

Solid Czech performance amid low inflation facilitates a cut

Czech economic performance maintains a solid pace, with investment rebound representing the needed turnaround. With headline inflation expected below the target throughout the year and a positive supply shock pushing down core inflation, we see the case for a summer rate reduction



We stick to our average headline inflation forecast of 1.9% and 2.7% for core inflation this year, for now

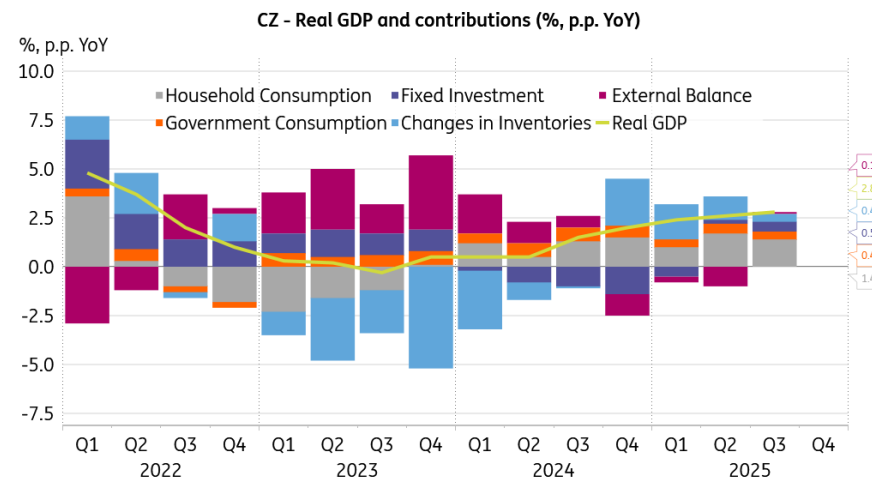
Economy at a good place

Czech GDP growth was confirmed at 0.8% quarter-on-quarter and 2.8% year-on-year in the final estimate. Real household income added 0.3% YoY in third quarter 2025, while annual household consumption per capita grew at a faster pace of 2.8%. Such twofold dynamics fostered the trend of the savings rate softening to levels observed in the pre-pandemic years. The household savings rate was 18.4% in third quarter 2025, which is 0.1ppt lower than the previous quarter and 1.9ppt lower than a year ago. Total wage costs of non-financial corporations increased by 7.3% YoY in 3Q25.

The investment rate increased by 0.3ppt QoQ and reached 26.8% in third quarter 2025, yet it was 1.1ppt weaker than in the previous year. The profit rate was 43.5% in 3Q25, down 0.1ppt QoQ and 0.3ppt from the previous year. The reading confirmed the good shape of the Czech economy, with fixed investment expanding 0.6% QoQ and 1.7% YoY. The punchy investment figure offers some hope that the Czech industrial base might not be in such a dismal state as suggested by the recent

downbeat confidence indicator, with the caveat that the national accounts statistics measure is for the third quarter, but confidence tends to be more forward-looking.

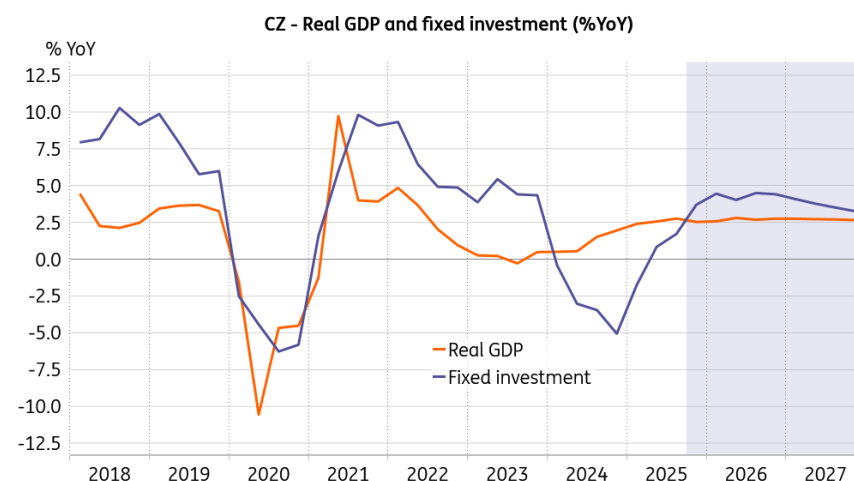
Fixed investment rises from the ashes



Source: CZSO, Macrobond

That said, December’s PMI index crossed the expansion threshold, coming in at 50.4 points and well above expectations. The increase ended a five-month streak of deterioration, while the improvement was the most pronounced since mid-2022. An increase in production volumes, new orders, and employment supported the overall improvement. Demand advances were evident in both domestic and export markets. Employment rose in December for the first time in 39 months. The pace of job filling was above the survey trend and at the level of September 2022. According to respondents, companies were hiring mainly full-time workers due to higher production requirements.

Expansion set to carry on



Source: CZSO, ING, Macrobond

Overall, the GDP figures confirm our view that the Czech economy is gradually trending toward its

potential and will show a decent 2026 performance. We see the economy growing at 2.7% in 2026 and the year beyond, with fixed investment contributing a solid 1.2ppt to economic expansion.

Possible rate reduction in the summer

Looking at the inflation outlook, we have taken on board all the recent news about January's pronounced price moves, including the following: i) energy distributors reducing end-prices of electricity and natural gas, ii) the government subsidising electricity prices by reducing the regulated part of electricity prices by 15.1%, iii) increased regulated price of natural gas, iv) higher heating charges, and v) higher water charges.

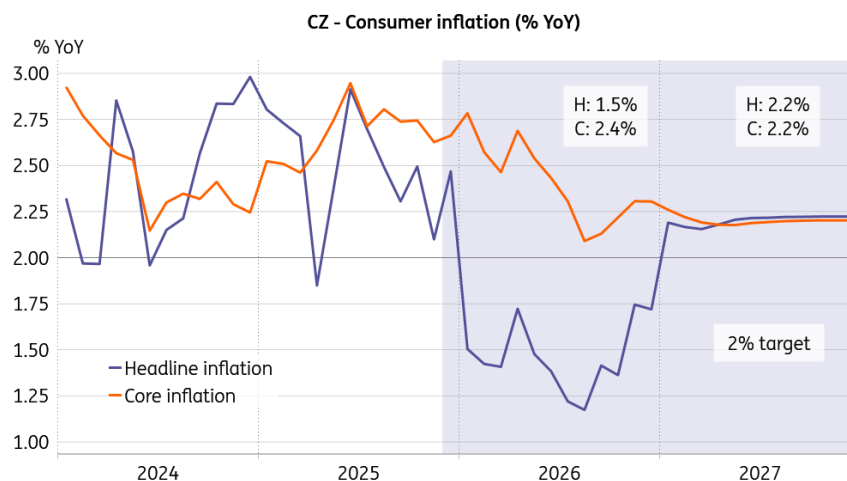
Electricity prices will bring headline inflation down

Impact of January's changes (in percentage points)	To overall inflation	To regulated prices
Electricity by distributors	-0.19	-1.24
Electricity regulated part	-0.34	-2.27
Natural gas regulated part	0.03	0.20
Heating charges	0.04	0.25
Water charges	0.05	0.36
Sum	-0.41	-2.70

Source: ING, Macrobond

This results in headline inflation softening well below the target in January. At the same time, lower electricity prices will also apply to businesses, implying a positive supply shock, when usually more is produced at lower prices. With this in mind, we apply a mild negative secondary effect to core inflation and food prices throughout 2026. Such an effect is only partially offset by a more relaxed household budget constraint reflecting lower energy bills, which will allow for more punchy discretionary spending. The impact of ample demand is of pro-inflationary nature and will provide a boost to core inflation yet will likely not dominate.

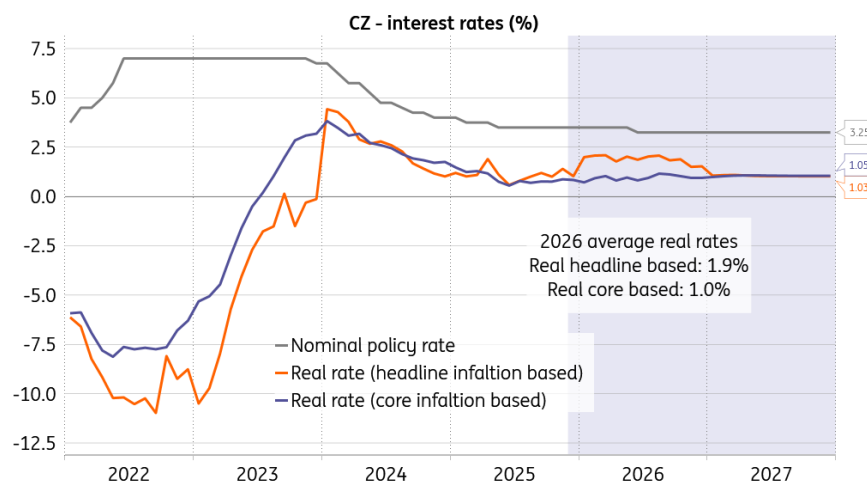
Core inflation set to soften gradually



Source: CNB, ING, Macrobond

All this is about to bring headline inflation down to 1.5% on average, with annual core inflation averaging at 2.4% in 2026. We see the Czech National Bank seizing the opportunity for a rate cut around the summer as the base case scenario – especially as the real interest rate, measured against headline inflation, would hover around 2%. At the same time, the real interest rate, measured against core inflation, would also be rather punchy without a reduction in the nominal rate, crawling above 1% in the second half of the year. Indeed, such monetary conditions might be considered too tight by policymakers. That said, should the economy perform even better than we expect, with repercussions for the labour market and more potent wage dynamics, this rate reduction might remain forever in the dominion of Morpheus.

Real interest rates will likely fly high



Source: CNB, ING, Macrobond

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