



# Czech Republic: Staff Concluding Statement of the 2026 Article IV Mission

A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or 'mission'), in most cases to a member country. Missions are undertaken as part of regular (usually annual) consultations under Article IV of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments.

The authorities have consented to the publication of this statement. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF Executive Board for discussion and decision.

**Prague, Czech Republic – February 3, 2026.** *The Czech economy continues to expand at a robust pace but faces mounting structural headwinds. Increasing global competition, high concentration of trading partners and export products, and elevated energy intensity leave the economy exposed to external shocks, while adverse demographic trends weigh on potential growth. Although public debt is moderate, preserving fiscal space in this uncertain environment is essential. A significant fiscal stimulus at a time when the economy is already operating at or near potential would likely fuel inflation and lead to higher interest rates. Conversely, advancing structural reforms at the national level and deepening integration within the EU Single Market would raise potential growth and ease the burden of future fiscal consolidation. 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. While financial stability risks are currently contained, they warrant close vigilance and call for recalibration of some instruments in the macroprudential toolkit as risks evolve.*

### Recent Developments

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

**Headline inflation has eased, but core inflation remains sticky.** At year-end, headline inflation stood at 2.1 percent, broadly in line with the CNB's inflation target, while core inflation edged up to 2.8 percent, driven by persistently elevated 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.

### Outlook and Risks

**Growth is projected to level off and gradually moderate in the medium term.** 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 set to pick up, supported by lower interest rates, while exports are expected 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.

**Inflation is expected to undershoot the CNB's 2 percent target in the near term.** Staff project headline inflation to fall below 2 percent this year, supported by the removal of the renewable energy surcharge and lower energy prices. Core inflation, however, is expected to decline more gradually, reflecting persistent wage growth and housing-related cost pressures.

**Staff's forecast 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 shift toward more expansionary fiscal policy 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, persistent global policy uncertainty, trade disputes, or a correction in global asset valuations could dampen growth and increase inflation volatility.

### **Fiscal Policy—Balancing Social Priorities with Fiscal Sustainability**

**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.

**Significant spending pressures are set to build steadily over the coming years, underscoring the need for fiscal consolidation.** 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, with gross financing needs rising persistently and eroding fiscal space. Staff therefore recommend an annual fiscal adjustment of 0.5 percentage points during 2027-30 to converge toward a sustained structural deficit of 1 percent of GDP, which would stabilize the debt ratio below 50 percent by 2030. Maintaining the deficit at this level through 2040 amid mounting expenditure pressures would require additional measures of roughly 1.5 percent of GDP, bringing total consolidation needs to around 3.5 percent of GDP. Delays in initiating consolidation would further increase the required adjustment.

**Social priorities should be pursued in a manner consistent with fiscal sustainability.** Staff urge the authorities to assess carefully 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, strengthening means-testing to improve 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.

**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. 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 the lowest in the EU, at 0.3 percent of GDP (compared to 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 be directed toward social housing investment, helping ease affordability pressures.

### **Monetary Policy—Managing Risks through Scenario Analysis**

**Staff assess the current monetary policy stance as broadly appropriate.** While headline inflation is projected to fall below target, persistently elevated core inflation and a closing output gap leave 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 or changes in fiscal policy, materially alter the inflation outlook.

**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's Integrated Policy Framework offers a useful lens for assessing appropriate policy responses to shocks. An application of the framework to the Czech Republic suggests that, in the event of a correction in global asset valuations leading to currency depreciation, reserves could be used in combination with tighter monetary policy to mitigate inflationary pressures and output losses rather than relying only 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 reiterate the importance of central bank balance sheet normalization over time.** 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 balance sheet normalization through a transparent mechanism of preannounced, small, and regular FX sales. This would still leave sizable reserves against future shocks. Risks of a more expansionary fiscal policy reinforce the case for balance sheet normalization.

### **Financial Policies—Calibrating Macroprudential Tools with Evolving Risks**

**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 debt-service-to-income (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.

**Rising financial stability risks point to a need to recalibrate some instruments in the macroprudential toolkit.** Staff welcome the CNB's recent recommendations to tighten loan-to-value and debt-to-income (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 sovereign securities, while meeting increasing FX funding needs related to defense and energy investments.

### **Structural Policies—Supporting Growth and Complementing Fiscal Consolidation**

Facing mounting structural headwinds, the Czech Republic is gradually transitioning from a manufacturing-driven, export-oriented hub to a more mature and diversified economy, with ICT and financial services gaining importance. 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 EU Single Market, would boost potential growth and ease the burden of fiscal consolidation. Sustaining this progress while ensuring resilience in traditional sectors will require a better allocation of skilled labor to address shortages, deeper capital markets, reliable energy supply, and affordable housing.

- **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 skill 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.
- **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-wide Savings and Investments Union.
- **Fiscal space should be preserved to support critical investments in energy security.** The Czech Republic's energy strategy prioritizes expanding nuclear power capacity to strengthen long-term security. However, limited viability of coal and slow adoption of renewables, with the lowest

share in the EU at under 16 percent of electricity generation, leave the energy-intensive economy vulnerable to volatility of imported sources during the transition. 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.

- **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. 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 inequality. 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. Addressing both sides of this imbalance is essential. 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 own. To relieve supply constraints, priorities should include streamlining and digitalizing permitting processes and transitioning to a value-based property tax system.

*The mission would like to thank the Czech authorities for their warm hospitality, open collaboration, and fruitful discussions.*