7**	**20.6**	**20.6**
CZK/EUR (average)	25.1	24.9	**24.8**	**24.9**	**25.0**	**24.9**	**24.9**	**24.8**	**24.8**	**24.8**	**24.8**	**24.9**
EXTERNAL RELATIONS												
Current account												
Goods and services, net (CZK bn, current prices)	169.0	**133.4**	**103.5**	**100.7**	**167.6**	**143.8**	**102.1**	**103.7**	**173.4**	**152.0**	**111.7**	**114.6**
Current account (CZK bn, current prices)	122.4	**-44.4**	**18.6**	**29.1**	**128.4**	**5.7**	**-33.9**	**1.8**	**134.7**	**10.4**	**-28.4**	**8.7**
Current account/GDP (%, nominal terms)	6.2	**-2.1**	**0.9**	**1.3**	**6.2**	**0.3**	**-1.5**	**0.1**	**6.2**	**0.4**	**-1.2**	**0.4**
Foreign direct investment												
Direct investment (CZK bn, current prices)	-52.6	**-0.8**	**-0.8**	**-0.8**	**-6.2**	**-6.2**	**-6.2**	**-6.2**	**-2.5**	**-2.5**	**-2.5**	**-2.5**
EXTERNAL ASSUMPTIONS												
3M EURIBOR (%, average)	2.6	2.1	**1.9**	**1.8**	**1.8**	**1.8**	**1.9**	**2.0**	**2.0**	**2.1**	**2.2**	**2.2**
USD/EUR (average)	1.05	1.13	**1.17**	**1.17**	**1.17**	**1.18**	**1.19**	**1.19**	**1.19**	**1.20**	**1.20**	**1.21**
Foreign GDP (%, y-o-y, real terms, seas. adjusted, effective EA)	0.3	**0.6**	**0.5**	**0.6**	**0.6**	**0.9**	**1.4**	**1.8**	**2.0**	**2.1**	**2.0**	**1.9**
Foreign GDP (%, q-o-q, real terms, seas. adjusted, effective EA)	0.3	**0.1**	**0.1**	**0.1**	**0.3**	**0.4**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.4**
Foreign HICP (%, y-o-y, seas. adjusted, effective EA)	2.7	**2.3**	**2.3**	**2.0**	**1.4**	**1.6**	**1.7**	**2.0**	**2.5**	**2.6**	**2.6**	**2.6**
Foreign PPI (%, y-o-y, seas. adjusted, effective EA)	0.9	**-0.5**	**-1.5**	**-1.8**	**-1.9**	**0.1**	**0.4**	**0.6**	**1.0**	**1.4**	**1.7**	**1.8**
Brent crude oil (in USD/barrel, average)	75.0	66.7	**68.0**	**66.5**	**66.1**	**66.0**	**66.0**	**66.1**	**66.2**	**66.3**	**66.4**	**66.6**

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

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