

CZECHIA : MACRO OUTLOOK

Growth in the Czech economy continues

Jiri Polansky

Economy Czechia - Analyses and Forecasts | Erste Group Bank AG

June 12, 2025

Note: Information on past performance is not a reliable indicator for future performance.
Forecasts are not a reliable indicator for future performance.

Spot Rates as of: June 12, 2025

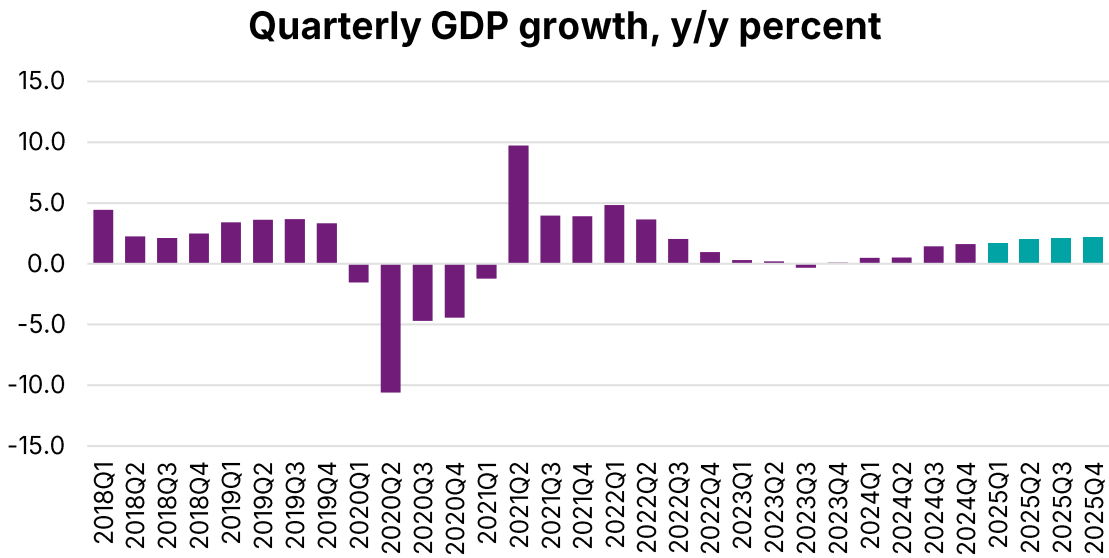
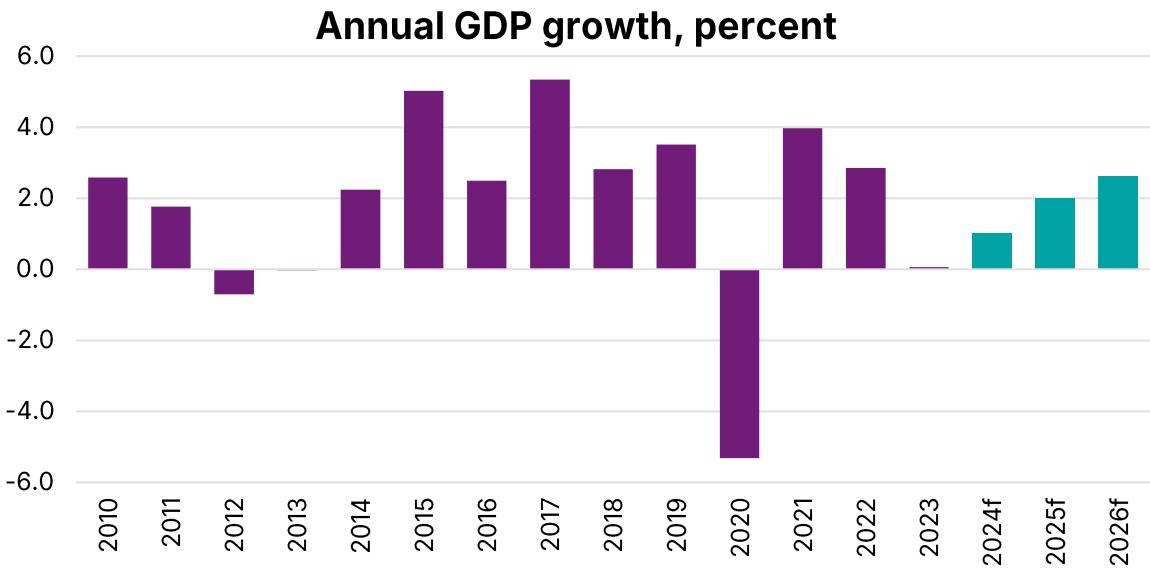


Expected development in a nutshell

Economic development in the Czech economy has remained roughly stable for some time. The economy is undergoing gradual recovery, with GDP growth around 2%, primarily driven by household demand. Conversely, weak developments in Germany and global economic uncertainty, including US tariffs, exert downward pressure. A similar trend is expected next year. The labor market situation remains favorable, with continued low unemployment and nominal wage growth between 6% and 7%. Overall inflation is currently slightly above 2%, anchored within the tolerance band, mainly driven by rising food and services prices. A similar trend is anticipated in the coming quarters.

Given the strong growth in service sector prices, which reached 4.9% in May and is expected to weaken only very slowly, we anticipate CNB rate stability for the next few meetings. A further rate cut might occur towards the end of this year, but much will depend on the overall global economic situation and US tariffs. The CNB currently provides no guidance and communicates that all options are open. This also pertains to the neutral rate level, set at 3% in the CNB's forecast, though several board members suggest they view it higher. This could subsequently influence the main rate level where the current rate-cutting cycle halts. We believe the koruna's exchange rate is currently near macroeconomic fundamentals. In the medium term, we expect a gradual strengthening of the koruna.

GDP growth

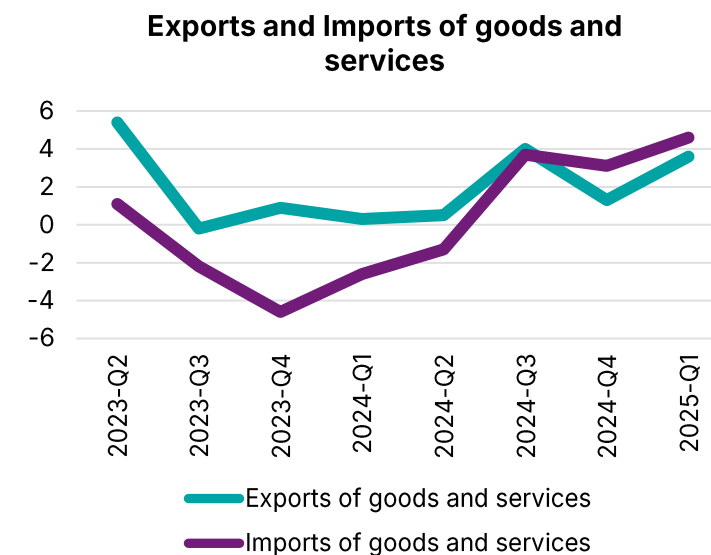
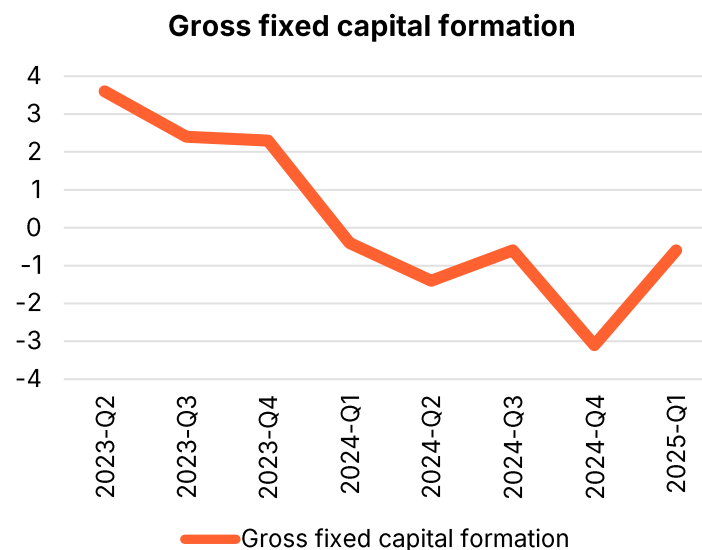
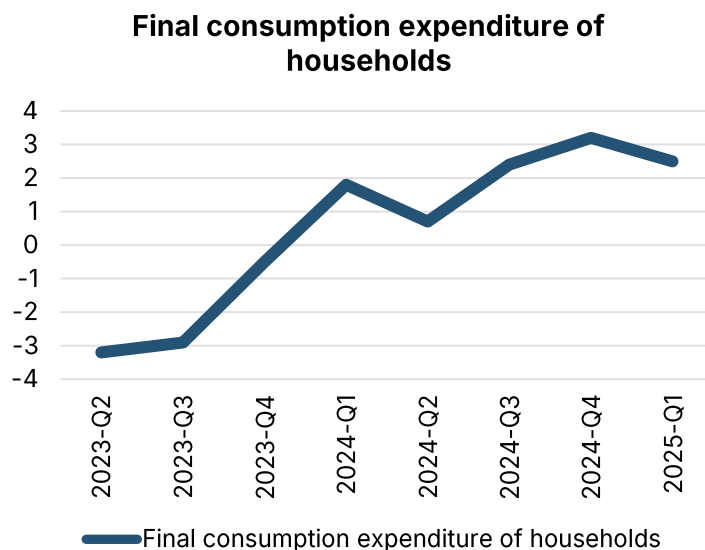


The Czech economy continues its gradual recovery, primarily driven by household consumption. Early this year, strong export growth also contributed, likely influenced by US importers stockpiling European goods ahead of US tariffs.

GDP growth this year might be only slightly below 2%, which we view as favorable, especially given the subdued developments in the German economy and the impact of US tariffs on Czech exports.

The Czech economy could grow around 2% next year as well, despite being hindered by US tariffs. Conversely, the anticipated recovery in Germany, though gradual, will contribute to improving the cyclical development of the Czech economy.

GDP structure



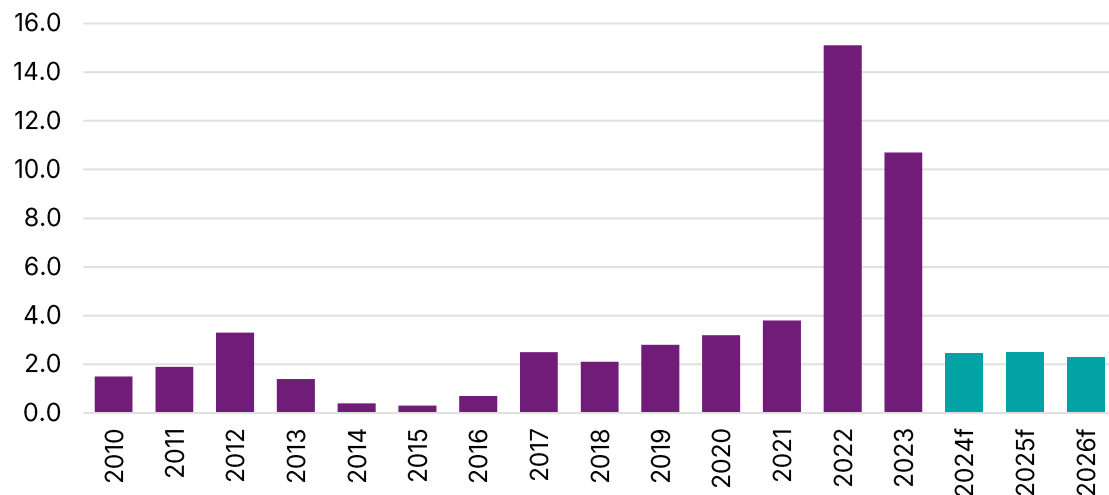
The relatively stable development of household consumption remains the main driver of GDP growth, supported by favorable labor market conditions, low inflation, and improved consumer sentiment. Expansive fiscal policy also contributes in the same direction.

The development of fixed investments, similar to the cyclical component of exports, remains negatively impacted by the weak performance of the German economy and significant risks arising from global economic developments. The contribution of foreign trade will likely be negative this year, with improvement expected next year.

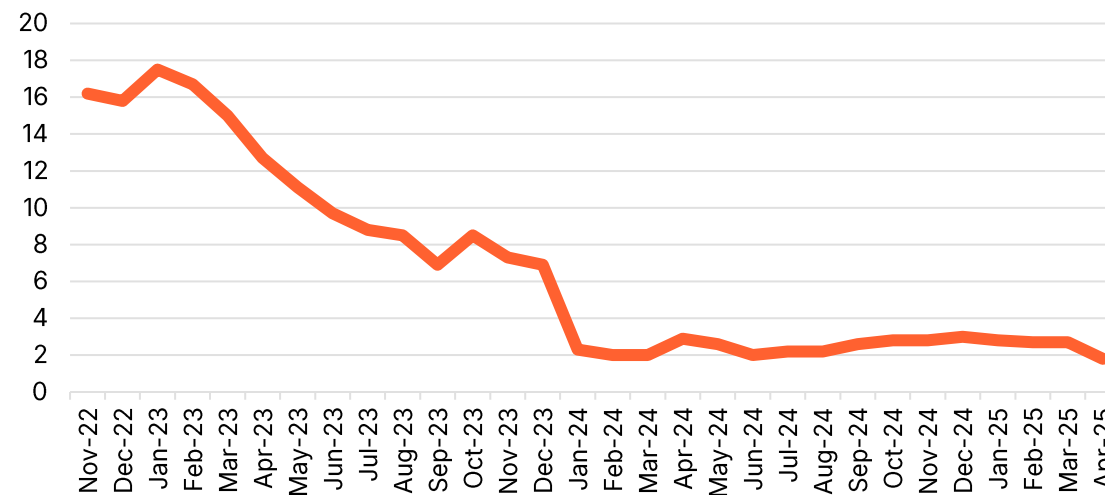
Risks remain elevated and are skewed to the downside. The first is uncertainty related to the German economy, particularly the automotive industry. This is linked to the second risk, which involves the potential increase of high tariffs on European exports.

Inflation development

Annual inflation, percent



Monthly inflation development, y/y percent



Overall inflation is currently within the tolerance band around the target, and this trend is expected to continue in the coming months. Contributing factors include falling fuel prices, subdued developments in the German economy, and the CNB's restrictive monetary policy. Conversely, rising food prices and domestic demand exert upward pressure.

Although headline inflation is anchored near the target, inflationary pressures remain relatively strong in parts of the economy, particularly sectors linked to household consumption. For instance, service sector inflation increased to 4.9% in May. Moreover, current data suggest that y/y inflation in services may significantly weaken only at the end of this year.

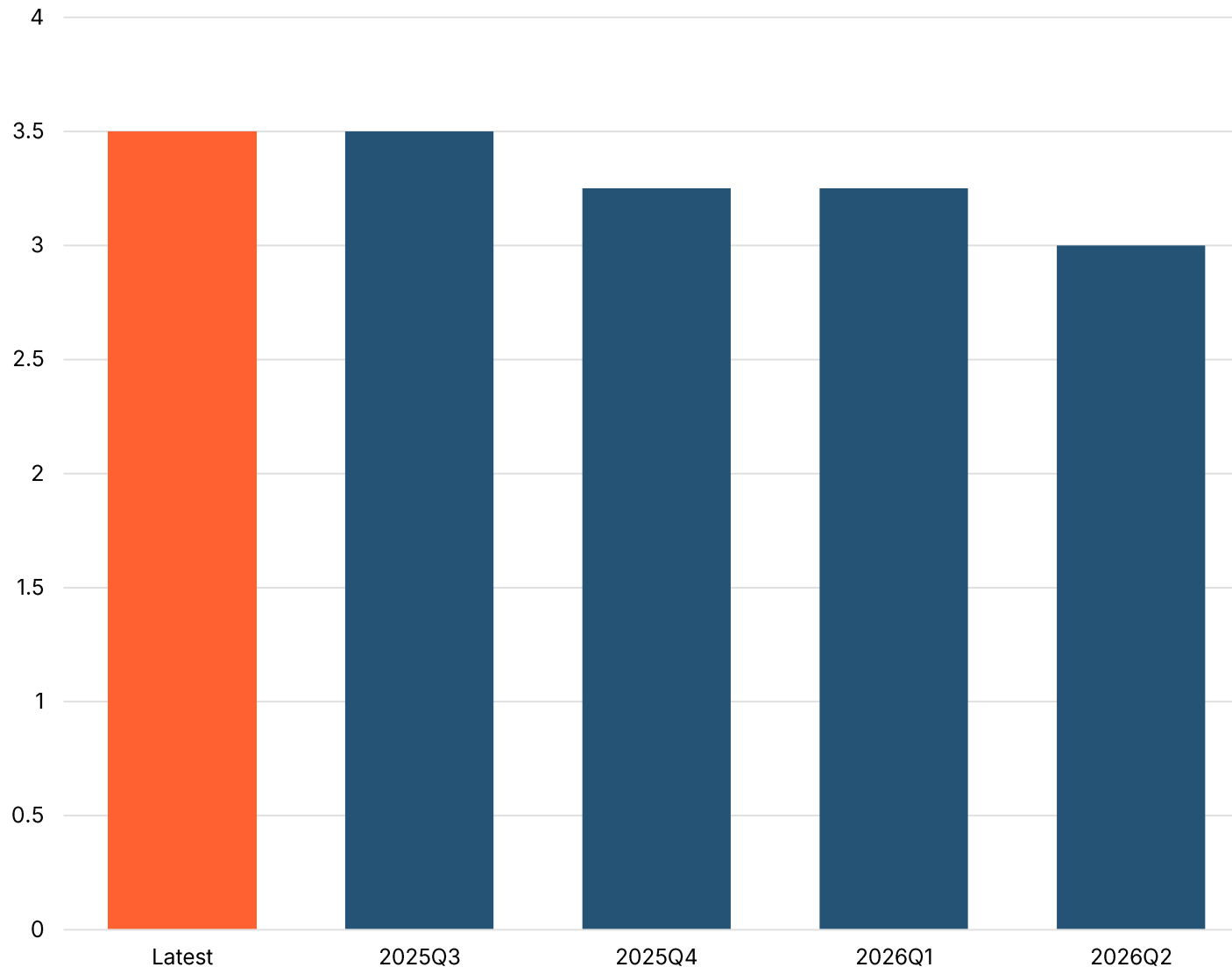
Monetary policy

The CNB may hold interest rates steady for several meetings, as inflationary pressures in parts of the domestic economy remain elevated.

We anticipate the next rate cut in November. However, the CNB currently provides no guidance and keeps all options open.

Uncertainty remains high, not only due to risks associated with US tariffs or global economy developments, but also concerning the neutral rate.

Key Interest Rate, percent



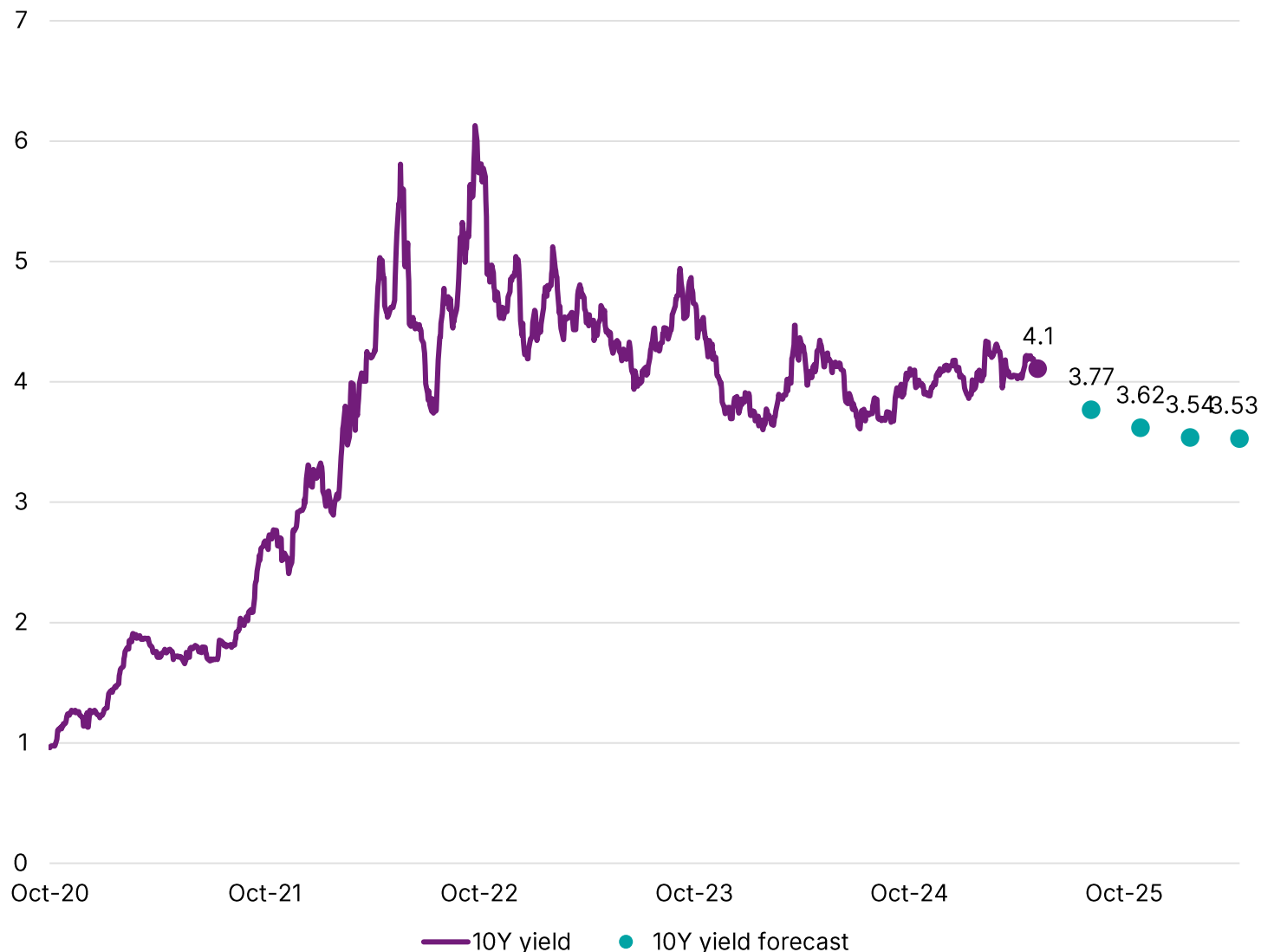
Yields and spreads

The Czech yield curve has remained roughly stable recently. The May rate cut by the CNB, anticipated by the market, did not alter this stability (if the CNB did not cut rates in May, it likely would have done so in June or August). The market is now awaiting new information from both Czech and global economies.

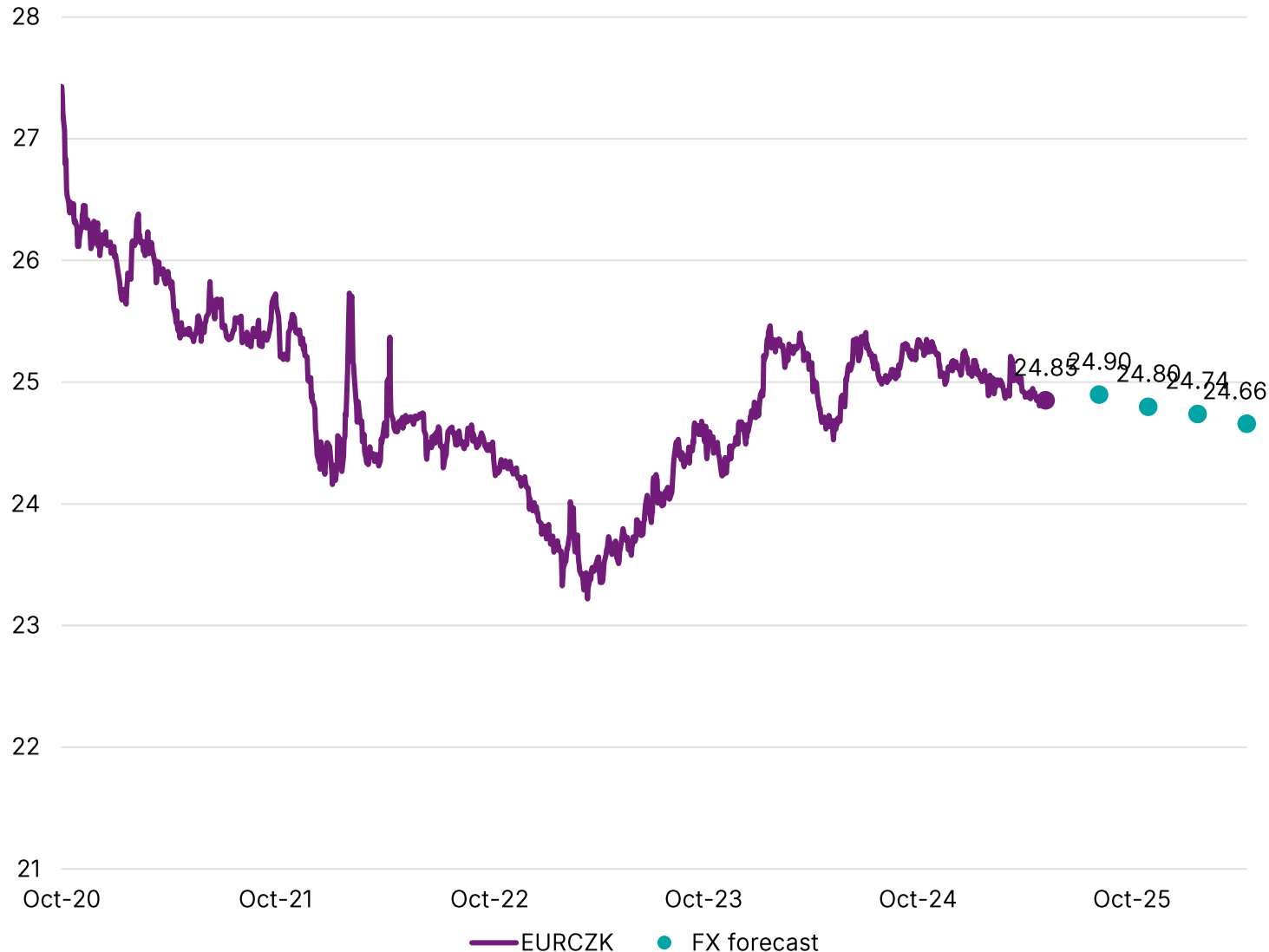
From a medium-term perspective, we expect a gradual decline in the yield curve, primarily driven by falling CNB rates. However, this movement is unlikely to be significant overall, as the extent of future monetary policy easing is largely already captured in the curve.

Conversely, the decline in yields will continue to be restrained by the Ministry of Finance's issuance activity, which will remain high in the medium term.

10Y yield development and forecast



FX market development and forecast



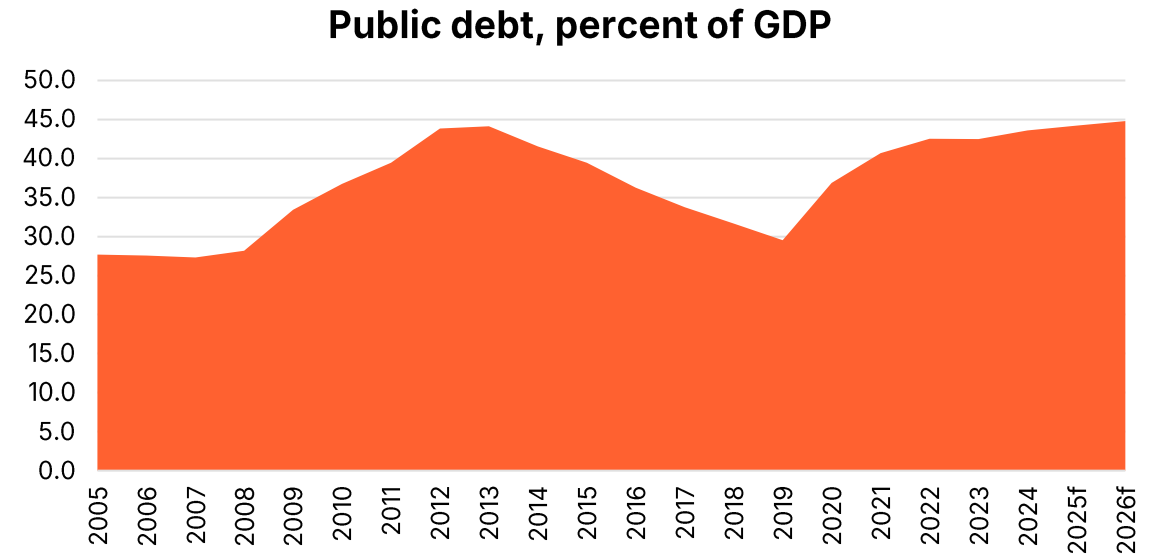
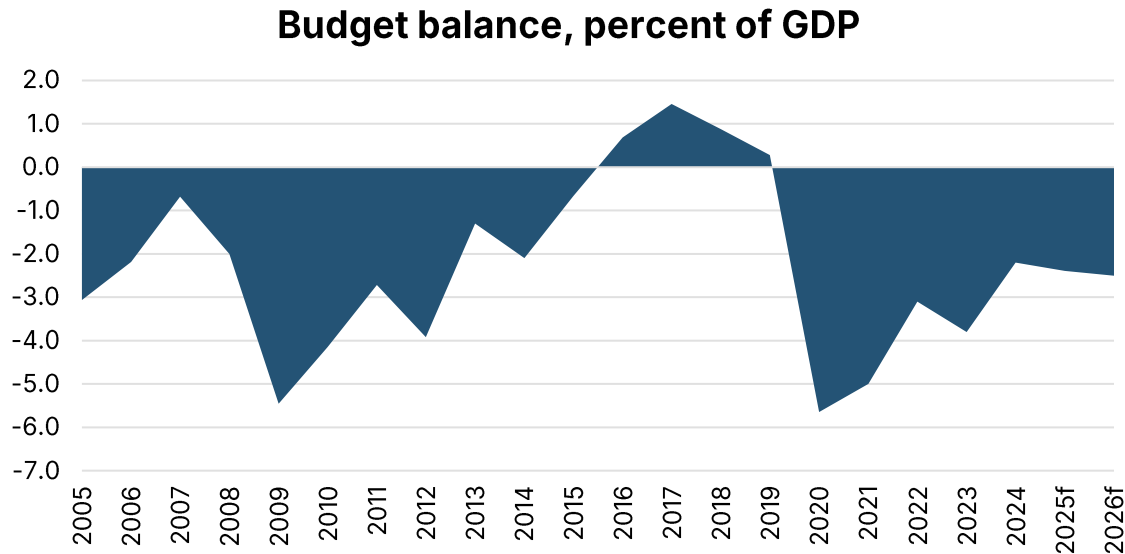
FX Market

The koruna is currently slightly below EUR/CZK 25.0. Factors supporting a stronger koruna include the CNB's relatively hawkish communication and a weaker dollar.

We view the current value of the koruna as close to macroeconomic fundamentals, so we do not anticipate significant exchange rate shifts in the near future. However, much will depend on Donald Trump's decisions regarding tariffs and his other market-impacting measures.

In the medium term, we expect a gradual strengthening of the koruna, driven by the anticipated recovery of the Czech and European economies and only modest further CNB rate cuts.

Fiscal Situation



Since January 2024, the government has implemented a consolidation package. This has improved the medium-term development of public finances. The second reason the deficit remains relatively low is the surplus in the local government budget.

As a result, along with the gradual economic recovery, the overall public budget deficit relative to GDP is expected to stay close to 2.5% of GDP. Risks are elevated and skewed towards a higher deficit, particularly if a trade war with the US escalates, leading to lower GDP growth, and due to anticipated higher defense investments, which will likely be financed through debt.

Government sector debt is gradually increasing, and this trend is likely to continue in the coming years. However, the overall public debt-to-GDP ratio remains low, with recent y/y changes being relatively modest.

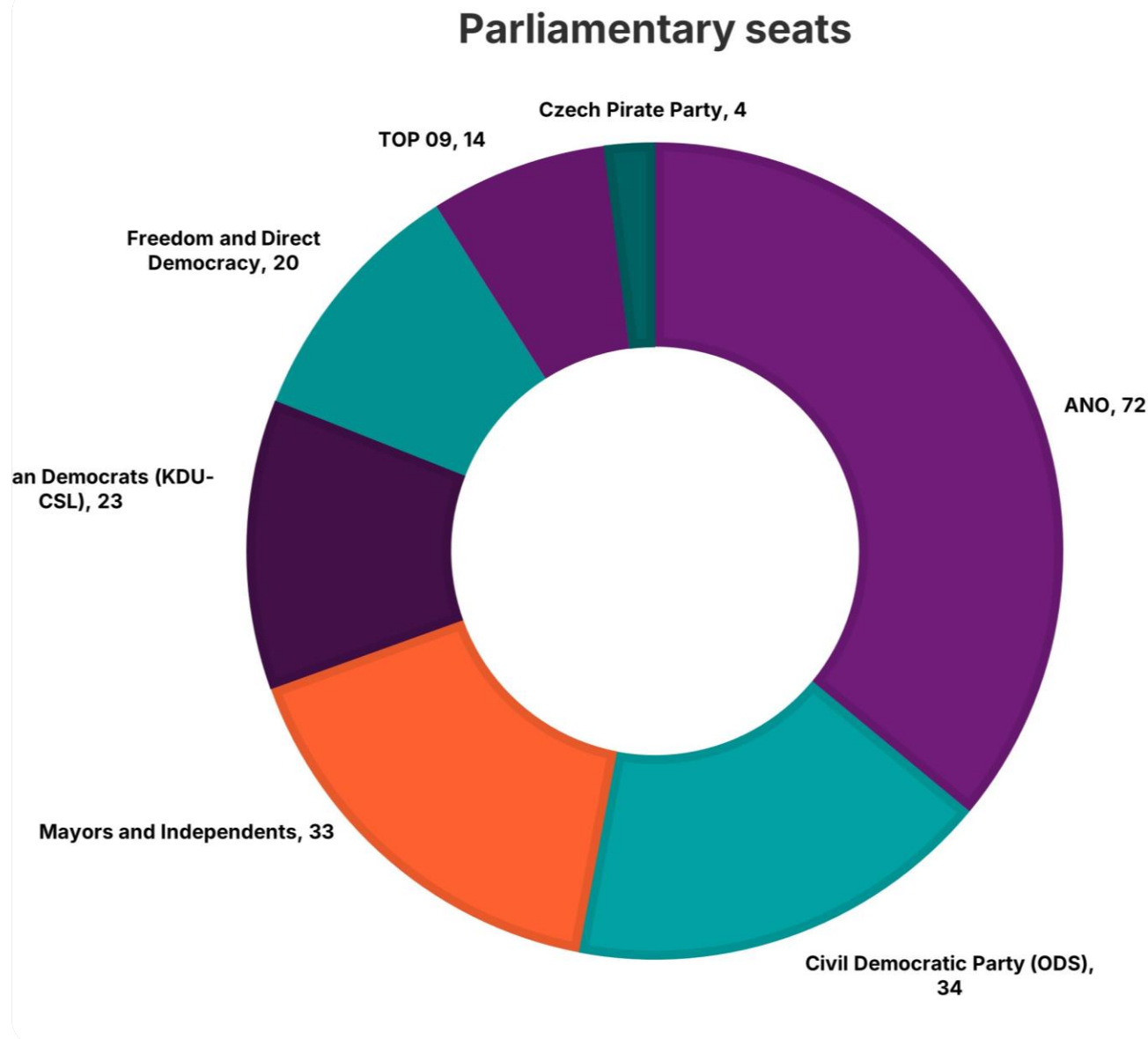
Political landscape

The parties of the current pro-EU government coalition hold 104 out of 200 seats in parliament, making it likely they will remain in power until the elections. This holds true even after the recent bitcoin scandal, which led to the resignation of the Minister of Justice.

Parliamentary elections are scheduled for October this year, and the electoral campaign is gradually gaining momentum in Czechia.

Currently, the opposition movement Anò, led by former Prime Minister Babiš, is leading in the polls by a significant margin. However, a substantial percentage of voters may decide at the last minute. Additionally, as in the past, the composition of the next government will largely depend on the electoral performance of smaller parties, many of which are currently hovering around the 5% threshold required for entry into parliament.

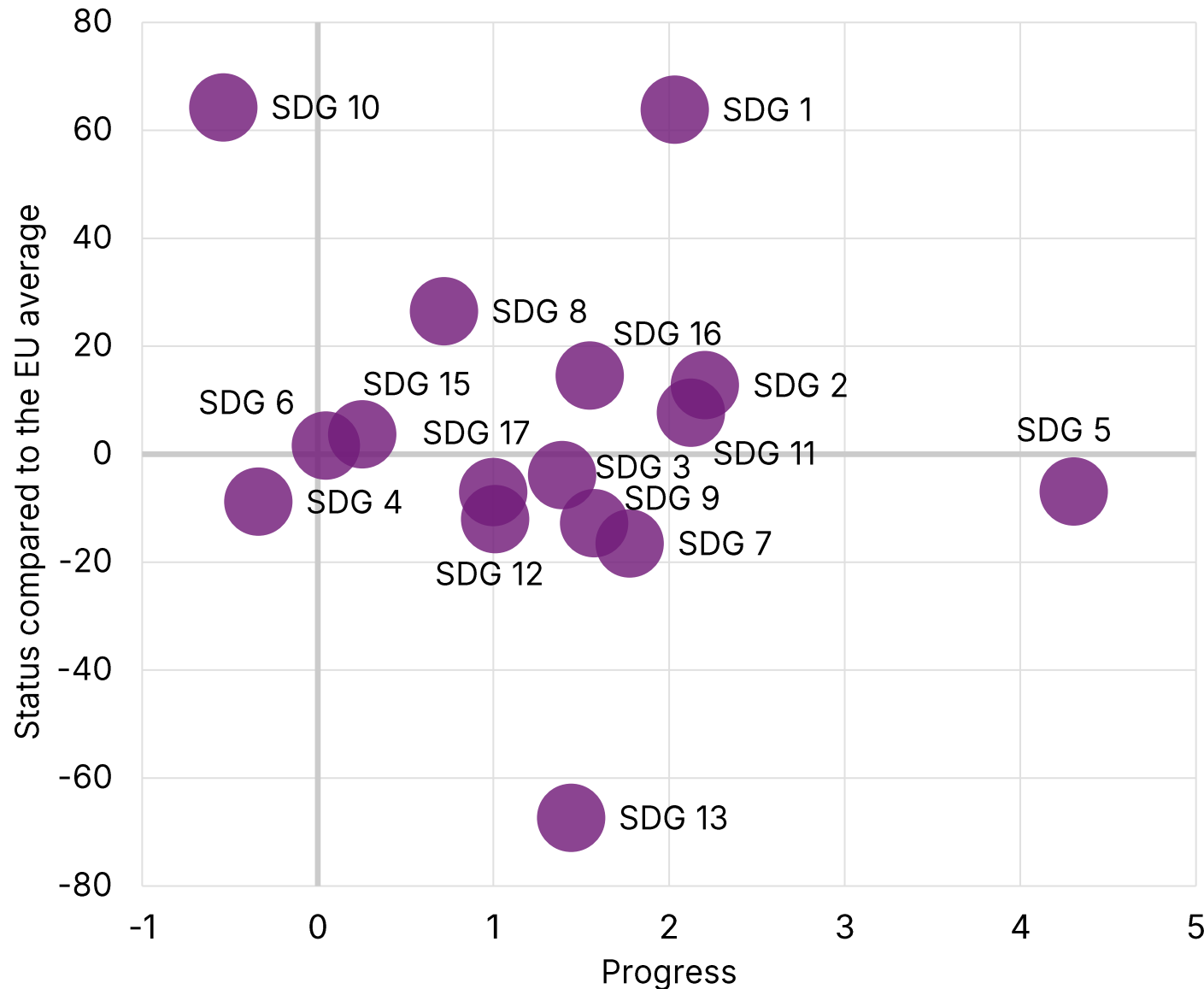
Currently, it is unclear how much economic policy will change after the elections, as it will significantly depend on the number of parties in parliament and the composition of the new government. Given pre-election surveys, it cannot be ruled out that the far-right SPD (Freedom and Direct Democracy) may be part of the next government.



Social Development Goals

Czechia continues to excel in social development goals, particularly in poverty reduction, maintaining one of the lowest poverty rates in the OECD. Institutional quality has also seen marked improvement.

However, given the substantial role of industry in GDP, additional measures are required to curb energy consumption and carbon emissions. Furthermore, while significant strides have been made, there is still scope for advancing gender equality.

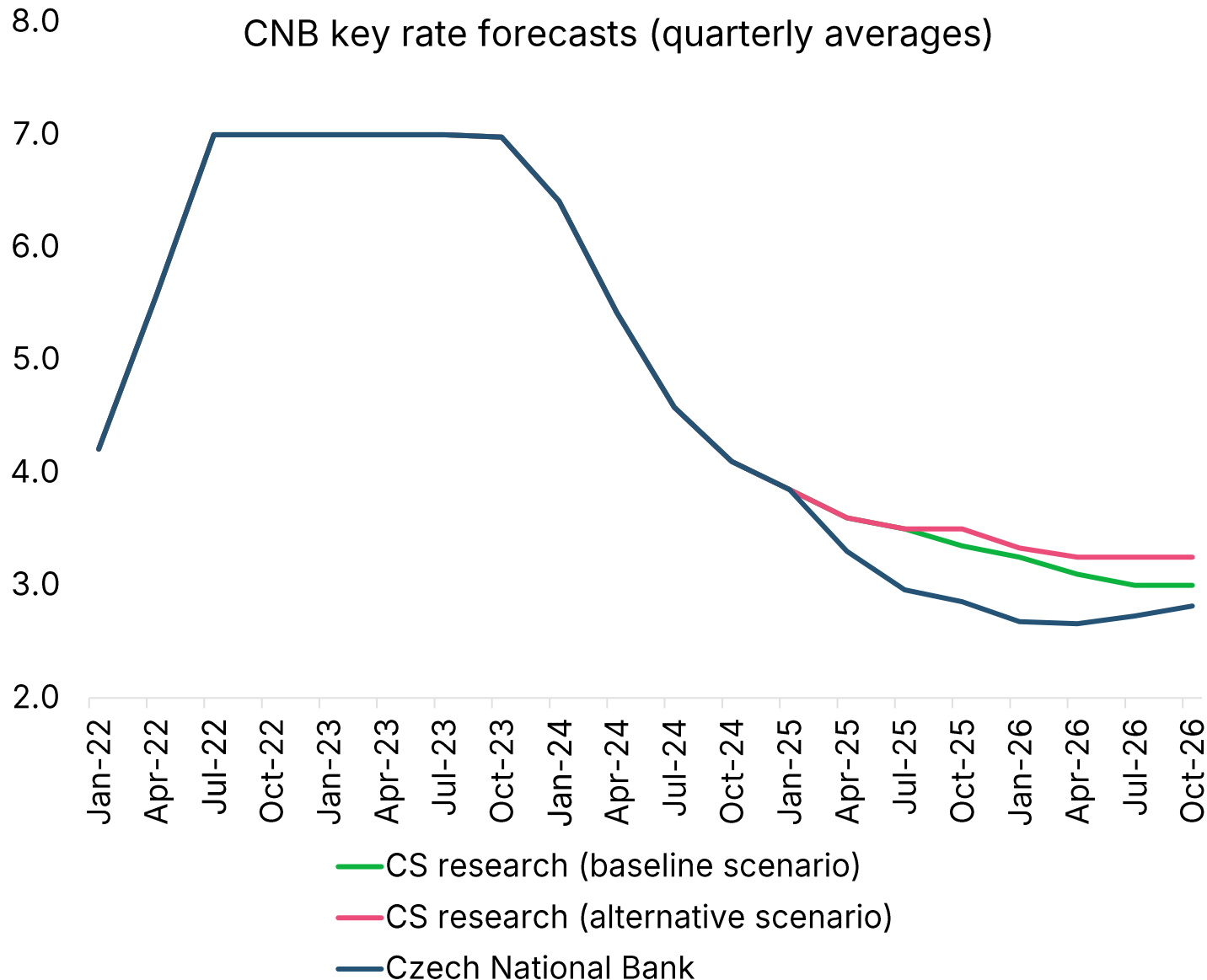


The CNB is getting close to the neutral rate

The CNB began reducing interest rates from 7% at the end of 2023. The current main rate of 3.50% is already close to the level where the CNB might stop, unless there are significant changes in the Czech (global) economy. However, it is still unclear at which rate level this will occur.

Overall, we now see only limited room for further rate cuts, potentially amounting to just 1-2 standard reductions of 25 basis points each.





Neutral interest rate

Throughout this year, we expect a gradual easing of inflation in food and service prices, which should allow for further CNB rate cut(s).

In our baseline forecast scenario, we anticipate an additional rate cut this November and the final one in May 2026, assuming a neutral interest rate in the Czech economy around 3%.

In addition to uncertainty related to global macroeconomic developments, the value of the neutral rate itself poses an additional risk. The CNB also assumes it at 3%, which subsequently influences the implied rate trajectory in the CNB's forecast.

However, some current CNB board members view it higher, potentially influencing the level at which they would prefer to halt. This increases the risk that the CNB might ultimately stop at 3.25% or even the current 3.50% if this view prevails. We view this scenario as an alternative, with its probability increasing.

Czechia: Forecasts

	2018	2019	2020	2021	2022	2023	2024	2025f	2026f
Percent				Annual average					
Real GDP growth	2.8	3.5	-5.3	4.0	2.9	0.1	1.0	1.9	2.2
Private consumption growth	3.4	3.0	-6.6	4.1	0.4	-2.8	2.0	2.5	2.5
Fixed capital formation growth	8.9	7.4	-4.8	6.7	6.3	2.7	-1.4	0.7	2.7
Inflation	2.1	2.8	3.2	3.8	15.1	10.7	2.4	2.5	2.3
Unemployment rate	2.2	2.0	2.6	2.8	2.2	2.6	2.7	2.9	3.5
Percent of GDP									
Budget balance	0.9	0.3	-5.6	-5.0	-3.1	-3.8	-2.2	-2.4	-2.5
Public debt	31.6	29.5	36.9	40.7	42.5	42.5	43.6	44.2	44.8
Current account balance	0.4	0.3	1.8	-2.1	-4.7	0.3	1.8	1.9	1.4
				End of year					
EURLCY	25.72	25.42	26.24	24.89	24.16	24.70	25.20	24.80	24.40
Central bank policy rate	1.75	2.00	0.25	3.75	7.00	6.75	4.00	3.25	3.00
3M interbank offer rate	2.01	2.18	0.36	4.08	7.26	6.77	3.92	3.31	3.07
2Y Yield	1.50	1.77	0.14	3.65	5.58	5.40	3.45	3.12	2.97
5Y Yield	1.76	1.46	0.84	3.30	5.30	4.24	3.82	3.36	3.29
10Y Yield	1.94	1.63	1.30	2.86	5.10	4.28	4.22	3.62	3.53

Czechia : Country overview

Official EU language: Czech

Capital: Prague

Geographical size: 78 871km²

Population: 10 900 555

GDP per capita: EUR 34 200, below the EU average

Currency: Czech koruna CZK

Credit Ratings:

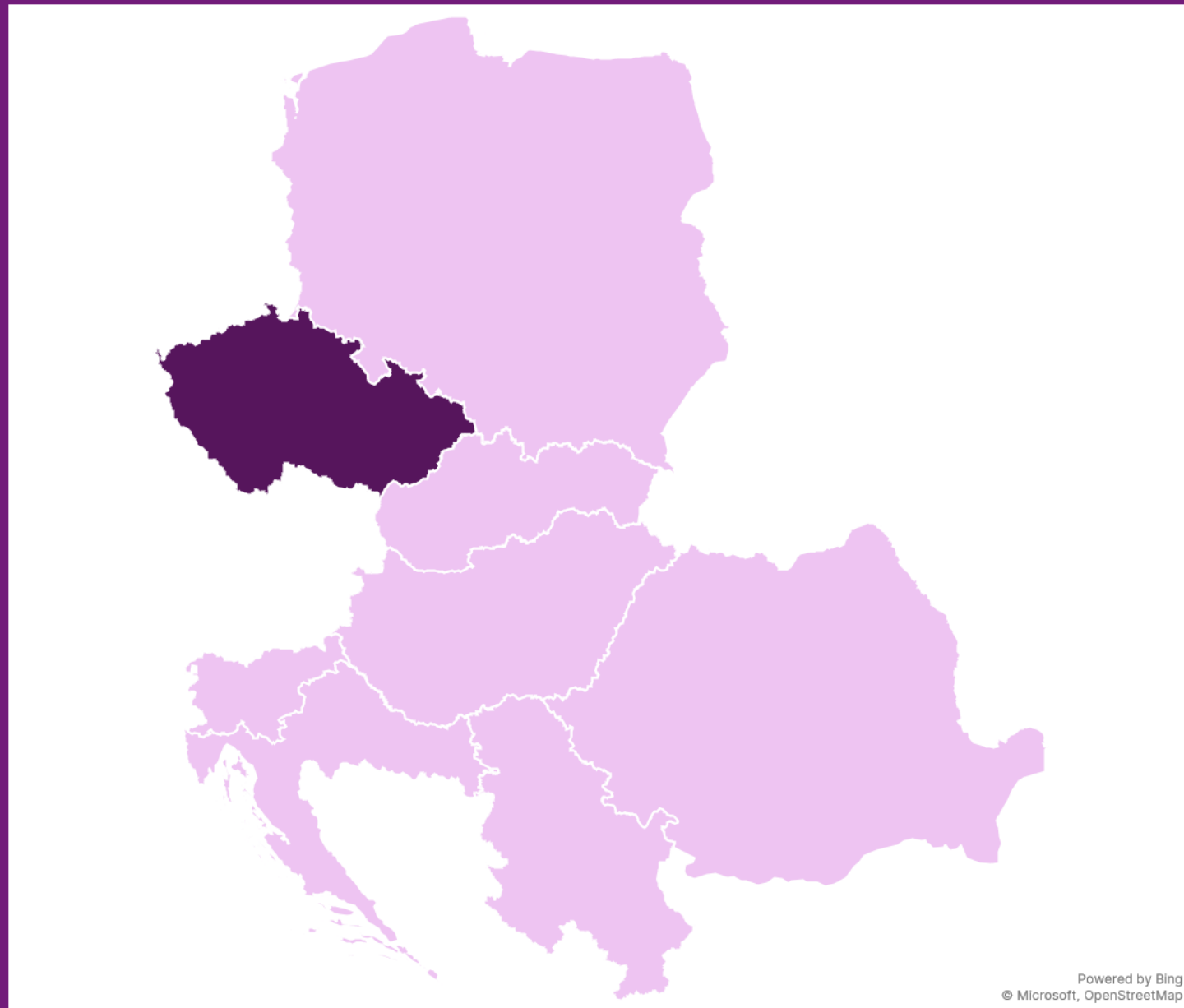
Moody's: Aa3, outlook stable

S&P: AA-, outlook stable

Fitch: AA-, outlook negative

EU member state: since 1 May 2004

Schengen: member since 21 December 2007



Follow #ErsteGroupResearch on LinkedIn



David Navratil



Jiri Polansky



Michal Skorepa

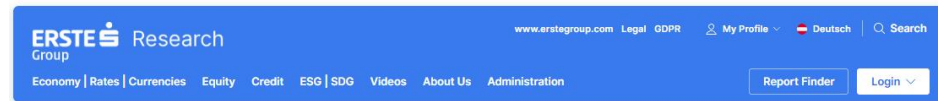


**Give us
feedback!**

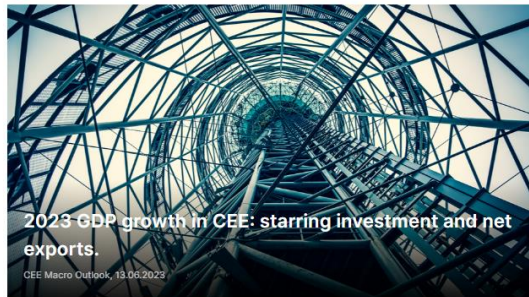


Macro reports & forecasts are publicly available on Erste Group's website and our mobile applications

Open in your **browser**



CEE



CEE Insights, 12.06.2023

May's inflation numbers will be flowing in

This week, May's inflation numbers will be flowing in throughout the week. We have already seen the flash estimates in Poland and Slovenia (inflation...

[More](#) [PDF](#)



CEE Macro Outlook, 07.06.2023

Baltics: Slow growth and lower inflation

As a consequence of the fallout of the war in Ukraine, Baltic economies have witnessed a deceleration in growth, with Estonia even experiencing a...

[More](#) [PDF](#)



CEE Challenges for the new decade:

- No.1 Demography
 - No.2 Going Green
 - No.3 Rule of Law
 - No.4 Healthcare
 - No.5 Euro Adoption
 - No.6 Labor Market
 - No.7 Education
 - No.8 Regional Development
 - No.9 Capital Markets
- [Full series of reports](#)

Instant Comments [Show More](#)

RO: May CPI surprised to the upside
Instant Comment, 13.06.2023

CZ: Inflation affected by food prices
Instant Comment, 12.06.2023

SK: Industry back in the red
Instant Comment, 09.06.2023

Daily Updates [Show more](#)

2023 GDP forecast revised
CEE Macro and FI Daily, 13.06.2023

On your **mobile**



CEE



CEE Macro Outlook, 13.06.2023

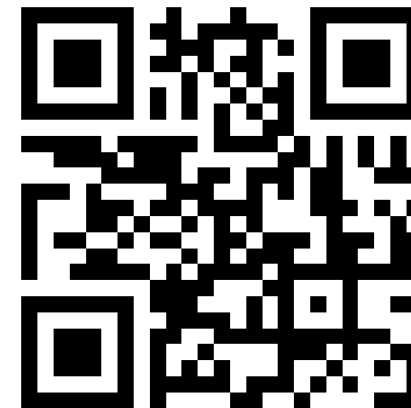
2023 GDP growth in CEE: starring investment and net exports.

We revise our 2023 GDP forecast to 1.3% (CEE8 average), driven by upward revision of growth in Croatia and Poland. Czechia and Hungary went through a...

[More](#) [PDF](#)



Scan our QR code



Visit our research page:
erstegroup.com/en/research

Contacts

Visit www.erstegroup.com or type on Bloomberg [ESTE <GO>](#)

Erste Group Research (Vienna)

Fritz Mostböck, CEFA®, CESGA®
Head of Group Research
+43 5 0100 11902
friedrich.mostboeck@erstegroup.com

Juraj Kotian
Head of CEE Macro/ FI Research
+43 5 0100 17357
juraj.kotian@erstegroup.com

Rainer Singer, CEFA®
Head of Major Markets & Credit Research
+43 5 0100 11909
rainer.singer@erstegroup.com

Henning Eßkuchen
Head of CEE Equity Research
+43 5 0100 19634
henning.esskuchen@erstegroup.com

Local Research Offices

Bratislava
Slovenska Sporitelna
Head: Maria Valachyova
+421 (2) 4862 4158
valachyova.maria@slsp.sk

Budapest
Erste Bank Hungary
Head: Jozsef Miro
+36 (1) 235 5131
Jozsef.Miro@erstebroker.hu

Bucharest
Banca Comerciala Romana (BCR)
Head: Ciprian Dascalu
+40 3735 10 424
ciprian.dascalu@bcr.ro

Prague
Ceska Sporitelna
Head: David Navratil
+420 224 995 439
DNavratil@csas.cz

Warsaw
Erste Securities Polska
Head: Cezary Bernatek
+48 22 257 5751
Cezary.Bernatek@erstegroup.com

Zagreb/ Belgrade
Erste Bank
Heads: Alen Kovac, Mladen Dodig
+385 72 37 1383, +381 1122 09178
akovac2@erstebank.com
Mladen.Dodig@erstebank.rs

Disclaimer

This publication was prepared by Erste Group Bank AG or any of its consolidated subsidiaries (together with consolidated subsidiaries "Erste Group") independently and objectively as general information. This publication serves interested investors as additional source of information and provides general information, information about product features or macroeconomic information without emphasizing product selling marketing statements. This publication does not constitute a marketing communication pursuant to Art. 36 (2) delegated Regulation (EU) 2017/565 as no direct buying incentives were included in this publication, which is of information character. This publication provides only other information without making any comment, value judgement or suggestion on its relevance to decisions which an investor may make and is therefore also no recommendation. Thus this publication does not constitute investment research pursuant to Art. 36 (1) delegated Regulation (EU) 2017/565. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to the prohibition on dealing ahead of the dissemination of investment research. The information only serves as non-binding and additional information and is based on the level of knowledge of the person in charge of drawing up the information on the respective date of its preparation. The content of the publication can be changed at any time without notice. This publication does not constitute or form part of, and should not be construed as, an offer, recommendation or invitation for a transaction in any financial instrument or connected financial instruments, and neither this publication nor anything contained herein shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or inclusion of a financial or connected financial instrument in a trading strategy. Information provided in this publication is based on publicly available sources which Erste Group considers as reliable, however, without verifying any such information by independent third persons. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forecasts, opinions and expectations contained herein are fair and reasonable, Erste Group (including its representatives and employees) neither expressly nor tacitly makes any guarantee as to or assumes any liability for the up-to-dateness, completeness and correctness of the content of this publication. Erste Group may provide hyperlinks to websites of entities mentioned in this document, however the inclusion of a link does not imply that Erste Group endorses, recommends or approves any material on the linked page or accessible from it. Neither a company of Erste Group nor any of its respective managing directors, supervisory board members, executive board members, directors, officers or other employees shall be in any way liable for any costs, losses or damages (including subsequent damages, indirect damages and loss of profit) howsoever arising from the use of or reliance on this publication. Any opinion, estimate or projection expressed in this publication reflects the current judgment of the author(s) on the date of publication of this document and does not necessarily reflect the opinions of Erste Group. They are subject to change without prior notice. Erste Group has no obligation to update, modify or amend this publication or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. The past performance of a financial or connected financial instrument is not indicative for future results. No assurance can be given that any financial instrument or connected financial instrument or issuer described herein would yield favorable investment results or that particular price levels may be reached. Forecasts in this publication are based on assumptions which are supported by objective data. However, the used forecasts are not indicative for future performance of financial instruments incl. connected financial instruments. Erste Group, principals or employees may have a long or short position or may transact in financial instrument(s) incl. connected financial instruments referred to herein or may trade in such financial instruments with other customers on a principal basis. Erste Group may act as a market maker in financial instruments, connected financial instruments or companies resp. issuers discussed herein and may also perform or seek to perform investment services for those companies resp. issuers. Erste Group may act upon or use the information or conclusion contained in this publication before it is distributed to other persons. This publication is subject to the copyright of Erste Group and may not be copied, distributed or partially or in total provided or transmitted to unauthorized recipients. By accepting this publication, a recipient hereof agrees to be bound by the foregoing restrictions.

Erste Group is not registered or certified as a credit agency in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the Credit Rating Agencies Regulation). Any assessment of the issuers creditworthiness does not represent a credit rating pursuant to the Credit Rating Agencies Regulation. Interpretations and analysis of the current or future development of credit ratings are based upon existing credit rating documents only and shall not be considered as a credit rating itself.

© Erste Group Bank AG 2024. All rights reserved.

Published by:
Erste Group Bank AG
Group Research
1100 Vienna, Austria, Am Belvedere 1
Head Office: Wien
Commercial Register No: FN 33209m
Commercial Court of Vienna

Erste Group Homepage: www.erstegroup.com