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The disinflation journey in the CEE region: lessons learned and challenges ahead from the perspective of the CNB

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Presentation outline

1. The high-inflation period in the Czech Republic

2. Challenges ahead

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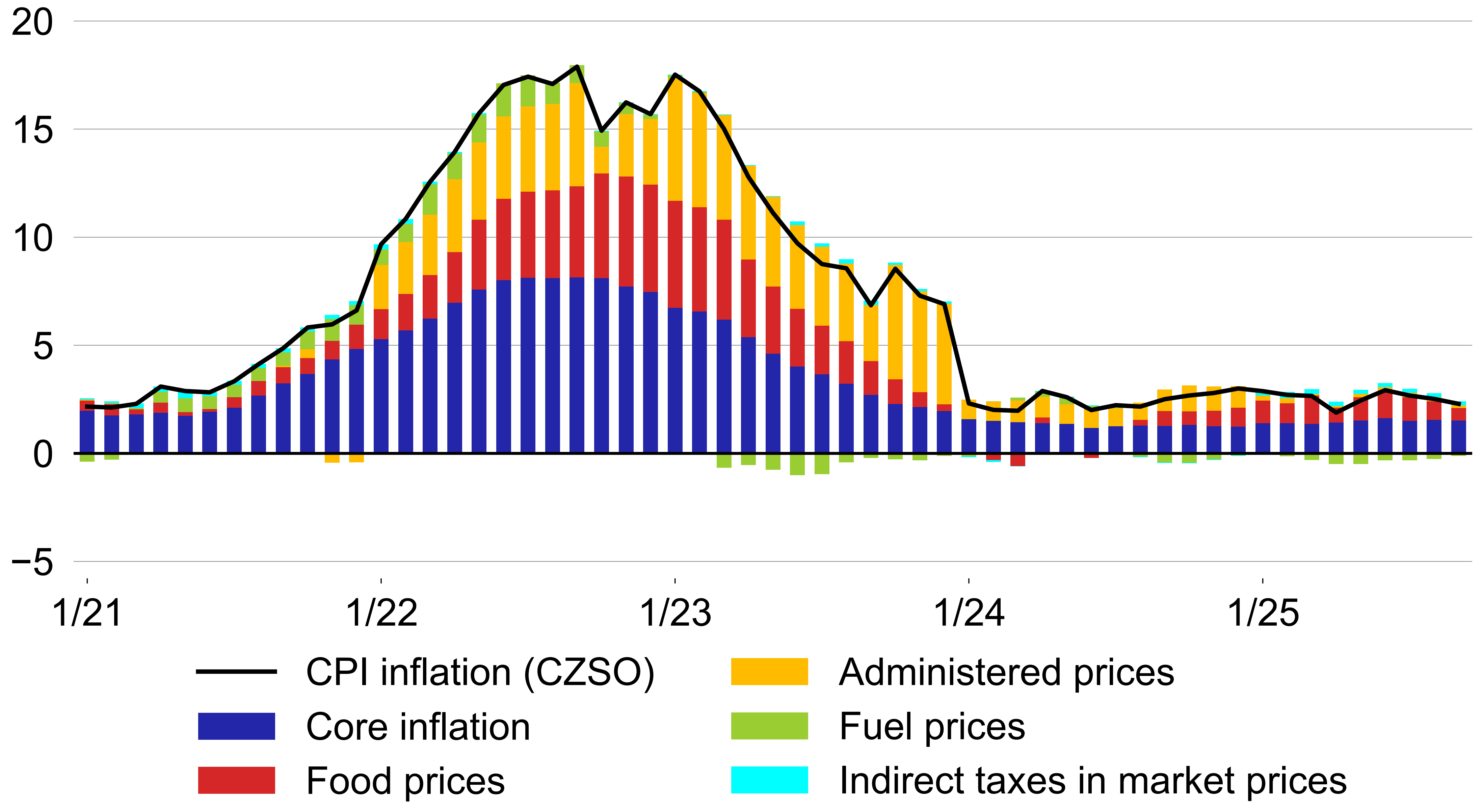
2. Challenges ahead

The high-inflation period in the Czech Republic

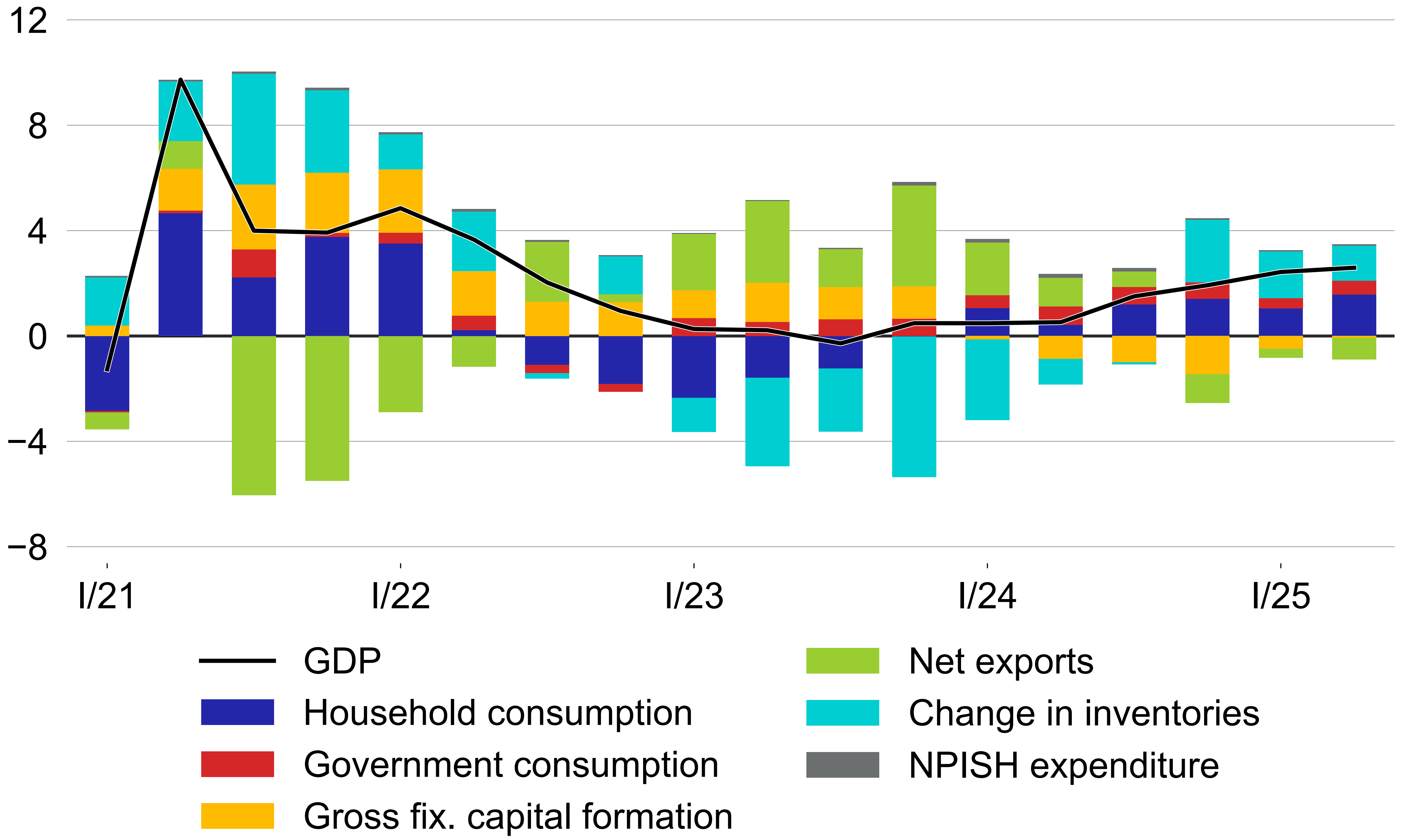
Inflation in the Czech Republic surged in 2021 and 2022, driven by increased consumer demand and supply shortages following the COVID-19 lockdowns, and further exacerbated by the energy crisis. Concurrently, the economy slipped into stagnation. Since 2024, inflation has stabilized and economic growth has resumed.

Headline inflation
(%, contributions in pp)



- The CPI inflation peaked at 18% in September 2022.
- Since January 2024, it has fluctuated within the tolerance band (1-3%) of the CNB inflation target.

GDP growth
(%, contributions in pp)

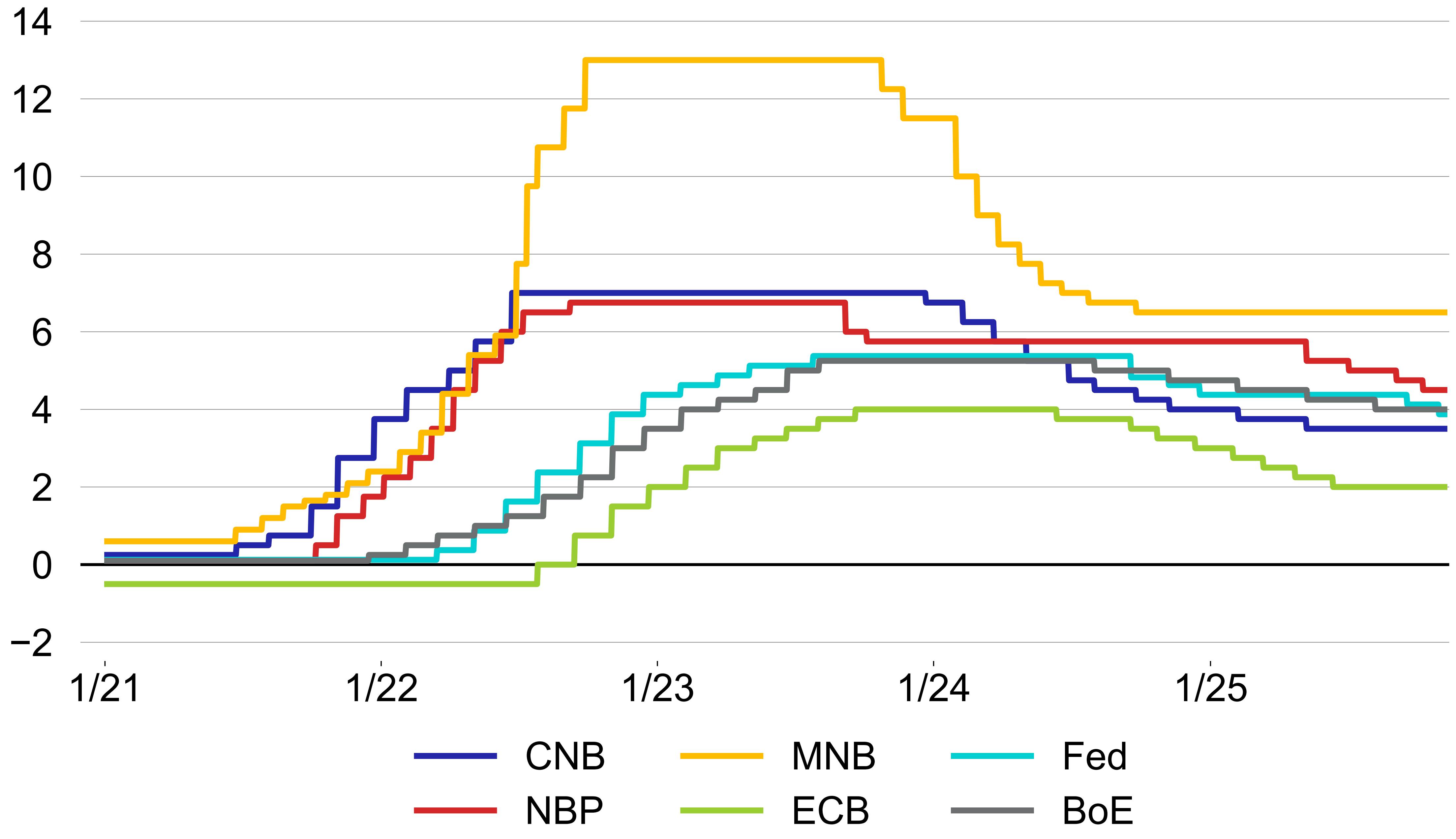


- The deteriorating financial situation of households, weak external demand, and high interest rates dampened the economic growth in 2022 and 2023.
- The economy recovered in 2024 and continues to grow steadily in 2025.

Monetary policy reaction of the CNB

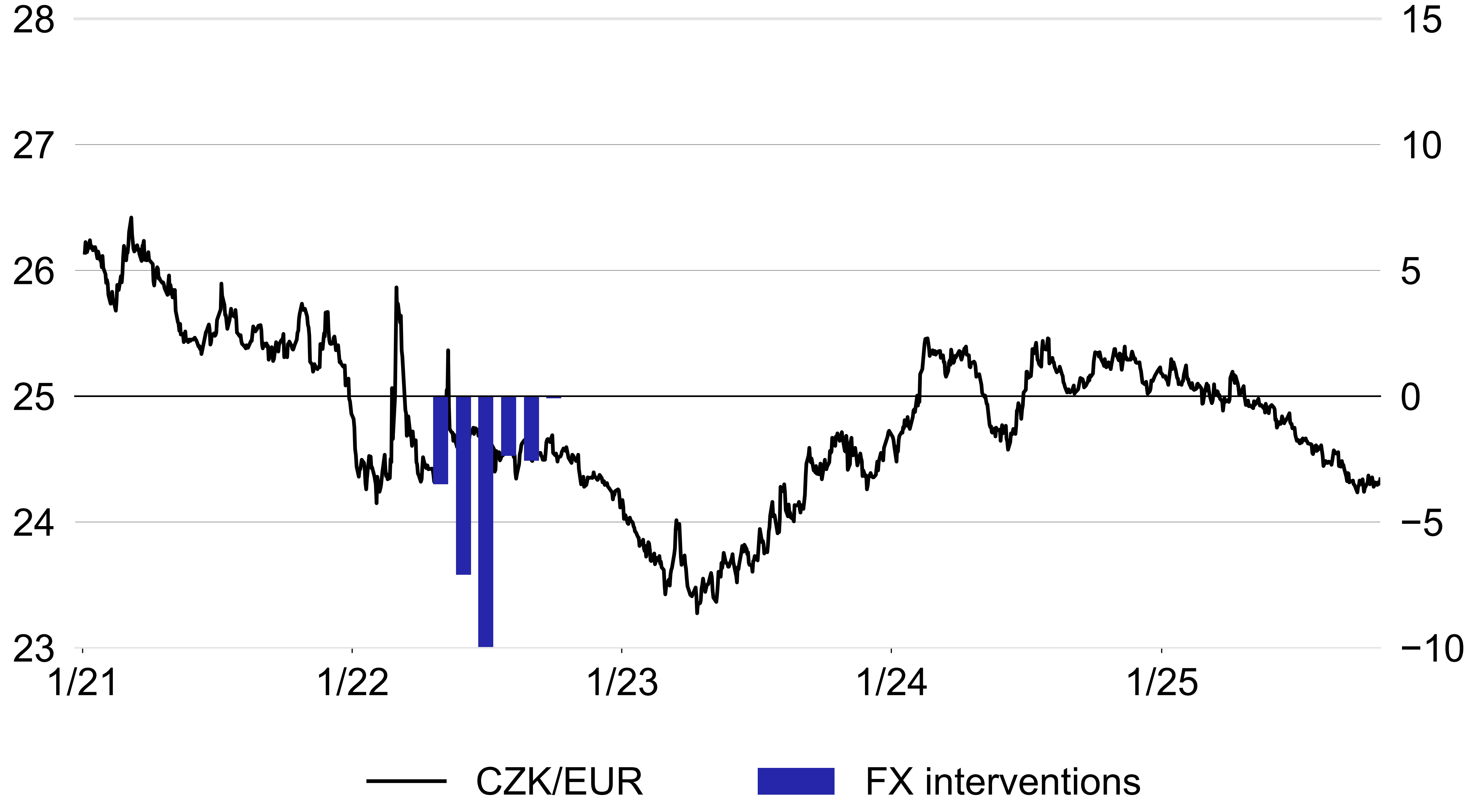
The CNB successfully managed to tame elevated inflation through a prompt and sharp increase in its policy interest rates, accompanied by its 'strong koruna' policy.

Main policy interest rates
(% p.a.)



- The CNB responded to rising inflation with its policy rates ahead of the major central banks, increasing its 2W repo rate from 0.25% in June 2021 to 7% in June 2022.
- Currently, the CNB's monetary policy remains slightly restrictive, with the 2W repo rate at 3.50%.

CZK/EUR exchange rate and FX interventions
(CZK/EUR left axis, FX interventions in bil. EUR right axis)



- To prevent long-term depreciation and excessive volatility of the Czech koruna, the CNB conducted exchange rate interventions from May to October 2022. In total, the interventions amounted to 25.5 bil. EUR.

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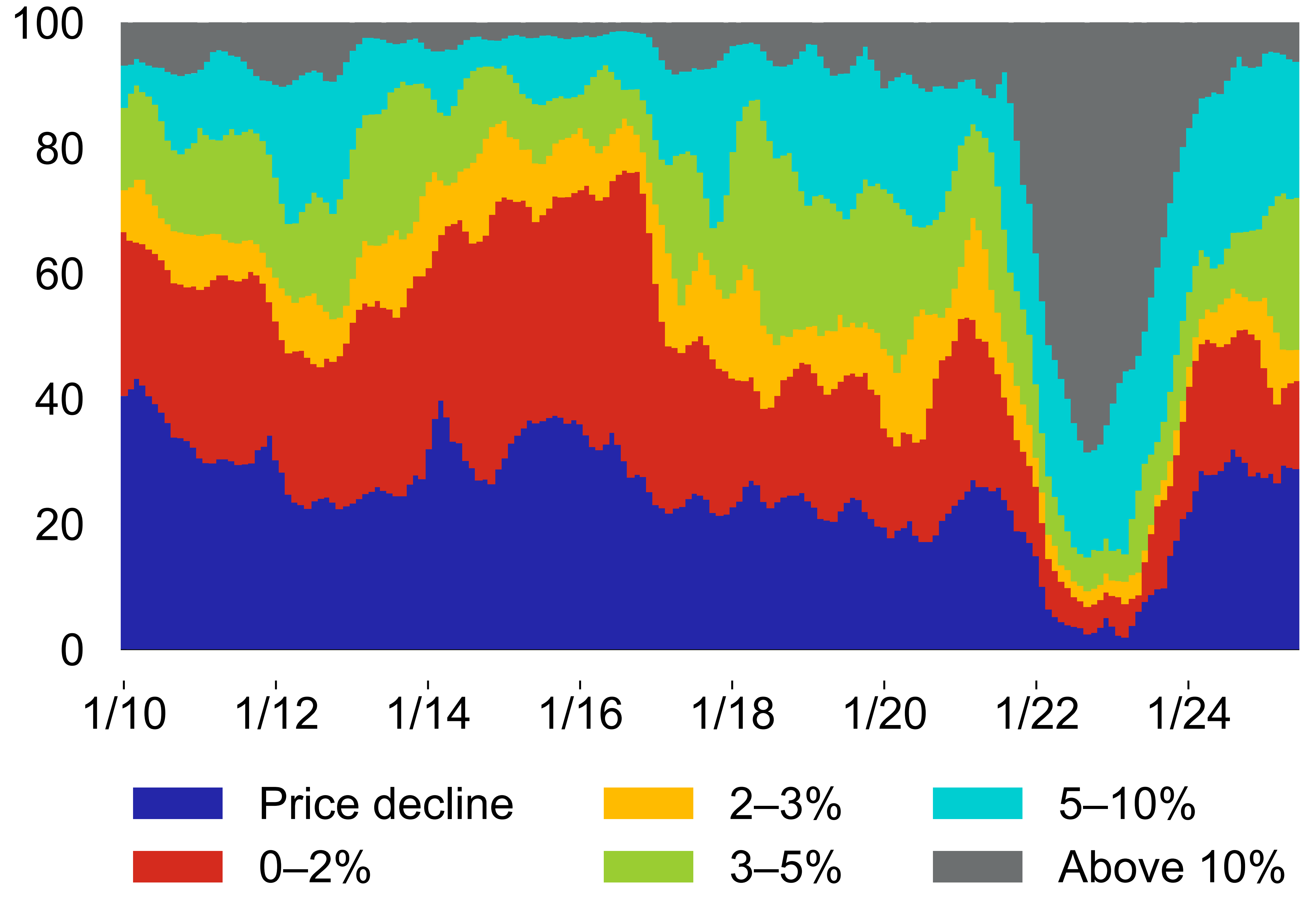
The unfavorable structure of inflation

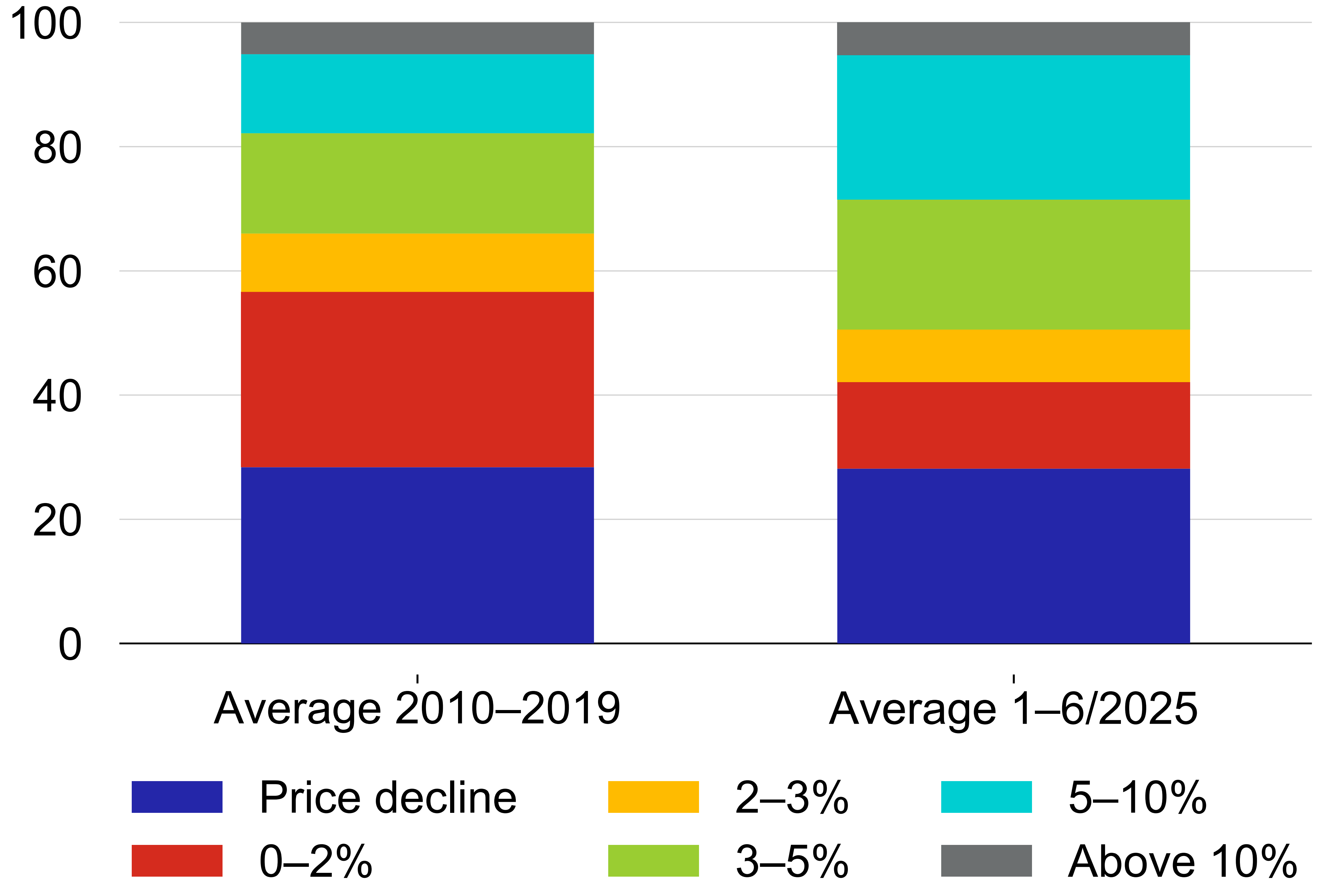
The structure of inflation highlights the incomplete nature of the disinflation process. Inflation hotspots have persisted in services prices and are likely to subside only gradually. By contrast, inflation has been moderated by more volatile items such as fuel, energy, and—last year—food, the effects of which can be easily reversed.

Shares of consumption basket items rising at a given rate
(share in %)



- More than half of the consumer basket is currently increasing at a rate of over 3%.

Shares of consumption basket items rising at a given rate
(share in %)

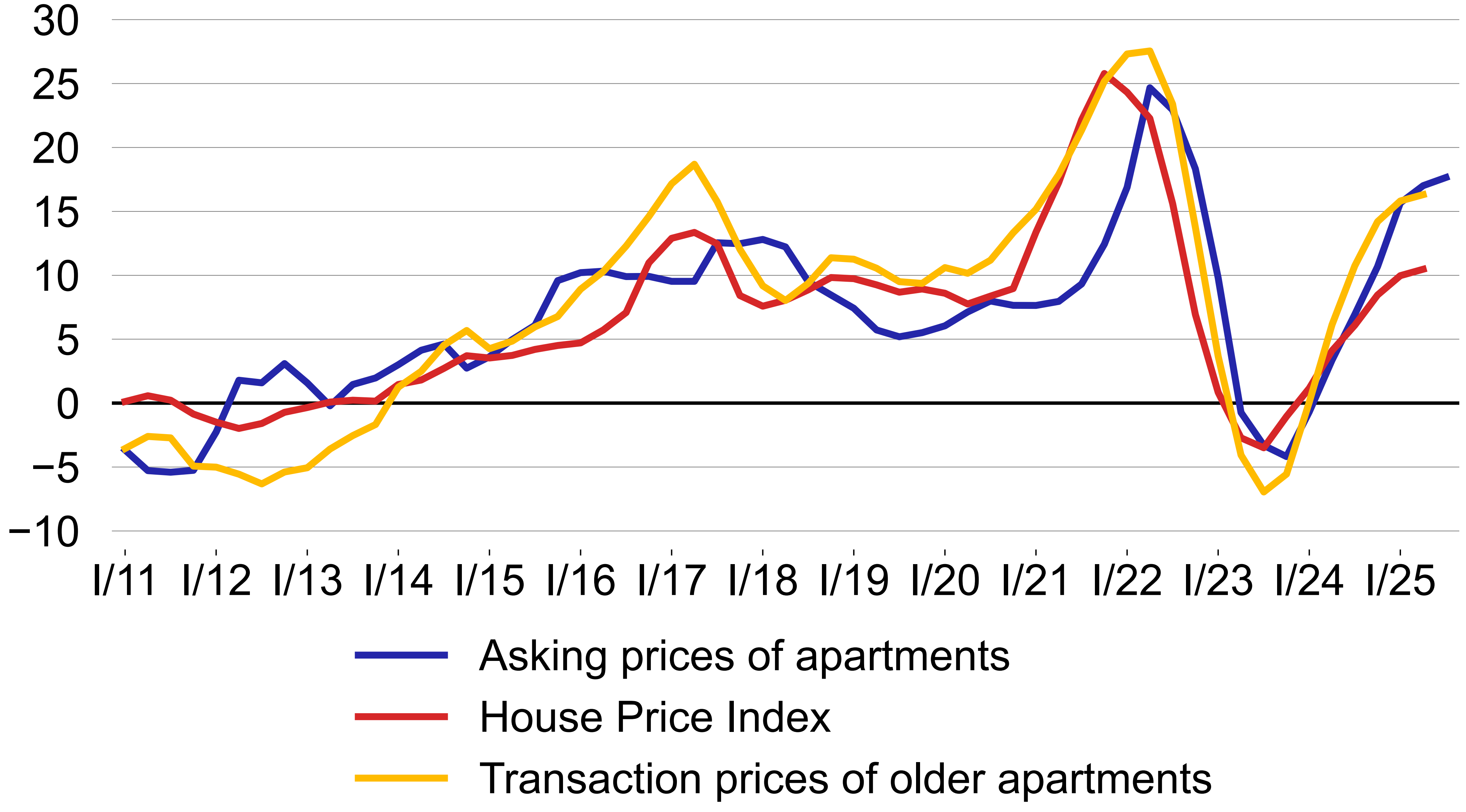


- Compared to historical average, there is currently a lower share of items growing at modest 0-2%, while the opposite is evident in the share of items growing at 5-10%.

Czech housing market

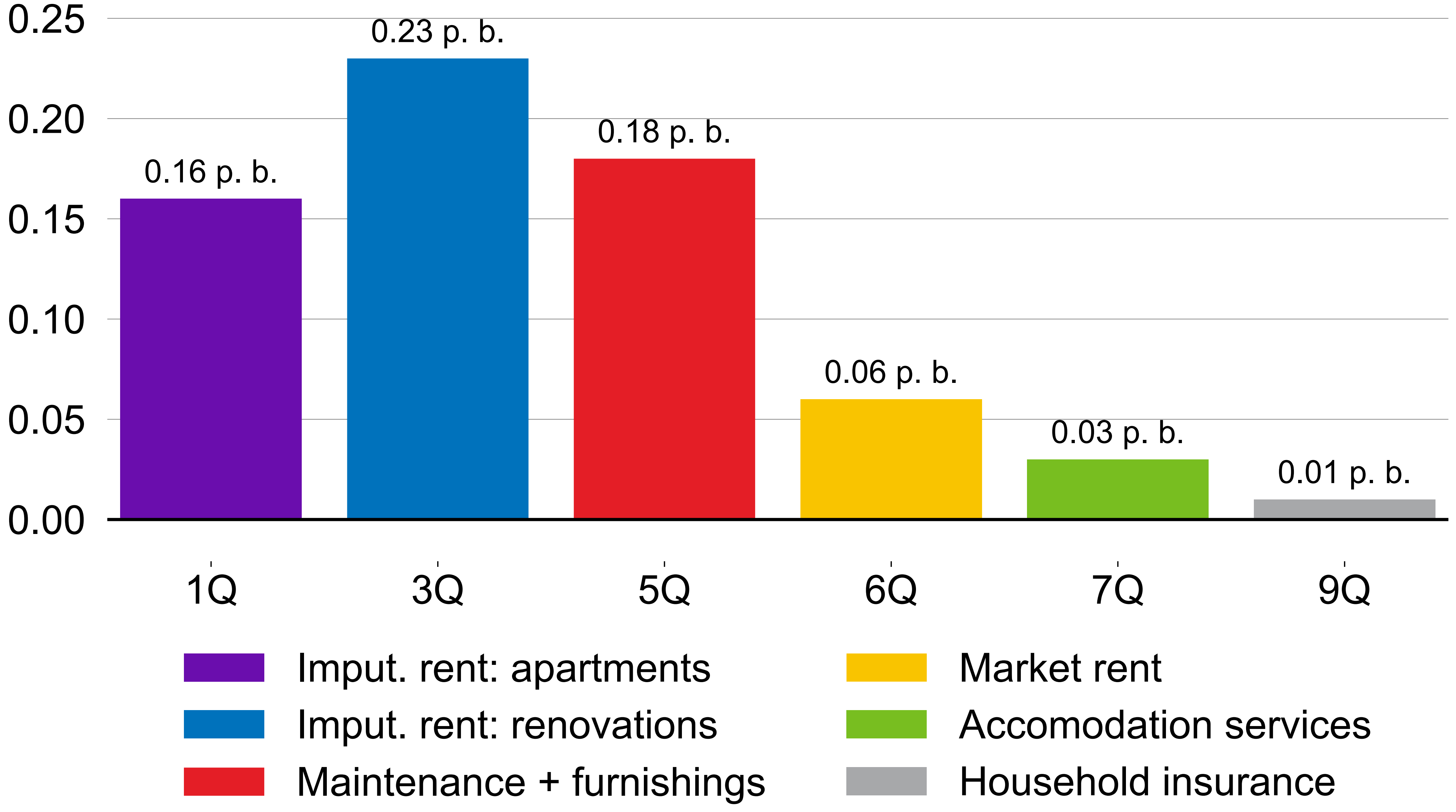
House prices have risen sharply over the past year, contributing to headline inflation through imputed rent. Their rapid growth reflects increasing demand for housing alongside a relatively rigid supply. The recovery of the housing market is also evident in the mortgage market.

Residential property prices
(y-o-y changes in %, source: CZSO)



- The asking prices of apartments growth rate was approaching 18% in Q3 2025. An anticipated deceleration of the growth in housing prices has not materialized yet.

Peak effects of a 10% rise in real estate prices on the CPI
(contributions to y-o-y changes of CPI in pps., quaters with the largest effect)



- A CNB estimate suggests that a hypothetical 10% increase in real estate prices over the year could contribute to an acceleration in consumer price inflation of around 0.3 pp in each of the next two years.
- Since spring 2024, the housing market was reflected as a risk to the CNB forecast. Since then, the forecast gradually included these risk in its baseline scenario. Still, the housing market remains an uncertainty to the forecast.

Strong wage dynamics

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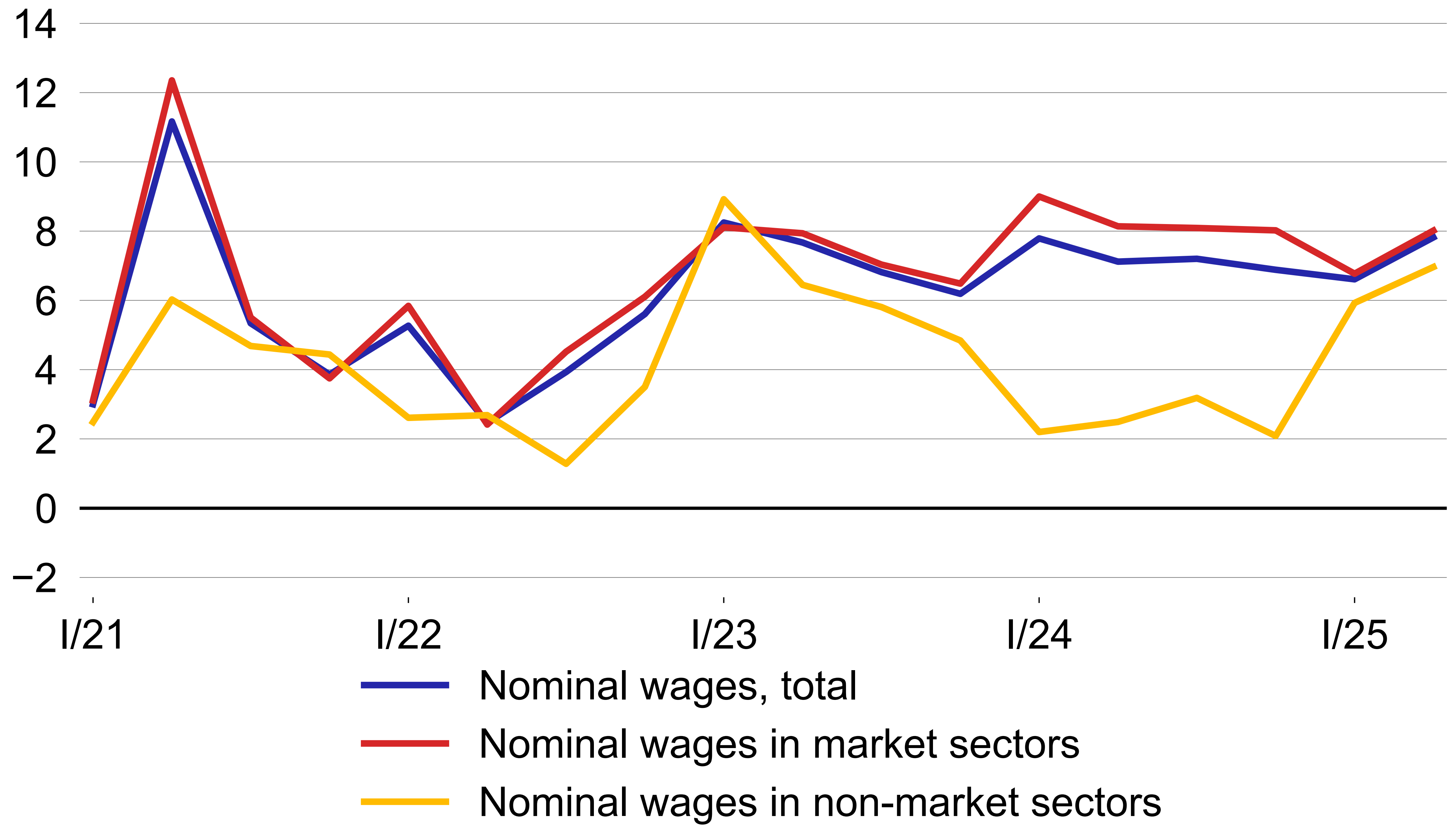
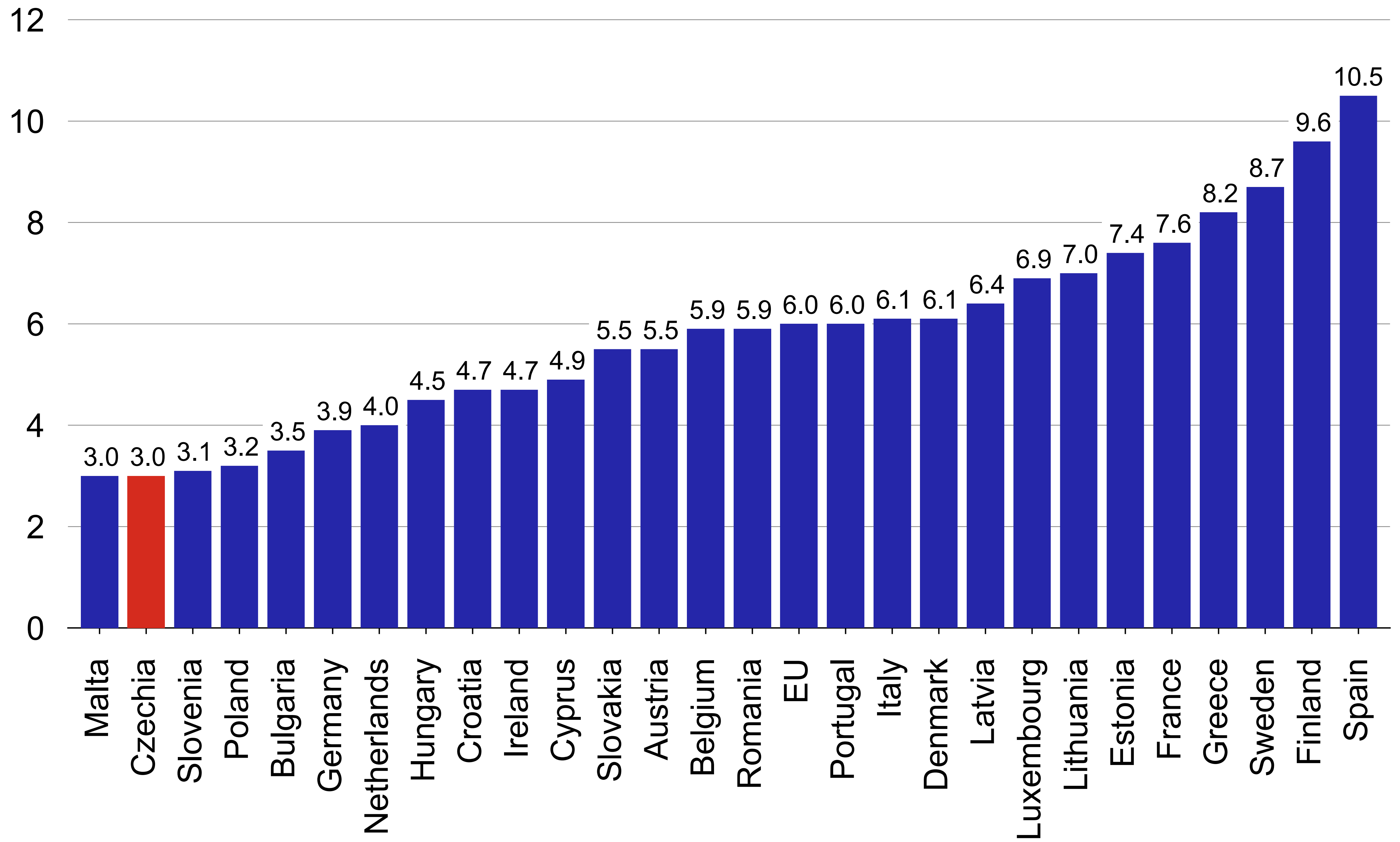
Wage growth in the market sector remains elevated, reflecting both the high inflation of previous years and the still-tight labor market. So far, the impact of wages on inflation has been moderated by declining margins. However, this effect is likely to subside soon.

Nominal wages
(y-o-y changes in %, seasonally adjusted, CNB summer forecast)



Unemployment rate
(in %, September 2025)



- Year-on-year wage growth remains elevated (7.8 % in Q2 2025) and an upward risk to the attainment of the inflation target.

- The Czech Republic has long had one of the lowest unemployment rates among EU countries.
- Even though the domestic labor market should cool gradually, it will remain tight for over the current CNB forecast horizon.

Fiscal policy

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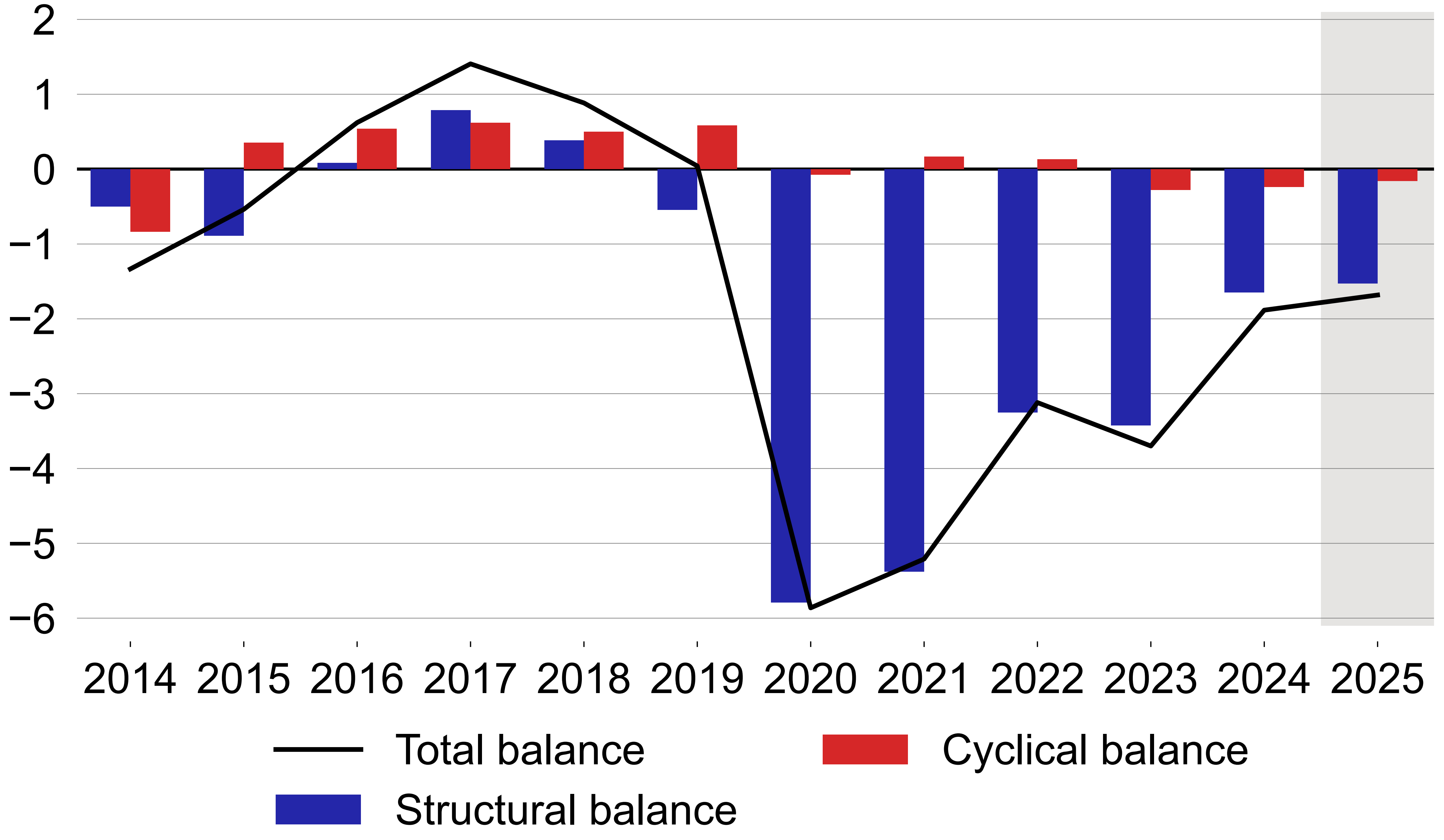
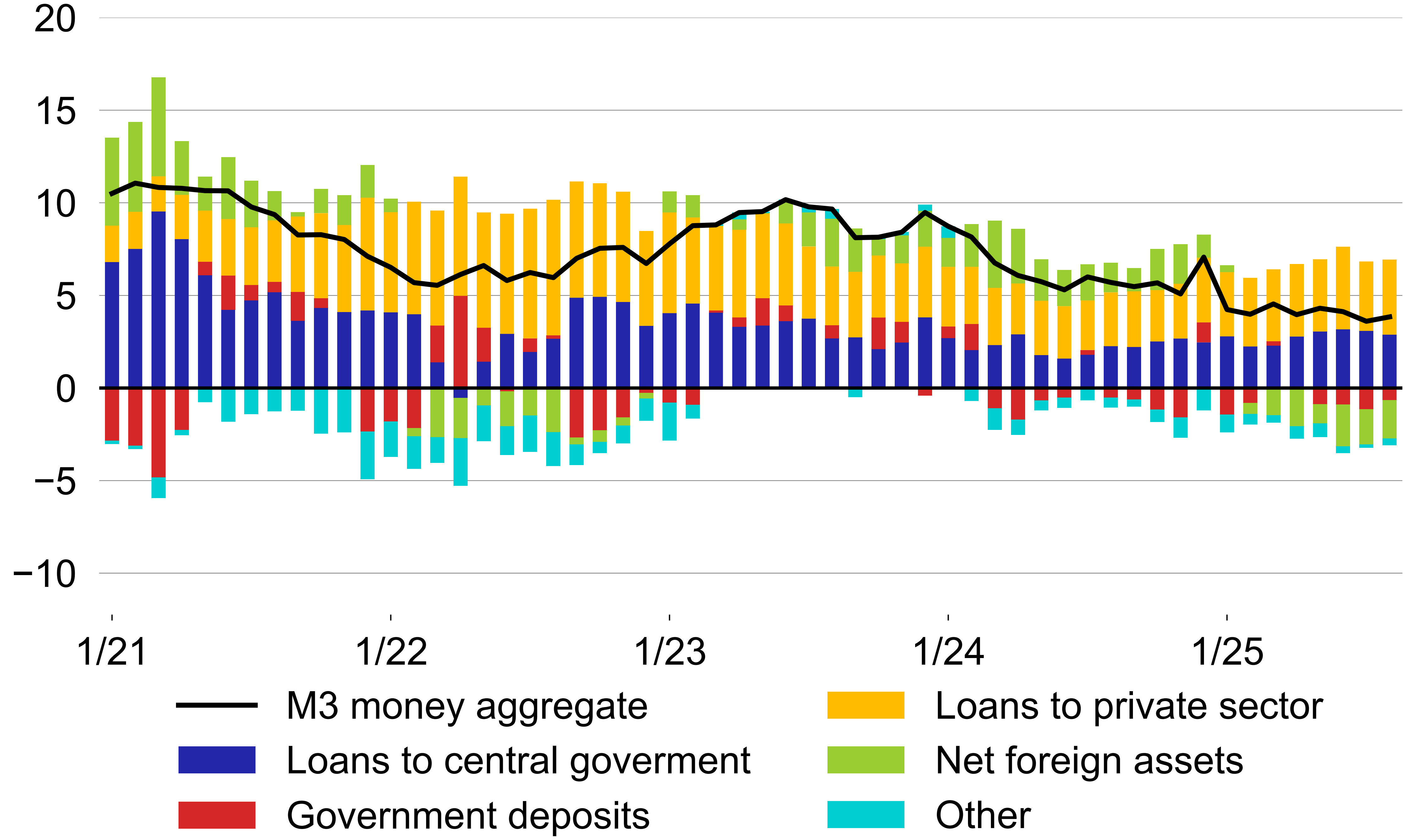
Despite consolidation efforts in the 2024 general government budget, its persisting deficit implies that general government financing continues to contribute significantly to money growth, which could foster an underlying inflationary environment in the domestic economy.

The general government balance and its components
(% of GDP, components in pp)



Money aggregate M3
(annual rates of growth in %, components in pp)



- Since the beginning of the Covid-19 pandemic, the general government budget remains in significant deficits.

- The contribution of general government debt, including changes in central government deposits, to M3 growth averaged at 2.1 percentage points from January to September 2025, compared with an average of 0.2 percentage points in 2010-2019.

Strong Czech koruna

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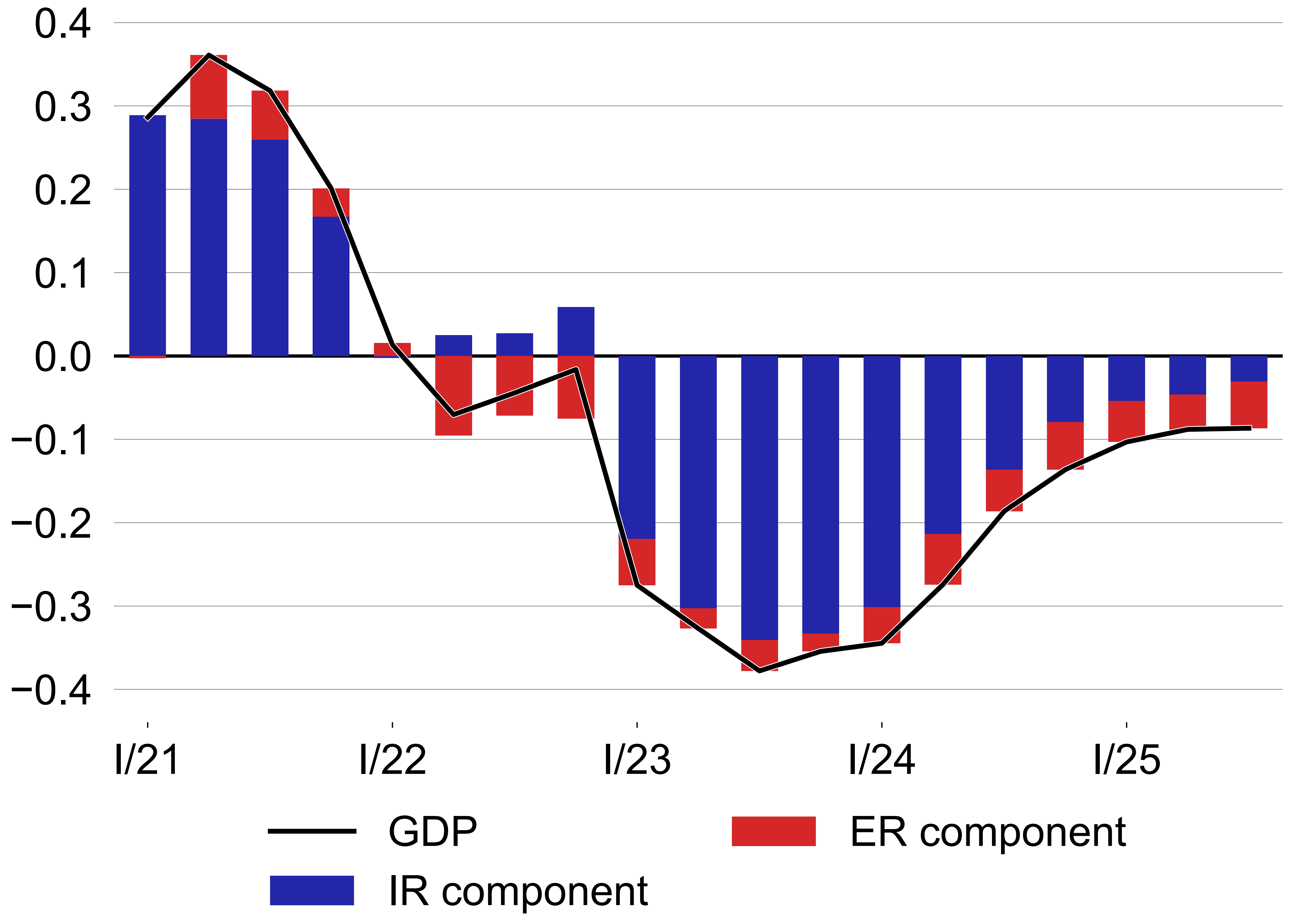
A stronger-than-expected koruna currently poses a downside risk to inflation. The Czech koruna has benefited from the global weakening of the US dollar and, despite recent economic turbulence, is appreciating not only against the dollar but also against the euro.

Real monetary conditions index (RMCI)
(positive (negative) values correspond to easy (tight) monetary conditions)



- The stronger exchange rate of koruna helps to maintain restrictive stance of the monetary policy.
- In the open economy of the Czech Republic, the exchange rate transmission channel is relatively swift (3-6 months).
- The deviation of the exchange rate from the CNB summer forecast already seems to materialize itself in the CPI inflation.
- The Bank Board is determined to continue its monetary policy in order to maintain inflation near the 2% target in the long term. At present, this still requires relatively restrictive monetary policy.
- The Bank Board is ready to react appropriately to any materialisation of the risks of the outlook for the fulfilment of the inflation target.

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Thank you for your attention

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