

Czechia

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**Macroeconomic Stability and its
Long-Term Benefits**

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The koruna, CZ central bank and important anniversaries

2026 – 100th anniversary of the National Bank of Czechoslovakia:

- the founding General Meeting established the central bank as of 1 April 1926

2026 – 20th anniversary of integrated financial market supervision under the CNB's roof:

- the CNB was originally only the microprudential supervisor of banks
- it took over supervision of other sectors in 2006 after tight discussions in 2004–2005; and was given further responsibilities later on the road...

2025/2026 – other important anniversaries:

- 30 years since full convertibility of the koruna
- 25 years since the last major bank failure and the end of the banking crisis (June 2000) and the end of the dispute over CNB independence (June 2001)
- 25 years since September 11, 2001 and the subsequent spread of central banks' concerns about very inflation being too low; coincided with the start of the koruna appreciation era

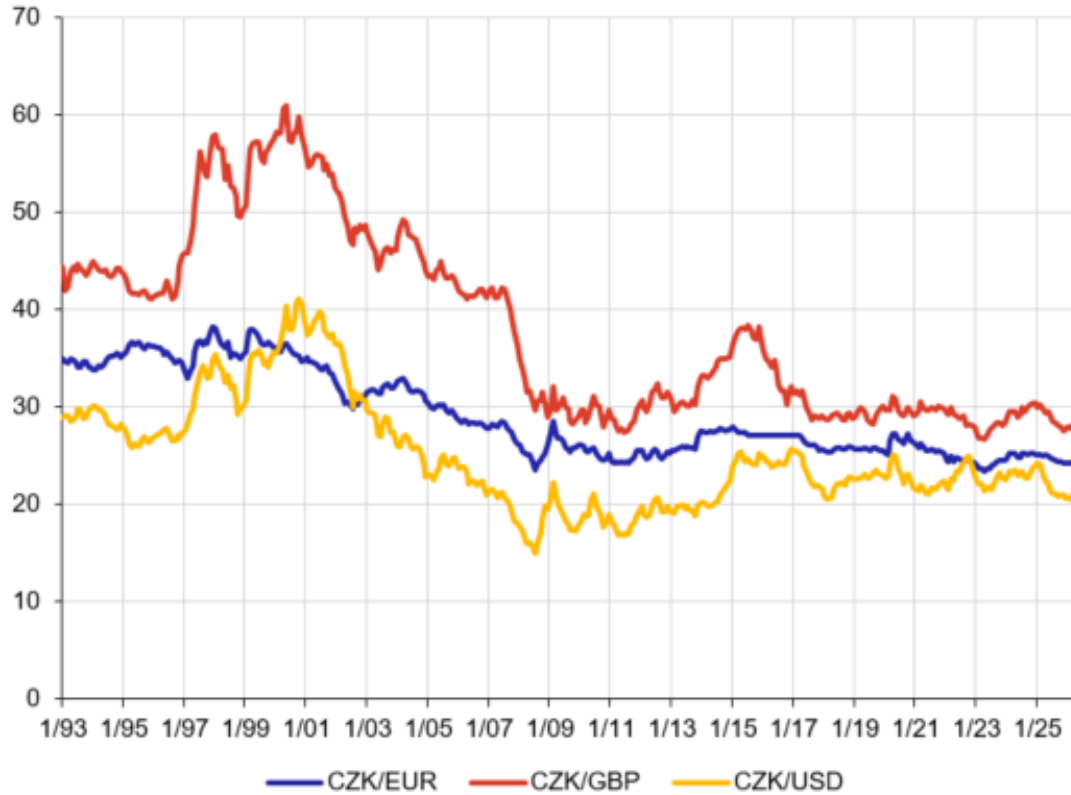
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The Koruna, Inflation and Interest Rates

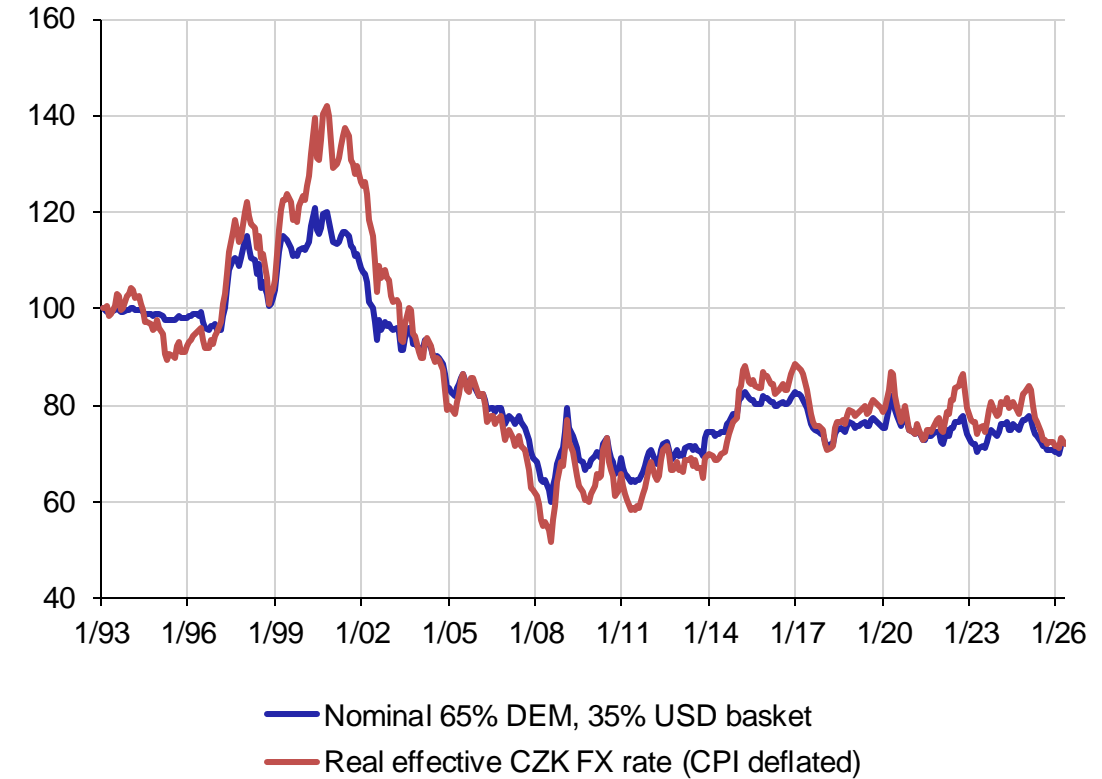


Exchange rates of the koruna in its modern history

CZK exchange rate against major currencies



Nominal and real exchange rate against baskets (1993=100, a decrease means appreciation of CZK)

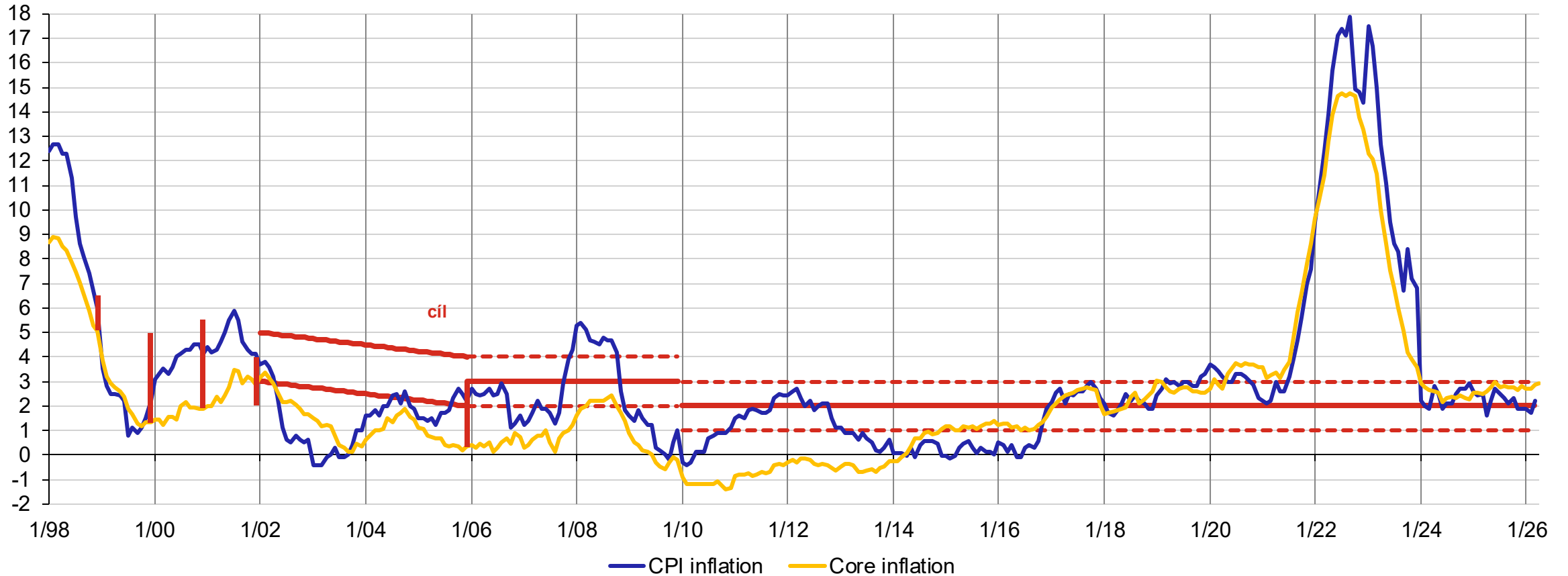


Inflation and inflation targets in long-term perspective



CPI and CNB inflation targets

(comparison of inflation, core inflation and CNB inflation targets, %)

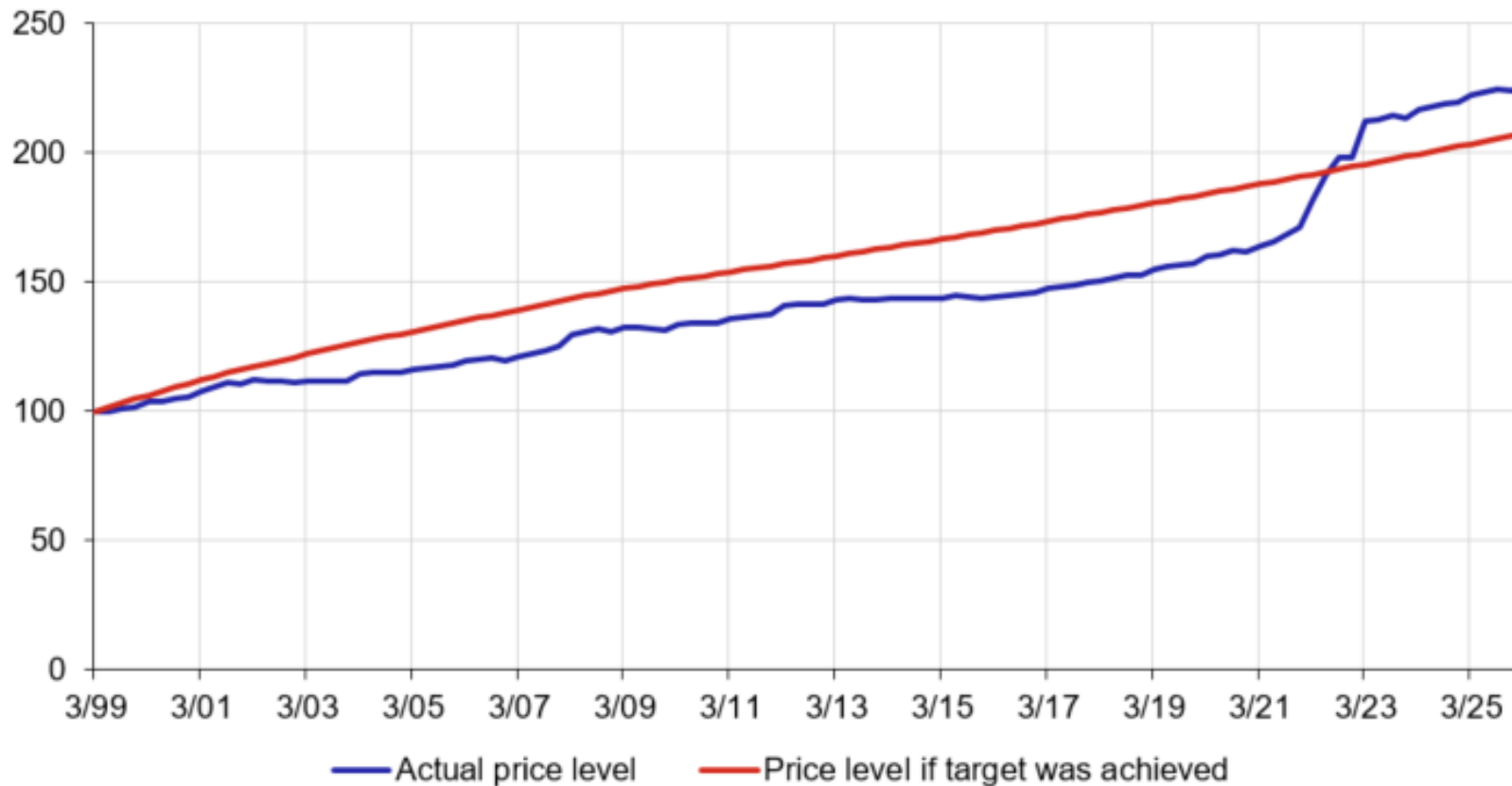


Source: CNB

Domestic price level in long-term perspective

Comparison of the actual and “implied” price level

(the implied price level assumes that inflation always equalled target)

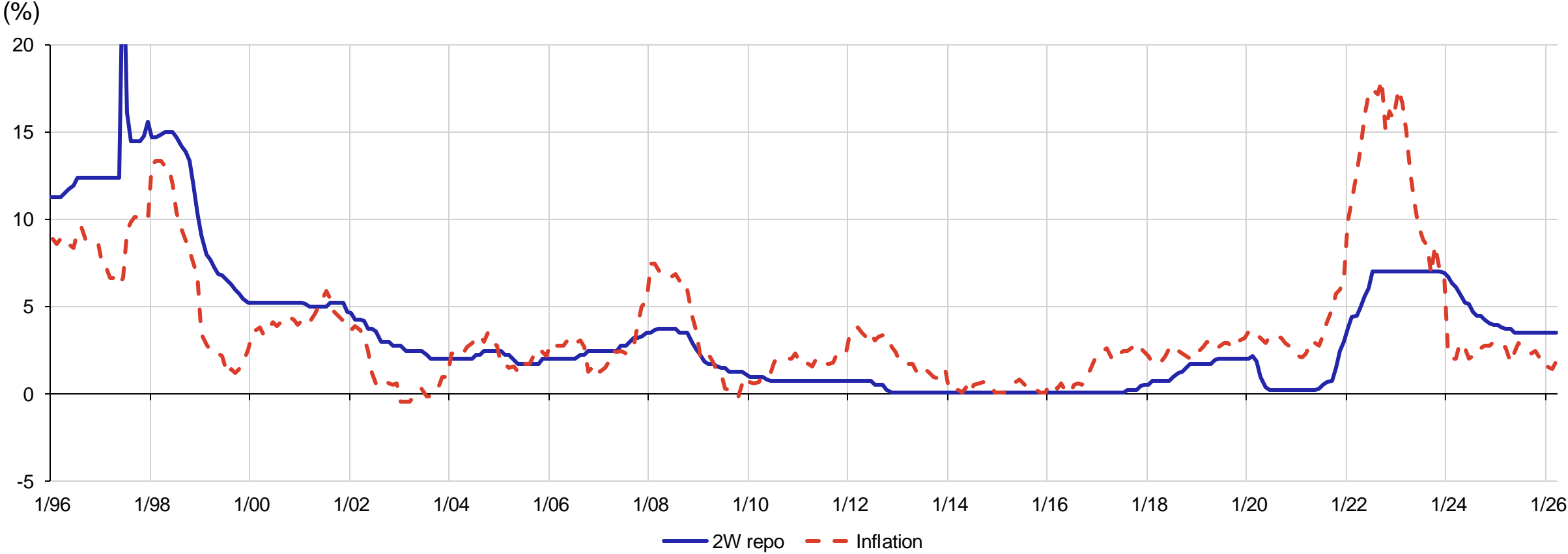


Source: CNB

Short-term interest rates and inflation in long-term perspective



The CNB rate and inflation rate

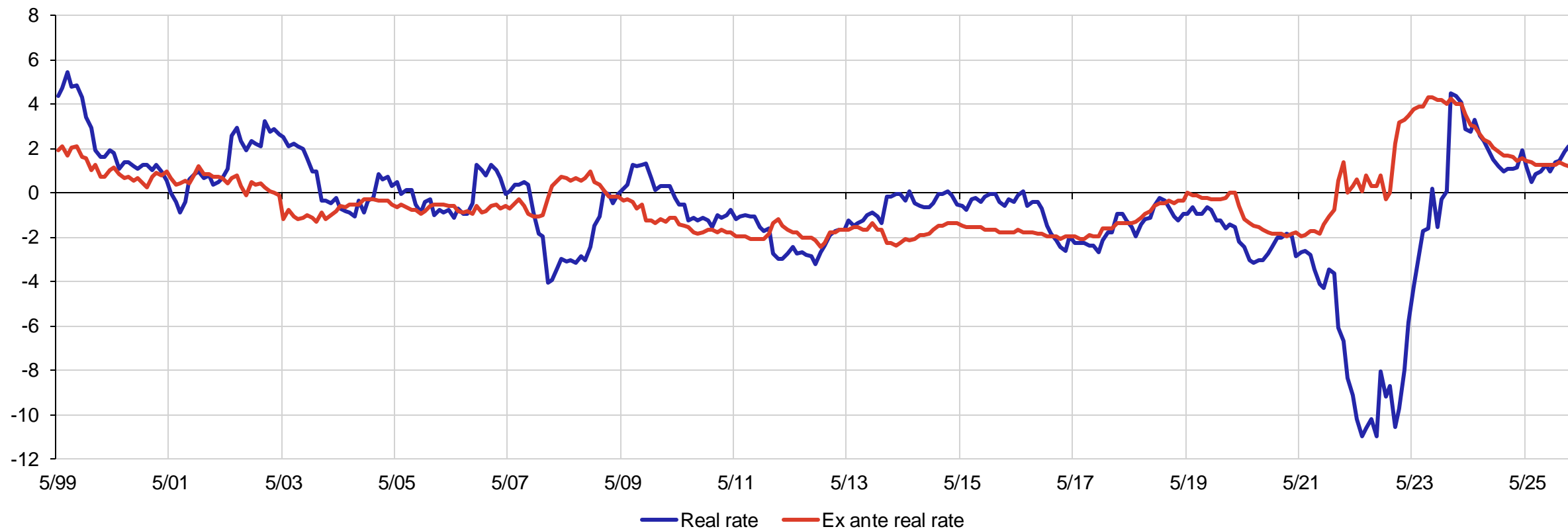


Source: CNB

Short-term interest rates and inflation in long-term perspective

Real rate

(2W repo rate - current inflation, 2W repo rate - expected inflation from survey of financial market analysts, %)

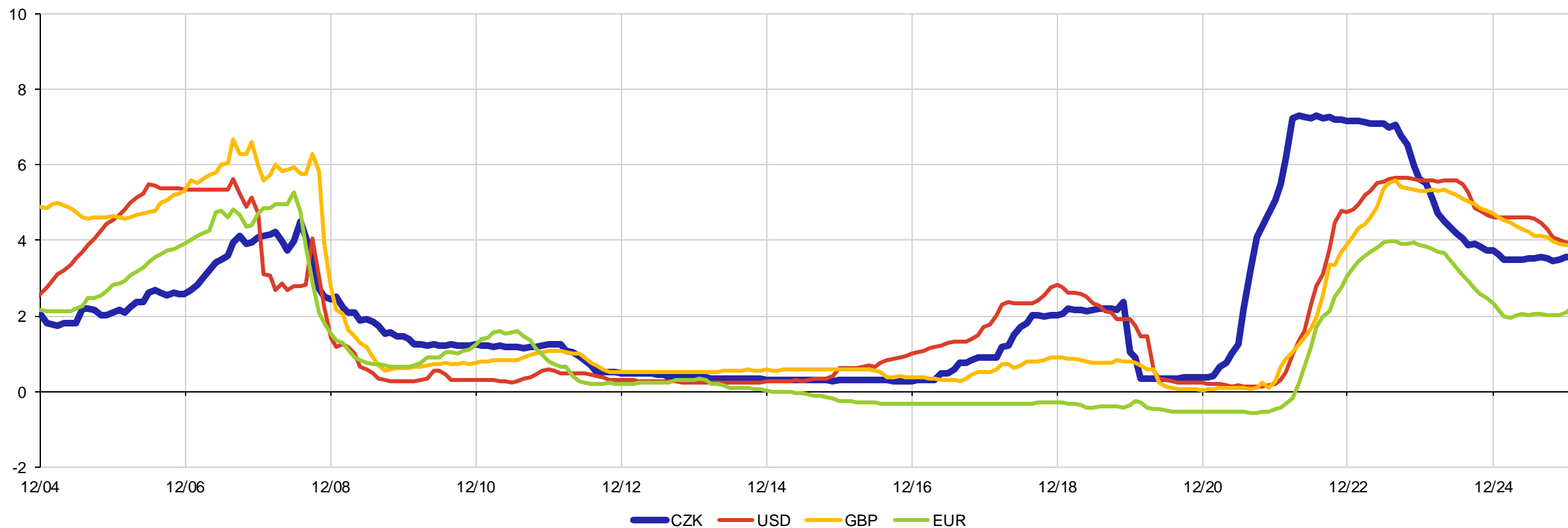


Source: CNB

Short-term rates relative to peers

Short-term rates in selected economies

(3M IBOR or ISDA fallback, %)

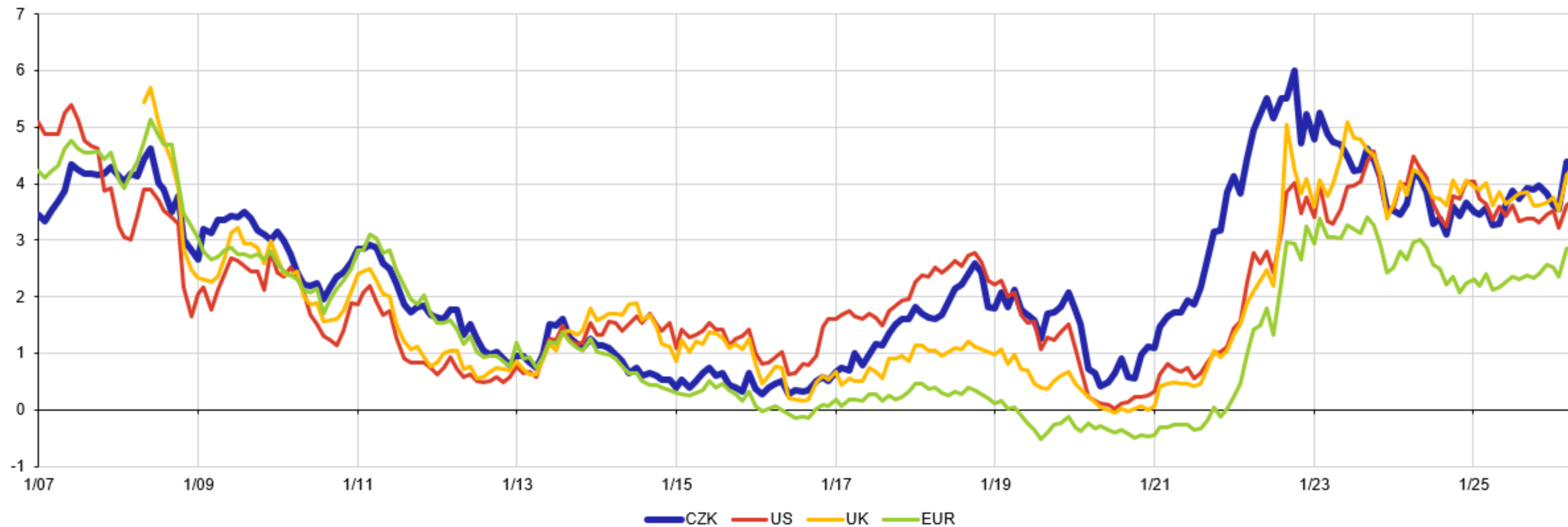


Source: CNB

Long-term rates relative to peers

5Y IRS on selected markets

(%)



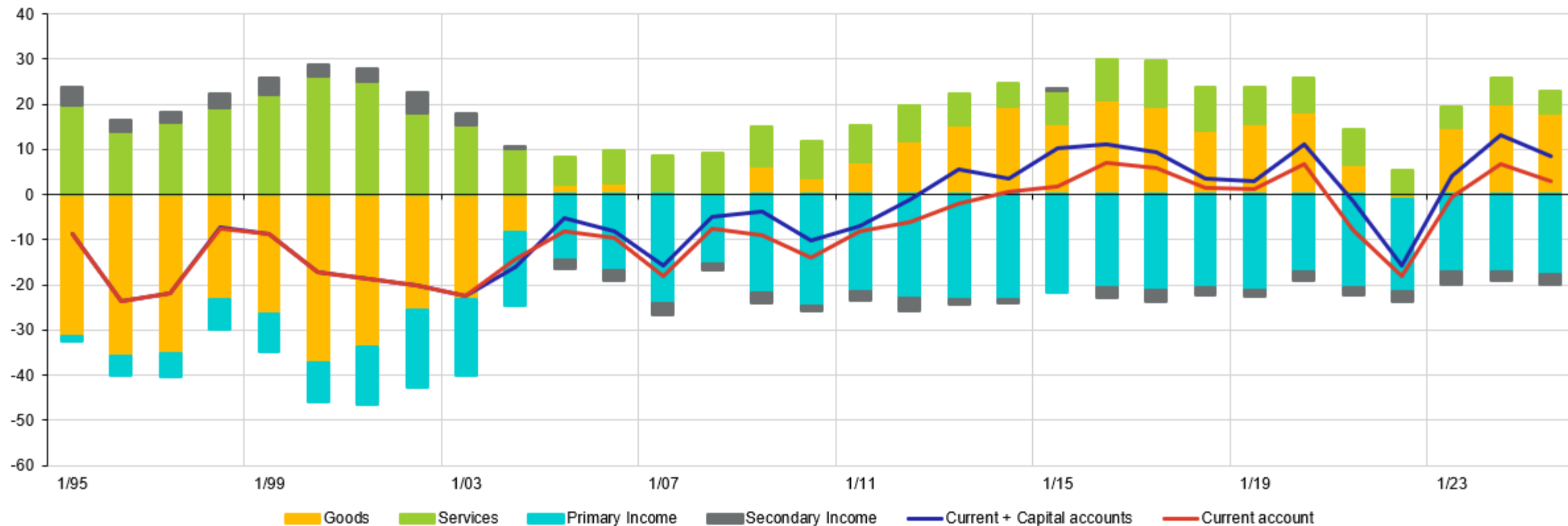
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External Balance



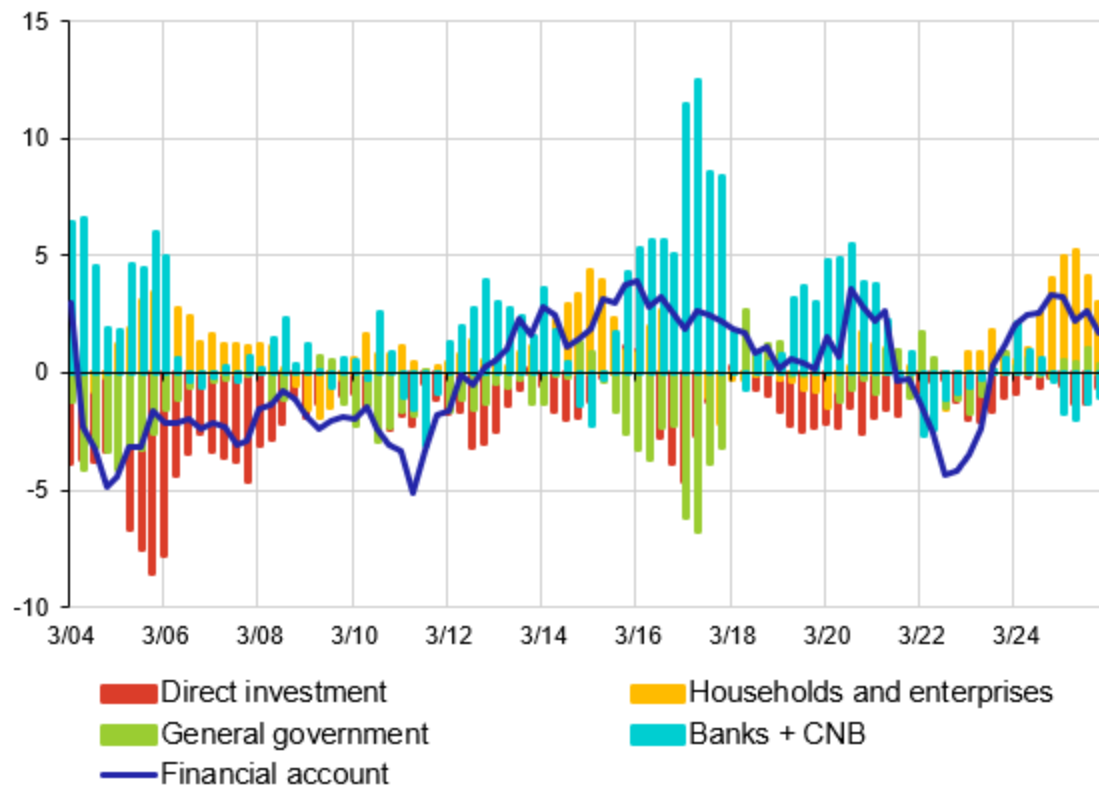
Czech balance of payments trajectories

Current and capital accounts (% of GDP)

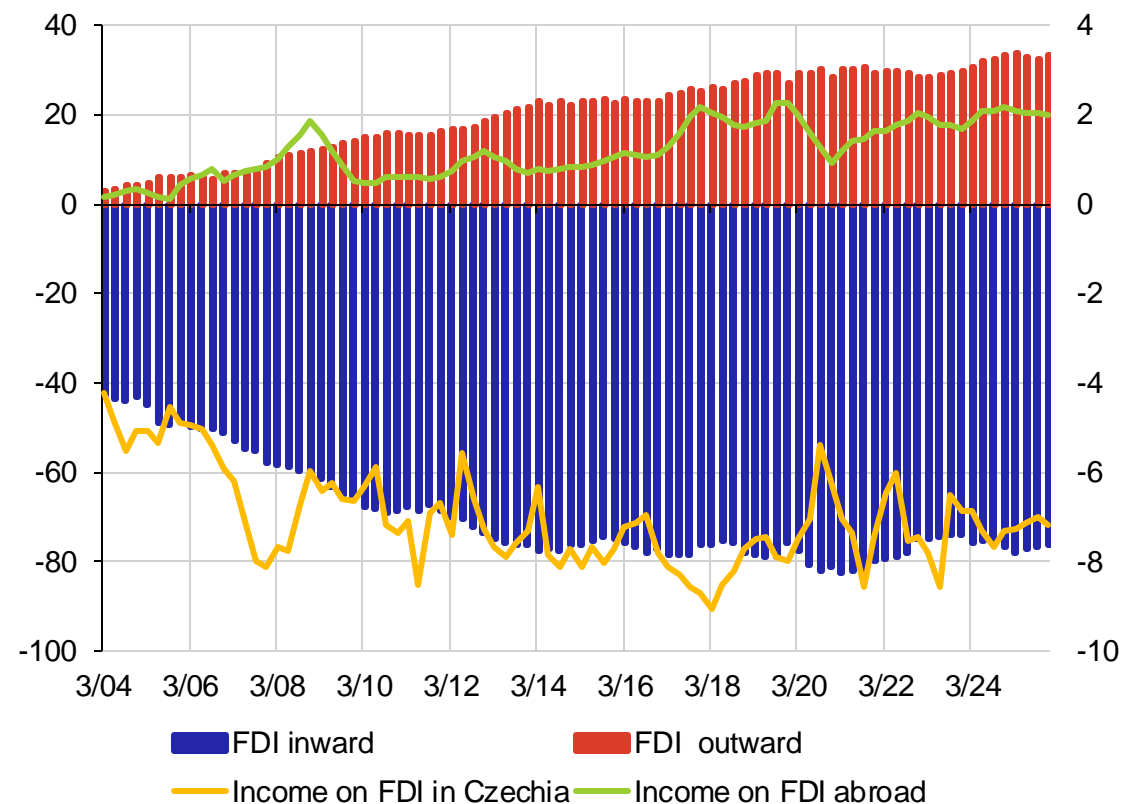


Czech financial account

Flows on the financial account
(% of GDP)

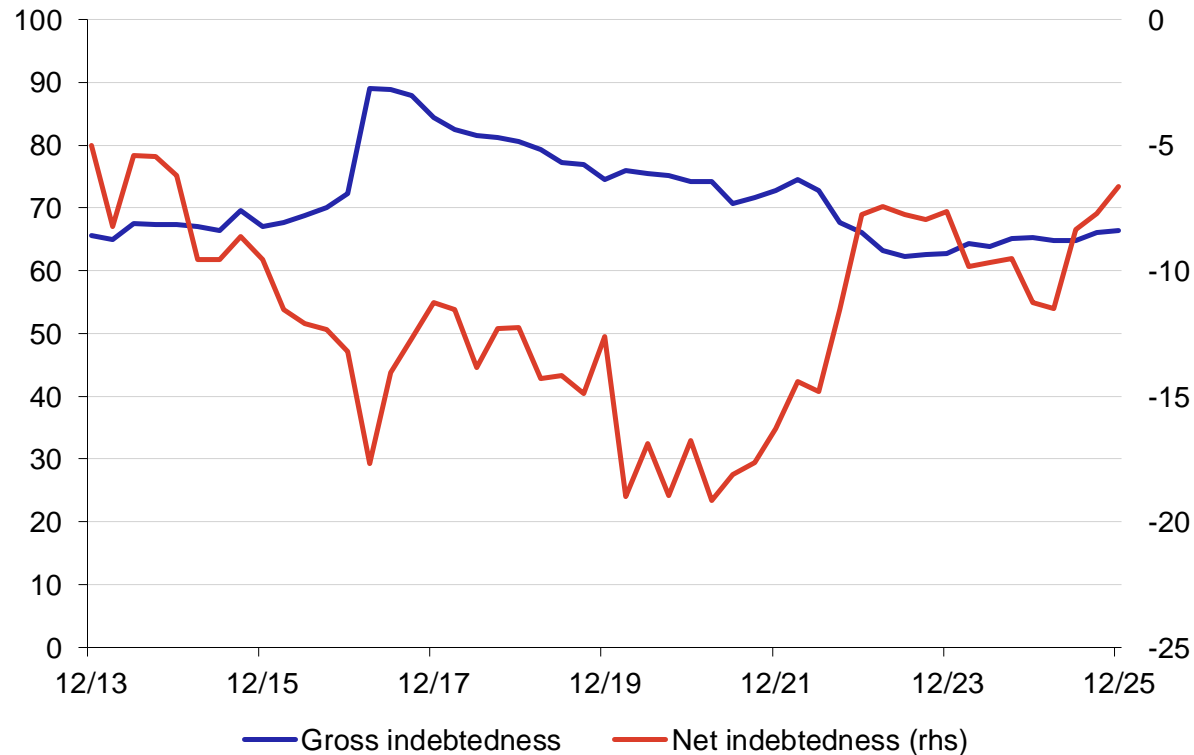


FDI and income on FDI
(% of GDP)

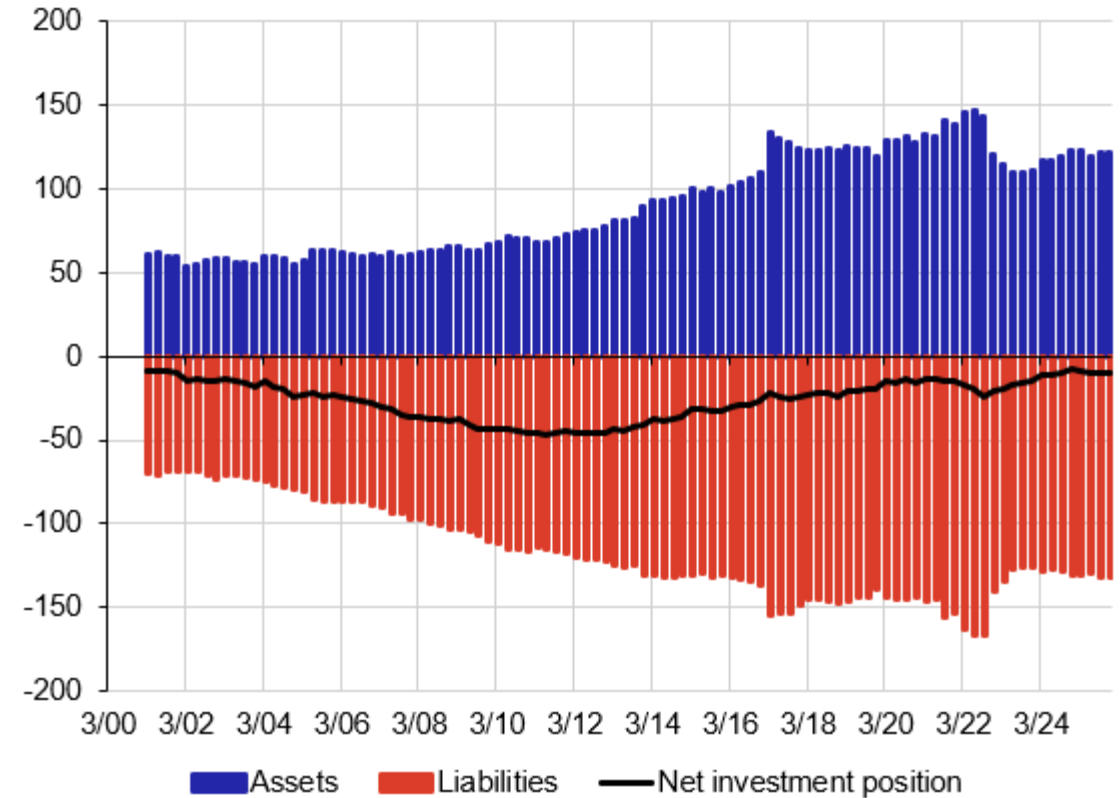


External position of Czechia

Indebtedness of the Czech economy (% of GDP)



Czech investment position (% of GDP)



Source: CNB

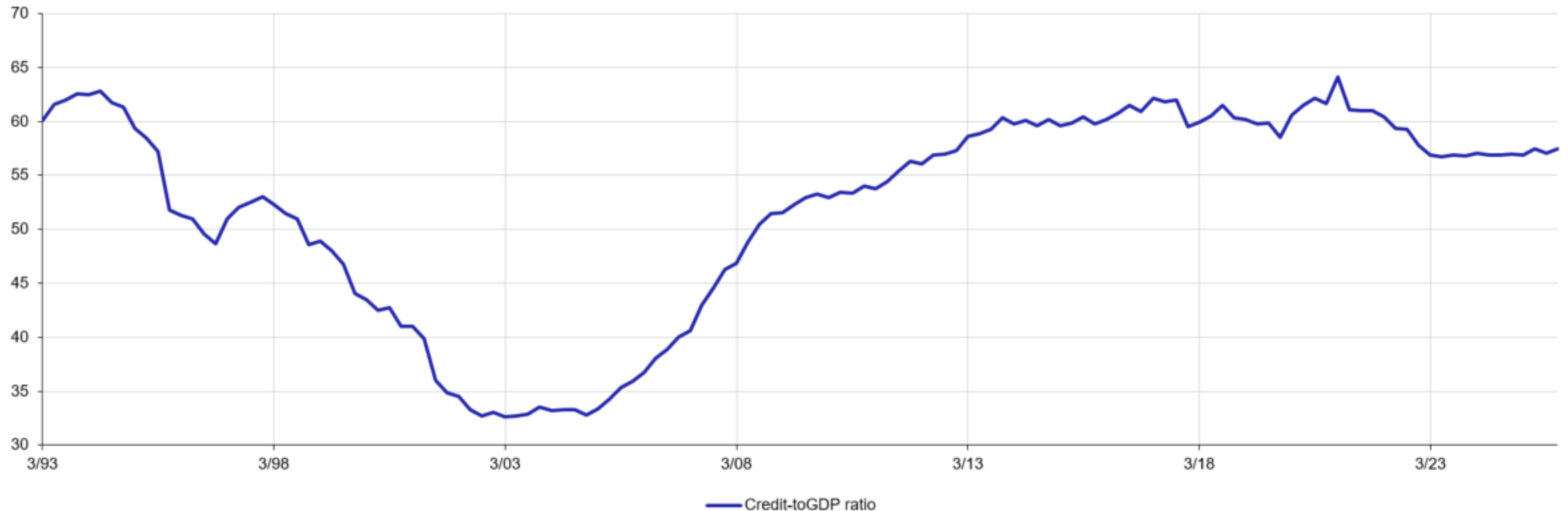
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Some Simple Financial Facts



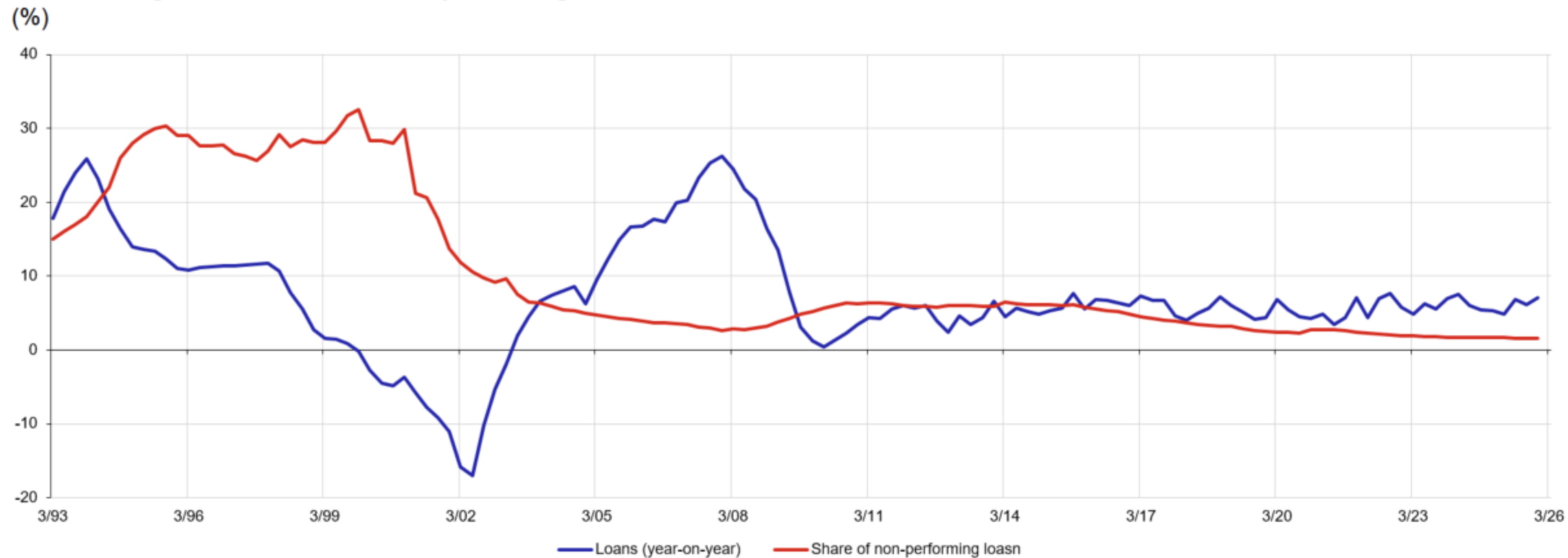
Cyclical fluctuations in the domestic banking sector

Bank credit in Czechia relative to the size of the economy
(in %, credit provided to the private non-financial sector)



The credit cycle in Czechia

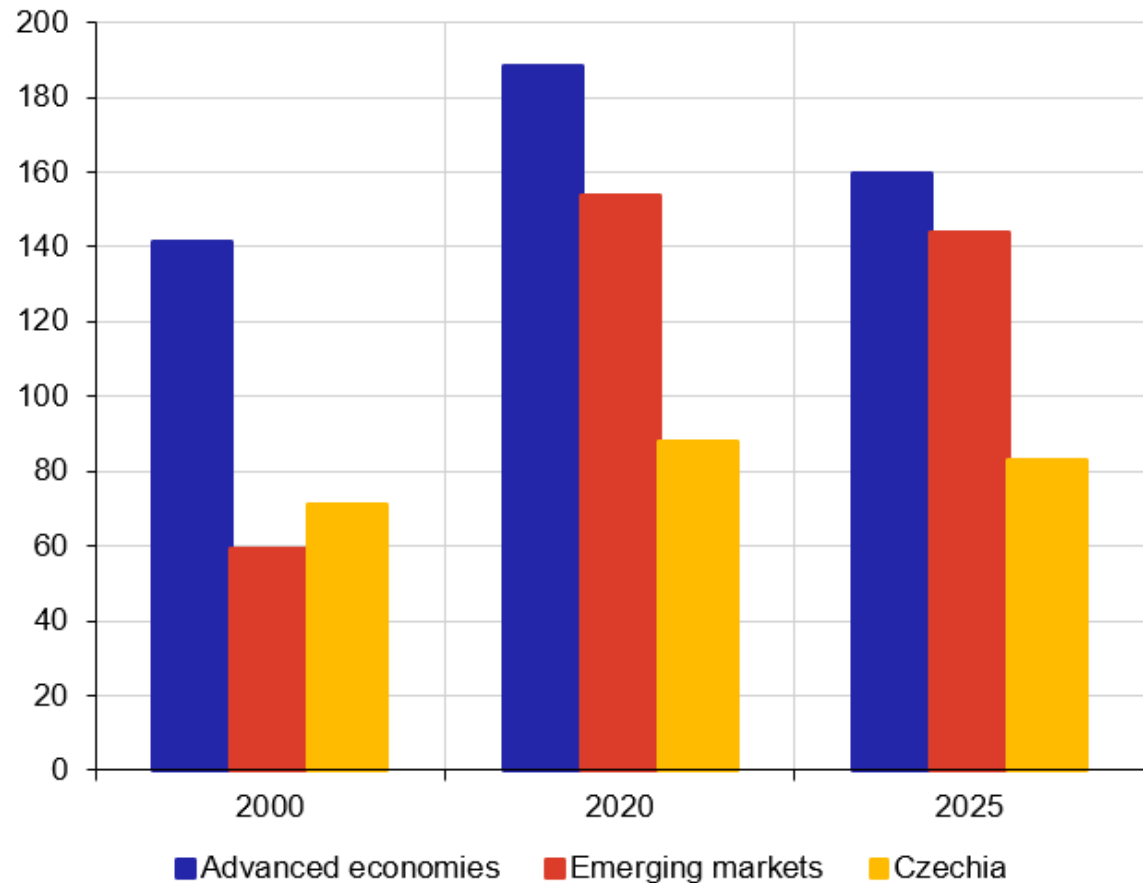
Bank credit growth and share of non-performing loans



Private and public debt developments

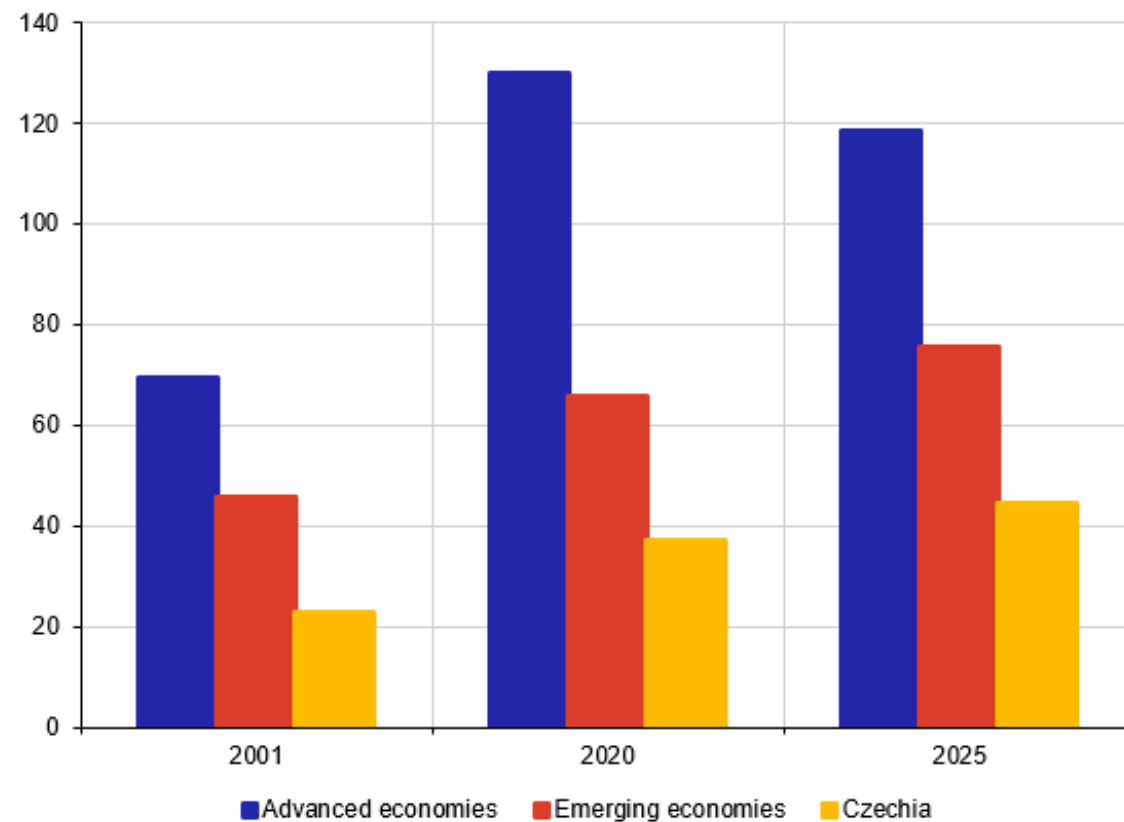
Private non-financial sector debt to GDP

(in %)



Public sector debt to GDP

(in %)



Source: BIS

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Current Macrofinancial Dynamics and its Outlook



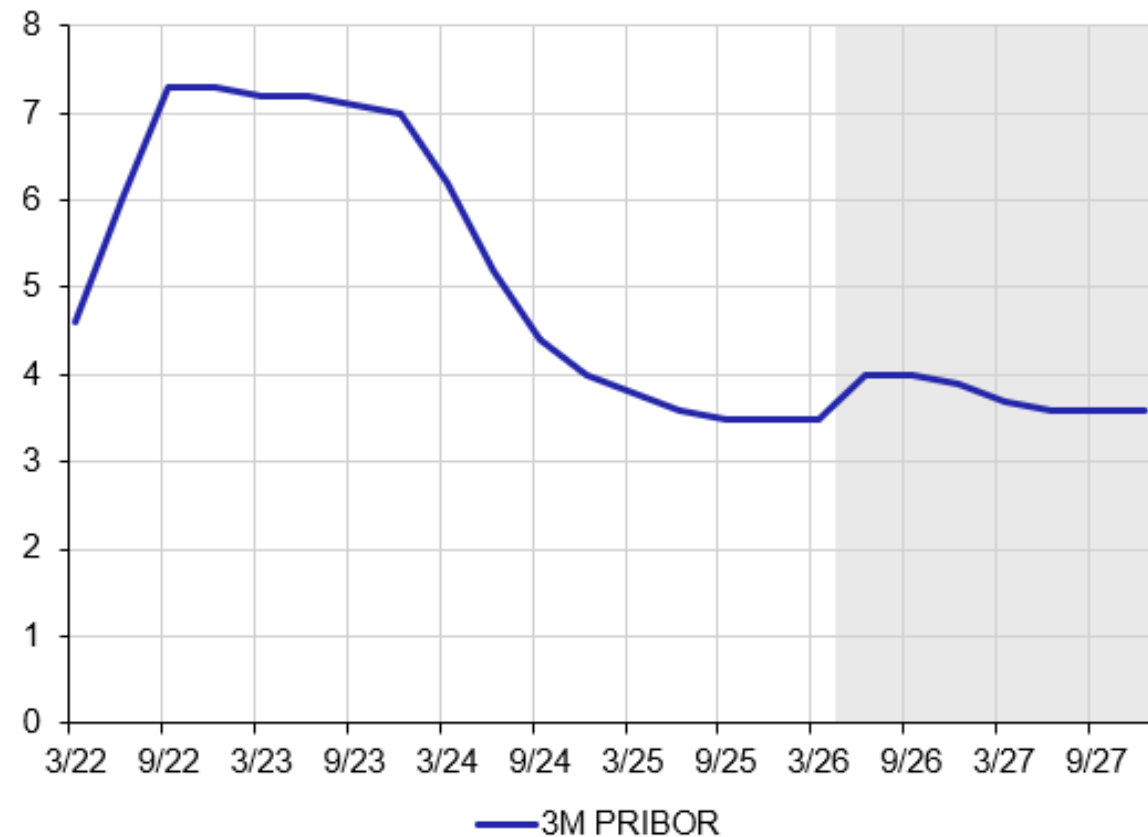
Macroeconomic forecast summary – spring 2026

	2025	2026	2027
Headline inflation (% , yoy)	2.5	2.2	2.4
GDP (% , yoy)	2.6	2.5	2.7
Average nominal wage (% , yoy)	7.2	6.4	5.4
Average real wage (% , yoy)	4.7	4.1	2.9
Unemployment rate (ILO, %)	2.9	3.1	3
3M PRIBOR (%)	3.6	3.8	3.6
Exchange rate (CZK/EUR)	24.7	24.3	24.4
Public finance balance (% of GDP)	-2.1	-2.7	-3.1
Gross public debt (% of GDP)	44.3	45.7	47.2
Current account (nominal, in % of GDP)	0.7	0.2	0.3

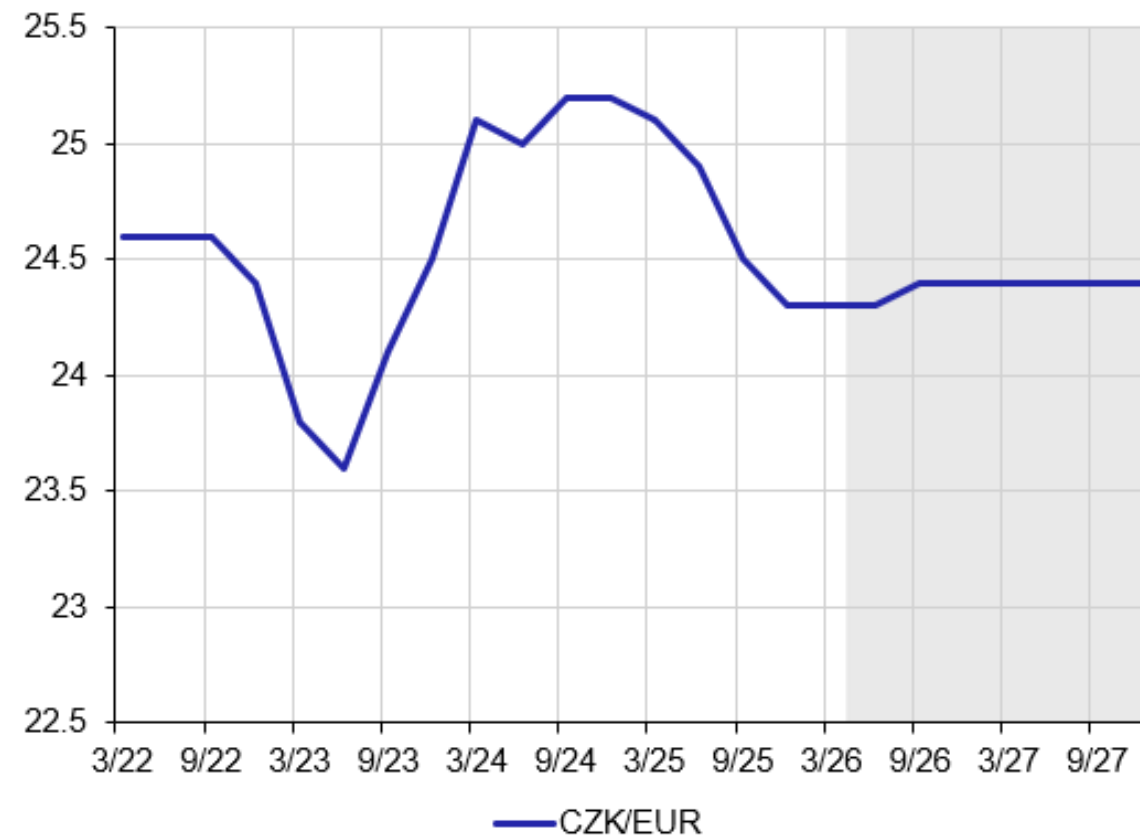
Interest and exchange rates in spring 2026 forecast

3M PRIBOR forecast

(%)



CZK/EUR forecast



Inflation and balance of risks in spring 2026 forecast



Headline inflation:

- in the coming quarters is expected to stay in the upper half of the tolerance band and hit 3% at the turn of the year
- then return towards the target during 2027

Core inflation is expected to stay around 3% this year:

- with the contributing factors of the increased growth in imputed rent and above-average wage growth

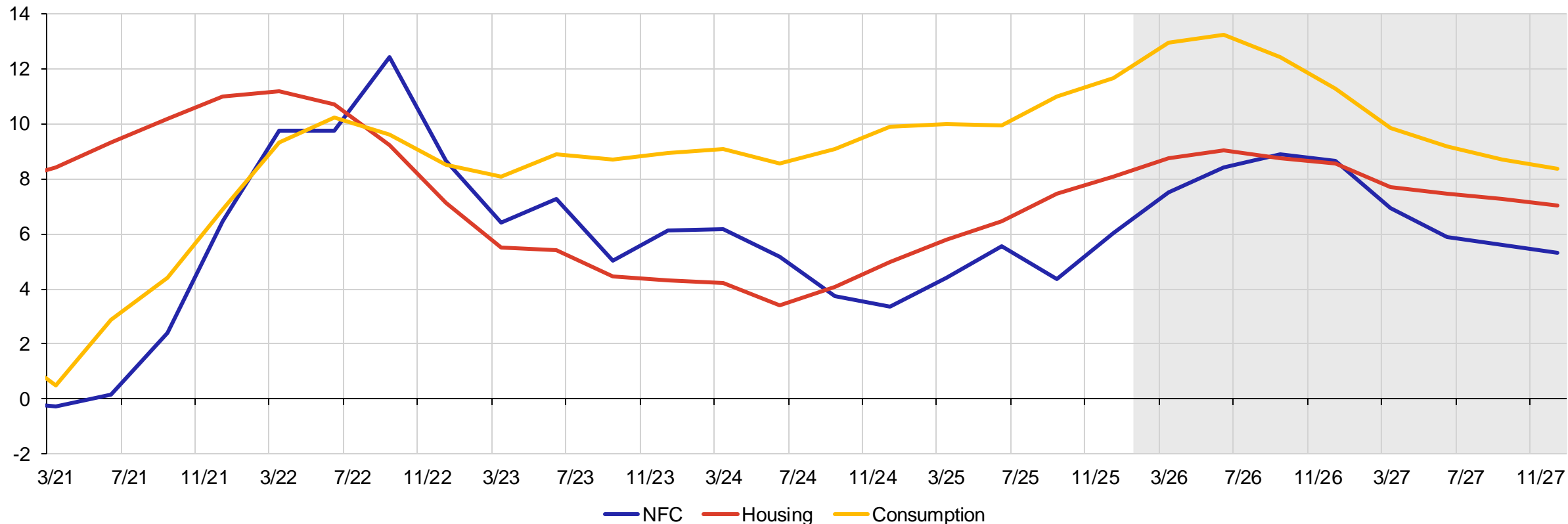
The Bank Board assessed the risks and uncertainties of the outlook for the fulfilment of the inflation target as inflationary overall:

- the labour market remains tight and wages are still rising at an elevated pace
- still elevated services inflation and property price growth are having an inflationary effect
- accelerating credit growth is fostering a rise in the quantity of money in the economy

Growth in bank credit across sectors

Dynamics of bank credit to private sector in recent years

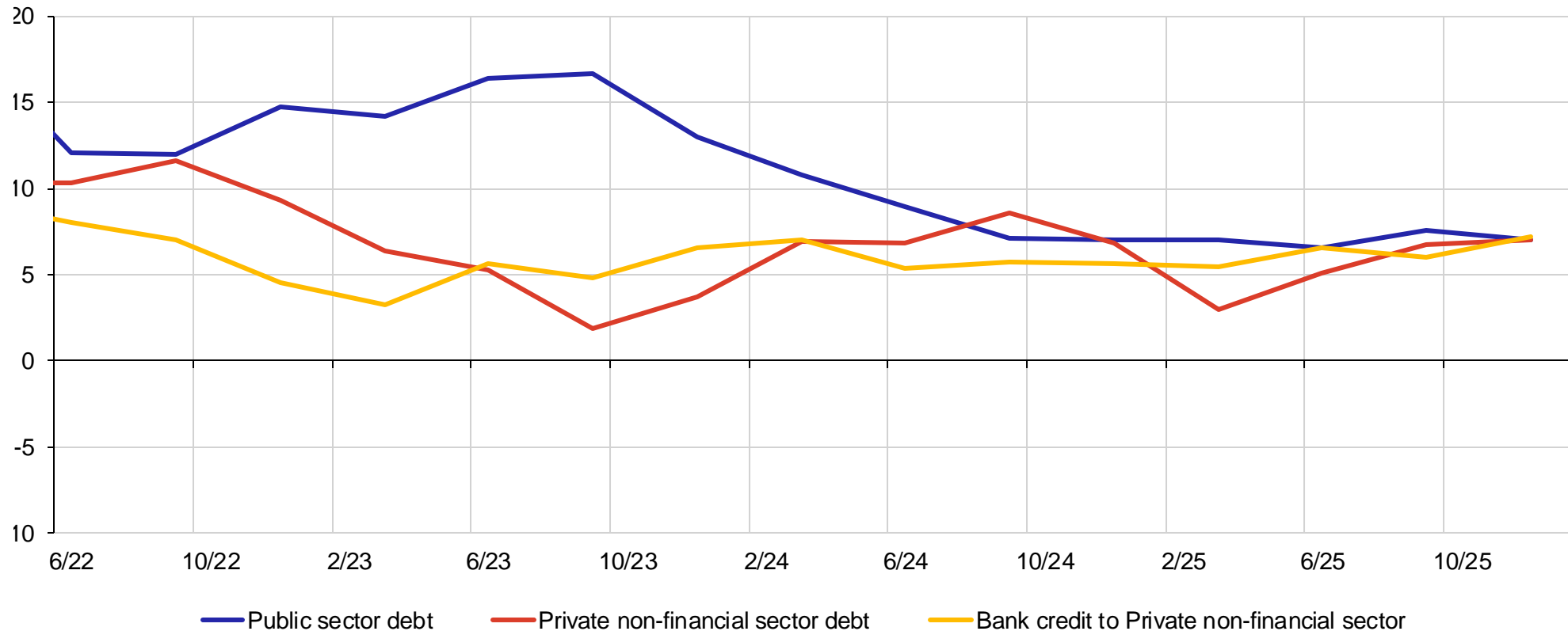
(%, yoy)



Source: CNB

Total private and public debt dynamics

Dynamics of public and private sectors debt
(%, yoy, public sector debt in 4Q/4Q cumulatives)



Source: CZSO, CNB

Rising public debts as outcome of cross-border contagion

- private and public debts are relatively close substitutes – if suppressed in one sector, tend to leak into another one
- contagion working across borders – running higher deficits in one country makes easier to do the same in other country, reducing fiscal responsibility in a collective way

Accelerating debt may not result in 'ever stronger' economy:

- very low or zero risk capital charges provide an incentive for leveraging and credit expansion in particular debt segments, be it mortgages or government debt
- fast growth in public debt can be viewed as a kind of credit boom (subject to sudden stops), also with potentially opposite effects in short and long run
- Friedman's accelerating money growth hypothesis applies to bank credit growth as well as to fiscal expansions
- temporarily boosts economic activity, but becoming less and less effective, with economic activity reverting back – unless more and more accommodation provided

Important dilemmas and uncertainties

Labour market a key indicator of scope of inflationary pressures:

- demography, AI – both may have potentially opposite effects in short and long run

Elevated growth of residential real estate prices:

- speculative extrapolation of previous acceleration? or a hedge against inflationary and political risks?

Credit and financial risks:

- reduced capacity of markets to price risks through spreads and margins; could be reinforced by termination of ongoing conflicts

Maintaining long-term macroeconomic and macrofinancial stability is of high value with broad benefits for society!

Thank you for your attention



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