

Czech Economic Quarterly

October 5, 2026

Czech Economy in 2026: Resilient Despite a Challenging Environment

- **The Czech economy** has so far shown surprising resilience to the challenging external environment. On the supply side, it is supported by solid industrial performance, with the recovery becoming increasingly broad-based across sectors. On the demand side, robust household consumption and stronger-than-expected investment activity remain key supports. We expect real GDP growth of 2.0% this year, accelerating to 2.2% in 2027. The outlook, however, remains clouded by considerable uncertainty stemming from the difficult-to-predict developments in energy markets.
- **This year's low headline inflation** may be giving a false sense of comfort. Headline inflation has been held down mainly by lower food prices and administrative effects in energy, while core inflation has remained close to 3% for more than a year. Persistent domestic price pressures are now being reinforced by higher energy commodity prices, a more expansionary state budget and public-sector wage growth. The risk that prolonged high energy costs will gradually spill over into broader price dynamics has increased in recent months. We expect average inflation of 2.1% this year, rising to 3.0% in 2027.
- **The CNB's monetary policy** story is not over yet, in our view. A combination of persistently high core inflation, more expensive energy, looser fiscal policy and higher rates abroad should prompt the CNB to raise the repo rate to 4% in November. Meanwhile, the koruna has weathered geopolitical turbulence with surprising calm, although part of its strength reflects overly hawkish market expectations for the CNB. As these expectations moderate, the scope for further appreciation should diminish. We therefore expect only a marginal strengthening of the average EUR-CZK rate to 24.25 in 2027.
- **FOCUS: Public finances** are entering a less comfortable era. In an environment of higher interest rates, governments can no longer rely on economic growth alone to "grow out" of large deficits. With the current structure of the Czech budget, stabilising the debt ratio would require exceptionally strong long-term growth that is difficult to regard as realistic. Returning public finances to a sustainable path will therefore require active measures on either the revenue or expenditure side.

Chart 1: Structure of Czech GDP growth

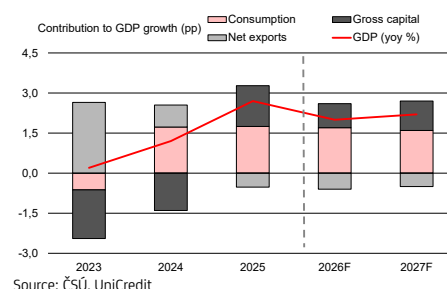
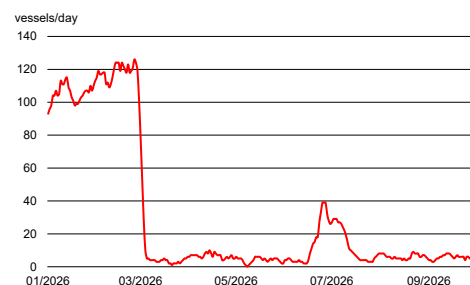


Chart 2: Official Traffic through the Strait of Hormuz



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Key Macroeconomic indicators

Indicator	2025	2026 (F)	2027 (F)
GDP growth (real yoy change, %)	2,6	2,0	2,2
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	-3,5
CNB repo rate (end of period, %)	3,50	4,00	3,50
EUR/CZK exchange rate (average)	24,69	24,30	24,25

Forecast of UniCredit Bank Czech Republic and Slovakia. Based on data available as of 20 September 2026.

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External Economic Environment: Stalemate in the Strait of Hormuz

The conflict between the US and Iran has now lasted for more than seven months. The collapse of the previously announced 60-day ceasefire and the continued intransigence of both sides offer little hope of a lasting solution in the near term. In our baseline scenario, we assume a frozen conflict for the remainder of this year, which should keep the average **Brent crude** oil price slightly above USD 90/bbl in 4Q26. We expect tensions, and shipping through the Strait of Hormuz, to ease gradually over the course of next year, allowing oil prices to move back towards their pre-war level of around USD 70/bbl.

A key uncertainty for Europe's energy outlook is not only oil and oil products, but also **natural gas**. European gas markets have been visibly nervous in recent months due to low storage levels across the region. The benchmark TTF gas price briefly climbed above EUR 80/MWh (Chart 3), its highest level since 2022. As with oil, UniCredit Group's outlook assumes that tensions in the gas market will gradually ease next year, reflected in an expected average spot price of EUR 44/MWh in 2027. As in previous months, however, the outlook for energy commodity prices remains the least reliable input into the forecasting process.

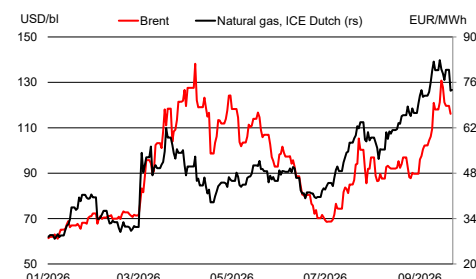
The **global economy** has so far coped with the disruption to shipping through the Strait of Hormuz better than expected. Germany has been a positive surprise, with its economic recovery continuing despite the difficult energy environment and thereby providing a more supportive backdrop for Czech growth as well. This does not mean, however, that a prolonged closure of the Strait of Hormuz would be without consequences. The longer energy prices remain elevated, the greater the risk that they spill over into broader price categories, adding to the inflation outlook for next year.

Domestic Economy: Resilient Despite a Challenging Environment

The performance of the Czech economy so far fits into the broader global picture, in which the real economy has proved somewhat more resilient to the energy shock than expected. Against a backdrop of high energy prices and intense global competition, the performance of **domestic industry** stands out in particular (Chart 4). Industrial production in January–July was 2% higher than a year earlier, with year-on-year growth reaching 3–4% in recent months. The key question is how much of this year's industrial performance reflects temporary factors and how much points to a more lasting recovery. Most likely, it is a combination of both. Business surveys suggest that 2Q26 was marked by a global push to build inventories rapidly amid immediate concerns about the impact of the Hormuz crisis, providing only a temporary boost to production. A more lasting factor could be a tendency among European companies to shorten supply chains. Czech firms may be well placed to take over supplier roles previously held by more geographically distant competitors. Another positive signal for the near-term outlook is that growth this year has been broad-based across most industrial sectors. The recovery therefore appears to be gaining breadth rather than reflecting a one-off success in a single industry.

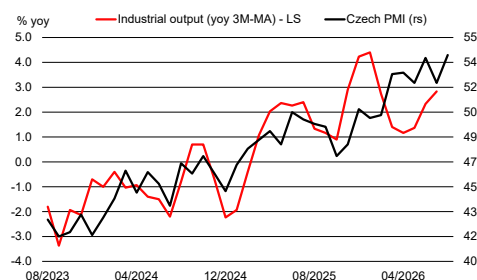
On the demand side, **fixed investment** was a positive surprise in the first half of the year, rising by 7.1% yoy in 2Q26. The composition of investment also revealed some weaker spots, including a decline in IT investment, but full-year fixed investment growth is nevertheless likely to exceed our earlier expectations. However, we still expect investment activity to slow in 3Q and 4Q compared with the first half of the year, reflecting uncertainty linked to volatility in energy markets. **Household consumption** continues to benefit from robust wage growth. Although 1Q26 nominal wage growth was revised down from 8.1% to 6.1% yoy, it remained strong and accelerated further to 6.4% yoy in 2Q26. Monthly retail data confirm solid consumer appetite, with real retail sales excluding cars up by more than 4% yoy in January–July. As for external demand, the solid performance of industry is mirrored in exports, which grew by 3.3% yoy in 2Q26. Our current forecast envisages Czech GDP growth of 2.0% this year, although a recently published CZSO revision, which lowered 2Q26 growth retrospectively to 1.8% yoy, puts the full-year forecast at risk.

Chart 3: Energy Commodity Prices



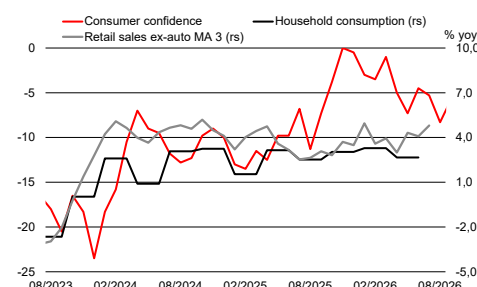
Source: Macrobond, UniCredit

Chart 4: Industrial production and S&P PMI in Czechia



Source: ČSÚ, Macrobond, UniCredit

Chart 5: Consumer confidence, retail sales and household consumption



Source: ČSÚ, Macrobond, UniCredit

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Inflation, monetary policy and the koruna

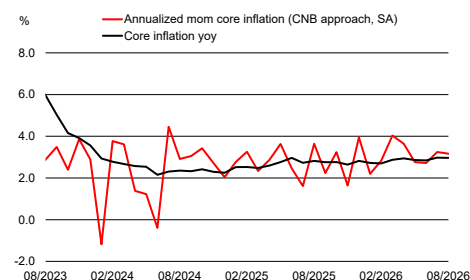
Domestic inflation developments have brought both positive and less encouraging news this year. Inflation has so far been slightly lower than we expected, mainly due to food prices, which have declined markedly in year-on-year terms. Together with the government's administrative intervention in energy prices in January, food prices are the main reason why Czech inflation has remained very low so far, at 1.9% yoy in August. However, once we strip out volatile items that the central bank cannot rely on over the longer term, namely food and energy, we arrive at **core inflation**, which remains close to 3%. More concerning is that this is not a one-off fluctuation, but a persistent trend lasting for more than a year. This raises the question of whether monetary conditions in the Czech economy are sufficiently restrictive, particularly as persistently high core inflation is accompanied by brisk credit growth in the private sector.

The inflation outlook for the coming quarters is also being worsened by the stalemate in the Strait of Hormuz, which has pushed expected oil and gas prices higher. Domestic fiscal policy adds another layer of upside inflation risks. The government's proposed **2027 state budget** targets a deficit of 3.5% of GDP, wider than assumed both in our previous forecast and in the CNB's summer projection (see the Focus on public debt sustainability on page 4). The proposal also envisages public-sector wage growth of 5–9%, which should further reinforce persistent wage pressures in the domestic labour market. In its upcoming rate decisions, the CNB will also take into account the outlook for major **foreign central banks**, which has shifted higher again in recent months. The ECB has already raised rates by half a percentage point this year, and markets expect further tightening. The Fed, which had long delayed adjusting rates, also hiked in September and signalled that this is unlikely to be the final move. The CNB does not need to follow the ECB and Fed mechanically, but their policy stance remains an important consideration.

In our current forecast, we expect domestic inflation to rise further over the remainder of this year and to move significantly above 3% in 1Q27. Given the inflation outlook and the accumulation of risks described above, we expect the **CNB** to deliver one more **repo rate hike** this year, taking the rate to a final level of 4.0%. The most likely timing is the November meeting, when the Bank Board will have a new macroeconomic forecast at its disposal. **In 2027**, we expect **average inflation of 3.0%**, although its composition should gradually shift, with recovering food prices playing a larger role and core components contributing less. In the second half of 2027, inflation should sustainably fall below 3%, creating room for the CNB to gradually ease its restrictive stance and cut the repo rate back to 3.50% by year-end.

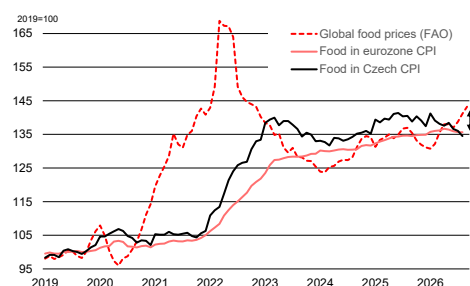
The **koruna exchange rate** (EUR-CZK) has so far navigated the period of global turbulence with remarkable composure. This year, the koruna has broadly followed overall sentiment in global markets (Chart 8). Following the outbreak of the war with Iran, when market nervousness peaked, the currency weakened, but only modestly, by around 1%. The koruna therefore remains surprisingly resilient and continues to rank as the most stable currency in the Central and Eastern European region (CEE). One factor supporting the koruna at strong levels this year has been ambitious market expectations for further CNB rate hikes. While our forecast assumes an additional 25bp increase, markets are pricing in 75–100bp of tightening over the next twelve months. We consider such expectations excessive at this stage. Their subsequent correction should therefore limit the scope for more pronounced koruna appreciation next year, even as geopolitical conditions in global markets may become calmer. Monetary policy across the Atlantic will also remain important for all CEE currencies. In recent weeks, the dollar has benefited from growing expectations of further US rate increases, which has traditionally put depreciation pressure on regional currencies, including the Czech koruna. We expect an average EUR-CZK rate of 24.30 this year and, for the reasons outlined above, only a marginal appreciation to an average of 24.25 next year.

Chart 6: Core inflation – yoy and annualized mom growth



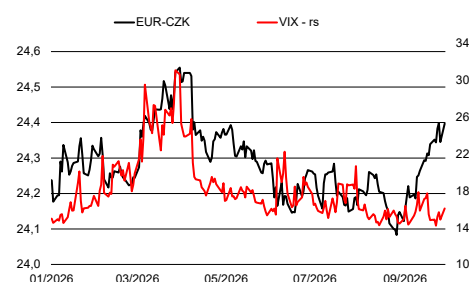
Source: ČNB, Macrobond, UniCredit

Chart 7: Global food prices and food inflation in the Czech Republic and the euro area



Source: Macrobond, UniCredit

Chart 8: EUR-CZK and „fear index“ VIX



Source: Macrobond, UniCredit

FOCUS: Growing Out of Government Deficits Will Be Much Harder Going Forward

The government's proposed 2027 budget, with a deficit of 3.5% of GDP, has sparked an intense debate about the sustainability of Czech public finances. In this article, we argue that the parameters of the basic government debt sustainability equation have changed globally, and that countries can no longer expect to simply "grow out" of today's deficit levels.

In general, the debt-to-GDP ratio, whose stability is the key criterion for long-term fiscal sustainability, rises with the primary¹ deficit plus interest payments and falls with GDP growth. This leads to the textbook rule that if nominal GDP grows faster (g) than the interest rate on government debt (r), the government can "safely" run a certain primary deficit without increasing the debt ratio. As shown by the equation below, the primary deficit consistent with a stable debt ratio can be calculated as the difference (r-g) multiplied by the initial debt-to-GDP ratio.²

The luxury of this "free lunch" under $r < g$ was enjoyed by many advanced economies for at least the past quarter-century. Since 2000, median values of $r-g$ have averaged around -2.0% in Czechia, -1.4% in the US, -0.8% in Germany and -0.4% in France. If these conditions persisted, current debt levels would allow Czechia to run primary deficits of roughly 0.9% of GDP without raising the debt ratio, Germany and France around 0.5%, and the US a generous 1.7%. This period of fiscal comfort, however, appears to be over for some time.

There are good reasons to believe that we have entered an era of higher interest rates that may match or even exceed nominal economic growth. Rising investment needs in defense, energy security, decarbonization and artificial intelligence are increasing demand for capital and, with it, its price. Unlike many investments of previous decades, however, these expenditures may not generate a similarly strong increase in productive capacity. Higher defense spending, for example, may be essential from a security perspective, but its direct contribution to potential output is limited. Bringing production back from China to Europe may improve supply-chain resilience, but often at the cost of higher expenses and lower efficiency. Artificial intelligence may likewise trigger massive investment in data centers, energy and digital infrastructure before its positive impact on productivity becomes visible, while also leaving behind fallen angels, much as some railway companies collapsed after the investment boom of the 19th century. At the same time, population ageing is slowing labor-force and potential-output growth while increasing pressure on public finances and government debt issuance.

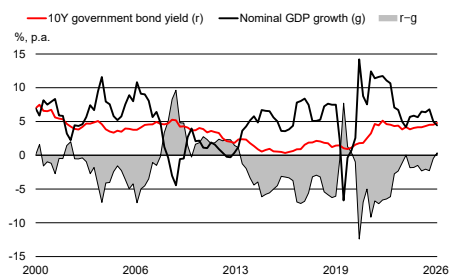
Data for 2Q26 show that the yield on the Czech 10Y government bond slightly exceeded nominal GDP growth (Chart 9). The yield currently stands at around 5.3%, which may be temporary, but for the reasons discussed above, levels close to 5% could plausibly become a new normal in the near future. If nominal GDP growth remained around similar levels over the long term—for example, 2.5% real potential growth plus 2.5% inflation—the fiscal free lunch would disappear, and debt sustainability would require a balanced primary budget. If the Czech government were to continue running primary deficits, how much faster would the economy need to grow to keep the debt sustainable?

Of the announced 2027 budget deficit of 3.5% of GDP, around 1.4pp reflects interest payments, leaving a primary deficit of just over 2% of GDP. Keeping the debt ratio stable with a primary deficit of around 2% of GDP and a bond yield of 5% would require long-term real growth of close to 7%. Czechia currently finances itself at a lower average cost, as the government still benefits from debt issued in the past at low rates and also borrows at maturities shorter than ten years. Nevertheless, the calculation illustrates what the economy would face if a 5% interest rate became the long-term new normal. Even if we assumed that the effective interest rate on Czech government debt remained close to 3%, a primary deficit of 2% of GDP would still require long-term real growth of around 5% per year. Such growth is difficult to imagine on a sustained basis even with successful structural reforms. Czechia still benefits from a relatively low starting level of public debt, and we currently see no signs of markets losing confidence in the Czech state. But keeping it that way will require active measures on either the revenue or expenditure side of the budget. Economic growth alone will not be enough.

¹ The primary government deficit can be broadly defined as the overall deficit excluding interest payments.

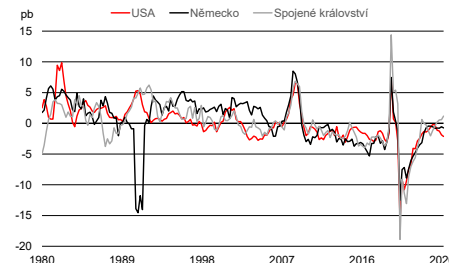
² Debt-ratio dynamics are determined by the equation $\frac{debt}{GDP} = \frac{1+r}{1+g} * \frac{debt_{t-1}}{GDP_{t-1}} - \frac{prim.budget}{GDP}$. A constant debt-to-GDP ratio therefore requires a primary balance of $\frac{prim.budget}{GDP} = \frac{r-g}{1+g} * \frac{debt}{GDP} \approx (r-g) * \frac{debt}{GDP}$.

Chart 9: Government bond yield and nominal GDP growth in Czechia



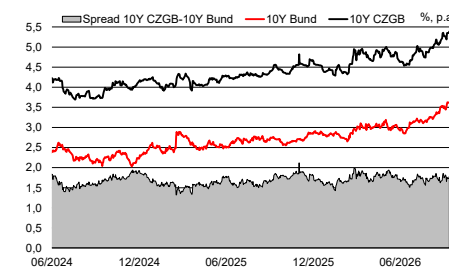
Source: Macrobond, UniCredit

Chart 10: The $r-g$ differential in selected economies



Source: Macrobond, UniCredit

Chart 11: Czech and German government bond yields



Source: Macrobond, UniCredit

Czech Republic Macroeconomic Outlook

Indicator	2023	2024	2025	2026F	2027F
GDP growth (<i>real yoy change, %</i>)	0,0	1,3	2,6	2,0	2,2
Household consumption (<i>real yoy change, %</i>)	-2,8	2,5	2,5	2,7	2,1
Gross fixed capital formation (<i>real yoy change, %</i>)	4,2	-2,3	3,1	4,6	2,8
Industrial output (<i>real yoy change, %</i>)	-0,8	-1,0	2,1	2,4	2,8
Unemployment rate (<i>average, %</i>)	3,6	3,8	4,4	4,9	4,7
Inflation rate (<i>CPI yoy change, average, %</i>)	10,7	2,4	2,4	2,1	3,0
Average wages (<i>nominal yoy change, %</i>)	7,2	6,6	6,6	6,2	5,6
Interest rate 3M PRIBOR (<i>end of period, %</i>)	6,97	3,91	3,54	4,10	3,65
EUR/CZK (<i>end of period</i>)	24,73	25,19	24,25	24,30	24,20
EUR/CZK (<i>average</i>)	24,01	25,12	24,69	24,30	24,25
Current account balance (<i>% of GDP</i>)	-0,1	1,7	0,7	-0,1	-0,9
FDI net inflow (<i>% of GDP</i>)	1,0	0,2	0,6	0,5	0,5
General government balance (<i>% of GDP</i>)*	-3,7	-2,0	-2,1	-2,8	-3,5
Public debt (<i>% of GDP</i>)	42,2	43,2	44,2	45,1	46,3

Remarks:

* / ESA 2010 definition.

Sources: Czech National Bank, Czech Statistical Office.

June forecast by UniCredit Bank

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