



CZECH REPUBLIC

March 2026

2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE CZECH REPUBLIC

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2026 Article IV consultation with the Czech Republic, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 23, 2026 consideration of the staff report that concluded the Article IV consultation with the Czech Republic.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 23, 2026, following discussions that ended on February 3, 2026, with the officials of the Czech Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 6, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for the Czech Republic.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.



IMF Executive Board Concludes 2026 Article IV Consultation with the Czech Republic

FOR IMMEDIATE RELEASE

Washington, DC – March 23, 2026: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for the Czech Republic¹

The Czech economy expanded in 2025, driven primarily by domestic demand. Growth was robust, averaging an estimated 2.6 percent as real wages continued to recover, supporting consumption, while public investment benefited from strong EU funds absorption. In contrast, private investment and exports softened amid global policy uncertainty and rising trade barriers. Headline inflation has eased to 1.4 percent in February, reflecting lower energy and food prices and the transfer of the renewable energy surcharge to the state budget. However, core inflation remains elevated at 2.7 percent, driven by persistent services price pressures, including housing-related costs, and nominal wage growth of around 7 percent.

Following the energy shock from the war in the Middle East, growth forecasts have been lowered and inflation projections raised. Based on staff's preliminary assessment, growth is projected to remain above potential at 2.2 percent in 2026, closing the output gap, with consumption supported by recovering real wages and a modest decline in the saving rate. Investment should strengthen as interest rates fall, while exports recover more gradually from recent disruptions. Over the medium term, growth is expected to ease toward its 1.8 percent potential, constrained by demographics and modest productivity gains. Headline inflation is projected to average 2.4 percent this year, as higher energy prices outweigh the effect of transferring the renewable energy surcharge and earlier koruna appreciation, while core inflation remains sticky amid persistent wage and housing related pressures.

Risks are elevated and, in the near term, shifting upward for inflation and downward for growth, on rising geopolitical risks and further intensification of military conflicts. On the other hand, a more expansionary fiscal stance could temporarily lift growth above potential and add to price pressures, requiring tighter monetary policy, while global uncertainty or financial market corrections could dampen activity and heighten inflation volatility.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. [Please check with COM for alternative versions of this footnote to be used in case the staff report refers to surveillance discussions with regional/union-level institutions or consultation with a territory/constituent part of a member.]

Executive Board Assessment²

Executive Directors welcomed continued robust activity and economic resilience amid structural challenges, noting that growth is expected to moderate toward potential over the medium term. Directors highlighted that the outlook is subject to considerable uncertainty and that medium-term risks are tilted to the downside, including from intensification of conflicts, global policy uncertainty, and trade tensions, which could weigh on activity and increase inflation. Against this backdrop, they underscored the need to continue implementing prudent policies, advancing structural reforms, and deepening integration with the EU Single Market to raise potential growth.

Directors emphasized the importance of preserving fiscal space amid rising medium-term spending pressures. Noting that demographic trends and sizable investment needs are expected to increasingly strain public finances, Directors recommended gradual and sustained fiscal adjustment to contain debt and financing needs. Important measures include restraining wage bill growth, better-targeting social spending, and strengthening expenditure efficiency. They stressed that any changes to the recent pension reform should be carefully assessed. Directors welcomed the authorities' efforts to strengthen tax compliance and encouraged a rebalancing of the tax system away from labor toward property taxation.

Directors agreed that the current monetary policy stance is broadly appropriate, given persistently elevated core inflation and a narrowing output gap. They welcomed the authorities' commitment to a data-driven approach to monetary policy. Directors emphasized that tighter monetary policy and clear communication to anchor expectations would be necessary should fiscal developments exacerbate macroeconomic imbalances. They welcomed the central bank's review of its monetary-policy analytical and modeling framework and underscored the importance of maintaining strong analytical frameworks in an environment of heightened uncertainty. Directors generally noted the benefits of central bank balance sheet normalization, while many Directors also recommended caution in reducing FX reserves, highlighting the importance of appropriate timing, given elevated global uncertainty.

Directors welcomed that financial stability risks remain contained, supported by a resilient banking system. They nonetheless called for continued vigilance amid rapid property price growth and increased interconnectedness. Directors saw scope for targeted macroprudential measures should risks intensify and supported ongoing efforts to strengthen the AML/CFT framework, particularly in higher-risk sectors.

Directors underscored that advancing structural reforms is essential to raise potential growth and ease the burden of fiscal consolidation. They emphasized the importance of reducing 2 administrative burdens, accelerating digitalization, and improving the business environment to enhance competitiveness domestically and within the EU single market. Measures to strengthen labor market participation and modernize vocational training and public education are also important. Directors highlighted the need for sustained efforts to strengthen energy security,

² At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this *summary* is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

manage rising aging-related costs, and expand affordable housing to better position the economy to navigate structural headwinds and support inclusive, long-term growth.

Czech Republic: Selected Economic Indicators, 2025–2027 ^{1/}			
	2025	2026	2027
		Projections	
NATIONAL ACCOUNTS			
Real GDP (expenditure)	2.6	2.2	2.2
Domestic demand	3.2	2.5	2.0
Output gap (percent of potential output)	-0.5	0.0	0.2
LABOR MARKET			
Employment	0.5	0.3	0.1
Unemployment rate (average, in percent)	2.9	3.0	2.9
PRICES			
Consumer prices (average)	2.5	2.4	2.2
Consumer prices (end-of-period)	2.0	2.7	2.0
MACRO-FINANCIAL			
Broad money (M3)	5.6	4.5	4.5
Private sector credit	4.0	3.5	3.5
Ten-year government bond	4.0	4.0	4.0
Exchange rate			
Nominal effective exchange rate (index, 2005=100)	112.1	...	...
Real effective exchange rate (index, CPI-based; 2005=100)	123.6	...	...
PUBLIC FINANCE (percent of GDP)			
General government revenue	41.4	41.1	40.6
General government expenditure	43.5	43.3	43.1
Net lending / Overall balance	-2.0	-2.3	-2.5
Primary balance	-1.4	-1.6	-1.8
Cyclically adjusted balance (percent of potential GDP)	-1.8	-2.3	-2.6
General government debt	44.6	46.4	47.6
BALANCE OF PAYMENTS (percent of GDP)			
Trade balance (goods and services)	5.8	3.2	3.3
Current account balance	0.7	-1.5	-1.3
Gross international reserves (billions of euros)	150.9	160.3	167.2
(in months of imports of goods and services)	8.7	8.5	8.6
(in percent of short-term debt, remaining maturity)	124.9	115.9	107.6
Sources: Czech National Bank; Czech Statistical Office; Ministry of Finance; Haver Analytics, and IMF staff estimates and projections.			
1/ This table has been updated to reflect staff’s preliminary assessment of the potential implications of the war in the Middle East on the Czech economy as of March 10, 2026.			



CZECH REPUBLIC

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

March 6, 2026

KEY ISSUES

Context: The Czech economy continues to expand at a robust pace but faces rising structural headwinds. Deep integration into regional and global value chains—historically, a strength—increases vulnerability to disruptions and geoeconomic fragmentation. A high concentration of trading partners and export products, especially in key manufacturing segments, raises sensitivity to shifts in demand, trade policies, and sector-specific shocks. High energy intensity raises exposure to price volatility. Adverse demographic trends constrain labor supply and weigh on medium-term growth.

Outlook and risks: Supported by a moderately expansionary 2026 budget, growth is projected to remain robust this year, closing the output gap, before gradually moderating over the medium term. Headline inflation is set to undershoot the CNB's 2 percent target in the near term, with core inflation easing more slowly. The outlook is subject to considerable uncertainty with near-term risks to both growth and inflation skewed to the upside and medium-term risks tilted to the downside. A further fiscal stimulus in 2027 is possible. Such a shift could temporarily push growth further above potential, fueling services and property price inflation and triggering higher wage claims. Conversely, rising geopolitical risks and intensification of military conflicts along with persistent global policy uncertainty, trade disputes, or a correction in global asset valuations could dampen growth and increase inflation volatility.

Policy recommendations. Against this backdrop, policies should combine prudent demand management with more decisive supply-side structural reforms. More specifically:

Fiscal policy. Significant spending pressures are set to build over the coming years, underscoring the need for fiscal consolidation. Although public debt remains moderate, preserving fiscal space in this uncertain environment is essential. By contrast, a significant fiscal stimulus at a time when the economy is already operating at or near potential would fuel inflation and lead to higher interest rates.

Monetary policy. Staff assess the current monetary policy stance as broadly appropriate. Monetary policy should remain on hold in the near term, unless incoming data, including wage developments or changes in fiscal policy, materially alter the inflation outlook.

Macrofinancial policies. While financial stability risks are currently contained, they warrant close vigilance and call for recalibration of certain instruments in the macroprudential toolkit as risks evolve.

Structural policies. Advancing structural reforms at the national level and deepening integration with the EU Single Market would raise potential growth and ease the burden of future fiscal consolidation. Sustaining this progress while ensuring resilience in traditional sectors will require better allocation of skilled labor to address shortages, deeper capital markets, reliable energy supply, and affordable housing.

Approved By
Oya Celasun (EUR)
and Koshy Mathai (SPR)

Discussions were held in Prague during January 21–February 3, 2026. The team comprised Vincenzo Guzzo (head), Lukas Boer, Moataz El Said, Thomas Gade (all EUR) and Esha Chhabra (STA) and benefited from contributions by HQ by Allan Dizioli (EUR), Jesper Linde (MCM), and Ivana Rossi (LEG). Hana Hejlová (OED) also participated in the mission. Mr. Alasal and Ms. Mitchell (all EUR) assisted with the mission and the preparation of the staff report. The mission met with the Minister of Finance Alena Schillerová and the Governor of the Czech National Bank (CNB) Aleš Michl, Deputy Governors Jan Frait and Eva Zamrazilová, CNB Board Members Karina Kubelková, Jan Kubiček, and Jakub Seidler, and CNB Executive Directors Petr Frydrych, Libor Holub, Jan Schmidt, and Petr Sklenář; Members of the Budget Committee of the Chamber of Deputies; senior officials from the Ministries of Finance, Industry and Trade, Labor and Social Affairs, and Regional Development; representatives from the Fiscal Council, Trade Unions, the Confederation of Industry, the Chamber of Commerce as well as the banking, auto, energy, and real estate sectors. This report is based on data available as of February 26, 2026.

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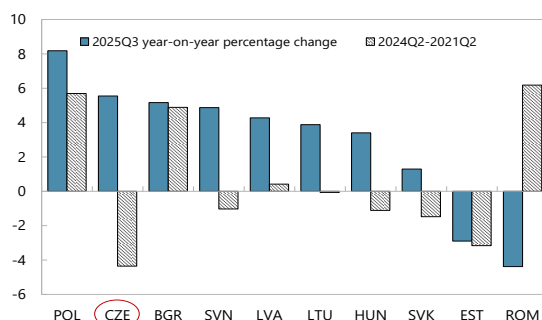
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CONTEXT

1. The Czech economy faces mounting structural headwinds. Over the past two decades, prudent monetary and fiscal policies, wage moderation, a sound financial system, and strong institutions have underpinned macroeconomic stability and facilitated steady convergence toward high-income economies. In recent years, however, potential growth has slowed (Annex I), reflecting weaker productivity dynamics and binding supply-side constraints. While the economy continues to expand at a robust pace over the current business cycle, it is increasingly exposed to a less favorable external environment and intensifying headwinds.

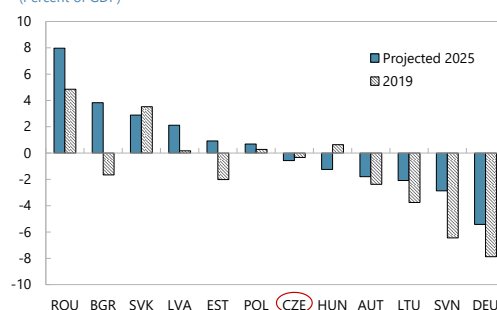
Text Figure 1. Select Macroeconomic Indicators

Real Hourly Compensation of Employees



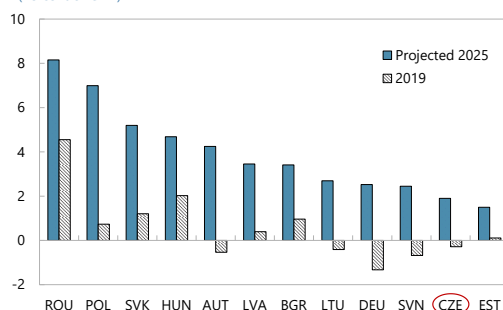
Sources: Haver Analytics, and IMF staff calculations.

Current Account Deficit (Percent of GDP)



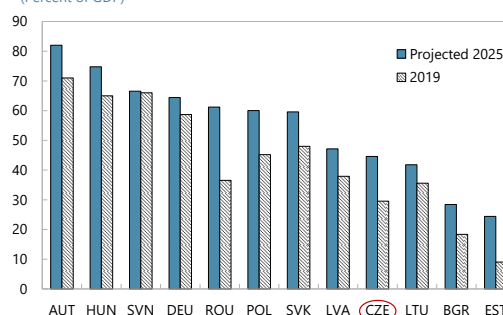
Source: IMF WEO database.

General Government Deficit (Percent of GDP)



Source: IMF WEO database.

General Government Gross Debt (Percent of GDP)

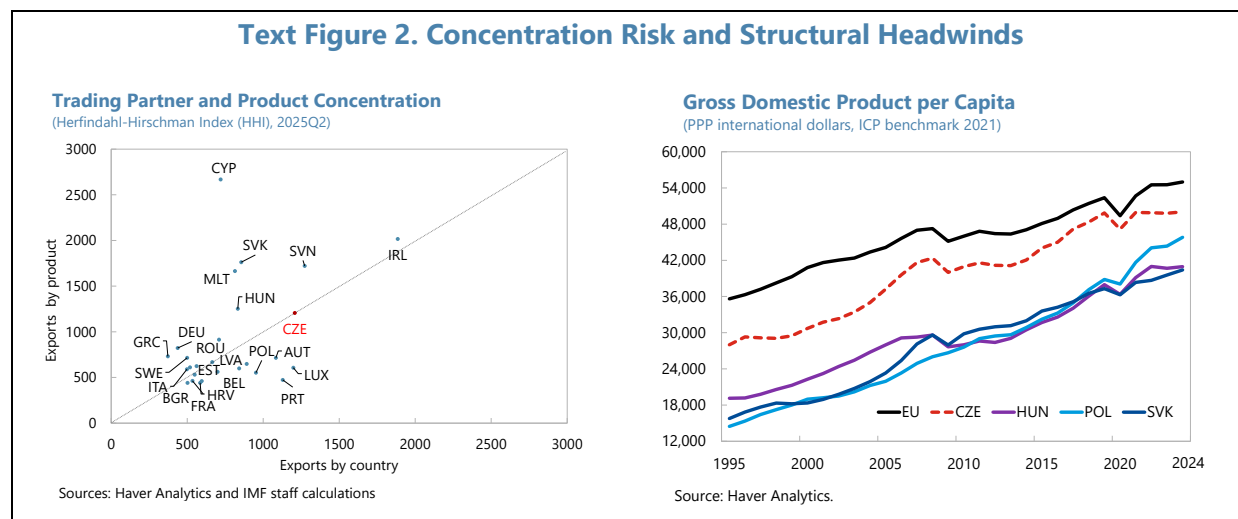


Source: IMF WEO database.

2. Underlying vulnerabilities amplify these headwinds. Deep integration into regional and global value chains—historically a key strength—heightens vulnerability to disruptions and geoeconomic fragmentation. A high concentration of trading partners and export products, particularly in key manufacturing segments, amplifies sensitivity to shifts in external demand, changes in trade policies, and sector-specific shocks. Elevated energy intensity further increases exposure to energy price volatility and may erode competitiveness if adjustment is delayed. Meanwhile, adverse demographic trends are constraining labor supply and weighing on medium-term growth prospects, underscoring the importance of policies that strengthen productivity, facilitate reallocation toward higher value-added activities, and enhance human capital. The remainder of this report elaborates on these challenges and the policies that can help address them.

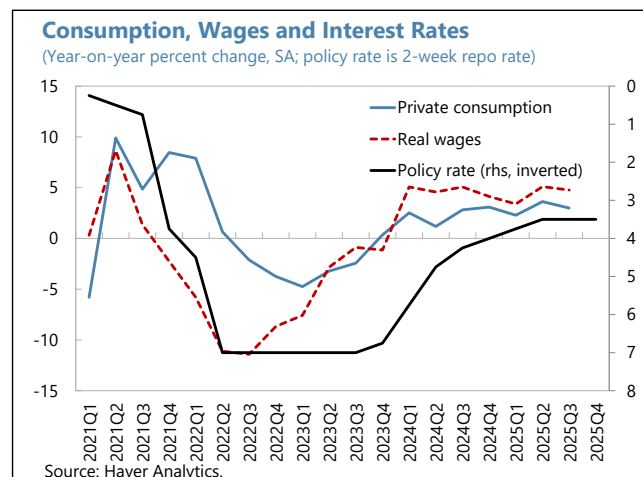
3. Against this backdrop, the new government's program combines a stated commitment to fiscal discipline with demand-support policies. The October parliamentary elections brought a new coalition government to power, which has emphasized keeping the deficit safely below 3 percent of GDP, relying on stronger compliance to boost revenue collection while avoiding tax increases. At the same time, it has signaled a more demand-supportive orientation, including expanded social benefits, more generous pensions, and measures to improve energy affordability. The 2026 budget implies a moderately expansionary fiscal stance, and a further stimulus in 2027 is possible.

Text Figure 2. Concentration Risk and Structural Headwinds



RECENT DEVELOPMENTS

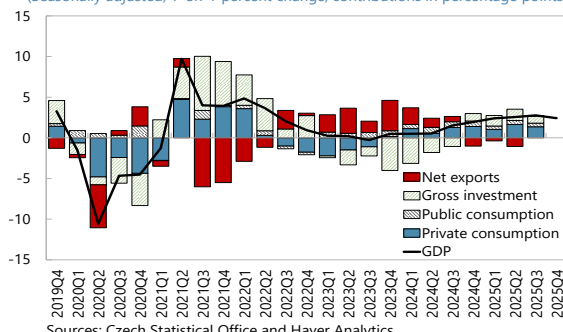
4. The Czech economy expanded in 2025, driven primarily by domestic demand. Growth was robust, averaging an estimated 2.5 percent (versus 1.6 percent in the EU), as real wages continued to recover from their post-pandemic decline, supporting household consumption. Public investment also strengthened, underpinned by sustained absorption of EU funds. In contrast, private investment and export growth moderated amid global policy uncertainty and rising trade barriers, following a period of frontloaded external demand earlier in the year.



Text Figure 3. Growth Developments

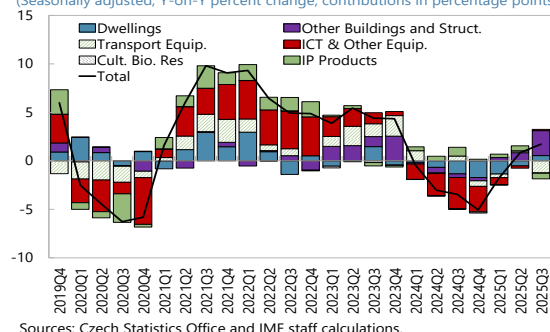
Contribution to Real Expenditure GDP

(Seasonally adjusted, Y-on-Y percent change; contributions in percentage points)



Changes in Gross Fixed Capital Formation

(Seasonally adjusted, Y-on-Y percent change; contributions in percentage points)

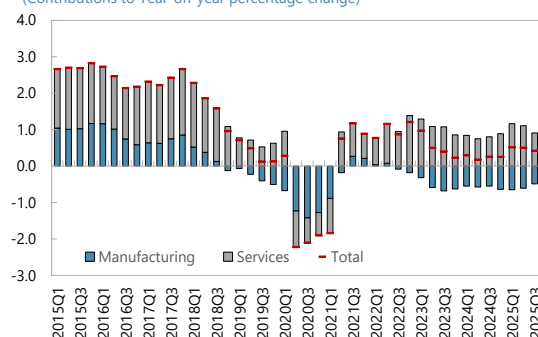


5. Labor market conditions have eased in manufacturing but remain tight in services. The unemployment rate stood at 3.1 percent at end-2025, reflecting a gradual upward trend. The modest increase recorded during the year reflects higher female labor force participation and manufacturing layoffs. However, employment is still expanding, as new jobs in services, especially in real estate, outweigh jobs lost in manufacturing.

Text Figure 4. Labor Market Developments

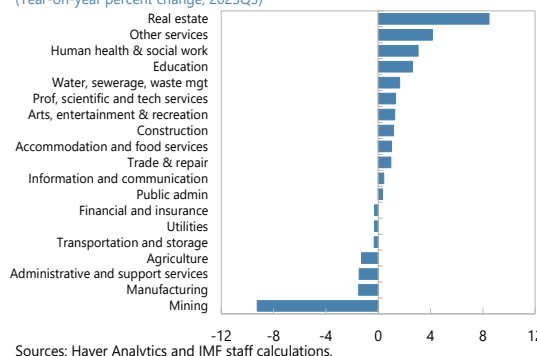
Employment in Manufacturing and Services

(Contributions to Year-on-year percentage change)



Employment by Sector

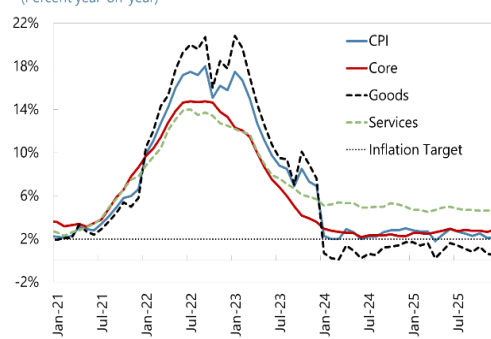
(Year-on-year percent change; 2025Q3)



6. Headline inflation has eased, but core inflation remains sticky. Headline inflation dropped to 1.6 percent in January, driven by the transfer of the renewable energy surcharge from consumers to the state budget and a broader decline in energy and food prices. However, core inflation remains elevated at 2.7 percent, reflecting persistently strong services price growth, including housing-related costs. Sustained nominal wage growth, around 7 percent, continues to exert upward pressure on services prices, where labor is a key input. Market-based 12- and 36-month inflation expectations remain broadly anchored.

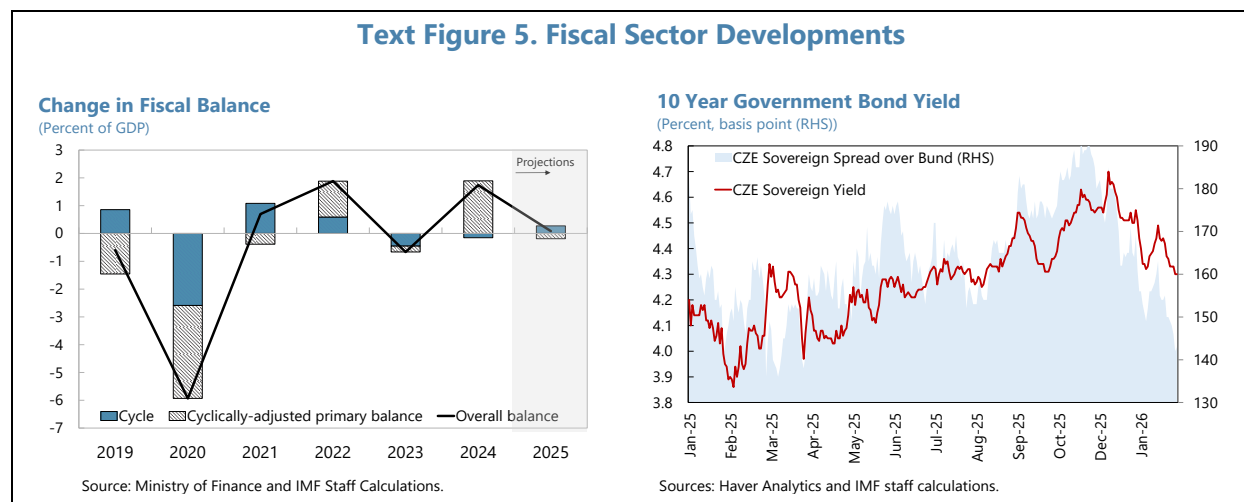
Consumer Price Inflation

(Percent year-on-year)

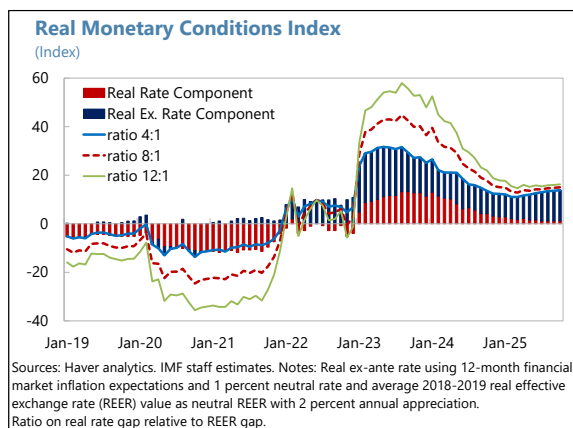


7. Fiscal performance has remained solid in 2025. Robust economic growth boosted revenue, and slower delivery of military equipment reduced the deficit on an accrual basis, despite higher social benefits and flood-damage recovery costs. Fiscal outturns are consistent with the authorities' revised projection of a 2025 general government deficit of 2 percent of GDP, the same as a year earlier. The fiscal stance—measured as the change in the cyclically adjusted balance—is projected to have loosened by 0.2 percentage points. Public debt remains moderate, at an estimated 44.6 percent of GDP. After widening steadily last year, sovereign spreads have tightened in early 2026.

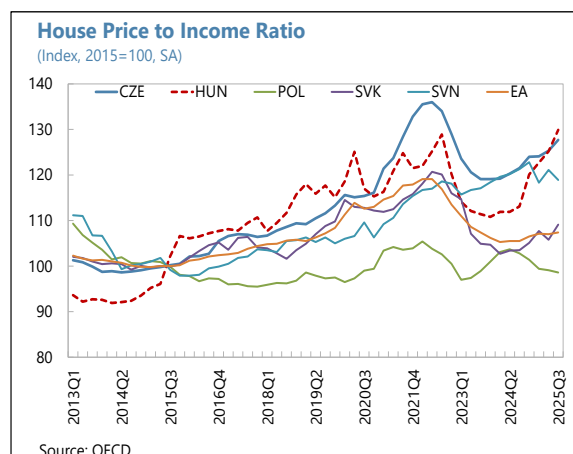
Text Figure 5. Fiscal Sector Developments



8. The CNB has kept its policy rate at 3.5 percent since May 2025. Following a cumulative 350 basis point reduction in the two-week repo rate over 18 months, the central bank has remained on hold in response to lingering inflationary pressures. Monetary conditions have gradually tightened along with koruna appreciation—3 percent vis-à-vis the euro and 15 percent vis-à-vis the US dollar during 2025.

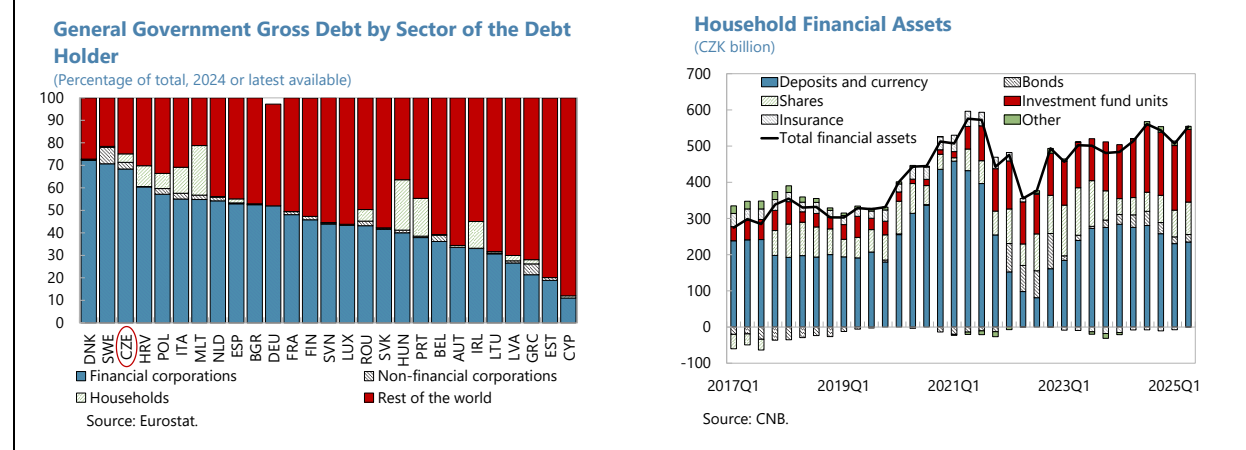


9. Macroprudential settings have been tightened amid rising real estate activity. Mortgage lending growth accelerated to 7.5 percent year-on-year at end-2025, while house prices rose 10.8 percent in Q3 and average apartment prices neared 13 years of income, raising affordability concerns, particularly for first-time buyers. Non-performing loans remain low, at 1.5 percent of total loans. Banks are profitable, liquid, and well-capitalized, with regulatory capital at about 21 percent of risk-weighted assets. Czech



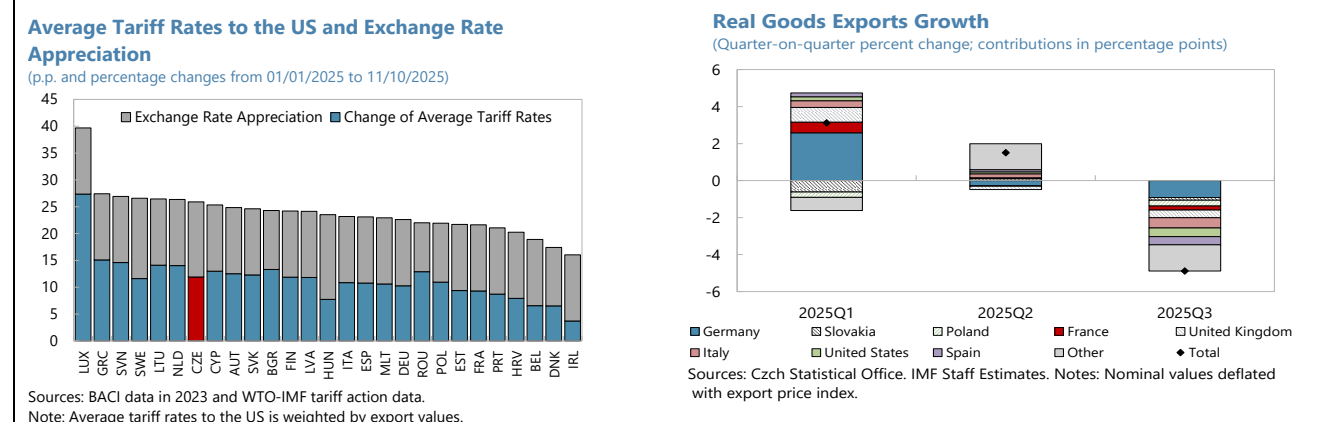
government debt holdings are concentrated in local financial institutions. Investment funds have more than doubled their assets in three years but remain non-systemic at 23 percent of GDP. To address housing risks, the CNB recommended a 70 percent LTV and a DTI of 7 on investment mortgages. The CCyB rate was maintained at 1.25 percent, above the 1 percent positive neutral rate, alongside a 0.50 percent SyRB. DSTI and DTI statutory limits remain deactivated.

Text Figure 6. Financial Sector Developments



10. The external position remains moderately stronger than implied by fundamentals and desirable policies despite a smaller surplus (Annex IV). The 12-month rolling current account surplus narrowed significantly from 1.7 percent of GDP at end-2024 to 0.7 percent in 2025Q3, as a 12-percentage point increase in the effective tariff rate with the US and a 14 percent koruna appreciation dampened exports. This was partly offset by slower import growth, given the high import content of manufactured exports.

Text Figure 7. External Sector Developments



OUTLOOK AND RISKS

11. Under the baseline, growth is projected to level off and gradually moderate in the medium term.

Supported by a moderately expansionary budget, GDP is expected to expand at a similar pace in 2026, closing the output gap. Consumption should remain strong in the near term, as real wages

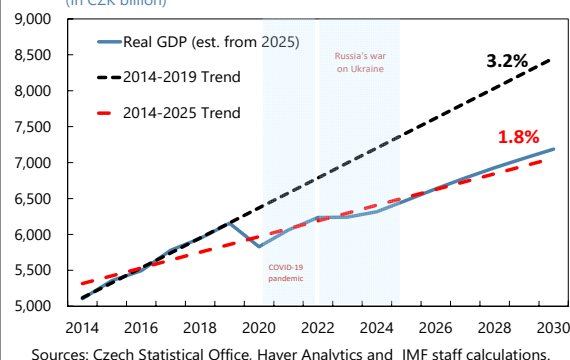
continue to recover and the saving rate declines slightly. Fixed investment is expected to pick up, supported by lower interest rates, while exports are projected to recover more gradually following recent trade disruptions. As export performance strengthens but the catch-up in household income fades, medium-term growth is projected to slow toward its estimated potential of 1.8 percent, constrained by demographic pressures and modest productivity gains (Annex I).

Text Table 1. Czech Republic: Macro-framework, 2022-28
(Contribution to percent change, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028
	Staff projections						
Real GDP growth (percent change)	2.8	0.0	1.3	2.5	2.5	2.3	2.1
Consumption	0.3	-0.5	1.8	1.8	1.8	1.5	1.5
Public	0.1	0.7	0.7	0.4	0.5	0.4	0.4
Private	0.3	-1.2	1.1	1.3	1.4	1.0	1.0
Fixed investment	1.7	1.1	-0.8	0.4	0.9	0.7	0.8
Exports	3.6	1.7	1.1	3.0	1.7	2.7	2.8
Imports	-4.0	0.8	-0.4	-3.5	-1.7	-2.6	-2.9
Output gap (percent of potential output)	0.3	-1.0	-1.3	-0.6	0.0	0.3	0.2
Inflation (period average, percent)	15.1	10.7	2.4	2.5	1.6	2.0	2.5
Unemployment rate (average, percent)	2.2	2.6	2.6	2.9	3.0	2.9	2.9
Fiscal Balance (percent of GDP)	-3.1	-3.7	-2.0	-2.0	-2.3	-2.5	-2.7
Government Debt (percent of GDP)	42.5	42.2	43.3	44.6	46.3	47.5	48.7
Current account balance (percent of GDP)	-4.7	-0.1	1.7	0.7	0.4	0.3	0.2

Sources: Czech authorities, and IMF staff projections.

Real GDP: Pre- and Post-Shocks Trends
(In CZK billion)



12. Inflation is expected to undershoot the CNB's 2 percent target in the near term. Staff project headline inflation to remain below 2 percent this year, aided by the one-off effect from the transfer of the renewable energy surcharge from consumers to the state budget, lower energy prices, and the exchange rate passthrough from an appreciated koruna. Core inflation, however, is expected to decline more gradually, reflecting persistent wage growth and housing-related cost pressures. The postponement of ETS 2 should help keep inflation near target in 2027 but push it up temporarily in 2028.

13. Staff's forecast is subject to considerable uncertainty (Annex III), with near-term risks to both growth and inflation skewed to the upside and medium-term risks tilted to the downside. A further fiscal expansion beyond the 2026 budget is possible. Such a shift could temporarily raise growth further above potential, fueling services and property price inflation and potentially triggering higher wage claims. The size of these effects would depend on the composition of spending and its import content. The required monetary tightening in response to such a shock would help anchor inflation expectations but would also weigh on growth over time, while wider sovereign spreads could raise borrowing costs. Conversely, rising geopolitical risks and

intensification of military conflicts along with persistent global policy uncertainty, trade disputes, or a correction in global asset valuations could dampen growth and increase inflation volatility.

Authorities' Views

14. The authorities broadly agreed with staff that growth prospects are robust and that the recent decline in inflation is likely to be temporary. The expansion in the Czech economy continues to be led by domestic demand, supported by a moderate fiscal impulse and, increasingly, by a recovery in exports. They noted that, with renewable energy fees covered by the state budget, headline inflation is expected to decline in 2026 before returning close to the 2 percent target in 2027. At the same time, they expected core inflation to remain elevated, reflecting solid wage growth and rising house prices through imputed rents. Against this backdrop, the authorities viewed persistently elevated wage growth as an upside risk to inflation, while a stronger exchange rate and weaker growth in Germany were seen as downside risks. They noted that uncertainty is further heightened by potential changes in fiscal policy, property price dynamics, geopolitical tensions, and trade barriers.

POLICY DISCUSSIONS

A. Fiscal Policy—Balancing Social Priorities With Fiscal Sustainability

15. The 2026 budget implies a moderately expansionary fiscal stance. The revised budget envisages higher spending on social benefits and transport infrastructure, partly financed through lower-than-previously-planned defense outlays and the postponement of financial commitments related to the Dukovany nuclear power plant expansion. While budgetary accruals remain uncertain, especially regarding the timing of military equipment procurement, staff project the general government deficit to widen to 2.3 percent of GDP in 2026, compared with an estimated 2 percent in 2025, consistent with a moderate fiscal expansion. While overall risk to sovereign stress is low, it is assessed to turn moderate in the long term (Annex V).

16. Significant spending pressures are set to build over the coming years. Aging-related expenditures and sizable investment needs to strengthen energy security are projected to weigh increasingly on the fiscal position, and a rollback of the recent pension reform would add further strain. Absent consolidation, the public debt ratio would approach 60 percent by 2034 under the baseline, with gross financing needs rising persistently and eroding fiscal space. In a risk scenario, which incorporates yet-to-be-legislated and partly unspecified measures (Text Table 2), the deficit is projected at 3.6 percent in 2027, and to rise further in the medium term due to increasing aging-related spending and higher debt service. In this case, the debt ratio would climb to 64 percent by 2034 and 76 percent by 2040, while gross financing needs would rise steadily, further eroding fiscal space.

Text Table 2. Czech Republic: Estimated Effect of Potential Fiscal Proposals
(Percent of GDP)

Select Measures	2027
Tax	
• Lowering the CIT rate by 2pp. to 19%	-0.2
• Capping the base for social security contributions of self-employed to 35% of the average wage	-0.2
• Reducing the VAT rate for non-alcoholic beverages in restaurants to 12% from 21%	negligible
• Increasing VAT registration threshold, at CZK 2m annually	negligible
• Shortening the deadline for VAT reimbursement, from 6 to 3 months	negligible
• Reintroducing electronic registration of sales	0.1
Social Spending	
• Capping retirement age at 65 years (from 2030)	-
• Modifying pension indexation parameters	-0.1
• Restoring tax breaks for working parents	-0.2
• Introducing tax breaks for four or more children	negligible
• Raising the parental allowance lump sum from CZK 350,000 to CZK 400,000	-0.1
• Introducing flexible working hours for parents	-0.1
Energy	
• Transferring renewable energy surcharge from consumers to the state budget ^{1/}	-0.2
Housing	
• Launching publicly funded projects for accessible housing	-0.1
Total	-1.1

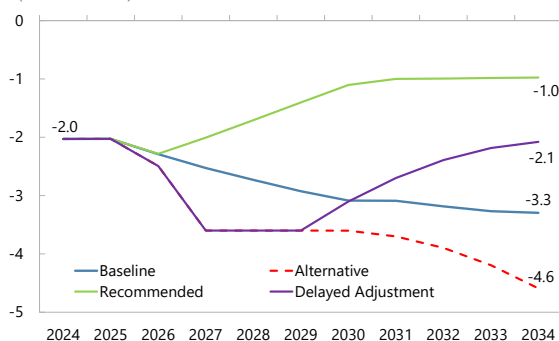
Sources: IMF staff calculations based on Program Statement of the Government of the Czech Republic.
1/ Measure already legislated.

17. These pressures underscore the need for fiscal consolidation. Staff therefore recommend anchoring the forthcoming medium-term fiscal structural plan to an annual adjustment of 0.5 percentage points to converge toward a sustained structural deficit of 1 percent of GDP by 2030. Such pace of consolidation would result in a public debt ratio stabilizing at around 50 percent of GDP over the medium term, a level needed to counter mounting expenditure pressures. Maintaining the deficit at this level through 2040¹ would require additional measures of roughly 1.5 percent of GDP, bringing overall consolidation needs to around 3.5 percent of GDP. Delays in initiating consolidation would further increase the required adjustment. The proposed adjustment can be achieved through a combination of spending and revenue measures, with options detailed in ¶18 and ¶19 and estimated impacts summarized in Text Table 3 below.

¹ See Regional Economic Outlook—Europe (2025)

Text Figure 8. Alternative Fiscal Scenarios**Fiscal Balance Under Alternative Scenarios**

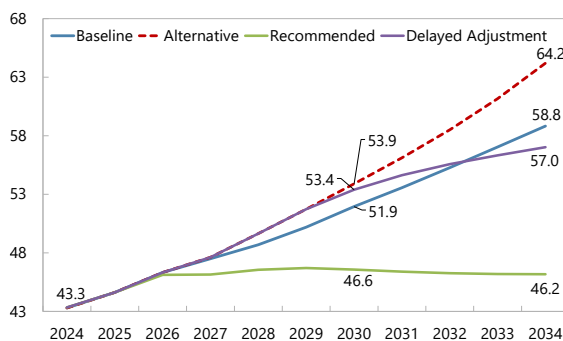
(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

Debt Under Alternative Scenarios

(Percent of GDP)



Sources: Haver Analytics and IMF staff calculations.

Baseline scenario: assumes 2026 budget and no fiscal adjustment.

Recommended: reflects annual fiscal consolidation of 0.5 percentage points to achieve a structural deficit of 1 percent of GDP by 2030.

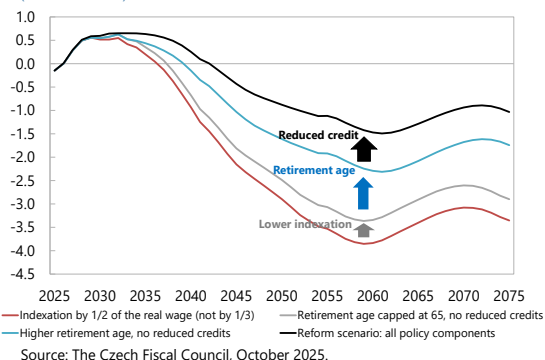
Alternative: incorporates the additional estimated cost of potential fiscal proposals in 2027 along with further long-term pressures and assumes no fiscal adjustment.

Delayed Adjustment: reflects the alternative scenario laid out above and a delayed fiscal adjustment.

18. Social priorities should be pursued in a manner consistent with fiscal sustainability. Staff urge the authorities to carefully assess the implications of capping the retirement age and modifying pension indexation parameters. Containing growth in the public-sector wage bill, including at the local government level, remains essential to safeguard fiscal space. Efforts to address affordability and demographic challenges are welcome. However, means-testing to improve the targeting of social benefits would help ensure that support reaches low-income households while containing fiscal costs. Staff also encourage the authorities to explore efficiency gains through comprehensive spending reviews and by reallocating expenditures toward more productive uses.

Pension Balance: Impact of Recent Reforms

(Percent of GDP)

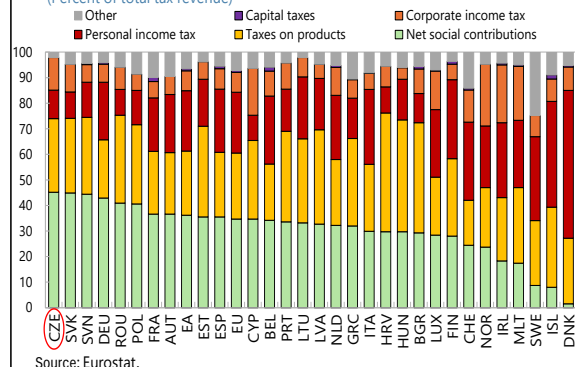


Source: The Czech Fiscal Council, October 2025.

19. Ongoing efforts to strengthen tax compliance should be complemented by a broader reassessment of the tax structure. Staff welcome the initiative to reintroduce electronic registration of sales to bolster compliance and reduce tax evasion, especially in sectors with high cash transactions. These measures would be even more effective if accompanied by further digitalization of tax processes, in line with recent FAD TA recommendations. Staff also see merit in rebalancing the tax structure: social security contributions account for nearly half of total revenue, while property-tax collection remains among

Tax Structures in 2024

(Percent of total tax revenue)



Source: Eurostat.

the lowest in the EU, at 0.3 percent of GDP, and compared with an OECD average of around 1.7 percent. Transitioning to a value-based property-tax system would help curb speculative demand, activate idle housing, and enhance housing-market efficiency. Part of the additional revenue from such a reform could be used by municipalities to improve the quality of services and support social-housing investment, helping ease affordability pressures.

Text Table 3. Czech Republic: Potential Measures to Support Fiscal Consolidation

Estimated Impact	2027-30 Estimated Impact (Percent of GDP)
Revenue	
Move to value-based property tax system	0.7
Enhance audits and digitalization of tax processes	0.3
Expenditure	
Contain public sector wage bill	0.3
Means-tested targeting of subsidies and social benefits	0.4
Identify efficiency gains through spending reviews	0.3

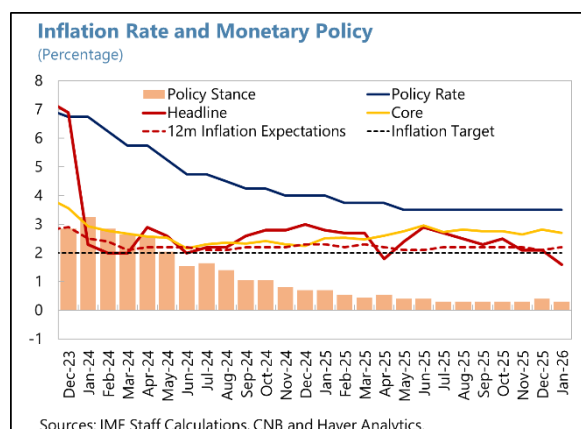
Sources: Ministry of Finance, IMF staff estimates

Authorities' Views

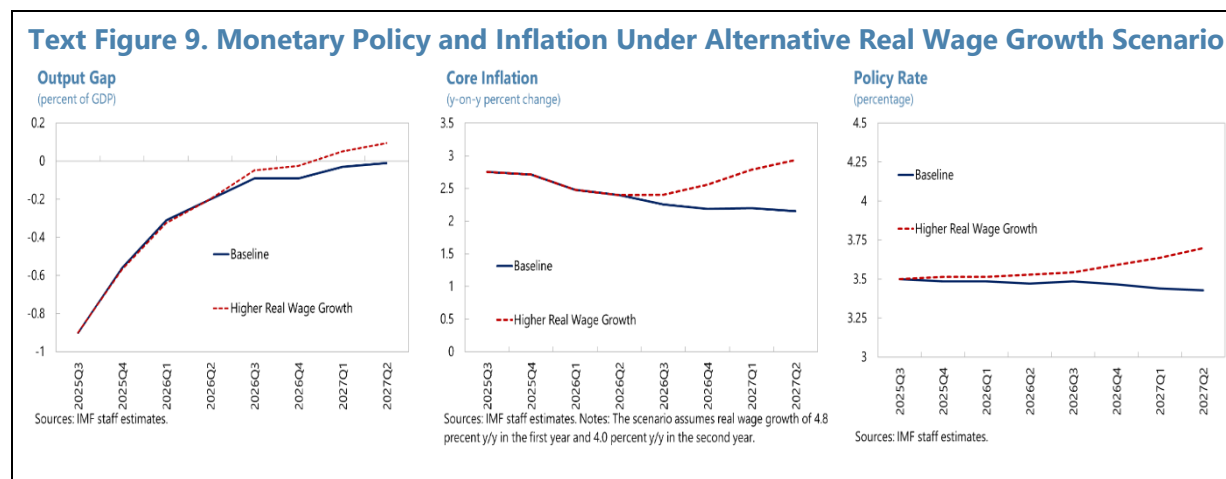
20. The authorities stressed their commitment to sound public finances, anchored in maintaining the budget deficit safely below 3 percent of GDP. They underscored their intention to support economic growth through efficiency gains in public administration and improved transparency, while avoiding tax increases. Fiscal consolidation is expected to be supported by stronger tax compliance, measures to reduce the grey economy, and enhanced revenue collection. They also noted planned changes to the pension system, including capping the statutory retirement age and modifying indexation parameters, as well as broader efforts to address affordability pressures and adverse demographic trends. Over the medium term, they reiterated their objective of preserving confidence in the predictability and sustainability of public finances, while noting that uncertainty remains elevated due to macroeconomic and geopolitical factors.

B. Monetary Policy—Managing Risks Through Scenario Analysis

21. Staff assess the current monetary policy stance as broadly appropriate. While headline inflation is projected to fall below target in 2026, persistently elevated core inflation and a closing output gap leave only limited room for further easing. The current 3.5 percent policy rate lies within the range of neutral-rate estimates, and the lagged impact of a stronger koruna provides restraint. Monetary policy should therefore remain



on hold unless incoming data, including wage developments (Text Figure 9) or changes in fiscal policy (Box 2), materially alter the inflation outlook.



22. Elevated domestic and global uncertainty underscores the importance of integrating scenario analysis more systematically into policy deliberations. Staff welcome the CNB's review of its monetary-policy analytical and modeling framework, aimed at diversifying methodologies and strengthening scenario-based approaches. In this context, the IMF Integrated Policy Framework offers a useful lens for assessing appropriate policy responses to shocks. An application of the framework to the Czech Republic (Box 1) suggests that, in the event of a correction in global asset valuations leading to currency depreciation in the context of shallow FX markets, reserves could be used in combination with tighter monetary policy to mitigate inflationary pressures and output losses rather than relying solely on the policy rate. Conversely, a domestic fiscal expansion that contributes to the buildup of macroeconomic imbalances should be countered exclusively with tighter monetary policy and strengthened communication to keep inflation expectations anchored. Staff see merit in using this approach not only to assess baseline risks but also to test whether the existing operational framework and toolkit remain adequate under various scenarios.

Box 1. Scenario Analysis in the Czech Republic - Using the IMF's Integrated Policy Framework¹

Scenario analysis has become an integral part of central banks' assessment of risks around the baseline. Over the years, major central banks have increasingly incorporated scenario analysis into monetary policy decision-making frameworks to assess risks around the baseline. The Czech National Bank is updating its monetary policy analytical and forecasting framework, further strengthening its long-standing use of scenario analysis. The aim is to enhance forecasting robustness and policy assessments in the face of unexpected shocks.

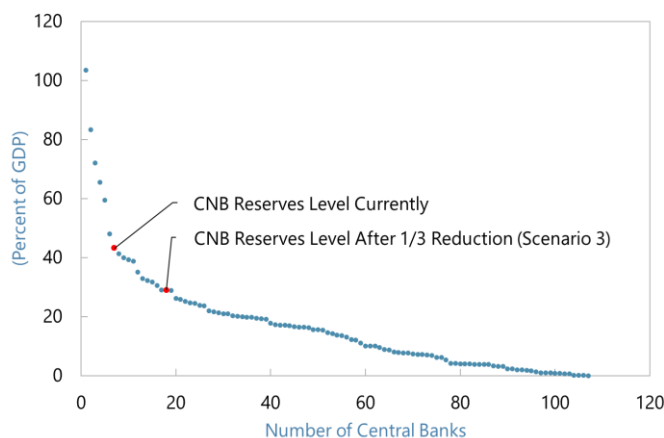
The IMF's Integrated Policy Framework (IPF) supports both the Fund's and the authorities' analysis of policy responses to shocks. The IPF can help identify 'ex ante' and 'ex post' policy options that can either mitigate the build-up of vulnerabilities or dampen the impact of shocks once they materialize. The framework introduces a set of potential frictions that may amplify shocks and alter policy tradeoffs. These frictions include shallow FX markets, balance-sheet FX mismatches, and weakly-anchored inflation expectations. In the case of the Czech Republic, shallow FX markets constitute the primary friction identified.

Box 1. Scenario Analysis in the Czech Republic - Using the IMF's Integrated Policy Framework¹ (Continued)

Using an extended version of the QIPF model, staff analysis broadened the scope beyond traditional external shock scenarios, to also include domestic fiscal policy shocks and central bank balance sheet normalization. Staff simulated three distinct scenarios: (i) a non-fundamental global risk-off shock triggering capital outflows from the Czech Republic, (ii) a fundamental domestic shock in the form of a fiscal expansion, and (iii) a simulation of a reduction in the CNB's FX reserves. The selection of these shocks is guided by global risks highlighted in the October 2025 World Economic Outlook or by key domestic risks identified in this Staff Report. The simulations yield the following main findings:

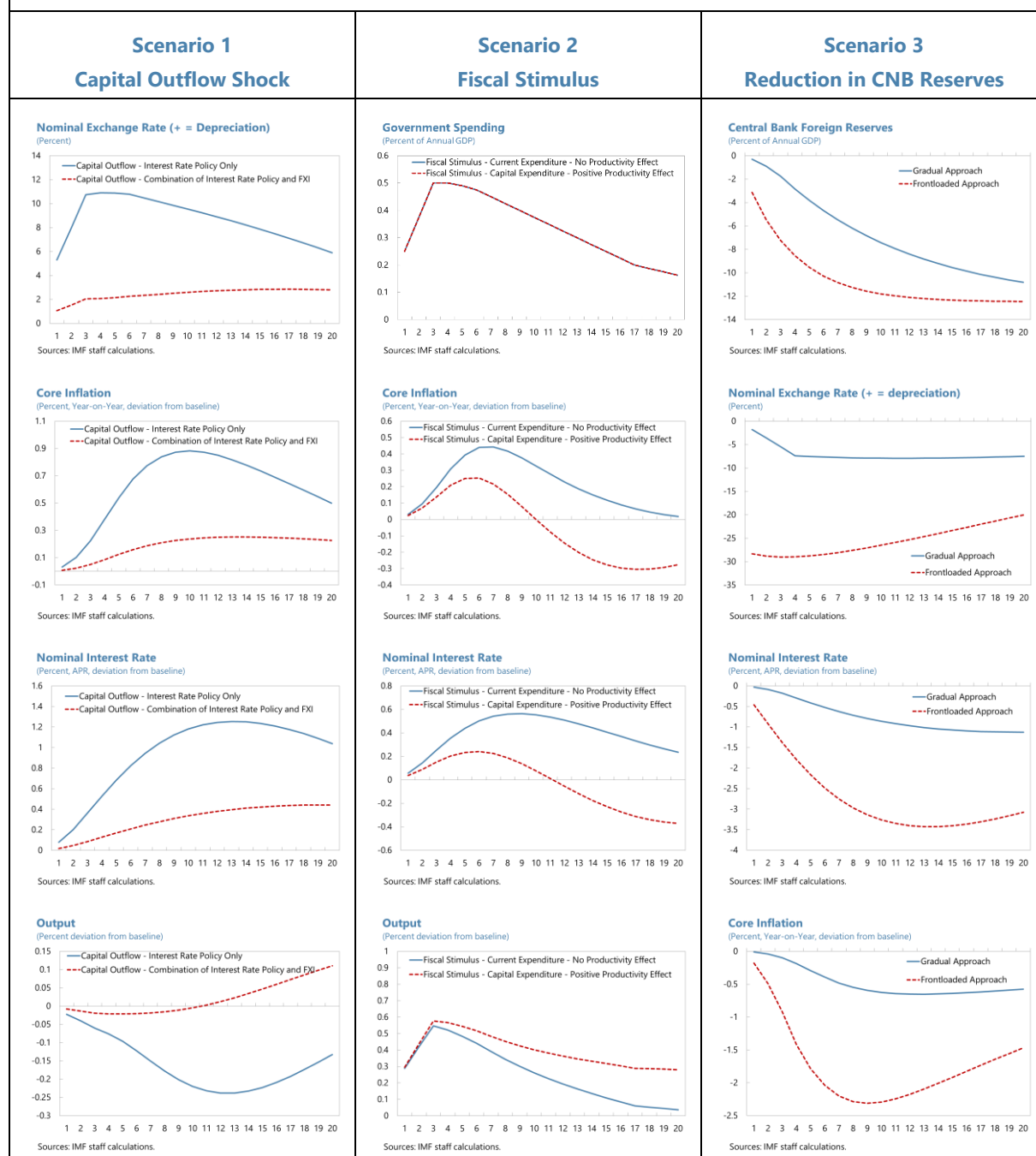
- (i) **In a global risk-off shock, the QIPF model suggests that a combination of policy rate tightening and selling of foreign currency (FXI) delivers the most effective macroeconomic stabilization,** as opposed to relying solely on policy rate tightening, as it more effectively mitigates exchange rate pressures and dampens adverse spillovers to domestic financial conditions. The benefits of FXI are contingent on the presence of shallow FX markets. As FX markets deepen, the case for FXI becomes more limited (see SIP).
- (ii) **The impact of fiscal stimulus and the associated monetary policy response depend critically on the composition of fiscal expansion.** Fiscal expansion through higher current expenditure tends to strengthen inflationary pressures and contributes to macroeconomic imbalances, requiring a tighter monetary policy stance to counter overheating risks. By contrast, fiscal expansion through public investments or structural reforms that require budgetary support can raise productivity and potential output. In such cases, the inflationary impact is more modest, allowing for a more muted monetary policy response.
- (iii) **A gradual and preannounced reduction in the CNB's FX reserves yields a reasonably smooth adjustment path while maintaining ample reserve buffers.** If inflation expectations were to become unanchored on the back of CZK appreciation and monetary policy space allowed, in principle, a modest additional easing of the policy rate could be considered. At the same time, early deployment of targeted macroprudential measures would help mitigate potential vulnerabilities that could emerge during the adjustment process.

Central Bank Reserves Across Central Banks, Ranked



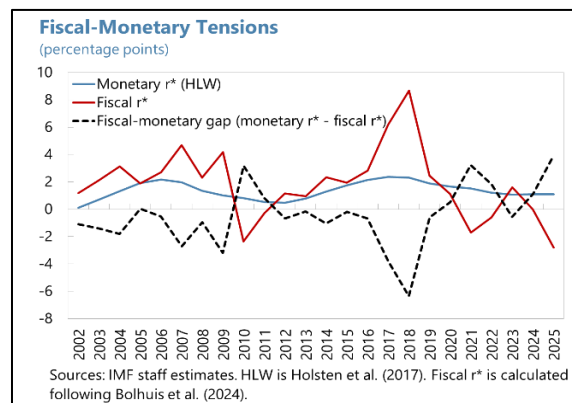
Sources: CEIC Data, IMF staff calculations.

Box 1. Scenario Analysis in the Czech Republic - Using the IMF's Integrated Policy Framework¹ (Concluded)



¹ This box is based on IMF (2026) 'Czech Republic: Selected Issues'.

23. A discretionary fiscal stimulus would likely require a monetary-policy response, intensifying fiscal-monetary tensions. Spending pressures from aging, energy security, defense, and interest costs have lowered the Czech Republic's estimated fiscal r^* —the debt-stabilizing real interest rate at the end of the 2025–30 forecast horizon. Stabilizing the debt ratio by 2030 would require a substantially negative real interest rate, assuming an unchanged primary balance, output growing at potential, and inflation at target. This decline in fiscal r^* has widened the gap with monetary r^* —the neutral interest rate consistent with inflation at target and a closed output gap—signaling rising tensions ahead.¹ A discretionary stimulus would exacerbate these dynamics, requiring the CNB to tighten policy, as shown in the figure in Box 2, and to strengthen communication to anchor inflation expectations. However, this necessary monetary policy response would entail higher debt-service costs, weaker fiscal-multiplier effects, and higher costs for the central-bank balance sheet. Conversely, internalizing these effects through fiscal consolidation and productivity-enhancing reforms would ease tensions, delivering lower debt and deficit, stronger growth, and similar inflation outcomes.



Box 2. Monetary and Fiscal Policy Interactions in the Czech Republic¹

Monetary and fiscal policy are deeply interconnected. Both operate within a consolidated government budget, requiring either explicit coordination or a consolidated analytical perspective. Both policies influence each other's transmission, and the literature shows that coordination can yield significant welfare gains. Standard macroeconomic theory assumes a monetary-led policy mix, where monetary policy determines the price level and fiscal policy ensures debt sustainability through passive adjustment. However, these roles can be reversed when fiscal policy does not commit to adjusting future fiscal balances in response to rising debt, giving rise to policy tensions, and weakening the effectiveness of monetary policy.

The fiscal-monetary gap, $r_{m,t}^* - r_{f,t}^*$ indicates these potential tensions between monetary and fiscal policy going forward (see SIP). Fiscal $r_{f,t}^*$ is defined as the debt-stabilizing real interest rate when output growth is at potential, inflation at target, and the primary balance is held constant at a level deemed appropriate by fiscal policy. A positive gap between monetary $r_{m,t}^*$ —the neutral interest rate consistent with inflation at target and a closed output gap—and fiscal $r_{f,t}^*$ signals that fiscal and/or monetary policy need to adjust their stances to achieve their respective objectives. If monetary policy sets interest rates at $r_{m,t}^*$, interest rate costs and public debt could rise unless primary balances are strengthened, or growth and inflation increase. Conversely, if monetary policy keeps rates below neutral due to concerns about debt sustainability, inflationary pressures may build.

In 2025, the gap between monetary and fiscal r^* widens sharply for the Czech Republic (see Text Figure).² Based on projected debt dynamics and primary deficits over the medium term, fiscal r_f^* —the equilibrium real interest rate needed to stabilize debt at around 50 percent by 2030 with primary deficits slightly below 2.5 percent—is estimated at around -3 percent.

¹ While debt sustainability usually focuses on $r-g$, here growth is assumed to be at potential, as in the case of the monetary r^* . See Box 2 and Bolhuis et al. (2024) for more details.

Box 2. Monetary and Fiscal Policy Interactions in the Czech Republic (Continued)

A discretionary fiscal stimulus would exacerbate these dynamics prompting the CNB to respond with tighter monetary policy. Such a policy interaction would give rise to several unintended consequences:

1. Higher public debt service costs. Tighter monetary policy would increase the cost of borrowing, weighing on fiscal sustainability and reducing room for priority spending.
2. Crowding out of private investment. Higher interest rates would raise borrowing costs for firms and households, dampening private investment and offsetting part of the intended stimulative effects of fiscal measures.
3. Appreciation pressures on the exchange rate. A monetary tightening response could lead to koruna appreciation, which would weaken external demand and further counteract the expansionary effect of fiscal loosening.
4. Higher costs associated with central bank liabilities. Increased interest rates would raise the remuneration costs on CNB liabilities and potentially lead to losses on the CNB's balance sheet.

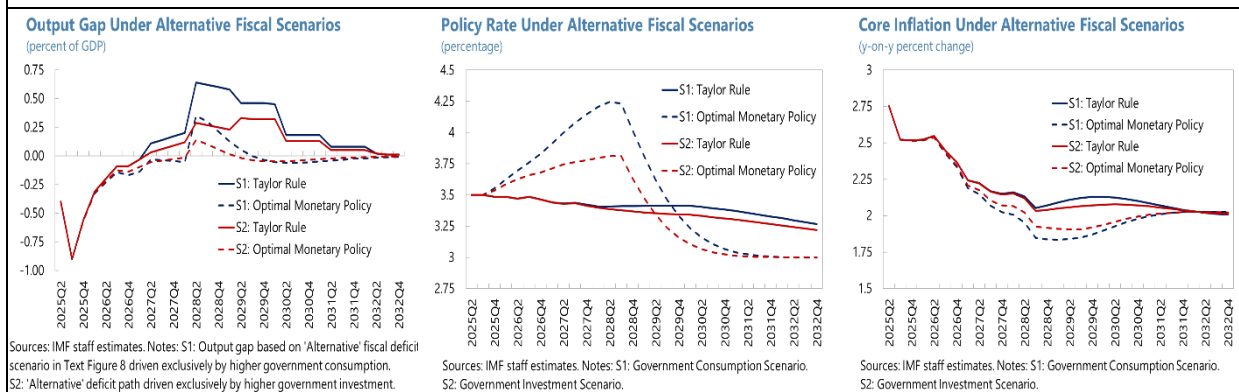
Internalizing these unintended effects can help strengthen policy design and improve overall macroeconomic outcomes. Importantly, achieving low and stable inflation requires an appropriate fiscal framework that ensures government debt sustainability. Historically, fiscal policy played this stabilizing role, by maintaining debt at moderate levels. In recent years, however, fiscal policy has become less responsive to rising debt ratios, potentially heightening tensions between monetary and fiscal policy going forward.

We contrast two scenarios of persistently higher deficits, differentiated by the composition of the underlying spending. In both alternative scenarios (based on Text Figure 8 'Alternative' fiscal scenario), deficits remain persistently elevated by up to 1 percent of GDP starting in 2027, driven either entirely by additional public consumption or by higher public investment that raises potential output. Monetary policy responds under two alternative frameworks: (i) an estimated Taylor rule with interest rate smoothing that reacts to current inflation and output deviations, or (ii) optimization under a loss function in which monetary policy is assumed to have perfect foresight regarding the future path of fiscal deficits.

Allocating additional fiscal spending to investment rather than consumption results in a more limited widening of the output gap and requires a more muted monetary policy response. Higher public investment (Scenario S2, red lines, in Figures below) raises potential output, thereby reducing the impact of the fiscal expansion on the output gap. By contrast, additional spending concentrated in public wages or other current expenditure (S1, blue lines) has little effect on potential output. Consequently, under the investment scenario, the smaller output gap calls for less monetary tightening, allowing interest rates to remain lower for a similar level of inflation.

An optimal monetary policy that frontloads rate hikes in response to fiscal easing (dashed lines) can keep inflation closer to target and accelerate the return to its natural policy rate. Under this approach, which incorporates full knowledge of the expected future path of fiscal expansion, the policy rate is raised immediately and more forcefully, remaining above the Taylor rule implied path for several quarters. This front-loaded tightening helps close the output gap more quickly and brings inflation down at a faster pace, thereby allowing the policy rate to return to its natural level sooner.

Box 2. Monetary and Fiscal Policy Interactions in the Czech Republic (Concluded)



¹ This box is based on IMF (2026) 'Czech Republic: Selected Issues'.

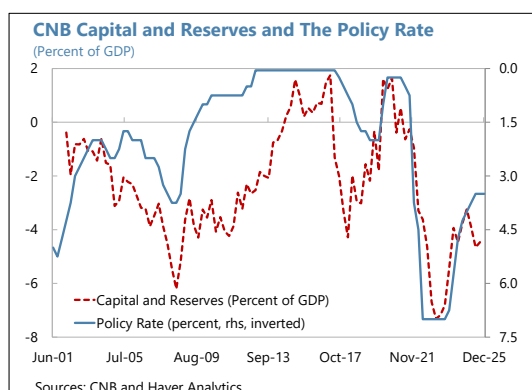
² The calculation for fiscal r^* is based on the 5-year WEO forecasts of growth, inflation, the primary balance, and the debt level, taking these expected $t+5$ values as equilibrium values for period t .

24. Staff reiterate the importance of central bank balance sheet normalization. The CNB maintains an outsized balance sheet, with reserves exceeding 300 percent of the IMF's ARA metric, largely a legacy of the 2013-17 exchange rate floor. The central bank has been managing large excess koruna liquidity through standard repo operations, limiting reserve sales in a shallow FX market to minimize the impact on the exchange rate. While this approach has preserved policy transmission, it has entailed significant costs, especially during periods of elevated interest rates, when the remuneration of repo operations exceeds returns on FX reserves. Large reserve holdings also expose the CNB balance sheet to exchange rate movements. The CNB has diversified its FX reserves to include higher-yield assets, raising returns but also market and credit risk. Staff therefore reiterate the case for considering a gradual bank balance sheet normalization through a transparent mechanism of preannounced, small, and regular FX sales. This would still leave sizable reserves against future shocks (See Box 1).

Risks of a more expansionary fiscal policy reinforce the case for balance sheet normalization.

Authorities' Views

25. The CNB noted its intention to maintain a relatively restrictive monetary policy stance. While acknowledging the temporary decline in inflation below the 2 percent target, the central bank considered that continued policy restraint remained appropriate, given robust economic activity, tight labor market conditions, strong wage dynamics, and ongoing pressures from property prices. The authorities emphasized that future policy decisions would remain data-dependent, guided by exchange rate developments, fiscal policy, labor market conditions, and external factors. They saw merit in greater use of scenario analysis in assessing risks around the baseline and appreciated staff's analysis on policy trade-offs. They stressed the importance of maintaining ample reserve buffers

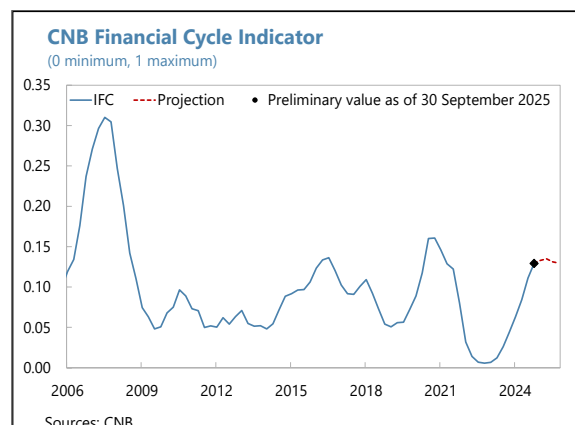


against potential pressures on capital flows and the exchange rate and viewed the current program, limited to selling part of the income generated by reserve assets, as functioning well.

C. Macrofinancial Policies—Calibrating Frameworks With Evolving Risks

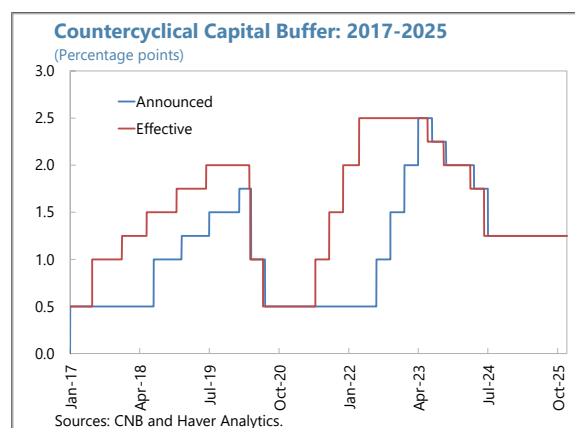
26. Financial stability risks remain contained but have risen amid real estate developments and elevated interconnectedness.

The recovery in household real incomes is supporting repayment capacity, and new mortgages are predominantly extended to high-income households, whose accumulated savings provide a buffer even at elevated DSTI ratios. Banks' lending standards remain prudent. Nonetheless, rapid property price growth, driven in part by factors outside the mortgage market, and the expanding presence of institutional investors have broader financial stability implications and warrant close vigilance. The bank-sovereign nexus also merits attention: Czech government securities are issued exclusively on the domestic market, which helps absorb structural excess liquidity but increases interconnectedness risks.



27. Rising financial stability risks point to a need to recalibrate certain instruments in the macroprudential toolkit.

Staff welcome the CNB's recent recommendations to tighten LTV and DTI limits for investment mortgages, given their higher risk profile, and urge continued close monitoring of the buy-to-let segment. While current risks remain contained, these measures can help prevent a further buildup of vulnerabilities. Should the share of investment mortgages in new lending continue to grow, the CNB could consider additional



measures. These may include recommending regionally differentiated limits or reactivating DSTI and DTI limits more broadly. The countercyclical capital buffer (CCyB) is a less effective instrument to address mortgage-specific risks; however, a further broad-based upswing in the financial cycle extending to corporate credit would warrant increasing the CCyB rate above the current 1.25 percent. Accessing the Eurobond market may help diversify the investor base of Czech government securities, while meeting increasing FX funding needs related to defense and energy investments.

28. The Czech Republic should continue deepening its efforts to strengthen AML/CFT effectiveness and safeguard economic sectors from illicit proceeds.

The establishment of the Interdepartmental Coordination Group for Combating Money Laundering and Terrorist Financing, and the approval of a National AML/CFT Strategy covering the next two years, are important steps

toward inter-agency coordination in identifying and implementing the authorities' strategic priorities. The authorities plan to update the national AML/CFT strategy once the ongoing MONEYVAL evaluation against the FATF standards finishes, by end of 2026. The timely completion of national and sectoral risk assessments is key for developing an updated and well-rounded identification of persistent, emerging, and cross-cutting risks, and to achieving a refined understanding of their impact, particularly for high-risk sectors such as real estate and virtual assets. Supervisory authorities report improvements in risk-based supervision of the financial and VASPs sectors, including analysis of cross-border transactions. Strengthening compliance with preventive measures across designated non-financial service providers and businesses is key, particularly for the real estate sector. The authorities should also continue deepening efforts to ensure that beneficial ownership information in the register is accurate and up to date, with proportional sanctions for non-compliance.

Authorities' Views

29. The CNB assessed financial stability risks to be contained and the banking system to be well capitalized and resilient. While acknowledging vulnerabilities from residential property price growth and rising mortgage activity, the authorities emphasized that risks are not broad-based and that lending standards remain prudent. They viewed the current macroprudential stance as appropriate, maintaining the countercyclical capital buffer at 1.25 percent and the systemic risk buffer at 0.5 percent, while keeping borrower-based measures inactivated, and highlighting the preventive intent of tighter LTV and DTI limits for investment mortgages. The authorities stressed that future calibration would remain data-dependent and guided by developments in property and mortgage markets, and broader macrofinancial conditions. They noted that, while the sovereign-bank nexus warrants monitoring, sovereign risk remains low. They also reiterated their commitment to reducing AML/CFT risks.

D. Structural Policies—Supporting Growth and Complementing Fiscal Consolidation

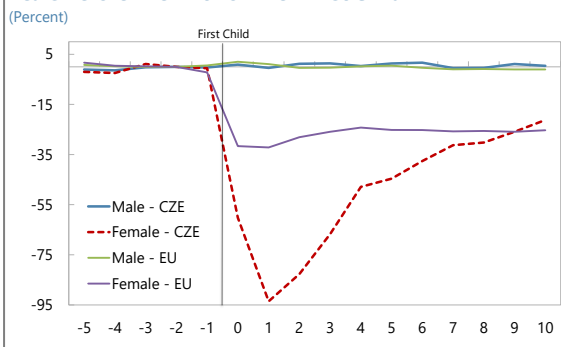
30. Meeting the challenges of a shifting economic landscape will require decisive policy action. Facing mounting structural headwinds, the Czech Republic is transitioning from a manufacturing-driven, export-oriented hub to a more mature and diversified economy, with ICT and financial services gaining importance. Sustaining this progress while ensuring resilience in traditional sectors requires better allocation of skilled labor to address shortages, deeper capital markets, reliable energy supply, and affordable housing. While a significant fiscal stimulus when the economy is at or near potential could fuel inflation, advancing structural reforms at the national level, alongside deeper integration within the European Single Market, would boost potential growth and ease the burden of fiscal consolidation.

31. Strengthening workforce adaptability through active labor-market policies is critical as the economy undergoes structural transition. The recent Flexi-Amendment to the Labor Code enhances flexibility by extending probationary periods, easing notice rules, and expanding parental

leave options, helping reduce rigidities and facilitate worker reallocation. The authorities should use data-driven forecasting methods to address sectoral shortages while modernizing vocational training and public education. Streamlining administrative procedures, expanding childcare and eldercare to boost women's participation, and aligning training with future skill needs remain essential to sustaining labor market resilience.

Text Figure 10. Employment Gap¹

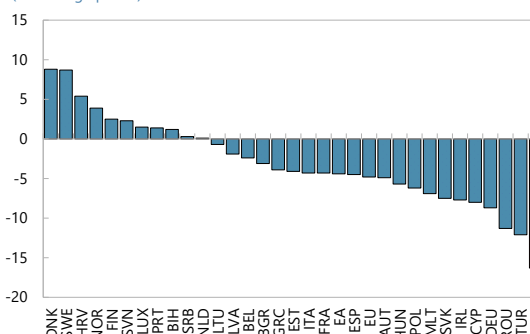
Change in Employment of Men and Women Relative to Two Years Before The Birth of Their First Child
(Percent)



Source: Child Penalty Atlas.

Employment Gap After Childbirth, 2024

(Percentage points)



Source: Eurostat.

¹The left chart highlights how employment levels change for men and women from two years before the birth of their first child to several years afterward. It reveals a notable divergence: while men's employment typically remains stable or experiences only minor fluctuations, women's employment tends to decline significantly following childbirth, illustrating the 'child penalty.'—experienced differently by gender. This penalty reflects how having children disproportionately affects female's participation in the workforce, often due to factors such as childcare responsibilities, workplace discrimination, or social norms.

32. Expanding venture capital and equity financing would strengthen opportunities for start-ups and help young firms scale up. The Czech Republic hosts a growing innovation ecosystem, with start-ups active in ICT, AI, cybersecurity, fintech, and biotech. These firms rely heavily on intellectual property, software, and human capital rather than physical collateral, making access to bank credit more difficult. A limited domestic venture capital market and low investor risk appetite compound these frictions, constraining growth and productivity. The new government's plan to introduce tax incentives for start-up investors is therefore a welcome step, alongside efforts to advance progress toward an EU Savings and Investment Union¹.

33. Preserving fiscal space to support investments in energy security is critical. The Czech Republic's energy strategy prioritizes expanding nuclear power capacity to strengthen long-term security. However, the limited viability of coal and slow adoption of renewables, whose share in electricity generation remains among the lowest in the EU at under 20 percent, leave the energy-intensive economy vulnerable to volatility in imported sources during the transition (Annex II). Staff therefore emphasize the need to deepen integration with the European electricity market, accelerate transmission and distribution projects, and support renewables through faster permitting and modern storage technologies.

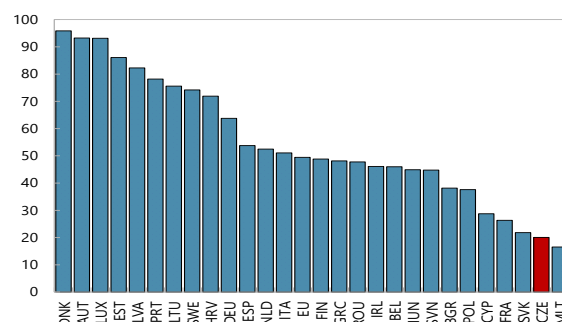
¹ [Arnold et al. \(2024\)](#)

Text Figure 11. Energy Sector Developments**Authorities' Energy Agenda**

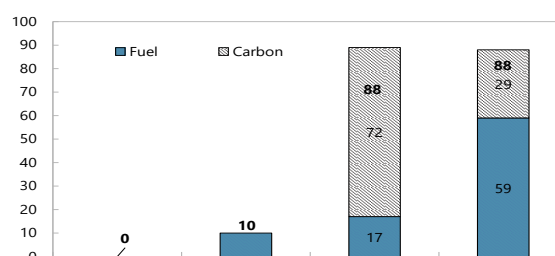
Key Point	Description	Target
Lower Electricity Costs	Transfer the renewable energy surcharge from consumers to the state budget.	Lower Prices for Households & Businesses
ETS Policy Reform	Oppose ETS2 implementation, call for improving ETS1 for better predictability.	Reform Carbon Trading System
State Control of CEZ Utility Company	Regain full state ownership of CEZ, key energy producer and grid operator.	Strengthen State Energy Control
Energy Security Strategy	Speed up gas power plants and keep some coal plants until alternatives are stable.	Ensure Reliable Energy Supply

Estimates of Marginal Cost of Electricity Production

Source	Marginal cost (EUR/Mwh)	Notes
Coal	35-69	Higher in EU due to carbon price (up to EUR 86/MWh)
Natural Gas	43-129	Highly sensitive to gas hub prices (TTF) and carbon cost
Nuclear	9-17	Fuel cost is low; most cost if fixed so marginal cost is minimal
Hydro	4-13	Depends on water availability; near-zero fuel cost
Wind/Solar	0-4	Essentially zero; only balancing costs apply

Renewable Energy Sources in Net Electricity Generation (Percent of total share, 2025Q3)

Source: Eurostat.

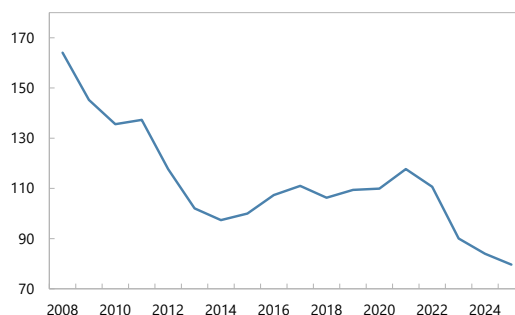
Marginal Fuel Costs by Technology at Current Forwards (EUR/MWh, prices of gas and carbon as of Nov 24, 2025)

Source: CEZ.

Note: *Cash cost of extracting own lignite in 2024, 42 efficiency, 11.5 GJ calorific value, carbon allowances at 83 EUR/t.

**Natural gas at 30 EUR/MWh, 57% efficiency, 0.35 t/MWh CO₂.

34. Addressing deteriorating housing affordability requires a comprehensive policy approach combining demand-side moderation with structural supply-side reforms. Over the past decade, Czech house prices have been among the fastest rising in the EU, increasingly outpacing income gains (Box 3). Beyond the direct burden on households, worsening affordability carries broader macroeconomic costs: it constrains labor mobility, limits access to high-productivity jobs in major urban areas, and reinforces wealth inequalities. Although tighter monetary conditions have cooled the market after 2022, average annual price growth remains twice the EU average, making homeownership increasingly unattainable for first-time buyers in some regions. The persistent gap between strong demand and constrained supply has intensified competition for housing, underscoring the need to address both sides of this imbalance. Targeted macroprudential measures—such as recently recommended lower LTV and DTI limits for investment mortgages—can help curb excessive demand and speculative activity but are insufficient on their

Residential Buildings: Permits Issued (Index, 2015=100)

Source: Haver Analytics.

own. To relieve supply constraints, priorities should include streamlining and digitalizing permitting processes and transitioning to a value-based property tax system.

Box 3. House Price Growth in the Czech Republic: A Structural Decomposition

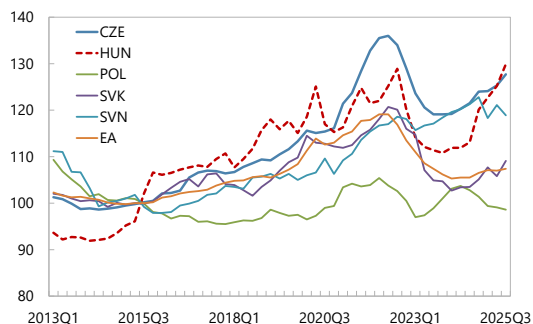
A persistent structural mismatch between robust, income-backed demand and a rigid, underperforming supply side lies at the heart of housing affordability challenges in the Czech Republic (see SIP). Real house prices more than doubled between 2013 and 2024, with the price-to-income ratio rising well above pre-pandemic levels and Prague consistently ranking among the least affordable capitals in Europe.

- **On the demand side**, sustained real income growth, persistently low unemployment, and favorable credit conditions—including a prolonged period of negative real mortgage rates through 2021—fueled strong housing demand over the past decade. The COVID-19 pandemic further intensified these pressures as shifts in housing preferences, accumulated household savings, and historically low interest rates triggered a sharp acceleration in demand. Demographic developments, including net migration and the inflow of close to 400,000 Ukrainian refugees after 2022, added further strain.
- **On the supply side**, residential construction recovered from the post-GFC lows but has remained below pre-crisis levels. Supply responsiveness has been hampered by protracted permitting procedures, stagnant labor productivity in the construction sector, and significant administrative fragmentation across the Czech Republic's more than 6,200 municipalities. These structural bottlenecks have limited the elasticity of housing supply, amplifying price pressures generated by sustained and robust demand.

A structural vector autoregression (SVAR) is estimated to disentangle the key drivers of Czech house price dynamics and decompose price movements into supply, demand, and mortgage rate shocks using a sign-restricted identification strategy. The model is estimated on quarterly data for four variables—real house prices, construction activity, real disposable income, and real mortgage rates—with structural shocks identified through restrictions on the direction of contemporaneous impulse responses. The results point to three clear policy priorities. First, monetary policy transmission to house prices is effective but inherently cyclical and cannot address structural rigidities in housing supply. Second, supply shocks contributed only marginally over the sample period, confirming that Czech housing supply remains structurally unresponsive to price signals. Third, with demand already driving the current recovery while supply remains constrained, lasting improvements in housing affordability gains will require addressing supply-side bottlenecks rather than providing additional demand support.

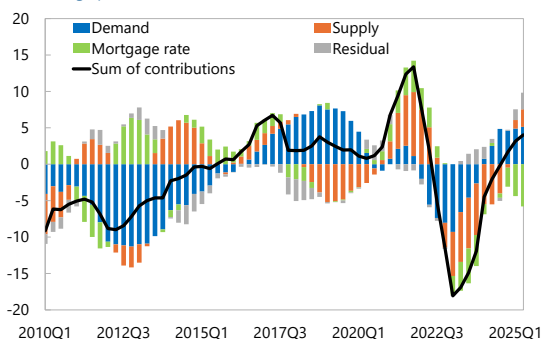
House Price to Income Ratio

(Index, 2015=100, SA)



Contribution of Structural Shocks to House Price Growth

(Percentage points)



Authorities' Views

35. The authorities broadly shared staff's assessment that structural constraints remain significant, citing labor shortages, adverse demographics, and limited regional mobility. They highlighted recent Labor Code amendments and targeted migration measures as steps to support worker reallocation and ease skill gaps. The authorities noted a shift from broad-based subsidies toward tax-based instruments to support innovation and productivity, alongside efforts to reduce administrative burden through digitalization, and pointed to initiatives to expand start-up financing. On energy, the authorities reaffirmed the central role of nuclear power in long-term energy security, while noting that conditions were not yet conducive to a large-scale transition to renewables. On housing, they recognized worsening affordability as a macroeconomic constraint and underscored continuing support for targeted new affordable housing capacity as well as reforms to streamline permitting, while emphasizing capacity constraints at the municipal level.

STAFF APPRAISAL

36. Growth is projected to remain robust and inflation to ease in the near term. Consumption is supported by a continued rebound in real wages and a modest decline in the saving rate, while investment benefits from lower interest rates and exports gradually improve following recent trade disruptions. As export performance normalizes and the catchup in household income fades, medium-term growth is expected to moderate toward potential, constrained by demographic pressures and modest productivity gains. Inflation is set to undershoot the CNB's 2 percent target this year, with core pressures easing more gradually.

37. Staff's forecast is subject to considerable uncertainty, with near-term risks to growth and inflation tilted to the upside and medium-term risks to the downside. A more expansionary fiscal stance could temporarily lift growth above potential and add to inflationary pressures, prompting tighter monetary policy and higher borrowing costs. Conversely, renewed global policy uncertainty, trade tensions, or corrections in asset valuations could dampen activity and heighten inflation volatility.

38. After a moderately expansionary budget in 2026, spending pressures are expected to intensify. Aging-related outlays and large investment needs will increasingly strain public finances, and without consolidation, debt and financing needs would rise persistently. Staff therefore recommend a gradual, sustained adjustment to safeguard fiscal space, supported by contained wage bill growth, better targeted social spending, and improved expenditure efficiency. Any changes to the recent pension reform should be carefully assessed. On the revenue side, stronger tax compliance should be complemented by a rebalancing of the tax structure, including toward more effective property taxation.

39. Staff assess the monetary stance as broadly appropriate, with limited room for further easing given persistently elevated core inflation and a closing output gap. Monetary policy should remain on hold unless incoming data materially alters the inflation outlook. A domestic fiscal expansion that fuels macroeconomic imbalances would warrant tighter monetary policy and

strengthened communication to keep expectations anchored. Elevated uncertainty underscores the need for more systematic scenario analysis. Staff also reiterate the case for gradual balance sheet normalization through preannounced, small, and regular FX sales.

40. Financial stability risks remain contained but have risen amid rapid property price growth and increased interconnectedness. Banks remain resilient, supported by prudent lending standards and strong household repayment capacity. Targeted tightening of borrower-based measures for investment mortgages helps prevent vulnerabilities from building, and further macroprudential adjustments may be warranted if risks broaden. Staff also emphasize the continued strengthening of AML/CFT effectiveness, particularly in higher-risk sectors.

41. Advancing structural reforms is essential to raise potential growth and ease the burden of fiscal consolidation. Reducing administrative burden, accelerating digitalization, and improving the business environment remain critical, both domestically and for competitiveness within the EU single market. Sustained policy efforts are also needed to strengthen energy security, manage rising aging-related costs, and expand affordable housing, ensuring that the economy is better positioned to navigate structural headwinds and support inclusive, long-term growth.

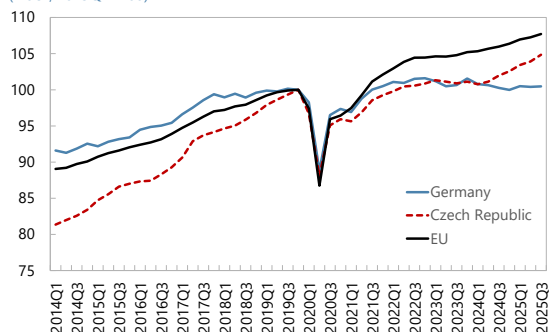
42. It is recommended that the next Article IV consultation be completed on the standard 12-month cycle.

Figure 1. Growth Developments

Growth has regained momentum in 2024...

Gross Value Added: Total Economy

(Index, 2019Q4=100)

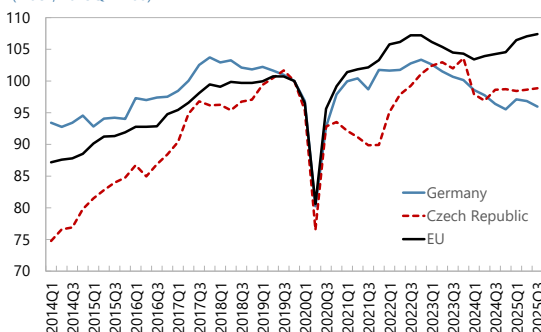


Sources: Eurostat, Haver Analytics and IMF staff calculations.

... despite continued stagnation in manufacturing.

Gross Value Added: Manufacturing

(Index, 2019Q4=100)

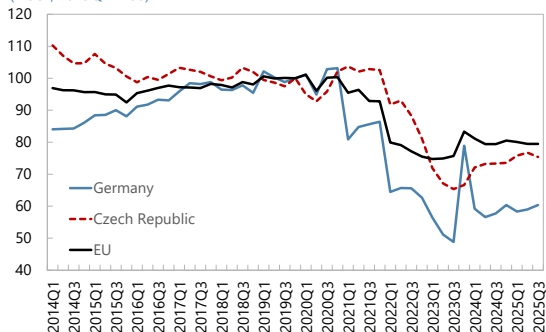


Sources: Eurostat, Haver Analytics and IMF staff calculations.

... and only tentative signs of rebound in mining...

Gross Value Added: Mining&Electricity&Gas

(Index, 2019Q4=100)

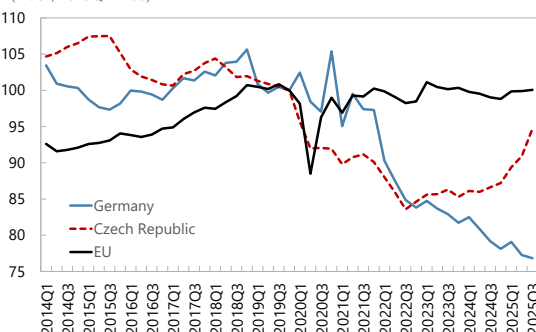


Sources: Eurostat, Haver Analytics and IMF staff calculations.

... and construction. Both sectors have gone through an extended downturn.

Gross Value Added: Construction

(Index, 2019Q4=100)

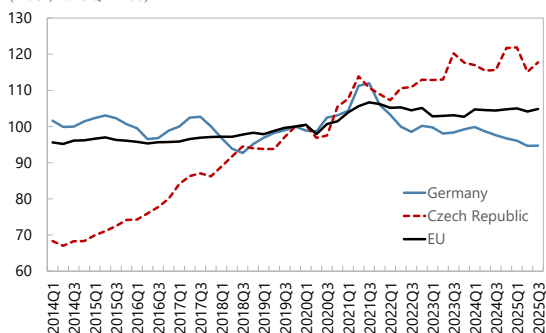


Sources: Eurostat, Haver Analytics and IMF staff calculations.

On the other hand, activity has continued expanding in financial services...

Gross Value Added: Finance & Insurance Activities

(Index, 2019Q4=100)

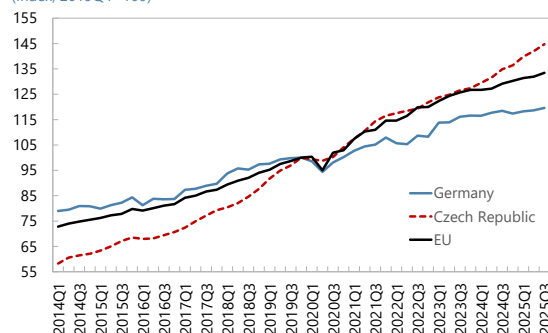


Sources: Eurostat, Haver Analytics and IMF staff calculations.

...and even more in information and communications technology.

Gross Value Added: Information & Communication

(Index, 2019Q4=100)

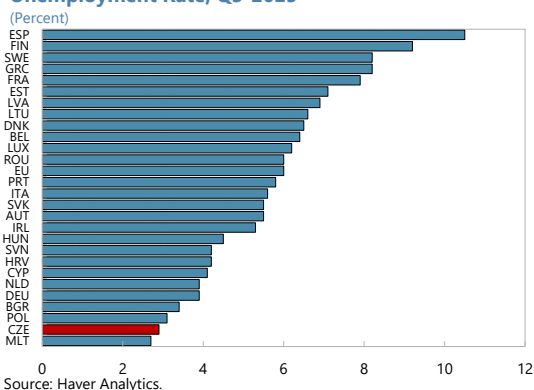


Sources: Eurostat, Haver Analytics and IMF staff calculations.

Figure 2. Labor Market Developments

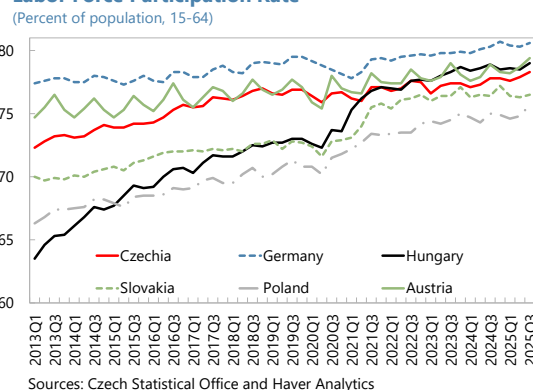
The unemployment rate remains the lowest in Europe...

Unemployment Rate, Q3-2025



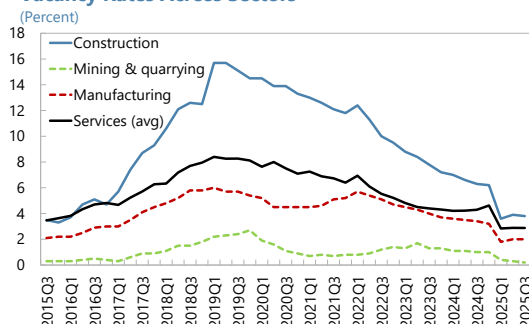
... despite a gradual increase in labor force participation...

Labor Force Participation Rate



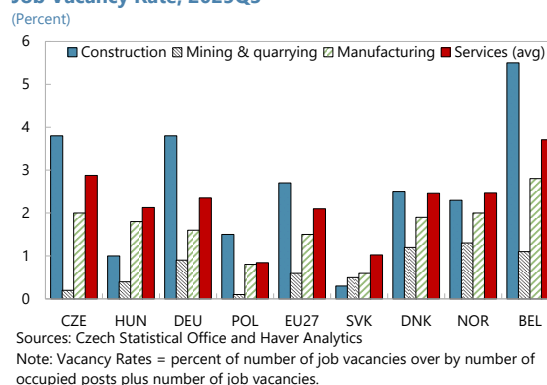
...and a broad-based decline in vacancy rates...

Vacancy Rates Across Sectors



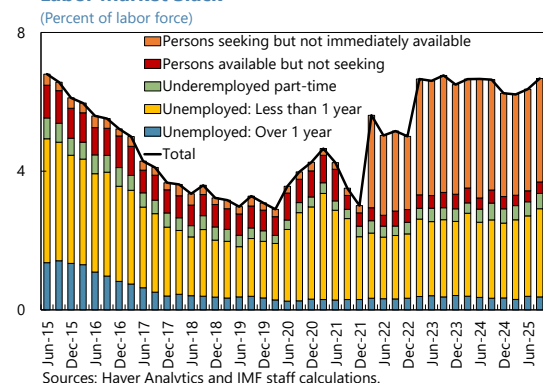
... which, however, remain elevated in international comparisons.

Job Vacancy Rate, 2025Q3



...and total slack remains stable following uptick in the excess number of job seekers, including refugee inflows following the war in Ukraine.

Labor Market Slack



...and the level of real wages is still well below the 2021 peak.

Real Wages

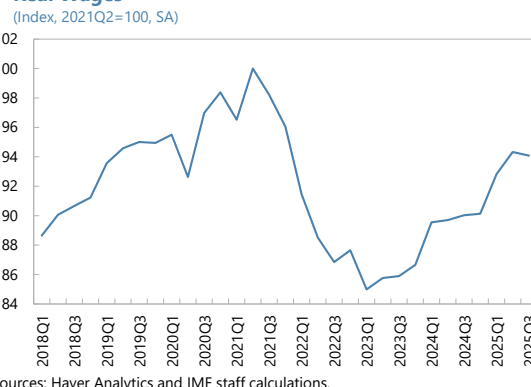
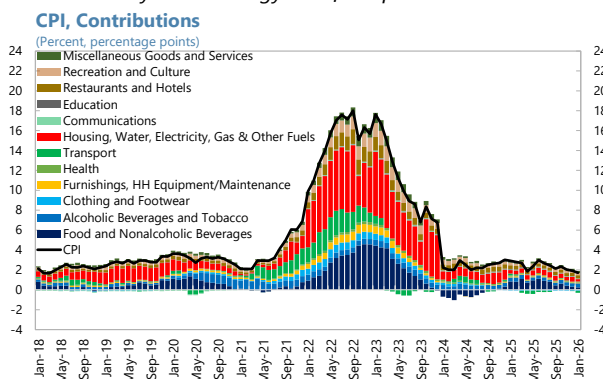
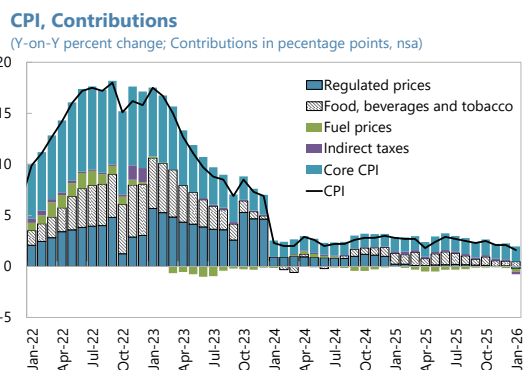


Figure 3. Inflation Developments

CPI inflation fell below the CNB's 2 percent target in January 2026 driven by lower energy and food price contributions...



... while core inflation remains elevated.

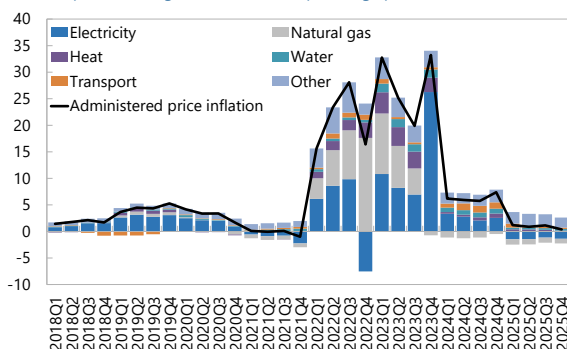


Sources: Haver Analytics and CNB.

Regulated prices inflation has fallen back to historically low levels.

Contribution to Administered Price Inflation

(Y-on-Y percent change; Contributions in percentage points)

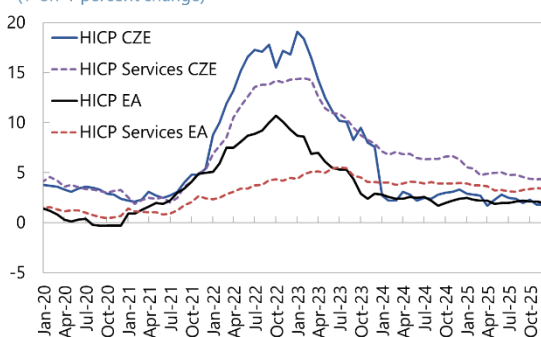


Source: CNB.

HICP inflation is close to the euro area average while the services price inflation differential is narrowing.

HICP

(Y-on-Y percent change)

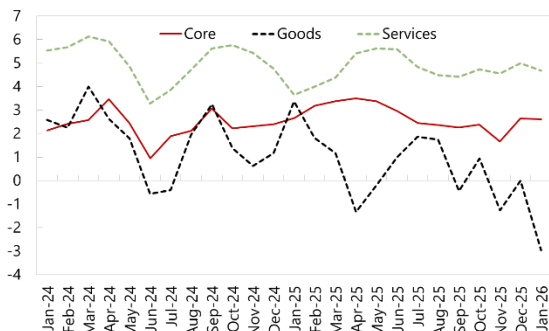


Sources: Haver Analytics

Momentum measures show stickiness for core and services inflation while goods prices are falling.

Core Inflation Momentum

(seasonally adjusted, m-o-m, annualized, 3-month averages)

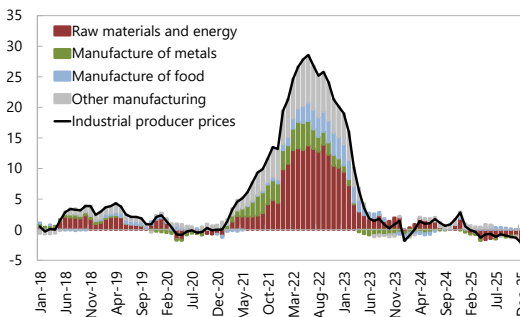


Sources: Czech Statistical Office, IMF staff estimates.

Raw materials and energy are keeping producer prices in deflation territory.

Industrial Producer Prices

(Y-on-Y percent change; Contributions in percentage points)

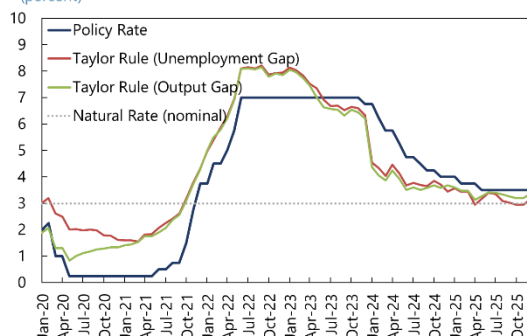


Sources: CNB.

Figure 4. Monetary Policy and Credit Developments

The current 3.5 percent policy rate is broadly consistent with neutral rate estimates.

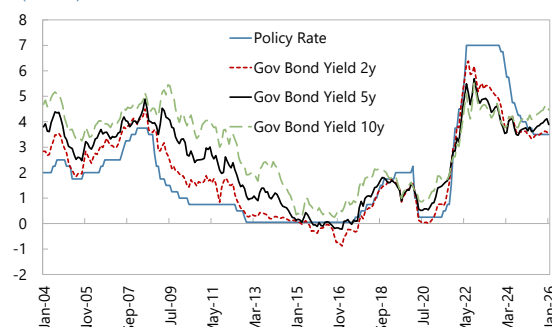
Policy Rates
(percent)



Source: Haver Analytics and IMF staff calculations.

After decreasing in line with the policy rate, government bond yields have picked up recently.

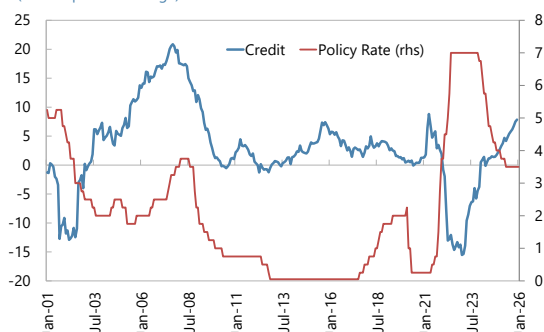
Policy Rate and Government Bond Yields
(Percent)



Source: CNB.

After a period of contraction, real koruna credit growth has picked up significantly.

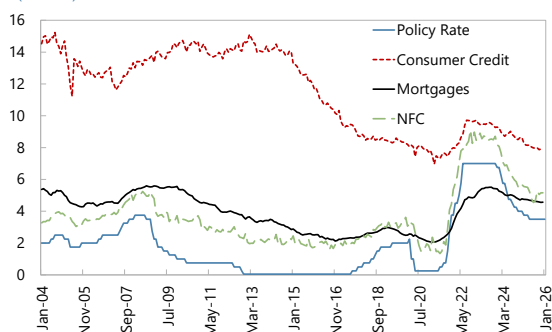
Policy Rate and Real Domestic CZK Credit Growth
(Y-on-Y percent change)



Sources: CNB and Haver Analytics.

Lending rates on private sector loans are continuing to trend downwards.

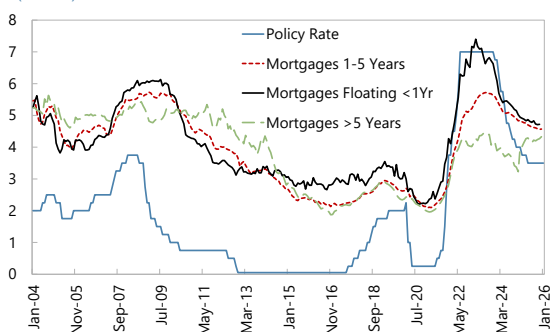
Interest Rates on New Loans
(Percent)



Source: CNB.

Rates of most mortgages with a fixation period below 5 years are on a downward trend.

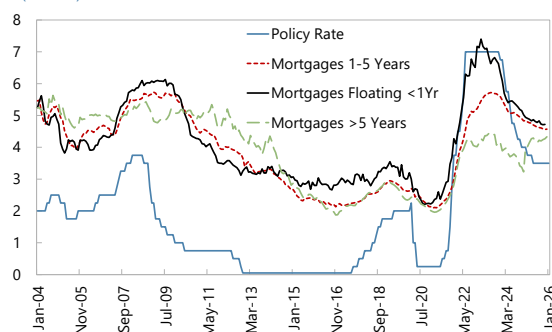
Interest Rates on New Mortgages
(Percent)



Source: CNB.

Similarly, lending rates on NFC loans have decreased in line with policy rates.

Interest Rates on New Mortgages
(Percent)

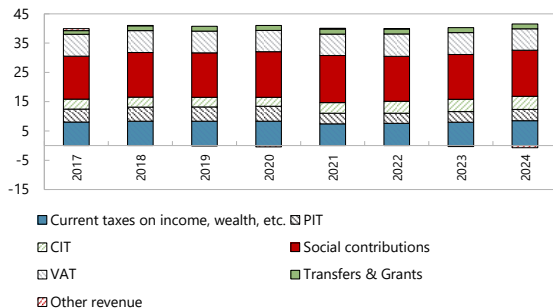


Source: CNB.

Figure 5. Fiscal Policy Developments

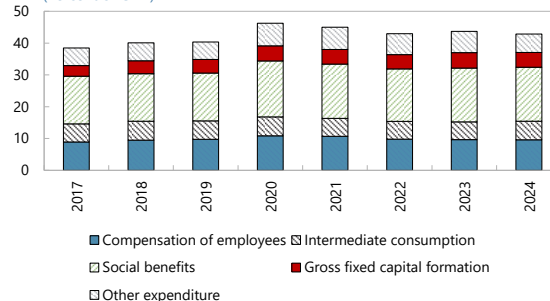
Recent growth momentum boosted tax revenue ...

General Government Revenue
(Percent of GDP)



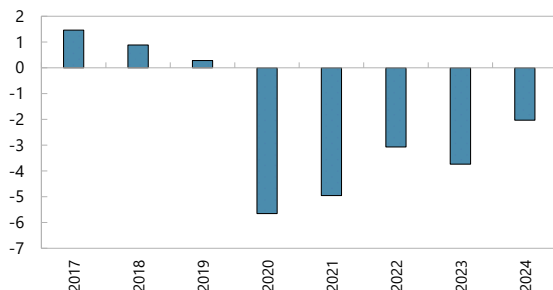
... while adopted consolidation package kept expenditures flat ...

General Government Expenditure
(Percent of GDP)



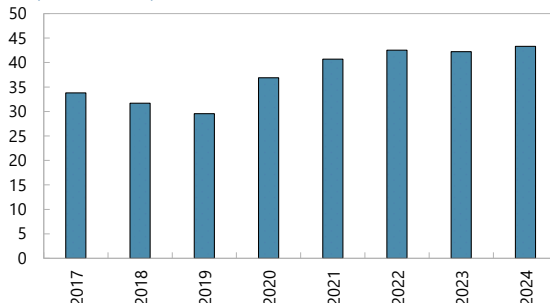
...which helped contain the deficit...

General Government Balance
(Percent of GDP)



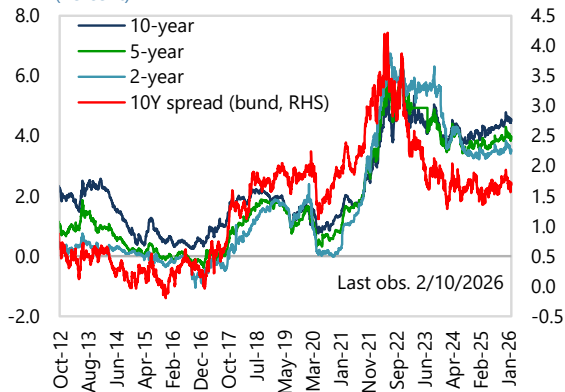
...and keep debt broadly stable.

Public Debt
(Percent of GDP)



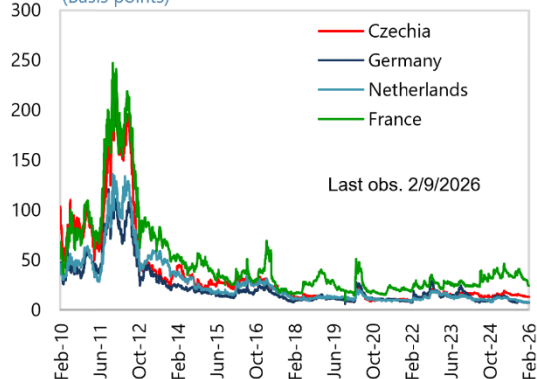
Czech sovereign bond spreads have widened moderately in recent months...

Sovereign Bond Yields
(Percent)



...even though CDS spreads continued to be relatively tight.

Sovereign 5-Year EUR CDS Spreads
(Basis points)



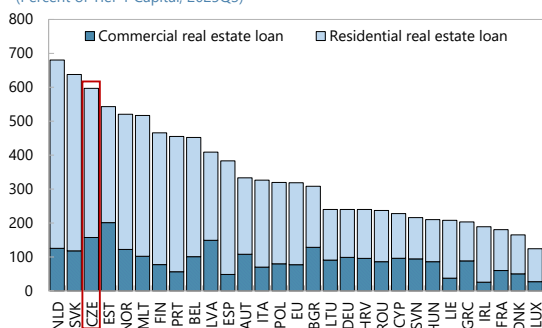
Sources: Czech Republic Ministry of Finance; Bloomberg; and IMF staff calculations.

Figure 6. Financial Sector Developments

Czech banks have significant exposure to the real estate sector...

Bank Credit Exposure to Real Estate

(Percent of Tier 1 Capital, 2025Q3)

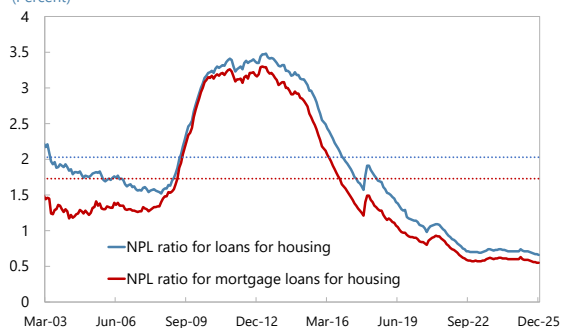


Sources: European Banking Authority and IMF staff calculations.

Non-performing loan ratios for the housing segment remain historically low...

NPL Ratio for Loans for Housing

(Percent)



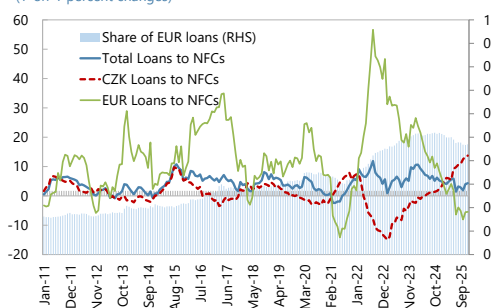
Source: Czech National Bank.

Note: The dashed lines indicate the long-term average (2002–2023) of each variable.

The increase in the share of euro loans to NFCs has come to a halt reflecting a pick-up in CZK loan growth.

Loans to NFCs

(Y-on-Y percent changes)

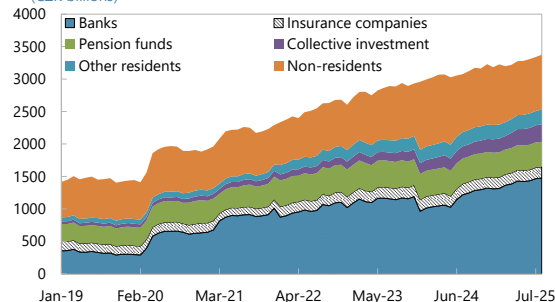


Source: Haver Analytics.

... and they hold more than one third of Czech government bonds.

Holdings of Koruna-Denominated Czech Government Securities

(CZK billions)

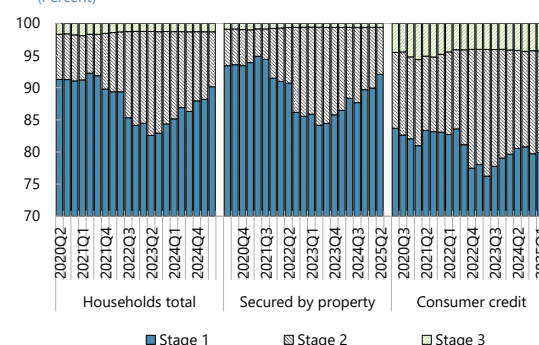


Source: Czech National Bank.

... while the share of stage 2 loans has fallen back to pre-2020 levels.

Structure of Loans to Households by Credit Quality

(Percent)

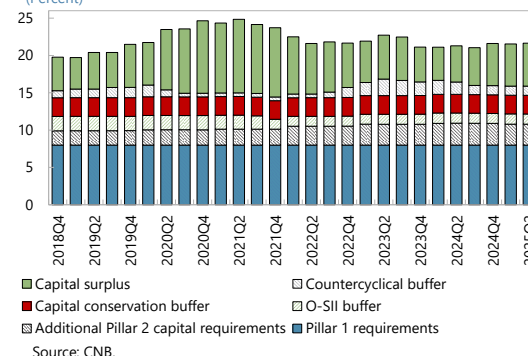


Source: Czech National Bank.

Banks are adequately capitalized.

Capital Requirements

(Percent)



Source: CNB.

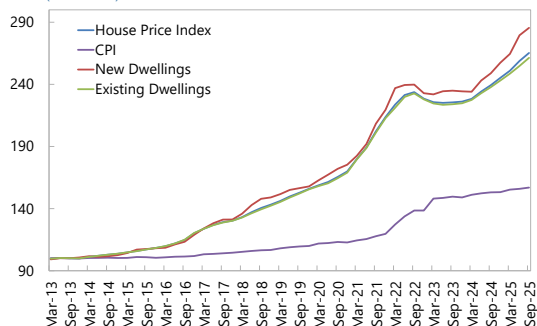
Figure 7. Real Estate Sector Developments

After a period of stabilization at elevated levels, house prices have started rising again since 2024Q2...

... along with the real value of housing loans.

House and Consumer Prices

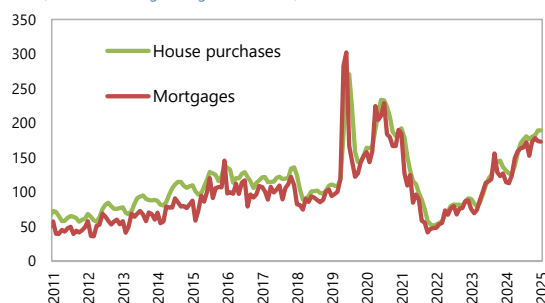
(2013=100)



Sources: Czech Statistical Office and Haver Analytics.

Real Value of New Loans: 2011-2025 (December)

(3-month moving averages, 2019=100)



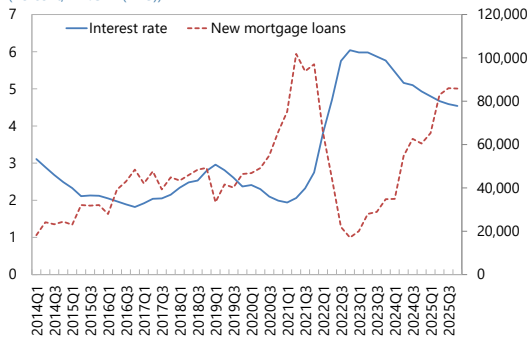
Source: Czech National Bank.

With decreasing mortgage rates, loan activity has picked up...

... but the household debt to income ratio remains lower than in recent years.

New Mortgage Loans and Rate

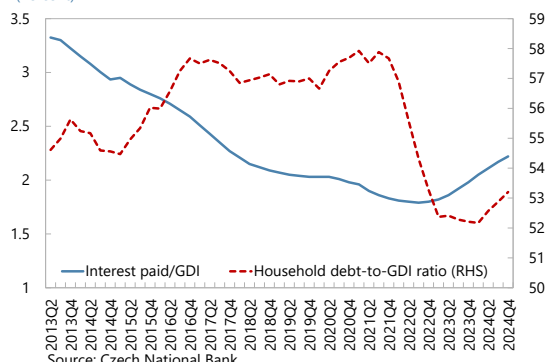
(Percent, Mil.CZK (RHS))



Source: CNB.

Debt Ratio and Interest Paid by Households

(Percent)



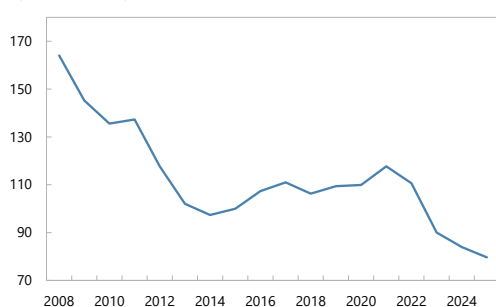
Source: Czech National Bank.

Permits have been on a declining trend constraining supply...

... while housing costs burden especially low-income households

Residential Buildings: Permits Issued

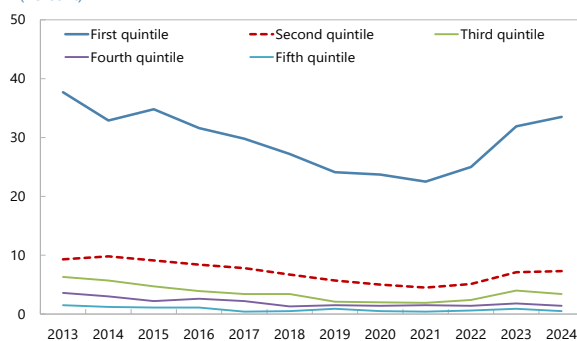
(Index, 2015=100)



Source: Haver Analytics.

Housing Cost Overburden Rate

(Percent)



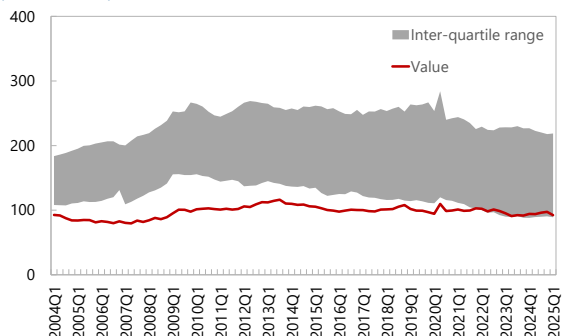
Source: Eurostat.

Figure 8. Corporate Sector Developments

Gross debt levels of NFC are moderate compared to other EU countries...

Gross Debt Level

(Percent of GVA)

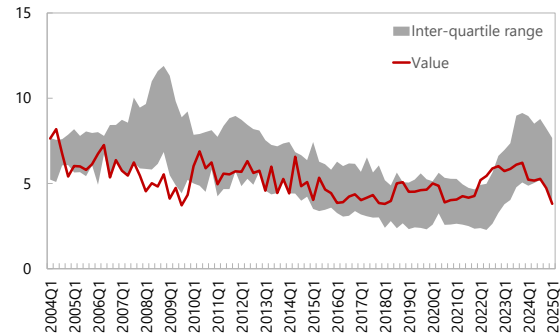


Sources: IMF Corporate Sector Dashboard and IMF staff calculations.

... while interest payments have come down lately.

Gross Interest Payment

(Percent of GVA)

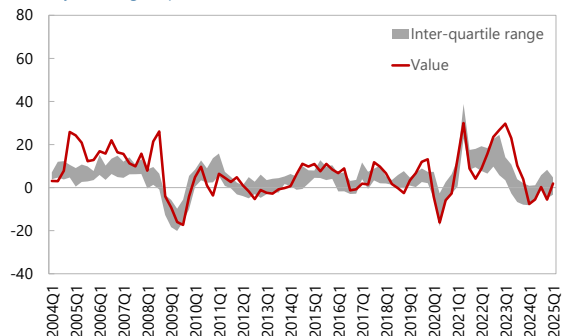


Sources: IMF Corporate Sector Dashboard and IMF staff calculations.

After contracting in 2024, profits have regained ground in 2025Q1.

Change in Profit

(Year-on-year change in percent)

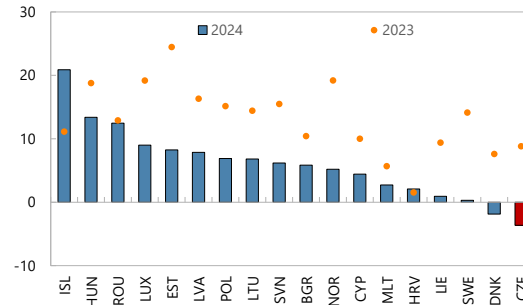


Sources: IMF Corporate Sector Dashboard and IMF staff calculations.

Compared to other EU peers, vulnerability of Czech non-financial corporations is estimated to be low.

Aggregated Corporate Vulnerability

(Index)



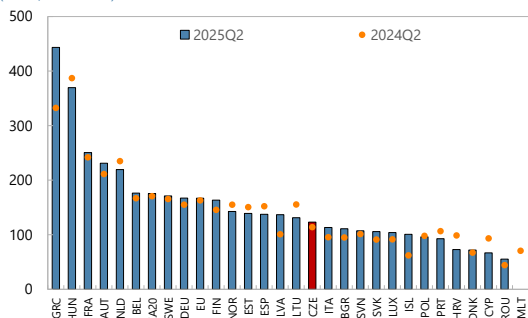
Source: IMF Corporate Sector Dashboard.

Note: Higher values indicate higher vulnerability.

Business bankruptcies have only slightly increased since 2021...

Business Bankruptcy

(Index, 2021=100)

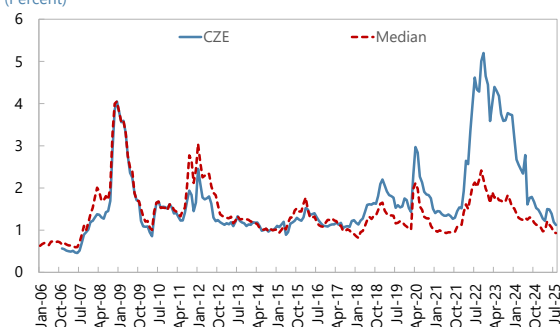


Source: IMF Corporate Sector Dashboard.

...while corporate bond spreads have come down significantly and are now close to the EU median.

Corporate Bond Spread, CZE and Median^{1/}

(Percent)



Source: IMF Corporate Sector Dashboard.

1/Median based on selected EU countries, Norway, Switzerland, and the UK.

Table 1. Czech Republic: Selected Economic Indicators, 2022-31
(Annual percent change, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Staff projections									
NATIONAL ACCOUNTS										
Real GDP (expenditure)	2.8	0.0	1.3	2.5	2.5	2.3	2.1	1.9	1.8	1.8
Domestic demand	3.3	-2.4	0.6	3.0	2.7	2.4	2.4	2.3	2.3	2.3
Consumption	0.5	-0.8	2.7	2.6	2.8	2.2	2.2	2.0	2.0	2.0
Public	0.4	3.2	3.1	2.0	2.3	2.0	2.0	2.0	2.0	2.0
Private	0.5	-2.6	2.5	2.9	3.0	2.3	2.2	2.0	2.0	2.0
Investment	10.2	-6.1	-4.3	3.8	2.6	2.7	3.0	3.0	3.0	3.0
Exports	5.1	2.3	1.5	4.1	2.2	3.6	3.6	3.6	3.6	3.6
Imports	5.9	-1.2	0.5	5.0	2.5	3.8	4.2	4.3	4.3	4.3
Contribution to GDP										
Domestic demand	3.2	-2.5	0.5	3.0	2.5	2.2	2.3	2.2	2.1	2.2
Net exports	-0.3	2.5	0.8	-0.5	0.0	0.1	-0.2	-0.3	-0.3	-0.4
Investment (percent of GDP)	27.7	27.9	26.5	25.4	25.5	25.5	25.5	25.7	25.8	26.0
Gross domestic investments (percent of GDP)	31.0	28.2	26.3	25.7	25.6	25.5	25.6	25.7	25.9	26.1
Gross national savings (percent of GDP)	26.3	28.1	28.1	26.4	26.0	25.9	25.8	25.9	25.9	25.8
Output gap (percent of potential output)	0.3	-1.0	-1.3	-0.6	0.0	0.3	0.2	0.1	0.0	0.0
Potential growth	1.2	1.3	1.6	1.7	1.9	2.0	2.1	2.0	1.9	1.8
LABOR MARKET										
Employment	-1.5	1.5	2.6	0.5	0.3	0.1	-0.2	-0.2	-0.2	-0.2
Total labor compensation	7.8	8.5	6.8	6.9	5.1	5.2	4.5	4.1	4.0	4.0
Unemployment rate (average, in percent)	2.2	2.6	2.6	2.9	3.0	2.9	2.9	2.9	2.9	2.9
PRICES										
Consumer prices (average)	15.1	10.7	2.4	2.5	1.6	2.0	2.5	2.0	2.0	2.0
Consumer prices (end-of-period)	15.7	6.9	3.0	2.0	1.7	2.0	2.4	2.0	2.0	2.0
Producer price index (average)	24.3	5.0	0.8	...	...	...	...	...	...	...
GDP deflator (average)	8.7	8.6	3.9	3.0	1.9	2.1	2.4	2.0	2.0	2.1
MACRO-FINANCIAL										
Money and credit (end of year, percent change)										
Broad money (M3)	6.1	8.6	5.2	5.6	4.4	4.4	4.6	4.0	3.9	3.9
Private sector credit	5.7	6.5	5.7	4.0	3.5	3.5	3.5	3.5	3.5	3.5
Interest rates (in percent, year average)										
Three-month interbank rate	6.3	7.1	5.0	...	...	...	...	...	...	...
Ten-year government bond	4.3	4.4	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Exchange rate										
Nominal effective exchange rate (index, 2005=100)	107.4	112.6	108.6	112.1	...	...	...	...	...	...
Real effective exchange rate (index, CPI-based; 2005=100)	115.3	125.9	120.3	123.6	...	...	...	...	...	...
PUBLIC FINANCE (percent of GDP)										
General government revenue	39.9	40.0	40.8	41.5	40.9	40.5	40.8	40.8	40.8	40.8
General government expenditure	43.0	43.7	42.9	43.5	43.3	43.0	43.5	43.7	43.8	43.9
Net lending / Overall balance	-3.1	-3.7	-2.0	-2.0	-2.3	-2.5	-2.7	-2.9	-3.1	-3.1
Primary balance	-2.6	-3.2	-1.4	-1.4	-1.6	-1.8	-2.0	-2.2	-2.4	-2.4
Cyclically adjusted balance (percent of potential GDP)	-3.2	-3.3	-1.5	-1.8	-2.3	-2.6	-2.8	-3.0	-3.1	-3.1
General government debt	42.5	42.2	43.3	44.6	46.3	47.5	48.7	50.2	51.9	53.6
BALANCE OF PAYMENTS (percent of GDP)										
Trade balance (goods and services)	1.1	4.9	6.5	5.8	5.1	5.0	4.7	4.5	4.4	4.3
Current account balance	-4.7	-0.1	1.7	0.7	0.4	0.3	0.2	0.1	0.0	-0.2
Gross international reserves (billions of euros)	131.3	134.3	140.8	150.9	160.3	167.2	172.6	177.8	183.0	188.0
(in months of imports of goods and services)	7.7	8.0	8.4	8.7	8.8	8.8	8.7	8.6	8.4	8.3
(in percent of short term debt, remaining maturity)	118.6	132.9	130.6	124.9	118.9	112.6	106.1	100.4	95.0	89.9
MEMORANDUM ITEMS										
Nominal GDP (USD billions)	301.8	345.1	347.1	388.8	431.4	449.9	469.3	487.6	506.2	525.6
Population (millions)	10.8	10.9	10.9	10.9	10.9	10.8	10.8	10.8	10.7	10.7
Real GDP per capita	-0.1	-0.2	0.5	2.8	2.8	2.6	2.4	2.2	2.1	2.1
GDP per capita (USD thousands)	27.88	31.80	31.74	35.66	39.69	41.52	43.44	45.27	47.14	49.10

Sources: Czech National Bank; Czech Statistical Office; Ministry of Finance; Haver Analytics, and IMF staff estimates and projections.

Table 2. Czech Republic: Balance of Payments, 2022-31
(Percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Staff Projections									
Current account balance	-4.7	-0.1	1.7	0.7	0.4	0.3	0.2	0.1	0.0	-0.2
Trade balance	-0.3	3.8	5.2	4.7	4.1	4.1	3.9	3.8	3.8	3.7
Exports	61.2	56.9	56.7	55.1	53.6	53.2	52.9	53.3	53.6	53.7
Imports	61.5	53.2	51.5	50.4	49.5	49.1	49.0	49.5	49.8	50.0
Nonfactor services	1.4	1.1	1.3	1.1	1.0	0.9	0.8	0.7	0.7	0.6
Receipts	11.5	11.5	12.3	11.4	11.4	11.2	11.1	11.2	11.2	11.3
Payments	10.1	10.3	11.0	10.3	10.4	10.3	10.3	10.5	10.6	10.7
Factor income (net)	-5.3	-4.4	-4.3	-4.5	-4.1	-4.1	-3.9	-3.8	-3.9	-3.9
Transfers	-0.5	-0.6	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Capital account	0.6	1.1	1.7	1.5	1.4	1.3	1.2	1.2	1.1	1.1
Errors and omissions	-0.1	0.1	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (change in stocks, + = increase)	-4.1	1.2	2.6	2.2	1.8	1.6	1.4	1.3	1.1	0.9
Direct investment, net	-1.2	-1.0	-0.5	-0.9	-0.9	-0.8	-0.7	-0.7	-0.7	-0.6
Portfolio investment, net	4.7	1.2	-2.4	0.1	0.4	0.6	0.6	0.3	0.2	0.3
Other investment and derivatives, net	-2.7	0.5	5.7	0.0	-0.2	0.0	0.2	0.5	0.4	0.1
Reserve assets	-4.4	0.5	0.3	3.0	2.6	1.8	1.3	1.3	1.2	1.1
<i>Memorandum items</i>										
Gross official reserves (billions of euros)	131.3	134.3	140.8	150.9	160.3	167.2	172.6	177.8	183.0	188.0
in months of the current year's imports	7.7	8.0	8.4	8.7	8.8	8.8	8.7	8.6	8.4	8.3
as a ratio to the short-term debt	118.6	132.9	130.6	124.9	118.9	112.6	106.1	100.4	95.0	89.9
External debt, percent of GDP	67.5	61.0	65.2	68.5	72.2	76.3	80.1	84.0	88.1	92.3

Sources: Czech National Bank; Czech Statistical Office; and IMF staff estimates and projections.

Table 3. Czech Republic: General Government Operations, 2022-31
(Percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Staff Projections									
Revenue	39.9	40.0	40.8	41.5	40.9	40.5	40.8	40.8	40.8	40.8
Taxes	18.5	18.5	19.1	19.3	19.0	19.1	19.1	19.1	19.1	19.1
Personal income tax	3.5	3.6	3.9	3.9	4.0	4.0	4.1	4.1	4.0	4.0
Corporate income tax	4.0	4.2	4.5	4.5	4.2	4.2	4.2	4.2	4.2	4.2
VAT	7.6	7.5	7.3	7.4	7.4	7.4	7.5	7.4	7.4	7.4
Excise	2.4	2.1	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Other taxes	1.0	1.1	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Social contributions	15.4	15.3	15.8	16.2	16.3	16.4	16.3	16.3	16.2	16.2
Capital and other current transfers and subsidies	1.8	1.8	1.7	1.7	1.6	0.9	1.2	1.3	1.4	1.4
Other revenue	4.2	4.4	4.2	4.2	4.0	4.1	4.1	4.1	4.1	4.1
Property income	1.1	1.3	1.0	1.0	0.8	0.9	0.9	0.9	0.9	0.9
Sales of goods and services	3.1	3.2	3.1	3.3	3.2	3.2	3.2	3.2	3.2	3.2
Other revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	43.0	43.7	42.9	43.5	43.3	43.0	43.5	43.7	43.8	43.9
Expense	38.5	38.9	38.2	38.7	38.5	38.5	38.8	38.9	38.9	39.0
Compensation of employees	9.8	9.6	9.6	9.8	9.8	9.9	9.9	10.0	10.1	10.2
Use of goods and services	5.6	5.6	5.8	5.8	5.8	5.8	5.8	5.9	5.9	5.9
Interest	1.1	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Subsidies	2.1	2.7	1.9	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Grants	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Social benefits	16.5	16.9	17.0	16.8	16.9	16.9	17.1	17.2	17.3	17.4
Other expenses	2.9	2.4	2.2	2.5	2.4	2.4	2.3	2.3	2.1	1.9
Net acquisition of nonfinancial assets	4.5	4.8	4.7	4.8	4.8	4.4	4.7	4.8	4.9	4.9
Gross Operating Balance	1.5	1.1	2.6	2.8	2.5	1.9	2.0	1.9	1.8	1.8
Net lending/borrowing (overall balance)	-3.1	-3.7	-2.0	-2.0	-2.3	-2.5	-2.7	-2.9	-3.1	-3.1
Net financial transactions	-3.1	-3.7	-2.0	-2.0	-2.3	-2.5	-2.7	-2.9	-3.1	-3.1
Net acquisition of financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	3.1	3.7	2.0	2.0	2.3	2.5	2.7	2.9	3.1	3.1
<i>Adjustment and statistical discrepancies 1/</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Memorandum item:										
General government debt	42.5	42.2	43.3	44.6	46.3	47.5	48.7	50.2	51.8	53.5
Primary balance	-2.6	-3.2	-1.4	-1.4	-1.6	-1.8	-2.0	-2.2	-2.4	-2.4
Cyclically adjusted primary balance	-2.7	-2.8	-0.9	-1.1	-1.7	-1.9	-2.1	-2.3	-2.4	-2.4
Change in cyclically adjusted primary balance	1.2	-0.2	2.0	-0.3	-0.5	-0.3	-0.2	-0.2	-0.1	0.0
Output gap	0.3	-1.0	-1.3	-0.6	0.0	0.3	0.2	0.1	0.0	0.0
Nominal GDP (billions of Koruna)	7,050	7,660	8,058	8,508	8,886	9,281	9,706	10,091	10,483	10,891

Sources: Ministry of Finance and IMF staff estimates and projections.

1/ Adjustments for cash-accrual differences, valuation changes and other discrepancies.

Table 4. Czech Republic: Macroeconomic Framework, 2022-31
(Annual percent change, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	Staff Projections									
Real sector										
Real GDP	2.8	0.0	1.3	2.5	2.5	2.3	2.1	1.9	1.8	1.8
Private consumption	0.5	-2.6	2.5	2.9	3.0	2.3	2.2	2.0	2.0	2.0
Public consumption	0.4	3.2	3.1	2.0	2.3	2.0	2.0	2.0	2.0	2.0
Investment	10.2	-6.1	-4.3	3.8	2.6	2.7	3.0	3.0	3.0	3.0
Fixed investment	6.3	4.2	-2.7	1.1	3.6	2.7	4.0	4.0	4.0	4.0
Exports, goods and services	5.1	2.3	1.5	4.1	2.2	3.6	3.6	3.6	3.6	3.6
Imports, goods and services	5.9	-1.2	0.5	5.0	2.5	3.8	4.2	4.3	4.3	4.3
contribution of net exports (percent)	-0.3	2.5	0.8	-0.5	0.0	0.1	-0.2	-0.3	-0.3	-0.4
Inflation (CPI, percent)	15.1	10.7	2.4	2.5	1.6	2.0	2.5	2.0	2.0	2.0
Unemployment (percent of labor force)	2.2	2.6	2.6	2.9	3.0	2.9	2.9	2.9	2.9	2.9
Output gap 1/	0.3	-1.0	-1.3	-0.6	0.0	0.3	0.2	0.1	0.0	0.0
Gross domestic savings (in percent of GDP)	26.3	28.1	28.1	26.4	26.0	25.9	25.8	25.9	25.9	25.8
Public	13.0	12.3	14.0	13.9	13.9	13.9	13.9	13.9	13.9	13.9
Private	13.3	15.8	14.1	12.4	12.0	11.9	11.8	11.9	11.9	11.9
Gross capital formation (in percent of GDP)	31.0	28.2	26.3	25.7	25.6	25.5	25.6	25.7	25.9	26.1
Balance of payments										
Current account balance	-4.7	-0.1	1.7	0.7	0.4	0.3	0.2	0.1	0.0	-0.2
Trade balance	-0.3	3.8	5.2	4.7	4.1	4.1	3.9	3.8	3.8	3.7
Services balance	1.4	1.1	1.3	1.1	1.0	0.9	0.8	0.7	0.7	0.6
Net factor income	-5.3	-4.4	-4.3	-4.5	-4.1	-4.1	-3.9	-3.8	-3.9	-3.9
Current transfers	-0.5	-0.6	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Capital account balance	0.6	1.1	1.7	1.5	1.4	1.3	1.2	1.2	1.1	1.1
Errors and omissions, net	-0.1	0.1	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance (change in stocks, + = increase)	-4.1	1.2	2.6	2.2	1.8	1.6	1.4	1.3	1.1	0.9
Direct investment, net	-1.2	-1.0	-0.5	-0.9	-0.9	-0.8	-0.7	-0.7	-0.7	-0.6
Portfolio investment, net	4.7	1.2	-2.4	0.1	0.4	0.6	0.6	0.3	0.2	0.3
Other investment and derivatives, net	-2.7	0.5	5.7	0.0	-0.2	0.0	0.2	0.5	0.4	0.1
Reserve assets	-4.4	0.5	0.3	3.0	2.6	1.8	1.3	1.3	1.2	1.1

Sources: Czech National Bank, Czech Statistical Office, Ministry of Finance, and IMF staff estimates and projections.

1/ In percent of potential GDP.

Table 5. Czech Republic: Monetary Accounts, 2020-25M5
(Billions of Koruna)

	2020M12	2021M12	2022M8	2022M12	2023M12	2024M3	2024M6	2024M9	2024M12	2025M3	2025M4	2025M5
CENTRAL BANK												
Net foreign assets	3510	3640	3038	2901	3171	3302	3305	3365	3459	3321	3368	3400
Net domestic assets	-375	-518	202	-105	100	268	316	265	21	387	337	306
Net domestic claims	-421	-538	-7	-508	-279	3	2	1	-214	0	-1	0
Claims on Central government (net)	-423	-540	-9	-510	-281	1	0	-2	-215	-2	-2	-2
Claims on State and Local Government	0	0	0	0	0	0	0	0	0	0	0	0
Claims on Public Nonfinancial Corporations	0	0	0	0	0	0	0	0	0	0	0	0
Claims on Private Sector	0	0	0	0	0	0	0	0	1	1	1	1
Claims on Other Depository Corporations	0	0	0	0	0	0	0	1	0	0	0	0
Claims on Other Financial Corporations	1	1	1	1	1	1	1	1	1	1	1	1
Other items net	46	20	209	403	379	265	315	265	235	387	338	306
Monetary base	2995	3055	3222	2783	3262	3563	3614	3621	3475	3703	3703	3696
OTHER DEPOSITORY CORPORATIONS												
Net foreign assets	-841	-940	-640	-599	-598	-475	-548	-530	-631	-475	-507	-548
Net domestic assets	5968	6584	7379	6836	7594	7984	8137	8231	8135	7984	8071	8075
Net domestic claims	6637	7264	8018	7505	8312	8741	8834	8955	8856	8741	8806	8785
Claims on Central government (net)	798	994	1192	1158	1378	1445	1446	1525	1537	1445	1448	1428
Claims on State and Local Government	54	58	57	61	62	60	59	59	61	60	59	59
Claims on Public Nonfinancial Corporations	0	0	0	0	0	0	0	0	0	0	0	0
Claims on Private Sector	3029	3282	3455	3428	3655	3712	3754	3832	3869	3712	3729	3734
of which: Private Sector Credit	3022	3273	3445	3418	3641	3696	3738	3814	3852	3696	3712	3718
Claims on Central Bank	2331	2370	2552	2092	2580	2891	2939	2942	2775	2891	2923	2920
Claims on Other Financial Corporations	424	561	763	766	638	633	636	598	614	633	647	644
Other items net	-669	-681	-640	-669	-718	-757	-697	-725	-721	-757	-734	-711
Liabilities to the Central Bank	0	0	0	0	0	0	0	501	0	0	0	0
Liquid Liabilities	4585	4918	5308	5255	5846	6117	6217	6246	6308	6117	6174	6231
Transferable deposits	4127	4364	4227	4100	4298	4346	4549	4647	4807	4346	4452	4525
Other deposits	457	555	1081	1154	1544	1769	1667	1599	1501	1769	1720	1704
Securities other than shares	1	-1	-1	1	4	3	1	1	0	3	2	2
Non-liquid liabilities	479	657	839	870	784	804	792	798	831	804	815	806
DEPOSITORY CORPORATIONS												
Net foreign assets	2,669	2,700	2,398	2,302	2,574	2,827	2,757	2,835	2,827	2,846	2,861	2,851
Net domestic assets	2,790	3,047	4,201	3,777	4,336	4,561	4,727	4,761	4,556	4,557	4,589	4,575
Net domestic claims	3,885	4,356	5,460	4,905	5,454	5,853	5,896	6,014	5,867	5,850	5,883	5,865
Claims on Central government (net)	376	454	1,183	648	1,097	1,446	1,446	1,523	1,322	1,443	1,446	1,426
Claims on State and Local Government	54	58	57	61	62	60	59	59	61	60	59	59
Claims on Public Nonfinancial Corporations	0	0	0	0	0	0	0	0	0	0	0	0
Claims on Private Sector	3,030	3,282	3,455	3,429	3,655	3,712	3,754	3,833	3,870	3,712	3,729	3,734
of which: Private Sector Credit	3,286	3,665	3,872	3,862	4,103	4,181	4,231	4,309	4,388	4,235	4,245	4,244
Claims on Other Financial Corporations	425	562	764	767	639	634	637	599	615	634	649	645
Other items net	-1,095	-1,309	-1,259	-1,128	-1,118	-1,292	-1,169	-1,252	-1,312	-1,293	-1,294	-1,290
Broad money	5,255	5,611	5,990	5,954	6,533	6,794	6,898	6,931	7,013	6,811	6,871	6,928
<i>Memorandum items:</i>												
Year-on-year growth (percent)												
Monetary base	(1.8)	2.0	(10.2)	(8.9)	17.2	7.7	6.3	5.2	6.5	3.9	3.0	2.9
Broad money	10.0	6.8	5.5	6.1	9.7	7.5	5.8	5.7	7.3	0.2	0.3	0.3
Claims on private sector												
Depository Corporations, Claims on Private Sector	4.1	8.3	8.6	4.5	6.6	7.0	5.5	6.0	5.9	0.0	0.0	0.0
Depository Corporations, Credit to Private Sector	4.0	8.3	8.6	4.4	6.5	6.9	5.4	5.8	5.8	0.0	0.0	0.0
Financial Corporations, Credit to Private Sector												
Broad money multiplier (ratio)	1.75	1.84	1.86	2.14	2.00	1.91	1.91	1.91	2.02	1.84	1.86	1.87

Sources: Czech National Bank; Czech Statistical Office; Ministry of Finance; Haver Analytics, and IMF staff estimates and projections.

Table 6. Czech Republic: Financial Soundness Indicators, 2018-25Q3

(In percent, unless otherwise indicated)

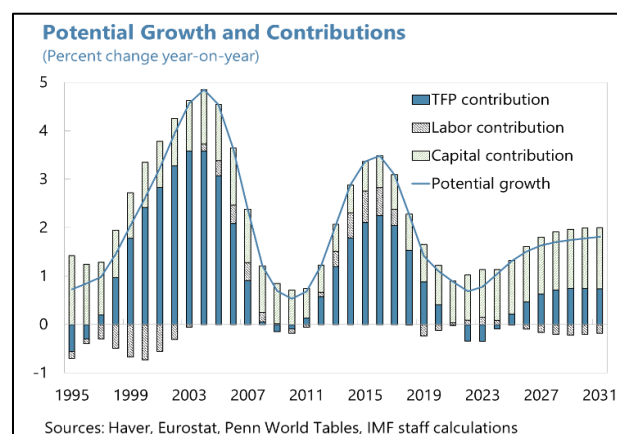
	2018	2019	2020	2021	2022	2023	2024	2025Q3
Core FSIs								
Regulatory capital to risk-weighted assets	18.3	19.7	22.1	21.2	20.3	20.6	20.5	21.0
Tier 1 capital to risk-weighted assets	17.8	19.2	21.4	20.5	19.5	19.5	19.2	19.5
Nonperforming loans net of provisions to capital	12.0	9.4	10.2	9.1	7.8	6.8	7.2	7.1
Capital to assets (leverage ratio)	6.5	6.8	7.3	6.9	6.7	6.3	6.1	5.7
Nonperforming loans to total gross loans	3.1	1.7	1.9	1.7	1.5	1.2	1.2	1.1
Provisions to nonperforming loans	51.8	55.4	50.4	52.2	53.4	52.5	50.3	50.1
Return on assets	1.3	1.4	0.7	1.1	1.3	1.3	1.4	1.4
Return on equity	14.2	15.0	7.3	11.1	15.1	15.1	16.0	17.0
Interest margin to gross income	64.8	69.0	66.7	64.9	70.0	66.9	63.7	63.2
Noninterest expenses to gross income	47.1	51.1	55.8	55.9	48.0	50.2	49.1	47.9
Liquid assets to total assets	15.1	29.1	30.4	33.0	28.7	27.9	30.5	28.0
Liquid assets to short-term liabilities	30.0	38.7	40.9	45.1	40.3	37.6	40.8	36.6
Additional FSIs								
Large exposures to capital				56.1	92.5	79.9	87.0	89.9
Gross asset position in financial derivatives to capital	19.1	21.8	23.8	37.3	60.7	33.8	24.4	21.8
Gross liability position in financial derivatives to capital	18.6	22.9	24.0	44.0	71.6	40.8	29.7	25.7
Trading income to total income	6.8	3.5	5.1	5.1	3.3	5.2	5.0	4.5
Personnel expenses to noninterest expenses	44.5	41.3	40.5	40.7	40.0	40.9	41.1	41.2
Customer deposits to total (noninterbank) loans	128.2	72.8	82.3	78.6	81.5	77.7	79.0	76.5

Sources: IMF Financial Soundness Indicators.

Annex I. Potential Growth

1. The Czech Republic's medium-term potential growth is estimated at around 1.8 percent, below pre-pandemic levels. Before 2020, the Czech economy experienced rapid income convergence toward Euro area levels. However, a series of major shocks since 2020 has stalled convergence and dampened productivity growth. Structural constraints, including demographic pressures and weak innovation, are weighing on the supply-side of the economy, keeping medium-term potential growth below pre-pandemic levels and underscoring the need for reforms to boost productivity.

2. Population aging is expected to weigh on potential growth. The labor force is expected to shrink significantly in the coming years. While substantial positive net migration flows have helped mitigate aging pressures in recent years, they will not fully offset demographic trends going forward. Over the past decade, older workers have increasingly joined the labor force, a welcome development that could help slow the decline in labor supply, though it will not reverse it.



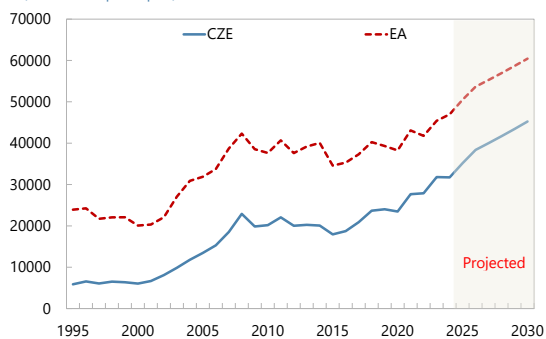
3. Capital deepening is expected to support potential growth. While capital markets remain underdeveloped and venture capital financing is scarce, Czech firms are generally less financially constrained than their EU peers. FDI, historically a key driver of capital deepening, has recently shifted away from traditional manufacturing towards financial and insurance services, contributing to growth prospects. EU funding has also been an important source of investment.

4. Drags on TFP continue to outweigh positive forces, preventing a return to pre-pandemic productivity growth. Labor and capital are not being allocated to the sectors where they are most productive. Low firm dynamism and low labor market mobility have hindered efficient reallocation of production factors throughout the recent series of shocks. Spending on research and development, at 1.8 percent of GDP, is below the OECD average of 2.7 percent, further slowing productivity growth. However, greater adoption of AI could lift TFP by up to 2 percent over the next five years.¹

¹ Misch, Park, Pizzinelli, and Sher (2025), 'AI and Productivity in Europe', IMF Working Papers 2025/067.

Figure 1. Factors Driving Potential Growth**GDP per Capita, Current Prices**

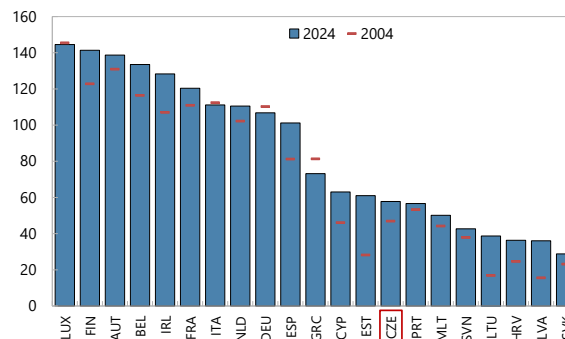
(U.S. dollars per capita)



Sources: IMF Database.

Capital Deepening

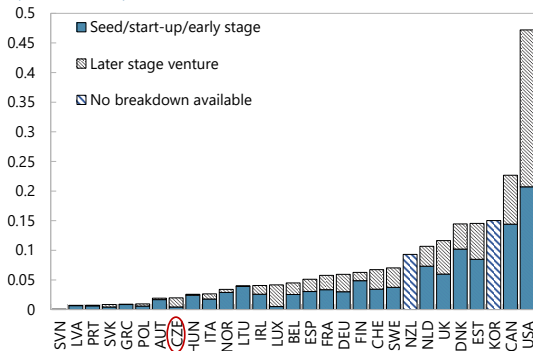
(Capital stock per person employed, EA=100)



Sources: Haver Analytics; Eurostat; and IMF staff calculations.

Venture Capital Investments, 2023

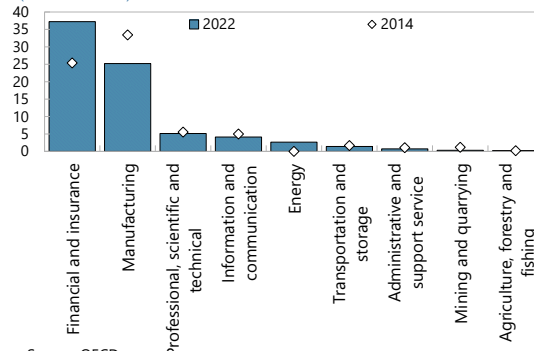
(Percent of GDP)



Source: OECD.

Inward FDI Stocks by Sector

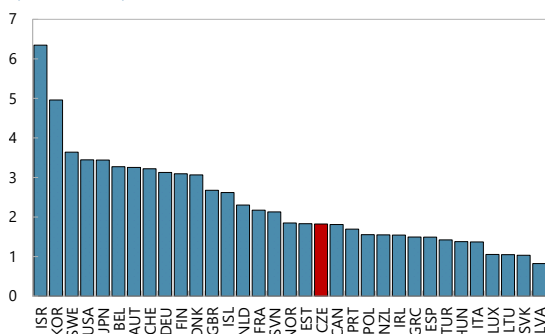
(Percent of total)



Source: OECD.

Gross Domestic Spending on R&D, 2023

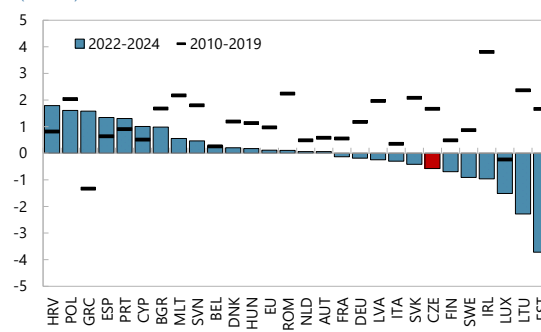
(Percent of GDP)



Source: OECD.

TFP Growth Before and After The Pandemic in The EU

(Percent)

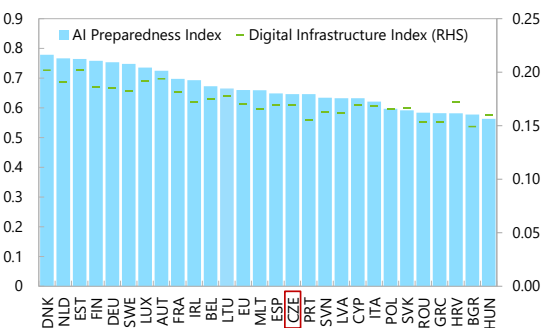


Sources: EC (AMECO) and IMF calculations.

Note: Averages of annual estimates.

Figure 2. AI and Potential Growth**EU: AI Preparedness Index, 2023**

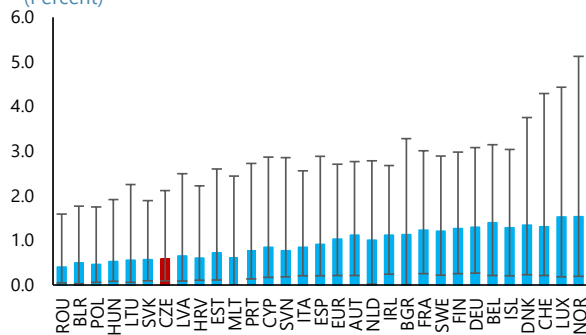
(Index)



Source: IMF.

Notes: For details on the index see www.imf.org/external/datamapper/datasets/AIPI.**Estimated TFP Gains in The Next 5 Years from AI**

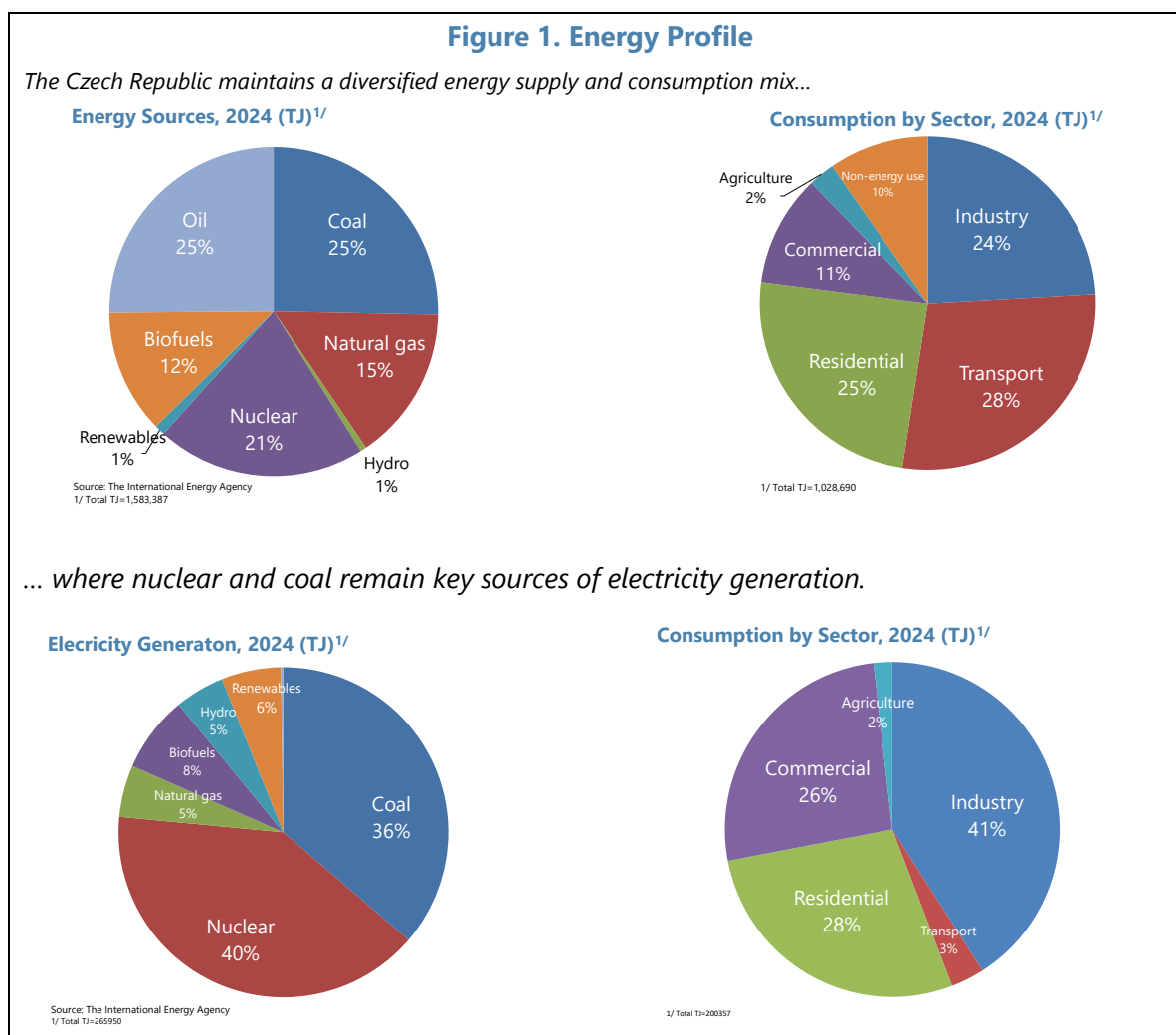
(Percent)



Sources: Misch, Park, Pizzinelli and Sher (2025).

Annex II. Strengthening Energy Security in the Czech Republic

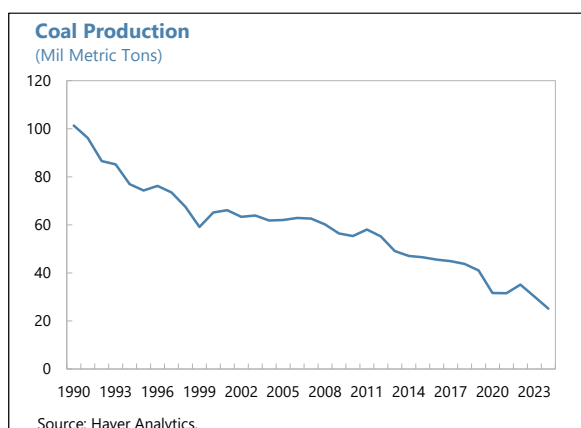
1. The energy system of the Czech Republic is undergoing a significant structural transition. The country maintains a relatively diversified primary energy supply, with coal and nuclear together accounting for roughly half of total supply. While this mix has historically provided a stable basis for industrial activity and household consumption, the energy landscape is shifting rapidly in response to economic conditions, technological developments, and geopolitical pressures.



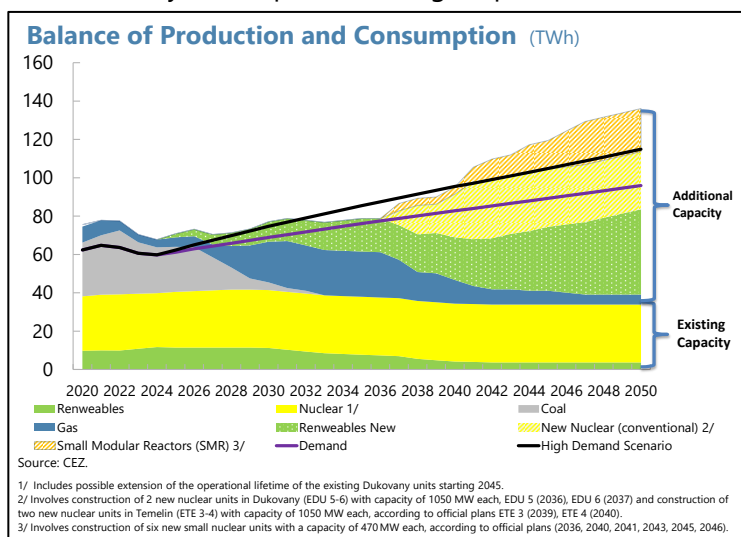
2. Electricity is emerging as the central pressure point in the energy transition. According to estimates by network operator ČEZ, electricity demand is projected to increase more rapidly than the EU average, driven by steady economic growth, the electrification of transport and heating, and accelerating digitalization. At the same time, existing generation capacity faces aging infrastructure, heightened market volatility, and elevated uncertainty regarding future investment signals. Coal-fired power, historically a core component of the electricity system of the Czech Republic, has become increasingly uncompetitive due to cheaper imported electricity from renewables and gas-fired sources and higher domestic extraction costs, accelerating the planned phase-out by 2033. The

persistent long-term decline in domestic coal production and rising mining extraction costs further underscores these structural pressures.

3. Without timely investments, the Czech Republic faces an increasing imbalance between electricity supply and demand. Ensuring an affordable, reliable, and secure electricity supply will require sustained policy commitment and substantial long-term investment across a broad range of technologies.



4. Nuclear energy remains a central pillar of the long-term energy security strategy of the Czech Republic although new capacity will take time to come online. The government has contracted two additional 1-GW units at the Dukovany site, expected to begin operation in 2036 and 2038. In parallel, the Czech Republic is positioning itself as an early adopter of small modular reactors (SMRs), with a national roadmap targeting up to 3 GW of Small modular reactors (SMR) capacity by 2050, including potential deployment at former coal-fired power plant sites. While nuclear offers stable baseload generation and strengthens energy independence, such projects entail long development lead times, complex coordination requirements, and substantial upfront capital investment.

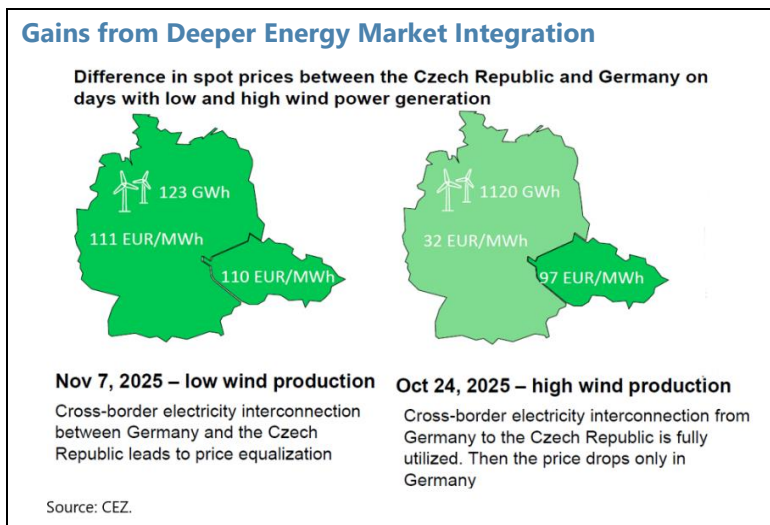


5. Renewable energy sources (RES)—particularly solar and wind—are also expected to play a major role in closing the supply gap but scaling up remains constrained. Beyond their climate benefits, renewables are increasingly cost-competitive. However, expansion in the Czech Republic is limited by several constraints: (i) lengthy permitting and regulatory procedures, including environmental approvals; (ii) social acceptance constraints, particularly for wind projects; and (iii) grid capacity and interconnections needs, especially to accommodate intermittent generation. While the authorities are pursuing measures to address these bottlenecks, renewable sources alone cannot ensure continuous supply and will need to be complemented by storage solutions or flexible, dispatchable generation to maintain system stability.

6. Imported natural gas will serve as a critical bridging fuel during the transition. It provides operational flexibility and can help stabilize the electricity system while nuclear and renewable capacity continues to scale up. The Czech Republic is pursuing several avenues to secure

this role, including: (i) converting existing coal-fired plants to gas; (ii) modernizing district heating systems through efficient gas-fired cogeneration; and (iii) developing new gas-fired generation, with many units designed to be hydrogen-ready. However, increased reliance on gas heightens exposure to global energy market volatility and geopolitical risks. Its role will therefore need to be carefully balanced with security-of-supply considerations and future EU emissions requirements.

7. In the meantime, the Czech Republic would benefit from deeper integration with the European electricity market. Despite already exceeding the EU's 2030 interconnection target further expanding interconnection capacity would yield substantial benefits. Europe's electricity experiences structurally high price dispersion and volatility, reflecting network bottlenecks and incomplete market integration. IMF staff research¹ indicates that strengthening cross-border interconnections and upgrading domestic transmission grids can: (i) reduce electricity prices by an average of roughly 5 percent; (ii) lower price volatility, especially during weather-driven shocks; (iii) facilitate greater sharing of renewable surpluses across borders; and (iv) enhance competitiveness, particularly for energy-intensive sectors, where a doubling of energy prices can reduce value added by approximately 20 percent. Current constraints on the Germany–Czech interconnector, which frequently operates at its physical limit, illustrate these challenges. When congested, the Czech Republic cannot access cheaper surplus electricity from Germany during periods of high wind production, limiting price convergence. Without additional investment in transmission capacity, the accelerating regional expansion of renewables risks increasing, rather than reducing system volatility. The above example from ČEZ underscores how congestion episodes impede access to lower-cost imports, reinforcing the need for timely grid reinforcement.



8. Improving energy efficiency is a cost-effective means of narrowing the emerging supply–demand gap. Priority measures would include strengthening building insulation and retrofitting, accelerating the electrification of heating, and deploying smart meters and digital tools that enable demand response. Time-based dynamic pricing can further help smooth peak loads. Collectively, these measures reduce overall energy consumption while enhancing system resilience.

¹ Bartolini, D. et al. “Energy Prices, Market Fragmentation, and the Macroeconomics of Energy Market Integration in Europe” (forthcoming).

In contrast, broad-based energy subsidies tend to be costly and distortionary, keeping demand artificially elevated and weakening incentives for efficiency improvements.

9. The long-term energy security strategy of the Czech Republic involves complex trade-offs and substantial financial commitments. The scale of investment needed in nuclear generation, renewable energy, grid modernization, and deeper market integration is considerable. At the same time, the country's moderate public debt level provides a degree of fiscal space to accommodate a portion of these requirements, provided that prudent fiscal policy is maintained to safeguard this space over the medium term.

Annex III. Risk Assessment Matrix

Risks	Likelihood	Impact on the Czech Republic	Recommended Policy Response
Conjunctural Risks ¹			
Geopolitical Tensions and Intensification of Conflicts. Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.	High	High The war in Ukraine increases the likelihood of trade and supply chain disruptions, higher inflation, and confidence shocks.	Diversify trade, particularly imports of energy. Accelerate investments in renewable sources of energy and in critical energy infrastructure. Develop contingency plans.
Trade-related Risks • Protectionism and Trade Disruptions. Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism. • New Trade Agreements. Tangible progress in trade talks reduces uncertainty and trade barriers. Wider cooperation on services, FDI, and taxation boosts investment and bolsters public finances.	High Low	High As a small open economy, deeply integrated into global value chains, the country is vulnerable to rising tariffs and global policy uncertainty, which would adversely impact trade, investment and growth. Medium A breakthrough in trade agreements would reduce uncertainty and protectionist pressures, supporting investment and productivity gains.	Diversify sources of intermediate goods imports, especially rare earth materials. Accelerate investments in renewable sources of energy and in critical energy infrastructure. Develop contingency plans. Maximize the benefits of new trade agreements by improving workforce adaptability, reducing regulatory burdens, strengthening digital and energy infrastructures.
Commodity Price Volatility. Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.	High	High Supply disruptions would cause volatile food and energy prices in the region.	Diversify energy and food supply. Incentivize domestic production of food and renewable energy. Keep participating in European policy responses.
Disorderly AI Correction. An abrupt revision in expectations of strong AI-led productivity gains causes a sharp market correction, investment decline, and wealth loss, which suppress demand and tighten financial conditions globally.	High	High Exchange rate volatility and tighter global financial conditions increase debt-servicing costs and complicate monetary policy.	Intensify monitoring of financial risks, while strengthening stress-testing frameworks. If needed, provide liquidity support to preserve market functioning and confidence.
Fiscal Vulnerabilities and Higher Interest Rates. Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial conditions, amplifying currency volatility, and reducing consumption and investment that exacerbate adverse debt dynamics. Disruptions are amplified by increased role of price-sensitive investors and leveraged NBFIs in sovereign debt markets, limited market absorption capacity when NBFIs offload debt securities, higher roll-over needs on shorter sovereign debt maturities, and strong sovereign-financial nexus. Concurrently, capital outflows from emerging and developing economies elicit a sharp increase in short-term rates.	High	High Rising global yields would increase borrowing costs and amplify debt sustainability risks, particularly amid plans for fiscal expansion. Tighter financial conditions could trigger capital outflows and koruna volatility, complicate monetary policy, and raise imported inflation pressures.	Anchor fiscal sustainability by committing to a credible medium-term consolidation plan and avoiding procyclical spending. Strengthening debt management through longer maturities and diversified investor bases would help contain rollover risks.

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Risks	Likelihood	Impact on the Czech Republic	Recommended Policy Response
Conjunctural Risks			
Policy Uncertainty. Elevated and wide-ranging policy uncertainty weighs on sentiment and holds back consumption and investment. Political interference in independent economic institutions erodes public confidence and trust and raises the risk of policy mistakes.	High	High Elevated policy uncertainty could weigh on economic activity by dampening confidence, delaying consumption and investment decisions. Political interference would erode policy credibility, weaken trust in the macroeconomic framework, and reduce the effectiveness of monetary and fiscal policy transmission.	Anchor confidence by committing to a credible, transparent, and medium-term policy framework. Preserve independence of key economic institutions. Clear and consistent communication of fiscal and monetary policy objectives—backed by rules-based implementation—would help reduce uncertainty, support private-sector decision-making, and strengthen policy transmission.
Social Discontent. Persistently high living costs, youth unemployment and inequality, amid an erosion in governance standards and pressures from geoeconomic realignments, trigger social unrest, political repression and instability, affecting countries' capacity to pursue economic reforms.	Medium	Medium Volatile food and energy prices, and lower real incomes could increase the risks of social unrest.	Diversify energy and food sources. Encourage domestic production of food and renewable energy. Better target social benefits to ensure that assistance reaches low-income families.
Risks	Likelihood	Impact on the Czech Republic	Recommended Policy Response
Structural Risks			
Cyberthreats. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	High	High An attack on financial institutions or payment systems could undermine confidence, disrupt transactions, and trigger liquidity strains. Breaches in critical infrastructure would impair production and supply chains, weighing on growth.	Strengthen cybersecurity frameworks and resilience measures across critical infrastructure and financial systems. Enhance regulatory standards and supervisory oversight, developing contingency plans and rapid response protocols.
Climate Change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	Medium	Medium The Czech Republic's strategy on climate adaptation identifies industry and energy as the main sectors subject to climate change risks and emphasis on connectivity across sectors.	Accelerate the implementation of the National Action Plan on Adaptation which established a robust scheme to build and enhance the energy sector's climate resilience.
Labor Shortages and Remittances. Tighter immigration policies exacerbate labor shortages in aging destination economies, reducing potential output, fueling inflation, and straining fiscal balances through lower revenues. Origin countries see depressed remittances and incomes, and worsening external balances, though a larger labor force could partly offset the remittance decline over the medium term.	Medium	High Demographic pressures with low unemployment rate, declining vacancy rates, and negative employment growth signals emerging constraints about labor availability, dampen potential output, and fuel inflationary pressures.	Expanding active labor market policies, improving vocational training, and facilitating the integration of migrants and refugees into the workforce.
AI Acceleration. Rapid AI adoption significantly improves productivity, boosts growth, and revives business dynamism. Realizing these gains requires complementary policies to manage energy constraints, scale critical inputs, and support labor market transitions.	Medium	High AI gains would be constrained over the medium term by binding energy supply and grid capacity limitations. Rising electricity demand from data centers, digital infrastructure, and AI-intensive industries could exacerbate price volatility and strain an already energy-intensive economy.	Diversify energy supply. Incentivize domestic production of renewable energy. This would help ensure that rising electricity demand from AI-intensive sectors does not translate into higher price volatility or competitiveness losses. Labor market policies to improve work adaptability would also be critical.

Annex IV. External Sector Assessment

Overall Assessment: The external position for 2025 is moderately stronger than the level implied by medium-term fundamentals and desirable policies. The estimated CA gap is 1.5 percent of GDP, with a range of 1.1 to 1.9 percent of GDP, reflecting uncertainty around any point estimate. The REER gap consistent with the staff CA gap is estimated to be -2.9 percent (± 0.8) percent based on a 0.52 elasticity. This implies that the exchange rate was undervalued. At end-2025, the 12-month moving sum of the current account balance to GDP ratio decreased to 0.7 percent.

Potential Policy Responses: The external position projected for 2025 is moderately stronger than the level implied by medium-term fundamentals and desirable policies. The external sector assessment attributes 0.6 percentage points from policies to the gap. This is mainly related to a tighter fiscal stance vis-a-vis the rest of the world and a small accumulation of FX reserves while desirable policies would suggest FX sales. The credit gap, albeit negative, is lower than in the rest of the world, weighing against the fiscal and FX reserves policy gaps to some extent. To reduce the CA gap in line with fundamentals, structural policies should aim at attracting capital such as easing restrictions, reducing administrative burden and accelerating digitalization.

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) fluctuated around -10 percent of GDP in 2024 and 2025. Gross assets and liabilities fluctuated around 120 and 130 percent of GDP, respectively. Gross external debt (66 percent of GDP in 2025Q3) remains relatively contained and is expected to increase over the medium-term. Through mid-2025, the NIIP has bounced back to -10 percent of GDP, the same level as in 2024Q4 and external debt remained at about 65 percent of annual GDP (over the last 4 quarters). The NIIP is expected to increase slightly in the medium term. The estimated CA-to-GDP ratio that would stabilize the NIIP at its 2025 level is -0.3 percent.

Assessment. The current NIIP and its projected path do not imply risks to external sustainability.

	NIIP:	Gross Assets:	Res. Assets:	Gross Liab.:	Debt Liab.:
2025 (est.) (% GDP)	-10	118	43	128	65

Current Account

Background. After falling to almost -5 percent of GDP at the end of 2022, the 4-quarter current account to GDP ratio (CA) increased to a peak of 1.7 percent of GDP in 2024Q4. The increase was driven by a strong increase in the goods balance as energy prices fell and supply-side disruptions waned. In 2025Q3, the CA stands at 0.7 percent of GDP, close to its average over 2015-2019. In the medium term, the CA is expected to decrease further to a balanced position, as historically sizable negative income balances resulting from inward direct investment weigh against a goods and services surplus that is expected to shrink slightly with an expected fiscal expansion and lower household saving rates.

Assessment. For 2025 the current account is assessed to be moderately stronger than the level implied by medium-term fundamentals and desirable policies. The EBA CA model estimates a norm of -0.9 percent of GDP against a cyclically adjusted CA surplus of 0.6 percent of GDP. The resulting EBA gap amounts to 1.5 percent of GDP. The policy gap is 0.6 percent, explained by more expansionary fiscal policy and lower reserve accumulation in the rest of the world. No adjustors have been applied to the assessment.

2025	Proj. CA:	Cycl. Adj. CA:	EBA CA	EBA CA Gap:	Prim. inc. Adj.:	Trade bal. Adj.:	Staff CA Gap:
(% GDP)	0.7	0.6	-0.9	1.5	0.0	0.0	1.5
Real Exchange Rate							
Background. The CPI-based real effective exchange rate (REER) has appreciated by about 35 percent since the authorities exited the koruna floor in April 2017 notwithstanding transitory periods of nominal depreciation especially vis-à-vis the US dollar following the onset of the pandemic and of the war in Ukraine. Over 2025, the REER appreciated by 4 percent. Other real appreciation measures, however, indicate a slightly lower degree of appreciation, including those computed through production price indices (13 percent since April 2017), unit labor costs (32 percent since 2017 Q2), or GDP deflators (29 percent). Assessment. Under the CA gap model, staff assesses the REER gap to be -2.9 percent, moderately undervalued. The EBA-estimated REER gaps from the index and level models point towards gaps of 29.4% and -7.2 percent, respectively. The level model estimate is largely related to the residual part of the model, while the index model estimate is related to a policy gap resulting from FX reserves.							
Capital and Financial Accounts: Flows and Policy Measures							
Background. The financial account (measuring the change in net assets abroad) increased to 2.6 percent of GDP in 2024 from 1.2 percent of GDP in 2023 and the trough of -4.7 percent in 2022, driven by larger outflows of direct investment, and a strong increase of other investment outflows, totaling 6 percent of GDP in 2024. Against this, net portfolio investment turned negative in 2024 driven by a significant increase in inflows. The strong net capital outflow by households and non-financial corporations was driven by the narrowing koruna-dollar interest differential that has now stabilized. In 2025Q3, the 4-quarter financial account decreased to 2.0 percent of GDP on larger net FDI inflows, lower net other investment outflows, and lower positive net portfolio investment inflows. The financial account is expected to remain in surplus in 2025 and to fall slightly over the medium-term in line with the lower current account balance. Assessment. Risks related to capital flows are assessed to be relatively small.							
FX Intervention and Reserves Level							
Background. Gross international reserves remained broadly constant throughout 2025, standing at EUR 150 billion at end-2025 and EUR 141 billion at the start of the year, which implies a decrease from 44 of GDP to 43 percent of GDP. In terms of GDP, the reserves level remained broadly constant since August 2022, when the CNB sold reserves of close to 10 percent of GDP. Since August 2023, the CNB has been selling part of its income from FX assets with a cap of EUR 300 million per month (around 0.2 percent of total reserves) with the explicit mandate to execute transactions with minimal impact on the exchange rate. The annual return on reserves was around 7 percent in 2025, lowering the income balance deficit. Assessment. Reserves exceeded 8 months of imported goods and services at the end of 2025 and are expected to remain broadly constant in the near term. They are assessed to be sufficient to insulate against external shocks and disorderly market conditions. Reserves remain between 3 and 4 times above the IMF's reserve adequacy metric.							

Annex V. Sovereign Risk and Debt Sustainability Framework

Figure 1. Risk of Sovereign Stress

Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting a relatively low level of vulnerability in the medium term.
Near term 1/			
Medium term	Moderate	Low	Medium-term risks are assessed as low against a mechanical moderate signal.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test		...	
Long term	...	Moderate	Long-term risks are assessed as moderate. The large amortization module shows gradual increase in GFN and debt relative to GDP both under the baseline and customized scenarios (with t+5). GFN and debt relative to GDP are expected to increase with aging-related challenges.
Sustainability assessment 2/	...	...	Not required for surveillance-only countries.
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: The risk of Czech Republic experiencing sovereign stress is low overall. Czechia borrows from the market and there are no significant near term borrowing risks. The public debt ratio is projected to increase in the medium term. Most indicators have started to normalize as the recovery from the COVID-19 and the Russia war in Ukraine shocks have proceeded well and support measures to the cost-of-living crisis (have been) phased out. Over the long term, the analysis highlights that risks are assessed as moderate. The large amortization module shows an increase in GFN and debt relative to GDP. GFN relative to GDP is expected to increase with aging-related challenges.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Debt Coverage and Disclosures

					Comments
1. Debt coverage in the DSA: 1/					
	CG	GG	NFPS	CPS	Other
1a. If central government, are non-central government entities insignificant?					n.a.
2. Subsectors included in the chosen coverage in (1) above:					
Subsectors captured in the baseline					Inclusion
CPS	NFPS	GG: expected	CG	1 Budgetary central government	Yes
				2 Extra budgetary funds (EBFs)	Yes
				3 Social security funds (SSFs)	Yes
				4 State governments	Yes
				5 Local governments	Yes
				6 Public nonfinancial corporations	No
				7 Central bank	No
				8 Other public financial corporations	No
3. Instrument coverage:					
	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:					
Basis of recording					Valuation of debt stock
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:					
Consolidated					Non-consolidated
Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable					

Reporting on Intra-Government Debt Holdings

				Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
Issuer													
CPS	NFPS	GG: expected	CG	1 Budget. central govt									0
				2 Extra-budget. funds								0	
				3 Social security funds							0		
				4 State govt.						0			
	5 Local govt.							0					
	6 Nonfin pub. corp.							0					
	7 Central bank							0					
	8 Oth. pub. fin. corp							0					
Total				0	0	0	0	0	0	0	0	0	

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

4/ Includes accrual recording, commitment basis, due for payment, etc.

5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

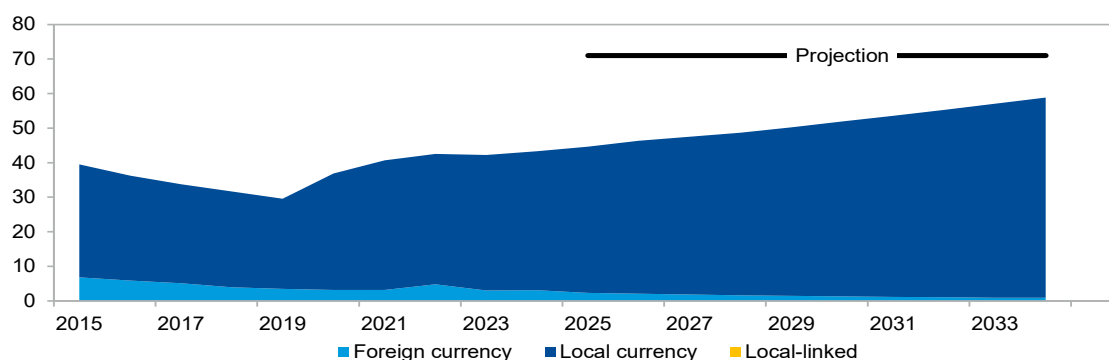
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage in this SRDSA is for the general government. The DSA is prepared on a cash basis so there is no significant other accounts payable.

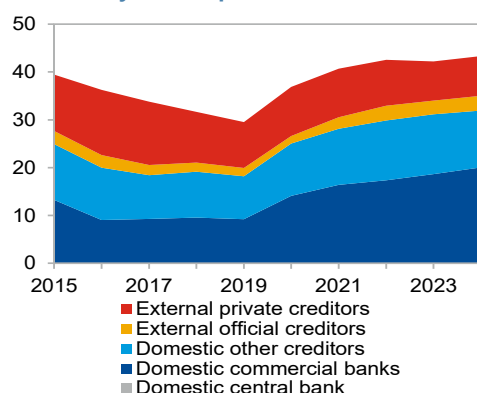
Figure 3. Public Debt Structure Indicators

Debt by Currency (percent of GDP)



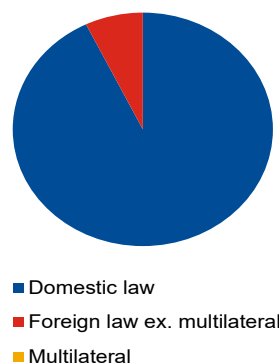
Note: The perimeter shown is general government.

Public Debt by Holder (percent of GDP)



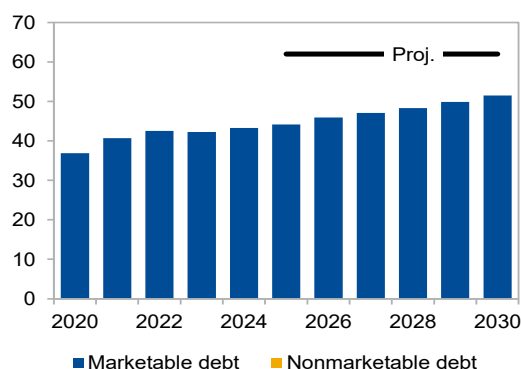
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



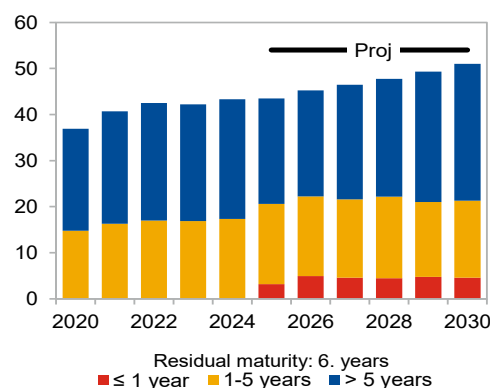
Note: The perimeter shown is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (percent of GDP)



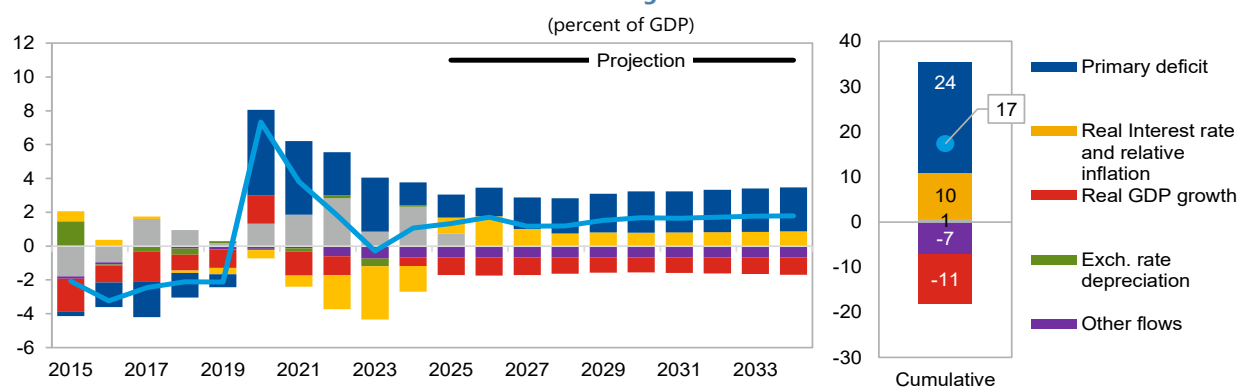
Note: The perimeter shown is general government.

Commentary: In Czech Republic, most debt is denominated in local currency, with moderate non-resident holdings. Currency risks are also minimal for Czechia. In the medium term, more than half of the instruments will be matured after 5 years and public debt will be mainly in domestic currency. The authorities indicated that their debt issuance strategy focuses on issuing local currency debt with an average maturity ranging between 5-7 years.

Figure 4. Baseline Scenario
(Percent of GDP unless indicated otherwise)

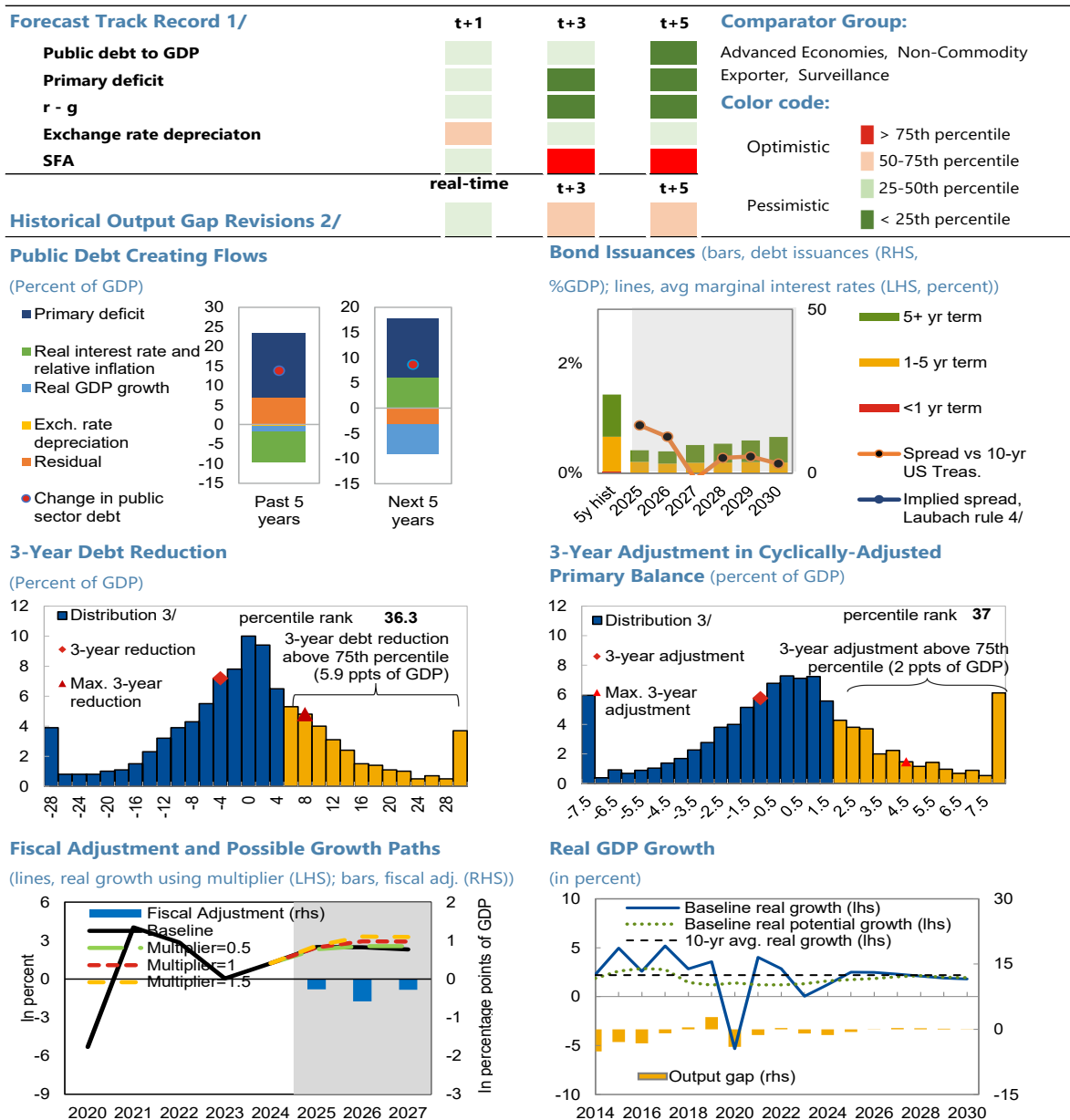
	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	43.3	44.6	46.3	47.5	48.7	50.2	51.9	53.6	55.3	57.0	58.8
Change in public debt	1.1	1.3	1.7	1.2	1.2	1.5	1.7	1.6	1.7	1.8	1.8
Contribution of identified flows	-1.3	0.6	1.7	1.2	1.2	1.5	1.7	1.6	1.7	1.8	1.8
Primary deficit	1.4	1.4	1.7	1.9	2.1	2.3	2.4	2.4	2.5	2.6	2.6
Noninterest revenues	40.2	40.8	40.3	39.8	40.1	40.2	40.1	40.2	40.0	40.0	40.0
Noninterest expenditures	41.5	42.2	42.0	41.7	42.2	42.4	42.6	42.6	42.6	42.5	42.6
Automatic debt dynamics	-1.9	-0.1	0.7	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Real interest rate and relative inflation	-1.5	0.9	1.8	1.0	0.7	0.8	0.8	0.8	0.8	0.8	0.9
Real interest rate	-1.6	0.9	1.8	1.0	0.7	0.8	0.8	0.8	0.8	0.8	0.9
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-0.5	-1.1	-1.1	-1.0	-1.0	-0.9	-0.9	-0.9	-0.9	-1.0	-1.0
Real exchange rate	0.1	...	...	...	...	...	...	...	...	...	...
Other identified flows	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	2.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	6.1	6.9	6.7	8.6	9.0	10.0	11.0	11.8	12.2	12.8	12.9
of which: debt service	5.4	6.3	5.6	7.4	7.5	8.4	9.3	10.0	10.4	10.9	10.9
Local currency	5.0	5.8	5.4	7.2	7.4	8.3	9.1	9.9	10.3	10.8	10.9
Foreign currency	0.4	0.5	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.0
Memo:											
Real GDP growth (percent)	1.2	2.5	2.5	2.3	2.1	1.9	1.8	1.8	1.8	1.8	1.8
Inflation (GDP deflator; percent)	3.9	3.0	1.9	2.1	2.4	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	5.2	5.6	4.4	4.5	4.6	3.9	3.8	3.8	3.9	3.9	3.9
Effective interest rate (percent)	0.0	5.3	6.0	4.4	4.1	3.7	3.6	3.6	3.6	3.6	3.6

Contribution to Change in Public Debt



Staff commentary: Public debt will rise in 2025 and 2026 and continue to increase absent measures to contain the fiscal deficit over the medium term. From 2030, public debt is projected to increase, driven by additional aging (healthcare and pension) spending pressures.

Figure 5. Realism of Baseline Assumptions



Commentary: The unwinding of COVID-19 related spending and energy support measures led to a decline in the cyclically adjusted primary balance. Following a sharp decline in 2023, staff is projecting a recovery in private consumption in 2025-26, despite the contractionary fiscal stance in 2024. Therefore, the growth projection is higher than the levels implied by the fiscal multipliers in 2024-25.

Source : IMF Staff.

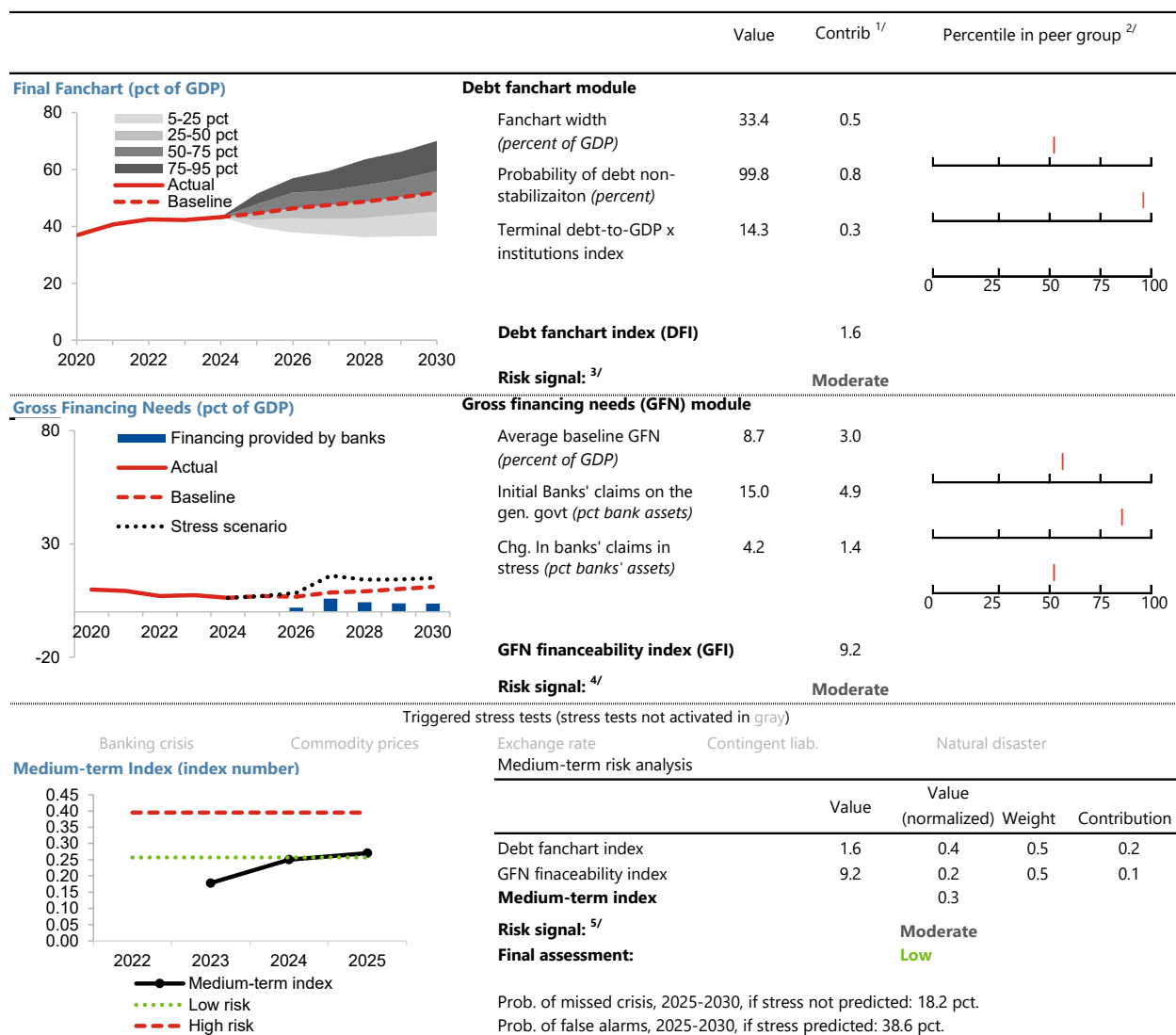
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates)

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. Medium-Term Risk Assessment



Commentary: The fanchart risk score is moderate, given the relatively wide fanchart and probability of debt not stabilizing. Gross financing needs are manageable and staff assesses that the banking sector is broadly resilient, well capitalized, liquid, and profitable. It is expected that the banking sector will have ample borrowing space with vulnerabilities easing as the monetary stance is relaxed. The risk signal of the GFN module is moderate.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is advanced economies, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

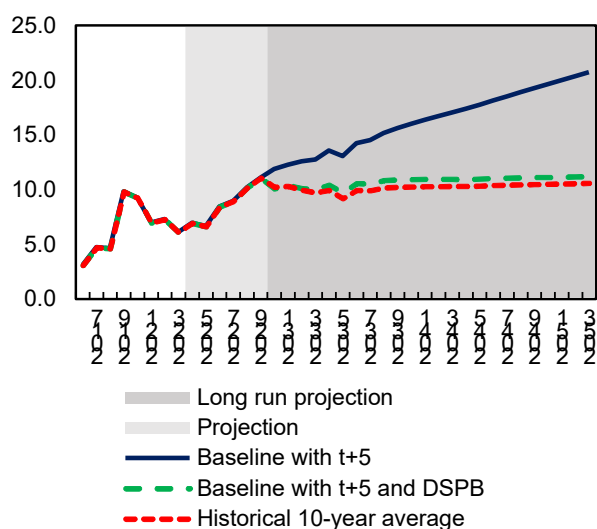
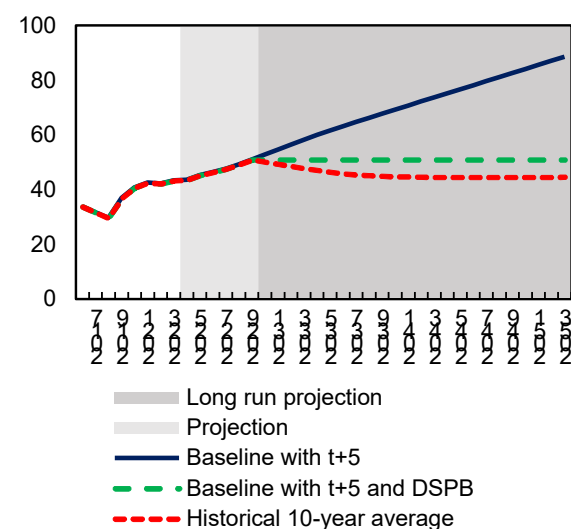
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 7. Long-term Risk Assessment: Large Amortization**Triggered Modules****Large amortizations**Pensions
HealthClimate change: Adaptation
Climate change: Mitigation

Natural Resources

Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

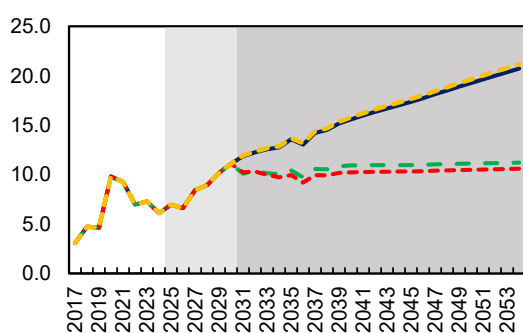
GFN-to-GDP Ratio**Total Public Debt-to-GDP Ratio**

Commentary: Staff's baseline scenario, Baseline with t+5, shows both GFN- and public debt-to-GDP ratios increasing over the long-term as spending pressures (healthcare and pension) rise. The Baseline with t+5 and DSPB scenario shows an increase in the long-term GFN-to-GDP ratio and stabilization of the public debt ratio at lower levels than staff's baseline.

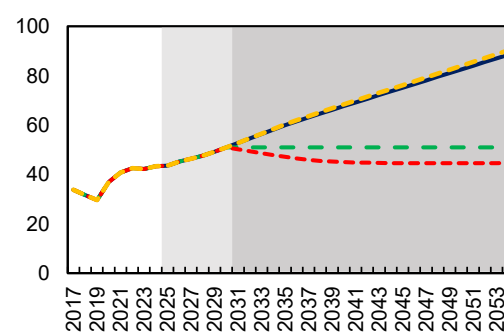
Figure 8. Long-term Risk Assessment: Large Amortization Including a Customized Scenario

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

Variable	2030	2034 to 2038 average	Custom Scenario
Real GDP growth	1.8%	1.8%	1.8%
Primary Balance-to-GDP ratio	-2.4%	-2.5%	-2.5%
Real depreciation	-1.9%	-2.0%	-2.0%
Inflation (GDP deflator)	2.0%	2.0%	2.0%

GFN-to-GDP Ratio

■ Long run projection
 ■ Projection
 — Baseline with t+5
 - - Baseline with t+5 and DSPB
 - - Historical 10-year average
 - - Custom

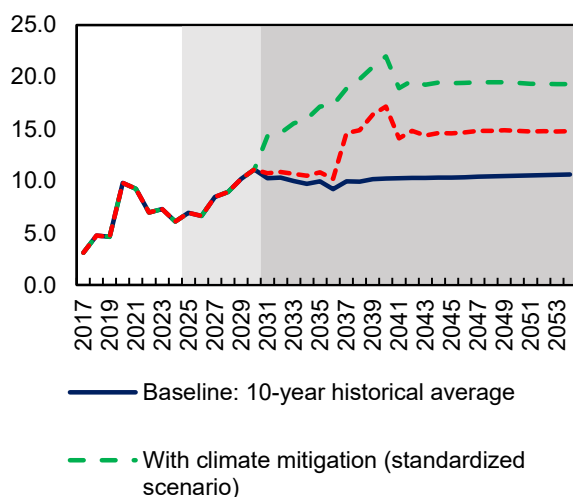
Total Public Debt-to-GDP Ratio

■ Long run projection
 ■ Projection
 — Baseline with t+5
 - - Baseline with t+5 and DSPB
 - - Historical 10-year average
 - - Custom

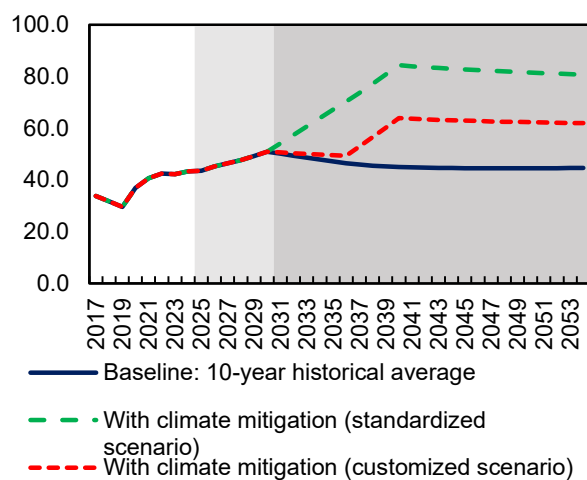
Commentary: Staff's baseline scenario, Baseline with t+5, shows both GFN- and public debt-to-GDP ratios increasing over the long-term as spending pressures (healthcare and pension) rise. While the Custom scenario shows an increase in the long-term GFN and public debt ratios at higher levels than staff's baseline, this is due to the fact that a smaller primary surplus is required to stabilize debt than is consistent with the projected steady-state.

Figure 9. Climate Change Mitigation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: Both the gross financing ratio to GDP and the public debt ratio to GDP increase higher than the baseline when climate mitigation is incorporated. Under the stress scenarios, the GFN-to-GDP ratio will increase above 10 percent in the long-term and public debt-to-GDP will increase above 55 percent.

Annex VI. Data Issues

Table 1. Czech Republic: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	A		A	A	A		
			A		B		
Consistency			A	A		A	
Frequency and Timeliness	A	A	A	A	A		
Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank. 1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics. 2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i> , January 2024, Appendix I). 3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
Rationale for staff assessment. Data collection and dissemination is overall adequate for surveillance. Granularity of financial soundness indicators (FSI) could be improved by including data on non-bank financial institutions (NBFI), given their increasing share in total financial assets. The NBFI sector accounted for 24.2 percent of all financial sector assets in 2025Q2.							
Changes since the last Article IV consultation. No changes.							
Corrective actions and capacity development priorities. None.							
Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.							
Other data gaps. None.							

Table 2. Czech Republic: Data Standards Initiatives

Czech Republic adheres to the Special Data Dissemination Standard (SDDS) Plus since April 2016 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Table 3. Czech Republic: Table of Common Indicators Required for Surveillance
As of 02/10/2026

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Czech Republic ⁸	Expected Timeliness ^{6,7}	Czech Republic ⁸
Exchange Rates	9-Feb-26	9-Feb-26	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Jan-26	Jan-26	M	M	M	M	1W	7D
Reserve/Base Money	Dec-25	Jan-26	M	M	M	M	2W	14D
Broad Money	Dec-25	Jan-26	M	M	M	M	1M	1M
Central Bank Balance Sheet	Dec-25	Jan-26	M	M	M	M	2W	14D
Consolidated Balance Sheet of the Banking System	Dec-25	Jan-26	M	M	M	M	1M	1M
Interest Rates ²	Dec-25	Dec-25	D	D	D	...	...	...
Consumer Price Index	Dec-25	Jan-26	M	M	M	M	1M	NLT 15D
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	Sep-25	Dec-25	Q	Q	A/Q	Q	2Q/12M	4M
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Dec-25	Jan-26	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Sep-25	Dec-25	Q	Q	Q	Q	1Q	1Q
External Current Account Balance	Dec-25	Jan-26	M	M	Q	Q	1Q	75D
Exports and Imports of Goods and Services	Dec-25	Jan-26	M	M	M	M	8W	40D
GDP/GNP	Dec-25	Jan-26	Q	Q	Q	Q	1Q	70D
Gross External Debt	Dec-25	Jan-26	Q	Q	Q	Q	1Q	NLT 1Q
International Investment Position	Sep-25	Dec-25	Q	Q	Q	Q	1Q	1Q
¹ Includes net market value of derivative positions. ² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds. ³ Foreign, domestic bank, and domestic nonbank financing. ⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments. ⁵ Including currency and maturity composition. ⁶ Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than. ⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan. ⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".								

Annex VII. Authorities' Response to Past IMF Policy Recommendations

	Key Recommendations	Actions
Monetary	Staff recommended continuing to lower the policy rate in a gradual, data-dependent manner, toward a neutral rate estimate of around 3 percent by mid-2025 and recommended considering reducing the size of the central bank's balance sheet over time.	Following a cumulative 350 basis point reduction in the two-week repo rate over 18 months, the central bank has remained on hold in response to lingering inflationary pressures. The current FX sales program remains limited to selling part of the income generated by reserve assets
Fiscal	Staff recommended to make the PIT more progressive, transition the property tax system from property size to market values, contain public sector workforce growth, improve targeting of social benefits and further advance pension reform.	No changes were introduced to the PIT and real estate-related taxes. The pension reform was legislated. The revised budget envisages higher spending on social benefits and transport infrastructure, partly financed through lower-than-previously-planned defense outlays and the postponement of financial commitments related to the Dukovany nuclear power plant expansion.
Financial	Staff recommended reviewing bank exposures and ensure that credit risks are accurately reflected in banks' risk weights, regularly evaluate the effect of mark-to-market losses on banks' securities portfolios and exchange rate fluctuations and monitor mortgage activity closely to identify potential early triggers for the reactivation of limits on the Debt-to-Income (DTI) and the Debt-Service-to-income (DSTI).	Risk weights are likely to be revised on new Basel III policy implementations. The CNB recommended a 70 percent LTV and a DTI of 7 on investment mortgages. The CCyB rate was maintained at 1.25 percent, above the 1 percent positive neutral rate, alongside a 0.50 percent SyRB. DSTI and DTI statutory limits remain deactivated.
Structural	Staff recommended facilitating the allocation of labor towards higher value-added sectors and firms, addressing the gender pay gap to boost labor participation, reducing administrative burden and red tape, accelerating digitalization, and promoting a more ambitious green transition. Staff recommended the authorities to continue their efforts to address	The recent Flexi-Amendment to the Labor Code enhances flexibility by extending probationary periods, easing notice rules, and expanding parental leave options, helping reduce rigidities and facilitate worker reallocation. The Czech Republic's energy strategy continues to prioritize expanding nuclear power capacity to strengthen long-term security. The authorities reported that the amendment to Act No. 283/1993 Sb. on the State Prosecutor's Office (83/2024 Sb.)

	Key Recommendations	Actions
	risks of transnational aspects of corruption. ¹	came into force in July 2024, aiming to eliminate undue influence on the prosecution service and enhance its operation. The reforms include providing specific processes and requirements on the appointment and dismissal of chief public prosecutors and the Prosecutor General, particularly allowing the decision on the dismissal of the Prosecutor General to be challenged at the court.
^{1/} Czech Republic volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance on supply and facilitation of corruption.		



CZECH REPUBLIC

March 6, 2026

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

European Department

CONTENTS

FUND RELATIONS	2
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FUND RELATIONS

(As of January 31, 2026)

Membership Status: Joined 01/01/1993; Article VIII.

General Resources Account

	SDR Million	Percent Quota
Quota	2,180.20	100.00
Fund Holdings of Currency	1,618.80	74.25
Reserve Position	561.40	25.75

SDR Department

	SDR Million	Percent Allocation
Net cumulative allocation	2,869.82	100.00
Holdings	2,573.53	89.68

Outstanding Purchases and Loans: None.

Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	March 17, 1993	March 16, 1994	177.00	70.00

Projected Payments to the Fund

	Forthcoming (SDR Million)				
	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
<u>Principal</u>					
<u>Charges/Interest</u>	<u>8.01</u>	<u>8.00</u>	<u>8.01</u>	<u>8.00</u>	<u>8.00</u>
<u>Total</u>	<u>8.01</u>	<u>8.00</u>	<u>8.01</u>	<u>8.00</u>	<u>8.00</u>

Implementation of HIPC Initiative: Not applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable.

Implementation of Catastrophe Containment and Relief (CCR): Not applicable.

Exchange Rate Arrangement: The currency of the Czech Republic is the Czech koruna, created on February 8, 1993, upon the dissolution of the currency union with the Slovak Republic, which had

used the Czechoslovak koruna as its currency. The de jure exchange rate arrangement is free floating, and the de facto exchange rate arrangement is floating. The external value of the koruna is solely determined by supply and demand in the interbank foreign exchange market, in which the Czech National Bank (CNB) might participate.

The Czech Republic has accepted the obligations of Article VIII, Section 2, 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions. The Czech Republic maintains exchange restrictions for security reasons, based on UN Security Council Resolutions and Council of the European Union Regulations that have been notified to the Fund for approval under the procedures set forth in Executive Board Decision No. 144–(52/51).

Last Article IV Consultation: Concluded on January 24, 2025 (IMF Country Report No. 25/1).

FSAP Participation

An FSAP was carried out in late 2000/ early 2001. The Financial System Stability Assessment was considered by the Executive Board on July 16, 2001, concurrently with the staff report for the 2001 Article IV Consultation. Another FSAP was undertaken in 2011, which was updated in July 2012. ROSCs on: banking supervision; data dissemination; fiscal transparency; securities market; and transparency of monetary and financial policies were published on the Fund's external website on July 1, 2000.

Technical Assistance (last mission)

Department	Timing	Purpose
FAD	June/July 1999	Medium-term fiscal framework
MCM	February/June 1999	Integrated financial sector supervision (with WB)
RES	June/August 2000	Inflation targeting (financed by MFD)
STA	November 2006	GFSM 2001 implementation
FAD	December 2024	Tax Administration Diagnostic Assessment



CZECH REPUBLIC

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION— SUPPLEMENTARY INFORMATION

March 19, 2026

Approved By
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(SPR)

Prepared by the European Department in consultation with
Strategy, Policy, and Review (SPR).

This supplement provides an update on the potential implications of the conflict in the Middle East since the circulation of the staff report to the Executive Board on March 6, 2026. The information presented does not alter the thrust of the staff appraisal.

1. The conflict in the Middle East is expected to have a material short-term impact on the Czech economy. Under a revised assumption of a sizable but transitory commodity price shock, headline inflation is now projected to average 2.4 percent this year, up from 1.6 percent previously, before declining back toward 2 percent during 2027 as the effects of the disruption fade. Second-round effects are expected to remain modest under the baseline given the assumed temporary nature of the energy price increases, though these effects could strengthen if the shock is more persistent. The strong growth momentum prior to the materialization of the shock is expected to cushion, at least in part, the effect of higher inflation on real disposable income and consumption, while mildly tighter financial conditions should only modestly dent investment. Accordingly, the impact on economic activity is expected to be relatively contained, with GDP still projected to grow above potential at 2.2 percent in 2026, compared to 2.5 percent previously, and to remain robust in 2027.

Czech Republic: Changes in Growth and Inflation Projections Due to Energy Shock, 2025-27

(Annual percent change, unless otherwise indicated)

	2025	2026	2027		2025	2026	2027
	Staff Projections Pre-Shock				Staff Projections Post-Shock		
Real GDP growth	2.5	2.5	2.3		2.6	2.2	2.2
Inflation (period average)	2.5	1.6	2.0		2.5	2.4	2.2

Sources: Czech authorities, and IMF staff projections.

2. Staff's forecasts remain subject to considerable uncertainty. External developments compound near-term upside risks to domestically generated inflation, while risks to growth are now more balanced. Rising geopolitical risks and further intensification of military conflicts could heighten energy prices further, dampening growth and increasing inflation. On the other hand, a domestic fiscal expansion, including through energy relief measures, could temporarily raise growth further above potential outweighing the effect of the external shock, but may trigger second round effects on inflation and elicit a monetary policy response.

3. While the ultimate impact of the shock will depend on the extent and duration of the conflict, these developments do not alter the thrust of staff policy advice. Although public debt remains moderate, significant spending pressures are set to build over the coming years. Preserving fiscal space is therefore essential and, with growth already above potential, staff do not see merit in providing discretionary fiscal stimulus barring a further severe escalation of energy costs. In any case, untargeted support measures and generalized price subsidies, including VAT or excise cuts or price caps, should be avoided as they suppress necessary price signals, reduce incentives to save energy at a time when supply is constrained, and entail large and often open-ended fiscal costs. In light of the high uncertainty surrounding the duration and intensity of energy price increases, the Czech National Bank should closely monitor any second-round effects on core and wage inflation and carefully weigh their implications for its monetary policy plans.

Czech Republic: Selected Economic Indicators, 2025–2027 ^{1/}			
	2025	2026	2027
		Projections	
NATIONAL ACCOUNTS			
Real GDP (expenditure)	2.6	2.2	2.2
Domestic demand	3.2	2.5	2.0
Output gap (percent of potential output)	-0.5	0.0	0.2
LABOR MARKET			
Employment	0.5	0.3	0.1
Unemployment rate (average, in percent)	2.9	3.0	2.9
PRICES			
Consumer prices (average)	2.5	2.4	2.2
Consumer prices (end-of-period)	2.0	2.7	2.0
MACRO-FINANCIAL			
Broad money (M3)	5.6	4.5	4.5
Private sector credit	4.0	3.5	3.5
Ten-year government bond	4.0	4.0	4.0
Exchange rate			
Nominal effective exchange rate (index, 2005=100)	112.1	...	...
Real effective exchange rate (index, CPI-based; 2005=100)	123.6	...	...
PUBLIC FINANCE (percent of GDP)			
General government revenue	41.4	41.1	40.6
General government expenditure	43.5	43.3	43.1
Net lending / Overall balance	-2.0	-2.3	-2.5
Primary balance	-1.4	-1.6	-1.8
Cyclically adjusted balance (percent of potential GDP)	-1.8	-2.3	-2.6
General government debt	44.6	46.4	47.6
BALANCE OF PAYMENTS (percent of GDP)			
Trade balance (goods and services)	5.8	3.2	3.3
Current account balance	0.7	-1.5	-1.3
Gross international reserves (billions of euros)	150.9	160.3	167.2
(in months of imports of goods and services)	8.7	8.5	8.6
(in percent of short-term debt, remaining maturity)	124.9	115.9	107.6
Sources: Czech National Bank; Czech Statistical Office; Ministry of Finance; Haver Analytics, and IMF staff estimates and projections.			
1/ This table has been updated to reflect staff's preliminary assessment of the potential implications of the conflict in the Middle East on the Czech economy.			

**Statement by Mr. Yasar, Executive Director for the Czech Republic, and Ms. Hejlova,
Senior Advisor to Executive Director
March 23, 2026**

On behalf of the Czech authorities, we would like to thank the mission team led by Vincenzo Guzzo for the constructive policy dialog during the Article IV consultation, and for the insightful staff report and selected issues papers. The Czech authorities welcome staff's assessment of the robust economic growth, liquid, well-capitalized and profitable banking sector, broadly appropriate monetary policy, and financial stability risks contained. At the same time, they share staff's concerns about the identified structural headwinds, mainly the tightness in the labor and housing markets, population ageing and pension system sustainability, economic sector concentration and energy intensity, as well as the sensitivity to developments in other countries.

In view of these challenges, which will put increasing pressure on public finances, the authorities appreciate staff's recommendation for fiscal consolidation to preserve policy space. They also acknowledge staff's scenario analyses and insights into the interaction between monetary and fiscal policies, which highlight the risks of a significant fiscal stimulus channeled through current expenditures. The authorities further appreciate the candid debate about the pros and cons of preserving the current level of FX reserves. The debate benefited from an analysis of the Czech koruna sensitivity to FX sales, which confirmed a certain degree of market shallowness and the need to remain cautious with respect to the central bank's balance sheet reduction.

The authorities' specific comments on the key policy areas are presented below along with updates on the most recent developments and the priorities of the new government, which took office following the October 2025 Parliamentary elections. The comments reflect the Staff Report, which is based on the data available as of February 26, 2026. They also briefly reflect the Supplementary Information issued by staff prior to the IMF Executive Board meeting on March 23, 2026.

Recent developments and outlook

The Czech economy grew by 2.6 percent in the fourth quarter of 2025 and in 2025 as a whole, showing strength and robustness. Headline inflation declined to 1.4 percent in February 2026, after averaging 2.5 percent in 2025. Over the past two years, headline inflation stayed close to the 2 percent target as restrictive monetary policy of the Czech National Bank (CNB) successfully offset domestic and foreign inflationary pressures. Core inflation, however, remained elevated at 2.7 percent in February 2026, the same as the average in 2025. The state budget deficit recorded CZK 290.7 billion in 2025.

Consistent with the staff's February 2026 projections, the CNB's Winter 2026 Forecast expects a continuation of robust growth in 2026, driven by household consumption on the account of sizeable growth in real wages and an easing of fiscal policy. The forecast projects real GDP to grow by 2.9 percent both in 2026 and 2027 (somewhat above the 2.5 percent for 2026 and 2.3 percent for 2027 according to staff). It expects that the

economy gets above its potential, with a positive output gap of 0.3 percent in 2026 and 0.4 percent in 2027 (meanwhile, the output gap estimated by staff closes at 0.0 percent in 2026 and turns positive to 0.3 percent in 2027). The forecast estimates headline inflation at 1.6 percent in 2026 and 2.1 percent in 2027 (close to the 1.6 and 2.0 percent, respectively, estimated by staff), with core inflation decreasing gradually to 2.6 percent in 2026 and 2.1 percent in 2027. Following the Parliamentary elections, the Czech Republic has operated on a provisional budget since the beginning of 2026. The forecast assumes a general government deficit of 2.5 percent of GDP in 2026 and 2.7 percent in 2027 (whereas staff estimate a deficit of 2.3 percent of GDP for 2026 and 2.5 percent for 2027).

Monetary policy

In line with staff's recommendations, the CNB kept interest rates unchanged at the Board meeting on 5 February 2026, with monetary policy remaining slightly restrictive. The CNB's Winter 2026 Forecast implies stable interest rates in the first half of this year, followed by a slight increase in rates as the economy gets above its potential, import prices start to increase again and growth in wages and property prices remains above average. Although administrative factors, such as lower energy prices due to the full transfer of the supported energy sources feeding into the state budget, could temporarily push headline inflation below the target, core inflation – which remains elevated – is key for the central bank. The CNB will continue using its scenario analyses, including through the newly developed forecasting tools, and base its decisions on an assessment of newly available data and their implications for the inflation outlook.

Contrary to staff's recommendations, the CNB remains convinced that the amount of FX reserves in its balance sheet should not be lowered at the current times of unprecedented global uncertainty. Besides this reasoning, the institutional framework does not make a case for a balance sheet reduction given the side effects that would be likely associated with it:

- The CNB understands that the large amount of FX reserves may entail significant costs in times of elevated interest rates. However, the CNB's statutory mandate consists of maintaining price and financial stability, which need to be prioritized over the central bank's profit. The CNB has operated with negative equity for many years, which has had no negative effects on its ability to perform its tasks or on its independence.
- The CNB acknowledges staff's analysis estimating the effects on the Czech koruna exchange rate of selling FX reserves through a preannounced program. However, the CNB recalls that practical implementation could have different outcomes, as the analysis of staff relies on strong ex-ante assumptions. The CNB is concerned that the mere announcement of the program could have a significant impact on the exchange rate.
- The CNB notes staff's suggestion that monetary policy interest rates could be used to offset the impact of FX sales on the exchange rate. However, the CNB would like to underscore the primacy of the interest rates in the monetary policy toolkit. If, for example, the monetary policy had to be loosened due to disinflationary pressures,

the commitment to preannounced FX sales, which would itself require lowering the interest rates to counteract the appreciation of Czech koruna, would reduce policy space and undermine the effectiveness of the key monetary policy tool.

- The CNB emphasizes that the current level of FX reserves has served as a significant market backstop during periods of elevated uncertainty. This was clearly demonstrated at the onset of Russia’s war in Ukraine, when heightened volatility and capital outflows were observed across the region. As a result, market bets against the CZK remained muted, as the CNB’s firepower was sufficient to counter market pressures. Given the presence of a military conflict in close proximity to the region, which may generate renewed market uncertainty, this situation introduces a new dimension in which the conventional measures of FX reserve adequacy may need to be reconsidered. Under the current circumstances, the CNB does not consider the suggestion to lower FX reserves to be justifiable.

As noted earlier, the CNB appreciates the depth of discussion and the staff’s analytical work on this topic, which the CNB might benefit from in the future. In the meantime, the CNB prevents further growth of its balance sheet by selling part of the income from the FX reserves, with due care to minimize the impact on the exchange rate. At the same time, the gradual changes in the asset mix improve the expected returns on the assets which should over the longer run exceed the costs on the liability side of the balance sheet.

In response to the Supplementary Information issued by staff, the CNB would like to share the following comments. The macroeconomic impacts of the conflict in the Middle East are a specific risk in the months ahead, one that is difficult to evaluate in detail at present. However, the CNB would like to highlight the favourable starting conditions in the Czech economy, in particular low inflation and robust growth, which do not require an immediate reaction. Combined with relatively high monetary policy rates (which are fairly positive in real terms), these factors provide room for a proper analysis and an appropriate response if necessary. Consistent with this, the CNB kept interest rates unchanged at the Board meeting on 19 March 2026.

Fiscal policy

On March 11, 2026, Parliament approved the state budget for 2026 with a deficit of CZK 310 billion. Subject to the President’s signature, its entry into force would mean the end of the provisional budget period. Spending priorities include improving the transport infrastructure, which partly relies on EU fund subsidies, and housing.

In line with staff’s views, the government proceeds with the reimplementation of the electronic evidence of sales, which was discontinued by the previous coalition. Together with a digital system for detecting tax avoidance and other activities to tackle shadow economy, these measures should support the budget through a more effective tax collection. The cabinet also works on the reform of a voluntary pension system pillar, with the aim of limiting the significant fees currently paid by participants to the pension funds.

Despite the reservations of staff, the government proceeds with the modification of indexation parameters in the pension reform. Capping of the retirement age has been postponed but remains in the pipeline. Increasing property tax is not a priority of the government. The housing stock in the Czech Republic requires significant investment, and higher taxation would increase the pressure on households. Increasing the tax is still possible by a decision of local municipalities.

Financial policies

The CNB agrees with staff that, as the economy continues to advance in the expansionary phase of the financial cycle and residential property prices continue to grow, sources of systemic risks and the calibration of macroprudential measures need to be assessed very carefully.

Cyclical systemic risks are addressed using the CCyB (countercyclical capital buffer), which is prescribed at 1.25 percent. At its last meeting on March 5, 2026, the Board kept the CCyB unchanged. However, the estimated level of cyclical systemic risks has gone slightly up and are assumed to grow further according to the CNB's Winter 2026 Forecast. Therefore, the Board concluded that the likelihood of raising the CCyB had increased. The CNB also keeps in place the SyRB (systemic risk buffer), which covers some of the structural risks faced by the Czech Republic (especially those related to the high sensitivity to developments in other countries, its significant economic sector concentration and its energy intensity). The SyRB is set at 0.5 percent.

Given the level of residential property prices, new mortgage loans are predominantly extended to high-income households with accumulated savings. Prudent lending standards are ensured by statutory LTV (loan-to-value) limits, complemented by a broad Recommendation of the CNB concerning lending standards of new mortgage loans. In November 2025, the CNB further amended parts of the Recommendation, requiring more cautious LTV and DTI (debt-to-income) limits to be applied to investment mortgages. For the year ahead, the CNB's Winter 2026 Forecast expects limited room for mortgage rates to fall further, which will foster a slowdown in new mortgage loans and residential property prices. Should lenders relax their credit standards, the CNB stands ready to reactivate the statutory DTI and/or DSTI (debt service-to-income) limits. The CNB, however, reiterates that the evolution of residential property prices is mainly driven by factors outside of the mortgage market and the remit of the CNB, and that macroprudential policy on its own cannot address the residential property related vulnerabilities effectively and efficiently without significant negative side effects for the mortgage market. It is therefore necessary that the respective authorities apply measures that complement macroprudential policy and address the sources of those vulnerabilities.

Since the last Article IV Consultation, the CNB has been continuously enhancing effectiveness of its AML/CFT supervision, as well as compliance of the sectors it supervises. Periodic analysis of cross-border transactions has always been a key part of AML/CFT supervision of the CNB and it has been recently further improved, including through a newly in-house developed IT tool. Major efforts were also undertaken to ensure

compliance by the supervised sectors with beneficial ownership information requirements. The information held by banks is accurate and up-to-date and there are significant sanctions for non-compliance (in line with the EU AML directive).

Structural reform agenda

The new government has started or plans to advance with structural reforms in many of the areas identified by staff.

The cabinet is aware that the mounting housing affordability crisis requires decisive measures. Amendments to the Building Act, which are being finalized, should significantly simplify and shorten the permitting process. This should be achieved, amongst others, by giving the regional development the status of public interest and by introducing a single building authority to issue permits. The government is also committed to support energy self-sufficiency, the modernization of transmission networks and the development of nuclear energy as a pillar of stability. The cabinet is further aware of the risk of losing the country's competitiveness. Besides the energy sustainability measures, the government plans a gradual transition from subsidy to depreciation support for investments, simplification of taxes and reduction in red tape. The strengthened business environment should give space to innovations, start-ups and family businesses in the regions. A law on the support of start-ups and a revision of investment incentives, which is in preparation, should further support companies that create high added value. Finally, the economic strategy "Country for the Future 2.0" should connect the key areas of energy, industry, transport, research and innovation with the state budget and strategic investments.