

# CNB's New Forecast

## Monetary Policy Report – Summer 2025

### Meeting with Analysts

8 August 2025

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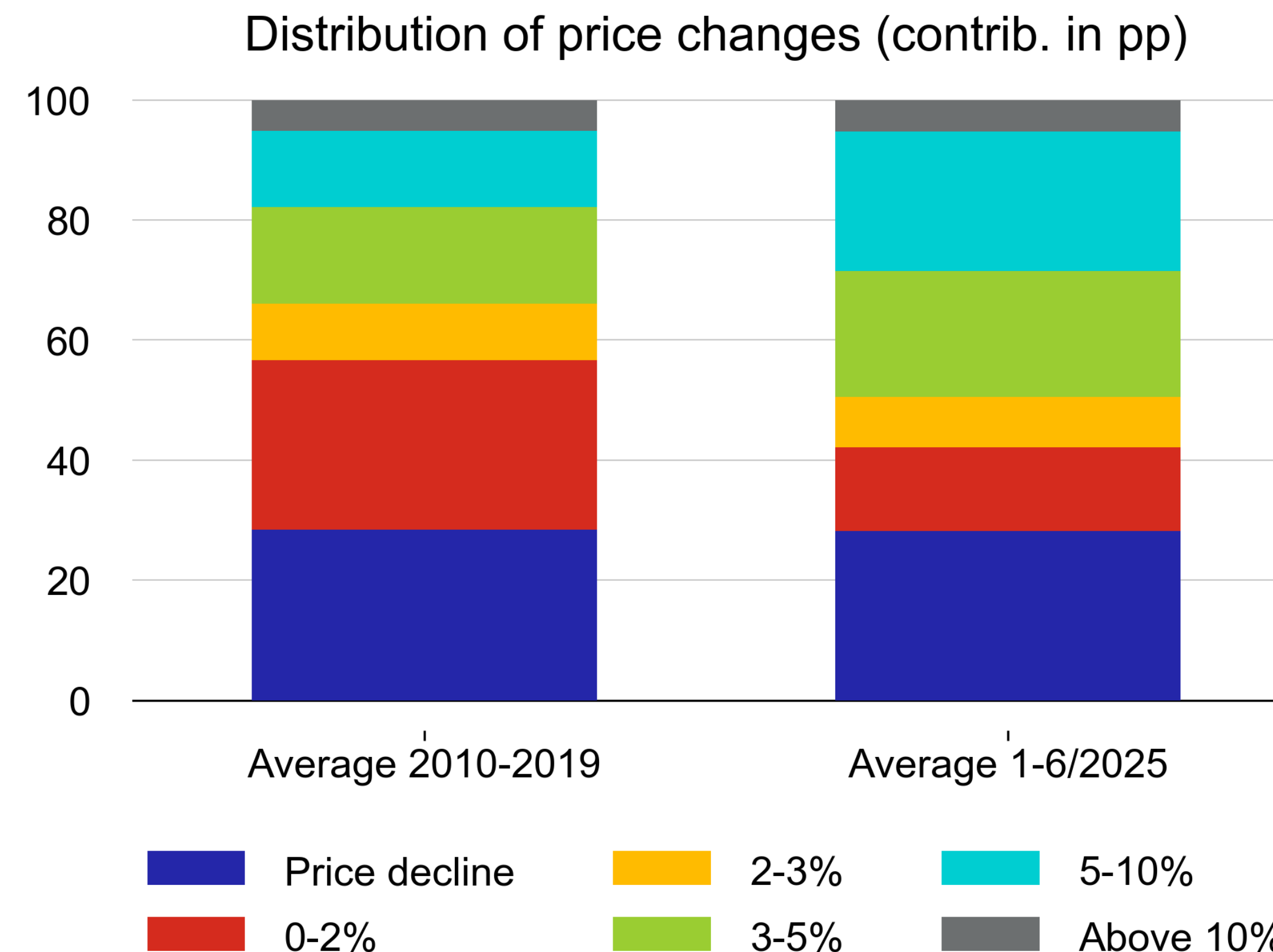
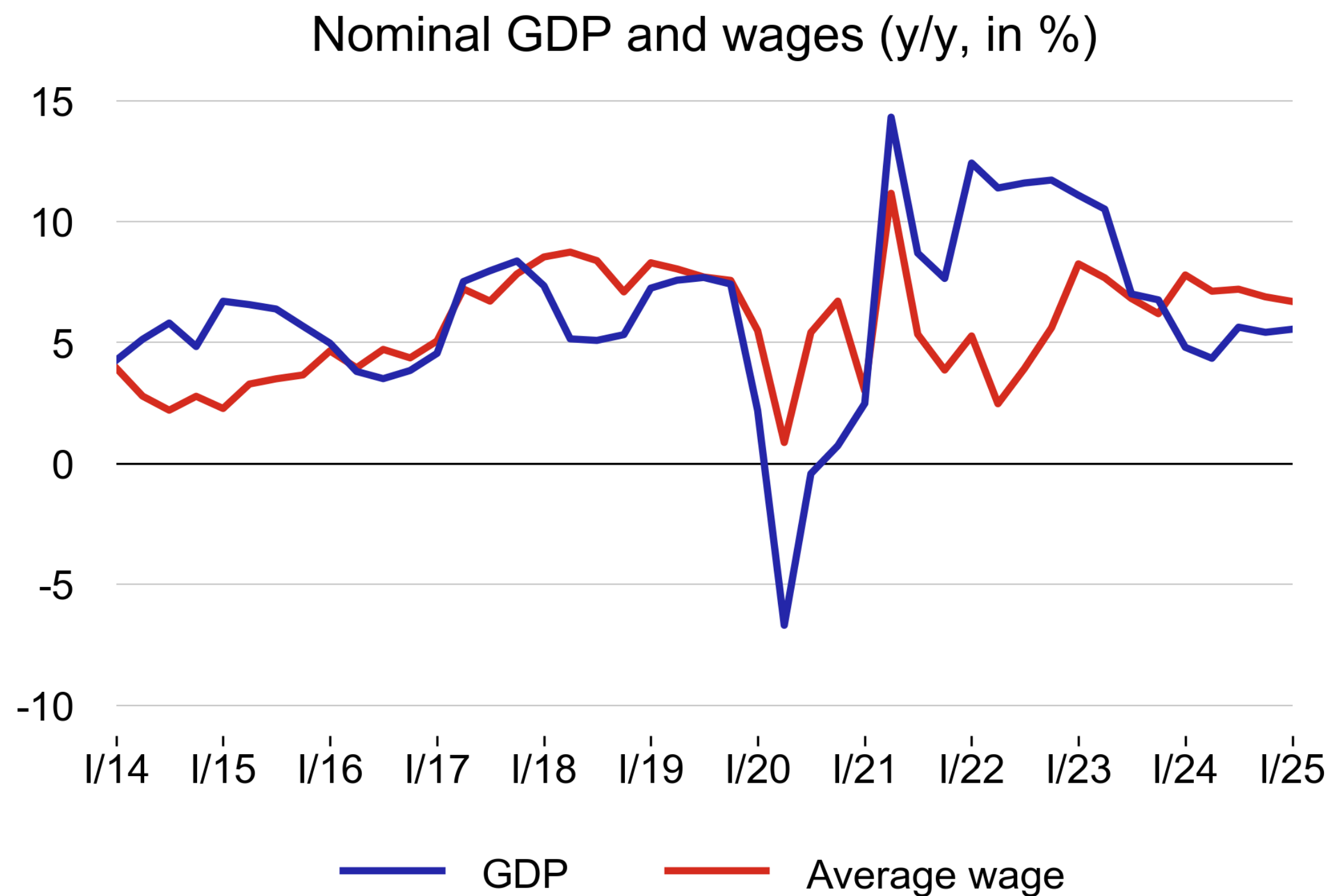
# Presentation Outline

**1. The New Macroeconomic Forecast**

2. Scenarios and Risks



# Different point of view



- The current development suggests a **cautious approach to monetary policy**.
  - Despite previous shocks the dynamics of the **domestic economy have returned to normal** ...while nominal wages has been growing at an increased pace.
  - The structure of price changes in consumption basket items shows that **inflationary pressures have not been tamed yet**.
  - There are **upward risks to maintaining inflation at the 2% target** at the monetary policy horizon.

# Forecast and Model Assumptions

## Forecast assumptions:

- **Tariffs** on the EU economy by the USA at levels of 10% and 25% on selected sectors.
- Primary inflationary **impacts of EU Emissions Trading System 2** (ETS 2) equivalent to 0.4 pp and secondary impacts equivalent to 0.2 pp to CPI inflation.
- **Central Bank reaction only to secondary impacts** of ETS 2, primary impact is disregarded due to its administrative nature.

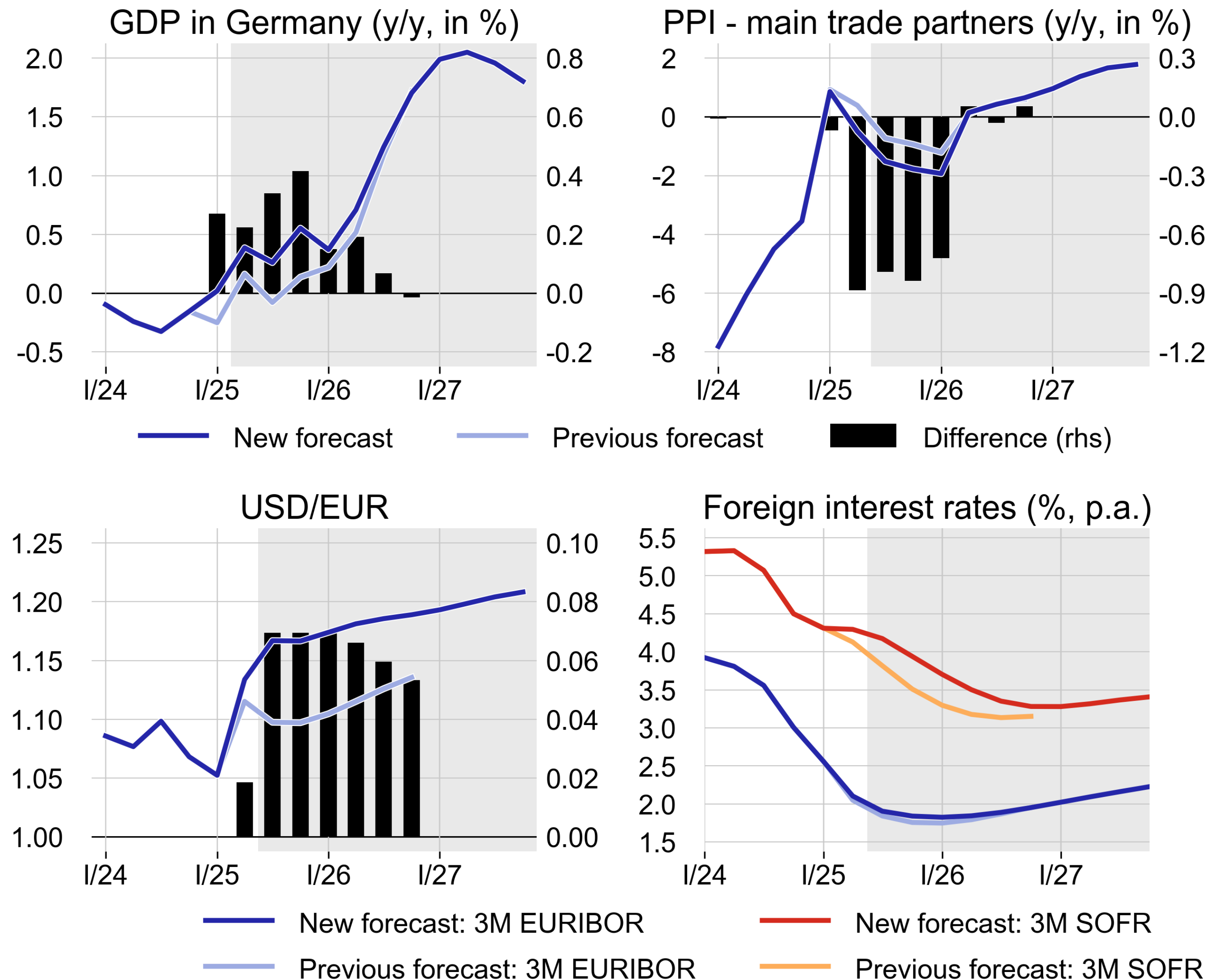
## Reflection of persistent forecast risks:

- The repeated previous **forecast risks are newly incorporated** into the summer forecast baseline:
  - continuing excessive growth in real estate prices;
  - persisting increased markups of companies in the services sector;
  - persistence in wage growth.

## Model changes:

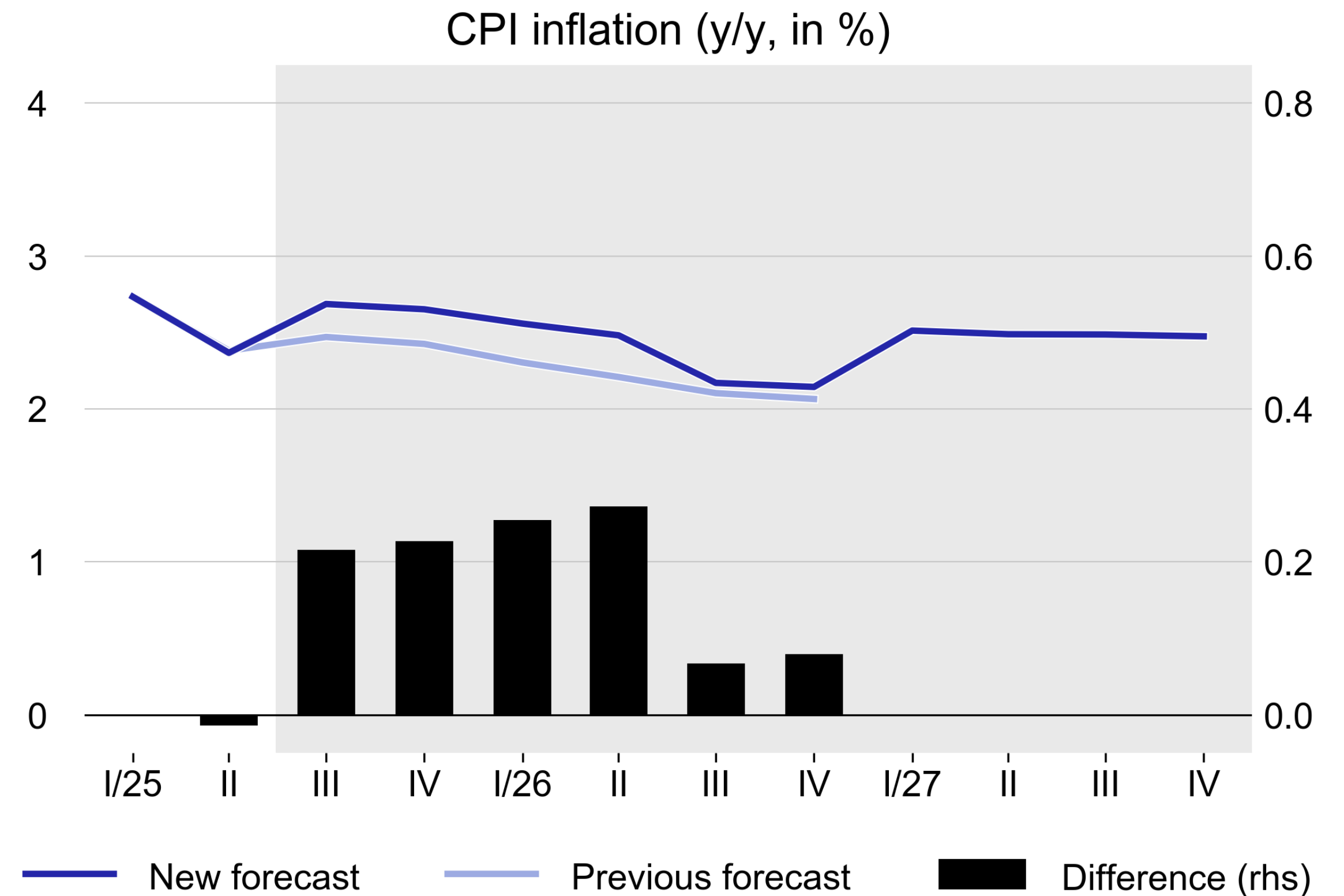
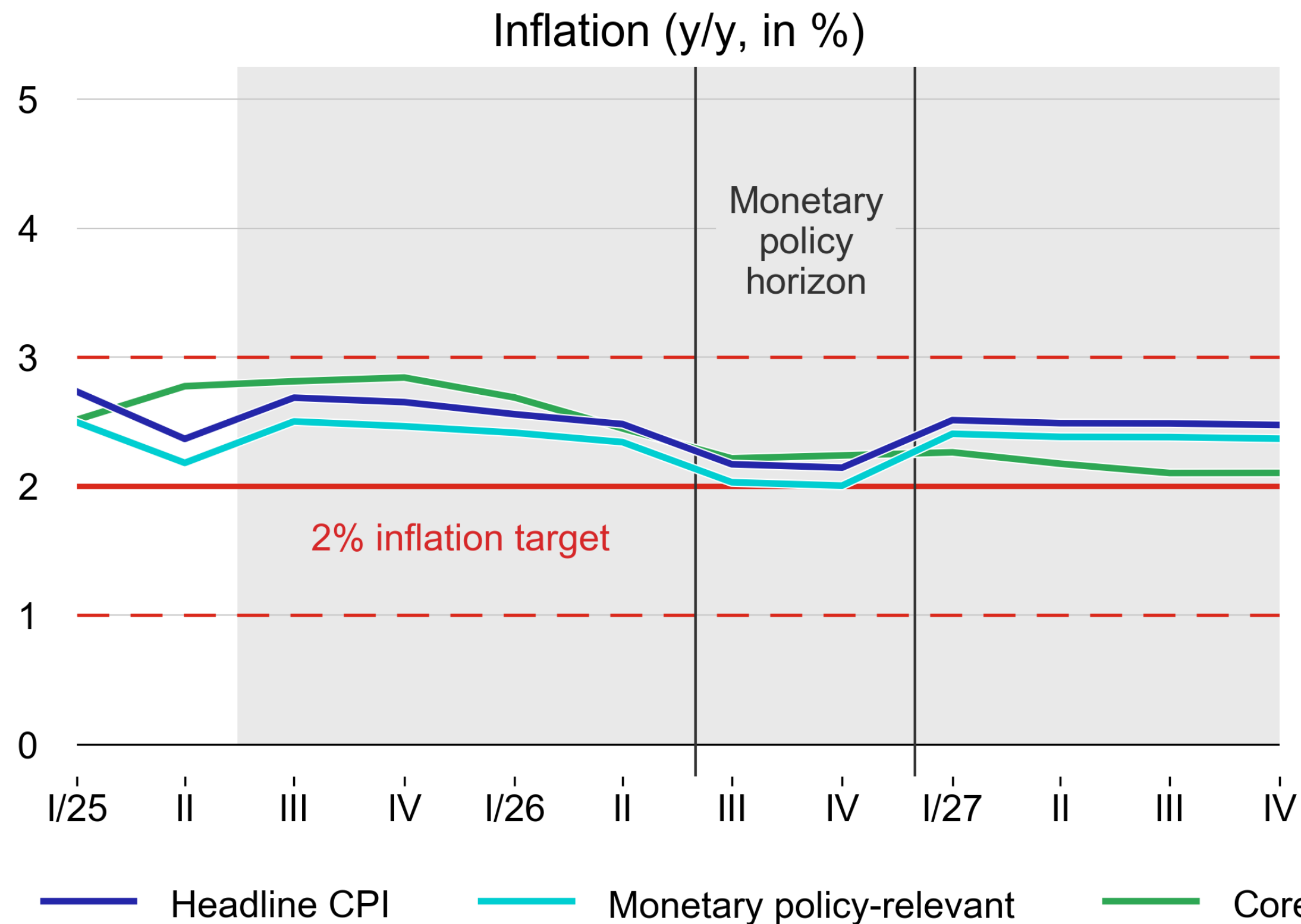
- In line with [ECB \(2025\)](#) estimates, **equilibrium level of ECB rates** has been lowered from 2.5% to 2.25% since 2019.
  - This implies **higher risk premium** of the domestic economy relative to abroad which acts in the direction of **higher domestic interest rates** in the forecast.

# Foreign Environment Outlook



- The external outlook for 2025 is shaped by uncertainty in global trade.
- The **German economy** outlook:
  - Better performance this year as the US buyers stocked up in anticipation of tariffs;
  - the 2026 **fiscal package** will boost GDP growth to around 2%.
- **Foreign producer prices:**
  - Sharper decline this year driven by **lower energy prices**;
  - expected to rebound from next year as economic activity recovers.
- **Stronger euro:** growing investor preference for euro assets over dollar.
- **Euro area interest rates** will increase slightly in 2026 and 2027 reflecting inflationary pressures. **The US interest rates** will continue to decline.

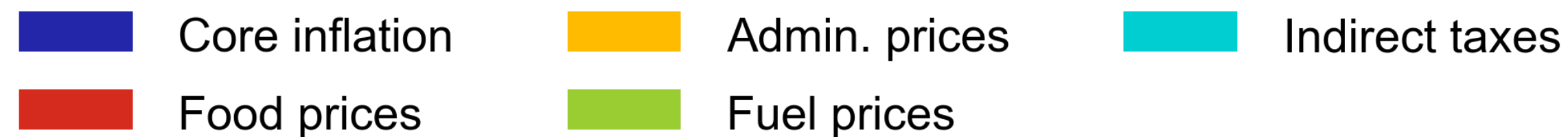
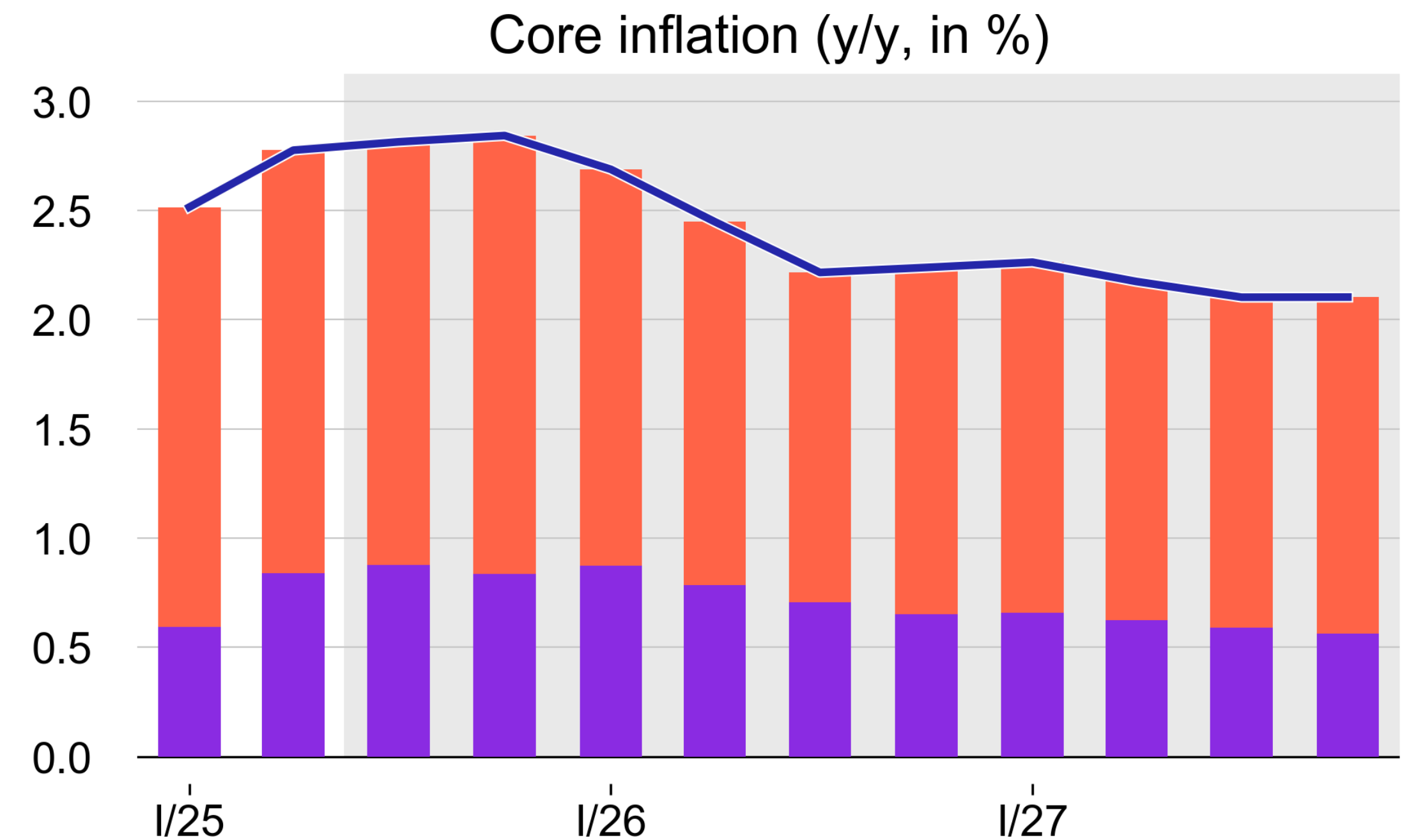
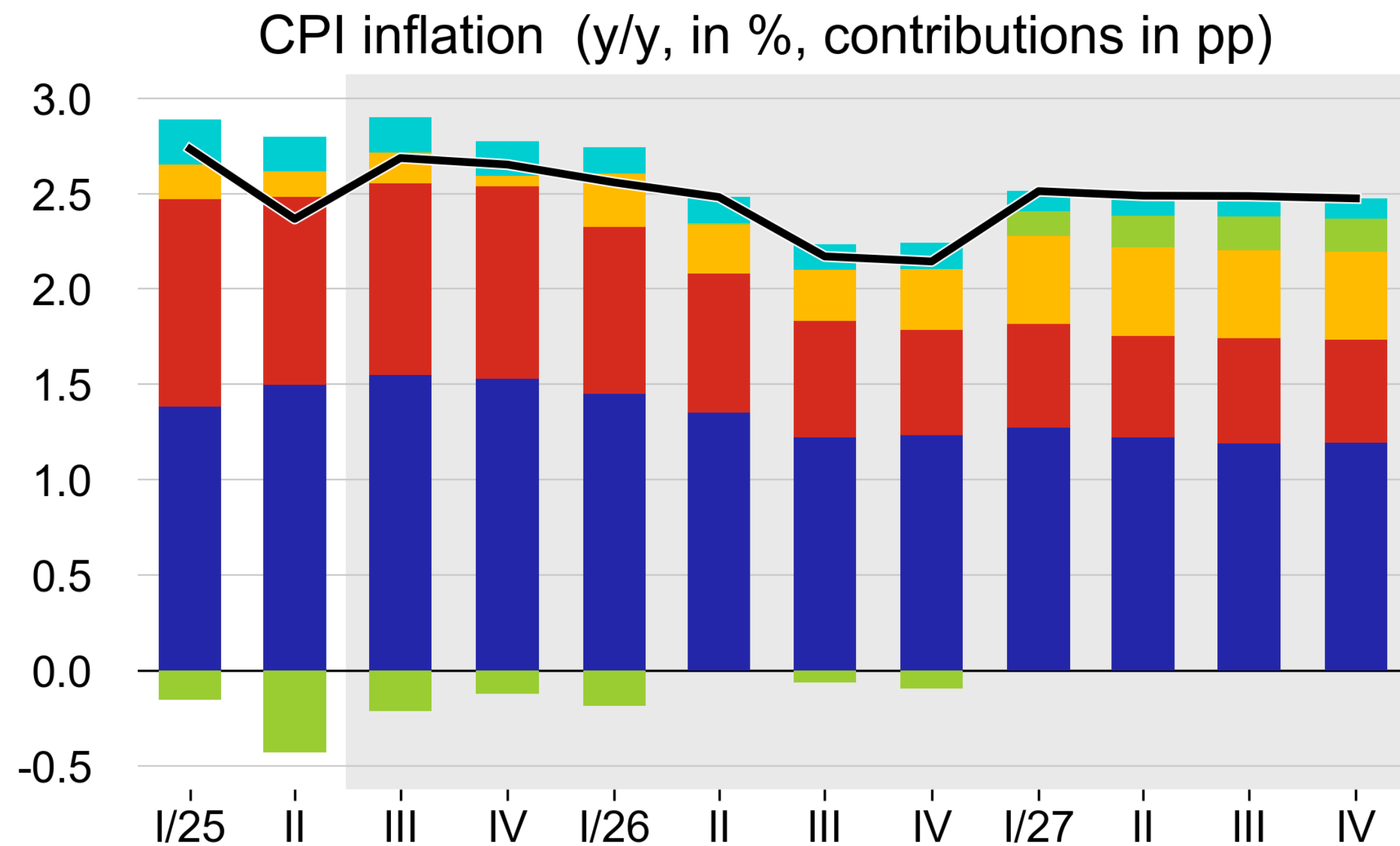
# Headline and Monetary Policy-Relevant Inflation



- **Inflation** outlook:

- **2025:** upper half of tolerance band, higher than previous forecast due mainly to elevated core inflation;
- **2026:** close to the 2% target;
- **2027:** slightly above target (launch of ETS 2, CB overlooks primary impacts);
- **Monetary policy-relevant inflation** slightly below headline inflation (increases in excise duty on tobacco and alcohol).

# Core Inflation, Administered, Food and Fuel Prices

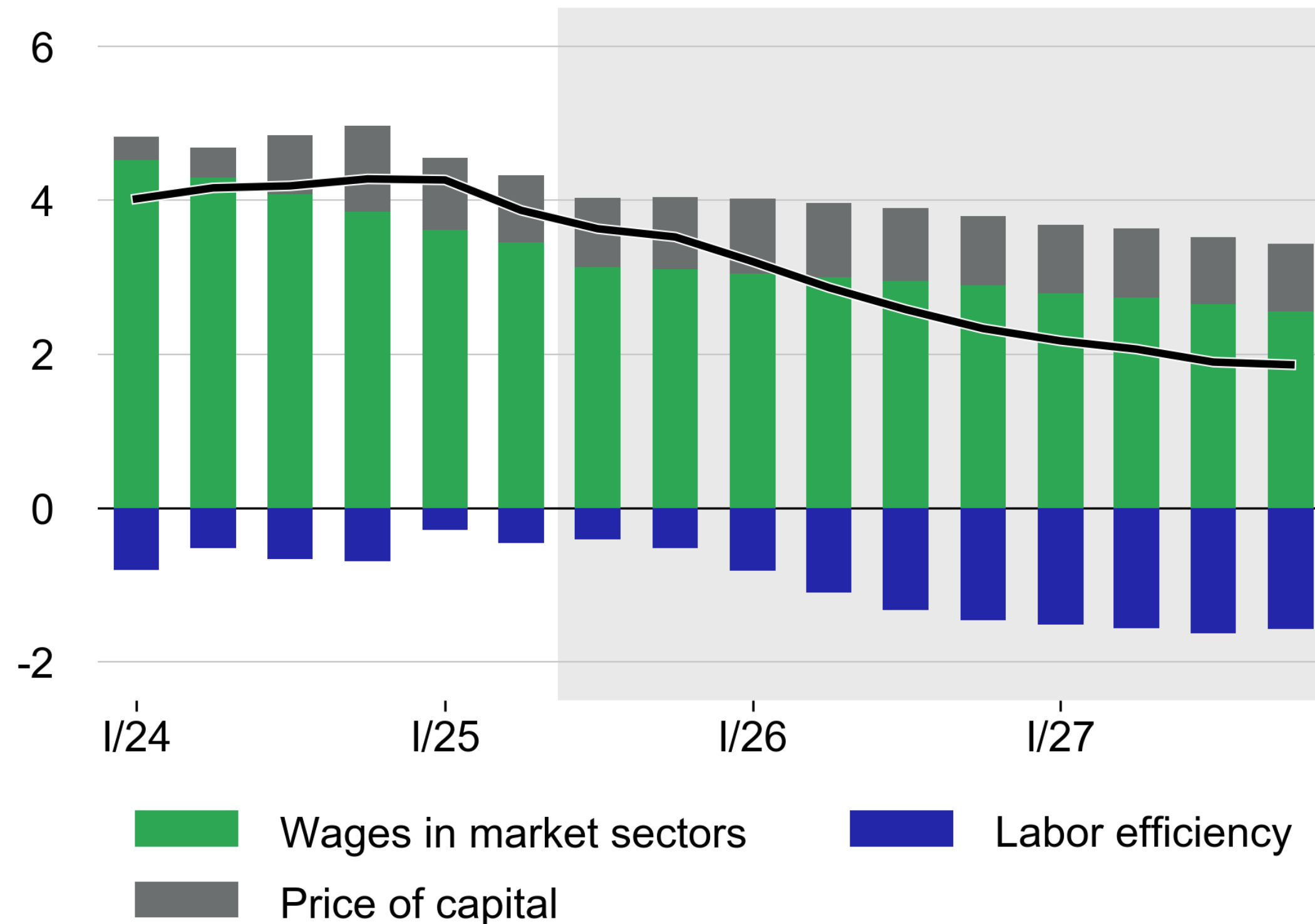


## • CPI components:

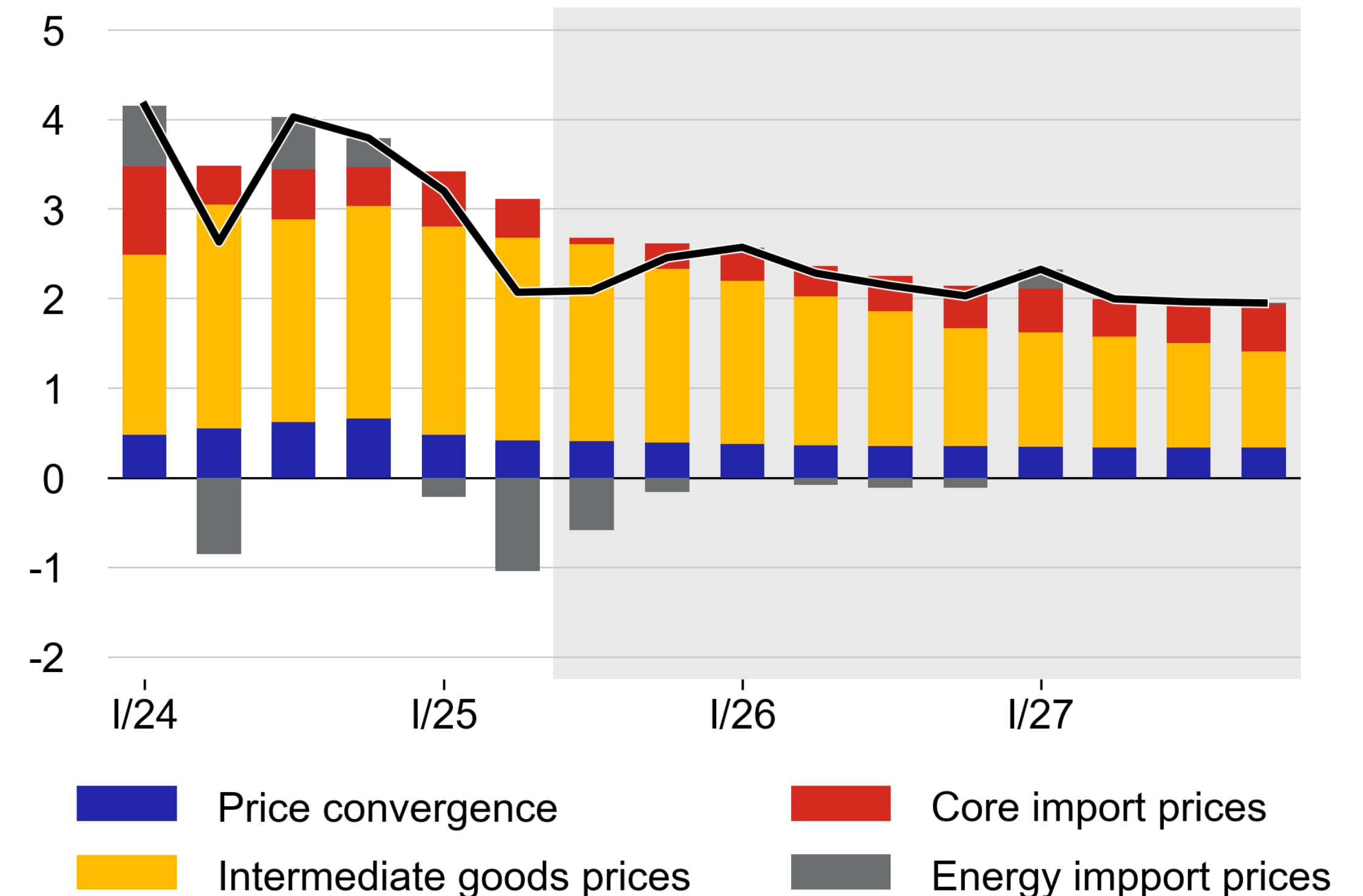
- **Core inflation:** elevated in 2025 and 2026 due mainly to imputed rent;
- **Food price inflation:** elevated in coming quarters (rising agricultural producer prices);
- **Administered and Fuel price inflation:** low in 2025, increased in 2027 (launch of ETS 2).

# Cost Pressures

Nominal marginal costs in intermediate goods sector  
(q/q, in %, ann.)



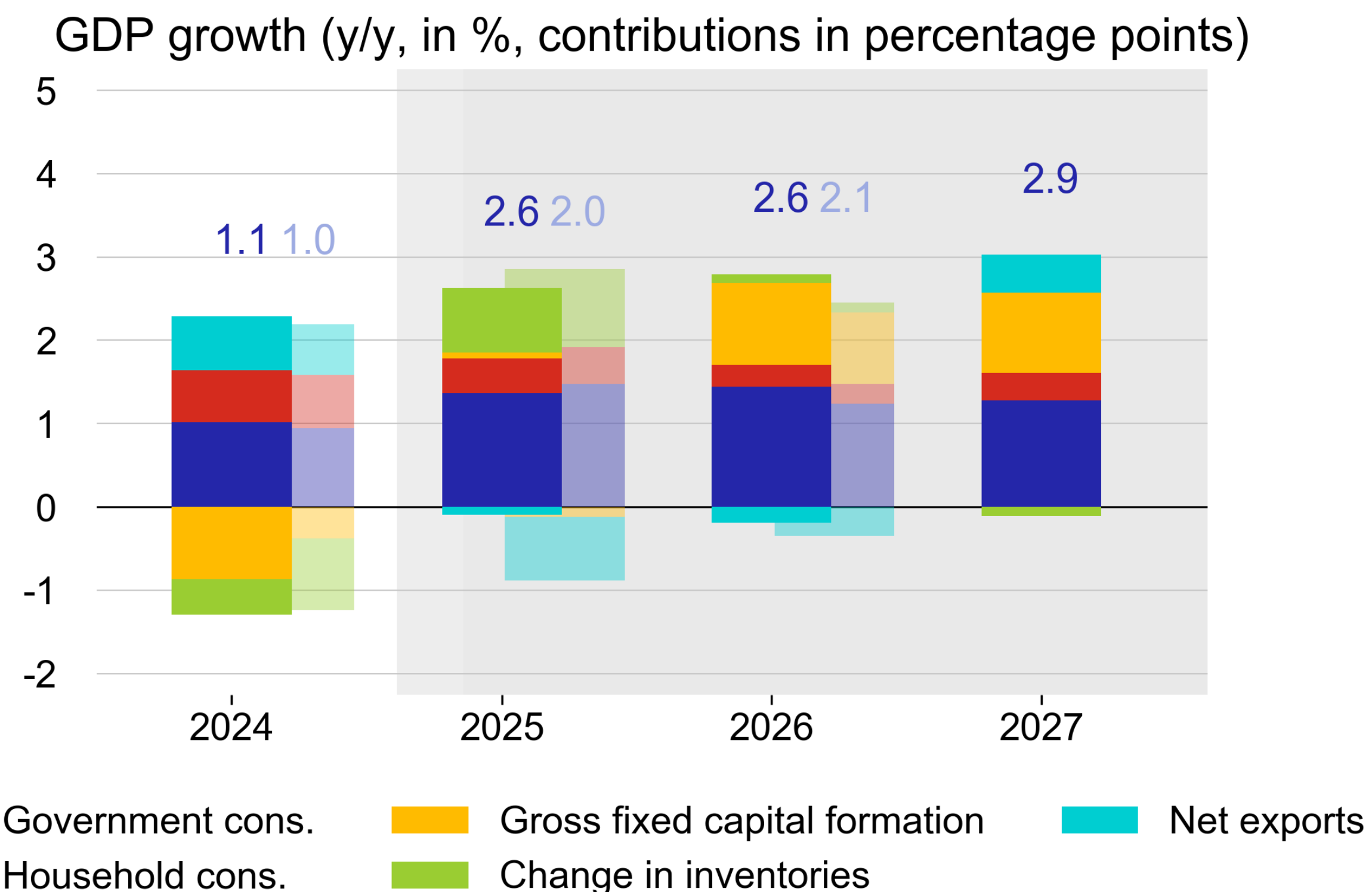
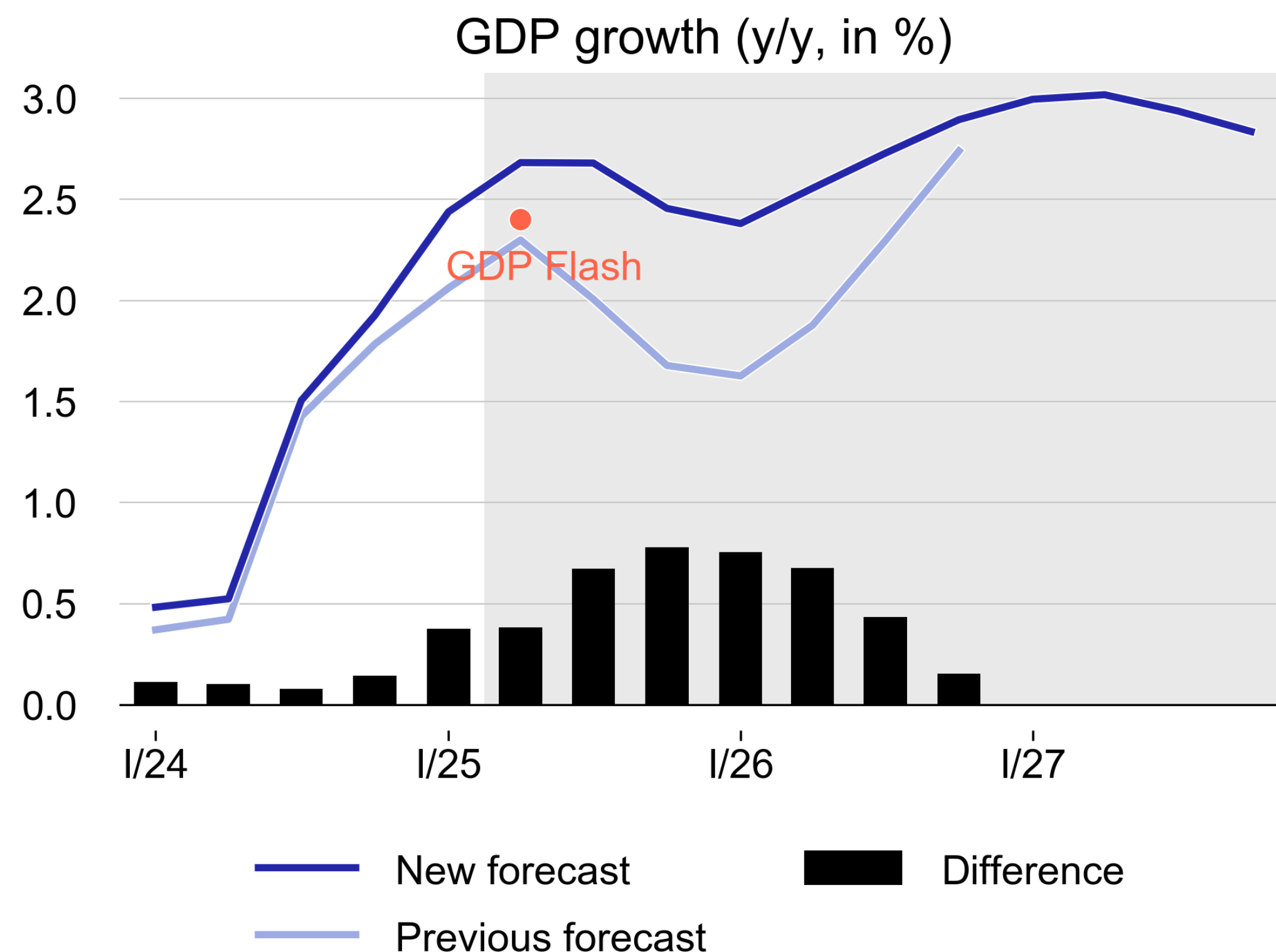
Nominal marginal costs in consumer sector  
(q/q, in %, ann.)



- **Domestic cost pressures** will weaken and return to 2%:
  - a slowdown in **wage growth**;
  - a gradual renewed growth in **labour efficiency**.

- The **overall cost pressures** will be only slightly elevated;
  - a gradual decrease in the inflationary effect of the **domestic intermediate goods prices**;
  - gradually increasing contribution of **core import prices**.

# GDP growth

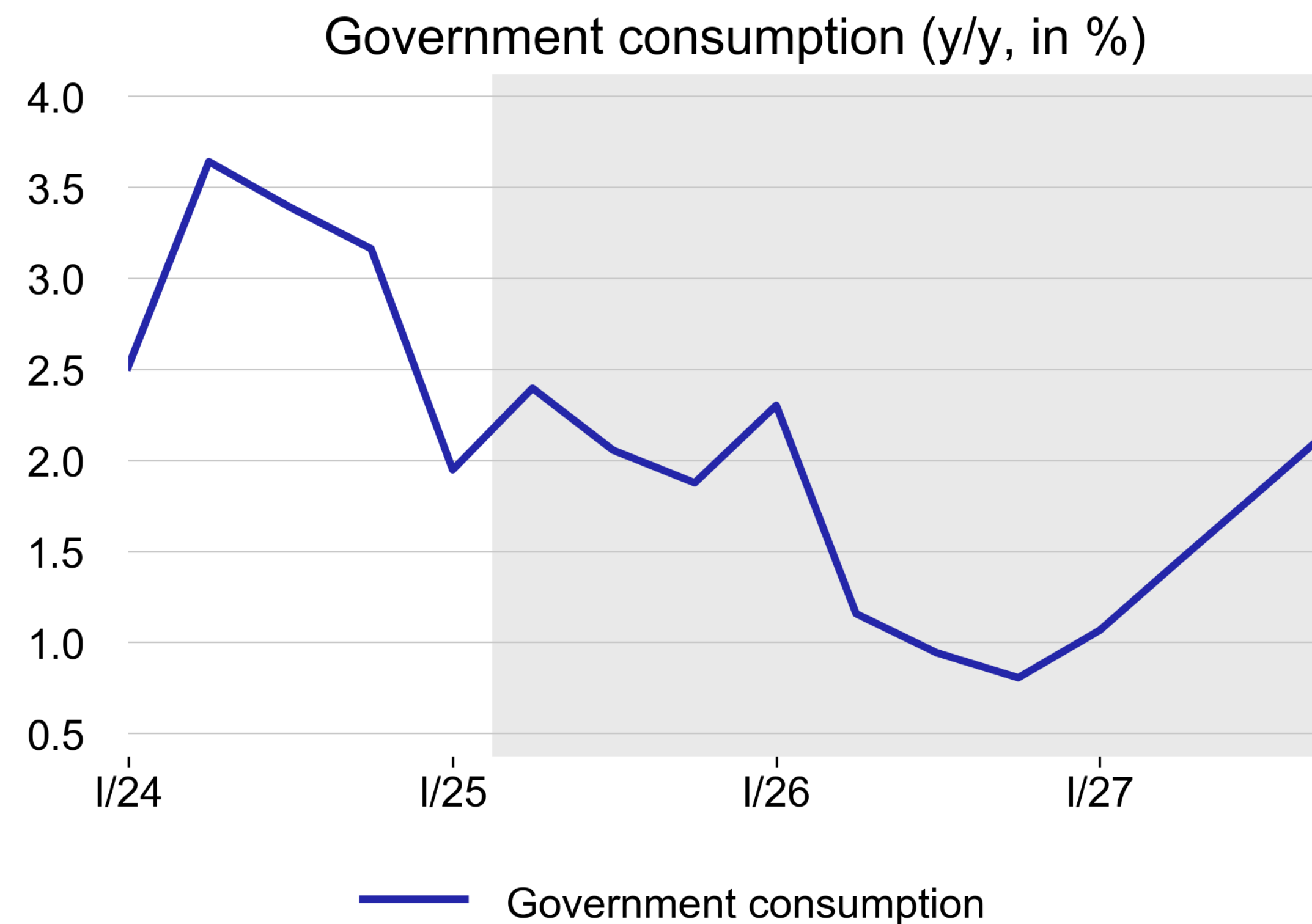
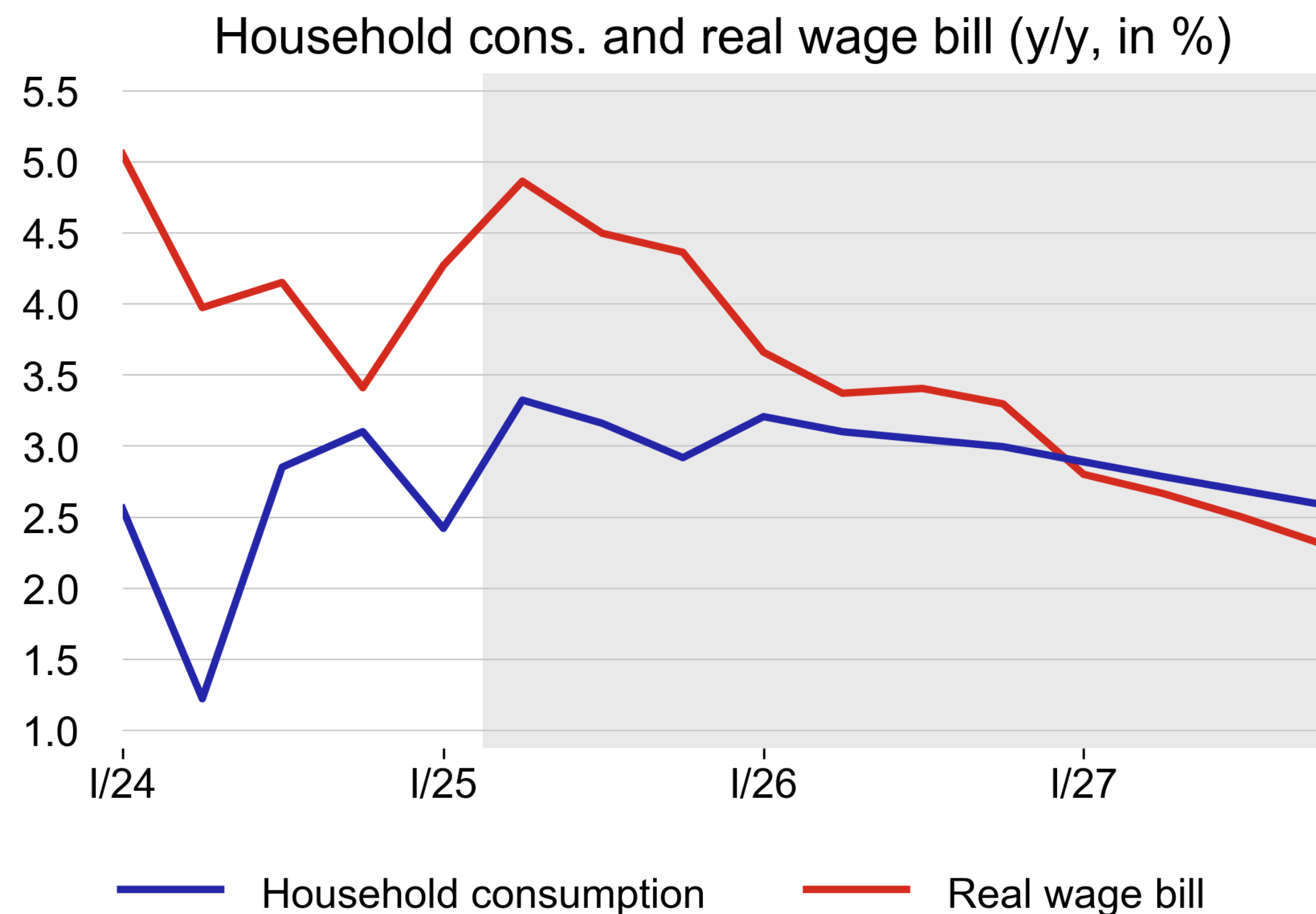


## • GDP outlook:

- **2025:** 2.6% growth, revised upward due to a less negative net exports contribution (reflecting observed data);
- **2026:** 2.6% growth, revised upward driven by stronger household consumption;
- **2027:** solid 2.9% growth with net exports shifting to positive contributions.

- **CZSO's flash estimate** (2.4% y/y) was below CNB forecast (2.7% y/y).

# Households and Government Consumption



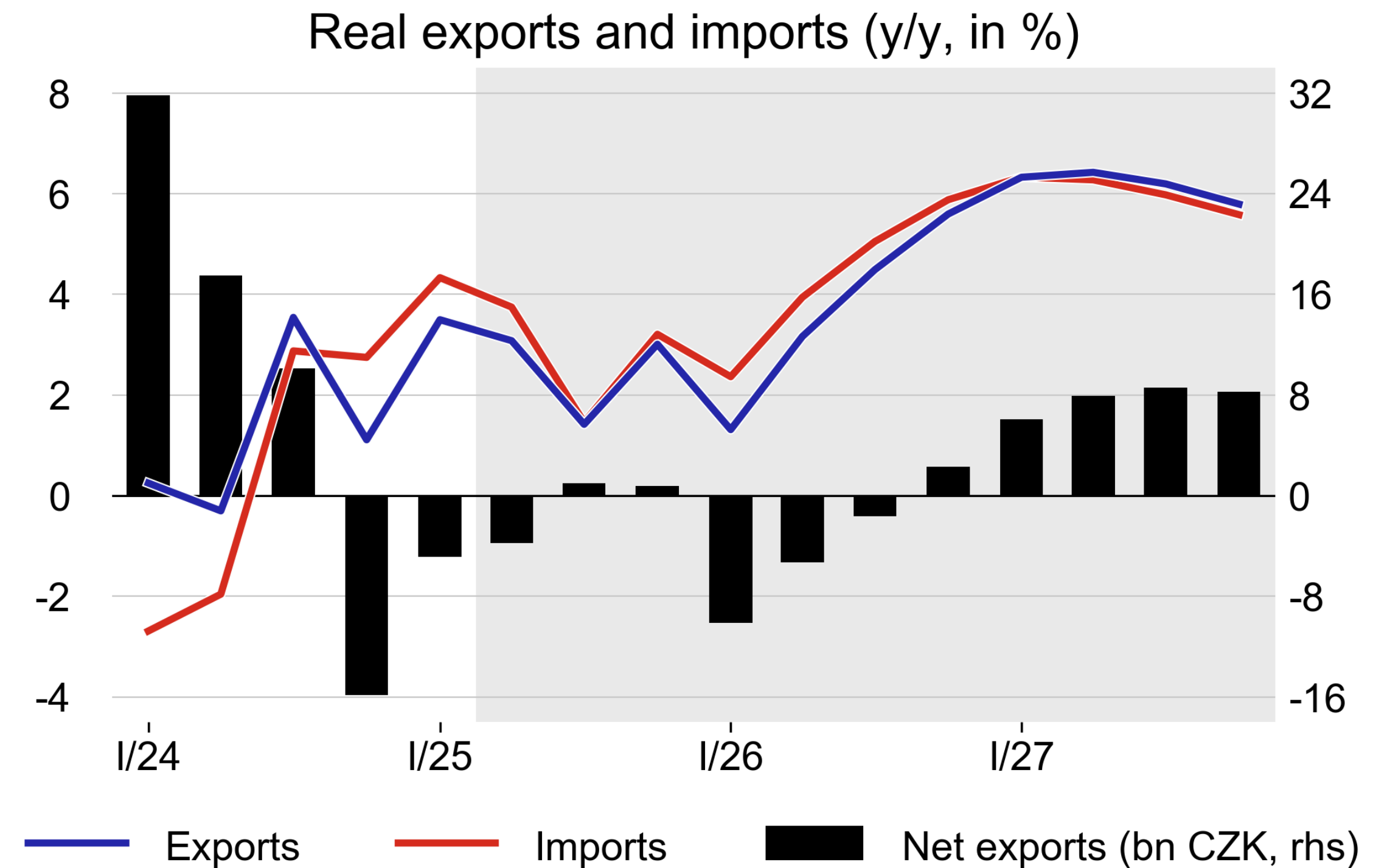
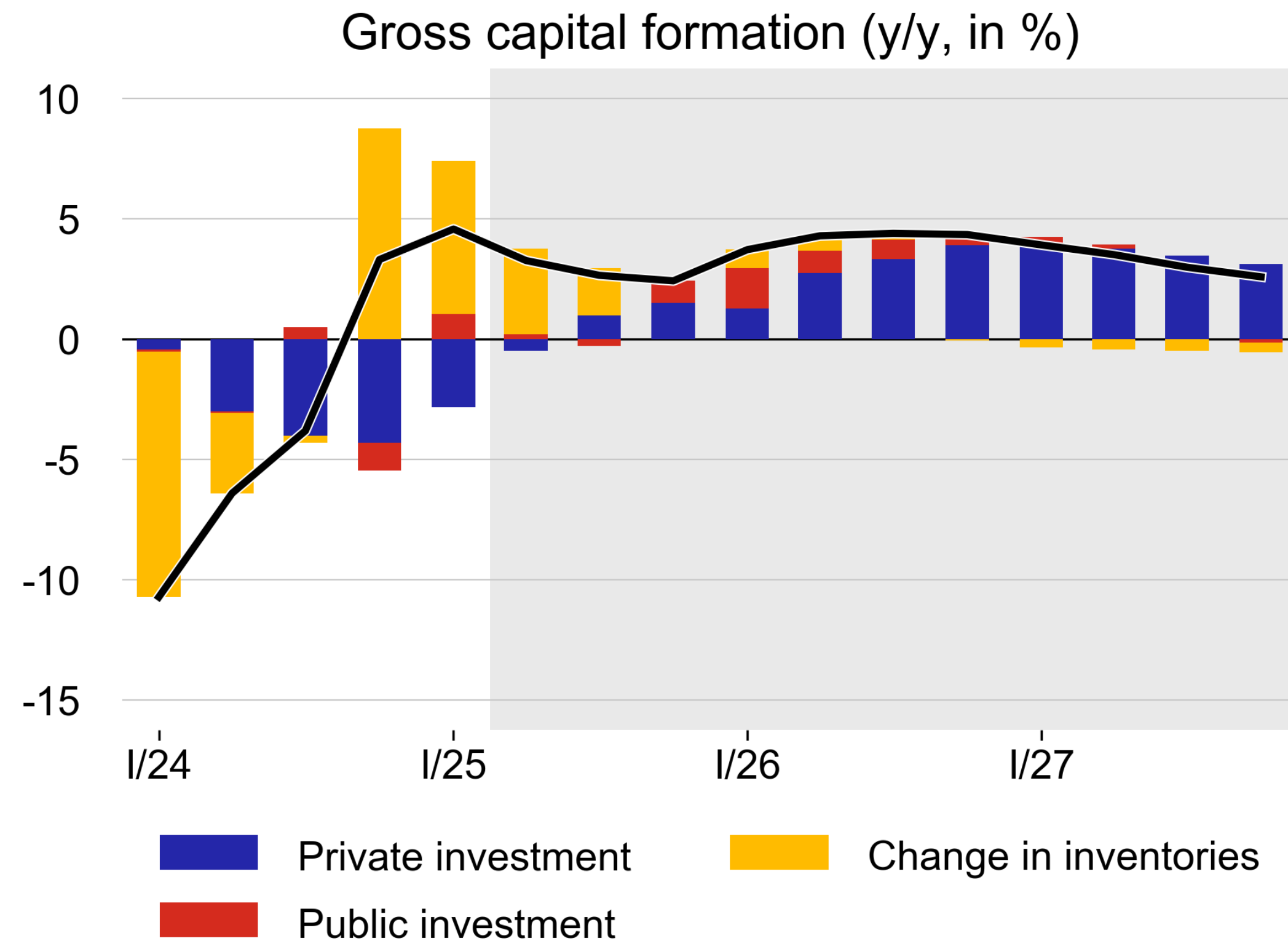
## • Household consumption outlook:

- **2025 and 2026:** approx. 3% growth due to swift growth in real wages and a gradual decrease in the saving rate;
- **2027:** deceleration reflecting a slowdown in real wage growth.

## • Government consumption outlook:

- **2025 and 2026:** continuing consolidation and slowdown, fading impact of extraordinary flood-related spending;
- **2027:** growth will accelerate.

# Investment and Net Exports



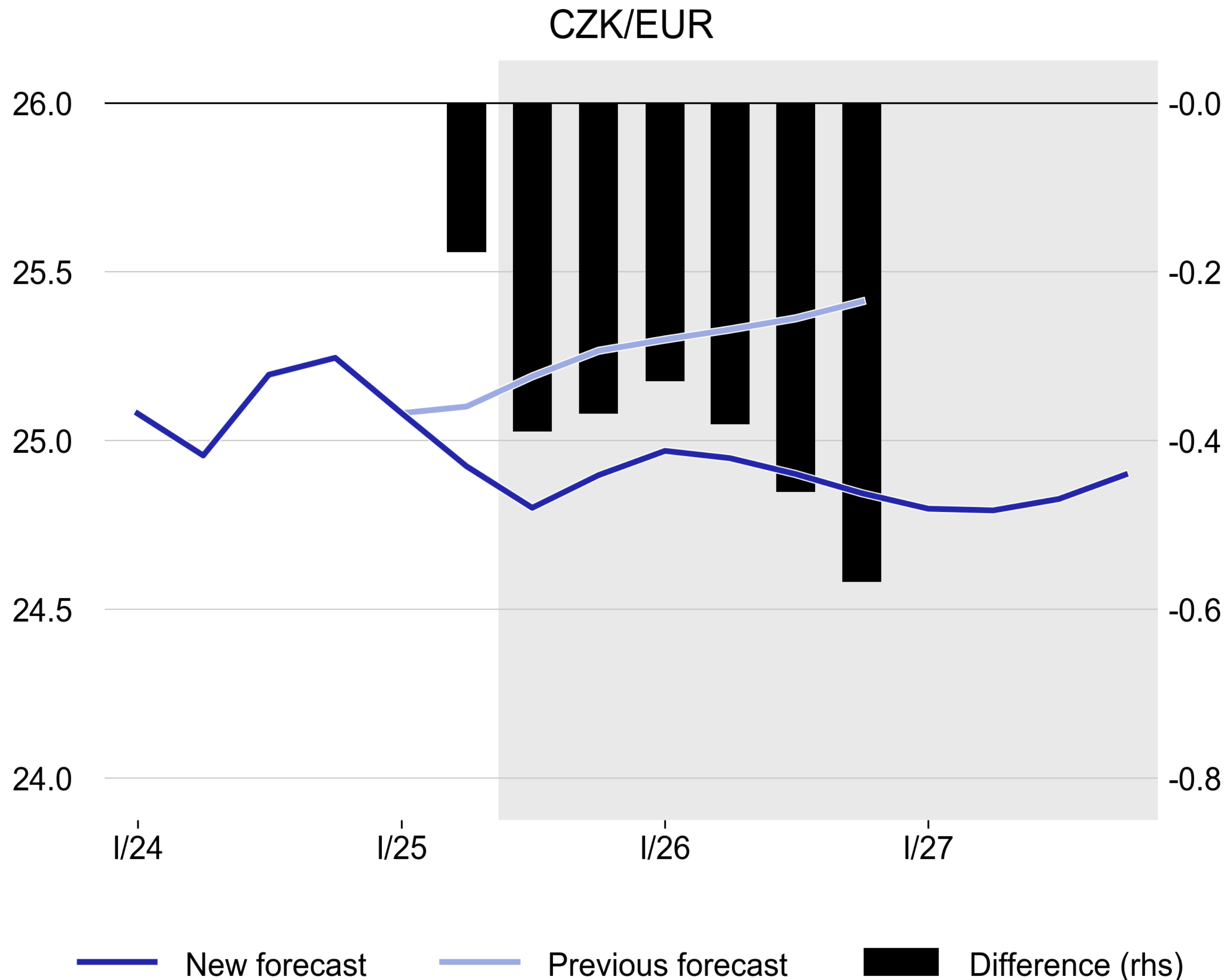
## • Investment outlook:

- **2025:** driven by formation of inventories;
- **2026 and 2027:** recovery of private and public investment.

## • Net exports outlook:

- **2025 and 2026:** negative net exports due to strong domestic demand outpacing weak foreign demand;
- **2027:** foreign demand recovery will drive net exports back toward positive territory.

# Exchange Rate CZK/EUR



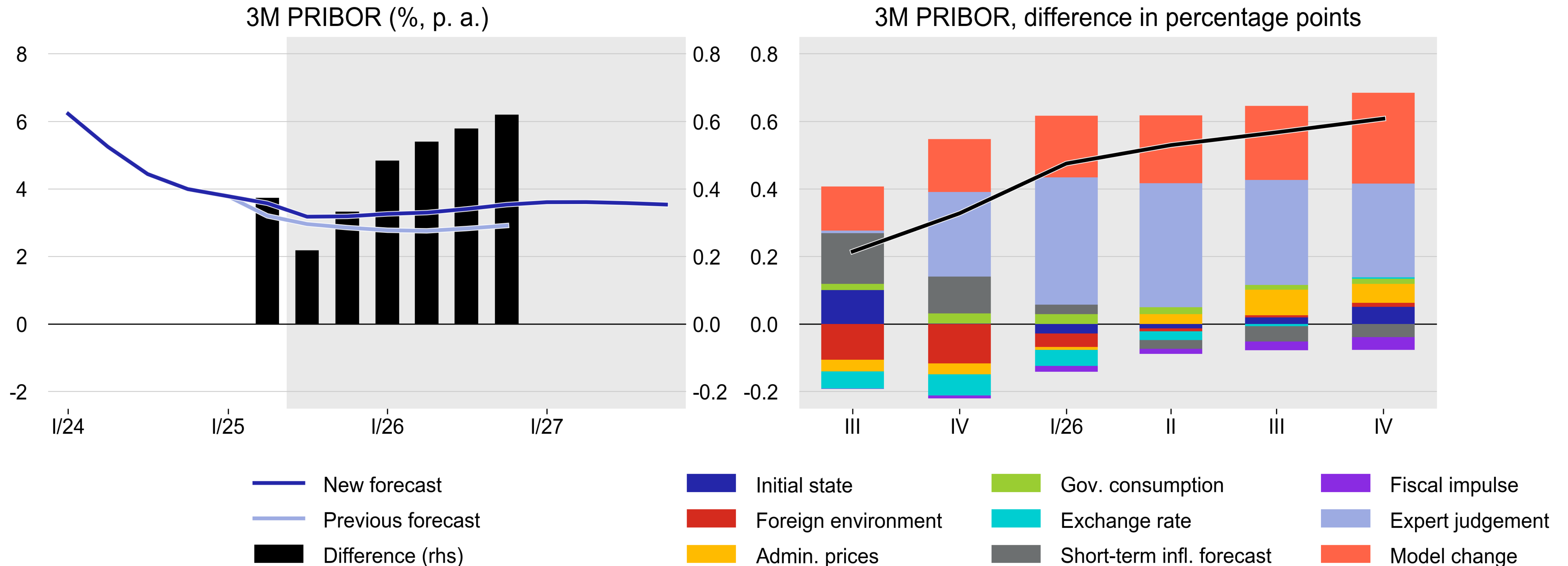
- **Koruna outlook:**

- **Q3 2025:** expected to depreciate to an average of 24.8 CZK/EUR following forecasted interest rate cut;
- **2026 and 2027:** broad stability due to only slowly recovering **productivity**.

- Changes to previous forecast:

- wider interest rate differential vis-à-vis the euro area;
- higher trade surplus;
- stronger observed Q2 2025 values.

# 3M PRIBOR Outlook is Revised Upwards



- Main contributions to higher interest rates:

- **Expert adjustments:** elevated house price growth, elevated profit margins, expected swift wage growth, second-round effects of ETS 2.
- **Model change:** a decrease in foreign equilibrium interest rate and an implicit increase in koruna's risk premium.

- **Foreign environment** contributes to lower rates due mainly to stronger euro vis-à-vis dolar.

Expert adjustm.

Long rates

# Forecast Summary

	2025	2026	2027
<b>Headline inflation (%)</b>	<b>2.6</b>	<b>2.3</b>	<b>2.5</b>
	(0.1)	(0.2)	-
<b>GDP (%)</b>	<b>2.6</b>	<b>2.6</b>	<b>2.9</b>
	(0.6)	(0.5)	-
<b>Average nominal wage (%)</b>	<b>6.6</b>	<b>5.5</b>	<b>4.9</b>
	(0.4)	(0.6)	-
<b>3M PRIBOR (%)</b>	<b>3.4</b>	<b>3.4</b>	<b>3.6</b>
	(0.2)	(0.6)	-
<b>Exchange rate (CZK/EUR)</b>	<b>24.9</b>	<b>24.9</b>	<b>24.8</b>
	(-0.2)	(-0.4)	-

Note: In brackets, changes compared to the previous forecast in pp. Green indicates a shift in the forecast toward higher values, or a weaker koruna exchange rate compared to the previous forecast. A red label indicates a shift in the opposite direction.

- **Inflation:**
  - **2026:** a slowdown;
  - **2027:** acceleration due to ETS 2 primary impacts.
- **GDP growth:**
  - solid growth throughout the forecast period;
  - **2025:** driven by domestic demand;
  - **2026 and 2027:** supported also by foreign demand.
- **Interest rates:**
  - **2025:** modest decline;
  - **2026 and 2027:** slight increase, reflecting rising inflationary pressures;
- **Koruna:**
  - broadly stable due to only slowly recovering productivity.

# Presentation Outline

1. The New Macroeconomic Forecast

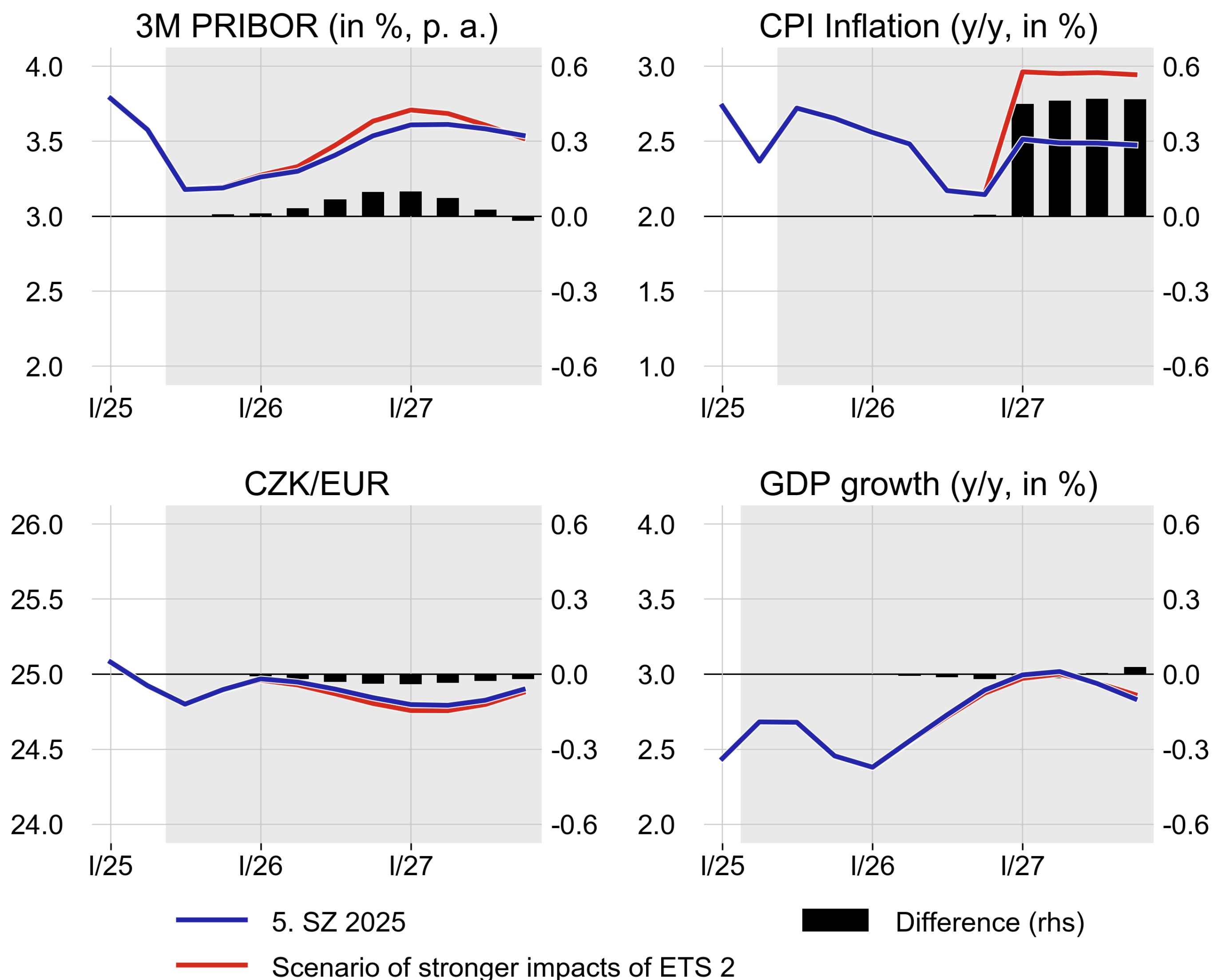
**2. Scenarios and Risks**



# Risks Matrix

	Probability of risk realization	Impact on CPI inflation	Monetary policy response
<b>Risks to the baseline forecast</b>			
Persistence of unfavorable price growth structure	medium	medium	↗ tighter MP
Stronger koruna exchange rate	medium	low-medium	↘ looser MP
Stronger price impacts of ETS 2 introduction	medium	high	↗ tighter MP
<b>Main Scoreboard risk</b>			
Increased general government deficit	high	low-medium	↗ tighter MP
<b>Uncertainties</b>	<b>Intensity</b>		
Development of trade wars	medium		
Real estate and services price growth	medium		
Impacts of increased public spending in Europe	medium		
Future course of the war in Ukraine and the Middle East	low		

# Scenario of Stronger ETS 2 Impacts



- Scenario assumes:
  - **twice as large** impacts of ETS 2 (consistent with a limit price of 57 EUR/t CO<sub>2</sub>);
  - CB reaction to second-round effects only (as in the baseline).
- Twice as strong second-round effects require **slightly higher interest rates**, which lead to:
  - slightly stronger **koruna**;
  - negligible effect on **economic growth**.
- Unaddressed first-round effects (twice as strong) push **inflation** near the tolerance band's upper limit.

# Spring 2025 Forecast – Summary

	2025	2026	2027
<b>Headline inflation (%)</b>	<b>2.6</b>	<b>2.3</b>	<b>2.5</b>
	(0.1)	(0.2)	-
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<b>3M PRIBOR (%)</b>	<b>3.4</b>	<b>3.4</b>	<b>3.6</b>
	(0.2)	(0.6)	-
<b>Exchange rate (CZK/EUR)</b>	<b>24.9</b>	<b>24.9</b>	<b>24.8</b>
	(-0.2)	(-0.4)	-

Thank you for your attention



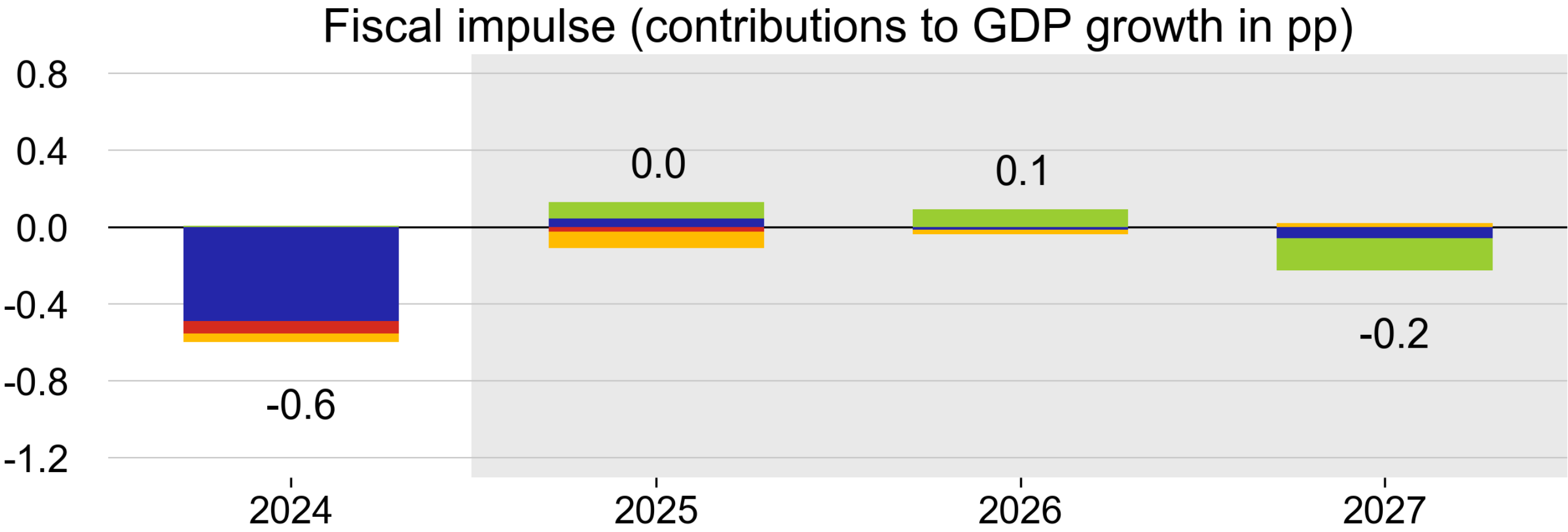
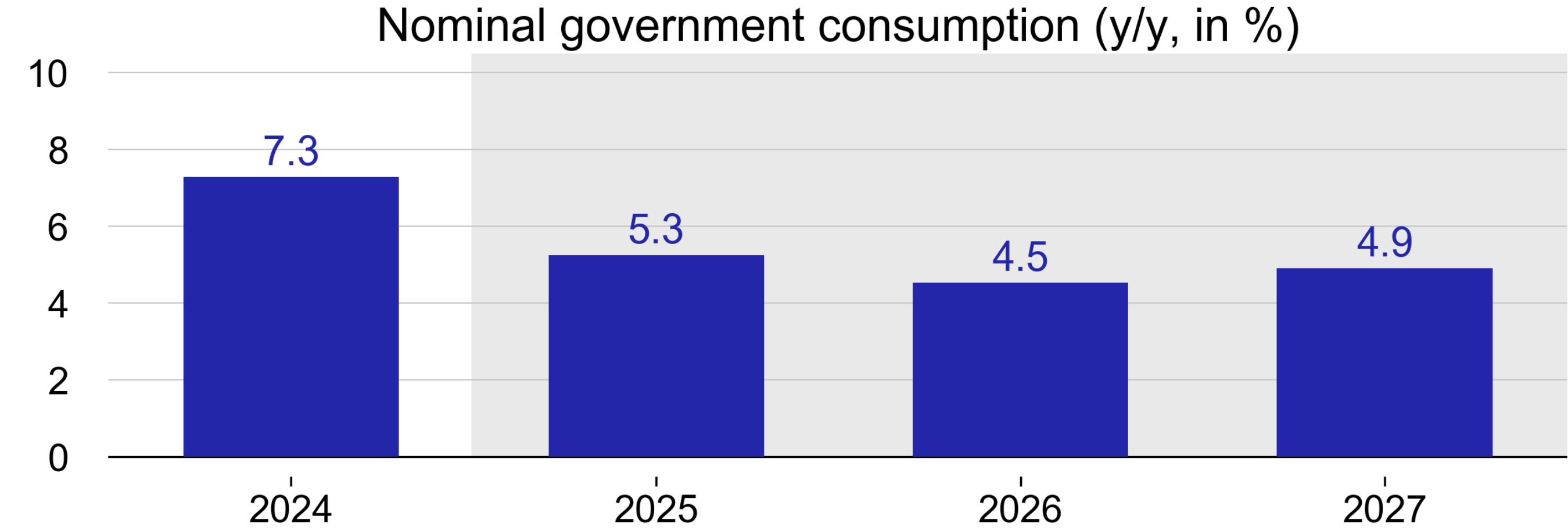
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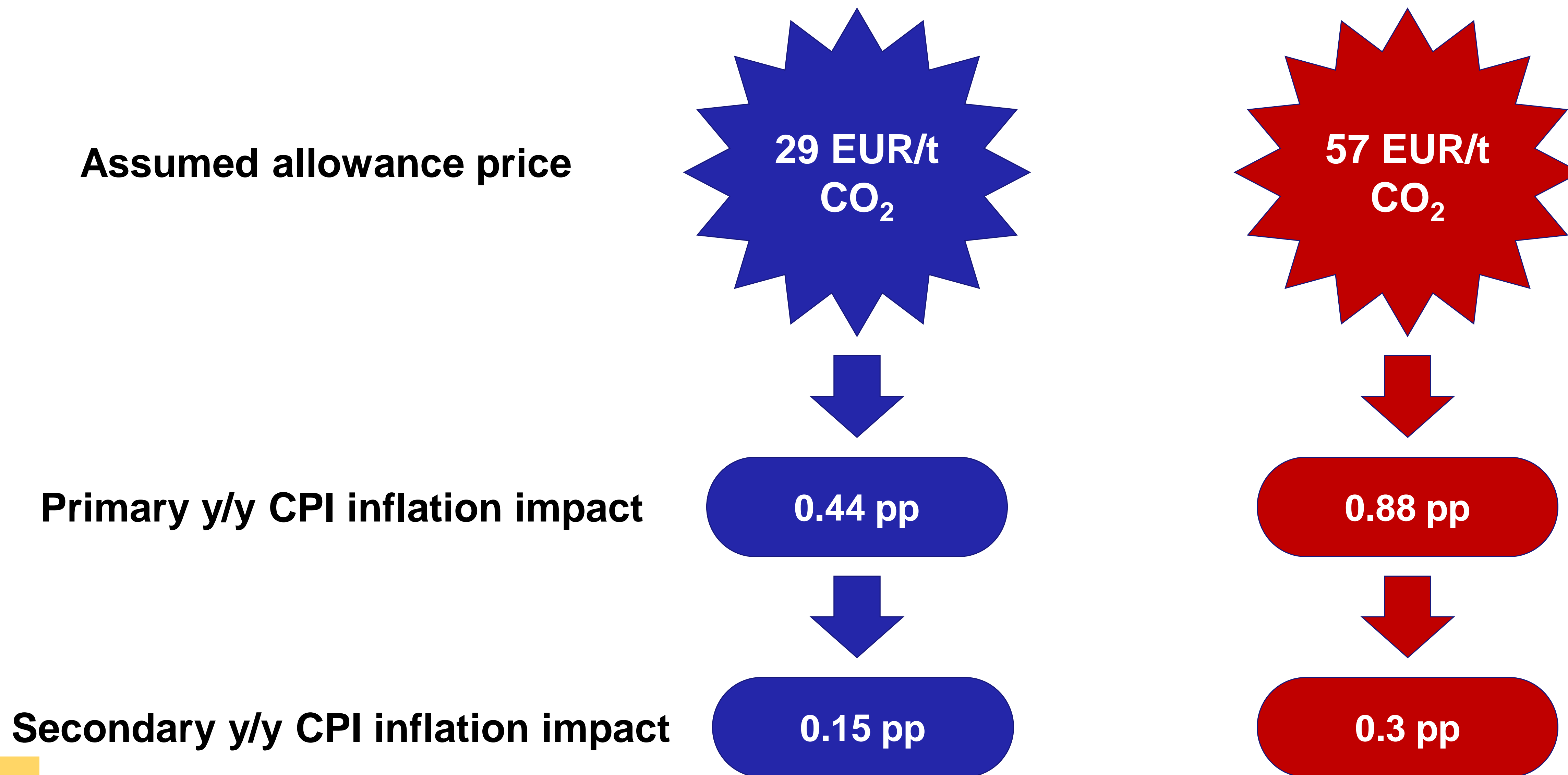


# Fiscal Policy



- Private consumption
- Private investment
- Government investment (domestic)
- Government investment (EU funded)

# The Price of Emissions Allowance in ETS 2 is Uncertain

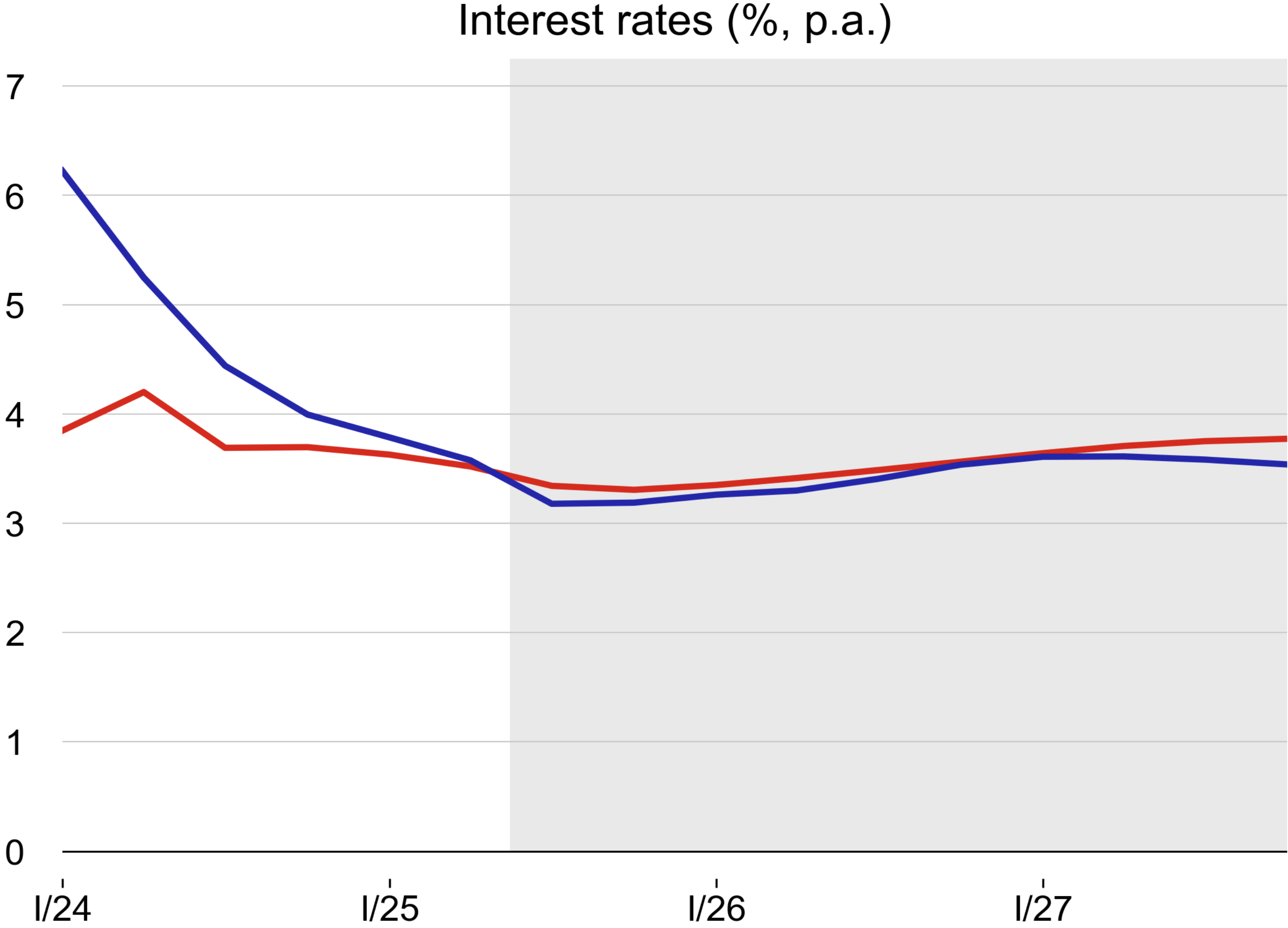


# Tariff Rates (in %)

	Summer baseline forecast	Rate as of Aug 4, 2025
Goods from China to USA	<b>30</b>	<b>30</b>
Goods from world to USA*	<b>10</b>	<b>20</b>
Goods from EU to USA	<b>10</b>	<b>15</b>
Steel from world to USA	<b>25</b>	<b>50</b>
Aluminum from world to US	<b>25</b>	<b>50</b>
Copper from world to USA	-	<b>50</b>
Cars including car parts	<b>25</b>	<b>15</b>
Goods from USA to China	<b>10</b>	<b>10</b>

Note: \*refers to average effective tariff rate

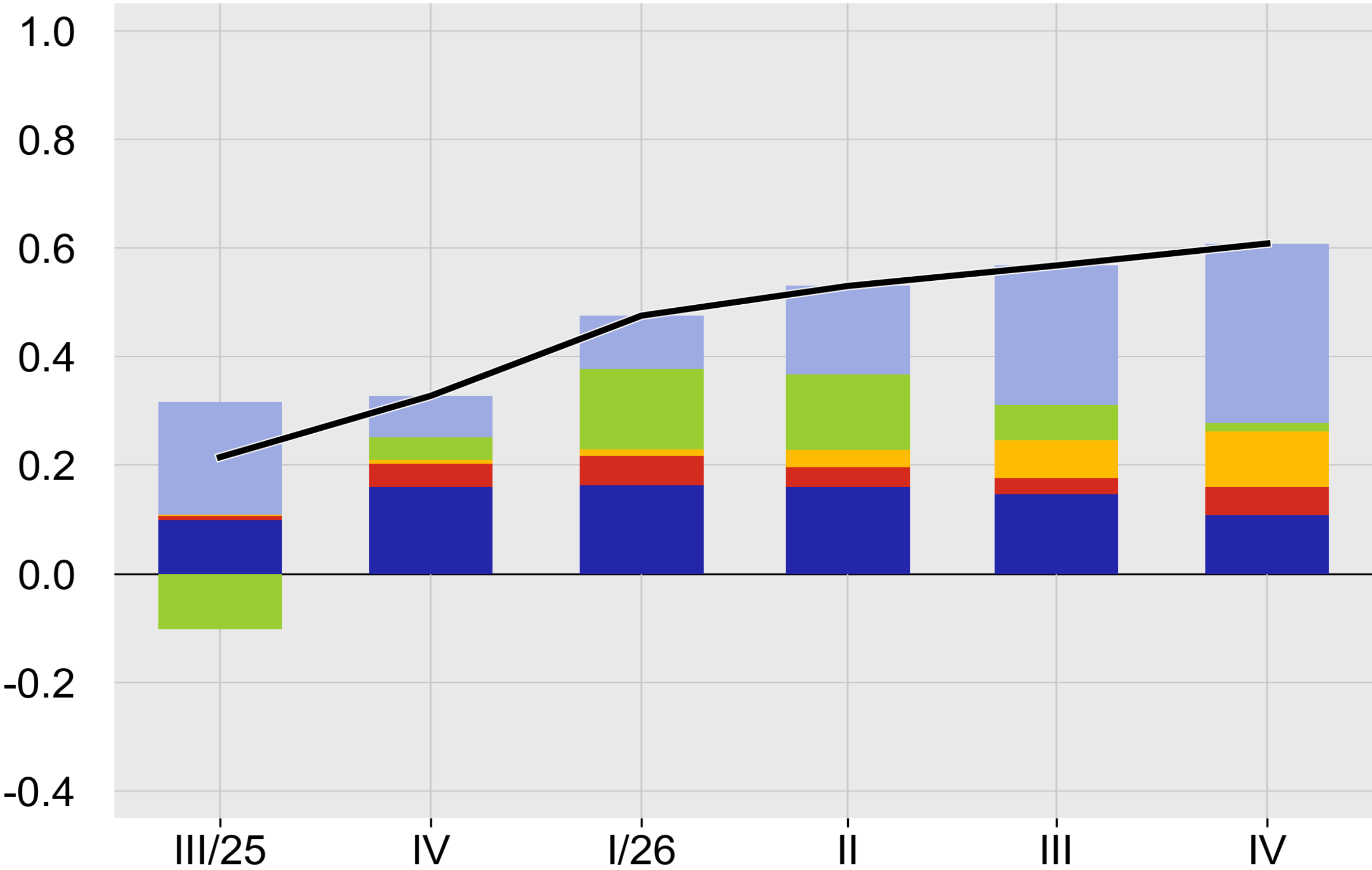
# Long rates



— 3M PRIBOR — 3Y government bond yield

# Decomposition of Expert Adjustments

3M PRIBOR (in %, p. a., contrib. in pp)



- Expert adjustments - real estate prices
- Expert adjustments - markups and wages
- Expert adjustments - ETS 2
- Expert adjustments - other
- Other components