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Czech Economic Quarterly

July 15, 2026

The Czech Economy Halfway Through 2026: Cautious Optimism

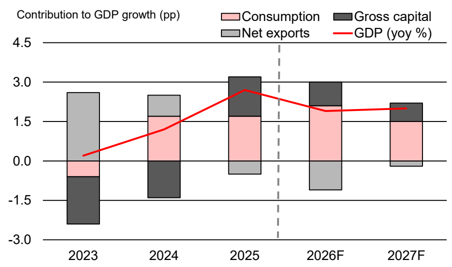
- The June update to our forecast brought a modest improvement in the outlook for the Czech economy: we are raising our GDP growth forecast for this year from 1.6% to 1.9%, with next year's outlook revised up by the same margin. The revision reflects more favorable expectations across the main components of domestic demand, driven in particular by robust wage growth, resilient household consumption, and solid investment activity. The updated forecast assumes the Strait of Hormuz stays largely passable through the second half of the year despite occasional US-Iran tensions. A prolonged renewed conflict that again halts shipping in the region is the main risk to the outlook.
- Inflation has so far come in lower than we expected this year, mainly on the back of food prices. We have lowered our average inflation forecast for 2026 to 2.1% and for 2027 to 3.0%. Core inflation, however, continues to hover near 3%, and services prices are rising at a pace of around 4.5%. Strong wage growth, a tight labor market, faster credit activity, and looser fiscal policy all suggest that inflation risks in the economy remain elevated despite currently low headline inflation.
- In our view, the CNB may not be done yet, and a further hike in the repo rate to 4% remains on the table. Caution will be driven not only by domestic inflationary pressures but also by potential pass-through of firms' Hormuz-related cost increases into consumer prices. The koruna has weathered the turbulence without major losses, helped by the CNB's hawkish stance. We expect an average EUR-CZK rate of 24.30 this year, strengthening toward 24.20 during 2027.
- FOCUS: Despite the eurozone's weak performance, Czech exports remain surprisingly resilient. Since 2019, Czech export volumes have grown at nearly the same pace as global trade, even as eurozone exports lagged well behind. Domestic exporters are benefiting both from growing penetration of markets outside the EU and from their ability to win further business within the EU's internal market.

Key Macroeconomic indicators

Indicator	2025	2026 (F)	2027 (F)
GDP growth *(real yoy change, %)*	2.6	1.9	2.0
Inflation rate *(CPI yoy change, average, %)*	2.4	2.1	3.0
Unemployment rate *(average, %)*	4.4	4.9	4.7
General government balance *(% of GDP)*	-2.1	-2.8	-3.0
CNB repo rate *(end of period, %)*	3.50	4.00	3.50
EUR/CZK exchange rate *(average)*	24.69	24.30	24.25

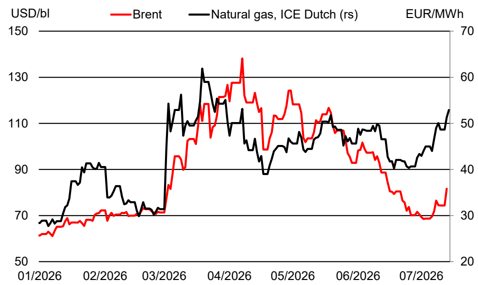
Note: June forecast by UniCredit Bank Czech Republic and Slovakia

Chart 1: Structure of Czech GDP growth



Source: ČSÚ, UniCredit

Chart 2: Energy Commodity Prices



Source: Macrobond, UniCredit

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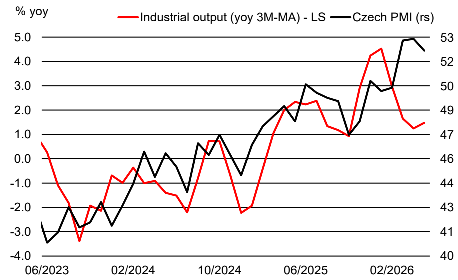
External economic environment: Hormuz reopened?

The closure of the Strait of Hormuz for more than three months, caused by the first phase of the war between the US and Iran, represents yet another in a series of supply shocks for the global economy. Firms had to contend with reduced availability of production inputs as well as upward pressure on their prices, which by some measures reached the highest level since 2022 (see Chart 7). Despite these difficulties, the **global economy** should nonetheless maintain growth above 3% this year, and good news for Czech firms would be Germany's economy delivering on forecasts for a gradual recovery. Germany is expected to grow 0.6% this year and 1.5% next year.

The 60-day ceasefire between the US and Iran announced in June markedly calmed market sentiment and normalized oil prices close to pre-war levels. Our updated forecast assumes that, despite occasional episodes of short-term tension, Hormuz will remain largely open through the **second half of the year** and that **average Brent crude** will hold just **below USD 80/barrel**. This assumption is the forecast's main risk, since many scenarios exist for oil prices depending on how the conflict evolves. Should the conflict flare up again in full force and oil prices return above USD 100/barrel, this would mean redrawing the forecasts in a stagflationary direction.

Chart 3: Industrial production and S&P PMI in Czechia

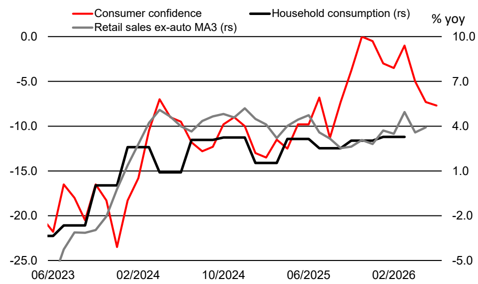


Source: Macrobond, UniCredit

Domestic economy: a more optimistic outlook

Compared with our March forecast, we are **raising our outlook for this year's domestic GDP growth** from 1.6% to 1.9%, and for next year from 1.7% to 2.0%. The revision reflects a slightly more optimistic outlook across all main components of domestic demand. Expected resumed shipping through the Strait of Hormuz should lift household and business sentiment, supporting both consumption and investment. **Household consumption** should also benefit from robust wage growth, already suggested by 1Q26 data. Nominal wage growth in the first quarter (8.1% yoy) exceeded expectations, leading us to raise our full-year forecast to 6.9%. Combined with a lower inflation outlook (more on p. 3), this lifts **expected real wage growth** this year to 4.7%. Monthly retail data also confirm decent consumer appetite, with real retail sales (excluding automotive) up more than 4% yoy for January-May. While above-average wage growth will stimulate consumption and overall demand this year, it also signals an overheated labor market that constrains the economy and generates pro-inflationary tendencies. As Chart 5 illustrates, the domestic economy currently finds itself in a phase where wage growth significantly outpaces productivity growth.

Chart 4: Consumer confidence, retail sales and household consumption

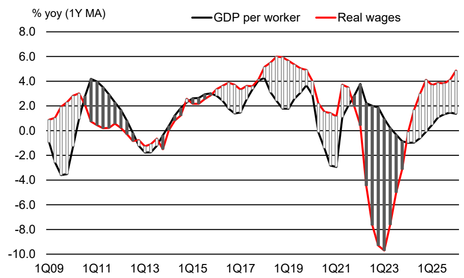


Source: ČSÚ, UniCredit

First-quarter data also showed decent momentum in **fixed investment** (6% yoy), driven mainly by non-residential construction and transport equipment. While we still expect weaker investment growth this year than last, we are less pessimistic than in March and have raised our outlook to above 2% yoy. We also expect **inventory accumulation** to make a positive contribution to gross capital formation this year. Corporate surveys in industry have for several months indicated that, wary of future shortages and rising input costs, both European and Czech firms are stockpiling.

Another piece of positive news this year has been **Czech firms' export activity** (see the Focus section on p. 4 for more). In the first quarter, export growth exceeded 5% in real terms, and monthly data for April and May point to similarly strong figures. Although we expect exports to cool somewhat in the second half, we have raised our full-year outlook to slightly above 3% yoy. Imports, however, should retain stronger momentum than exports, so foreign trade's contribution to GDP growth will remain slightly negative, similar to last year.

Chart 5: Labor productivity and real wages in Czechia



Source: ČSÚ, UniCredit

Domestic industrial production has pleasantly surprised this year, maintaining fairly stable real growth even during the first months of the Iran conflict (cumulative 1.5% yoy for January-May). The question remains whether (and to what extent) industrial output will slow in the second half, once the pan-European stockpiling effect, which has been helping Czech producers so far, fades.

Czech Economic Quarterly

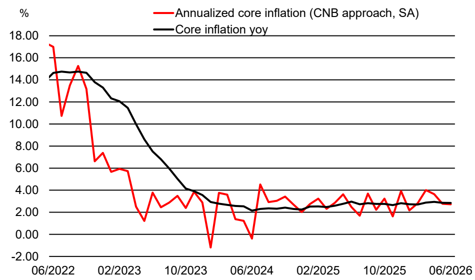
July 15, 2026

Inflation, monetary policy and the koruna

Domestic inflation developments bring both good news and bad. So far this year, inflation has more often surprised to the downside, which, combined with a lower outlook for oil prices, is pushing **our 2026 inflation forecast** down to 2.1% (versus 2.4% previously). The outlook for the more distant future is less optimistic, however, and it is precisely the longer horizon that the Czech National Bank must focus on.

The latest data for June showed inflation of just 1.5% yoy, which somewhat understates the true state of underlying price pressures in the Czech Republic. Such low headline figures are mainly due to cheaper food and an administrative cut in energy prices at the start of the year. **Core inflation** (stripped of volatile items — food, energy, alcohol and tobacco), by contrast, remains close to 3% with no clear sign of a slowdown. **Services inflation**, another key gauge of domestic price pressures, reached 4.5% yoy in June. This untamed inflation in services is also illustrated by the annualized month-on-month price dynamics, which are less distorted by last year's base effect and yet still average 4.5% in 2Q26.

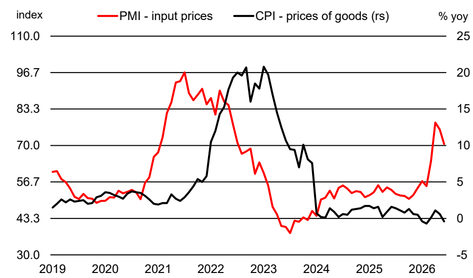
Chart 6: Core inflation – yoy and annualized mom growth



Source: ČNB, Macrobond, UniCredit

Another piece of the domestic inflation picture is **strong wage growth**, already touched on in connection with household consumption. Rising wages despite weak productivity growth point to a tight labor market — one that could tighten further still, should the war in Ukraine reach an early peaceful resolution, which would risk the loss of additional workers. **Private-sector credit growth** has also picked up noticeably this year, and **fiscal policy** will continue working in a pro-inflationary direction too. Following last year's deficit of 2.1% of GDP, we expect a shift to 2.8% this year and 3.0% in 2027. Next year's outlook is further burdened by risks, and a breach of the 3% threshold cannot be ruled out.

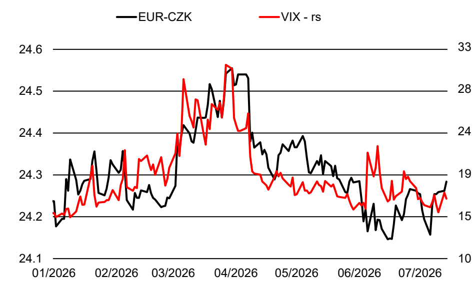
Chart 7: PMI index of input prices and consumer inflation of goods in Czechia



Source: ČNB, Macrobond, UniCredit

The Middle East war has also not finished playing its part in the inflation outlook. **The Hormuz blockade** lasted more than three months. Supply disruptions, combined with a wave of stockpiling by industrial firms, drove a noticeable rise in manufacturing input costs (see Chart 7). Firms can be expected to gradually pass part of these costs on to end customers, pushing inflation higher with a lag. The global economy has yet to feel this aftershock in full, and combined with the domestic trends above, it should keep the central bank cautious. Despite currently low inflation, we believe a **further CNB rate hike** to 4% is a real possibility, especially if the ECB also delivers its second hike of the year this autumn. We don't expect a majority on the CNB Board to back a further hike until inflation returns to the 2-3% range later in the year. **In 2027**, we expect average inflation of 3.0%, though its composition should shift toward a larger contribution from recovering food prices and a smaller one from core categories. In 2H27, this should give the CNB room to gradually unwind its tight stance and cut the rate back to 3.50%.

Chart 8: EUR-CZK and „fear index“ VIX



Source: Macrobond, UniCredit

The Czech koruna has so far navigated global turbulence gracefully. This year the currency's trend has been driven mainly by geopolitical themes and overall market sentiment (Chart 8). When the Iran war broke out and market nervousness peaked, the koruna did weaken, but only modestly, within a 1% range. The koruna thus remains surprisingly resilient and continues to hold its reputation within CEE as a somewhat "boring" currency. The Czech macro environment is relatively healthy by Central European standards, the central bank is independent, and its reserves are unusually high. We expect an average koruna rate of 24.30 this year. Autumn geopolitical events — continued US-Iran talks, US midterms, a possible Fed tightening — will likely keep markets uncertain, preventing the koruna from strengthening much. For next year, we expect gradual strengthening toward 24.20. The geopolitical environment should increasingly work in the koruna's favor, while a mild narrowing of the rate differential with the eurozone in 2H27 will act as a headwind.

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FOCUS: The resilience of Czech exports

Recent months have once again confirmed that **Czech exports remain remarkably resilient**, even amid geopolitical turbulence and the underperformance of the eurozone.

According to data from the CPB World Trade Monitor, which measures physical cross-border flows of goods, the volume of global exports grew by 19% between 2019 and Q1 of this year. Similar figures can be seen for the United States (18%) and the Czech Republic* (17%), which is keeping pace with the global economy reasonably well. In sharp contrast stands China's export growth of 72%, while eurozone exports, on the other hand, fell by 8 to 9% (see Chart 9)**. This unfavorable trend in the eurozone is not particularly surprising, given that eurozone manufacturing output in 2025 remained at a level comparable to 2007.

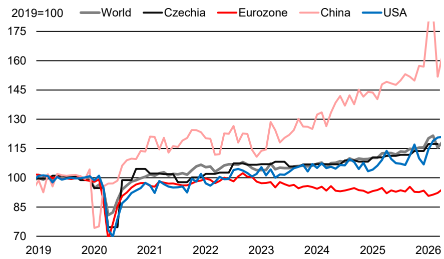
The success of Czech exporters is crucial for our economy, since exports effectively generate around 40% of Czech GDP. In our view, the performance of Czech exporters to date, despite the eurozone's underperformance, rests on two pillars. First, there is a clear **ability to find new markets outside the EU**. Here, for illustration, we use data on nominal export growth rather than the real flow figures used earlier in this text. Between 2019 and 2025, nominal growth in Czech goods exports was 46% for exports outside the EU, compared with 40% for exports to the EU. The latter naturally continues to dominate in terms of total volume, so the share of exports going to EU countries fell by "just" 0.6 percentage points over these six years (to 78.8%).

The second pillar is the stronger one: **the ability of Czech exporters to assert themselves in the EU's internal market** to a relatively greater degree than the EU's own export performance would suggest. The aforementioned growth in Czech nominal exports to the EU between 2019 and 2025 (40%) noticeably outpaced the EU's overall export dynamics (30%) and stands out even more clearly against the export growth of the "sick man of Europe" — Germany (18%).

Among the most significantly **growing Czech export destinations** over the six-year period examined were Poland, Turkey and the US, offset in particular by a declining share of exports to Russia and Germany (Chart 10). In terms of export items, the largest contributors to overall export growth were motor vehicles, followed at some distance by machinery, electrical equipment, food products, electronics, and metal, chemical and plastic products (Chart 11).

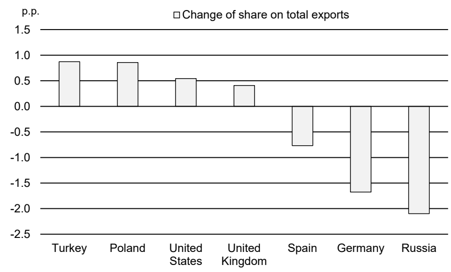
Will Czech exporters continue to keep pace with the world? Planned increases in European spending on defense, infrastructure, the green transition and IT technology could work in our favor. The ability to innovate and maintain a good quality-to-price ratio, however, will be key to success. Long-term success in global markets would undoubtedly be helped by productivity growth, which Czechia has rather lacked in recent years.

Chart 9: Real volume of export of goods



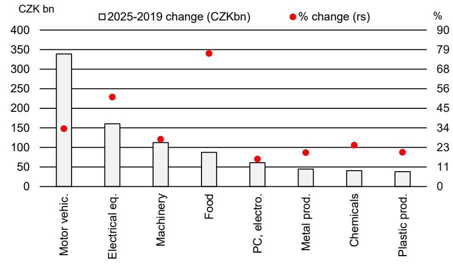
Source: CPB World Trade Monitor, Macrobond, ČSÚ, UniCredit

Chart 10: Biggest changes in share of export destinations on total Czech export



Source: ČSÚ, UniCredit

Chart 11: Drivers of Czech export growth



Source: ČSÚ, UniCredit

*For the Czech Republic, we use national accounts data due to its unavailability in the CPB World Trade Monitor database.

** National accounts statistics—where, for example, a portion of the value of custom-manufactured goods produced in China for a German company is counted towards German exports—are more favorable for eurozone exports. However, this does not materially change the picture of the eurozone lagging behind other global players.

Czech Republic Macroeconomic Outlook

Indicator	2023	2024	2025	2026F	2027F
GDP growth *(real yoy change, %)*	0.0	1.3	2.6	1.9	2.0
Household consumption *(real yoy change, %)*	-2.8	2.5	2.5	3.2	2.1
Gross fixed capital formation *(real yoy change, %)*	4.2	-2.3	3.1	2.5	3.5
Industrial output *(real yoy change, %)*	-0.8	-1.0	2.1	1.3	2.0
Unemployment rate *(average, %)*	3.6	3.8	4.4	4.9	4.7
Inflation rate *(CPI yoy change, average, %)*	10.7	2.4	2.4	2.1	3.0
Average wages *(nominal yoy change, %)*	7.2	7.2	7.2	6.9	5.4
Interest rates *(3-M PRIBOR, end of period, %)*	6.97	3.91	3.54	4.10	3.65
Interest rates *(3-M PRIBOR, average, %)*	7.13	4.98	3.60	3.76	3.93
EUR/CZK *(end of period)*	24.73	25.19	24.25	24.30	24.20
EUR/CZK *(average)*	24.01	25.12	24.69	24.30	24.25
Current account balance *(% of GDP)*	-0.1	1.7	0.7	-0.7	-0.4
FDI net inflow *(% of GDP)*	1.0	0.2	0.6	0.5	0.5
General government balance *(% of GDP)**	-3.7	-2.0	-2.1	-2.8	-3.0
Public debt *(% of GDP)*	42.2	43.2	44.2	45.3	46.0

Remarks:
**/ ESA 2010 definition.*
Sources: Czech National Bank, Czech Statistical Office.
June forecast by UniCredit Bank