ČNB ČESKÁ NÁRODNÍ BANKA

# MONETARY POLICY REPORT WINTER 2025

This Monetary Policy Report was approved by the CNB Bank Board on 13 February 2025 and (with some exceptions) contains the information available as of 24 January 2025. By means of this document, the CNB fulfils its statutory duty to regularly inform constitutional officials and the public about monetary developments. Unless stated otherwise, the sources of the data are the CZSO or the CNB. All the reports published to date, along with the underlying data, are available on our website. A large part of the data we evaluate in our monetary policy decision-making can be found in the Chartbook, which is a parallel publication to the Monetary Policy Report.

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## We maintain price stability

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

## We are transparent

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

## We look to the future

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

## We decide on rates

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

# GOVERNOR'S FOREWORD

Dear Readers,

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

The Monetary Department's new forecast, which is described in detail in this Report, implies a modest decline in interest rates followed by broadly stable rates from mid-2025 onwards. The Bank Board also discussed two scenarios. The first one assumes faster growth in services and food prices compared to the baseline scenario. The second additionally assumes a further deterioration of external demand. Both scenarios imply a modest decline in rates.

We paused the rate reduction cycle in December 2024 after having lowered the two-week repo rate gradually from 7% to 4% at the previous eight meetings. At our February meeting this year, my Bank Board colleagues and I arrived at the conclusion that some short-term inflationary risks are not materialising and external demand remains subdued. Therefore, we made a further cautious interest rate cut, lowering the key two-week repo rate to 3.75%.

However, as the degree of monetary policy restriction eases gradually and some longer-term inflationary risks persist, the Bank Board will approach any further monetary policy easing with great caution. It is therefore possible that monetary policy will remain slightly restrictive for longer than expected in the baseline scenario.

The Czech economy is gradually recovering. Its growth is being driven mainly by household consumption, which is being supported by renewed real income growth and moderation of monetary policy restriction. On the other hand, external demand remains subdued, mainly due to the decline in European industry. The latter is facing high energy prices, structural problems and uncertainty relating to US trade policy.

Inflation will be close to the 2% inflation target over the entire forecast horizon. However, a further shift in services prices, which continue to rise at an elevated pace, is necessary for long-term and robust fulfilment of the inflation target. Key interest rates thus remain significantly positive in real terms and are still dampening lending activity in the private sector and hence the creation of money in the economy and, in turn, long-term inflation. However, this is counteracted by higher financing of the general government deficit, the contribution of which to money supply growth is above the long-term average.

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 forecast.

**On behalf of the Czech National Bank**

**Aleš Michl**
Governor

# THE DECISION, THE OUTLOOK AND ASSOCIATED RISKS

At its February meeting, the Bank Board lowered the two-week repo rate by 0.25 pp to 3.75%. Inflation fell significantly to close to the central bank's 2% target last year. Price stability was thus restored in the Czech Republic. However, inflation went up temporarily at the close of the year, owing mainly to a year-on-year rise in food prices. That the increase in the price level is temporary is indicated by flat core inflation, which is adjusted for volatile consumer basket items. It stayed only slightly above 2%, reflecting subdued demand and cost pressures in the domestic economy. Inflation will fall in early 2025 owing to lower growth in administered prices. It will be very close to the 2% target over the monetary policy horizon. The recovery in economic activity will gain momentum this year and the next. This will be aided by renewed investment growth and accelerating household consumption supported by rapid real wage growth. Consistent with the baseline scenario of the winter forecast is a continued decline in short-term market interest rates, followed by broadly stable rates from mid-2025 onwards. The currently still slightly restrictive monetary policy stance will ensure that inflation is anchored to the target. A modestly inflationary overall assessment of the risks and uncertainties of the outlook is the reason for a slower decrease in domestic interest rates compared with the baseline scenario.

Inflation was very close to the CNB's 2% target for most of last year. However, it has risen in recent months, due to an increase in food prices. Annual inflation reached 3% at the year-end, despite a month-on-month decrease in the price level. The December inflation figure was affected by a lower comparison base in December 2023, when retailers incorporated a decrease in VAT on food into prices in advance. This effect was not repeated last year. The stabilisation of core inflation at low levels, reflecting subdued domestic demand and tight monetary policy, is important. Within core inflation, however, services prices are still rising substantially faster than goods prices.

Inflation will go down at the start of this year. This will be due mainly to electricity prices for households, where a decrease in the commodity component will outweigh a slight increase in distribution fees. Fuel prices will continue to decline year on year in 2025. By contrast, food prices are likely to rise in Q1 due to the previous increase in agricultural commodity prices. However, their growth should weaken gradually over the rest of the year, owing to fading cost pressures and firms' falling profit margins.

Czech households currently remain sensitive to inflation. This is evidenced by their still elevated inflation expectations, which should fall as inflation declines. In an environment of rising domestic demand, however, this assumption is fragile and subject to the risk that profit margins will not fall at the pace expected in the forecast. The scenario of elevated margins in the services sector has therefore been updated and now includes persisting higher cost pressures from food commodities. The scenario implies tighter monetary policy compared to the baseline scenario throughout this year.

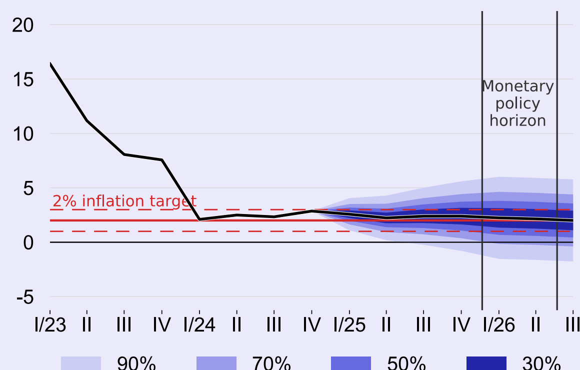
Continued price disequilibrium on the housing market is another risk to the forecast. For many months now, this market has been associated with elevated volumes of new mortgages, comparable in real terms to pre-Covid levels. At that time, property prices rose at double-digit rates. This can be retrospectively assessed as an overheating of the housing market. However, widespread expectations of further property price growth coupled with interest rate cuts may lead to excessive money creation, generating economic imbalances and fostering a long-term underlying inflationary environment.

After tentative growth last year, the Czech economy is on track to a continued recovery. However, it will remain below its potential. In addition to household consumption, renewed growth in investment (both inventories and fixed capital) will drive the economy. This is due to expected growth in the economic activity of the Czech Republic's trading partners, a gradual decline in domestic and foreign interest rates, and absorption of EU funds and money from the National Recovery and Resilience Plan.

Households were relatively cautious last year. This was reflected in fragile consumer confidence and a saving rate well above the usual long-term level. As indicated in Appendix 2, the increase in effective taxation due to the government's consolidation package last year significantly dampened growth in the real net wage, which nonetheless reached the pre-Covid level. This year, households' shopping appetite will increase because of growth in disposable income, especially wages. Less attractive interest rates on deposits are inducing households to gradually reduce their elevated savings. This is causing growth in private consumption to outpace growth in people's income.

**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 Czech economy returned to growth last year and will accelerate further this year**

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

| | 2024 | 2025 | 2026 |
|---|---|---|---|
| **Headline inflation** (%) | **2.4** | **2.4** | **2.1** |
| | (-0.1) | (−0.2) | (-0.1) |
| **GDP** | **0.9** | **2.0** | **2.4** |
| | (-0.1) | (-0.5) | (-0.1) |
| **Average nominal wage** | **6.9** | **6.1** | **5.0** |
| | (0.6) | (0.4) | (-0.1) |
| **3M PRIBOR** (%) | **5.0** | **3.3** | **2.9** |
| | (0.0) | (0.1) | (-0.1) |
| **Exchange rate** (CZK/EUR) | **25.1** | **25.2** | **25.4** |
| | (0.0) | (-0.2) | (-0.1) |

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.

General government consumption growth will slow this year as extraordinary spending on post-flood reconstruction fades out. Fiscal consolidation will also contribute to this slowdown. Other fiscal measures will have a roughly neutral effect on economic activity. The Inflation and Monetary Policy Risks Scoreboard continues to indicate an increased risk stemming from the wide structural deficit, which is contributing to growth in the money supply. This has the potential to create long-term inflation pressures in the domestic economy. The general government deficit is hardly decreasing in size at all over the outlook horizon.

Germany is still facing economic headwinds that are hindering the recovery of the euro area as a whole. However, this adverse effect has recently been offset by growth in Czech exports to non-euro area countries. This is discussed in detail in Box 1. Aggregate external demand will thus pick up due to rising exports to markets outside the euro area. However, net exports will dampen GDP growth overall this year because of strong growth in import-intensive investment and consumer demand. The persisting risk of a protracted downturn abroad has been taken into account in a scenario of slower economic growth in the euro area combined with the above-mentioned scenario of higher domestic inflation. For the domestic economy, this combination of factors means markedly slower GDP growth over the forecast horizon and higher inflation this year. Compared with the baseline scenario, this implies somewhat higher rates initially and a sharper decline in rates next year.

The labour market remains tight. Throughout 2024, the unemployment rate held steady at one of the lowest levels in the EU. It is expected to rise modestly during 2025 due to the lagged impact of the previous downturn in domestic economic activity. For some time now, growth in unemployment has been dampened by a transfer of labour from industry, which has been hit by a drop in demand, to market services. Given the persisting labour market tightness, wage growth in market services will remain elevated this year. This will be joined this year by an increase in public sector pay.

The exchange rate has been close to CZK 25.2 to the euro since the start of the year. It is expected to weaken slightly from mid-2025 onwards due to subdued growth in labour productivity and a lower trade surplus. Its longer-term outlook is around CZK 25.3 to the euro.

The overall assessment of the macroeconomic situation makes it possible to ease monetary policy further. Consistent with the baseline scenario of the winter forecast, therefore, is a continued decline in short-term market interest rates, followed by broadly stable rates from mid-2025 onwards. Monetary policy will thus move from slightly restrictive at the start of this year to broadly neutral over the rest of the outlook.

The Bank Board assessed the risks and uncertainties of the outlook for the fulfilment of the inflation target as modestly inflationary overall. Higher-than-expected inertia in services and food inflation is an inflationary risk. Potential additional growth in total public sector spending would lead to a risk of the state budget having an inflationary effect. Increased wage demands in the private and public sector are an additional upside risk. An inflationary risk in the longer term is a potential acceleration of money creation in the economy stemming from a significant recovery in lending activity, especially on the property market. By contrast, a downturn in global economic activity and weaker German – and hence Czech – economic output are a significant downside risk to inflation. Some large central banks have already responded to this risk by lowering monetary policy rates and indicating their readiness to continue easing monetary conditions this year. The impact of some of the actions by the newly elected US administration represents a source of uncertainty for prices.

# 1 ECONOMIC DEVELOPMENTS ABROAD

The recovery in the Czech Republic's main trading partner economies has been pushed back again by persisting headwinds in the German economy. Household consumption is accelerating slightly on the back of rising real income, but it is mainly the services sector that is benefiting from households' higher spending. Moreover, households' caution – heightened by stronger concerns about unemployment – is preventing a stronger pick-up in household consumption. Industrial output remains fragile, facing structural challenges as well as weak external demand. Euro area inflation will slow towards the 2% target in the first half of this year, whereas industrial producer prices will start to rise again due to expected growth in energy prices. The ECB's interest rate cuts, which the forecast expects to continue until June 2025, are providing support to the economy.

### After quite a long hiatus, the global economy is again facing uncertainty due to trade wars

According to leading indicators, global trade growth remained solid (see Table 1.1), due partly to stockpiling driven by uncertainty regarding future US trade policy. As regards the individual components of international trade, services fared particularly well (see Chart 1.1). According to leading indicators, manufacturing is losing momentum following a short-lived recovery. Consumer price inflation remains elevated mainly in services. The inflation estimates for this year have increased in most advanced economies. Container transport prices rose in late 2024 against a backdrop of threatened strikes in US ports,[1] uncertainty regarding the implementation of tariffs by the US administration and an earlier start to the lunar year in China.[2] Further potential growth in transport prices will be dampened by expected growth in transport capacity.

The US economy is still in good shape. Consumer price inflation remains elevated, supported mainly by rising services prices. The resilience of the labour market is illustrated by a decrease in the unemployment rate at the end of 2024. Both the Fed and analysts have raised their growth and inflation estimates for this year. Together with the robust economy, this has shifted the Fed's communications in a hawkish direction following its rate cut in December. Markets have pushed back their expectations of a further rate cut.

The Chinese economy ended 2024 with a record-high trade surplus of USD 992 billion, due among other things to stockpiling by US importers before the introduction of tariffs. However, it is still facing subdued consumer sentiment. Consumer prices are just above the deflation threshold and industrial producer prices have been falling

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

| | 2023 | 2024 Q2 | 2024 Q3 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Euro area | 0.4 | 0.5 | 0.9 | 0.7 | 1.0 | 1.2 |
| USA | 2.9 | 3.0 | 2.7 | 2.8 | 2.1 | 2.0 |
| United Kingdom | 0.4 | 0.7 | 0.9 | 0.8 | 1.2 | 1.4 |
| China | 5.2 | 4.7 | 4.6 | 5.0 | 4.5 | 4.1 |
| India | 8.2 | 6.7 | 5.4 | 6.3 | 6.5 | 6.5 |

*Imports of energy-intensive products (iron and steel, aluminium, electricity, fertilisers, cement and chemicals) from third countries to the EU will be subject to an* ***additional "carbon" tax (the Carbon Border Adjustment Mechanism, CBAM)*** *from 2026. The CBAM is intended to level the playing field for non-EU and EU producers, as the latter incur additional costs in the form of participation in the EU Emissions Trading System (EU ETS). At the same time, EU firms should lose the incentive to move energy-intensive production to less regulated countries. On the other hand, the measure will imply additional costs that could be reflected in higher prices for end-consumers. The price of certificates for the import of energy-intensive products will depend on the amount of $CO_2$ emitted during their production and on the emission allowance price. The share of imports of energy-intensive products from non-EU countries in total EU imports is just 4.5% (1.2% in the case of the Czech Republic), with iron, steel and aluminium accounting for the largest shares. In the Czech Republic, the cost of buying certificates is estimated in the low hundreds of millions of koruna a year. The expected impact on domestic consumer price inflation is thus negligible from the macroeconomic point of view.*

[1] The threatened strike was ultimately averted by an agreement between the employer (the United States Maritime Alliance) and the trade union (the International Longshoremen's Association).

[2] The lunar year started on 29 January this year, earlier than last year, when it began on 10 February. In international trade with China, there is great pressure to dispatch as many goods as possible before the new lunar year starts.

for more than two years. The government has announced it will broaden its consumer and industrial subsidies and increase fiscal expenditure to boost growth. At the end of last year, the banking sector faced a liquidity shortage amid a concentrated effort by the central bank to stabilise the weakening currency. In addition, the central bank is expected to cut interest rates and the reserve requirement ratio further this year in order to support the economy.

## The headwinds in the German economy persist, so the recovery in the effective euro area has been pushed back again

GDP growth in the effective euro area surprised slightly to the upside in 2024 Q3, but the pick-up in growth was by no means dramatic (see Chart 1.2).[3] The growth was aided by rising household consumption in most countries (except Austria). This primarily reflected robust wage growth. However, households' still high level of caution and their higher propensity to save are preventing consumption from recovering faster. In some countries, the saving rate even rose slightly during 2024 despite a decline in interest income on financial assets. Net exports, and to a lesser extent investment, dampened economic growth in the effective euro area for the second consecutive quarter, while inventories rose further. The industrial situation in these countries worsened somewhat, with German industry in particular facing a decline in external demand and major structural challenges. German corporations are trying to cope with the energy crisis, the transition to a carbon-neutral economy and demographic change. The German economy is being prevented from falling into recession mainly by a solid services sector, especially public services such as health care.

Economic activity in the effective euro area is not accelerating significantly at the turn of 2025, either.[4] The stagnation of the German economy is being only partly offset by solid growth in Spain and Slovakia. Firms' pessimism regarding the future persists, mainly due to the difficult conditions for the transformation of European industry. Uncertainty connected with the collapse of the government coalition in Germany and the political crisis in France is dragging on investment activity. Added to this are concerns of highly protectionist US policy under new president Donald Trump. An expected slowdown in wage growth and a further cooling of the labour market may prompt households to remain cautious in their spending. European Commission surveys indicate that households feel the labour market situation is worsening. This suggests rising concerns about unemployment in all the effective euro area countries (see Chart 1.3). However,

[3] Effective euro area GDP rose by 0.2% quarter on quarter and 0.3% year on year in 2024 Q3.

[4] According to Eurostat's flash estimate, GDP in the effective euro area was flat quarter on quarter and rose by 0.4% year on year in 2024 Q4. This figure was published on 30 January 2025, i.e. after the closing date of the forecast.

Chart 1.1
**Global trade is still being driven mainly by services**
y-o-y growth rates in %; source: United Nations Conference on Trade and Development

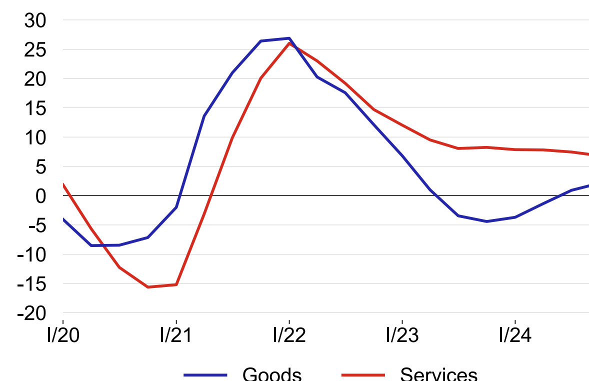



Chart 1.2
**GDP growth in the effective euro area will recover gradually**
annual GDP growth in %; contributions in pp; seasonally adjusted

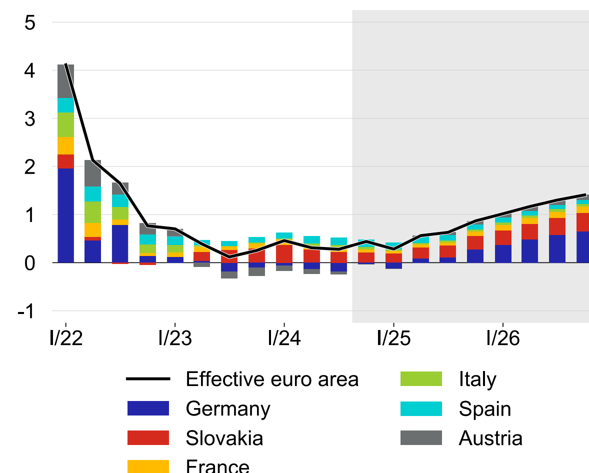
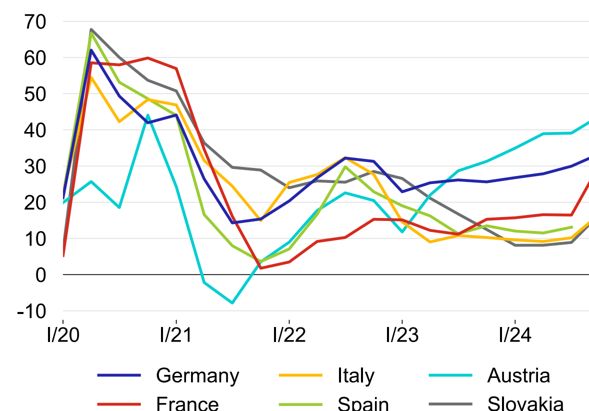



Chart 1.3
**Concerns about unemployment are highest in Germany and Austria**
unemployment expectations for next 12 months according to European Commission survey; balance of answers; quarterly averages of monthly data; source: Eurostat



unemployment is still low even in Germany, which has the biggest structural problems, while in Spain and Italy it has even declined in recent months.

The effective euro area economy is not expected to recover strongly until the second half of 2025. Besides accelerating household consumption in Germany, the forecast expects industry there to stabilise and export growth to recover tentatively, buoyed by rising global demand for industrial goods. However, the medium-term outlook for German industrial production is lower than in the previous forecast due to issues with price and technological competitiveness. Corporate investment will start to rise again thanks to easier ECB monetary policy and lower uncertainty after the German elections. The forecast thus expects the German economy to grow by only 0.2% this year. In Slovakia, the expected effects of fiscal consolidation and strong investment activity, supported by absorption of EU funds, will act in opposite directions. Like Austria, Slovakia is strongly linked to German industry. Longer-lasting problems in the German economy will thus also have an adverse effect on Slovakia's medium-term growth outlook.[5] The outlook for France is clouded by high government uncertainty, which is raising questions about the implementation of fiscal consolidation plans. Growth in Spain can be expected to slow gradually as the current impulse in the form of growth in tourism and the related positive impact on household consumption fade.

Effective euro area GDP grew by 0.4% in 2024. The growth is expected to go up slightly to 0.6% in 2025 and reach 1.2% in 2026. The pick-up in growth will cause the negative output gap to narrow gradually. However, it will not close completely until beyond the forecast horizon.

## Industrial producer prices are expected to return to moderate growth this year, owing mainly to energy prices

The Brent crude oil price started to shoot up as the new year began and was above USD 80 a barrel by mid-January. The growth was driven by mildly optimistic news from the Chinese economy and strong demand from refineries due to cold weather in the northern hemisphere. During December, market agents therefore started closing their prevailing positions speculating on a fall in prices. The growth in oil prices was also supported by US sanctions on the Russian energy sector. Even the strong dollar did nothing to stop the price rising. The ceasefire agreed between Israel and Hamas fostered a slight downward correction. The market outlook for the Brent price remains falling towards USD 70 a barrel at the end of next year (see Chart 1.4).

[5] An escalation of economic problems abroad, together with the ECB's subsequent response, is one of the risks of the forecast and is described in a scenario in section 4.

Chart 1.4
**The Brent crude oil price will fall gradually, but gas remains expensive**
prices of selected commodities; index: February 2022 = 100; source: Bloomberg, CNB calculation

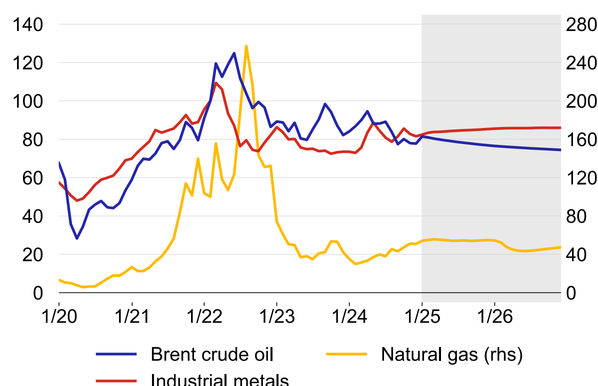



Chart 1.5
**Food commodity prices continued to rise in late 2024, with cocoa and coffee reaching historical highs**
prices of selected commodities; index: February 2022 = 100; source: Bloomberg, CNB calculation

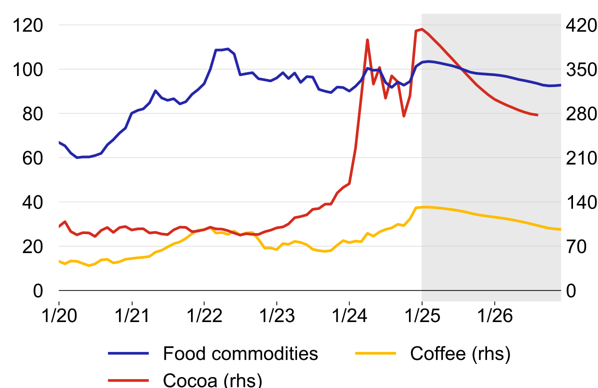
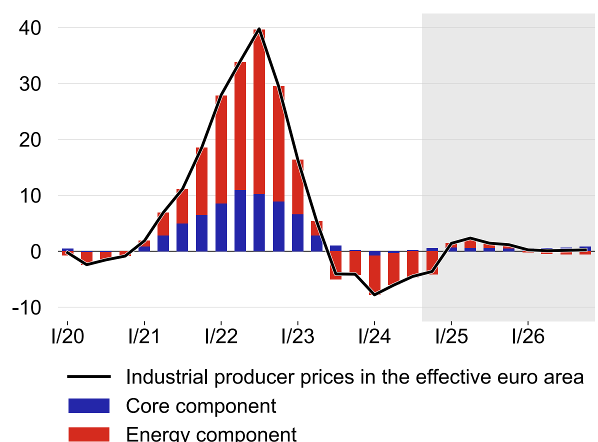



Chart 1.6
**Industrial producer prices in the effective euro area will go up at a modest pace this year**
y-o-y changes in %; contributions in pp; seasonally adjusted



Natural gas prices in Europe remain high due to cold weather and rapidly falling stocks. Moreover, they are fluctuating strongly in reaction to the end of transit of Russian gas through Ukraine and EU plans to phase out imports of Russian LNG. The industrial metals price index declined during 2024 Q4 before rising slightly in January due to an expected improvement in Chinese industry. Its outlook is slightly rising. The food commodity price index is increasing, mainly on the back of record-high prices of coffee, cocoa and beef. It is expected to fall over the outlook horizon, although food commodity prices will stay high (see Chart 1.5).

The decline in industrial producer prices in the effective euro area will stall this year, owing mainly to the energy component (see Chart 1.6). Energy prices will show year-on-year growth for the first time in a year and a half, due mainly to rising natural gas prices. The slightly positive contribution of the energy component will fade out next year and annual industrial producer price inflation will be only marginally positive. Core producer prices will also edge up. Their muted growth is due primarily to a worse demand outlook for the effective euro area. Overall, industrial producer prices will rise by 1.6% this year (after a fall of 5.5% last year), slowing to 0.2% in 2026. Italy will record the highest producer price inflation in the effective euro area and Slovakia the lowest (almost zero). The planned introduction of carbon tariffs (the CBAM) may have a slight effect on inflation in EU economies, including the Czech Republic, from 2026 onwards.

Consumer price inflation in the euro area rose temporarily at the end of last year but will slow towards the ECB's 2% inflation target next year. The contribution of industrial goods prices to headline inflation fell last year (see Chart 1.7). Growth in food prices remains elevated, as does inflation in services, where wages are a major cost factor. Inflation in the effective euro area will slow a little from 2.5% last year to 2.4% this year. It will be slightly below the ECB's target in 2026 (1.9%). Slovakia will record the highest inflation this year and Italy the lowest.

*The sharp **rise in the food commodity price index** late last year was due largely to coffee and cocoa prices, which reached new all-time highs. Coffee prices rose for almost the whole of 2024, going up by 66%. This was due mainly to bad weather: a large drop in rainfall hit Arabica production in Brazil, while a drought in Vietnam reduced Robusta production there. Cocoa prices have been rising sharply since early 2023, gaining more than 350% in two years. This is due to lower output in the main growing areas (Ivory Coast and Ghana) as a result of a prolonged lack of rainfall and higher occurrence of diseases on the plants. Prices are also being affected by higher fertiliser, pesticide and labour costs and rapidly rising demand for both commodities in emerging Asian countries (India and China).*

Chart 1.7

**The only very slow decline in inflation in the euro area is due mainly to services prices**

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

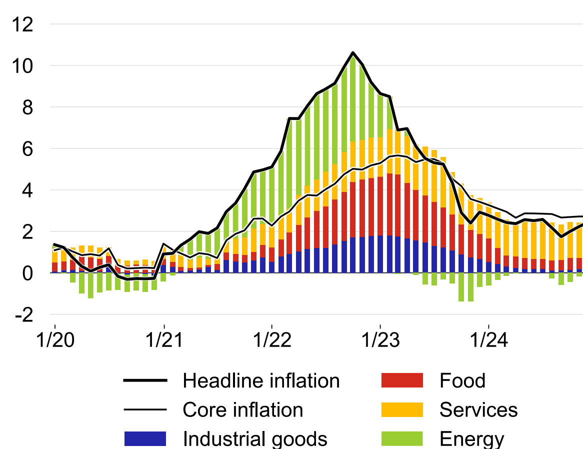
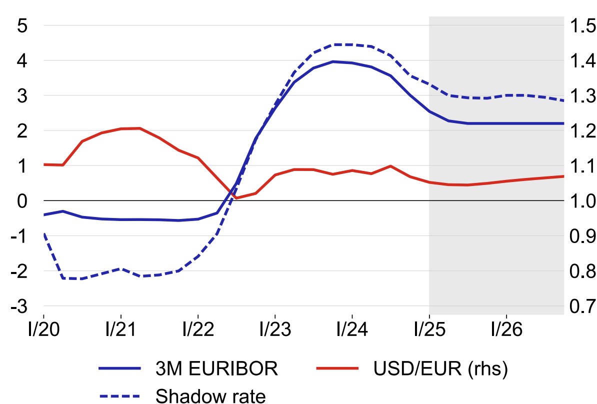



Chart 1.8

**Euro area interest rates will continue to decline in the first half of 2025**

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




## As expected, the ECB lowered its key rates in January, with a further cut expected in the spring

The ECB cut interest rates by 0.25 pp at its January meeting, as expected by the market and analysts. The press conference was dovish. President Lagarde said that the new data were in line with expectations and the ECB could thus continue to normalise its still restrictive monetary policy. Based on previous analyses, the neutral rate could be between 1.75% and 2.5%. The views of the individual Governing Council members on the terminal rate are in a similar range.

The forecast assumes that the ECB will lower interest rates in March and June. The market outlook sees a rate cut in April as likely too. The 3M EURIBOR outlook is thus only just above the market outlook in the forecast (see

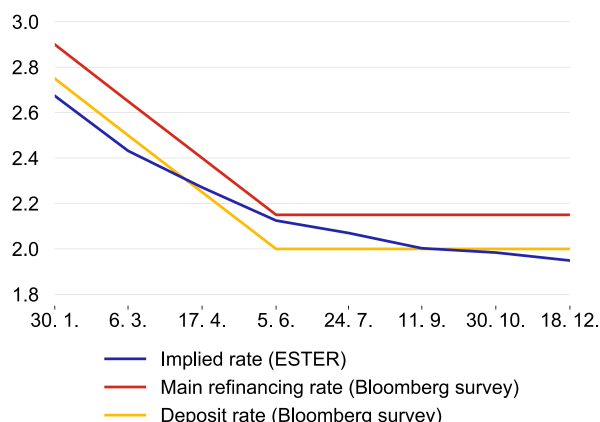
Chart 1.8). The analysts in Bloomberg's January survey expect monetary policy easing to end roughly in June, when the ECB deposit rate is expected to be at 2% (see Chart 1.9).

The euro weakened against the dollar at the close of last year. This was related to market expectations regarding the future settings of the ECB's and the Fed's interest rates in connection with the different performance of the European and US economies. The US labour market remains in good shape and markets have thus reined in their expectations about rate cuts, in line with the Fed's current slightly hawkish perspective. In its December forecast, the Fed was expecting only a very slow pace of easing.[6] The dollar is therefore expected to remain at stronger levels just above parity with the euro.

Chart 1.9

**According to the January Bloomberg survey, the reduction of ECB key rates will halt at 2% in June; implied rates suggest a further decline in rates**

expected interest rates in % as of date of ECB meeting in 2025; implied rate for O/N ESTER derived from market contracts; Bloomberg survey of analysts as of 20 January 2025; source: Bloomberg, CNB calculation




## Comparison with the previous forecast: economic developments abroad

| | | 2024 | 2025 | 2026 | |
|---|---|---|---|---|---|
| **GDP** (in the effective EA) | y-o-y changes in % | **0.4** | **0.6** | **1.2** | The growth outlook for the effective euro area is lower, as the ongoing problems of German industry are postponing any recovery of the German economy. |
| | pp | (-0.2) | (-0.3) | (-0.2) | |
| **Consumer prices** (in the effective EA) | y-o-y changes in % | **2.5** | **2.4** | **1.9** | Consumer price inflation is higher for this year due to a higher outlook for the energy and core components; it will be slightly lower in 2026. |
| | pp | (0.0) | (0.4) | (-0.2) | |
| **Industrial prod. prices** (in the effective EA) | y-o-y changes in % | **-5.5** | **1.6** | **0.2** | The outlook for industrial producer price inflation this year is higher, due mainly to higher growth in the energy component; the worse outlook for the effective euro area will later dominate. |
| | pp | (0.0) | (0.5) | (-0.4) | |
| **Brent crude oil price** | USD/barrel | **79.8** | **74.2** | **71.0** | The oil price path is slightly lower than in the previous forecast and remains falling. |
| | | (-0.7) | (-0.8) | (-2.3) | |
| **3M EURIBOR** | % | **3.6** | **2.3** | **2.2** | The interest rate outlook is lower on expectations of gradual disinflation in the euro area, which will enable the ECB to normalise its still restrictive monetary policy somewhat faster. |
| | pp | (0.0) | (-0.4) | (-0.3) | |
| **Exchange rate** | USD/EUR | **1.08** | **1.05** | **1.06** | The dollar is expected to be stronger against the euro compared with the previous forecast due to the better shape of the US economy. |
| | | (-0.01) | (-0.06) | (-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)

[6] At its January meeting, the Fed left the interest rate band unchanged at 4.25–4.50%, as expected. The press conference indicated that the central bank will not rush to cut interest rates.

# 2 THE REAL ECONOMY AND THE LABOUR MARKET

**The Czech economy returned to growth last year. The growth will accelerate further this year. It will be driven by household consumption, supported by rising real income, falling interest rates and gradually improving consumer sentiment. Growth in economic activity will also be fostered by renewed additions to inventories and later also growth in fixed investment. General government consumption will rise further, though more slowly than in 2024 due to ongoing fiscal consolidation. By contrast, net exports will have a negative effect on the economy, mainly because of faster growth in domestic demand. GDP will grow by 2% in 2025 as a whole. The growth will rise somewhat in 2026 as the negative contribution of net exports fades away. Household consumption and fixed investment will remain the main drivers. The labour market tightness will ease, while the still high nominal wage growth will gradually decline.**

### Economic growth will accelerate visibly this year

According to the forecast, quarterly GDP growth slowed slightly to 0.2% in 2024 Q4[7] (see Chart 2.1). Industry did not fare well in terms of gross value added and therefore dragged on economic growth. By contrast, services thrived. GDP thus grew by around 1% overall last year, driven above all by household and general government consumption. Net exports also contributed significantly to the growth, whereas investment reduced it, mainly because of falling inventories. This year, GDP growth will again be driven by household consumption, joined by growth in fixed investment. The contribution of change in inventories will turn positive again, whereas net exports will dampen growth in economic activity. GDP growth will accelerate overall (see Chart 2.2), reaching 2% for this year as a whole. It will pick up further to 2.4% in 2026, due mainly to still gradually recovering external demand.

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

Household consumption is gradually approaching the pre-pandemic level, aided mainly by constant brisk growth in real wages. Real income has been rising slightly faster than real consumption for some time now, as reflected in a high saving rate. This is due to still tight CNB monetary policy and somewhat fragile consumer sentiment.[8] Moreover, the retail and services leading indicators suggest that quarter-on-quarter growth in household consumption slowed slightly in Q4. Concerns about the future economic situation will depress consumer spending over the next few quarters. Even so, household

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

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

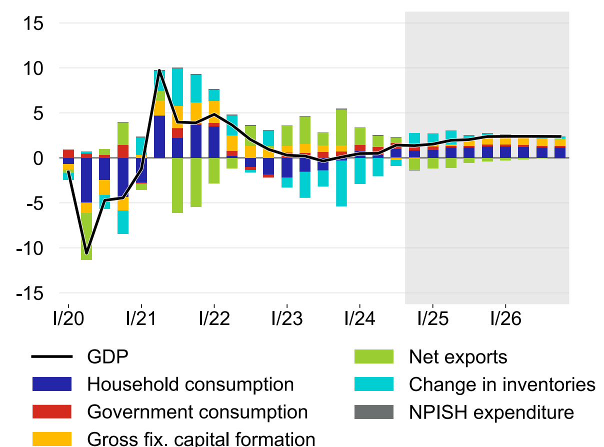
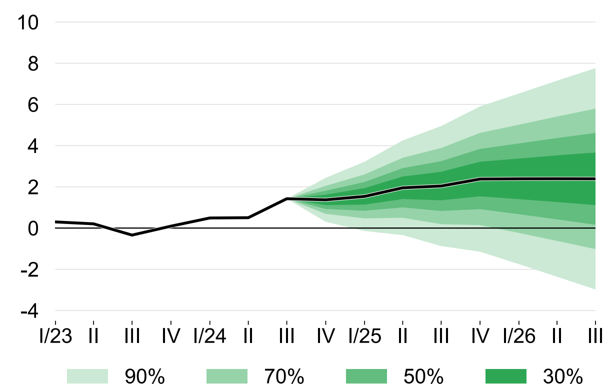



Chart 2.2
**Growth in domestic economic activity will accelerate**

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




[7] According to the CZSO's flash estimate, Czech GDP increased by 0.5% quarter on quarter and by 1.6% year on year in 2024 Q4. This is slightly above the CNB forecast. This figure was published on 31 January 2025, i.e. after the closing date of the forecast.

[8] According to January business cycle survey data, overall confidence in the economy declined somewhat, owing solely to worse consumer sentiment, while business sentiment increased slightly.

consumption will pick up, although it will lag behind real wage growth. In whole-year terms, it will grow by 2.5% this year (see Chart 2.3).

The growth in real income will continue next year but will be slower than this year. However, lower interest rates will have a positive effect on consumption, and the pessimistic sentiment will also fade away as the economy recovers. Overall, household consumption growth will thus edge up to 2.7% in 2026.

Year-on-year growth in households' nominal gross disposable income slowed to close to 3% last year, where it will remain this year and the next. It will be driven above all by a broadly stable contribution of wages and salaries (see Chart 2.4). Social benefits and other current transfers will also contribute significantly to the growth over the entire forecast horizon. The contribution of entrepreneurs' income will be subdued compared with previous years, reflecting falling profit margins. The negative contribution of taxes is being amplified by the consolidation package. Property income will have a roughly neutral effect.

## The saving rate will decrease gradually over the next few years

The saving rate has been elevated for several years now (see Chart 2.5). This is due to consumers' still limited spending appetite, reflecting concerns about their future economic and financial situation. The precautionary motive will thus continue to affect savings over the coming quarters, as will still positive real interest rates. However, falling interest rates and fading negative sentiment will prevail over the next two years and the saving rate will come down gradually. The latest available experimental CZSO statistics for 2022 reveal that the 20% of households with the highest income, who generally have a lower propensity to consume, were increasingly driving the creation of savings. The saving rate is thus likely to decrease only slowly.

## Export growth will be solid over the next two years, due in part to the ability of Czech firms to find new markets for their goods and services

Export activity increased significantly in 2024 Q3 despite demand in the effective euro area being still subdued. A closer look at the territorial changes in Czech exports reveals that the share of exports to countries outside the euro area has been rising in recent years. This suggests that domestic firms have been able to find new destinations for Czech exports. The current forecast therefore includes an expert adjustment that raises export growth above that implied by effective euro area demand alone. The latter remains subdued at the start of this year, as also evidenced by an increasing share of firms reporting shortages of demand (see Chart 2.6). However, demand from the effective euro area will recover during the year and exports will thus rise by almost 4% in 2025

Chart 2.3
**Growth in household consumption will gain momentum, whereas general government consumption will slow**

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

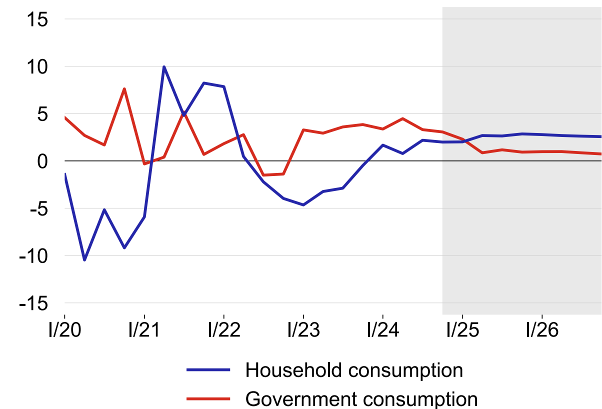



Chart 2.4
**Growth in nominal disposable income will be stable in the coming years, again driven mainly by the contribution of wages and salaries**

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

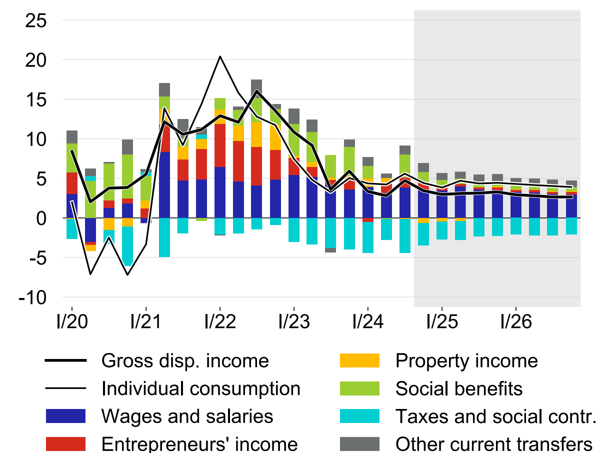
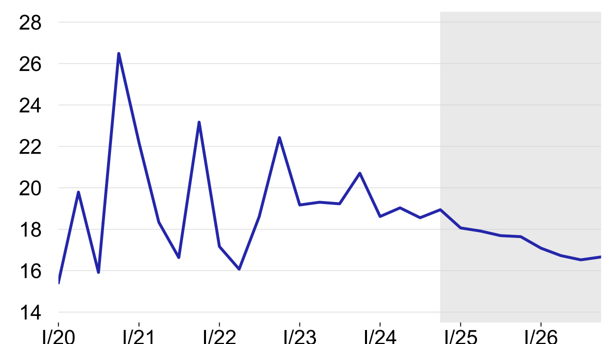



Chart 2.5
**The saving rate will start to decline gradually from its current elevated level due to improving sentiment and falling interest rates**

households' saving rate in %; seasonally adjusted



as a whole, rising to 4.5% next year (see Chart 2.7). The changes that Czech exports have undergone in recent years are discussed in Box 1 at the end of this section.

Imports also rose at a solid pace last year, due mainly to renewed growth in domestic demand. This growth will continue into 2025 and 2026. Additions to inventories will also turn positive again. Moreover, firms will have to import more intermediate goods in response to the rising exports. Imports will thus grow by 5.5% in 2025 as a whole, slowing to 5% in 2026 (see Chart 2.7). Following a positive contribution last year, net exports will contribute negatively to GDP growth this year and neutrally in 2026.

### Fixed investment will start to rise again this year

Gross fixed capital formation fell slightly last year. A decrease was observed particularly for general government investment, mainly because of the fading out of the effect of a one-off purchase of military helicopters for CZK 14 billion in 2023. Private investment was broadly flat last year. This was caused by subdued external demand, an uncertain outlook for orders and probably also still high funding costs due to tight monetary policy.

General government investment will start to grow again this year, aided by expected faster absorption of European funds and money from the National Recovery and Resilience Plan. Private investment will also return to year-on-year growth during 2025, responding to recovering demand from the effective euro area countries and other trading partners. Total fixed investment will rise by 2.2% (see Chart 2.8). The growth in both components of fixed investment will accelerate next year, with gross fixed capital formation rising by almost 3% overall.

Last year, firms released a large part of the inventories they accumulated in 2021–2023. The contribution of inventories thus caused gross capital formation to decline and also significantly dampened GDP growth last year. The forecast expects firms to go back to just-in-time planning in the course of this year, which implies a return to low quarter-on-quarter additions to inventories (see Chart 2.9). As a result, change in inventories will make a significantly positive contribution to year-on-year growth in gross capital formation this year. Next year, its contribution will be smaller. Gross capital formation growth will be elevated at 5.3% this year and drop below 4% next year (see Chart 2.8).

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

Real government consumption growth will decrease this year (see Chart 2.3) due to additional savings stemming from the government's consolidation package. The forecast for nominal general government consumption in 2025 also takes into account brisk growth in public sector pay. Growth in nominal government consumption will slow gradually, due mainly to cuts in operating expenditure and

Chart 2.6
**The share of industrial firms reporting a shortage of demand continues to rise**

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

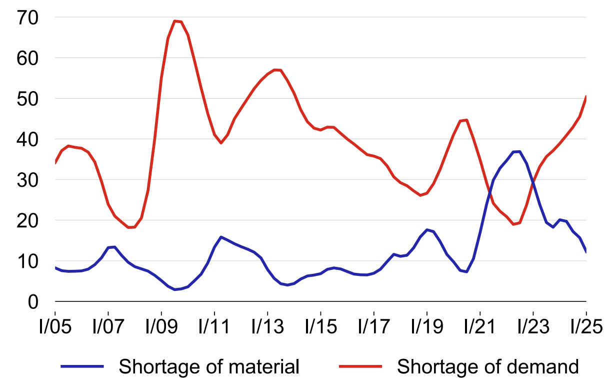



Chart 2.7
**Export and import growth will be solid this year and the next**

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

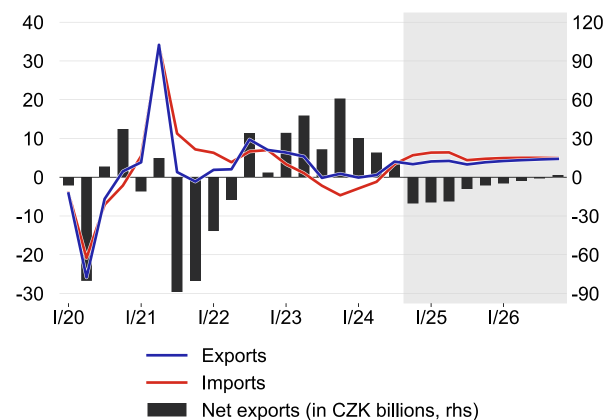
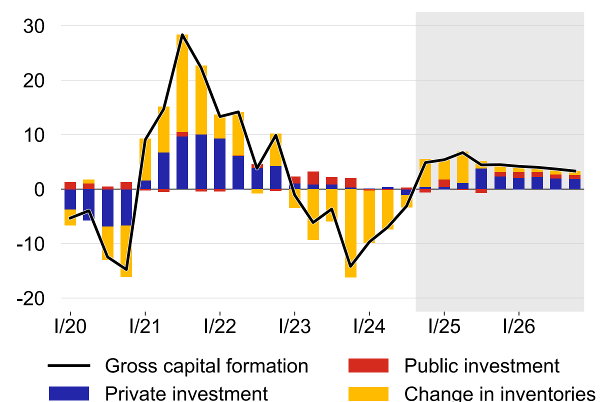



Chart 2.8
**The contributions of additions to inventories and private fixed investment will gradually start to rise again**

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



the declining effect of the extraordinary expenditure after the floods in September last year.

Fiscal policy will have a broadly neutral effect on GDP growth this year (see Chart 2.10), as the additional slightly dampening effect of the consolidation package[9] will be offset by expected faster absorption of EU funds. The forecast assumes that fiscal policy will have a neutral effect next year.[10]

## The negative output gap of the Czech economy will gradually close

The output gap has been negative in recent years due to the economic downturn. It started narrowing at the end of 2023, but the pace of closure is only very slow. Faster closure is being hindered by a slow recovery in domestic household consumption growth and by persisting economic headwinds in Germany, the Czech Republic's largest trading partner. Monetary policy also remains tight. However, the forecast expects these negative factors to dissipate gradually. The output gap will close gradually, owing initially to rising domestic demand, which will be joined by a recovery in external demand in the course of this year (see Chart 2.11). These factors will push GDP close to its potential, where it will stay in 2026. Growth in potential output itself will pick up slightly towards its medium-term rate (2.5%) due to gradually recovering trend growth in labour productivity.

Chart 2.9
**Change in inventories will turn positive this year**
change in inventories in CZK billions; prices of 2020 (chain-linked); seasonally adjusted

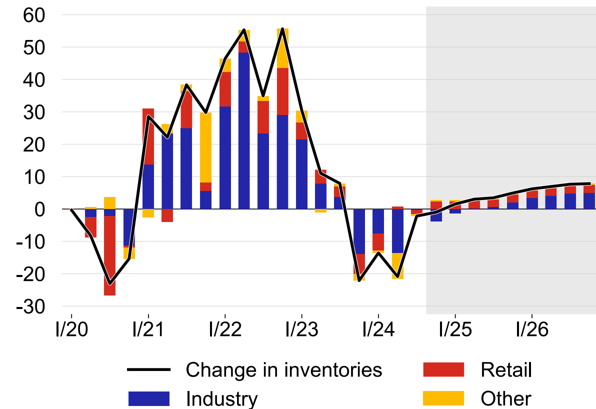



Chart 2.10
**Following a restrictive effect last year, fiscal policy will make a neutral contribution to GDP growth**
fiscal impulse; contributions to GDP growth in pp

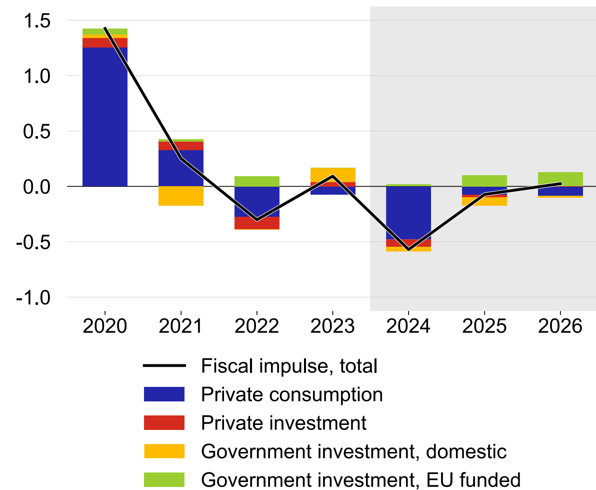
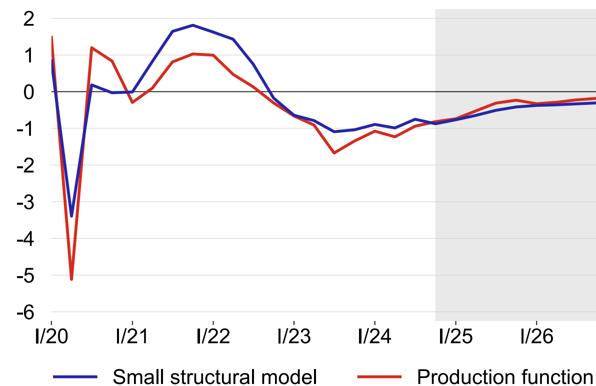



Chart 2.11
**The economy will be only slightly below its potential next year**
output gap in % of potential output




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

## The labour market tightness will ease

From the perspective of the LUCI, the steady cooling of the Czech labour market in response to the domestic economic downturn in 2023 and 2024 is continuing (see Chart 2.12). Employment continues to contribute to persisting labour market tightness, as firms are not cutting enough jobs for labour productivity to rise significantly, despite the subdued economic activity. The contribution of employment will decrease in the future. Corporate recruitment will be moderate, mainly because of gradual exhaustion of the labour supply, but also due to a fall in demand for labour. This fall is related to the still uncertain situation in industry linked to weaker consumer and external demand. The observed and expected steady increase in unemployment indicators is leading to a gradual reduction in the contribution of unemployment in the LUCI. This reflects the usual delay in the response of the labour market to an economic contraction. By contrast, wages and costs will make a significant positive contribution to labour market tightness over the forecast horizon.

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

The real wage increased in year-on-year terms throughout 2024. This was due to high, albeit slowing, nominal wage growth amid a sharp decline in inflation to close to the CNB's 2% target. Wage growth will slow in both nominal and real terms until the end of the forecast horizon.

Year-on-year average nominal wage growth in market sectors will remain above-average from a historical perspective[11] this year (see Chart 2.13). This will be due to a gradual economic recovery and to the previous high-inflation period, with employees still demanding compensation for lost purchasing power. The growth will then gradually return to its long-term average. In addition, the minimum wage was increased by CZK 1,900 to CZK 20,800, i.e. by 9.5%, in January 2025. The forecast assumes a gradual increase in the minimum wage in subsequent years to 47% of the average wage in 2029. The forecast includes a significant rise in public sector pay in non-market sectors in January this year (after a period of moderate growth), as well as legislative changes to the cascade of guaranteed salaries.[12] Year-on-year average wage growth will remain lower in the non-market sector than in the market sector despite this large increase.

Chart 2.12
### From the perspective of the LUCI, the tightness in the labour market will ease
LUCI; vertical axis shows standard deviations

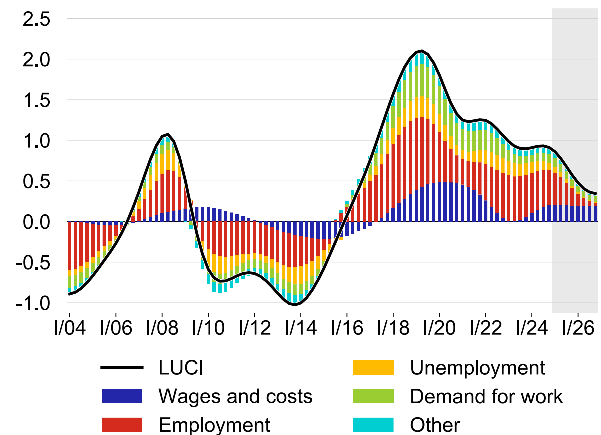
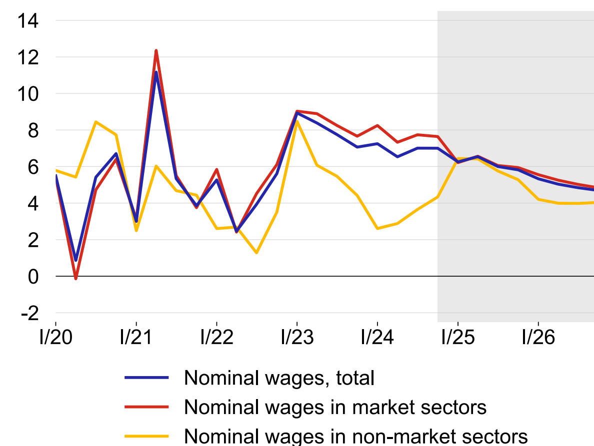



Chart 2.13
### Despite slowing, nominal wage growth will remain high from the long-term perspective
nominal wages; y-o-y changes in %; seasonally adjusted




[11] The forecast assumes long-term equilibrium wage growth of 4.5% in the market sector.

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

Until the end of the forecast horizon, growth in the nominal wage bill is affected mainly by growth in the average wage, as employment will rise only slightly. In real terms, the wage bill will also keep rising year on year due to above-average wage growth and sustained low inflation. Growth in the real wage bill will remain positive at around 3%, with minor fluctuations, until the end of the forecast horizon (see Chart 2.14).

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

Employment expressed in terms of the number of full-time equivalent employees[13] will remain flat in quarter-on-quarter terms and will increase slightly year on year (see Chart 2.15). This is due, among other factors, to gradual exhaustion of the labour supply and generally subdued recruitment by employers owing to the previous economic downturn. Leading indicators are still sending mixed signals. The European Commission survey expects the number of employees to decline over the next three months. This is in direct contrast to the index of expected employment and other high-frequency and leading indicators,[14] which suggest continued corporate recruitment.

Following a slight increase in 2024, the general unemployment rate is broadly flat this year, reflecting companies' efforts to retain staff even amid subdued demand. At the same time, the number of employees is decreasing in industry and conversely increasing in services. The number of people out of work will return to slow growth in the following years due to continued lay-offs mainly in industry (see Chart 2.15). However, the unemployment rate will stay very low by both historical and international standards. The forecast expects a similar trend in the share of unemployed persons, which saw a gradual moderate increase throughout 2024.

### Domestic cost pressures will ease this year due to slowing wage growth and a gradual resurgence of growth in labour efficiency

Growth in domestic costs remained elevated in 2024 Q4 (see Chart 2.16). This was due predominantly to buoyant wage growth in market sectors, which continued at the close of last year. The repercussions of the previous high inflation are reflected in a noticeable, albeit gradually decreasing, contribution of wages in the course of this

Chart 2.14

**Growth in the real wage bill will remain elevated this year and will thus help the growth rate of household consumption return to the long-term average**

wage bill; y-o-y changes in %

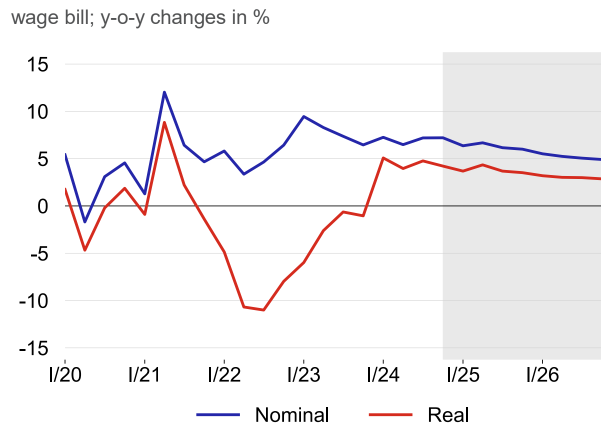
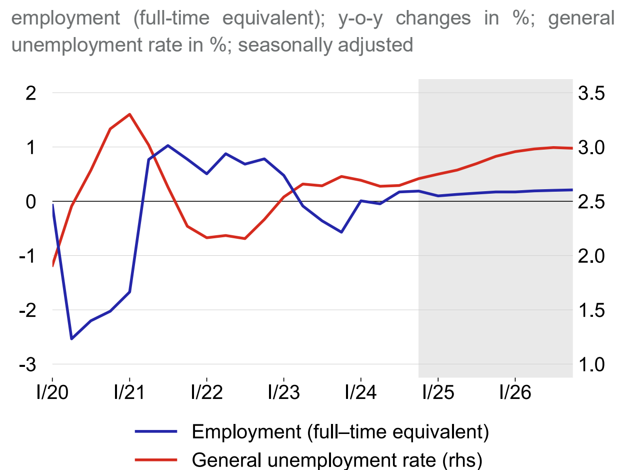



Chart 2.15

**The number of full-time equivalent employees will rise slightly; unemployment will increase only slowly**

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




[13] For better interpretability of labour market developments, employment is described using the series of full-time equivalent employees (instead of total employment from the LFS) starting with the Autumn 2024 MPR.

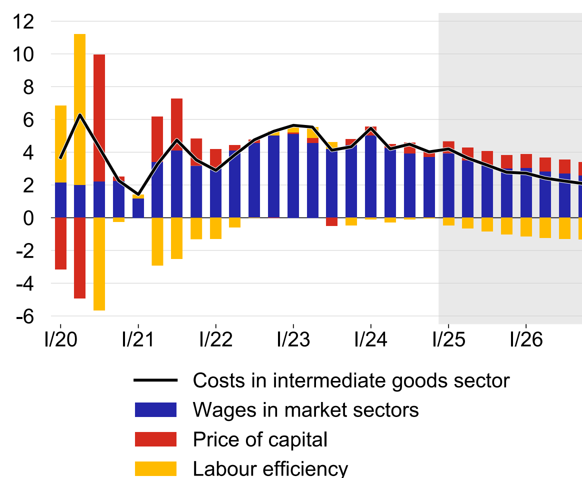
[14] For 2025 Q1, the Manpower Group index of expected employment is signalling a continuation of the rise in the number of employees observed in previous quarters. The Google Trends scores for "unemployment" and "unemployment benefit" have remained low in recent weeks. In 2024 Q4, the total number of vacancies decreased very slightly compared to the previous quarter.

year. The positive contributions of the price of capital to growth in domestic costs will reflect accelerating growth in domestic economic output and demand for spare production capacity. However, the increase in economic activity will also be significantly supported by a temporary increase in additions to inventories in the first half of this year. This, along with modest quarter-on-quarter growth in employment, will slow growth in labour efficiency. Labour efficiency will thus initially dampen growth in costs only slightly. It will not increase until fixed investment picks up on the back of recovering external demand. Together with slowing wage growth, this will lead to a gradual decline in domestic cost pressures to close to levels consistent with price stability in 2026.

Chart 2.16

**A continued slowdown in quarter-on-quarter wage growth, along with gradual renewed growth in labour efficiency, will be reflected in a decline in domestic cost pressures over the next two years**

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




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

| | | 2024 | 2025 | 2026 | |
|---|---|---|---|---|---|
| **GDP** | y-o-y changes in %<br>pp | **0.9**<br>(-0.1) | **2.0**<br>(-0.5) | **2.4**<br>(-0.1) | The GDP outlook for this year is lower than in the previous forecast due to weaker growth in gross capital formation – both fixed investment and the contribution of change in inventories. |
| **Household consumption** | y-o-y changes in %<br>pp | **1.7**<br>(0.1) | **2.5**<br>(0.3) | **2.7**<br>(-0.2) | The household consumption forecast for this year is slightly higher due to better observed data in 2024 Q3 and higher real wage growth. |
| **Government consumption** | y-o-y changes in %<br>pp | **3.5**<br>(0.2) | **1.3**<br>(0.0) | **0.9**<br>(0.1) | Government consumption growth is roughly the same as in the autumn forecast both this year and the next. |
| **Gross fixed capital formation** | y-o-y changes in %<br>pp | **-0.3**<br>(-1.1) | **2.2**<br>(-0.7) | **2.9**<br>(0.2) | Growth in fixed investment is lower in 2025 due to both the latest observed data for 2024 Q3 and weaker external demand. |
| **Net exports** | contr. to GDP growth<br>pp | **0.6**<br>(-0.3) | **-0.8**<br>(0.0) | **-0.1**<br>(0.1) | The changes in the contributions of net exports to GDP growth compared to the autumn forecast are negligible both this year and the next. |
| **Employment** (full-time equivalent) | y-o-y changes in %<br>pp | **0.1**<br>(-0.1) | **0.1**<br>(-0.1) | **0.2**<br>(0.0) | The slightly slower growth in the number of full-time equivalent employees reflects lower data for 2024 Q3; the growth this year will also be affected by a slower economic recovery. |
| **Unemployment** (ILO) | %<br>pp | **2.7**<br>(0.0) | **2.8**<br>(0.0) | **3.0**<br>(0.0) | The outlook for the general unemployment rate is unchanged from the previous forecast. |
| **Average monthly nominal wage** | y-o-y changes in %<br>pp | **6.9**<br>(0.6) | **6.1**<br>(0.4) | **5.0**<br>(-0.1) | The faster wage growth this year is due mainly to higher observations in 2024 Q3 and a slightly higher estimate for 2024 Q4. |

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: Territorial changes in Czech exports

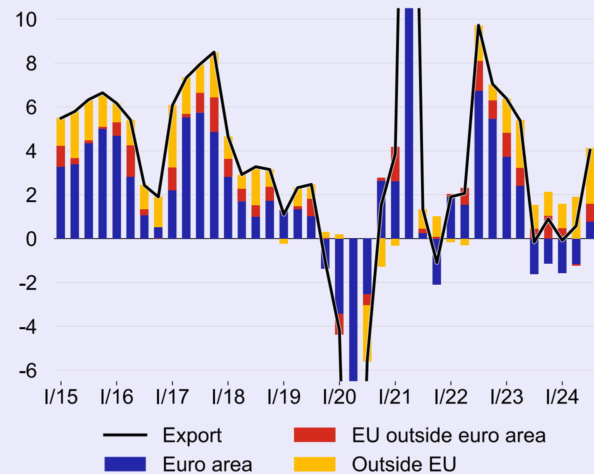
As a small open economy, the Czech Republic has strong economic ties with the external environment. The Czech economy's growth model is characterised by a high share of industry, which exports much of its output. This results in high trade surpluses. Czech exports have always been highly dependent on demand from foreign trading partners, especially euro area countries. However, they have not been faring too well overall over the past year and a half or so. This is especially true of Germany, which accounts for the largest share of external demand and thus has the biggest weight in the effective euro area indicator.[1] This has been reflected in subdued growth in Czech exports, although not to the full extent, as they have been kept afloat by exports to countries outside the euro area (see Chart 1). Czech firms have been able to find new markets for their goods and services. This has partly lessened the impact of the downturn in our largest trading partner's economy.[2] This box describes how and when the Czech export structure changed, which countries Czech exports go to, and how much the link between exports and euro area demand is changing.

Czech exports grew by 4% in 2024 Q3, well above the pace expected by the CNB's autumn forecast (2.3%). Given that the forecast for effective euro area growth broadly materialised, this came as a surprise. A closer inspection (see Chart 1) reveals that exports to non-EU countries dominated last year, with exports to non-euro area EU countries also contributing significantly in the second half of the year. Exports to euro area countries recovered only slightly. The contribution of non-euro area countries[3] to export growth was also significant in the past, but the contribution of the euro area was usually several times bigger. In 2024 Q3, however, the contribution of non-euro area countries was above the average, despite a recovery in exports to the euro area. The share of exports to non-euro area EU countries has been growing gradually for some time now (see Chart 2).[4] By contrast, the share of exports to non-EU countries was broadly flat at around 24.5% from 2012 until the beginning of 2022. It declined temporarily to 23% in the first half of 2022 (probably due to the start of Russia's aggression against Ukraine), but then increased relatively sharply, exceeding 26% in 2024 Q3.

Chart 1

**Export growth has recently been driven mainly by exports to non-euro area countries**

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

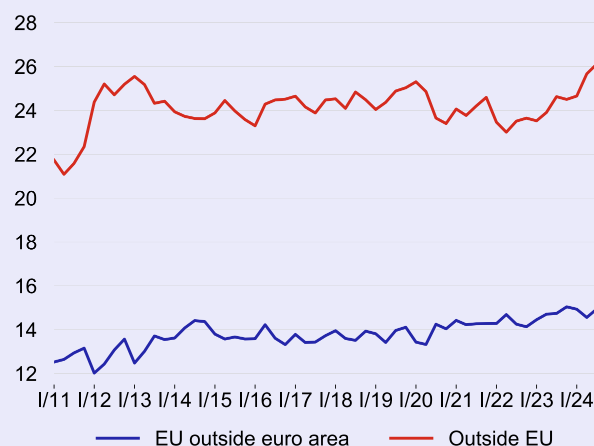



Note: The year-on-year changes in exports in 2020–2021 range between −26% and 34%. However, the y-axis has been narrowed for reasons of presentation.

Chart 2

**The share of exports to non-euro area EU countries has long been growing gradually; that to non-EU countries has risen sharply in the past two years**

share of each territory in total exports in %; prices of 2020 (chain-linked); seasonally adjusted




On looking more closely at the destinations for exported Czech goods,[5] we find that exports to Russia (quite understandably) recorded the largest change compared to 2019 (see Chart 3). Before 2022, just over 2% of exported Czech goods went to Russia, but mutual trade almost halted after the war in Ukraine started. The share of exports to euro area countries has also been falling (with marked declines also being recorded for the shares of exports to three countries in the effective euro area), most of all in the case of Germany. The drop in exports to Germany in recent years can be explained mostly by weak demand, but it is also structural in nature. The share of exports to Germany has been dropping sharply since 2015. This corresponds to the observation in a box in the Summer 2024 MPR[6] that the Czech Republic's market share in German imports has been falling since around 2016. This share rose sharply again in 2023, but this offset the previous fall only partially. By contrast, Poland was able to increase its share in German imports even between 2016 and 2023 and was thus the likely cause of part of the loss of Czech market share. Poland's share in Czech exports has also increased the most in recent years (see Chart 3). The only other euro

area country whose share has risen is Italy. The other cases are non-euro area countries such as the USA, the UK and Turkey. However, it is quite likely that Turkey re-exports part of Czech imports to Russia.[7]

The weakening link between Czech exports and effective euro area demand is illustrated by the regression coefficient (see Chart 4).[8] It started to rise sharply in 2004 after the Czech Republic joined the EU. This period was characterised by brisk economic growth due primarily to high trade surpluses, reflecting a boom in the free movement of people, goods, services and capital. The coefficient then started to decrease. This trend stalled while the exchange rate commitment was in place. Around 2016, slowing potential output growth,[9] and also the fact that Czech industry had almost stopped growing, started to foster slower growth in exports to the euro area. Since 2021, the coefficient has been around 2, meaning that year-on-year Czech export growth is only around double the growth in effective euro area demand.

Besides the already observed fact that the share of non-euro area countries in Czech exports has been rising, account must also be taken of the fact that the trading partners whose shares in Czech exports have increased (such as the USA) are expected to perform better than the effective euro area countries in the next few quarters (see Table 1.1 in section 1). However, the impacts on global trade of the tariff policy announced by the USA remain an uncertainty. The free trade agreement recently agreed between the EU and the South American Mercosur bloc may also have a positive effect. If effective euro area growth (driven mainly by the lacklustre performance of Germany) remains subdued and Czech firms increasingly focus on non-euro area countries, the export growth forecasts (defined as roughly double the year-on-year economic growth rate in the effective euro area) may be underestimated. For all these reasons, the current forecast contained in the 2025 Winter MPR includes an expert adjustment that raises the path of exports this year above that implied by effective euro area demand alone. The changes in the foreign trade structure will be analysed further and reflected in future forecasts.

Chart 3

**More and more Czech exports are going to non-euro area countries, while Germany's share is falling**

difference in average share of goods exports to given country in total exports in January–November 2024 compared to same period of 2019 and 2015; current prices; seasonally unadjusted

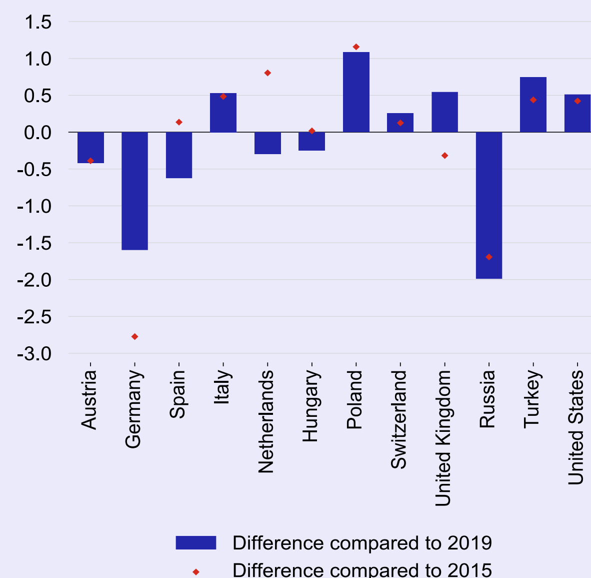
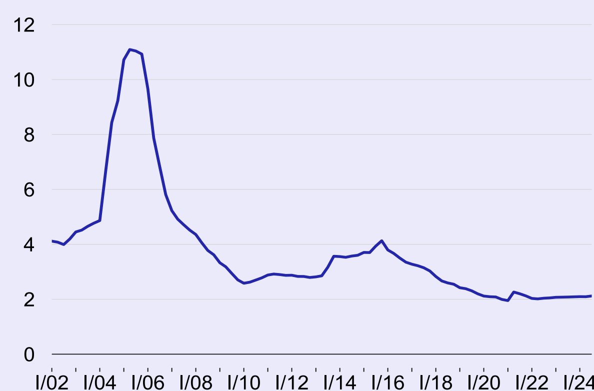



Chart 4

**The previously strong link between Czech exports and effective euro area demand has been weakening**

elasticity of y-o-y Czech export growth to y-o-y GDP growth in effective euro area; coefficient from regression model with no constant; CNB calculation




Note: The coefficient is taken from a regression containing data from a rolling time window of 16 quarters.

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[1] The CNB forecast uses the concept of the effective euro area, which proxies for the external environment. This indicator contains the Czech Republic's six major trading partners in the euro area (Germany, Slovakia, France, Italy, Austria, and Spain) and thus covers more than half of Czech exports. The Czech Republic's largest trading partner is Germany, which is the destination for around 30% of its total goods exports, followed by Slovakia with a share of almost 10% and Poland with around 7%.

[2] One well-known bon mot has it that "if Germany sneezes, the Czech Republic catches a cold". This has not applied in recent quarters, as Germany has been roughly stagnant while the Czech economy is now growing.

[3] i.e. the EU countries not using the euro and countries outside the EU.

[4] National accounts data, in which total exports are divided into exports to euro area countries, exports to non-euro area EU countries and exports to non-EU countries, are used in this calculation and in the decomposition in Chart 1. The data are available from 2011.

[5] This part uses monthly statistics on foreign trade in goods. The data are available from January 2015.

[6] See the box The position of Czech exporters on the German market by comparison with Poland in the Summer 2024 MPR.

[7] For details, see Drahozalová A., Kábrt M., Wałoszková A.: Vojensky i ekonomicky strategické výrobky nejspíše nadále nacházejí cestu z ČR do Ruska (Military and economically critical goods are probably still finding their way from the Czech Republic to Russia, in Czech only), cnBlog, 2024.

[8] The analysis focuses only on the short-term relationship between Czech exports and foreign economic activity and may thus differ from the longer-term and more structural dependence identified in the g3+ core forecasting model.

[9] See the appendix The slowdown in the long-term potential growth of the Czech economy in the Summer 2024 MPR.

# 3 INFLATION

Inflation accelerated at the end of last year, temporarily reaching the upper boundary of the tolerance band in December. Headline inflation will slow again at the start of this year, aided by a sharp drop in administered price inflation. Conversely, annual food price inflation will rise gradually in 2025 Q1. Core inflation will remain broadly stable for the whole of this year amid a slight depreciation of the koruna, slowing growth in domestic labour costs and a continued gradual correction of profit margins, which until recently were highly elevated. Both headline and monetary policy-relevant inflation will thus be slightly above the CNB's 2% target this year and very close to it over the monetary policy horizon.

### Inflation will slow at the start of 2025 and will be in the upper half of the tolerance band around the inflation target

Inflation gradually gathered pace in 2024 Q4, reaching 3% in December. By contrast, it will slow in 2025 Q1[15] and will be in the upper half of the tolerance band around the inflation target (see Chart 3.1). This will be due mainly to a significant drop in the contribution of administered prices, especially for electricity and gas (see Chart 3.2). Conversely, annual food price inflation will pick up in 2025 Q1 and the positive contribution of core inflation will rise marginally. The contribution of fuel prices will be slightly negative.

### Administered price inflation will decrease considerably at the start of this year

Annual administered price inflation went up in 2024 Q4, averaging more than 7%, even though electricity and gas suppliers further reduced the commodity component of housing-related energy prices (see Chart 3.3). An increase in the administered component of energy prices helped to keep annual administered price inflation high last year, as did a rise in water supply and sewerage collection charges and the reintroduction of the fee for renewable energy sources in January, an increase in the price of the road toll vignette in March and a sharp rise in the prices of some items in the education category in September. Administered price inflation will drop below 2% this year, due mainly to a year-on-year decrease in electricity and gas prices, which will be counteracted by a rise in water supply and sewerage collection charges and heat prices and, from mid-2025, by an expected increase in licence fees.[16]

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

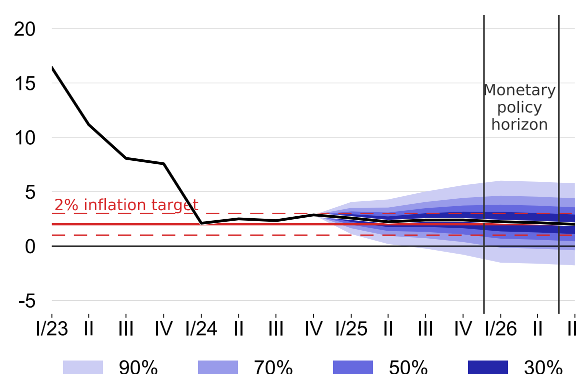
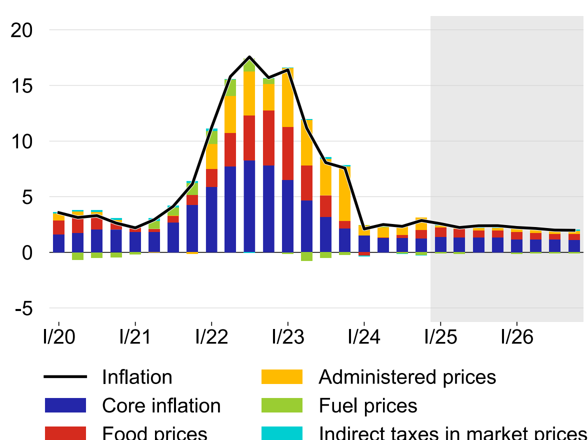



Chart 3.2
**The contribution of administered prices will decrease sharply at the start of 2025**
structure of inflation; y-o-y changes in %; contributions in pp




[15] CPI inflation reached 2.8% in January 2025.

[16] The government approved an increase in the television licence fee from CZK 135 to CZK 150 and the radio licence fee from CZK 45 to CZK 55. These fees were last increased in 2008 and 2005 respectively. There are also plans to expand the range of payers of these fees. The relevant bill is currently under debate in the Chamber of Deputies. The forecast assumes it will take effect in mid-2025.

## Market price inflation will rise slightly above 2% this year

Market price inflation was subdued during 2024 (see Chart 3.4), as companies repriced to only a limited extent relative to the still high growth in their costs. Their profit margins thus decreased and the negative contribution of change in the surcharge on costs therefore reduced inflation. The contribution of the surcharge on costs remains negative over the outlook horizon, as the still positive gap in mark-ups will close in 2026, aided by the still tight monetary policy. This year, however, this gradual decline in margins will not be sufficient to fully offset the elevated growth in costs, so market price inflation will rise temporarily above 2%.

## The elevated overall cost pressures will decline during 2025 amid a gradual decrease in the inflationary effect of the domestic economy and energy import prices

Growth in total costs remained elevated in 2024 Q4 (see Chart 3.5), due mostly to the inflationary effect of the domestic economy. Costs will continue to rise at an elevated pace in the coming quarters, as they will be affected – in addition to still strong domestic pressures – by elevated growth in energy import prices in the first half of this year. Excessive domestic cost pressures will stem mainly from continued high nominal wage growth, which will not be offset by corresponding productivity growth. In quarter-on-quarter terms, wage growth will slow gradually, causing growth in total costs to decline to close to its steady-state level at the end of this year. This will also be fostered by the contribution of energy import prices gradually turning negative. Ongoing price convergence, which will lead to traditionally higher services inflation than goods inflation within core inflation, will foster growth in costs over the entire horizon. Growth in total costs will thus stay close to its steady-state level of 2% next year.

## Core inflation will be broadly stable

Core inflation stayed just above 2% in 2024 Q4. Growth in non-tradables prices stood close to 4%, while growth in tradables prices was approximately zero. Core inflation will pick up slightly at the start of this year, and the traditional January repricing will take place to roughly the usual extent. Core inflation will stabilise close to 2.5% in the course of this year, while still subdued core producer price inflation abroad and its spillover to domestic price categories will have an anti-inflationary effect. Relatively brisk growth in wages in the Czech Republic will conversely have an inflationary effect. The contribution of imputed rent will gradually increase in the first half of this year (see Chart 3.6).[17] A greater-than-expected pick-up in

[17] The forecast meanwhile assumes that growth in imputed rent will rise to just above 4% in 2025 Q2 and then gradually decline to 3%.

Chart 3.3

**Administered price inflation will fall significantly at the start of 2025, dropping below 2%**

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

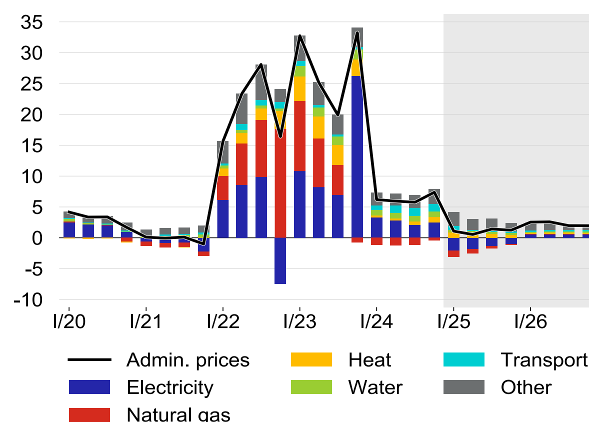
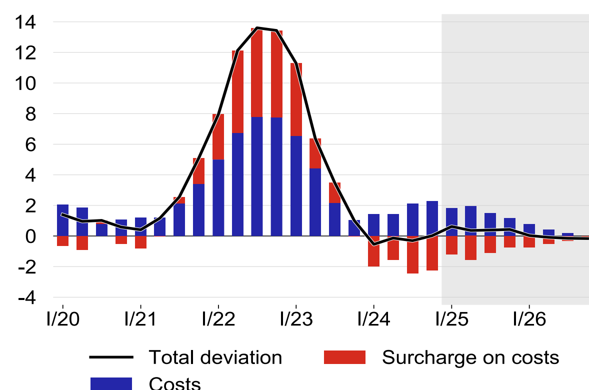



Chart 3.4

**Persisting elevated growth in costs will foster further price growth, while a decreasing surcharge on costs will dampen it**

deviation from steady-state 2% year-on-year growth; contributions in pp

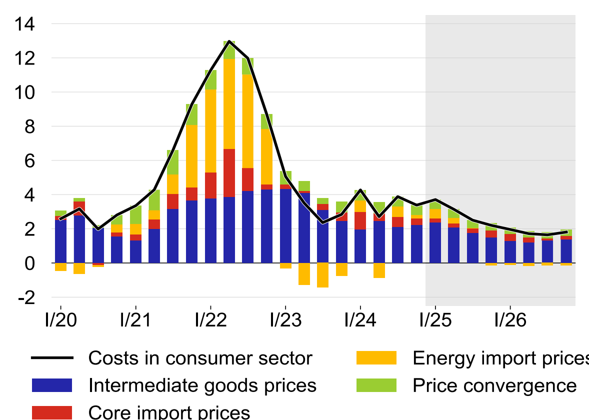



Note: The contribution of the surcharge on costs contains the gap in mark-ups in the sectors of consumer and intermediate goods and services.

Chart 3.5

**The currently still slightly elevated overall cost pressures will ease in the course of this year**

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



house price growth due to a faster recovery of the housing market represents one of the risks of the forecast.

### Food price inflation will remain elevated in the coming quarters

Year-on-year growth in food, beverage and tobacco prices rose to more than 3% at the end of 2024. Food prices thus became one of the drivers of inflation at the year-end (see Chart 3.2). This will remain the case in the coming quarters due to both renewed growth in agricultural producer prices and a continued rise in prices of some imported food commodities. Faster growth in food prices and longer-lasting services inflation are a risk of the forecast, as described in a scenario in section 4.

### Fuel prices will go down further year on year in the first half of 2025

Annual fuel price inflation was in negative territory in 2024 Q4 and will stay there in the first two quarters of this year. Fuel prices will then start to rise slightly year on year in the second half of this year, as a sharply weakening koruna against the dollar in year-on-year terms will outweigh a falling market outlook for the price of oil.

### Headline inflation will be slightly above monetary policy-relevant inflation

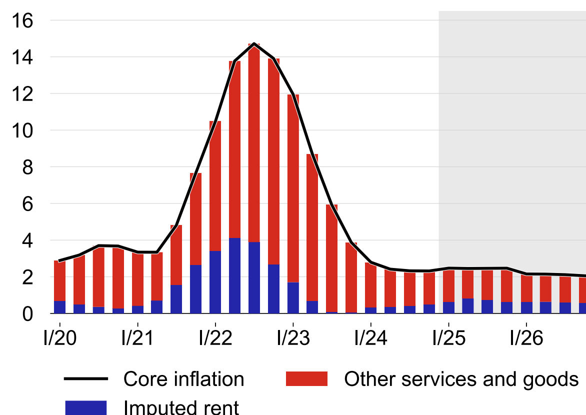
Changes to indirect taxes will increase headline inflation slightly. Excise duty on tobacco and alcohol was raised by 5% and 10% respectively at the start of 2025. This will be reflected in growth in the relevant prices in the months ahead. Excise duty on tobacco and alcohol will go up by a further 5% at the start of 2026. Headline inflation will therefore be slightly above monetary policy-relevant inflation over the entire outlook horizon (see Chart 3.7).

Like headline inflation, monetary policy-relevant inflation will be close to the central bank's 2% target over the monetary policy horizon, i.e. in the first half of 2026 (see Chart 3.7).

Chart 3.6

**Core inflation will stay just above 2% amid a slightly increasing contribution of imputed rent in the first half of this year**

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

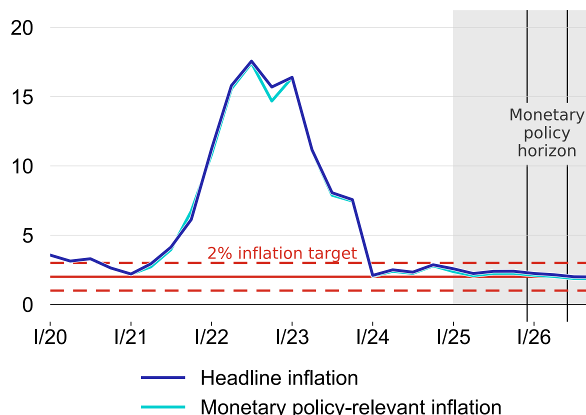



*We distinguish two types of direct effects on prices in relation to* ***changes to indirect taxes*** *– first-round effects (or accounting effects in the items concerned) and second-round effects (going beyond accounting effects in the items concerned). The first-round effects are the calculated price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

Chart 3.7

**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 %



## Comparison with the previous forecast: price developments

| | | 2024 | 2025 | 2026 | |
|---|---|---|---|---|---|
| **Consumer prices** | y-o-y changes in % | **2.4** | **2.4** | **2.1** | The inflation forecast has shifted slightly downwards mainly because of lower food price inflation. |
| | pp | (-0.1) | (-0.2) | (-0.1) | |
| **Administered prices** | y-o-y changes in % | **6.3** | **1.1** | **2.3** | The slightly lower outlook for administered prices for this year is due to a smaller increase in the administered component of electricity prices and a later rise in licence fees. |
| | pp | (0.1) | (-0.5) | (0.3) | |
| **Core inflation** | % | **2.5** | **2.5** | **2.1** | The core inflation forecast remains unchanged. |
| | pp | (0.0) | (0.0) | (0.0) | |
| **Food prices** (incl. alc. bev. and tobacco) | y-o-y changes in % | **0.7** | **2.9** | **2.1** | Food price inflation will be slightly lower this year than in the autumn forecast due to the observed outcomes and the expected somewhat lower repricing in January. |
| | pp | (-0.2) | (-0.9) | (-0.1) | |
| **Fuel prices** | y-o-y changes in % | **-0.8** | **-1.2** | **-3.3** | The fuel price forecast for this year has shifted upwards due to a weaker koruna against the dollar and higher wholesale petrol prices. |
| | pp | (0.0) | (2.6) | (-3.1) | |

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

## Box 2: Assessment of the fulfilment of the inflation target over the last two years

The CNB's price stability mandate involves retrospectively assessing the fulfilment of its 2% inflation target and determining the causes of any past deviations of inflation from the target. This box, regularly included in the report, contains the assessment for the last two calendar years, i.e. for 2023 and 2024.

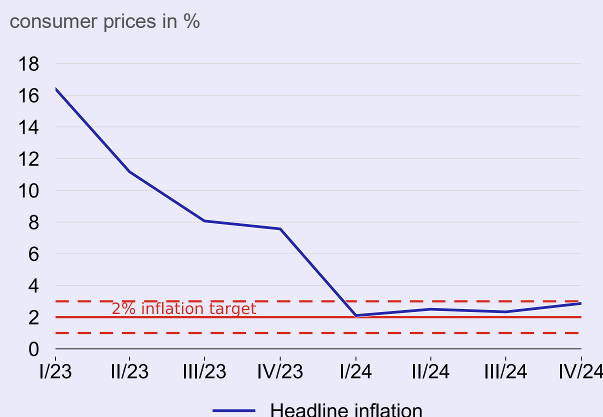
In the course of 2023, consumer price inflation visibly slowed from initial double figures. In spite of that, it was well above the CNB's 2% inflation target throughout the year. Inflation fell to the target at the start of 2024 (see Chart 1) and stayed close to it for the rest of 2024. Price stability, which had been disrupted by previous extraordinary events (in particular the pandemic and the energy crisis), was thus successfully restored. This box uses the g3+ core forecasting model[1] to determine the key factors underlying the deviation of inflation from the CNB's inflation target (see Chart 2).

The initial significantly positive contribution of foreign prices shrank during 2023 as the inflationary impacts of the disruption to global value chains and the huge rise in energy commodity prices on global markets exacerbated by Russia's aggression in Ukraine subsided. Foreign industrial producer prices underwent a minor correction during the two years assessed in the box. The growth in domestic retailers' highly elevated costs thus also gradually slowed, creating room for inflation to decrease to the target.[2]

The increase in energy prices also strongly affected administered prices. Their contribution to the deviation of inflation from the target was thus also positive in 2023. Conversely, the decrease in the commodity component of electricity prices in 2024 did not have a large impact on retail prices, due to an increase in the administered component of energy prices in January 2024. As a result, the contribution of administered prices was neutral overall last year.

***The monetary policy rule in the g3+ model** sets interest rates so as to ensure that inflation returns to the 2% target at the monetary policy horizon. The inflation outlook takes on board the forecasts for all relevant macroeconomic variables. The emphasis on the monetary policy horizon reflects the gradual transmission of interest rates to future economic developments and in turn to inflation. By concentrating on inflation at this horizon, the central bank simultaneously abstracts from short-term inflation shocks. Their impact can be controlled by monetary policy to only a minimal extent. In addition, any efforts to mitigate them quickly would cause excessive interest rate volatility, which would destabilise the economy. The monetary policy rule also includes interest rate smoothing by the central bank. Nonetheless, active monetary policy stabilises inflation at the target in the medium term. This is usually accompanied by gradual movement of interest rates towards their neutral long-run level (3%).*

Chart 1
**Inflation returned to the CNB's target at the start of last year**
consumer prices in %




The domestic economy had a strong inflationary effect in the past two years, although the intensity of this effect decreased gradually. In 2023, retailers raised their prices by more than what the growth in their costs implied. Firms' profit margins were thus distinctly elevated.[3] Although the profitability of sellers of goods and services started to decline last year due to the tight monetary policy in 2023, estimated margins stayed above their usual levels.

The ECB responded later and less forcefully than the CNB to the surge in price pressures in the euro area resulting from the energy crisis and the problems in value chains. The positive interest rate differential thus exerted appreciation pressure on the koruna throughout 2023, hence slowing domestic inflation. However, this effect faded over time as the ECB continued to increase its rates, while the domestic 3M PRIBOR market rate was already gradually decreasing owing to the expected start of the CNB monetary policy rate-cutting cycle. This occurred in December 2023 and the reduction of domestic interest rates continued almost throughout 2024, while the ECB did not start the process of cutting its policy rates until mid-2024. Last year, therefore, a narrowing interest rate differential conversely put depreciation pressure on the koruna and thus upward pressure on consumer prices.

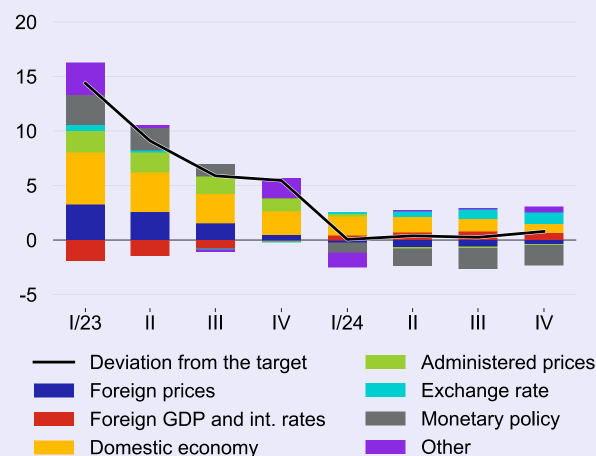
The koruna exchange rate had a roughly neutral effect in 2023. In 2024, its contribution to the deviation of inflation from the target was slightly positive, as the koruna weakened slightly more year on year than implied by the narrowing interest rate differential vis-à-vis euro rates.

In 2023, the Bank Board assessed the risks and uncertainties of the forecasts at the time initially as significant and going in both directions, and in the second half of the year as inflationary. Most of the previously identified risks persisted, in particular weaker anchoring of inflation expectations in an environment of long-running overshooting of the inflation target, which could have given rise to a wage-price spiral, and more expansionary domestic fiscal policy (measures aimed at mitigating the impacts of the energy and refugee crises). Therefore, the Bank Board communicated that the interest rate path would be higher than in the baseline scenario of the forecast. The uncertainties continued to include the future course of the war in Ukraine, the availability and prices of energy, and the future monetary policy stance abroad. In December 2023, the Bank Board started the process of cutting key interest rates (in the case of the 2W repo rate from 7%) due to a falling inflation outlook, stating that it considered it necessary to persist with tight monetary policy and approach potential further rate cuts with caution.

Chart 2

**The overshooting of the target in 2023 was due mainly to a sharp rise in energy prices and to retailers' elevated profit margins; in 2024, the deviation from the target was minimised**

deviation of monetary policy-relevant inflation from CNB's 2% target; contributions in pp




***Monetary-policy relevant inflation** is inflation to which monetary policy reacts in the forecast. It is defined as headline inflation adjusted for the first-round effects of changes to indirect taxes.*

In 2024, the Bank Board continued to assess the risks of the forecasts mostly as slightly inflationary. The main upside risks identified were a slower decline in the elevated inflation expectations, higher-than-expected inertia in services inflation, increased wage demands in the private and public sector, potential excessive growth in total public sector spending and a potential acceleration of money creation in the economy stemming from a significant recovery in lending activity, especially on the property market. By contrast, a downturn in global economic activity and weaker German – and hence Czech – economic output were assessed as a downside risk. The future monetary policy stance abroad was an uncertainty. The Bank Board continued to emphasise the need for tight monetary policy until the disinflation process was completed. This implied a cautious approach to reducing interest rates. The CNB lowered interest rates gradually (in steps of 0.25–0.5 pp) at each monetary policy meeting until November 2024, when the 2W repo rate reached 4%.

Inflation was well above the 2% inflation target in 2023 and later returned to the target. From this perspective, it can be said with the benefit of hindsight – with knowledge of the exceptional events that occurred – that monetary policy should have been much tighter in the relevant period to mitigate the strong inflation pressures. This is especially true for the second half of 2021, although the underlying inflationary environment in the economy was also due in part to accommodative monetary policy before and during the Covid pandemic. The subsequent higher-for-longer rates meant that monetary policy started to have a restrictive effect last year and thus largely offset the persisting inflation pressures stemming mainly from the domestic economy.

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[1] The g3+ core prediction model is used to prepare the CNB's macroeconomic forecasts. It is also employed to assess the fulfilment of previous forecasts and to determine the sources of deviations of the actual figures from the forecasts under assessment and the inflation target. For details, see The g3+ model: an upgrade of the Czech National Bank's core forecasting framework, CNB WP 7/2020.

[2] The decrease in corporate costs due to the partial correction of market energy prices was dampened by an increase in the administered component of energy prices.

[3] A deterioration in whole-economy labour productivity also played a role in the inflationary effect of the domestic economy in 2023. Despite the economic downturn, employment grew visibly, increasing corporate costs.

# 4 MONETARY POLICY

At its February monetary policy meeting, the Bank Board lowered the two-week repo rate by 0.25 pp to 3.75%, the discount rate to 2.75% and the Lombard rate to 4.75%. The Bank Board assessed the risks and uncertainties of the outlook for the fulfilment of the inflation target as modestly inflationary overall. Higher-than-expected inertia in services and food inflation is an inflationary risk. Potential additional growth in total public sector spending would lead to a risk of the state budget having an inflationary effect. Increased wage demands in the private and public sector are an additional upside risk. An inflationary risk in the longer term is a potential acceleration of money creation in the economy stemming from a significant recovery in lending activity, especially on the property market. By contrast, a downturn in global economic activity and weaker German – and hence Czech – economic output are a significant downside risk to inflation. Some large central banks have already responded to this risk by lowering monetary policy rates and indicating their readiness to continue easing monetary conditions this year. The impact of some of the actions by the newly elected US administration represents a source of uncertainty for prices. Consistent with the baseline scenario of the winter forecast is a continued decline in short-term market interest rates, followed by broadly stable rates from mid-2025 onwards.

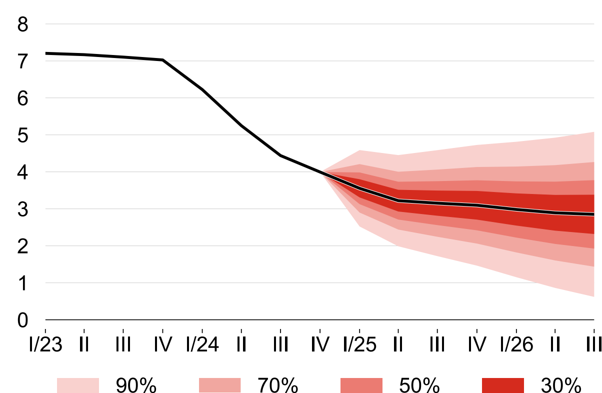
## Consistent with the baseline scenario of the winter forecast is a continued decline in short-term market interest rates, followed by broadly stable rates from mid-2025 onwards

The winter forecast implies a further decline in short-term market interest rates in the first half of this year (see Chart 4.1). Interest rates will then approach the estimated monetary policy-neutral level of 3% and stay close to it in 2026. Growth in costs will remain slightly elevated this year. This will be due to persisting higher-than-usual wage growth and rising energy import prices in the first half of this year, which, however, will not obviate the need to ease monetary policy further. The inflationary effect of the growth in costs will be partly offset by a decline in firms' profit margins, which will continue to dampen inflation. Continued monetary easing by the ECB is also creating room for a decline in domestic interest rates.

Chart 4.1

**Consistent with the forecast is a continued decline in short-term market interest rates, followed by broadly stable rates from mid-2025 onwards**

3M PRIBOR in %; 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. In the case of headline inflation, they widen only 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.*

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

## The koruna has been stable on average in recent months

The significant outflow of equity capital from the Czech Republic continued at the end of the year, due to a narrower interest rate differential (see Chart 4.2). The resulting depreciation pressures were largely offset by external surpluses of the Czech economy, driven mainly by record-high automotive industry output. The average exchange rate in 2024 Q4 as a whole was CZK 25.2 to the euro, representing a depreciation of 3% compared to the previous year.

The exchange rate of the koruna against the euro did not react strongly to the reduction in the CNB's key interest rate in November or to the result of the US presidential

elections. At the start of December, it strengthened significantly in response to expectations of a likely suspension of the CNB's rate cuts. The slight depreciation of the koruna in January was due to surprisingly low inflation in December, which increased the perceived probability of a reduction in CNB rates in February.

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

The baseline scenario of the winter forecast expects the koruna to average CZK 25.2 to the euro in 2025 Q1. The koruna will then be broadly stable at close to CZK 25.3 to the euro (see Chart 4.3). This level stems from subdued growth in labour productivity and a reduction in the large trade surplus this year.

## The market interest rate outlook is slightly above the CNB forecast

The market outlook for short-term FRA rates moved slightly higher in response to communications by the CNB around the time of the Bank Board's December meeting. Even so, the market continued to expect the 3M PRIBOR to decline gradually at the one-year horizon (see Chart 4.4). This outlook for 2025 is slightly above the interest rate path in the baseline scenario of the CNB's winter forecast. Most of the respondents in the FMIE survey were expecting the 2W repo rate to be reduced by 0.25 pp at the February monetary policy meeting. Three respondents were expecting rates to be left unchanged. The analysts expect the CNB's key interest rate to be in the range of 2.75%–3.50% at the one-year horizon.

On average, the analysts in the FMIE survey expect the koruna to be close to CZK 25 to the euro one year ahead, while those in the FECF survey expect it to be just above this level (see Table 4.1). Their forecasts thus expect the exchange rate to be at a similar level to the central bank's outlook. The analysts believe the koruna will continue to be affected by external factors as well as domestic fundamentals. In their view, in addition to the rate of reduction of the CNB's key interest rates, the exchange rate will thus reflect the speed of easing by the Fed, the performance of the European economy and the ECB's related interest rate settings. A decrease in risk aversion in global markets could have a positive effect. From the long-term convergence perspective, the koruna is expected to appreciate very slowly. The difference between the minimum and maximum expected exchange rate one year ahead in the two surveys is about CZK 2 to the euro.

## In its communications, the Bank Board discussed the possibility of easing monetary policy further

One Bank Board member sees a rate cut of 0.25 pp at the February meeting as very likely. Other members have also conceded that monetary policy might be eased. In

Chart 4.2

**The interest rate differential has stabilised at slightly positive levels vis-à-vis euro rates and has been negative vis-à-vis dollar rates for several months now**

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

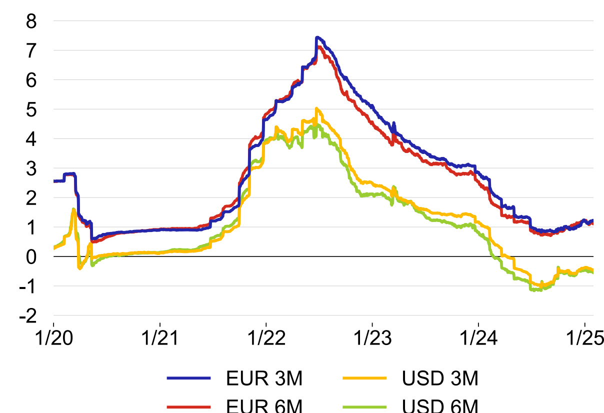



Chart 4.3

**The koruna is broadly flat over the outlook horizon**

CZK/EUR exchange rate; confidence interval

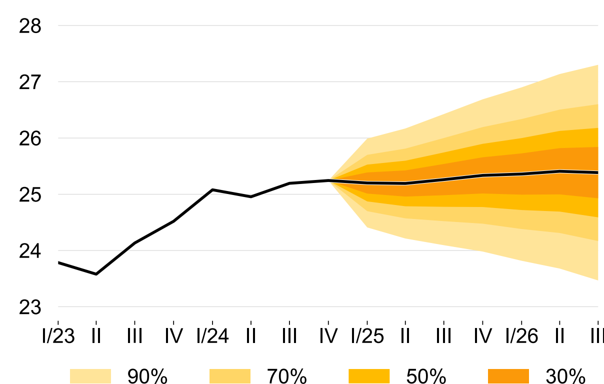
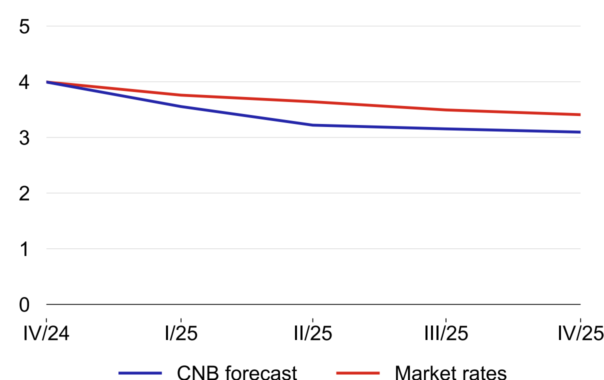



Chart 4.4

**The market was expecting rates to be lowered at the February meeting; the market outlook for this year is slightly above the CNB forecast**

3M PRIBOR; FRA in %




Note: Market rates represent for 2024 Q4 the 3M PRIBOR and for 2025 Q1–2025 Q4 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 January 2025.

their view, the lower-than-expected December inflation figure and the deepening decline in industrial production are creating room for reducing rates. However, another member has said they see limited room to cut interest rates further this year and will decide between keeping them unchanged and lowering them by 0.25 pp at the February meeting. The main risks as regards maintaining the current restrictive stance are the persisting elevated inflation in services, the tight labour market and observed and expected developments on the housing market. Rates will continue to be affected by uncertainty on foreign markets, especially the situation in German industry and the impacts of US trade policy. New data, especially the flash inflation estimate for January, will be an important factor in the Bank Board's decision-making at the February meeting.

### Money market rates are declining, while rates with longer maturities have been fluctuating

PRIBOR rates fell gradually last year in response to the lowering of the CNB's key interest rates. The slope of the money market yield curve is slightly negative, due to expectations that monetary conditions will ease further in this way. Domestic rates with longer maturities (over two years) have largely followed rates on foreign markets (see Chart 4.5) and the slope of the curve in this segment has been positive for some time now.

Long-term foreign rates mostly declined in the course of last year, owing to expected cuts in key ECB and Fed interest rates. The downward trend was interrupted by escalating tensions in the Middle East in early October, which were also reflected for a while in the price of oil. Foreign interest rates with longer maturities (mainly in the USA) then rose in response to the Fed's hawkish signals and the policies outlined by the new US president. The end of reinvestments of maturing bonds under the APP and PEPP programmes had an impact in the euro area.

Overall, the changes to domestic IRS rates ranged between −1.5 pp and +0.4 pp at individual maturities for 2024 as a whole. Government bond yields changed by roughly the same amount. Domestic and foreign rates remained broadly stable at the start of 2025. At the end of January, the domestic IRS and government bond yield curves were slightly convex with a minimum at 2Y maturity (see Chart 4.6).

*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 two-week repo operations. The difference between the 3M PRIBOR and the 2W repo rate fluctuates over time and reflects, among other things, expectations regarding the future path of monetary policy interest rates. This difference currently (before the CNB Bank Board's February monetary policy meeting) stands at −0.2 pp.*

Chart 4.5
**Domestic interest rates with longer maturities have mostly increased in recent months**

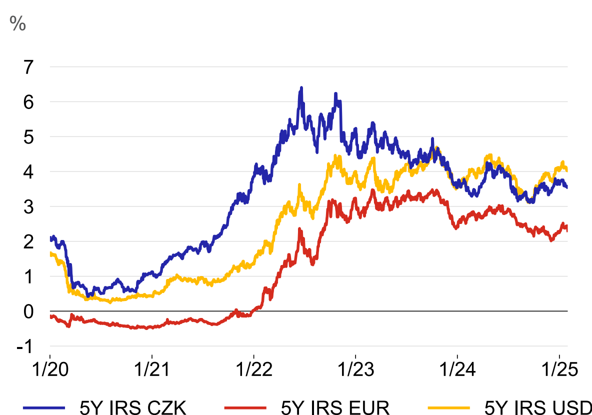
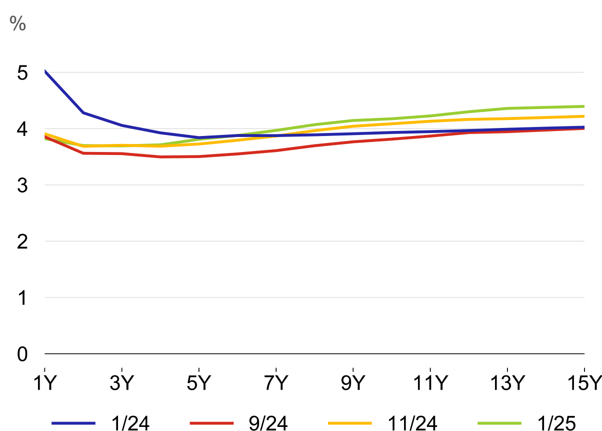



Chart 4.6
**The yield curve has stopped moving lower; it remains slightly convex**



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

Chart 4.7
**The interest rate path is slightly higher this year than in the autumn forecast**
decomposition of changes in 3M PRIBOR forecast in pp

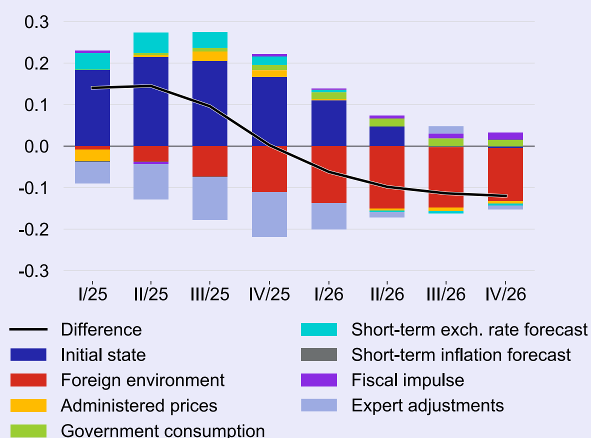
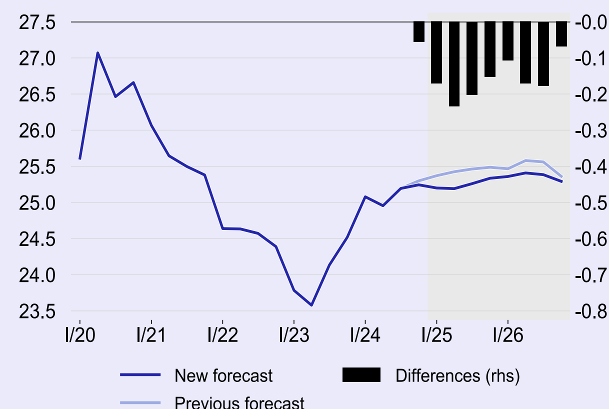



Chart 4.8
**The exchange rate forecast has shifted to slightly stronger values**
change in CZK/EUR exchange rate forecast; differences in CZK – right-hand scale




### Comparison of the interest rate path with the previous forecast (see Chart 4.7)

- The **initial state** fosters higher rates. This is due to faster wage growth and worse labour productivity in the second half of last year.
- **Expert adjustments** contribute to slightly lower rates. Compared with the autumn forecast, the inflationary adjustments towards faster wage and household consumption growth, which reduced the transmission of the weak expected data for 2024 Q3 in the autumn forecast, have been downscaled. Subsequently published data showed that wage growth and quarterly GDP growth had been faster, so the expert adjustments in the autumn forecast were in the right direction. Therefore, the need for such adjustments is now decreasing. This partly offsets the slightly positive initial conditions.
- The negative contribution of the **foreign environment** mainly reflects a lower outlook for ECB interest rates compared with the assumptions of the autumn forecast.[18] This effect is partly offset by higher growth in energy prices on international exchanges at the start of 2025.
- The **short-term exchange rate forecast** for 2025 Q1 is set at a weaker level than implied by the core prediction model's interpretation of macroeconomic developments and thus has a slight upward effect on rates.
- The effect of the **short-term inflation forecast** is negligible, as are the impacts of the revised outlook for **administered prices, general government consumption** and the **fiscal impulse**.

### Comparison of the koruna exchange rate with the previous forecast (see Chart 4.8)

- The koruna is slightly stronger than in the autumn forecast, due mainly to a wider interest rate differential vis-à-vis the euro area.

[18] The market outlook itself expects a slightly bigger drop in ECB rates than assumed by the forecast due to concerns of continued adverse economic developments in the euro area. The forecast thus includes an expertly adjusted path that assumes a more cautious approach by the ECB to reducing interest rates. However, this expert adjustment is considerably smaller than in the autumn forecast.

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

The transmission of the monetary policy rate cuts is fastest in the segment of loans to non-financial corporations. The rate on new koruna loans to non-financial corporations has dropped by 3 pp overall to 5.7% in December 2024 since the CNB started lowering its key rates in December 2023. The difference compared to the rate on euro-denominated corporate loans is 1 pp. The rate on new loans for house purchase dropped by 0.8 pp to 4.7% between the end of 2023 and December 2024 (see Chart 4.9). This reflected the volatility of market rates with longer maturities. These rates increased again slightly in 2024 Q4.

Interest rates on deposits are continuing to respond to the decline in monetary policy rates. The rate on new deposits with agreed maturity has fallen by 2.5 pp since last December to 3.2%. However, real interest rates remain safely positive due to lower inflation expected one year ahead.

## Growth in loans to non-financial corporations slowed slightly, while growth in loans to households rose

Growth in corporate loans slowed to 3.3% in 2024 Q4. The growth in corporate loans was due mainly to foreign currency loans and, for the second consecutive quarter, also to koruna loans. The share of foreign currency loans in total loans to corporations thus stayed close to 52%. According to the Bank Lending Survey, corporations' total demand for loans increased across the board in 2024 Q4. This was due mainly to higher financing of fixed investment and working capital, as well as to a need to finance mergers and acquisitions and corporate restructuring. However, according to some banks, firms remain cautious, as uncertainty about the economic outlook and new orders is adversely affecting their motivation to invest more. According to the forecast, growth in loans to corporations will rise in 2025 and 2026 in response to a gradual decline in interest rates and renewed economic growth (see Chart 4.10).

Growth in loans to households for house purchase rose to 5% in Q4. The volumes of genuinely new mortgages remain high due to higher activity on the housing market motivated by growth in house prices, an improving income situation of households and a gradual decline in interest rates. Stable and strong demand for mortgages is confirmed by banks themselves in the Bank Lending Survey. According to the forecast, growth in housing loans will rise slightly both this year and the next due to growing demand for new mortgage loans (see Chart 4.10).

Consumer credit rose by 9.9% in Q4. In the Bank Lending Survey, banks indicated an increase in demand in this credit segment in Q4. According to the survey, the increased appetite for loans reflected a recovery in

Chart 4.9

**Interest rates on loans to corporations and loans for house purchase are gradually decreasing**

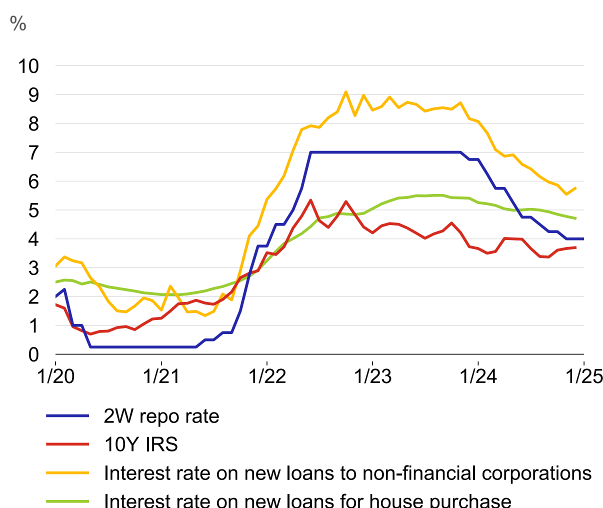



Chart 4.10

**Growth in loans to households and corporations will pick up further**

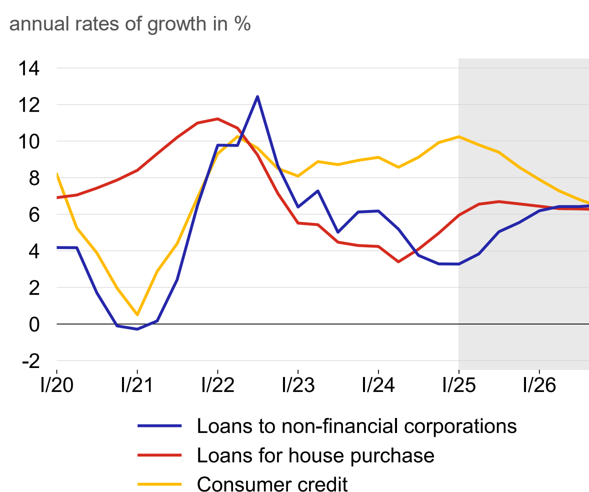
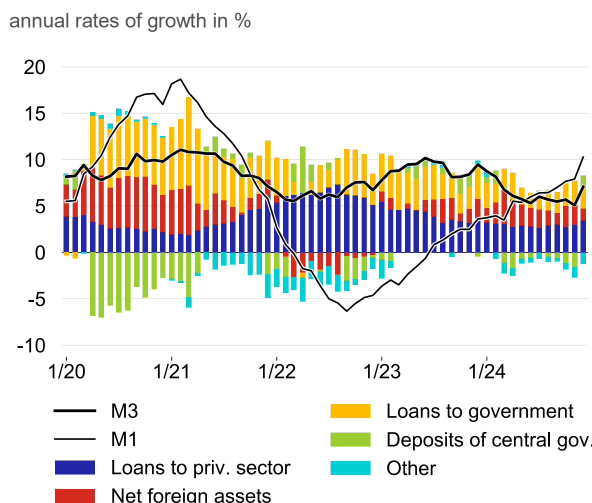



Chart 4.11

**M3 growth increased at the end of 2024**



households' consumption expenditure and a higher price level than in the past. According to the forecast, growth in consumer credit will start to slow during 2025.

## Growth in the quantity of money in the economy rose at the end of 2024

The annual growth rate of M3 rose slightly to 5.9% in 2024 Q4, mainly because of growth in December (see Chart 4.11). This was due mainly to an increase in the positive contribution of loans to the private sector and the total contribution of general government financing net of central government deposits. The highly liquid money aggregate M1, consisting mainly of overnight deposits of households and firms, continued to grow amid declining interest rates.

## Inflation expectations of firms 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 declined to 3% in December (see Table 4.1). They are slightly higher three years ahead (see Chart 4.12). Firms are also asked about the prices of their main inputs (commodities, materials, energy, etc.) one year ahead. This forward-looking indicator was approximately flat at 4% in December. The European Commission's business survey shows that the share of firms expecting the prices of their products and services to increase in the near term rose slightly at the end of 2024.

Concerns about growth in the price level persisted among Czech households. The gradual (roughly two year-long) decline in inflation perceived by domestic households in the European Commission survey from all-time highs came to a halt in mid-2024. Perceived inflation has been almost unchanged since then. The inflation rate expected one year ahead rose slightly during 2024 but remains low relative to previous years (see Chart 4.13). According to the CZSO's January business survey, too, consumers' concerns about rising prices increased slightly.

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

## Real monetary conditions will be neutral in both their components

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

The real monetary conditions are only slightly restrictive in 2025 Q1, especially in their interest rate component (see Chart 4.14). They will be roughly neutral in the later part of the forecast horizon in both the interest rate and exchange rate components.

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

| | 9/24 | 10/24 | 11/24 | 12/24 | 1/25 |
|---|---|---|---|---|---|
| FMIE: | | | | | |
| CPI | 2.2 | 2.2 | 2.2 | 2.3 | 2.3 |
| CPI, 3Y horizon | 2.1 | 2.2 | 2.1 | 2.2 | 2.1 |
| Real GDP in 2024 | 1.0 | 1.0 | 1.0 | 1.0 | |
| Real GDP in 2025 | 2.5 | 2.4 | 2.1 | 2.0 | 2.1 |
| Nominal wages in 2024 | 6.7 | 6.7 | 6.7 | 6.8 | |
| Nominal wages in 2025 | 5.5 | 5.5 | 5.6 | 5.7 | 5.8 |
| CZK/EUR exchange rate (level) | 24.8 | 24.6 | 24.8 | 24.8 | 25.0 |
| 2W repo rate (%) | 3.4 | 3.3 | 3.2 | 3.3 | 3.2 |
| 1Y PRIBOR (%) | 3.3 | 3.3 | 3.3 | 3.3 | 3.4 |
| Corporations: | | | | | |
| CPI | 3.3 | | | 3.0 | |
| CPI, 3Y horizon | 3.5 | | | 3.4 | |
| CF: | | | | | |
| Real GDP in 2024 | 1.1 | 1.1 | 1.0 | 1.0 | |
| Real GDP in 2025 | 2.6 | 2.6 | 2.4 | 2.3 | 2.2 |
| Nominal wages in 2024 | 6.7 | 6.5 | 6.2 | 6.3 | |
| Nominal wages in 2025 | 5.6 | 5.5 | 5.5 | 5.5 | 5.6 |
| CZK/EUR exchange rate (level) | 24.9 | 25.0 | 25.2 | 24.9 | 25.4 |
| 3M PRIBOR (%) | 3.5 | 3.4 | 3.3 | 3.3 | 3.3 |

Chart 4.12
**Inflation expectations declined further among non-financial corporations at the three-year horizon but remain above the 2% target**

sample of approximately 18 analysts and 150 corporations; %

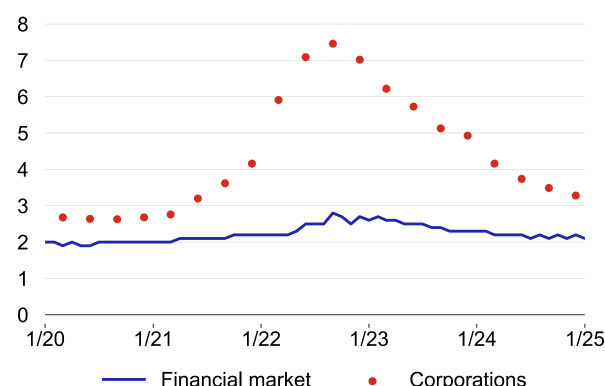
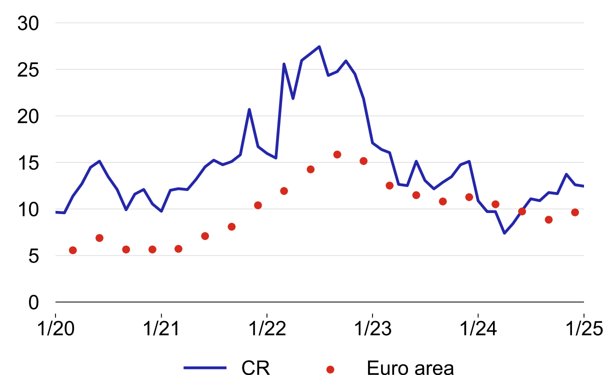



Chart 4.13
**The inflation expectations of Czech and euro area households fell only marginally compared to the start of last year**

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



## The risks of the forecast are modestly inflationary

Higher-than-expected inertia in services and food inflation is an inflationary risk. Potential additional growth in total public sector spending would lead to a risk of the state budget having an inflationary effect. Increased wage demands in the private and public sector are an additional upside risk. An inflationary risk in the longer term is a potential acceleration of money creation in the economy stemming from a significant recovery in lending activity, especially on the property market. By contrast, a downturn in global economic activity and weaker German – and hence Czech – economic output are a significant downside risk to inflation. Some large central banks have already responded to this risk by lowering monetary policy rates and indicating their readiness to continue easing monetary conditions this year.

The impact of some of the actions by the newly elected US administration represents a source of uncertainty for prices.

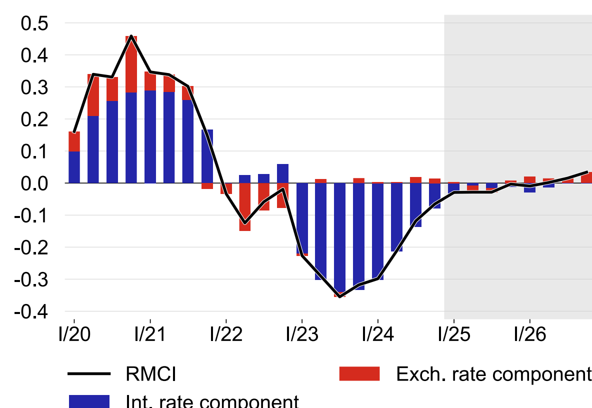
## Continued higher growth in services and food prices is an inflationary risk

The baseline scenario of the winter forecast expects inflation to decrease in January but to remain in the upper half of the tolerance band. In an environment where economic agents are sensitive to inflation, this deviation of inflation from the 2% target may lead to persisting elevated inflation expectations, reducing the restrictive effect of interest rates and thus creating additional inflation pressures. In such an environment, retailers and service providers may more easily resort to greater-than-expected repricing of services in an effort to keep their profit margins higher for longer. At the same time, higher growth in food prices due to stronger-than-expected cost pressures cannot be ruled out. A scenario considering higher growth in services and food prices this year has therefore been constructed to illustrate this risk.

Chart 4.14

**Monetary conditions will be neutral at the forecast horizon**

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

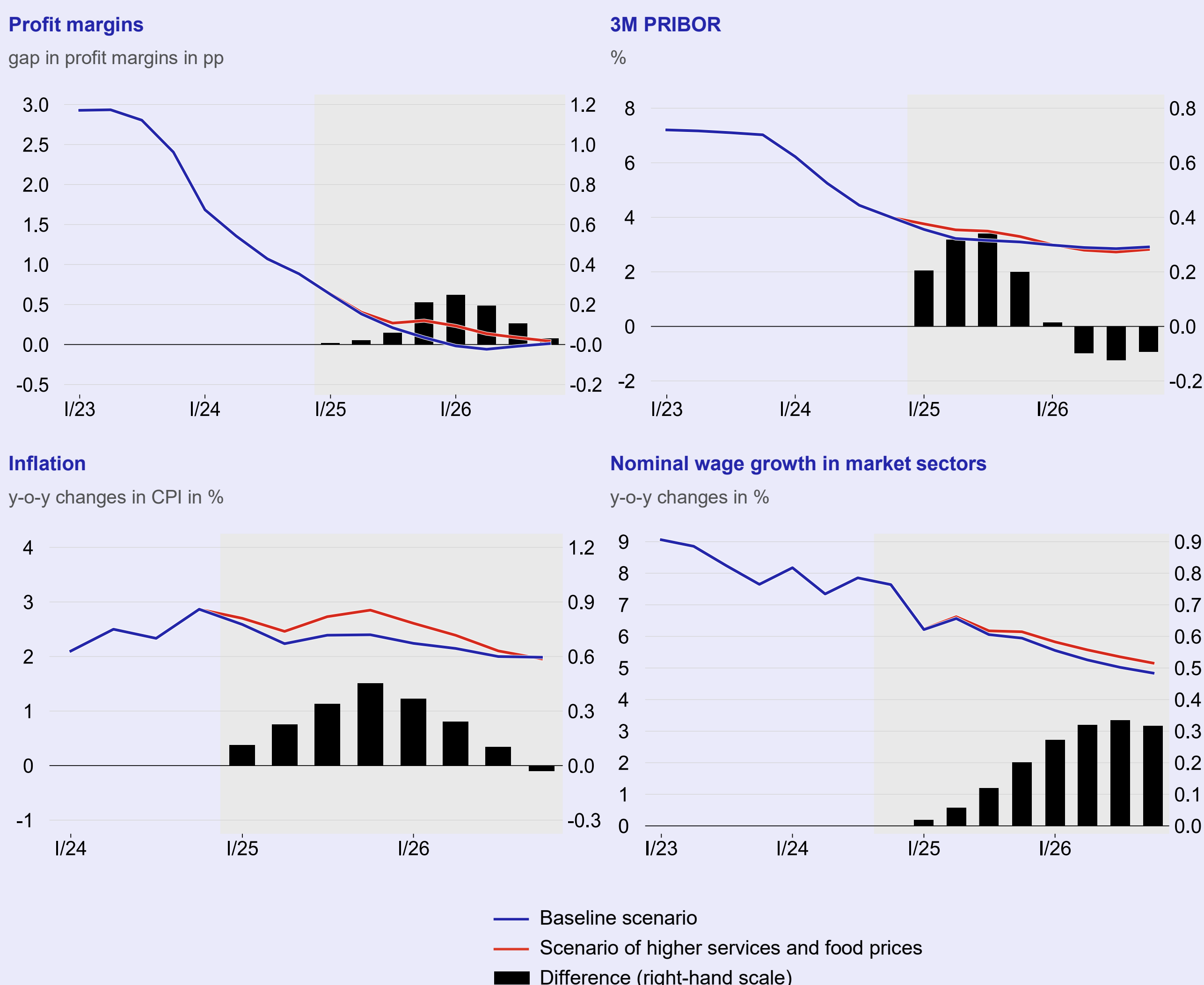


## Scenario of higher services and food prices

This scenario assumes that inflation will remain elevated this year compared to the baseline scenario, for two reasons. Firstly, retailers will take advantage of the current strong demand for services to reprice them more significantly and thus keep their profit margins higher for longer. Secondly, inflation will stay elevated because of potential stronger cost pressures stemming from food commodity imports, which, by contrast, are fostering lower profit margins of retailers.[19] Overall, profit margins narrow more slowly this year in this scenario than in the baseline scenario, deviating particularly significantly in late 2025 and early 2026 (see Chart 4.15). As a result, consumer price inflation is almost 0.5 pp higher at the end of this year. Higher services inflation accounts for about two-thirds of this deviation from the baseline scenario and faster growth in food prices for one-third.[20]

The central bank reacts to the higher inflation with a smaller reduction in interest rates this year than in the baseline scenario. In spite of that, the higher inflation is reflected in slightly faster nominal wage growth than in the baseline scenario.

Chart 4.15
**Higher services and food prices would require tighter monetary policy this year**
comparison of baseline scenario with scenario of higher services and food prices




[19] The Autumn 2024 MPR contained a scenario of a slower decline in profit margins. It considered only one cause of elevated inflation pressures in the domestic economy, namely higher-for-longer profit margins due to still solid demand for services.

[20] The scenario assumes higher quarter-on-quarter growth in consumer prices throughout 2025. The resulting effect is thus most apparent in annual inflation in 2025 Q4, when food prices go up 0.5 pp faster than in the baseline scenario and services inflation is 1 pp higher. The overall impact on consumer price inflation is 0.45 pp.

### The price disequilibrium in the housing market is another upside risk to inflation

Available data indicate that the housing market is starting to overheat. Demand for new housing loans is recovering on expectations of continued growth in residential property prices, growth in incomes and a gradual fall in interest rates. The supply side of the housing market is meanwhile showing a high degree of inelasticity. Apartment completions were 15% lower in January–November 2024 than in the same period a year earlier. Apartment starts are rising but remain insufficient with regard to long-standing needs. The disequilibrium in the housing market is thus leading to growth in prices of both new and older property. Further growth in this disequilibrium may greatly increase inefficient capital allocation and reduce potential output growth.

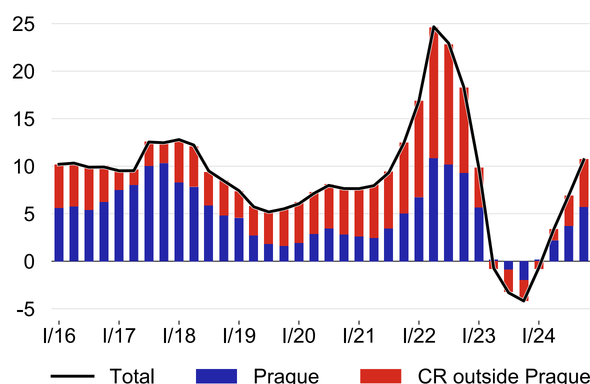
The relevance of this risk is highlighted by the recent trend in asking prices of apartments. Their year-on-year growth rose rapidly during 2024, reaching almost 11% in Q4 (see Chart 4.16). In recent months, the volume of genuinely new mortgages in real terms has also been around that in the pre-Covid period, which was characterised by a rapid recovery of the housing market. All this is going on amid only slowly falling mortgage interest rates. Any further decline in those rates may thus further increase demand for property. The Inflation and Monetary Policy Risks Scoreboard is also indicating an inflationary risk relating to house prices.

### Longer-lasting economic headwinds abroad, particularly in Germany, are a downside risk to inflation

The baseline scenario of the winter forecast assumes that economic growth in the effective euro area will pick up in the course of this year and next year, especially as the economic headwinds in Germany gradually subside. However, leading indicators of the German economy do not bode well, and the German central bank and the federal government have revised their growth forecasts for this year down significantly.[21] Aggregate demand in the euro area may recover more slowly than assumed in the baseline scenario. Weaker economic activity would in turn be reflected in weaker inflation pressures and a faster decrease in ECB interest rates than assumed in the forecast. Overall, this could lead to lower inflation and interest rates in the Czech economy, too.

Chart 4.16
**Growth in the asking prices of apartments rose rapidly during 2024**

apartment asking prices; y-o-y changes in %; contributions in pp




Note: Prague accounts for roughly 55% and the rest of country for around 45% of the number of apartments on offer in the Czech Republic.

[21] The Bundesbank revised its GDP growth estimate for 2025 from 1.1% to 0.2% in December 2024. The federal government revised its estimate from 1.1% to 0.3% in January. The CNB expects growth of 0.2%.

### The combination of main risks – the upside risk of higher services and food prices and the downside risk of an economic downturn in the euro area – is captured in a scenario

The scenario of an economic downturn in the euro area and higher domestic inflation captures a situation where these two risks materialise simultaneously. It is based on the scenario of higher inflation and simultaneously assumes that the current economic headwinds in Germany – our main trading partner – will persist for the next few quarters. The scenario assumes that the cyclical causes of the economic downturn abroad prevail.

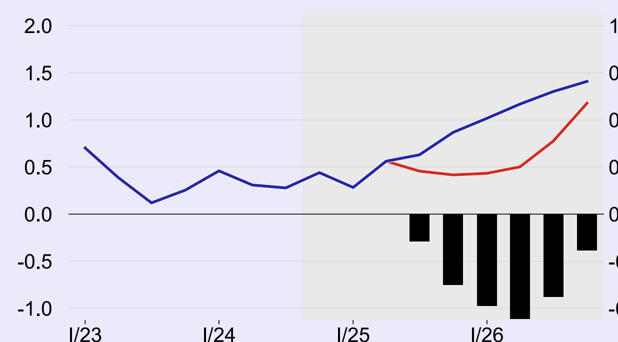
## Scenario of an economic downturn in the euro area and higher domestic inflation

This scenario assumes a stagnation in Germany, which subsequently spills over to the other euro area countries and is reflected in a later recovery of their economic activity. The NiGEM global economic model was therefore used to draw up an external scenario. This assumes a deeper cyclical slowdown in the euro area countries from mid-2025 onwards, reflecting a drop in private consumption, which is 2% lower than in the baseline scenario.[22]

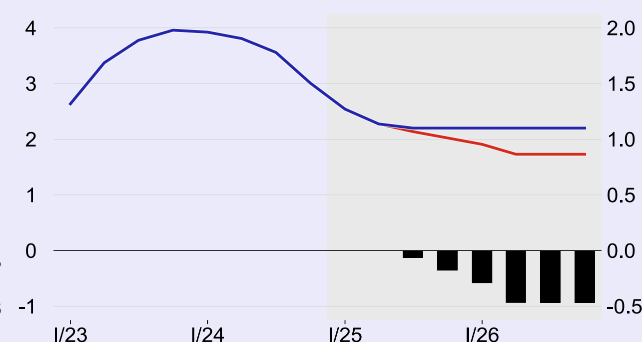
Overall, the scenario leads to lower inflation in the euro area, as the anti-inflationary effect of weaker demand, reflected in a wider output gap, outweighs the inflationary effect of a worse supply side of the economy and a weaker euro against the dollar. The negative demand and supply impacts result in a longer downturn in real economic activity in the euro area until mid-2026. In this scenario, the ECB responds to this situation with additional monetary policy easing from the second half of this year onwards (see Chart 4.17).

Chart 4.17
**Slower growth in the euro area would lead to lower HICP inflation and lower ECB interest rates**
comparison of baseline scenario with scenario of economic downturn in euro area and higher domestic inflation

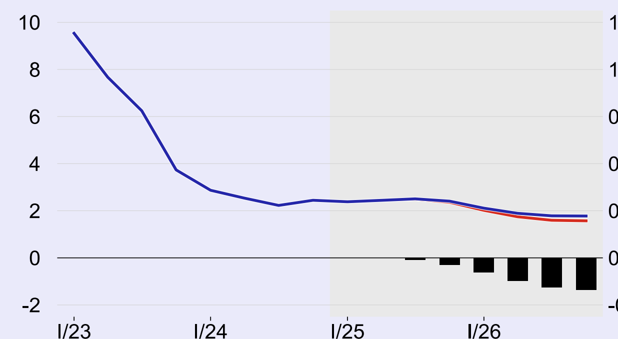
**GDP in the effective euro area**
y-o-y changes in %



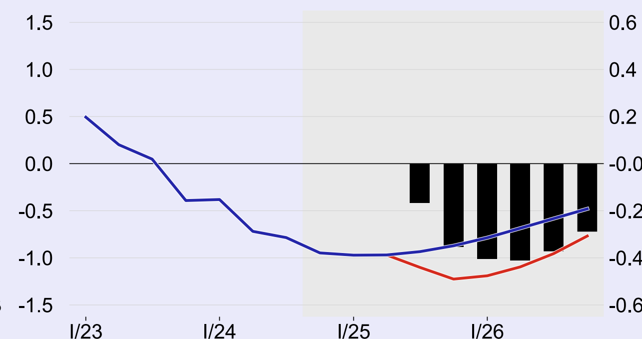

**3M EURIBOR**
%




**HICP in the effective euro area**
y-o-y changes in HICP in %




**Output gap in the effective euro area**
%




Baseline scenario
Scenario of economic downturn in euro area and higher domestic inflation
Difference (right-hand scale)

The slower growth in the effective euro area is reflected in lower output of the domestic economy than in the baseline scenario from mid-2025 onwards (see Chart 4.18). The weaker demand in the effective euro area lowers exports and corporate investment. The worse foreign trade thus fosters a weaker koruna than in the baseline scenario.

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[22] In addition to this negative demand shock, the scenario assumes that negative structural factors, reflecting the falling competitiveness of European industry, will start to manifest moderately in the longer term. These effects are reflected mainly in a drop in productivity and a modest decline in potential output growth.

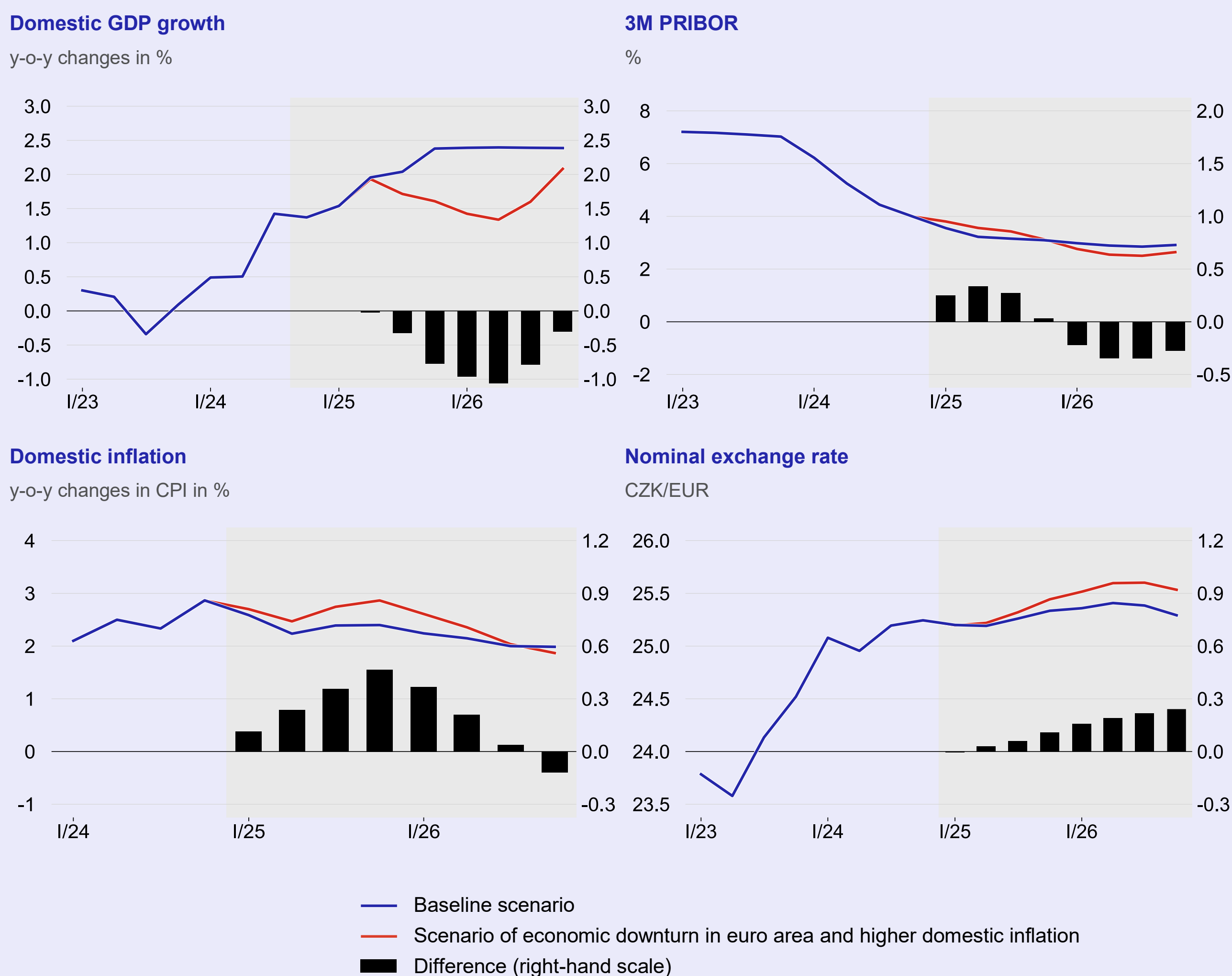
Despite the lower demand in the effective euro area, the simultaneously considered higher inflation this year due to a slower decline in service providers' profit margins and faster growth in costs from imported food commodities induces the simulation to point in a stagflationary direction compared with the baseline scenario.

Monetary policy initially responds to the higher inflation with a more gradual decline in interest rates than in the baseline scenario. The impacts of subdued demand abroad then become predominant. Together with a further easing of ECB monetary policy, they give rise a need to reduce domestic interest rates to lower levels than in the baseline scenario.

Chart 4.18

**Faster domestic price growth together with a slower recovery in the euro area give rise to a need for tighter domestic monetary policy initially and easier policy subsequently**

comparison of baseline scenario with scenario of economic downturn in euro area and higher domestic inflation



### The economic impacts of the policies announced by the new US president are an uncertainty of the forecast

The new US president has announced that after his inauguration he will impose tariffs on goods imports from a number of territories, including the EU. A tariff war would have uncertain impacts on the Czech economy. Generally, protectionist measures and customs barriers act as a supply shock, leading to higher inflation and lower GDP growth. On the other hand, US tariffs on imports of Chinese goods could boost imports of these goods to Europe, potentially fostering lower inflation.

### Beyond the scope of the forecast, the Inflation and Monetary Policy Risks Scoreboard is also indicating several upside risks to inflation

Persisting wide general government deficits are the main upside risk in the Scoreboard. Last year, the effects of the consolidation package were offset by higher flood-related spending. The expected deficit was thus in sight of the reference value of 3% of GDP for the Maastricht convergence criterion. In structural terms, the decrease in deficit will virtually halt this year and the next. The structural deficit[23] will thus be close to 2.3% of GDP, the upper limit set for this year in the Act on Budget Responsibility. This limits the room for further growth in general government expenditure. The persisting deficit also implies a still elevated contribution of general government financing to money growth (see Chart 4.11 above), which could foster an underlying inflationary environment in the domestic economy.[24]

Although the risk connected with the property price indicator, which reflects the annualised quarter-on-quarter change in the House Price Index, lessened slightly in 2024 Q3, year-on-year growth in apartment prices can be expected to have increased at the end of last year, as in the case of asking prices. The property price gap is meanwhile still assessed as a moderate risk. Likewise, the Scoreboard is indicating persisting slightly elevated inflationary risks in the case of unobserved long-term inflation.

By contrast, the financial conditions in the euro area point to lower inflation. The variables entering the index include higher central bank interest rates and a widening of the spread between short- and long-maturity bonds.

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[23] The structural balance is the cyclically adjusted balance adjusted for extraordinary one-off operations. The estimate of the cyclically adjusted balance is based on an aggregate method that defines the position of the cycle based on the output gap. Extraordinary one-off operations (e.g. revenues from the sale of emission allowances, realised guarantees, revenues from the sale of frequency bands and expenditure on flood relief) are classified according to the ESCB methodology. In contrast, the European Commission methodology for categorising extraordinary one-off operations allows for a broader coverage of extraordinary measures (e.g. expenditure on dealing with the pandemic, the energy crisis and the refugee crisis).

[24] The contribution of general government debt, including the release of central government deposits, to M3 growth averaged 2 pp from January to December 2024, as against 0.2 pp in 2010–2019.

## Appendix 1: The shadow forecast produced by the extended g3+ model

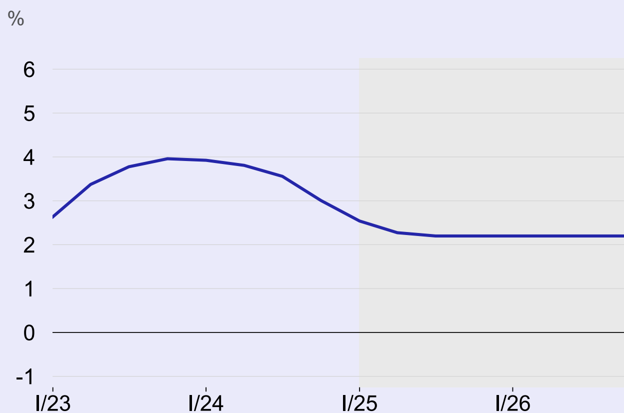
One year on, we present here the next in a series of modifications and minor extensions of the g3+ core forecasting model[1] reflecting economic developments and experience with the use of g3+. The current extended version of g3+ has been used to prepare a shadow forecast, presented in this appendix. The shadow forecast is intended to introduce the extended version of g3+ and describe its benefits and specific features, not to capture specific risks of the baseline scenario of the Winter 2025 MPR. This extended model will be the CNB's main forecasting tool starting with the Spring 2025 MPR.

### Extension of the foreign block of the g3+ model to include US interest rates

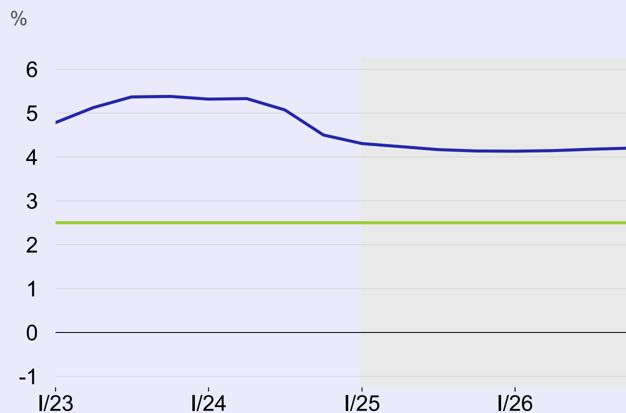
The foreign block of g3+ mainly captures economic relationships within the effective euro area but now also includes a link between the euro area and Fed monetary policy. The main change in this block is that observed US interest rates have been added to the model (see Chart 1). The model now includes the three-month Secured Overnight Financing Rate (3M US SOFR), defined in roughly the same way as its European counterpart, the 3M EURIBOR. We consider the difference between these two rates to be the main fundamental explaining the evolution of the USD/EUR cross rate. It is also a determining element of the uncovered interest parity (UIP) equation in the foreign block. The part of the USD/EUR rate that cannot be explained by the interest rate differential is interpreted as a risk premium. This premium can be divided according to degree of persistence. For the USD/EUR rate, we interpret the persistent part of the dollar risk premium as a structural premium. This enters the domestic part of the g3+ model as one of the factors driving the CZK/EUR rate. According to empirical tests, the USD/EUR and CZK/EUR cross rates are correlated, even after adjusting for interest rate differentials. When the euro strengthens (weakens) against the dollar, the koruna tends to strengthen (weaken) against the euro, usually reflecting improving (worsening) sentiment in foreign exchange markets. This relationship is modelled in g3+ using the persistent part of the risk premium derived from the UIP condition in the foreign block of the model.

Chart 1
**Selected foreign variables**
comparison of baseline scenario of forecast with shadow forecast produced by extended g3+ model

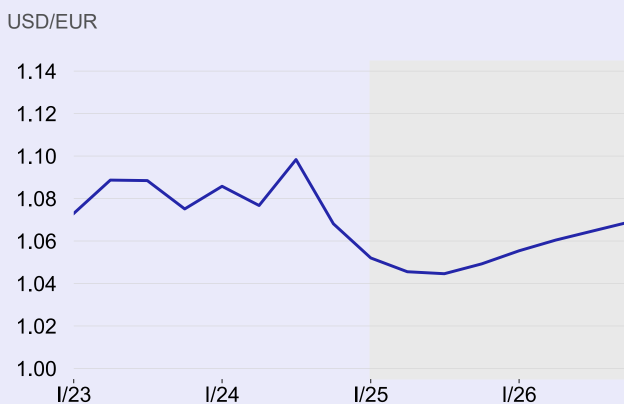
**3M EURIBOR**
%



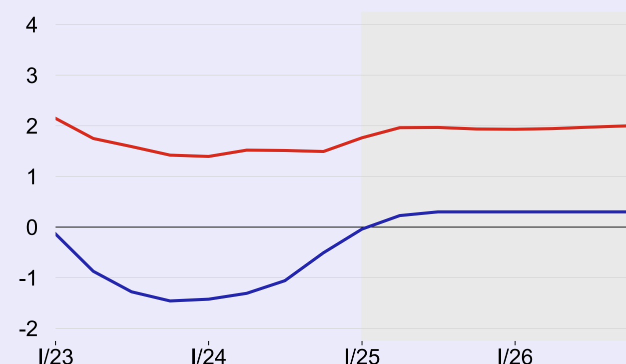

**3M US SOFR**
%




**USD/EUR exchange rate**
USD/EUR




**Interest rate differential**
percentage points; differential between 3M rates in USD and EUR




Baseline scenario of forecast
Shadow forecast
Foreign equilibrium interest rate

## Modification of the LIRE schemes

Following the structural changes made to the foreign block of g3+ a year ago, we have now modified the limited information rational expectations (LIRE) schemes[2] for foreign variables, which enter the model as external assumptions. Based on practical experience with the updated g3+ model over the past year, we have shortened the LIRE schemes from nine to seven quarters (see Table 1). Agents in the model thus now look only seven quarters into the future at any given moment in time and the outlook more than one year ahead is anticipated only partially. This modification primarily reflects the experience of the recent period of turbulence, which saw large shifts in external assumptions over the entire forecast horizon. Owing to the increased uncertainty in the economic environment, however, the true impacts of the changes in the outlooks for foreign variables tended to be smaller than the model predicted. Shortening the expectations schemes leads to a modest improvement in the model's predictive power, i.e. a reduction in the mean forecast error on the historical data.

Table 1
**Comparison of LIRE schemes for the external outlook (measure of anticipation in %)**

| | t+1 | t+2 | t+3 | t+4 | t+5 | t+6 | t+7 | t+8 | t+9 |
|---|---|---|---|---|---|---|---|---|---|
| Original LIRE scheme | 100 | 100 | 100 | 100 | 100 | 80 | 60 | 40 | 20 |
| New (shortened) scheme | 100 | 100 | 100 | 100 | 75 | 50 | 25 | - | - |

## Inclusion of the asymmetric impacts of the ECB's unconventional monetary policy

The 3M EURIBOR shadow rate concept captures the effects of the ECB's unconventional monetary policy in the foreign block of g3+, i.e. the increases and decreases in the ECB's balance sheet due to asset purchases and sales. During the stepwise discontinuation of the ECB's asset purchase programmes, an asymmetry can be seen between the effects of increases and decreases in the central bank's balance sheet. In the present phase, therefore, the impacts of asset sales on interest rates are expected to be roughly half the magnitude of those observed when the assets were purchased. This asymmetry is taken into account in the shadow forecast via an updated estimate of the unconventional component of foreign monetary policy (the shadow rate), which is around 0.4 pp lower than in the baseline scenario.

## Extension of the domestic block of the model to include interest rates with longer maturities

Another modification is that interest rates with maturities longer than three months have been added to the domestic block.[3] Specifically, the three-year Czech government bond yield was chosen (see Chart 2). This maturity broadly corresponds to the end of the CNB's forecasting horizon and is much longer than the previously used three-month interest rate (3M PRIBOR).[4] This introduces into the model a two-point yield curve that has a moderately positive slope in the steady state. The longer interest rate is modelled as a partially endogenous variable that reflects the expected 3M PRIBOR, which, however, it can deviate from due to an exogenous time premium. The longer interest rate passes through to the other parts of the domestic block via effective interest rates for households and firms. Longer rates have low weight in households' consumption decisions; short-term interest rates, from which rates on deposit accounts and short-term time deposits are derived, play a greater role. By contrast, rates with longer maturities have larger weight in investment decisions because of the multi-year planning horizons of firms (and households in the case of investment in housing).

## Modelling of time-variable equilibrium values

Starting with the Summer 2024 MPR, the equilibrium rates of economic growth and appreciation of the koruna against the euro were both lowered in the steady state of the model. These are unobserved values describing economic equilibrium in the medium term. This modification was motivated by a gradual reassessment of the equilibrium growth rates in the Czech economy's convergence process. Relationships for the "shallow" steady states of the macroeconomic variables concerned have therefore been added to the domestic block. Without these changes, the modifications to the equilibrium rates would have involved changes in the model's view of the historical data. Introducing the shallow steady states as variables and not constants makes it possible to set the historical equilibrium rates differently from the current point steady state, which applies at present and enters the forecast. This addition to the model structure mitigates undesirable effects associated with changes in estimates of long-term economic relationships.

## The shadow forecast produced by the extended g3+ model

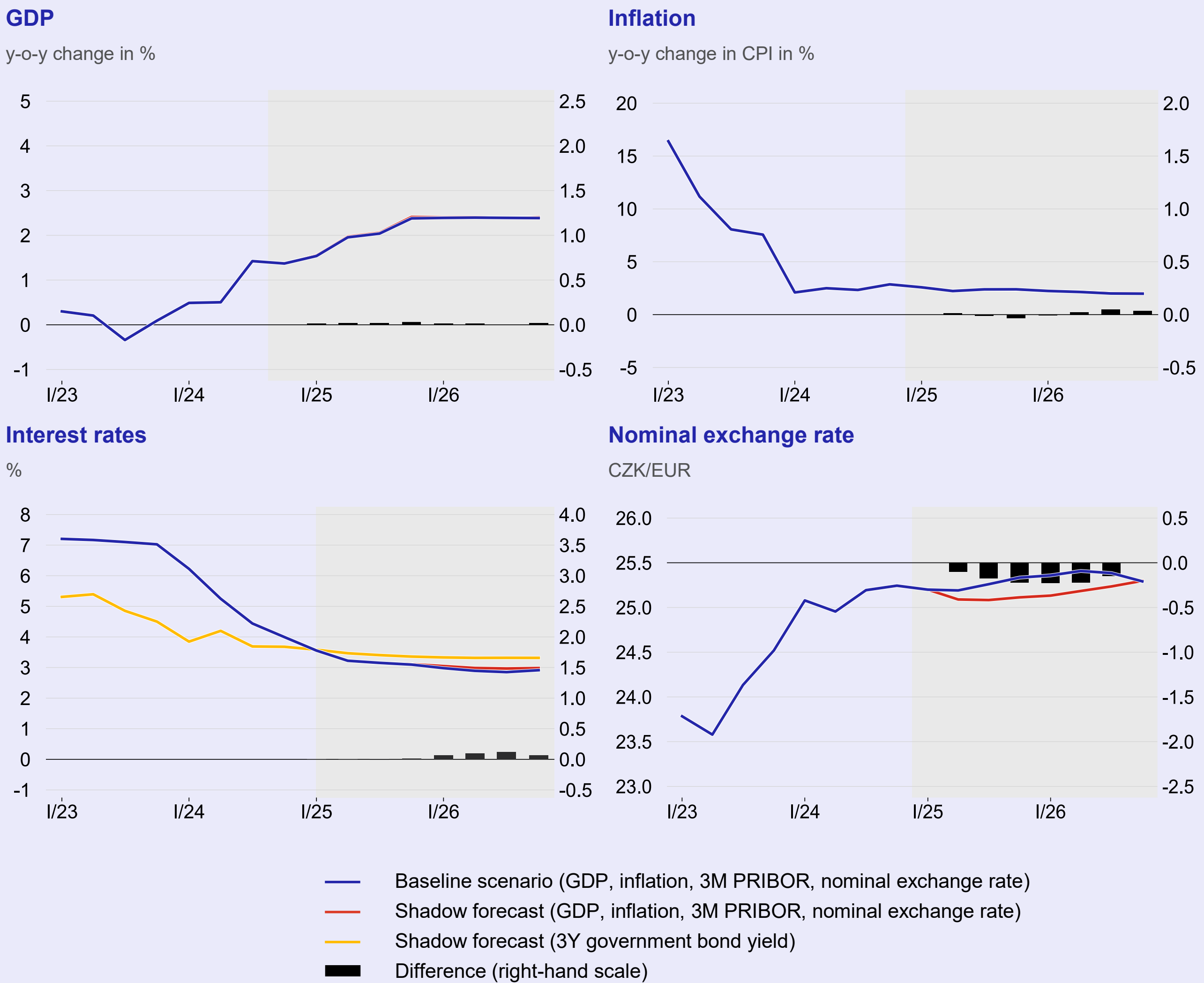
The shadow forecast is based on the same assumptions and outlooks as the baseline scenario but additionally takes the 3M US SOFR and observed historical three-year Czech government bond yields into account. The assumed 3M EURIBOR shadow rate now reflects the asymmetric approach described above. The forecast produced by the extended g3+ model assesses the current phase of the economic cycle similarly to the baseline scenario and additionally provides a projection for interest rates with longer maturities.

The main change in the structure of the foreign block is the inclusion of the observed 3M US SOFR as the counterpart of the 3M EURIBOR in the USD/EUR exchange rate equation. The implied interest rate differential between dollar and euro rates therefore has a substantially different profile than in the baseline scenario. However, this profile fits the new structure of the foreign block better and thus leads to the identification of generally smaller foreign shocks in the shadow forecast. The higher observed 3M US SOFR (relative to the previously used equilibrium euro area interest rate) now endogenously induces higher ECB interest rates. Given their same outlook, this reduces the need for the identification of restrictive monetary policy shocks in the foreign block. The more accommodative assessment of ECB monetary policy by the updated model therefore affects the domestic economy, fostering a slightly stronger koruna.[5]

The shadow forecast's view of the domestic economy and its outlook differs little from the baseline scenario. The most important change in the domestic part of the model is the addition of a longer rate (the three-year government bond yield), which is currently slightly below the 3M PRIBOR. Therefore, this change does not currently give rise to any major deviations from the baseline scenario. However, a difference is noticeable in the CZK/EUR rate path, which mostly reflects the changes in the foreign block of the model (primarily the interest rate differential). The koruna is thus roughly 20 hellers stronger at the outlook horizon than in the baseline scenario.

Chart 2
**Shadow forecast of the main domestic variables**

comparison of baseline scenario of forecast with shadow forecast produced by extended g3+ model



[1] The extended g3+ core forecasting model was unveiled in an attachment to Inflation Report III/2019. The main features of the model are described in F. Brázdik, T. Hlédik, Z. Humplová, I. Martonosi, K. Musil, J. Ryšánek, T. Šestořád, J. Tonner, S. Tvrz, J. Žáček: The g3+ model: an upgrade of the Czech National Bank's core forecasting framework, CNB WP 7/2020. The modelling framework for the CNB's forecasts is described in detail in CNB's Forecasting and Policy Analyses System: Forecasting Tools in the context of an external review of the CNB's monetary policy analytical and modelling framework. The previous g3+ update was presented in an appendix to the Winter 2024 Monetary Policy Report.

[2] The properties of the LIRE concept are described in K. Musil, S. Tvrz, J. Vlček: News versus surprise in structural forecasting models: Central bankers' practical perspective, CNB Research and Policy Notes 2/2021.

[3] The extension of the core forecasting model to include rates with longer maturities builds on the findings and conclusions in F. Brázdik, K. Musil, S. Tvrz: Implementing yield curve control measures into the CNB core forecasting model, CNB WP 8/2023.

[4] Much longer maturities, for example the ten-year government bond yield, were also considered for use as the representative long-term rate. With increasing maturity, however, the relationship between such a long interest rate and the CNB's policy rates gets looser, because long-term rates tend to reflect the global monetary policy stance and outlook. Although these rates are economically significant (for example, mortgage rates are tied to 5–10-year rates), they play only a minor role in terms of monetary policy.

[5] The effects of introducing US interest rates into g3+ on the forecast for the domestic economy thus cannot be treated as an independent impulse response to a shock to US interest rates. This is because the outlooks for effective euro area variables are the same in the shadow forecast and the baseline scenario only with the addition of US rates to the information set. The change in the structure of the model in the foreign block implies a generally different combination of all foreign shocks explaining both the history to date and the outlook for foreign variables.

## Appendix 2: The net wage in recent years

Labour income strongly affects households' purchasing power and serves as an indicator of the strength of demand-pull inflationary pressures. It is normally captured using the average gross monthly wage. However, this may not be a sufficient measure from the longer historical perspective. If the previous period saw legislative changes that subsequently affected total labour taxation (personal income tax and health and social insurance) and thus also net income, the gross wage may not faithfully capture the purchasing power of households. Moreover, households' real purchasing power is affected by the change in the price level over time (inflation) in addition to net nominal income. This appendix therefore summarises the relevant legislative changes and their effects on the nominal and real net wage.[1]

A whole range of discretionary fiscal measures have affected nominal net wage growth since 2008. Table 1 provides an overview of tax and non-tax changes.

Table 1
**Overview of fiscal measures affecting the net wage and the changes made to them in 2008–2025**

<table>
<tr><th>Year</th><th>Rate of personal income tax</th><th>Higher rate of personal income tax</th><th>Threshold for higher rate of annual income (multiple of average monthly wage)</th><th>Personal income tax base</th><th>Deduction of personal income tax per taxpayer (annually)</th><th>Social insurance paid by the employee</th><th>Health insurance paid by the employee</th></tr>
<tr><td>2008</td><td rowspan="18">15%</td><td rowspan="5">-</td><td rowspan="5">-</td><td rowspan="13">Super-gross wage</td><td rowspan="3">24,840</td><td>8.0%</td><td rowspan="18">4.5%</td></tr>
<tr><td>2009</td><td rowspan="15">6.5%</td></tr>
<tr><td>2010</td></tr>
<tr><td>2011</td><td>23,640</td></tr>
<tr><td>2012</td><td rowspan="9">24,840</td></tr>
<tr><td>2013</td><td rowspan="8">+7% (22%)</td><td rowspan="11">48 (multiple of four)</td></tr>
<tr><td>2014</td></tr>
<tr><td>2015</td></tr>
<tr><td>2016</td></tr>
<tr><td>2017</td></tr>
<tr><td>2018</td></tr>
<tr><td>2019</td></tr>
<tr><td>2020</td></tr>
<tr><td>2021</td><td rowspan="5">23%</td><td rowspan="5">Gross wage</td><td>27,840</td></tr>
<tr><td>2022</td><td rowspan="4">30,840</td></tr>
<tr><td>2023</td></tr>
<tr><td>2024</td><td rowspan="2">36 (multiple of three)</td><td rowspan="2">7.1%</td></tr>
<tr><td>2025</td></tr>
</table>

In 2008, the multiple income tax bands were replaced by a flat tax rate. The basic rate of personal income tax remained unchanged over the entire period (at 15%). However, a "solidarity tax" (a surtax) was introduced in 2013. This involved an additional tax rate applied to high-income individuals: persons with an annual income of more than 48 times the average monthly wage were taxed an extra 7% on their income above this threshold. This portion of their income was therefore subject to an overall tax rate of 22%. In 2021, the solidarity tax was abolished and replaced with a progressive tax schedule, with income of less than 48 times the average monthly wage taxed at 15% and income above this threshold at 23%. This raised the (marginal) rate on high incomes by 1 pp. The definition of high-income individuals was itself tightened in 2024, as the threshold for higher taxation was reduced to annual income of 36 times the average monthly wage[2] (converted to monthly income, the threshold was lowered from four times to three times the average monthly wage). The net wage of high-income individuals traditionally reflects the ceiling set for the payment of social insurance (the maximum assessment base). No social insurance is paid on income above this ceiling, or rather on the accumulated amount of such income in the given year. High-income individuals therefore have a lower effective social insurance rate. The most recent measure is the introduction in 2025 of a deduction from the employee assessment base (6.5% a month) for social security contributions for working pensioners (employees who have reached retirement age, are drawing a retirement pension and are entitled under the law to a full old-age pension).

The personal income tax calculation base was increased in 2009 by the introduction of the super-gross wage, i.e. the employee's gross wage plus the health and social security contributions that the employer pays per employee per month.

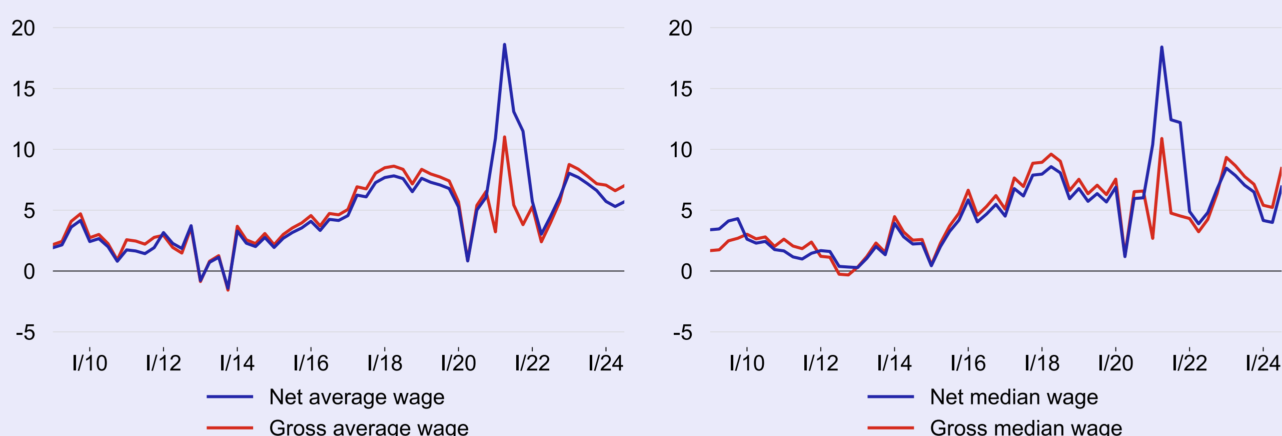
This measure was abolished in 2021, resulting in an increase in the net wage due to a reduced tax calculation base (the effective tax rate fell de facto by about 5 pp). With the exception of 2011, the tax deduction per taxpayer has also been increasing steadily. In 2024, sickness insurance contributions paid by employees were reintroduced as well (at 0.6% of the gross wage). This was reflected in an increase in the total social insurance rate. The rate for health insurance contributions paid by employees has been unchanged since 2008.

Chart 1 shows how these legislative changes have been reflected in the difference in levels and year-on-year growth of the average net and gross wage. It is clear from the aggregated average wage values that the most significant change in the last 15 years or more was the change in the personal income tax assessment base from the super-gross to the gross wage. The reduction of the assessment base caused a sizeable drop in taxes paid, leading to distinctly faster growth in households' net income. Year-on-year median wage growth (see Chart 2) more visibly reflects other changes that affected the net wage. These included in particular a reduction of the rate for social insurance contributions paid by employees, which significantly increased net wage growth in 2009. The increase in this rate in 2024 had a large effect in the opposite direction. A difference in the growth rates is also visible in 2011, caused by the change in the deduction of personal income tax per taxpayer. However, the abolition of the super-gross wage as the tax base remains the biggest milestone. It contributed to double-digit year-on-year growth in the net wages of median-income households.

Charts 1 and 2

**Comparison of net and gross wage growth**

y-o-y growth in %



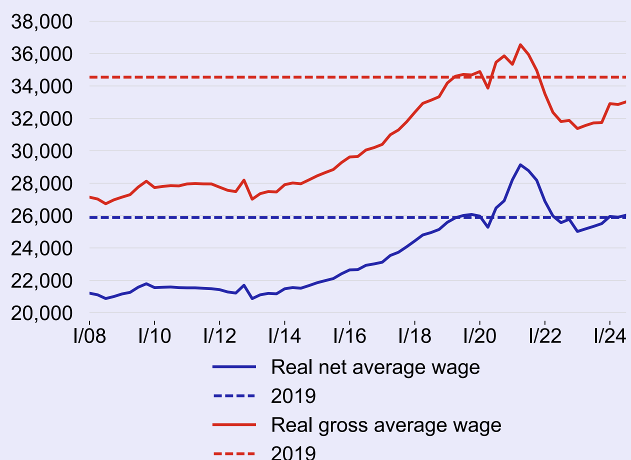

However, the purchasing power of households is determined by the price level as well as income. Charts 3 and 4 therefore show the evolution of the real wage, i.e. the figures adjusted for the change in the consumer price index (CPI). Inflation has the same effect on the net wage and the gross wage. In the case of the real net wage, however, the loss of purchasing power caused by high inflation was partially offset by a reduction in taxes paid to the government due to the legislative changes described above (in particular, the reduction of the personal income tax assessment base in 2021). The decline in the real net (average and median) wage in 2021 and 2022 was thus not as large as that in the real gross wage. According to the forecast contained in the Winter 2025 MPR, the real gross wage will not return to its pre-pandemic 2019 level until 2026, while the real net wage has already reached its 2019 level. While the gross real wage in 2024 Q3 was 4.4% lower on average (and 2.4% lower in median terms) than in 2019, the net real wage was already 0.6% higher on average and even 2.5% higher in median terms.

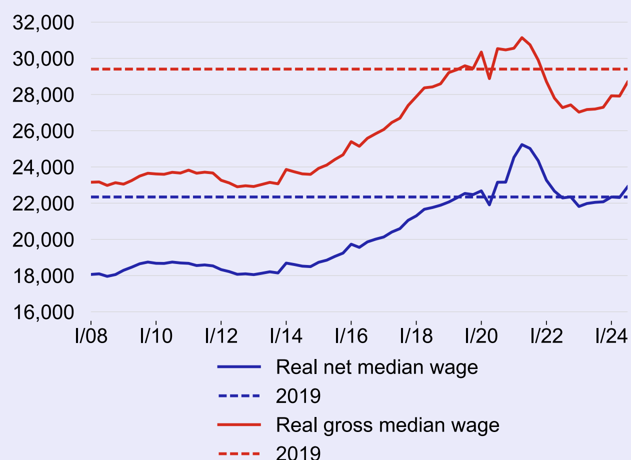
This simplified computation thus indicates that the labour income of Czech employees has a similar purchasing power on average as it did before the substantial shocks of recent years. It offers new insights into the real income situation of Czech households. First, more than half of them now have greater real purchasing power than they did in 2019, which simultaneously helps to explain the still elevated saving rate. So, thanks to a combination of subdued consumption and solid net income, households naturally saved more. Second, the evolution of net income is an important piece of information for monetary policy. Policymakers should cautiously monitor the potential inflationary pressures arising from households' rapidly recovering consumption. The growth in net income gives this consumption somewhere to stem from.

Charts 3 and 4

**Average and median real wage compared to 2019**

monthly real wage in CZK adjusted for CPI; CPI: 2019 = 100

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[1] This calculation serves to illustrate the paths of the gross and net wage, which differed in the past due to changes in the taxation of personal income. It is not an exact calculation of the evolution of the net wage for the average taxpayer, because the net wage can differ even for taxpayers that have the same gross wage due to tax deductions applied by these taxpayers (such as the child deduction).

[2] The average monthly wage is set by government regulation. For 2024, it was set at CZK 43,967. The threshold for the higher tax rate was therefore CZK 1,582,812 of gross income, which equates to CZK 131,901 a month.

# ABBREVIATIONS

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

# KEY MACROECONOMIC INDICATORS

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **DEMAND AND SUPPLY** | | | | | | | | | | | | |
| ***Gross domestic product*** | | | | | | | | | | | | |
| GDP (CZK bn, current p., seas. adjusted ) | 4653.8 | 4841.1 | 5185.3 | 5481.3 | 5891.4 | 5830.0 | 6306.1 | 7048.5 | 7626.5 | **8016.8** | **8396.2** | **8782.6** |
| GDP (%, y-o-y, real terms, seas. adjusted) | 5.0 | 2.5 | 5.3 | 2.8 | 3.5 | -5.3 | 4.0 | 2.9 | 0.1 | **0.9** | **2.0** | **2.4** |
| GDP (%, q-o-q, real terms, seas. adjusted ) | - | - | - | - | - | - | - | - | - | **-** | **-** | **-** |
| Household consumption (%, y-o-y, real terms, seas. adjusted) | 3.7 | 3.5 | 4.5 | 3.4 | 3.0 | -6.6 | 4.1 | 0.4 | -2.8 | **1.7** | **2.5** | **2.7** |
| Government consumption (%, y-o-y, real terms, seas. adjusted) | 1.8 | 2.4 | 1.7 | 3.5 | 2.6 | 4.1 | 1.5 | 0.4 | 3.4 | **3.5** | **1.3** | **0.9** |
| Gross capital formation (%, y-o-y, real terms, seas. adjusted) | 11.7 | -3.8 | 5.6 | 6.3 | 5.6 | -9.3 | 18.4 | 10.2 | -6.3 | **-3.9** | **5.3** | **3.8** |
| Gross fixed capital formation (%, y-o-y, real terms, seas. adjusted) | 8.9 | -2.1 | 3.1 | 8.9 | 7.4 | -4.8 | 6.7 | 6.3 | 2.7 | **-0.3** | **2.2** | **2.9** |
| Exports of goods and services (%, y-o-y, real terms, seas. adjusted) | 6.1 | 3.9 | 7.5 | 3.5 | 1.2 | -8.6 | 8.0 | 5.2 | 3.1 | **2.0** | **3.9** | **4.5** |
| Imports of goods and services (%, y-o-y, real terms, seas. adjusted) | 6.7 | 2.4 | 6.3 | 5.5 | 1.2 | -8.5 | 13.6 | 6.0 | -0.6 | **1.2** | **5.5** | **5.0** |
| Net exports (percentage points, contributions to GDP growth) | -0.1 | 1.4 | 1.4 | -1.1 | 0.1 | -0.6 | -2.8 | -0.3 | 2.7 | **0.6** | **-0.8** | **-0.1** |
| **PRICES** | | | | | | | | | | | | |
| ***Main price indicators*** | | | | | | | | | | | | |
| Consumer Price Index (%, y-o-y, average) | 0.3 | 0.7 | 2.5 | 2.1 | 2.8 | 3.2 | 3.8 | 15.1 | 10.7 | 2.4 | **2.4** | **2.1** |
| Administered prices (%, y-o-y, average, 15.01%*) | 0.0 | 0.2 | 0.0 | 1.8 | 4.4 | 3.1 | -0.2 | 20.9 | 27.8 | 6.3 | **1.1** | **2.3** |
| Food prices (incl. alcoholic beverages and tobacco, %, y-o-y, average, 26.21%*) | 0.1 | 0.2 | 3.7 | 1.6 | 2.6 | 4.2 | 2.1 | 12.9 | 10.0 | 0.7 | **2.9** | **2.1** |
| Core inflation (%, y-o-y, average, 55.27%*) | 1.2 | 1.2 | 2.4 | 2.1 | 2.7 | 3.3 | 4.8 | 13.2 | 7.6 | 2.5 | **2.5** | **2.1** |
| Fuel prices (%, y-o-y, average, 3.51%*) | -13.5 | -8.5 | 6.7 | 6.3 | -0.4 | -11.4 | 16.7 | 33.6 | -12.1 | -0.8 | **-1.2** | **-3.3** |
| Monetary policy-relevant inflation (%, y-o-y, average) | 0.2 | 0.5 | 2.5 | 2.1 | 2.9 | 3.2 | 3.9 | 14.6 | 10.6 | 2.3 | **2.2** | **2.0** |
| ***Partial price indicators*** | | | | | | | | | | | | |
| Industrial producer prices (%, y-o-y, average) | -3.2 | -3.3 | 1.8 | 2.0 | 2.6 | 0.1 | 7.1 | 24.3 | 5.0 | 0.8 | **1.1** | **1.1** |
| Agricultural prices (%, y-o-y, average) | -5.9 | -5.8 | 7.4 | -0.1 | 5.4 | -3.8 | 7.4 | 31.8 | -5.5 | -6.6 | **5.2** | **-2.3** |
| GDP deflator (%, y-o-y, seas. adjusted) | 1.2 | 1.5 | 1.7 | 2.8 | 3.8 | 4.5 | 4.0 | 8.7 | 8.1 | **4.1** | **2.7** | **2.2** |
| **LABOUR MARKET** | | | | | | | | | | | | |
| Average monthly wage (%, y-o-y, nominal terms) | 3.2 | 4.4 | 6.7 | 8.2 | 7.9 | 4.6 | 5.8 | 4.3 | 8.0 | **6.9** | **6.1** | **5.0** |
| Average monthly wage in market sectors (%, y-o-y, nominal terms) | 3.2 | 4.3 | 6.7 | 7.7 | 7.6 | 4.1 | 6.1 | 4.7 | 8.4 | **7.7** | **6.2** | **5.2** |
| Average monthly wage in non-market sectors (%, y-o-y, nominal terms) | 3.3 | 4.8 | 7.1 | 10.2 | 9.2 | 6.9 | 4.4 | 2.6 | 6.0 | **3.4** | **5.9** | **4.1** |
| Average monthly wage (%, y-o-y, real terms) | 2.8 | 3.7 | 4.1 | 5.9 | 4.9 | 1.4 | 2.0 | -9.3 | -2.4 | **4.4** | **3.7** | **2.8** |
| Unit labour costs (%, y-o-y) | 0.1 | 3.0 | 3.8 | 6.5 | 4.2 | 5.9 | 3.1 | 6.1 | 7.8 | **5.1** | **4.2** | **2.7** |
| Aggregate labour productivity (%, y-o-y) | 3.5 | 1.5 | 3.8 | 1.7 | 3.7 | -3.0 | 3.0 | 1.8 | -1.1 | **0.7** | **1.6** | **2.0** |
| ILO general unemployment rate (%, average, age 15–64, seas. adjusted) | 5.1 | 4.0 | 2.9 | 2.2 | 2.0 | 2.6 | 2.8 | 2.2 | 2.6 | **2.7** | **2.8** | **3.0** |
| Share of unemployed persons (MLSA, %, average, seas. adjusted) | 6.5 | 5.5 | 4.2 | 3.2 | 2.8 | 3.6 | 3.8 | 3.4 | 3.6 | **3.8** | **4.1** | **4.2** |
| Employment (ILO, %, y-o-y) | 1.3 | 1.8 | 1.5 | -1.4 | 0.1 | -1.4 | 0.3 | -1.6 | 1.5 | **2.6** | **0.1** | **0.4** |
| Full-time employment (%, y-o-y) | 2.1 | 1.8 | 2.2 | 1.5 | -0.3 | -1.7 | 0.2 | 0.7 | -0.1 | **0.1** | **0.1** | **0.2** |
| **PUBLIC FINANCE** | | | | | | | | | | | | |
| Government budget balance (ESA2010, CZK bn, current prices) | -31.0 | 33.2 | 75.6 | 48.3 | 16.7 | -329.3 | -312.3 | -216.3 | -288.1 | **-207.3** | **-199.7** | **-199.5** |
| Government budget balance/GDP** (%, nominal terms) | -0.7 | 0.7 | 1.5 | 0.9 | 0.3 | -5.6 | -5.0 | -3.1 | -3.8 | **-2.6** | **-2.4** | **-2.3** |
| Structural balance/GDP (%, nominal terms) | -0.9 | 0.1 | 0.8 | 0.4 | -0.5 | -5.8 | -5.3 | -3.2 | -3.4 | **-2.2** | **-2.3** | **-2.2** |
| Government debt (ESA2010, CZK bn, current prices) | 1836.0 | 1754.7 | 1749.7 | 1734.6 | 1740.3 | 2149.7 | 2566.8 | 2997.6 | 3234.0 | **3484.1** | **3716.2** | **3947.5** |
| Government debt/GDP** (%, nominal terms) | 39.5 | 36.2 | 33.8 | 31.7 | 29.6 | 36.9 | 40.7 | 42.5 | 42.4 | **43.4** | **44.2** | **44.9** |
| **EXTERNAL RELATIONS** | | | | | | | | | | | | |
| ***Current account*** | | | | | | | | | | | | |
| Goods and services, net (CZK bn, current prices) | 274.3 | 365.1 | 394.2 | 332.6 | 358.4 | 388.8 | 232.2 | 75.9 | 383.8 | **524.0** | **432.9** | **478.9** |
| Current account (CZK bn, current prices) | 20.7 | 85.2 | 79.8 | 21.5 | 19.6 | 102.5 | -129.7 | -330.3 | 23.7 | **96.5** | **25.1** | **58.0** |
| Current account/GDP (%, nominal terms) | 0.4 | 1.8 | 1.5 | 0.4 | 0.3 | 1.8 | -2.1 | -4.7 | 0.3 | **1.2** | **0.3** | **0.7** |
| ***Foreign direct investment*** | | | | | | | | | | | | |
| Direct investment (CZK bn, current prices) | 49.7 | -186.5 | -45.9 | -51.0 | -137.1 | -149.1 | -28.5 | -83.5 | -16.3 | **-10.0** | **-20.0** | **10.0** |
| ***Exchange rates*** | | | | | | | | | | | | |
| CZK/USD (average) | 24.6 | 24.4 | 23.4 | 21.7 | 22.9 | 23.2 | 21.7 | 23.4 | 22.2 | 23.2 | **24.1** | **23.9** |
| CZK/EUR (average) | 27.3 | 27.0 | 26.3 | 25.6 | 25.7 | 26.5 | 25.6 | 24.6 | 24.0 | 25.1 | **25.2** | **25.4** |
| **MONEY AND INTEREST RATES** | | | | | | | | | | | | |
| M3 (%, y-o-y, average) | 7.3 | 9.1 | 11.7 | 6.6 | 6.3 | 9.0 | 9.6 | 6.4 | 9.0 | 6.3 | **8.3** | **7.6** |
| 2W repo rate (%, average) | 0.1 | 0.1 | 0.2 | 1.1 | 1.9 | 0.8 | 0.9 | 5.9 | 7.0 | 5.1 | **3.3** | **2.9** |
| 3M PRIBOR (%, average) | 0.3 | 0.3 | 0.4 | 1.3 | 2.1 | 0.9 | 1.1 | 6.3 | 7.1 | 5.0 | **3.3** | **2.9** |
| **EXTERNAL ASSUMPTIONS** | | | | | | | | | | | | |
| Foreign GDP (%, y-o-y, real terms, seas. adjusted, effective EA) | 2.0 | 2.0 | 2.8 | 1.7 | 1.4 | -5.3 | 4.8 | 2.1 | 0.4 | **0.4** | **0.6** | **1.2** |
| Foreign GDP (%, q-o-q, real terms, seas. adjusted, effective EA) | - | - | - | - | - | - | - | - | - | **-** | **-** | **-** |
| Foreign HICP (%, y-o-y, seas. adjusted, effective EA) | 0.4 | 0.2 | 1.6 | 2.0 | 1.5 | 0.6 | 2.9 | 8.9 | 6.7 | **2.5** | **2.4** | **1.9** |
| Foreign PPI (%, y-o-y, seas. adjusted, effective EA) | -2.3 | -2.2 | 2.4 | 3.1 | 1.1 | -1.3 | 9.6 | 32.8 | 2.8 | **-5.5** | **1.6** | **0.2** |
| Brent crude oil (in USD/barrel, average) | 53.6 | 45.0 | 54.8 | 71.5 | 64.2 | 43.2 | 70.8 | 98.9 | 82.2 | 79.8 | **74.2** | **71.0** |
| 3M EURIBOR (%, average) | 0.0 | -0.3 | -0.3 | -0.3 | -0.4 | -0.4 | -0.5 | 0.3 | 3.4 | 3.6 | **2.3** | **2.2** |
| USD/EUR (average) | 1.11 | 1.11 | 1.13 | 1.18 | 1.12 | 1.14 | 1.18 | 1.05 | 1.08 | 1.08 | **1.05** | **1.06** |

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

# KEY MACROECONOMIC INDICATORS

| | 2024 | | | | 2025 | | | | 2026 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | QI | QII | QIII | QIV | QI | QII | QIII | QIV | QI | QII | QIII | QIV |
| **DEMAND AND SUPPLY** | | | | | | | | | | | | |
| ***Gross domestic product*** | | | | | | | | | | | | |
| GDP (CZK bn, current p., seas. adjusted ) | 1964.5 | 1997.2 | 2015.9 | **2039.2** | **2062.7** | **2085.8** | **2111.6** | **2136.1** | **2159.4** | **2182.2** | **2208.2** | **2232.9** |
| GDP (%, y-o-y, real terms, seas. adjusted) | 0.5 | 0.5 | 1.4 | **1.4** | **1.5** | **2.0** | **2.0** | **2.4** | **2.4** | **2.4** | **2.4** | **2.4** |
| GDP (%, q-o-q, real terms, seas. adjusted ) | 0.4 | 0.2 | 0.5 | **0.2** | **0.6** | **0.6** | **0.6** | **0.6** | **0.6** | **0.6** | **0.6** | **0.6** |
| Household consumption (%, y-o-y, real terms, seas. adjusted) | 1.7 | 0.8 | 2.2 | **2.0** | **2.0** | **2.7** | **2.6** | **2.9** | **2.8** | **2.7** | **2.6** | **2.6** |
| Government consumption (%, y-o-y, real terms, seas. adjusted) | 3.4 | 4.5 | 3.3 | **3.1** | **2.3** | **0.9** | **1.2** | **0.9** | **1.0** | **1.0** | **0.9** | **0.7** |
| Gross capital formation (%, y-o-y, real terms, seas. adjusted) | -9.7 | -6.9 | -3.1 | **4.9** | **5.4** | **6.7** | **4.5** | **4.5** | **4.2** | **4.0** | **3.7** | **3.3** |
| Gross fixed capital formation (%, y-o-y, real terms, seas. adjusted) | -0.2 | 0.2 | -0.8 | **-0.2** | **1.7** | **0.9** | **3.1** | **3.1** | **3.1** | **3.1** | **2.8** | **2.7** |
| Exports of goods and services (%, y-o-y, real terms, seas. adjusted) | -0.1 | 0.6 | 4.0 | **3.4** | **4.1** | **4.2** | **3.3** | **3.9** | **4.2** | **4.4** | **4.6** | **4.7** |
| Imports of goods and services (%, y-o-y, real terms, seas. adjusted) | -2.9 | -1.2 | 3.4 | **5.7** | **6.4** | **6.4** | **4.4** | **4.8** | **5.0** | **5.0** | **5.0** | **4.9** |
| Net exports (percentage points, contributions to GDP growth) | 1.9 | 1.2 | 0.6 | **-1.2** | **-1.1** | **-1.1** | **-0.5** | **-0.4** | **-0.3** | **-0.2** | **0.0** | **0.1** |
| **PRICES** | | | | | | | | | | | | |
| ***Main price indicators*** | | | | | | | | | | | | |
| Consumer Price Index (%, y-o-y, average) | 2.1 | 2.5 | 2.3 | 2.9 | **2.6** | **2.2** | **2.4** | **2.4** | **2.2** | **2.1** | **2.0** | **2.0** |
| Administered prices (%, y-o-y, average, 15.01%*) | 6.2 | 5.9 | 5.8 | 7.4 | **1.1** | **0.5** | **1.4** | **1.2** | **2.5** | **2.6** | **2.0** | **2.0** |
| Food prices (incl. alcoholic beverages and tobacco, %, y-o-y, average, 26.21%*) | -1.1 | 0.1 | 1.2 | 2.8 | **3.6** | **3.0** | **2.4** | **2.4** | **2.5** | **2.1** | **1.9** | **2.0** |
| Core inflation (%, y-o-y, average, 55.27%*) | 2.8 | 2.4 | 2.3 | 2.3 | **2.5** | **2.5** | **2.5** | **2.5** | **2.2** | **2.1** | **2.1** | **2.1** |
| Fuel prices (%, y-o-y, average, 3.51%*) | 0.4 | 7.4 | -3.6 | -7.3 | **-2.6** | **-3.7** | **0.2** | **1.2** | **-3.7** | **-3.5** | **-3.3** | **-2.7** |
| Monetary policy-relevant inflation (%, y-o-y, average) | 2.1 | 2.4 | 2.2 | 2.8 | **2.4** | **2.1** | **2.2** | **2.2** | **2.1** | **2.0** | **1.9** | **1.9** |
| ***Partial price indicators*** | | | | | | | | | | | | |
| Industrial producer prices (%, y-o-y, average) | -0.9 | 1.1 | 1.2 | 1.8 | **0.3** | **1.1** | **1.7** | **1.5** | **1.3** | **1.2** | **1.1** | **1.0** |
| Agricultural prices (%, y-o-y, average) | -17.3 | -10.4 | -1.5 | 5.3 | **7.0** | **8.4** | **6.7** | **-0.9** | **-2.6** | **-2.8** | **-2.1** | **-1.7** |
| GDP deflator (%, y-o-y, seas. adjusted) | 4.1 | 4.1 | 3.9 | **4.4** | **3.4** | **2.4** | **2.7** | **2.3** | **2.2** | **2.2** | **2.1** | **2.1** |
| **LABOUR MARKET** | | | | | | | | | | | | |
| Average monthly wage (%, y-o-y, nominal terms) | 7.3 | 6.5 | 7.0 | **7.0** | **6.3** | **6.5** | **6.0** | **5.8** | **5.3** | **5.0** | **4.8** | **4.7** |
| Average monthly wage in market sectors (%, y-o-y, nominal terms) | 8.2 | 7.3 | 7.7 | **7.6** | **6.2** | **6.6** | **6.1** | **5.9** | **5.6** | **5.3** | **5.0** | **4.8** |
| Average monthly wage in non-market sectors (%, y-o-y, nominal terms) | 2.6 | 2.9 | 3.7 | **4.3** | **6.4** | **6.4** | **5.8** | **5.3** | **4.2** | **4.0** | **4.0** | **4.0** |
| Average monthly wage (%, y-o-y, real terms) | 5.1 | 4.0 | 4.6 | **4.0** | **3.6** | **4.2** | **3.5** | **3.3** | **3.0** | **2.8** | **2.8** | **2.7** |
| Unit labour costs (%, y-o-y) | 6.4 | 4.9 | 4.4 | **4.7** | **4.4** | **4.7** | **4.0** | **3.5** | **3.0** | **2.8** | **2.6** | **2.5** |
| Aggregate labour productivity (%, y-o-y) | -0.3 | 0.5 | 1.6 | **0.9** | **0.8** | **1.7** | **1.7** | **2.0** | **2.0** | **2.0** | **2.0** | **2.0** |
| ILO general unemployment rate (%, average, age 15–64, seas. adjusted) | 2.7 | 2.6 | 2.6 | **2.7** | **2.7** | **2.8** | **2.8** | **2.9** | **3.0** | **3.0** | **3.0** | **3.0** |
| Share of unemployed persons (MLSA, %, average, seas. adjusted) | 3.7 | 3.8 | 3.9 | **4.0** | **4.1** | **4.1** | **4.1** | **4.2** | **4.2** | **4.2** | **4.2** | **4.2** |
| Employment (ILO, %, y-o-y) | 3.8 | 2.0 | 2.3 | **2.4** | **-0.5** | **0.4** | **0.4** | **0.3** | **0.4** | **0.4** | **0.4** | **0.4** |
| Full-time employment (%, y-o-y) | 0.0 | 0.0 | 0.2 | **0.2** | **0.1** | **0.1** | **0.1** | **0.2** | **0.2** | **0.2** | **0.2** | **0.2** |
| **PUBLIC FINANCE** | | | | | | | | | | | | |
| Government budget balance (ESA2010, CZK bn, current prices) | - | - | - | - | - | - | - | - | - | - | - | - |
| Government budget balance/GDP** (%, nominal terms) | - | - | - | - | - | - | - | - | - | - | - | - |
| Structural balance/GDP (%, nominal terms) | - | - | - | - | - | - | - | - | - | - | - | - |
| Government debt (ESA2010, CZK bn, current prices) | - | - | - | - | - | - | - | - | - | - | - | - |
| Government debt/GDP** (%, nominal terms) | - | - | - | - | - | - | - | - | - | - | - | - |
| **EXTERNAL RELATIONS** | | | | | | | | | | | | |
| ***Current account*** | | | | | | | | | | | | |
| Goods and services, net (CZK bn, current prices) | 160.5 | 151.2 | 102.9 | **109.4** | **145.0** | **121.0** | **85.8** | **81.0** | **152.4** | **132.5** | **99.2** | **94.8** |
| Current account (CZK bn, current prices) | 100.2 | -8.5 | -9.4 | **14.2** | **93.5** | **-7.1** | **-41.6** | **-19.7** | **93.5** | **-1.8** | **-30.5** | **-3.3** |
| Current account/GDP (%, nominal terms) | 5.4 | -0.4 | -0.5 | **0.7** | **4.8** | **-0.3** | **-1.9** | **-0.9** | **4.6** | **-0.1** | **-1.4** | **-0.1** |
| ***Foreign direct investment*** | | | | | | | | | | | | |
| Direct investment (CZK bn, current prices) | -37.9 | 19.0 | -20.3 | **39.3** | **-5.0** | **-5.0** | **-5.0** | **-5.0** | **2.5** | **2.5** | **2.5** | **2.5** |
| ***Exchange rates*** | | | | | | | | | | | | |
| CZK/USD (average) | 23.1 | 23.2 | 22.9 | 23.7 | **24.0** | **24.1** | **24.2** | **24.1** | **24.0** | **24.0** | **23.8** | **23.7** |
| CZK/EUR (average) | 25.1 | 25.0 | 25.2 | 25.2 | **25.2** | **25.2** | **25.3** | **25.3** | **25.4** | **25.4** | **25.4** | **25.3** |
| **MONEY AND INTEREST RATES** | | | | | | | | | | | | |
| M3 (%, y-o-y, average) | 7.9 | 5.7 | 5.8 | 5.9 | **7.0** | **8.2** | **9.0** | **9.0** | **8.4** | **7.7** | **7.1** | **7.1** |
| 2W repo rate (%, average) | 6.4 | 5.4 | 4.6 | 4.1 | **3.7** | **3.3** | **3.2** | **3.1** | **3.0** | **2.9** | **2.9** | **2.9** |
| 3M PRIBOR (%, average) | 6.2 | 5.2 | 4.4 | 4.0 | **3.6** | **3.2** | **3.2** | **3.1** | **3.0** | **2.9** | **2.9** | **2.9** |
| **EXTERNAL ASSUMPTIONS** | | | | | | | | | | | | |
| Foreign GDP (%, y-o-y, real terms, seas. adjusted, effective EA) | 0.5 | 0.3 | 0.3 | **0.4** | **0.3** | **0.6** | **0.6** | **0.9** | **1.0** | **1.2** | **1.3** | **1.4** |
| Foreign GDP (%, q-o-q, real terms, seas. adjusted, effective EA) | 0.3 | -0.1 | 0.2 | **0.0** | **0.2** | **0.2** | **0.2** | **0.3** | **0.3** | **0.3** | **0.4** | **0.4** |
| Foreign HICP (%, y-o-y, seas. adjusted, effective EA) | 2.9 | 2.5 | 2.2 | **2.4** | **2.4** | **2.4** | **2.5** | **2.4** | **2.1** | **1.9** | **1.8** | **1.8** |
| Foreign PPI (%, y-o-y, seas. adjusted, effective EA) | -7.8 | -6.1 | -4.5 | **-3.6** | **1.4** | **2.4** | **1.4** | **1.2** | **0.3** | **0.1** | **0.2** | **0.2** |
| Brent crude oil (in USD/barrel, average) | 81.8 | 85.0 | 78.7 | 74.0 | **76.1** | **74.7** | **73.5** | **72.6** | **71.8** | **71.2** | **70.7** | **70.2** |
| 3M EURIBOR (%, average) | 3.9 | 3.8 | 3.6 | 3.0 | **2.5** | **2.3** | **2.2** | **2.2** | **2.2** | **2.2** | **2.2** | **2.2** |
| USD/EUR (average) | 1.09 | 1.08 | 1.10 | 1.07 | **1.05** | **1.05** | **1.04** | **1.05** | **1.06** | **1.06** | **1.06** | **1.07** |

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

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