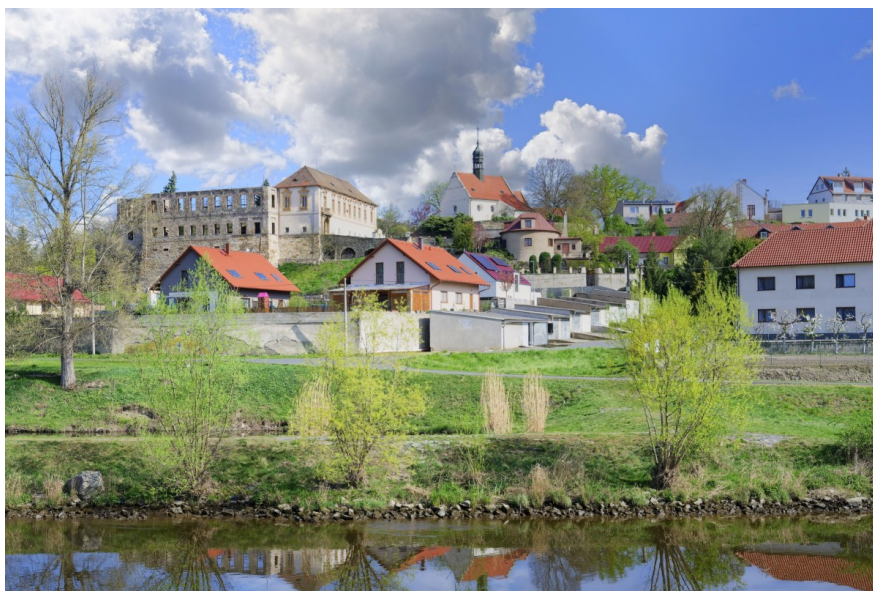


Czech housing prices and strong demand pose risks

Czech industrial pricing has remained subdued despite the clear repercussions from global energy prices. A pronounced decline in agricultural manufacturing will help to hold inflation within reasonable boundaries. Our scenarios show that property prices pose a risk to rents and core inflation



Demand for property in Czechia is exceeding available supply

Industry and agri prices fall; services and construction rise

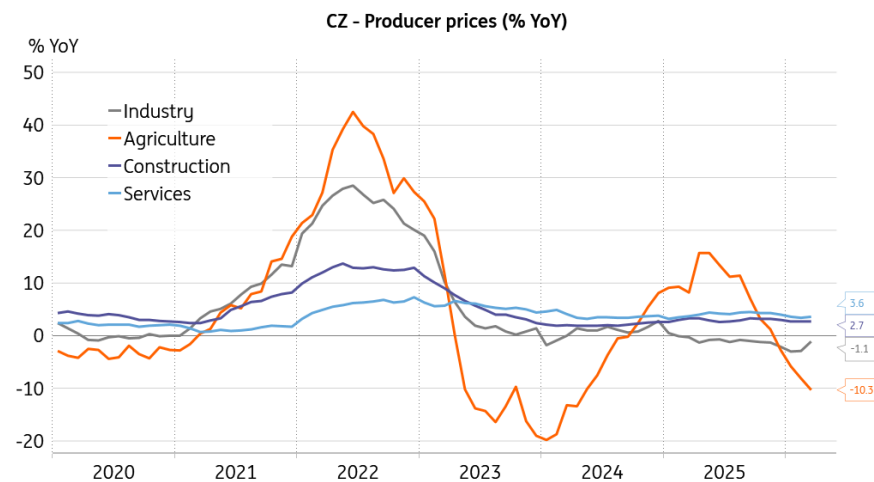
Czech industrial producer prices remained in annual decline, down 1.1% in March but up 1.5% from the previous month on the back of the global energy shock.

The annual fall in agricultural producer prices became more severe in March at 10.3%. The annual fall in agricultural producer prices deepened to 10.3% in March. On a month on month basis, prices fell for a fifth consecutive month despite elevated energy prices and a weaker koruna, though the pace of decline moderated to 0.2%.

Prices of construction works added 2.7% YoY and 0.7% from the previous month. We expect further acceleration in this price segment due to the continued building boom and emerging shortages of building materials linked to the Middle East disruption. Prices of market services rose

by 3.6% YoY and 1.1% MoM.

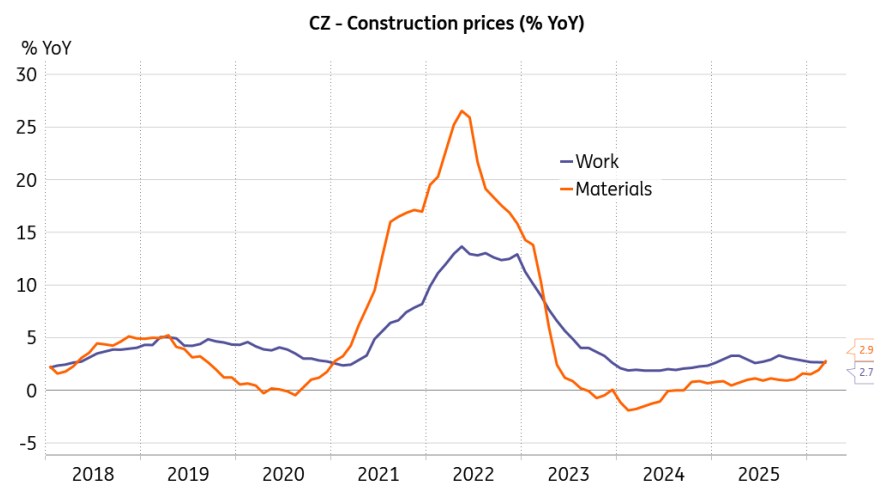
Prices in construction will likely accelerate



Source: CZSO, Macrobond

In annual terms, we saw declines in prices of electricity, gas, and steam, while prices of food products and motor vehicles also fell. Prices of coke and refined petroleum products increased significantly, closely tracking higher oil prices. Looking at the main industrial groups, energy prices dropped by 2.6% YoY, non-durable consumer goods prices shed 1.4% YoY, and intermediate goods fell 0.2% YoY. Meanwhile, prices of durable consumer goods gained 1.5% YoY, yet their annual dynamic shows a softening trend since October last year. Industrial producer prices, excluding energy, dropped by 0.5% YoY from March last year.

Shortage of materials will push up prices



Source: CZSO, Macrobond

House prices are a big unknown

Rising construction prices reflect strong demand for property that is decisively exceeding available supply. Looking at flat offer prices in the first quarter of 2026, double digit annual growth was

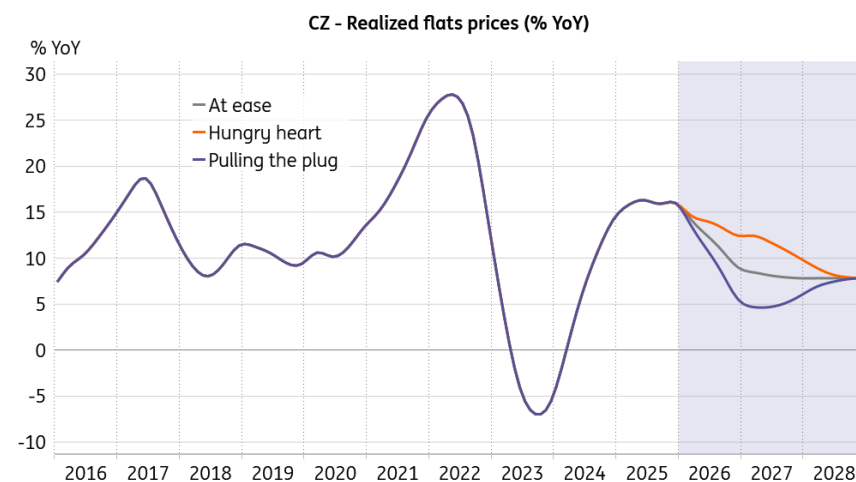
maintained across the country, while price growth in Prague eased to 8.9%. This is consistent with our hypothesis that Prague has become somewhat stretched for the time being, while there remains ample scope for property prices to continue their strong upward trajectory outside the *caput regni*.

For realised prices, data is only available up to 4Q25, and the next release is scheduled for mid-June. Nevertheless, as reliable data is available only at a quarterly frequency and with a considerable lag, we proceed with scenario analysis for realised flat prices, which have a sizeable impact on core inflation.

In any case, housing prices are likely to continue growing at a strong pace, supported by several factors: (i) robust demand, underpinned by ample savings and continued access to mortgage financing; (ii) limited supply that is set to stay with us for several years; (iii) increasing wages in construction; and (iv) emerging shortages of building materials linked to disruption in the Middle East, which are already generating upward price pressures.

This will almost mechanically drive up the imputed rents and, to some extent, core inflation. Still, we would like to have a slightly more nuanced assessment of the whole thing, and because we don't have a precise idea about future housing market developments, we turn to scenario analysis. Indeed, we take to heart Niels Bohr's remark: Prediction is very difficult, especially if it's about the future.

House price trends will likely remain upbeat



Source: CZSO, ING, Macrobond

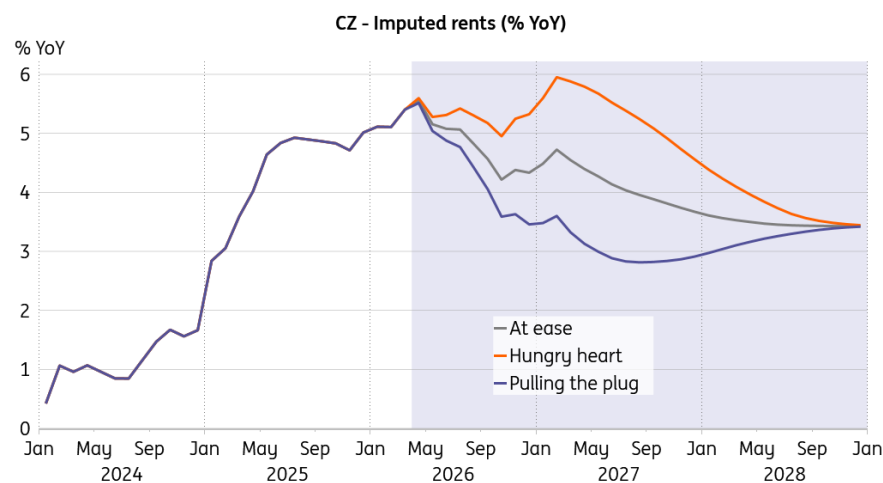
In our equation for imputed rents, we only alter the outlook for house prices and loans to households, all other explanatory variables enter the simulation in a *ceteris paribus* mode. Our central scenario, *At ease*, assumes a gradual slowdown in house price growth, along with a slightly delayed and gradual slowdown in credit dynamics. The *Hungry heart* scenario assumes that house prices continue to grow at a strong pace, remaining in double digit territory until the end of next year. In this case, signs begin to emerge of buyers using credit to acquire third investment properties, pushing market conditions closer to the danger zone, at least in Prague. Complacency is one of the market's traditional enemies, so we take seriously the *Pulling the plug* scenario, where large investors take a pause in acquiring further properties, and we see a tangible slowdown

in their price dynamics.

Imputed rents may drive core inflation

The scenarios result in different paths and peaks of imputed rents. Nevertheless, annual rent growth does not slow down to the average of just below 1% observed between 2010 and 2015. It rather mimics the 2016-19 upswing in rents when the economy was booming, at least in the *Hungry heart* scenario. Rent costs are much more merciful in our *Pulling the plug* scenario when the annual dynamics soften to below 3% by mid-2027.

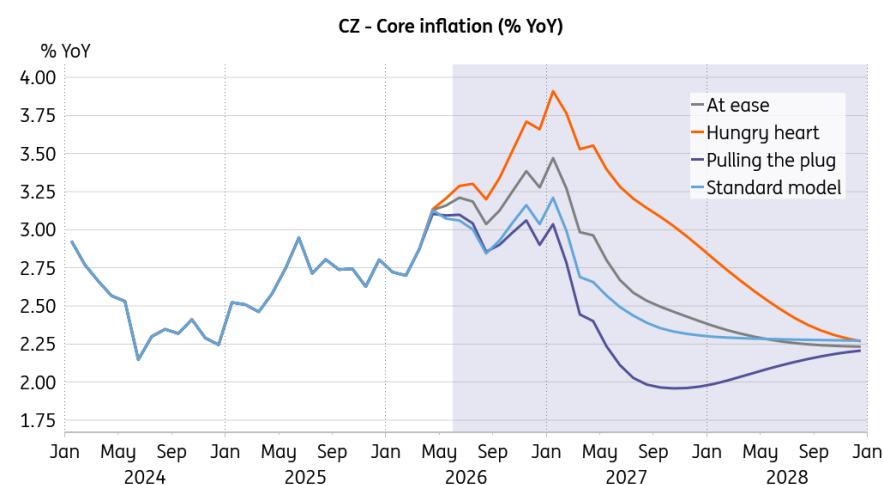
Rent increases resemble a booming economy



Source: CZSO, ING, Macrobond

The repercussions for core inflation are rather straightforward, as shown in the chart below. We use this equation specification only occasionally, as the assumptions on housing prices are hard to draw, given the delay in the data. It's crucial to stress that the *Standard model* is our base case path for core inflation.

Potential for punchier core inflation is in the air



Source: CNB, ING, Macrobond

That said, our standard core inflation path is somewhere in between the two milder scenarios. Readers may draw their own conclusions. Looking ahead, however, I see rising risks of more pronounced core inflation. Imputed rents, in particular, are becoming a fundamental factor that will stay with us for some time.

Hold the line and see how the economy is doing

Summa summarum, benign pricing in industry and agriculture contrasts with solid pricing in business services and accelerating prices of building materials. As for the implications for consumer inflation, food prices will help to keep the headline rate within the Czech National Bank's tolerance band for most of the year. Meanwhile, construction prices and the overheating housing market could exert pressure on imputed rents and core inflation throughout the year. Given the uncertainty about the double impact of the conflict in the Middle East, i.e., on prices and economic activity, which are also conditional on its duration, the CNB is still in a relative comfort zone, where it can wait for some time before taking any action. In the meantime, policymakers will carefully consider how to communicate the appropriate path forward, mindful of the power of forward guidance.

The measures taken by the government in a potential energy crisis will also enter the CNB's decision function. The government has just approved the Act on the Regulation of Fuel Prices. The cabinet wants to establish a rapid response mechanism for intervening in fuel prices in times of crisis in the future. The new law is intended to replace temporary measures introduced in early April and provide a framework for similar regulation in the future. Any price regulation will be limited to a maximum of 12 months and subject to continuous monitoring and evaluation.

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